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# The Coca-Cola Co. (KO)

Q1 2024 Earnings Call

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**James Quincey**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** At this time, I'd like to welcome everyone to The Coca-Cola Company's First Quarter 2024 Earnings Results Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time.

All participants will be on listen-only mode until the formal question-and-answer portion of the call. I would 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 & Head-Investor Relations, The Coca-Cola Co.*

Good morning, and thank you for joining us. I am 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 Investor section of our company website. These reconcile certain non-GAAP financial measures that may be referred to this morning to 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 growth and operating margins.

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 take your questions. Please limit yourself to one question. Reenter the queue to ask any follow-ups.

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. We're off to a good start this year, as our first quarter results continued the momentum we've been building by executing our all-weather strategy. The operating backdrop differed greatly across our markets once again, but our powerful portfolio, coupled with our system's capabilities, equip us with the agility we need to deliver on our 2024 guidance, which we are updating today.

This morning, I'll discuss the drivers in the quarter and how we used our scale and growth mindset to deliver these strong results. Then I'll highlight how we continue to meet consumer needs and grow our total beverage portfolio. Finally, John will discuss our financial results and updated 2024 guidance.

In the first quarter, we grew volume and expanded comparable margins and we continued to invest across the business. We're managing currency fluctuations to deliver earnings growth, as shown by the 7% comparable earnings per share growth, despite 9% currency headwinds. And we gained value share in both at-home and away-from-home channels.

Across the world, we're continuing to win in the market by leveraging our scale and relying on our local expertise with our bottling partners. In Asia Pacific, momentum continued across a large portion of our business, including Japan and South Korea, Philippines, and Thailand. We gained traction in Indonesia with a return to volume growth. India's momentum was impacted by some temporary factors, but recovered at the end of March. In China, retail sales growth continues to improve, but consumer confidence is still below 2019 levels.

We remain optimistic about the many opportunities ahead of us. And we're stepping up our execution in a number of ways. For example, greater focus on our core business for a more segmented market approach and more surgical horizontal market execution.

In EMEA, we're seeing gradual improvement in macro trends in Europe, leading to improved consumer confidence. We've paired Sprite with spicy meal occasions to drive momentum in away-from-home channels. FUZE tea and Powerade also generated strong performance, and Jack Daniels & Coca-Cola expanded to six more European markets during the quarter.

Africa saw continued volume momentum from last quarter, while navigating a number of markets with significant currency devaluations. Geopolitical and economic challenges in Eurasia and the Middle East continue to affect our business in the region. We're working closely with local partners to manage these challenging dynamics. And we're committed to investing behind the strength of our brands for the long-term.

North America volume had a slow start to the quarter before posting sequential improvements in each of the last two months of the quarter and elasticities remained favorable, leading to ongoing share gains. The launch of Coke Spiced featured compelling in-store displays. Across our Sparkling soft drink brands, Zero Sugar performance was strong and we introduced 12 ounce slim cans to further drive premiumization.

Value-added dairy growth continued across fairlife and Core Power. In sports drinks, notwithstanding the non-cash impairment charge that John will speak to in more detail, we believe our two-brand strategy with Powerade and BODYARMOR is gaining traction and we've seen improved share trends. While we still have work to do, the stepped up execution by our dedicated sales force is driving improved on-shelf execution and we're encouraged by the continued growth in SportWater and the more recent BODYARMOR innovations, including Zero Sugar and FLASH I.V.

While inflation has moderated and wages continue to trend upward in North America, we're closely monitoring consumer sentiment and traffic trends between at-home and away-from-home consumption.

In Latin America, volume momentum continued. Performance was driven by strength in Mexico, Brazil, and Colombia, while Argentina continued to experience highly inflationary conditions. We have quality leadership across our portfolio in Latin America, with Coca-Cola Zero Sugar continuing its strong performance. Sparkling flavors, sports, juices, and alcohol ready-to-drink also performed well during the quarter.

Commercial initiatives are driving improved shelf space and basket incidence, supported by ongoing outlet digitization. We have suggested order capabilities in digital platforms that reach more than 3 million customers in the region.

Across developed markets, the overall inflationary environment is normalizing. However, across developing and emerging markets, there continues to be a handful of markets that are experiencing intense inflation, which is driving elevated pricing, offset by incremental currency headwinds. We're proactively managing these volatile environments. And we feel confident we have the playbook to navigate challenges locally, while continuing our momentum at a consolidated level.

We're continuing to spin our strategic flywheel faster across total beverage portfolio. As discussed at CAGNY, we're building loved brands, and innovating and delivering bigger, bolder bets.

In the first quarter, we launched K-Wave as part of the Coke Creations platform in markets across five operating units. K-Wave celebrates Korean pop or K-Pop fans and includes a global collaboration with three K-Pop groups and an AI-based fan experience. Our growing number of Coke Creations are different with each iteration and, by design, are only available for a limited time. This generates buzz and excitement, building relevance for the brand and reconsideration for Coke with Gen Z drinkers.

We also know that sometimes the most successful lasting innovation is simply improving the taste of existing drinks. Using our deep in-house flavor expertise and understanding of the science of taste, we have worked to refine the recipes for Fanta and Sprite to meet consumer preferences across many markets. These changes bring new consumers to our brands, as well as remind current consumers what drew them to their favorite beverages in the first place.

The strong Fanta performance in markets from Brazil to Germany to the US this quarter is largely due to this type of innovation, which was supported by marketing messages focused on taste and on tying the brand to snacking occasions at local festivals, like Carnival in Brazil.

Elsewhere in our total beverage portfolio, Minute Maid Zero Sugar kicked off its global campaign in North America, leveraging influencers, social media, and connected commerce activations with key customers.

We're building on our innovations by driving awareness and excitement through an increasingly digital marketing media mix. Our total beverage portfolio plays a lead role, as shown by the New Guy campaign in the US this quarter, which featured multiple brands across categories. Innovation is woven into the fabric of our culture and we're encouraged by our innovation pipeline as we look forward to the rest of 2024.

Moving across the flywheel, we're leaning into integrated execution to drive basket incidence and create incremental value for customers. We work closely with our bottling partners and went bigger with in-store displays to inspire transactions around key events, like NCAA March Madness in the US. And we'll do this again later this summer with the Olympic and Paralympic Games.

As a system, to improve quality availability, we increased outlets by 2%, added more than 600,000 cooler doors, and increased our share of cold space and overall shelf space in stores. We benefited from global scale, while maintaining local relevance by tying our brands to regional meals occasions.

For example, in Japan, we've associated Coke with Wagyu and Yakimiku through the path to purchase, using end-to-end consumer messaging and partnering with key customers in the modern trade and convenience retail. We have seen strong Coca-Cola revenue growth in Japan.

While we continue to grow our business, we also strive to positively impact the communities we serve. We do this by focusing on the issues that matter most to our system, and we share our status and learnings each year when we publish our Business & Sustainability Report. Putting it all together, it's early in the year, but we're off to a good start. We have confidence we will achieve our guidance for the year.

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. Our first quarter results mark a continuation of the underlying momentum in our business, driven by a strong and focused system. We delivered another quarter of volume growth, even as we cycled strong results. Additionally, we completed the refranchising of several bottlers during the quarter, leading to further comparable margin expansion. We progressed on our refranchising agenda, while making sure we best position our system to deliver long-term growth and we earn a fair return on our investments. We continue to invest behind our portfolio with discipline and flexibility, thanks to our enhanced resource allocation agenda.

During the quarter, we grew organic revenues 11%. We had 1% unit case growth. Concentrate sales were behind unit case volume by 3 points, driven by one less day in the quarter and the timing of concentrate shipments, primarily in Mexico and the Middle East.

Our price/mix growth of 13% in the quarter was driven by approximately 6 points of intense inflationary pricing across a handful of markets to offset significant currency devaluation, pricing actions across a number of markets, and a couple of points of favorable mix. Excluding impacts from intense inflationary pricing, organic revenue growth in the first quarter was at the high end of our long-term growth algorithm.

Comparable gross margin for the quarter was up approximately 130 basis points, driven by underlying expansion and a benefit from bottler refranchising, partially offset by the impact of currency headwinds.

Comparable operating margin expanded approximately 60 basis points for the quarter. This was primarily driven by strong top line growth and bottler refranchising, partially offset by currency headwinds and an increase in marketing investments.

Markets experiencing intense inflation represent only a single-digit contribution to our volume, but continue to have an outsized impact on the shape of our P&L.

Putting it all together, first quarter comparable EPS of \$0.72 was up 7% year-over-year, including 9% currency headwinds which were driven by currency devaluation in markets experiencing intense inflation.

Free cash flow was approximately \$160 million, an increase from the prior year.

Before moving on, I want to discuss two items that are included in our first quarter reported results. A \$765 million charge related to the remeasurement of our contingent consideration liability for our acquisition of fairlife; our final payment related to the fairlife acquisition will take place in 2025. This payment has grown as fairlife has outperformed. We continue to be encouraged by our ability to scale fairlife organically.

Secondly, a non-cash impairment charge of \$760 million related to BODYARMOR. While we are taking a charge to reflect revised projections and a higher discount rate since the acquisition date of BODYARMOR, we believe in

the power of our two sports brand strategy with Powerade and BODYARMOR. We're taking actions to help create long-term value and we're seeing signs that this strategy is working.

Our balance sheet remains strong and our net debt leverage of 1.6 times EBITDA is below our targeted range of 2 to 2.5 times. This gives us ample capacity for potential upcoming payments in 2024 related to the IRS tax case, which we continue to vigorously defend, and the upcoming fairlife payment in 2025.

We continue to remain consistent in our approach to prioritizing our capital allocation. We're committed to investing to drive growth and to support our dividend, which we have raised for 62 consecutive years. We're confident our business model has the flexibility to allow us to deliver on our overall objectives. Our updated 2024 guidance reflects the underlying momentum of our business. And we now expect organic revenue growth of 8% to 9% and comparable currency-neutral earnings per share growth of 11% to 13%.

Our revised top line guidance is solely driven by higher than expected inflationary pricing in a handful of markets, which we expect to moderate throughout the year.

Bottler refranchising is still expected to be a 4 to 5 point headwind to comparable net revenues and a 2 point headwind to comparable earnings per share, but will have a positive impact on both our margins and the return profile of our business.

Based on current rates and our hedge positions, we anticipate an approximate 4 to 5 point currency headwind to comparable net revenues and an approximate 7 to 8 point currency headwind to comparable earnings per share for full year 2024.

This increase in currency headwind is driven by intense inflationary markets, while the rest of the currency basket is relatively neutral to our results.

Our underlying effective tax rate for 2024 is now expected to be 19%. All-in, we continue to expect comparable earnings per share growth of 4% to 5% versus \$2.69 in 2023.

There are some considerations to keep in mind. We estimate the ongoing conflict in the Middle East had approximately 1 point of impact on volume growth during the first quarter of 2024. It's unclear how long this impact will last. The cadence of structural impact will be larger in the second and third quarters, due to the timing of transaction closing during the first quarter and the seasonality of the businesses we refranchised. Finally, there will be two additional days in the fourth quarter.

To sum it up and as James said, the year has started off well. We remain focused on the execution of our all-weather strategy. And thanks to the partnership of our system and the ongoing dedication of our people, we're confident we can create value for our stakeholders and deliver on our guidance for the year. And as we said at CAGNY, we're primed for performance in 2024 and over the long-term.

And with that, operator, we are ready to take questions.



## QUESTION AND ANSWER SECTION

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

**Bryan D. Spillane**

*Analyst, BofA Securities, Inc.*

Q

Thanks, operator. Hey, good morning, everyone. John, I wanted to ask a question about gross margins. In the quarter, there was about 100 basis point tailwind from structural benefits and then – or structural change and then I think 60 basis points benefit underlying. If we kind of take that first quarter performance and kind of think about it over the balance of the year, can you just give us some context of how we should be thinking how much of that we should extrapolate going forward, maybe what some of the headwinds/tailwinds would be, but just given the gross margins were so much better or gross profit dollars were so much better than we were all modeling, I just want to kind of get a sense of how much of that we should bank in our estimates going forward?

**John Murphy**

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

A

Thanks, Bryan. So as we think about the full year, we're going to continue to have a tailwind from beyond the refranchising work that we have discussed. And so I think that's going to flow through throughout the year.

We expect to continue to have some expansion, as reflected in our ongoing – in the growth model, driven by both positive RGM impacts and some productivity. The input horizon is more normalized. We do have some elevation on juice and sugar, which we continue to have. But the net of it all is that we'll have some tailwinds in the underlying area.

Currency will continue to be a headwind, and you can kind of extrapolate that out for the year.

So the net of it all is it will be primarily driven by the refranchising efforts positively, some underlying expansion offset by the currency headwind. And as we reflect in our guidance, the top line growth continues to be a primary driver and the quality therein will I think will ensure that on a sustained basis that expansion, albeit not as potentially aggressive every quarter, but that expansion will be in our favor going forward.

**Operator:** Our next question comes from Dara Mohsenian from Morgan Stanley. Please go ahead. Your line is open.

**Dara Mohsenian**

*Analyst, Morgan Stanley & Co. LLC*

Q

Hi. Good morning. So I was just hoping you could give a bit of a deeper dive into North America. A, just want to get an update on what you're seeing from the consumer. Any channel shifts in terms of away-from-home versus at-home, and the sequential improvement you discuss within Q1, is that something that's expected to continue going forward?

And then just, B, price/mix was very strong at 7% in North America. Can you unpack that between mix and pricing and just how you think about the balance between pricing, mix, and volume going forward in the balance of the year in North America? Thanks.



## James Quincey

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

A

Sure. Morning, Dara. Overall in terms of the consumer and how that fed into the channels, the US consumer remains in good shape. There is some purchasing power compression in the lower income echelons. And I think it's quite clear that there's some behavioral shift there looking for value. I think that has led to a marginal channel weighting or shift, if you like, with slightly more at-home volume versus away-from-home. I would emphasize this is at the periphery rather than a big shift, but, at the margin, slightly more value seeking, slightly more at-home, slightly less away-from-home.

And so, we've been stepping up our RGM efforts, our packaging efforts, and executing against that so that we have continued to gain share in the quarter.

As it relates to pricing, of the 7 points in the first quarter, approximately 2 of those are mix or timing related. The rest is pricing. And we expect that to moderate as the year goes on and we expect to see 2024 being a much more normal year in terms of pricing. In other words, it's largely going to be as it was pre-COVID. So we're expecting to see 2024 end up with a much more balanced growth equation over the rest of the 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

Great. Thanks. Good morning. I wanted to talk a little bit about how the company manages when the dollar is strong. So outside of the markets with extreme inflation, we know from a strategic standpoint, of course, the ongoing RGM efforts in pack and channel and so on, but just sort of from a more tactical standpoint, when you're in a strengthening dollar environment, I was curious if you could share a bit more about how you manage that at a local level? Because the delivery of dollar-based EPS has become a key focus and hallmark, frankly, in the last couple of years and I thought a bit more color on how you go about that in a more tactical sense could be helpful. Thanks.

## James Quincey

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

A

Sure. So markets outside the US will roughly break down into two types. There will be those, perhaps typified by Europe, Japan, Australia, some of the obvious ones, where the competition and the economic dynamics of the marketplace are predominantly local currency. And so in these markets, our approach is to compete locally in local currency, given the cost structures in those areas. And we generally marry that with a long-term currency hedging or selling forward program, such that we can have a clear anticipation during the course of the year as to what that's likely to turn into.

So that's one set of markets. And we essentially have put ourselves in a position, through the hedging program, that we can compete locally and do what's necessary to continue to win in those marketplaces, which is generally what happens.

The second bucket of countries, and that's much more apparent in recent quarters than even historically, where you have a higher – whether you want to say the chicken and the egg, a higher level of devaluation and a higher level of inflation, these tend to be more emerging market economies, where there is less availability of economically attractive hedging programs, and so we don't tend to have hedged them. But also given the elevated nature of the dynamic between the inflation and the devaluation, we obviously are competing locally.

So, for example, in the Argentinas of the world, we're competing predominantly locally to win in that marketplace and set ourselves up for the long-term. And the inflation – it's very cyclical as these markets cycle through higher inflation and high devaluation. Sometimes the dollar value of those businesses shoots up and sometimes it shoots down. At the moment, they're in the phase of shooting down in dollar terms. So they're declining in dollar terms, even though they're growing a lot in currency-neutral terms.

But we look at a long-term basis to win using RGM and all the other investments we make in the business. And, of course, they're not all in sync with each other. So it's a portfolio management question.

And then, overlay that is of course a corporate approach in terms of prioritization of where and how to invest, whether to lean in, and lean in with what sorts of investments, such that we are able to deliver on our corporate level commitment to make sure that, at the end of it, the sum of all the competing localys is more than the sum of the parts, such that we can deliver a consistent level of US dollar EPS growth.

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**Operator:** Our next question comes from Steve Powers from Deutsche Bank. Please go ahead. Your line is open.

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**Steve Powers**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Hey. Good morning. James and John, you both mentioned incremental progress on the two-brand strategy in sports drinks with BODYARMOR and Powerade. I was hoping you could spend a bit more on what you're seeing there that gives you that encouragement and what you see as the key initiatives for that strategy as we go forward. Thank you.

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**James Quincey**

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

A

Sure. Clearly, we haven't progressed as fast as we would like with regard to BODYARMOR, notwithstanding the step-up in the discount rate; and that's reflected, as John talked earlier, in the charge. Notwithstanding that, we do see long-term value in the dual strategy, particularly in the US, between Powerade and BODYARMOR.

We're off to a good start with some of the plans. The zero calorie version is ahead of expectations. The FLASH I.V. has got some double-digit share and the SportWater version is one of the fastest-growing premium water brands; so some product innovation that's getting some traction.

A new partnership with NHL, on the marketing front. And on the execution front, a stepping up of the merchandising and sales force focus directed just at the sports drinks category, which is helping improve the share trend in the category; although, not at the rate we had hoped initially, but we think are in good shape going forward. Obviously, we'll have an opportunity with the Olympics to really continue to step that up.

So plans in place across the product innovation, the marketing, and the execution, and we think this will come to fruition over the course of the year.

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

**Bonnie Herzog**

*Analyst, Goldman Sachs & Co. LLC*



All right. Thank you. Good morning, everyone. I was hoping for a little more color on your performance in Asia in the quarter, and then – whether it met your expectations or possibly fell short.

Also, you mentioned that declines in China more than offset growth in some of your key markets in the region. So maybe just hoping for a little bit more color on your business in China and how quickly you expect the market will recover, again, given the broader macro challenges in the region. Thank you.

**James Quincey**

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



Sure. Let's go around Asia, quickly. I mean, China, we're cycling in the first quarter a very strong Chinese New Year in first quarter from 2023. So I think we had a solid quarter in China. We focused very much on having a good Chinese New Year in sparkling, which was good. We deprioritized some of the lower value water in order to do so.

And as we commented earlier, the Chinese confidence isn't as strongly rebounded as some of the other markets versus 2019. And so, we see an overall environment where there will be growth; perhaps not at the top historic levels, but there will be growth. And so, we're there.

We're very much focused on what we can control and the things we need to do. There's still huge opportunities in the Chinese marketplace, notwithstanding the macros, and there's a lot we can execute against in the marketing, in the innovation, in the execution in the marketplace, in the stores, and with RGM. So there's a lot for us to achieve that's within our control in China.

In the rest of Asia, we had a good quarter in Japan and South Korea, good share gains, really starting to pick up the pace. Also, likewise, we had a strong performance in the Philippines, which is an important market for us. And so, that was good in the quarter.

The one that was atypical, or at least compared to recent quarters, was India had a slower start in January and February. As we've talked in previous calls, we're very bullish on the long-term prospects for the Indian business. And we're also very clear it's not going to be a straight line of metronomically consistent growth. And so, it wasn't in the first quarter. It was a little softer January and Feb, but March and April have now bounced back. And so, we expect to see India continue to have a strong year this year.

**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 can you comment on EMEA? You called out Nigeria, Germany, and South Africa growing unit case and driving the growth in volumes. But if my math is correct, ex-inflationary countries, your price/mix in the rest of EMEA was about 7%. So can you comment on the state of the consumer there, similar to what you said about the US, and if you feel the 7% price/mix is – in more stable countries is sustainable going forward? Thank you.

**James Quincey**

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

A

Sure. EMEA, also, this quarter had a whole series of moving pieces. As you started on price/mix, clearly there's a number of countries in there with very high inflation; not just Nigeria, but also Turkey and, somewhat mathematically unlikely, some of the smaller African countries, given the level of inflation, can also make a difference to the pricing lever in the EMEA segment.

So the EMEA segment has a substantive piece of pricing that is the inflationary marketplaces, including many markets you [ph] would (00:34:49) normally suspect. And so, that's a roundabout way of saying – actually in Europe, pricing is much more normalized and, a bit like the US, we both see improved macros. Actually, I think today a number of the markets came out and said they'd come out of recession from the previous quarters.

Like the US, we see the lower income consumers remaining under pressure, and at the margin, slightly more shift towards value orientated channels, at-home orientated channels, and less of the away-from-home. And clearly that's related to our focus not just on the marketing and the innovation, but the RGM and affordability and driving premiumization.

So Europe, not too dissimilar a story compared to the US, but the EMEA segment mixes in both the Middle East conflict and quite a number of the high inflation countries.

**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. So I want to ask about brand Coca-Cola, trademark Coca-Cola, relative to the sparkling flavor businesses. I think unit case for sparkling flavors outperformed trademark Coca-Cola in 2021 and in 2022, but this normalized into the back half of 2023. That's continued into Q1 of this year. So can you just perhaps expand on whether there's anything distinct that's occurring here between brand – or trademark Coca-Cola and sparkling flavors, regional considerations, brand considerations? I just think it's noteworthy, given the relative outperformance that has just turned the other way a little bit. So any context would be helpful. Thanks.

**James Quincey**

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

A

Yeah, look, clearly both trademark Coke, original taste, Coke Zero, have been having a good run over the last number of years and really focused on performance. But also perhaps unlike in times more recently past, Sprite and Fanta have also been doing well.

This has been an intentional focus for the company and the bottling system, which historically we have looked at and managed sparkling all together. And very deliberately a number of years ago, we separated to really focus in on Coke, Coke trademark on its own with all the innovations, whether they be like the K-Wave innovations or continuing to focus on Coke Zero with the updated formulas or focusing on Original Taste Coke with the Marvel activations that is just coming out. A real focus on Coke, and that has been part of what has driven success over the last number of years.

And ultimately for the company to do well, Coke has to do well. It's kind of a mathematical certainty. And that has certainly been what's been driving things.

And then the separation of Sprite, Fanta, and some of the regional brands, particularly perhaps some of the Indian soft drink brands like Thums Up have really got their own deserved focus. Actually, if you put all the flavored sparkling brands together, they would be one of their own – they would be one of their own big FMCG companies in their own right. And so really what you're seeing is this focus on the formulas of Fanta and Sprite really doing much better and being teamed up each time we brought it to marketplace with a full marketing package. For example, Fanta in the US had a good run as we updated the formula and relaunched the marketing.

And so I think the – it's been doing really well. I think the only place where we've not succeeded particularly with some of the flavors are in the Chinese marketplace, for example, given that's really a Sprite question there, that we need to continue to focus on to do better with Sprite in China. But otherwise, Fanta, Sprite, and particularly the Indian flavor brands have done very well and, of course, Coke is a pretty broad-based success story.

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

**Filippo Falorni**

*Analyst, Citigroup Global Markets, Inc.*

Q

Hey. Good morning, everyone. I wanted to ask on the Latin America business, clearly there's a lot of impacts from hyperinflation in the market, but the volume trends continue to remain very solid in the region from a unit case standpoint. So maybe can you talk about the consumer environment there and do you think you can continue to see volume growth in Latin America going forward and some of your key initiatives in the region? Thank you.

**James Quincey**

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

A

Yeah. Thanks, Filippo. So the simple answer is yes. We believe that the businesses can continue to grow in Latin America, both in volume and revenue terms. It's been a long-term success part of the business, with a very strong system between ourselves and the bottlers focused on the marketing, the innovations, the execution, and the RGM. We'll continue to build on the recent years' momentum. Performance this quarter was strong, particularly in Mexico, Brazil, and Colombia. Obviously, Argentina was impacted by the macroeconomic conditions. But we have a very tight system. We're very focused on what needs to be done, and continuing to invest in capacity in order to continue to unlock the volume growth.

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

**Peter Grom**

*Analyst, UBS Securities LLC*

Q

Thanks, operator. Good morning, everyone. Hope you're doing well. John, I had a question as it pertains to the fairlife liability. Clearly this is a sign that the underlying business is doing extremely well, but we've also seen kind of the value of this liability increase quite a bit over the last year or so. So as we look ahead, is there anything you can share, any guardrails you can provide in terms of how we should think about the liability changing as we move through the balance of the year and into 2025? Thanks.

**John Murphy**

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

A

So the liability is very much linked to the ultimate performance. And as we closed out this quarter, we're reflecting our latest and best estimates as to what that will be. The momentum of the business has been very strong, and actually I think it's going to continue. And if anything, there may be some more upside.

But for now, we're reflecting our best estimates for what that liability ultimately would be. Just to keep in mind that the liability will be – it's an early 2025 ending to it. And we'll update as we go through this year, in the event that the projections evolve.

**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 more question on the innovation side. Certainly it's been an innovative company over the past four, five years, more new products out there, but it's tough to kind of track some of these products that have been launched if they're still on the shelf a year, two years later. So I guess the question is are there things in place in terms of percentage of sales should come from new products in a certain region in a year or number of new products that need to be launched per year? Just trying to understand – I understand you wanting to be more innovative, but just trying to see what kind of guardrails or what kind of accountability there is around that kind of innovation?

**James Quincey**

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

A

Sure. I think the first thing is to bear in mind a certain segmentation of the innovation. And what I mean by that is you've got a strong focus of a part of the innovation that's around renovation of the core. So you get into kind of a question of, okay, well, is the new Coke Zero formula or the updated Fanta formula backed with a new marketing campaign, are you going to count that as innovation or not?

So the first thing is to understand that there's definite types of innovation at play here all driving the business. One being in a sense the renovation of core brands. Secondly, our launch is intended to be ins and outs. So some of the Coke Creations, where really the focus is on reengaging with consumers in a novel way to drive relevance of the core brand. So you're not expecting them to last.

And then, of course, there are things we're putting into the marketplace that are new innovations, whether it would be something like a Minute Maid Zero Sugar or something like the Absolut Sprite or the Jack Daniels & Coke. So these things – and then of course you've got non-product based innovation, like it's a new bottle size or a new can size. So we track across all these things.

As it relates to product innovation, we have a very clear set of metrics on whether it's still growing on the fifth quarter after its launch. So is it cycling itself and continuing to accelerate? So there's a lot of clear metrics. But we do not set ourselves an artificial strategy objective of it has to be X percent from innovation. As it happens, about 25% of the growth comes from innovation, but it is not set that way.

In the end, we are not setting ourselves up to sell what we make. We've got to sell what the consumers want to buy. So it's about doing justice to every brand and every idea and every package and every channel and then service that resulting demand. If that is led by great new innovation or by the 138th year of Classic Coke, then that's the answer.



**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. James, market development is a culture, right? It's a philosophy. And it seems to me that so much of what you're doing and what you've talked about today is intended to get shelf replenishers to become better market developers for faster growth. Can you speak to how this is – this evolution is going in the system? Are there any regions or countries that stand out for momentum in this system transformation of moving toward richer market development and to less shelf replenishment order taking?

**James Quincey**

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

A

Yeah, sure. Look, I think each part of the world is in its journey to continue to add value to the retail, because in the end, this is about, together with the bottlers, making sure that we are adding value to the retailer's business. Our objective at the retail level is to grow the beverage category faster than the average of their business, and for us to grow our portfolio brands faster than the beverage category.

And to do that, we've got to add more value. And that takes different forms in different places. And so, as that happens, for example, the pre-sellers, they move from just the order taking to account development. As AI comes in, it generates a suggested order for the retail outlet that is demonstrably more efficient in helping the retailer drive sales, and then it allows the sales person to do more account development and to expand on different ideas.

So at each stage, it's about taking the system capabilities to the next level, so that we can continue to add value for the retailer. Everything that was done in the past starts to become the price of entry in the future, and so we need to keep adding value. And so, I think there's a strong growth in capabilities all around the world, specifically focused on the channel structure that the bottlers have in any given market.

**John Murphy**

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

A

And if I may just add, James, I think one of the big changes in the last three to five years is that the ambition that we share, respectively, with all of our bottling partners is much more at the high end of what it should be than scattered. So I think that's – and then, it's working backwards from there as to what does it take to deliver that ambition.

And some are further along than others, but the ambition is that starting point that I think is helping to drive the progress that we're seeing each quarter.

**Operator:** Our next question comes from Robert Moskow from TD Cowen. Please go ahead. Your line is open.

**Robert Moskow**

*Analyst, TD Cowen*

Q

Hi, there. Just want to ask a couple of clarifying questions. James, I think on the last earnings call you were very clear that you viewed the business -

**James Quincey**

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

A



Can you speak up? We can't hear you.

**Robert Moskow**

*Analyst, TD Cowen*

My apologies. Can you hear me now?

Q

**James Quincey**

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

Yes.

A

**Robert Moskow**

*Analyst, TD Cowen*

I think last quarter, you spoke very specifically about the business being a 2% unit volume grower. Given the timing impacts, is that still how you would view this year?

Q

And then, secondly, can you be a little more specific about those timing differences in Mexico and, I think, the Middle East between units and concentrate? What causes those discrepancies, and do they naturally reverse in the coming quarter?

**James Quincey**

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

Sure. Yes, timing differences naturally reverse between concentrate units and unit cases. Partly it happens when there is a different number of days in the quarter than we have – we use the 4-4-5 system for all sorts of reasons. And what that causes, sometimes, is different numbers of shipping days in quarters. And so, you undersell when you've got less days, like the first quarter. And, of course, in the fourth quarter this year, when there's two extra days, there will be way more concentrate units than there were cases, relatively speaking. So over the course of time, these anomalies or differences reverse themselves or average themselves out.

A

And then, as regards to the 2% volume, yes – look, I have a very strong view that the – our overall ambition to see our revenue grow at the top end of the algorithm – I'm leaving aside the intense inflation countries, for the sake of the argument at the moment. We want to grow at that 5% to 6% range. And we want that to have a balanced contribution from volume and price/mix; so implicitly looking for 2% to 3% on volume. And I think we talked last quarter, that in the current circumstances, that's likely to be slightly less volume and slightly more price, as price and inflation normalizes. And so, I think that 2% is still a pretty good number. It's certainly been the average growth rate in volume over – if you take a compound number over the last number of years, you're going to get something like a 2%. So that seems to be the momentum we're driving.

And that – if you strip away the inflation and the weirdness in the first quarter, what you see is you've got that 1% volume, which given the Middle East headwind of 1% and, actually, we're cycling the strongest quarter last year, you can say it's a good volume number. It has good underlying price/mix in the normal countries, so the kind of the normal performance is right at the top end of the algorithm there. And then, that feeds its way through to a 7% EPS growth.

So I think, right in there, the main business, notwithstanding the kind of peripheral noise, is humming away right in line with where we said we wanted to be.

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

**Robert Ottenstein**

*Analyst, Evercore ISI*

Q

Great. Thank you. Just like to drill down, both on the US and the volume question. Can you talk about your expectations for volume growth in North America this year, what it will take to get volume growth? Is it a function of more the economy, more the comps, more the sectors? And tied to the sectors or categories, I think you mentioned that tea, coffee, and water were very weak. Any color around that? Thank you.

**James Quincey**

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

A

Sure. I mean, clearly in the case of the US, we've commented in previous calls that our expectation would be modest – flat to modest growth in volume on a long-term basis in North America with good pricing. Clearly, that remains our overall ambition. Whether we get from the flat to something more positive in the rest of the year will, obviously, be a combination of what we execute against and the trajectory of the purchasing power of the economy in the balance of the year. But we're very focused on continuing to build the business, drive the revenue, and continue to win in the marketplace. And we'll see where that nets out to.

And then, in the case of where we were doing well and where not, clearly we had a strong quarter in terms of sparkling. In terms of some of the other categories in North America, dairy. Obviously the fairlife additional charge, as John talked about, as the earn-out is in its last year, very strong quarter on dairy, very strong on sparkling. Actually good on juice. The water and the tea and obviously, to some extent, obviously the sports categories were a little softer. Some of it on the water was selling less of kind of the case pack water. And tea, I think was very much a question of we just need to focus a little more on some of what needs to be done there. But it was more on the kind of the FUZE tea end of the spectrum rather than the Gold Peak end of the spectrum, which tends to do better.

**Operator:** Our next question comes from Callum Elliott from Bernstein. Please go ahead. Your line is open.

**Callum Elliott**

*Analyst, Bernstein Autonomous LLP*

Q

Great. Thank you very much. So I have a slightly longer-term question on gross margins. In 2015, your gross margin was 61%, I think, and you had published a slide at CAGNY in 2016 showing that you expected gross margins to get to 68%, post the refranchising that had been announced at the time.

Today, we're still around 60% over the past 12 months. And recognizing you guys weren't in your current seats in 2016 when that slide was published, but my question is what's happened? I'm sure you'll point to M&A, Costa, BODYARMOR, CCBA, et cetera, but I don't think they could close to explaining the 800 basis points of delta. And I don't think that FX explains the gap either. So what else is it? And has the refranchising maybe just not been as margin accretive as you expected, or were there some kind of other structural drags that hadn't been anticipated back in 2016? Thanks.

**John Murphy**

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

A

Yeah, actually, I think it does explain what's happened. I don't have the breakdown in front of me, but at the gross margin level, when you take into account the impact of currency, of some of the bottlers' acquisitions that came back into our portfolio, that we're now in the process of refranchising, and some of the other acquisitions, I think they have had a mechanical impact. We can come back with a little bit more color on that.

And then, I think when you look at the operating income and how it's flows down into operating income line, the primary driver are these items. So, yeah, don't have it in front of me. We can follow up in a bit more detail. But that's – yeah, that's the story.

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

**Brett John Cooper**

*Analyst, Consumer Edge Research LLC*

Q

Thank you. Good morning. I just wanted to ask on your digital spend in B2B and if you can share any quantification as to when you win B2B or you get B2B into [ph] more particular retailers, what happens to your space, your share of category performance, I guess, relative to a base that isn't there (58:15-58:22)? And it's not so much a question of the 8% increase in the quarter, but looking back over time. Thanks.

**James Quincey**

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

A

Again, I don't know if something was up with the line today. That was very kind of broken up. But I think, Brett, you were asking about the digital experiences in B2B and what happens in shares in the category. There are multiple – B2B is not a singular thing. And the digital version of B2B is not a singular thing. There is a vast amount of B2B business that has been done for many years with direct order transfers, largely to large store modern retailers where order replenishment has a long-standing track record, and is really focused on the efficiency of making sure the shelf is not out of stock from products and is more a process of support to what already goes on. And so, actually you see it as – it's enabling the physical presence in the kind of the analog world, if you like.

Of course, there's other types of B2B. For example, in the mom-and-pop stores, where we have moved heavily from a you have to wait for the pre-seller to appear type of relationship with the mom-and-pop stores, to where that is complemented by some sort of ordering and relationship platform. They come in multiple guises, depending on where you are in the world and the relative need and cost-efficiency of doing so, but those platforms allow retailers effectively to be able to order, make additional orders 24/7, maybe even book servicing for their cold drink equipment, follow loyalty programs, et cetera, et cetera. So there's a lot of different types of B2B relationships.

Generally speaking, they are supportive of us continuing to grow the relationship and to continue to do well, but they're enabling rather than consumer-facing. So kind of the share is a little trickier to determine.

**James Quincey**

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

Okay. I think that was the last one. To summarize, first quarter of the year, a strong start, and we're confident we can continue to create value for the stakeholders and shareowners and deliver on our 2024 guidance. We'll continue to manage through the many different types of environments out there, but focus on leveraging our capabilities to drive what we can control to make sure we get growth.

So thank you for your interest, your investment in the company, and 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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