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MANAGEMENT DISCUSSION SECTION

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

All right. Good morning. Thanks for coming. I'm Steve Powers, Deutsche Bank's U.S. Beverages, Household and Personal Care and Tobacco Analyst. And I'm thrilled to welcome The Coca-Cola Company to the conference. Hopefully, you were all able to enjoy a nice cold beverage from Coke during the refreshment break. I know it's early for some of you to drink an actual Coke, but today, The Coca-Cola Company is unabashedly a total beverages company. So those coolers out there should contain something to fit your every occasion.

Representing the company today are Executive Vice President and Chief Financial Officer, Kathy Waller, who's been with the company since 1987, I think? As well as Senior Vice President and Chief Growth Officer, Francisco Crespo, who is celebrating his 29th year with the company.

So welcome to you both. In terms of the format for today, Francisco and Kathy are going to run through some slides to catch you up on Coke's current status and then we'll open it up for Q&A at the end.

So with that, I think, Kathy, you're going to start? Okay.

Kathy N. Waller
Executive Vice President, Chief Financial Officer and President, Enabling Services, The Coca-Cola Co.

Okay. Well, good morning, everyone. It's great to be here with you again in Paris. And today, I am joined, as Steve said, by Francisco Crespo, our Chief Growth Officer.

I am going to talk about the company's destination, including the transformation journey that we've been on, how we have positioned ourselves for success in an evolving consumer landscape and our confidence in our long-term financial outlook. Then I'm going to turn it over to Francisco, who will walk through some of the actions that we are taking to accelerate the growth of our portfolio.

As usual, we start with our forward-looking statement. So the company is continuing on the strategy that we laid out at the beginning of 2015. We've been on this journey, focusing on our strength, building strong sustainable brands through investment and innovations. We are enhancing the portfolio focusing on what the consumer wants, ensuring we have great brands for every day part across our geographies, which accelerates our move toward a total beverage company.

And we've always had a strong culture. So we are looking to be more accountable and performance-driven, faster and faster decision making and experimentation. And as we're moving back to our core, we are a high-margin and high-return business, which is well-positioned to create long-term shareholder value.

Since 2015, we have made significant progress towards our destination primarily in three distinct areas. Our portfolio, we've shifted our focus to value over volume by improving pricing and better strategic alignment with our bottlers. Our approach to added sugar has evolved and we've taken innovative actions, including reformulations and changes in packet sizes to reduce our sugar footprint.

And we've adopted a test-and-learn approach, being willing to take more calculated risks and to act with speed. Now, that does mean that we could have to make adjustments in the marketplace as we test, learn, possibly adjust and then retest. Brewery franchising, we have strengthened the system with great partners who are committed to excellence in the market that they serve. These partners are strategically aligned to execute and support the vision and are creating sustainable long-term value for the system.

And then related to the company and how we operate, James has made important leadership changes that have also helped to drive the strategic shift that's needed to reach our destination. And we've made changes overall with talent and our compensation philosophy to drive the cultural changes we believe are necessary on this journey.

Although we are doing the right thing for the organization, there has been pressure on the P&L. Despite delivering solid underlying performance, refranchising has caused our numbers to be complex, which has been compounded by a challenging currency environment as over 75% of our profits today are derived outside the United States.

As we are coming out of refranchising, along with the possibility of currency moderating, we are better positioned for long-term growth. 2018 is an inflection year as we build on our momentum and return to meaningful EPS growth. And, of course, the industry landscape is changing. For example, consumer preferences around ingredients are changing. For some, it's about less sugar or more natural or organic. And for some, it's the transparency and provenance of our ingredients that end up in the beverages that they consume. And at the same time, food and beverage industry is coming under greater scrutiny as governments look to use taxes and regulation to support municipal budgets; and in some cases, attempt to change consumer behavior.

While we don't believe discriminatory taxes are effective, we've been clear that regardless of the rationale of the tax, we need to be part of that solution. Our strategies include tools such as reformulation, package downsizing, and educating the consumer through transparency on the label, and educating the consumer about our variety of product offerings, including our no and low calorie offerings.

Then, there's a digital evolution. Technology is changing consumers' behaviors, their interactions through social media, influence in the way they think, and ultimately how they shop. This evolution impacts every aspect of our systems, creating the opportunity to partner in different ways with our customers and re-engineer our supply chain and our route to market. For our company with a great foundation and strong capabilities, all of these changes are also opportunities to drive not just growth, but profits and cash flow.

Given the consumer landscape, we're executing on five strategies: focusing on the consumer, continuing to expand the portfolio by offering the consumer what they want, having a value-centric mindset, driving revenue and profitability throughout innovation and premiumization, strengthening the system, leveraging the power of the re-energized franchise system, capitalizing on the digital evolution, investing to capture the opportunities made possible through changes in technology, and then, finally, building capabilities and driving the cultural change that unlocks the talent of our people in order for the company and system to reach its goals.

These strategies give us confidence in our ability to create long-term sustainable shareholder value and allow us to deliver top-tier revenue growth of 4% to 6%, strong operating leverage, driving 6% to 8% operating income growth, high-single-digit EPS growth, and improved free cash flow conversion.

Our financial targets are supported by our balanced capital allocation priorities. We will continue to invest in our business for growth. We remain committed to growing the dividend, marking this the 56th consecutive year of annual dividend increases. We will leverage bolt-on M&A as an important element of the strategy going forward with clear performance accountability. And we intend to repurchase enough shares to at least offset equity dilution in a given year.

And, at times, if we have excess cash, we will consider using that cash to buy back additional shares. We'll balance these priorities while maintaining a disciplined capital structure framework with a target ratio of 2 to 2.5 times net debt leverage. We believe this provides the right balance between reaching the optimal capital structure and preserving financial flexibility as we move forward on strategic initiatives.

Our strategic initiatives are focused on delivering top line growth and delivering solid returns. And as I said earlier, one of the strategies to achieve this is bolt-on M&A. When we evaluate M&A opportunities, we take a disciplined approach that includes financial criteria such as investment returns in excess of our cost of capital, but also includes strategic reasons that can result in an even greater benefit to the system.

Over the past 10 years, we've done about 85 brand-related transactions. The majority have exceeded our cost of capital and are performing well. But, clearly, our track record isn't perfect. But those transactions that haven't met our hurdles, we've scrutinized these deals to ensure we've captured all the learnings and we're using those learnings as we assess future acquisitions.

And we've also learned a lot from the success stories, a great example being Jugos del Valle. At the time of acquisition, Jugos del Valle was a strong juice brand, but primarily in Mexico and Brazil. Since that time, we've leveraged the power of the system to not only expand its footprint into all major Latin America markets, but also to develop a platform to accelerate growth across the portfolio through dairy, plant-based beverages, teas and premium juices.

Today, Jugos del Valle platform is worth five times its value at acquisition. And it's grown profits by an average of 17% per year through top line growth and significant margin expansion as it moved from a challenger brand to a leader. Jugos del Valle is now leveraging its quality leadership position to further expand the category and continue driving higher margins and higher returns. We've learned a great deal with Jugos del Valle and are now repeating that play in Europe.

innocent has grown from the number one smoothie brand in the UK since the acquisition, the number one chilled juice brand across Europe, tripling its revenues during that time. This brand is still very much a growth story, well on the path to quality leadership and growing its value since the original acquisition. Francisco will talk more about what has made this brand so successful.

Making the right investments for growth as well as returning to a capital-light model by driving accelerated returns. Going forward, we are focused on disciplined growth, driving margin expansion and leveraging the strength of the systems.

And last and our release this morning, we updated our currency outlook. While this puts pressure on the quarter and on the full year, we remain confident in our 2018 outlook of delivering 4% organic revenue growth and comparable EPS growth of 8% to 10%.

So with that, I will now turn it over to Francisco.

Francisco Crespo Benítez

Chief Growth Officer & Senior Vice President, The Coca-Cola Co.

Thank you, Kathy. Good morning.

Thank you, Steve, Kathy. It's really an honor for me to be here. Three elements make, I believe, a huge difference in shareholder return: having a clear vision with a long-term approach, having a strategic winnable and scalable plan, and of course, consistent performance. And it's only the third one that proves if the other two are right.

So the truth is now it is about performing. That's what it is about. Beverages for Life I think is a good enough vision of where our business can go. The disciplines that we talked about in the Investor Day, the discipline of entrepreneurial audacity to explore new territories, the obsessive persistence to challenge in other areas, and the wisdom of our leadership is a reasonable plan, but now it's really about making it happen.

I think it's very easy to miss how much the company is changing under James' leadership. So I would like to tell you a story and share with you a few facts. The story is last board meeting I was presenting, and a board member asked me about a related project. And I basically said, listen, yes, I was part of that project. We created it. We tried it, and in hindsight, it ended up being a bad idea. So we are killing the zombie. And I'm telling you this story not so you think that I'm brave or good, but what I'm really telling you is that our board, our Chairman, our CEO, they're totally committed with allowing us to experiment. They do expect that we take reasonable risk. Most of all, they do expect that we learn when we fail. Because if you fail and you don't have a clue of what happened and that's not good.

But they understand that for us to be better, we have to experiment. Over the past 56 weeks, 12 of our 17 business units have seen their leadership in marketing change. One-third of the new talent has come outside our marketing pool. So we are blending the best of the marketing available outside and the good people that we have quite honestly.

We have been described as, let me remember, a pretty house in a bad neighborhood or something along the line. I think the picture is definitely our house. Picture is right. The GPS is the one that is taking you to a different neighborhood. You see, we are in an industry that is growing faster than other consumer package good; an industry where the channel mix is significantly more diversified where the experience in the [indiscernible] (15:16) channel is still super important; and one that has huge adjacencies when you see across beverages, not only non-alcoholic ready-to-drink, but even some of the non-prepared beverages. So we can take our leadership positions to new places. And as I will mention in a few charts, something that is super important: the leadership positions that we have today are sitting in the most important and deepest profit pools of the non-alcoholic ready-to-drink industry.

So let's talk about growth. Growth is – it first requires that you are able and capable of envisioning the opportunity. If you simply don't see any opportunity, well, hardly you will ever get it. But it also requires that you have a advantage position to capture that opportunity. Probably, you think that our sparkling beverage business is down here as a challenge leader. And you may think that the rest of our portfolios out there with – at the startups.

I would like to provide a point of view on both of those perspectives. Let's start with Coca-Cola. So if that sentiment has been prowling around us, one that basically says the challenges are much larger than the opportunities. Actually, there are no opportunities and only challenges. You see, sugar taxes, craft sodas, digital disruption, [indiscernible] (17:04) this is a problem of the client. Well, reformulation, smaller packages, revenue growth management are certainly dealing with reasonable success and increasing success with the first of those.

You could argue that the Mexican Coca-Cola is one of the most – the cutest, if not fastest growing, craft sparkling soft drinks in the U.S. And you're maybe surprised by this but, recently, Coca-Cola, the classic, the original taste just surpassed Diet Coke, and now they are number one and two beverages in the most prestigious and successful grocery delivery e-platform. So when you throw away these glasses that basically say, you know what, there are only challenges and I see no opportunity. And you put different set of glass and you look for the opportunity. Then this is what you see, 7 billion people in the planet, 1.4 billion drink Coca-Cola. Well, you could say there is at least 5 billion you can go after. Then, you start peeling the onion in the most acid possible way. There's people that we don't measure, next year we will. I'm 52-years-old. I feel super discriminated that our research doesn't measure us, the people above 50. That will be fixed – being fixed, as we speak.

So you take that out then you take out the people that are below poverty levels, I mean, you could still argue that at least one time a year they can be happy drinking a Coke, but we take those out. Then you take out the people that don't drink sparkling. You can argue but you can teach them to drink sparkling. Well, we take those out. Then, you take out the people – you'll only leave in the people that do like Coca-Cola. And then, you still go and take only our fair share and you find 600 million absolutely inexcusable drinkers, inexcusable that we are not bringing them to our franchise. And it has to do with the fact that we have been obsessively doing marketing for the loyal drinkers.

So we have been getting loyal drinkers to drink more. But we have been neglecting these people that were outside of the franchise. Since last year, now this is a priority for us, recruitment, identify them, who are those inexcusable drinkers and bring them.

Then, the second thought is we have been so obsessed with sparkling beverages that we have a lot of markets in which we have been winning nicely while losing across all beverages. If you go and check the numbers in Indonesia, that's exactly what happened. Our share in sparkling only got better as tea and other categories were flying off the roof. We have to hold our marketing to a higher standard, one in which they not only have to talk to the loyalist, but they have to recruit and one in which our brand has to remain the best taste, the best meal companion, the most refreshing, the best upliftment across all beverages.

When you use these different set of lenses, as we have, not to manage the client, we have to invest to grow this beautiful brand. Let's talk about building quality leadership in all the rest of the portfolio. So in the Investor Day, I talked about Explorer, Challenger and Leaders. And this is what I mentioned two charts ago, we have studied a lot over the past 10 years, 7,500 players in the beverage industry. And you know what, after six years, 1 in 11 Explorers become Challengers. And after another six years, 1 in 11 challengers become leaders.

But here's the beautiful number for us. 68% of the leaders, six years later are stronger leaders. And guess what, as I mentioned earlier our leaders are sitting over half of the operating income of non-alcoholic ready-to-drink. So we have the portfolio in our hands to make leaders even stronger leaders, get the money and invest to have better than industry average speed and effectiveness in making our Explorers, Challengers and our Challengers Leaders.

So a fair question is, okay, that's the theory, how are we doing? Well, in the first quarter, one third of our Explorers were growing double-digits. So juices in the Philippines and Egypt, water in Kazakhstan, I can give you an interesting list of all those. Not bad. We have to get better. And I will talk about that in the next chart but not bad.

Now, compared to last year, now, we have half of our Challengers significantly gaining share, [indiscernible] (23:05) in Turkey growing share beautifully, water in Argentina and Brazil, energy across Europe, we are getting better traction and we should still get better.

But look at that number on the Leaders. Just look at that number. That is transactions. First quarter of this year, we grew 4%, the transactions that is the real interaction of consumers with a brand. That means that revenue grew north of that, sweet number, sweet number. So we are making progress. Is it good enough? For sure not. Is this going to remain exactly the same way? No. We will be challenged, but we are starting to move in the right direction.

So let's talk about the Explorers. We are doing more experiments. Part of accelerating the exploration is doing more experiments, 38% more experiments. Obviously, that means we're growing faster. In all transparency, we are being more successful when we innovate in packaging that when we innovate in product, and I think that has to do with the fact that we still have to force our discipline into getting better to why consumers drink stuff, what is that they see in the products, and how can our products better address those needs.

Then, we have also been issuing a guidance to kill the zombies, because we have these things that are not doing their job. They're not growing when they are exploring or they are not winning when they are challenging. Well, now, we have a dialogue with our business units. We have the case of a European bottler that has caught hundreds of SKUs, saving millions of euros. And, in Brazil, we had a beautiful exercise and we're cutting three brands with all the SKUs. That will only free up more resources, more space, will make us more efficient to do the things that are working better.

Now, the other discipline is really about being consumer-centric. And I love this example because this is a brand in which we acquired control arguably in 2010. And I think we finally understood that we have to keep it separated, connected, but not integrated. So they can capture as many synergies of the system as they can. But we are not forcing them to do innovation and marketing and route to market the way sparkling business does because that's when we have crushed some of the things that we have had at hand.

And we have allowed them to remain absolutely true to their vision and their purpose. So they are all about the equivalence of a fruit consumption, having five fruits, outstanding taste, a lead fruit in the product. They are now, as Kathy was saying, the number one chilled juice in Europe; leader in Germany, leader in Austria and Denmark, solid player in Great Britain and France.

But this is the beautiful thing. This is the 6th brand across non-alcoholic ready-to-drink beverages in Europe, already the 6th brand and the fastest-growing. This brand in a few years is going to be a billion-dollar brand. And you know what's the most beautiful thing? Our associates in Fruit Towers couldn't care less about those [ph] businesses as a result (27:14). They only go to work, because they really want us to live well and die old.

Building rituals, building rituals, expanding the rituals in which our brands can play a role and can be used by our consumers.

This is a gorgeous example from Chinese New Year. So in China, it's a huge country and people have moved around. In Chinese New Year, it's that occasion in which Chinese find the time to go and visit their family. As they do that, they feel compelled to bring something, to try – to have a gift for every member of their family. So in our packaging, we have this label that if you scan it, it will complement you in a customized way. It will realize which channels you'll visit, which part of China you are from, and it will do it in a customized way.

But then, it will allow you to get a certain amount of renminbis, of money. And you can send digitally that money to a member of your family. Then, you can scan a second time and you can get e-coupons for movies, discounts, online shopping, and you can send that as a gift. So you have three gifts in one. You bring the package to your family gatherings and you can still give e-coupons and you can still give money to a member of your family. So, now, Coca-Cola is playing a role in this very important ritual.

24% growth during the Chinese New Year for brand Coca-Cola. That is about connecting. After doing it five consecutive years, retailers know that the Chinese New Year is about to come because they start seeing the Play-Doh figures in our packaging. That's what tells them, oh, it's about to come, it's about to happen. We definitely need to coordinate better to scale ideas. But as we scale ideas, we have to find a way for those ideas to be customized. So earlier this year, we have 37 European markets launching FUZE TEA at the same time.

Tremendous exercise. Just the kind of thing we got to do. Now in Netherlands, Belgium and Luxembourg, well, sparkling tea happens to be a thing. They have that. The other markets don't need it. Greece happens to have a large zero-calorie tea business. Well, they have that in their portfolio. In Germany the sweetener has to be adjusted – was adjusted. In the Netherlands, there is a green tea that is important. They have that.

So you can scale an idea while still leaving the spaces on the side for the market to customize it. And you can do that when you have incredible partners like the ones we have with our bottlers. Because as you scale things, you still have some local understanding of the market. Now, we have in 19 European markets a brand that we bought in Latin America with some adjustments, customized to the reality. We are fishing here in retail value $6 billion, retail value $1.9 billion. That's where we are fishing. Not bad. But that we need to do more of that.

We talked during the Investor Day about the capabilities. I think you have heard about the books and the best in class that our bottlers have done for revenue growth management, right execution daily, route to market. [indiscernible] (31:29) classes on this. The quality of the work you do, it's awesome. Now we have to write together the books on how to leverage digital, how to connect segmentation, innovation, design and storytelling.

And since we are two days away from the FIFA World Cup, I would like to use the example of FIFA World Cup to share with you how we are connecting some of the elements in digital storytelling and design. So in some markets like China, we stole an idea from Romania, brilliant market. In the 600 ml bottles, you can find – clearly not this one, but in China, you would find down here a little bracelet. So you have all the teams competing bracelets and you can go and look for the team that you're supporting and have this braces. If you scan it, you can get information of what's happening with the team, who is that team going to play. But then you can play a 3D avatar soccer game to win some free news on devices.

So design, digital then we have this partnership in countries like Mexico. We have behind the label these stickers with the players and you have to fill an album. And you can do it digitally or you can do it in physical terms. Then there is innovation on the packing, on the secondary packaging, connecting the idea to what you see in the market. And when you see we are using the partnership idea of Panini or the bracelet in 20 to 30 countries. We are using the package innovation in 60 countries. We're using the campaign that you're going to see in 170 markets and this cost us half of what the previous World Cup cost simply because we are finding better ways of scaling the advertising that we do and customizing it to the different markets.

So I'm going to share with you a piece of advertising and I think that what I would like you to see is how it brings the brand and what the brand does to a consumer occasion and to a specific need that is about a shopping trip and a purchase occasion.

So if this works...

[Video Presentation] (34:35-35:26)

Yeah. We didn't expect that you were buying four years ago the [indiscernible] (35:30) you're going to need, but you're going to need some, you're going to have friends visiting and watching the games and having fun.

The second piece of advertising that I want to share, I would like to highlight three things. First, we do check – I left my phone there just to make sure that I was not going to receive any stupid call. But we check on our phones, on a vertical phone, every piece of advertising before we approve it because that's how consumers are seeing contents today. So we have forced us to do that.

And the second thing that I would like you to see is at the end, there's a place that says customer name here, that is because we are connecting it to – and if you want to purchase, click here, here's where you can purchase. Obviously, not to show any favoritism for any customer, we have left that space blank. So here is a six-second version of the same campaign.

[Video Presentation] (36:33)

So you can still get the sense of the campaign, even when it gets to the amount of seconds that keeps out. They lose interest after six seconds. Then I thought that I would like to close with a piece of advertising that it's probably more of what Coca-Cola usually does. Because as you get ready for the games, we have been talking and activating [indiscernible] (37:10) stock up because you're going to need this. And remember, this is a fun thing to do, to watch these games with your friend. But as we get to the games in two days, you start feeling the emotion of the game and this is called the uplift – the uplifters and I think it doesn't need me to give any explanation.

[Video Presentation] (37:32-38:31)

Francisco Crespo Benítez
Chief Growth Officer & Senior Vice President, The Coca-Cola Co.

Happy World Cup. Thank you. Steve, you're going to ask us some questions, I guess, right? Hopefully only Kathy.

QUESTION AND ANSWER SECTION

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Actually, guys, we have a – is there time for one question?

Francisco Crespo Benítez
Chief Growth Officer & Senior Vice President, The Coca-Cola Co.

A

Kathy. Only for you. Sorry.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

No, I'm going to ask it to you Francisco.

Francisco Crespo Benítez
Chief Growth Officer & Senior Vice President, The Coca-Cola Co.

A

Okay.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

The question is I think it's intuitive to some extent I think the World Cup example, the China example around FIFA is indicative of this. I think your ability to nurture leaders is more intuitive. When you think about building up the Challengers, what specific new capabilities has Coca-Cola or the Coke system, maybe one or two examples that you can point to, to give us more confidence that there's more up incoming Challenger-type initiatives are in better standing in today's Coke versus in the past.

Francisco Crespo Benítez
Chief Growth Officer & Senior Vice President, The Coca-Cola Co.

A

Sure. Sure. I think that's a fair question. I think one thing that we have recognized is that we are not the smartest people on Earth. The market will always be smarter than us. That's what we call crowd-sourcing, right? So venture emerging brands in the U.S. basically goes unchecked. What is happening out there? And when they see something that is interesting, they eventually put some seeding funds and have a path to ownership.

And when that strikes a different threshold, then they know that it is time to start moving into that direction. What I think we have learned on top of that is we must keep those true to what makes them successful, because when we have gotten them and forced them into the playbook of sparkling, that's when we have crashed them sometimes. But now, I think we have learned how to scale them, allow them into the synergies of our system while they remain doing what they do better than us. And I think the innocent, the Jugos del Valle, the Honest are platforms that are showing that are showing that that's better done when you have a system like a Cola-Cola system.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Great. We're going have to leave it there. Thank you so much to Kathy and to Francisco and to Coca-Cola. Thanks.