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The Coca-Cola Co. (KO)

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MANAGEMENT DISCUSSION SECTION

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

Good morning, everyone. I realize we're second last to keeping you from returning home. And I'm sure you've seen this page endless numbers of times this week. But let me just say in addition to this, one of the requests that we'd had was to put some more detail on some of our slides so that as a takeaway you could use it later on and ask more questions to the IR team. So we've made the pages slightly more detailed which you'll see, but I'm not going to explain all the pages I'll be using the headlines. So don't be surprised if I don't explain every detail page.

So with that, let me jump straight in. I'm going to talk for a little bit about how we see the vision for our company, the opportunity and what we're doing to win in the marketplace today and going into the future. And then John, our incoming CFO will talk a little bit about how we're turning all that into shareholder value.

So a couple of years ago, we were in this room talking about our vision for beverages for life. How we saw the opportunity for The Coca-Cola Company to be truly growth led to come off its period of franchising and reinvesting in the sparkling business and truly get the top line to accelerate and have margins improve and drive shareholder value by essentially being ever more consumer focused and creating value for our customers.

We've made some progress over the last few years building on what's happened over our 130 year history. You can see here we now at least from a revenue basis are starting to look a little more diversified in terms of the different clusters of categories. We clearly have an enviable position as number one around the world in terms of value share against almost every cluster other than energy with our partner Monster. And we have an unparalleled distribution system with our bottling partners, a footprint that reaches almost every corner of the globe.

And we said, we can take this starting point and use it to really drive beverages for life. And that's what we've been doing over the last few years. We're starting to get some acceleration coming out of the back end of 2017 and then into 2018. And I think the results of 2018 just make us even more confident that we're on the right track, even more confident that the strategy of being top line growth led with improving margins is what will drive The Coca-Cola Company into the future and create value especially for a franchise-led business.

You can see here, the sorts of improvements in our run rate of revenue, organic revenue we achieved in 2018 and the ongoing improvements in both operating margins and return on capital. So 2018 was a really solid step forward in convincing us that the Beverages for Life can drive this company into the future.

2019, we set out our guidance for 2019. We're staying on strategy. We believe we're going to deliver another really strong year organically. We're going to have strong operating income growth both from the base business organically and from some of the M&A we've done. Of course, we see all of this together, obviously the M&A we've used some debt to buy some things, a little bit of increase in interest, but all of this goes together and we manage it to drive another strong year of currency neutral EPS for the company. Obviously, there's some offsetting currency in 2019, but we believe over the long run the strong underlying performance will be what will create shareholder value. So we see 2019 being another good year of progress for The Coca-Cola Company.

So let me then say why I continue to see this as the opportunity for Coke and perhaps do that by winding a little back in the story. Firstly, beverages are a great business. They're diversified in terms of channel, so they have pricing power. It's one of the fastest growing categories in CPG and it's a huge industry not just in terms of dollar growth, but in terms of absolute size.

And even while it's huge and well-developed, actually it's only at the beginning of its growth potential. If you simply divide the world into the developed economies and the developing economies, as I've done on this chart, you'll see that the developed bucket which is what principally accounts for all the industry that exists today is only 20% of the world population, and they have three quarters of what they drink is commercial beverages. 80% of the world is only just beginning to see the development of the commercial beverages industry.

So there is a tremendous amount of long term potential for the ongoing growth of commercial beverages well into the future. So how are we approaching our strategy to capture and continue to build on our leadership position of this large, fast growing and huge opportunity category. We've got, simply put, a platform for sustained performance. We do three things. We have upped our discipline on how we go about driving portfolio growth. We have continued to dedicate time to working with our bottling system on staying in line and engaged and, obviously, a lot of that came off the refranchising process over the last number of years and the adjustments to the mechanics of how we operate as a system like incidence pricing.

We also focus very much on the very simple idea. Almost put everyone who touches the coke businesses needs to do well out of it and that's not just the economic business sense but a wider community and stakeholder sense. And then underpinning those strategies is the ongoing effort to digitize the enterprise, foster a growth culture. And I'll come back to that and do this in a way that embeds sustainability at the core of everything we do.

So if that's the platform. Let me spend a few minutes just adding some flesh to those bones. The portfolio. Expanding the portfolio, we've taken in a way a three-pronged approach. Base innovation could be innovation on formulas and ingredients, more personalization, the price/pack architecture even the marketing and the way we go about things. Once we got something that works we're in 200 countries, we need to be as good as we can be on lifting, shifting and scaling the best ideas and taking them around the globe which requires of course a degree of testing and agility and acting with speed.

Third, bolt-on M&A. We've had some good track record in using bolt-on M&A to accelerate our position in a number of categories. So this continues to be a part of how we see our approach to growing the portfolio and of course, the discipline around those investments being key. Underlying all of this will be a continued and ongoing investment in maintaining and growing our best-in-class marketing capabilities around the world.

So let me just jump into each of those buckets. Innovation and on innovation rather than starting with the sexy bit, which is all the new stuff, let me start with getting rid of the stuff that's not working, the zombies that we've talked about before. In 2018, we went through a process of ongoing curation of what's working, what's not working, how's it going. And so far – well, actually the year has ended, but in 2018 we killed 700 zombie SKUs. And so we really are getting better at the disciplined process around the world not just of celebrating and fun faring the ones that do work, but tidying up and cleaning up the ones that don't.

Second we're very more methodical in terms of approaching and seeing the world where it is. What's new to the world? What's something that is new to the company? Where are we innovating in something we know about and something that's new? So we have clear ideas and clear ways of approaching the marketplace in terms of what sort of innovation are we putting out there and how do we think it will be successful. And there are some of the examples there.

And I think in the end, all that activity has to result in something and you can see from the numbers up here that the unit case volume is the simplest measure to track in this case and you can see that innovation has been contributing an ever increasing amount of the business. So we are definitely using innovation to drive the business forward.

And I think it's super important to underline one point, the innovation is not just limited to new stuff, to new categories, to new products. Innovation is also part of what is Keg Coca-Cola, the best, not just the best beverage brand in the world, but one of the best consumer brands in the world. Because over the generations, every generation of managers has found a way to keep Coca-Cola relevant in terms of innovating and we too see the opportunity to innovate on Coca-Cola. Innovations on reformulations, innovations on functional benefits, premiumization, personalization, pack power, pack – price/pack architecture, there's a lot of innovation on Coke and that is paying dividends.

You can see here on the right hand side that the retail sales growth of Coca-Cola has been accelerating over the last few years and has gone up from 2% in 2016 to 6% retail value growth in 2018. So innovation can make Coca-Cola relevant for the current generation and the generations to come and could drive sales growth.

Now, underpinning the work, innovation, making the brands relevant is the ongoing evolution of revenue growth management. Revenue growth management has been with us a long time, but as the world obviously moves forward, progresses, evolves, we need to keep reinventing it. So think of revenue growth management here as Version 2.0 or Version 3.0, how we've doubled down on shifting the mind-set from volume to value, how we've really got from like a one year RGM plan, what are we doing, what are we doing this year? Because often RGM started in some of the more volatile developing markets but now as we look at some of the big developed markets, we have multiyear plans.

Driving RGM across consumer views, across shopper views and really getting down into the channel and customer. So we're seeing a lot of paybacks starting to come in from the next generation of thinking on revenue growth management. As I say, whether you want to call it Version 2.0 or 3.0 it's turning into an advantage.

And those examples can be in the developed markets, or the developing. We've talked on some of the investor call, at times about some of the smaller packaging in the U.S. You can see here, the example between the small can, the traditional can of 12 ounces and the small mini can of the 7.5 ounces. And it is very strategic on a whole series of fronts whether it's in terms of engaging with the consumer, on a treat moment. Whether it's [ph] color (12:35), however, you want to see it, it actually [ph] abase (12:37) a whole series of imperatives. It comes with less volume but it comes with much more revenue.

And I think we've been much more effective in the developed markets, the U.S., Western Europe, Eastern Europe and across even into Japan and really honing this revenue growth management strategy. But it doesn't mean we've forgotten about perhaps where the origins of revenue growth management were at least for the Coke system which was in the developing and emerging markets. Especially as these markets tend to be more volatile, speed and agility to adjust packaging and pricing is ever more important. And here are the example from Eastern Europe about how we've moved from some of the larger bottles to multi-packs of smaller products and how that's helping system revenue, how it's really starting to engage even more deeply with consumers.

So revenue growth management also taking a new incarnation. That's [ph] abaying (13:34) and helping shape the franchise well into the future.

What about lifting and shifting. If you've got a great success story, if things are really working nicely, how can we make sure that we get it to go around the world. Well, here are some of the examples where we are being more disciplined and being more persistent in trying to drive lifting and shifting around the world.

A couple of examples. Fuze Tea, 2018 saw the rollout of Fuze Tea across all the European markets. Obviously, we unwound the beverage partners worldwide, our partnership, and we launched Fuze Tea across the 37 markets on the January 1, 2018. Now this was a brand and formulations of product that existed everywhere else in the world or almost everywhere else in the world. And so we were able to draw on the best learnings from our rollouts and from our marketing and from our execution of Fuze around the world and really come up with the optimal bundle for the European marketplace and had a great success in launching that in 2018. And not only replacing all the volume and the revenue we've had with under the previous joint venture, but actually growing in 2018 as well. So a great success being able to leverage what we've learned globally on tea.

The second one – wow, some little birds got in the room – I'm sorry about that – just slightly weird to look around and see a little flock of birds. Well, maybe because we're on the plant drinks, they come in from the grains. AdeS, AdeS we bought in Latin America, soy-based drink, been doing really well in Latin America. We brought it to Europe. I think we didn't have as much success as we have with Fuze. We learned a lot with Version 1.0 of AdeS when we brought it to Europe. It resonated very well in certain formulations, in certain packages, in certain places. But we absolutely needed 2.0 there. So it's really been a learning process on that one, but again we were able to act to the scale and bring something from one region to another region.

And then Smartwater. Smartwater which continues to be a great success in the U.S. not just in its still and sparkling formats but now with the alkaline water and innovations in Smartwater here in the U.S. We've been able to export that to more countries around the world and we're really starting to build a strong brand franchise out there. So listening and shifting working, again, it's not automatically going to work. But we can absolutely leverage our learnings from around the world and increase our chances of success.

Lastly, on the bolt-on M&A. We've talked about other categories of bolt-on M&A over the years here at CAGNY, whether it's juice or some of the other categories. Obviously, the most recent one for us was buying Costa Coffee which we closed in early January. And here our strategy is very clear. We're going to use the idea of Costa Coffee and the retail stores as part of the brand essence and underpinning the brand. But we see this as a coffee strategy, as an opportunity to be much more effective in providing a total beverage solution to our customers whether that be through the vending machines, the Costa vending machines are truly world class in delivering a Barista experience for coffee, whether it's those vending machines, whether it's with more traditional beans and machines and whether it's with ready-to-drink. Obviously, ready to drink and the vending machines are very much in the sweet spot, they're kind of like the twins to freestyle in our bottle can business and we see absolute opportunities to accelerate and that including the roll out later this year of the ready-to-drink Costa brand.

So bolt-on M&A, absolutely helps us drive the portfolio, we've talked in the past about the sweet spot is to buy something that works in a few places and leverage the Coke global system to get it into many more. To buy something that's successful in one or a few countries, but has resonance and ability to travel. And I think this is going to be the beginning of some good growth in coffee for The Coca-Cola Company and the Coke system.

Now, with all that innovation, it's not just about the discipline of killing the zombies and lifting and shifting new stuff around, because once you've lifted and shifted it, it's still got there. And in the end when you study the beverage industry, one of the conclusions you come to is patience is a must. Brands do not emerge overnight, industries in the beverage industry do not change overnight, it takes time. We must have discipline to curate our growth portfolio. We need to be able to do what's necessary to do justice to the explorer brands, those small brands that have single digit share or just been launched to get them to have the core consumer group, to graduate them to challenges whether they're number two or number three on the way to leadership.

That's a journey that statistically can take 7 years, 10 years in the beverage industry. And honestly, even when you get to leadership, there are leaders and there are leaders that are even better. So we even have to curate our leadership models. So the discipline is not just about exiting the zombies, moving stuff around. It's the patience and the persistence and the consistency to stick at the strategies that are working and get the portfolio to graduate up through explorer, challenger and leader, super important.

Can it be done? Give me an example of how it works. Let me use the Mexican one. 2006, that's what the cooler looked like in a kind of symbolic cooler for 2006. We were leaving sparkling aside in Mexico. We were sick. We were sick in all of the other categories combined in Mexico in 2006. 2018, we're number one.

We together with our bottling partners in Mexico called FEMSA, Arca Continental and the other family bottlers in Mexico have over the last 12 years through a combination of bolt-on M&A, innovation and persistence and coherence with a set of strategies have been able to create a leadership position in the non-sparkling categories in Mexico. We've driven tremendous revenue growth but not just revenue growth, margin expansion and of course profit growth.

So with discipline, with persistence, with coherence and staying on strategy we can absolutely create a really consumer centric portfolio that delivers not just for the consumer but creates value for the customers and turns into revenue and margin for the system.

So talking about the system, we've obviously come off the refranchising a number of years ago. We've got in place a more energized, more engaged, more committed bottling system around the world with collectively even more committed than we were before and a sharper focus on value over volume and the incentives, incidence pricing to bring us together, focus on not just driving the growth but driving the efficiencies across the system.

The productivity is could be the fuel for the margin expansion, but also the investments needed to drive the portfolio. So the system is really got aligned behind beverages for life, having more of a growth mindset.

So let me give you another example. Let me use the case study of Coca-Cola European Partners. In the years prior to the creation of Coke European Partners, we were overly focused on headline price and cutting costs in a way we were trying to shrink ourselves to victory and it just didn't work. With the creation of European Partners, it was not just the bringing together of GB, France, with the Iberian Partners and our German bottler, it was the change in mindsets. Here in the beverage industry, you can do everything rationally, but in the end there's a bit that's about belief. There is – in the way there's – there's those that only believe what they see, but in the beverage industry, if you believe you can also see, believing is seeing sometimes.

And if you believe you can see the opportunities and I think that's what Coca-Cola European Partners about, beyond all the technology and the frameworks and the great strategic and operational executional thinking was a belief that growth was out there. A growth mindset that we could go out and create more revenue growth in Europe and more margin expansion and I think they spoke a couple of days ago and that's the story that's come true in Western Europe.

So part of this alignment engagement is not just about the hard numbers and the hard frameworks, but bringing into being those that believe that growth is possible and go out and find it, and I think this is a great example of how it comes to life.

So portfolio, engaged system, growth mindset, seeing what's possible in a business which has a long way left to run. But underpinning that is a lot of effort on digitizing the enterprise. Digitize the enterprise whether it's B2B, B2C, fostering a growth culture, I just talk about it in the case of the European partners but it's true for the company too. We have to continue to evolve our culture. I think when we came last time we talked about the Lean Center and change in the operating model. One of the underlying principles was this is not just boxes on a page organizational structure. This is ultimately going to be about culture and the old adage that culture eats strategy for breakfast.

We've got to keep driving the growth mindset. The growth mindset on, if you believe that it's possible to grow, you will see more opportunities is true in beverages. I know I said it once before, but I think it's super important that we keep drilling that into our organization and with our bottling partners because that's what creates the passion that has driven this system forward.

And then lastly, we've got to grow in a way that's sustainable. We've talked before about how we've had programs on female empowerment, how we replenish all the water we use, actually more than all the water we use, [ph] we had a schedule (24:47) and how that – just a little more than a year ago, we set out our goals on a World Without Waste related to packaging.

So let me say a little bit about that. Clearly, a critical issue and we set ourselves some very simple goals. We're going to collect a bottle and can for everyone we sell by 2030. We're going to make sure that all of our packaging of course is recyclable and then we're going to use 50% recycled material back in our packaging by 2030. And in 2018 in the year and a month since we set out this clear goal, we've joined a number of global partnerships. We've also taken the strategic decision to say this is more important than competing with our peers. We have, for example, opened our intellectual property on PlantBottle to others that want to use it, because we take the philosophy that actually solving this is a collective issue with our peer competitors, with the broader CPG industries that use plastics, actually with the wider plastics industry and of course with society and governments. And so we've opened up our IP to do that.

We've driven up our recyclability rate of our packaging. We've launched in some places, bottles that are 100% recycled PET in a number of markets. And so we're making good progress. It's going to be a big collective effort required around the world but this is a solvable problem particularly because PET ultimately has an intrinsic value.

Every PET bottle can be remade into another PET bottle, and so it's about putting in place the circular economy to bring back that item that ultimately has an intrinsic value. So this can be solved and we're very committed to doing so.

So where are we? We're positioned in a fantastic industry that's growing. At the top end of CPG and has a compelling long-term reason to grow well into the future. We've been transforming our portfolio to become ever more consumer centric but in a way that is requiring and making us up our degree of discipline on how we portfolio manage, and our degree of patience and coherence and sticking with strategy as we drive that into the future.

Working our bottling partners, not just engaged and capable with the capital to invest but with a growth mindset to drive and recreate competitive advantage into the future and fostering accountability and performance. And we believe we will continue to build on recent successes and do even better in the future. So with that let me hand over to John who will take you through the bit on shareholder value.

John Murphy

Senior Vice President and Deputy Chief Financial Officer, The Coca-Cola Co.

Thank you, James. Good morning everybody. It's a pleasure to be here with you in Florida for my first CAGNY visit. Before getting into the main agenda, I'd like to take just a couple of moments to outline some of my key priorities as I take on the CFO role. First, will be to support our operating leaders to sustain a healthy top line for the business.

Second, will be to bring a laser focus to improving margins across all of our business segments. Third, will be to apply even more discipline to our capital allocation process. And to make sure that we are making not only good strategic decisions but good financial ones with the right risk profile. Fourth, will be to embed across our organization, a productivity culture given it's implicit in our long-term growth model. And last but certainly not least will be to make sure that we invest appropriately in our people and our capabilities so that we can continue to raise the performance bar within the organization.

All of this will be designed to push our enterprise, to maximize in a sustainable way free cash flow and returns. I think these are the right priorities and I think they play well to the strengths that James has just talked about. Our leadership position, our Beverages for Life vision with an aligned and engaged set of partners across the world. Our emerging growth culture up and down the organization and our – I guess, our track record and our belief in being able to deliver strong returns going forward.

So as I take on this role, I'm very confident that we will achieve our stated long-term targets, organic revenue in the 4% to 6% range, operating income at 6% to 8%, earnings per share currency neutral 7% to 9 %, and free cash flow 90% to 95%.

Turning to our recent performance, you can see that the top line has been responding and we are now seven quarters of organic growth within our long-term range. Having just come from the operating world, I can attest to how the strategies are being played out in our markets. There is a sharper focus on value and margin over volume. We are implementing in a much more scaled and disciplined fashion some of the revenue growth initiatives that James talked about which is allowing us to deliver a creative formula of a much more balanced price mix equation. I'm seeing a lot more traction in our ability to lift, shift and scale good ideas like Fuze Tea, Coke Plus in Asia and also they kill the bad ones faster. And our innovation pipeline I don't think has been as healthy as it has been especially since we've brought the R&D organizations back into the operations.

And finally, with the engagement that we have with our bottling partners, our improved execution in the marketplace is not a coincidence. We're also extremely focused on delivering productivity. Not only the targets that we've laid out and we'll continue to see coming through in 2019, but I'm going to be really focused on bringing into the organization a mindset that productivity is part and parcel of how we operate. We have many levers within the organization to continue to achieve it across our supply chain, within our marketing investment structure and obviously with our operating expense environment.

So with a healthy top line, traction on productivity, we're expanding our operating margins. In 2017, I believe, we put forward a guidance for 2020 of 34% plus. We are on track to deliver against that based on underlying performance in 2018 and what we have built into our 2019 and also expect in 2020. And so we're pleased with the progress that we're making.

Some of the acquisitions that we've made recently I believe make the 34% an irrelevant number going forward and so I think at this point, it's appropriate to withdraw it. However, what I do believe is more important to look at is our ability within our different business segments, our core business, our newly announced segment Global Ventures and the remaining operations we have in the Bottling Investments Group to bring the right level of focus and the right skills into each one so that we deliver on our objectives.

Our growth ambitions will continue to be supported by a very disciplined capital allocation strategy and structure. The four priorities that you see on this chart are pretty similar to what we've discussed in the past. And I believe they remain appropriate for what we need to do in the future. First and foremost, to continue to reinvest in the business, whether it's in the supply chain, in our marketing agenda, in our innovation agenda. Secondly, we remain committed to growing our dividend as we recently announced for 2019 first quarter. Thirdly, as James has alluded to, we continue to have white spaces in the portfolio that we see opportunities in the M&A space and there are many opportunities. So bringing discipline into this equation, making sure that they are strategically sound, making sure that they are accretive and making sure that they have the appropriate level of risk for us to be able to execute successfully are really important.

And sometimes saying, no I think is often the right answer. And then finally, we will continue to repurchase shares to at least offset dilution. With respect to our capital structure, we feel that getting the right balance between efficiency and flexibility is really important. And in that context, the current target we have of 2 times to 2.5 times on net debt leverage is where we shall be playing.

I should point out that this year we will go slightly above 2.5 times taking into account the Costa acquisition. We expect to get back in there fairly shortly. To support these capital priorities, we are and we need to be really committed to free cash flow. I have been asked on more than one occasion in recent weeks as to whether the journey from where we are today to our stated commitment is actually doable. And I believe it is. What I believe is going to require some hard work ahead of us. But the path to get there is going to be laid by a reduction in some of the one-time costs that we have previously absorbed primarily due to some of the refranchising and Lean Center work.

Secondly, I believe there is a big opportunity for us to bring working capital to benchmark standards. I think that we have made progress over the last couple of years but we have some headroom ahead of us.

And finally, I believe it's really important that we are – we become top class, I would say, at – so what I'd just talk about in the summary, healthy top line growth, driving margin expansion in a less capital intensive model and becoming disciplined with how we use our capital. All of those have contributed to what you see on the right hand side, an increase over the last few years in our return on invested capital. And I believe this formula will serve us well to continue that progress as we move forward.

I'd like to close with two points. One is with reference to our 2019 outlook. The key factors that drive our guidance for 2019 is the healthy momentum we have in the underlying business. Our confidence in being able to continue to deliver productivity, the robust marketing and innovation pipeline that we have, and obviously that's also taking into account an interest rate environment and some specific investments we've made, Costa to name it, that has given us a hike in our interest rate cost in the short term, and we've talked about currency and the impact that is having. Well, as James also pointed out, throughout 2019 we'll continue to stay very focused on the bigger picture, on the broader framework and bringing our Beverages to Life to life piece by piece.

That actually gives me the confidence to say that we think we're on a great track to create shareowner value. It was a very clear strategy not only to communicate externally but to understand and drive internally. We have a path to operating margin expansion across all of our business segments. Our capital allocation framework and process I think is strong and would get stronger. I am really committed to getting that 70% up to 90% to 95%. And all of that leads me to close out by saying that we really believe in our ability to deliver in the near and the longer term.

So thank you. And with that, I think we'll go to questions. Thank you.

QUESTION AND ANSWER SECTION

Q

Okay. Thank you. So a really great presentation focused on strategy and operational changes, but I think it's important to maybe just touch on sort of like the elephant in the room from last week which is around dollar EPS growth and so James if you could comment sort of on, I guess, long-term commitment versus aspiration to that. And then also, John, it might be too early to ask, but there'll be a lot – a lot of the things that are hindering the EPS growth this year, will be things that kind of fall under your purview. So, as you take a look are there things that you can envision making changes to structurally that avoid these kinds of risks in the future? Thanks.

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

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Sure. So, let me – let me say a couple of things. I think the currency is a question in part of first order objectives and second order objectives and what do I mean by that. We see our first order objective as the long-term health and growth of the enterprise. Simply represented in financial terms by the long-term growth model and as we talk about in the presentation, we came off a period of refranchising, reinvesting our bottling business where our revenue was growing in round numbers about 3% for the last five years, 2012 to 2017 and currency neutral EPS was in the 5%.

We clearly need to accelerate the top line and get the margins to grow and I think that's the track that we've come on and we had growth through 2017 and 2018. So first order objective that's going to ultimately create shareholder value. Get the top line to grow faster, and get the margins to improve and we made very solid progress and we're very confident in that.

The premise of the plan is over the long run the currency will even itself out. But the first order objective is to do the right thing to the enterprise. The second order objective that we approach, having got the first one right, is to worry about the currency, because all the other pieces, the portfolio, the bottlers, the interest, the tax to some extent, the share buybacks, all of that we somewhat control and currency less so.

Now, let me start with what we're not going to do and then go to what we do do. We're not going to try and manage the business so that we always neutralize currency fluctuation so that – so that our currency neutral EPS growth turns into U.S. dollar EPS. Why?

It's not an arbitrary idea. It's part of what I was trying to describe in the presentation. Investing in brands in a beverage industry where it takes multiple years to create a brand, to make it a challenge, to turn it into leadership, to continue to drive leadership is not something that can be on/off. You can't go in marketing from feast one year, to okay currency is negative, therefore famine the next year. Currency is positive, feast the next year. You can't have a strategy that flip-flops between growth and squeezing for money one year to the next. You got to stay at consistency to win in the marketplace and that's what we've been able to do which is demonstrate winning in the marketplace. So what we're not going to do is manage – is change the strategy execution in order to offset all of the currency.

It's not – now, it's not just black and white. We're not going to do the reverse either, reverse either. Because if you stand back and say are we going to ignore the currency, no we're not going to ignore the currency either. Why? Because you could argue in the long run it'll even itself out. And the reason not to is ultimately it's a dollar stock price for the shareholders and not just that because in the end the stockholders hopefully will hold it for a very long time and that will even out. We have a dividend policy, we have a very good dividend and we like to see our dividend grow each year. And so if for some prolonged period of time you start getting dollar EPS going down and dividend that's growing, it starts to become uncomfortable which is kind of where we were in 2012 through 2017. The dollar EPS went down on average and the dividend went up. So we don't like that and that's not a good place to be.

Does that mean, we're going to be able to pull all the levers to try and get the dollar EPS to grow every year? No. But it's a comfort issue with we can't start seeing the two things getting out of sync. We want the dollar dividend to grow every year. Therefore, we certainly [indiscernible] (45:37) like to see the dollar EPS grow every year or at least not decline. Which is kind of where our guidance is this year in the not – in kind of flat not decline space, but it's – again, it's the second order objective.

The first order objective is the long term health and sustainable growth of the system. If we can get the revenue to grow faster which we've done for the last couple of periods, we've had a good start this year, at improving margins this will sort itself out in the long run. Second order objective, assuming number one is achieved, is try and pull the levers whether they're resource deployment or pricing in marketplaces because if the dollar gets stronger enough then exports inflation to other countries, can we price more in some of the marketplaces, can we use those levers to just try and make sure we don't see the earnings and the dividend diverged in terms of growth which, in short hand, turns into, can we try and avoid the dollar EPS declining, may not grow some years as we're looking at 2019 but we just don't want to it to diverge. That's the underlying idea. It's not going to be mechanical by periods and years but that's the underlying idea.

John Murphy A
Senior Vice President and Deputy Chief Financial Officer, The Coca-Cola Co.

Can I answer your second question?

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

Yeah.

John Murphy A
Senior Vice President and Deputy Chief Financial Officer, The Coca-Cola Co.

So let me start saying, one of the mandates I have coming in is to challenge everything which I think in short, medium and long term is how do we manage foreign currency. I think just two underlying questions. One is is the approach we're taking today the right one going forward. And number two is the way that we communicate and explain it adequately. I think the second question is more easy to answer than the first one, in the sense that I think we have an opportunity to do a better job given some of the confusion that we have, we have in this space.

Coming back to the first question though, historically our approach has been to participate in hedging, not to get into a lengthy discourse on hedging, but one of the reasons, the primary reason we've got U.S. dollar commitments and a lot of our inflows are in foreign currency. So hedging helps to provide certainty. It helps to smooth volatility and also over the years, I think we have a very experienced and qualified group of people who manage this, we can also participate in upside particularly in a weakening dollar environment that is not the case at the moment. Underneath that then we've got a basket of currencies that we play in. There are some currencies where it's easier and it's much more rational to hedge either through forward contracts or option contracts. And in the emerging markets it's a lot more challenging.

In 2019, the bulk of our headwind is actually in emerging markets because it is very difficult to protect against them and there is tremendous volatility in that space. So I'm going to be taking a close look at all of this stuff and working with our treasury team, working with a number of other folks to make sure that we're comfortable with the approach that we have going forward. And then, obviously, with respect to how we talk about us and explain us. I think that there are clearly opportunities to do a better job on that and we would be working closely to do so.

Q

I think, – sorry, we need to just carry it on in the breakout. So, please join me in thanking Coke again for being here and for all those [indiscernible] (49:30)