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The Coca-Cola Co. (KO)

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MANAGEMENT DISCUSSION SECTION

Operator: At this time, I'd like to welcome everyone to The Coca-Cola Company's Second Quarter 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 Mr. Tim Leveridge, Vice President of Investor Relations, Financial Planning and Analysis. Mr. Leveridge, you may now begin.

Timothy K. Leveridge

Vice President, Investor Relations Officer & Head-Financial Planning & Analysis, The Coca-Cola Co.

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

Before we begin, please note that we've posted schedules under the Financial Information tab in the Investors section of our company website at www.coca-colacompany.com. These schedules reconcile certain non-GAAP financial measures, which may be referred to by our senior executives during this morning's discussion, to our results as reported under generally accepted accounting principles.

You can also find schedules in the same section of our website that provide an analysis of gross and operating margins. In addition, this conference call may contain forward-looking statements including statements concerning long-term earnings objectives and should be considered in conjunction with cautionary statements contained in our earnings release and in the company's most recent periodic SEC report.

Following prepared remarks this morning, we will turn the call over for your questions. Please limit yourself to one question. And if you have more than one, please ask your most pressing ones first and then reenter the queue.

Now, let me turn the call over to James.

James Quincey

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

Thanks, Tim and good morning, everyone. In the second quarter, thanks to the tremendous efforts by our associates and our bottling partners, we executed on our key emerging stronger priorities as many parts of the world gradually reopened. As we continued to deliver on our transformation, we're encouraged by our results and are raising our top line, bottom line, and cash flow guidance, even as we are accelerating investments for the future.

At the same time, we also recognize the trajectory may be dynamic and understand that we must remain flexible to respond to changes in the environment. This morning, I'll provide a business update and discuss how disciplined innovation and more effective and efficient marketing are driving broad-based share gains and are delivering enhanced value for our system. Then I'll hand the call over to John to discuss our financial update, including our improved outlook for the year.

Last year, in the face of a global pandemic, we laid out a path to emerge stronger across five strategic priorities. We are delivering against those priorities and this quarter demonstrates the power of our system. We started 2021 with promising results. Mobility in business levels improved in the first quarter and this trend continued in the second. Consumer mobility increased in markets where vaccination rates are reaching meaningful levels and our business has recovered as we lap last year's biggest lockdown impacts and see our strategies in motion.

Consumers have started to return to many prior routines; and as a result, our away-from-home volumes steadily improved as a percent of our business this quarter, driving strong price/mix and margin acceleration across the enterprise. However, the recovery remains asynchronous and several parts of the world have dealt with further ways of infections leading to delayed openings and, in some cases, heightened restrictions.

India and Southeast Asia were our only areas that did not see sequential volume acceleration on a two-year basis this quarter. Despite the asynchronous recovery, our revenues and earnings in the second quarter surpassed our 2019 results.

We also made progress on share this quarter. We said many times that gaining share is a key objective in our emerging stronger agenda, and I'm pleased to report that we have achieved that objective with broad-based share gains across categories as well as in both our at-home and away-from-home channels in the quarter. And importantly, despite away-from-home channels not having fully recovered, our value share today is higher than the 2019 levels, confirming that our effective brand-building and innovation, along with our advanced revenue growth management, our market execution capabilities are working.

So, let me dive a bit deeper into the key drivers across our geographies. In Asia Pacific, China saw continued momentum across categories, driven by both volume and improved mix with Trademark Coca-Cola. We outpaced the overall macroeconomic recovery and by strong performance in away-from-home channels and business-to-consumer e-commerce.

Australia and New Zealand were bright spots, performing at or close to 2019 levels, but they are currently seeing renewed lockdowns. While Japan is struggling to come out of lockdowns, there have been tangible successes with consumer-led innovation, small pack initiatives, and improved customer execution of key initiatives. As I mentioned earlier, in India and across much of Southeast Asia, resurgence in the virus impacted further recovery as India's restrictions have eased a bit, we're encouraged by the level of resilience in both the business as well as our system associates as they have navigated this resurgence.

In EMEA, Europe is still being impacted by some level of restrictions. The vaccination rates and consumer confidence are improving. Because of this, and our strong bottle alignment and marketing investment, we are seeing a much-improved away-from-home mix even as at-home volumes continue to grow. Great Britain and Russia, where mobility was at the highest, show noticeable volume outperformance relative to 2019, and sparkling soft drinks gained or maintained share in most of the top 10 markets in Europe.

Eurasia and the Middle East are performing well despite a diverse recovery landscape. In Turkey and Pakistan, strong execution during the key Ramadan holiday and emphasis on snacking and meal occasions drove new consumers to the Coke brand.

Africa delivered a strong first half performance with affordability packages delivering good results despite tightened restrictions heading into the winter season and vaccination rates that are behind the rest of the world.

In North America, the consumer environment improved through the quarter as many states lifted restrictions and consumer mobility increased. More frequent social gatherings and rising travel and event activity drove significantly higher demand for our brands in away-from-home channels, while at-home volumes remained robust, leading to broad-based share gains in the quarter.

Within away-from-home, eating and drinking was the strongest-performing channel with travel, hospitality, and at-work trailing. In Latin America, lockdowns eased as vaccination programs rolled out in countries such as Mexico and Argentina and stimulus programs in Brazil and Chile also helped drive recovery. Our results and year-to-date share gains in the region continued to be driven by commercial initiatives to improve execution as well as a focus on affordable packs like refillables.

Costa's UK coffee shop revenues recovered almost entirely to 2019 levels through the reopening phase, despite ongoing capacity restrictions. Increased consumer traffic and digital momentum are also supporting recovery as restrictions eased in other countries where we have a retail presence.

Our Bottling Investments Group faced pandemic-related challenges particularly in India and Southeast Asia, but managed to sequentially improve or gain share in India, Vietnam, the Philippines and South Africa. BIG also made great progress against this growth and productivity agenda, increasing year-to-date comparable operating margin approximately 300 basis points from the 2019 levels.

Our category teams are collaborating with a global lens, enabling us to move even faster towards our Beverages for Life ambition. Our continuously engaging consumers around their passion points and testing ideas in a coordinated and increasingly digital way, we're getting even better at what we've always done best, building loved brands around the world.

For a few examples, the Coke trademark portfolio is experiencing robust growth led by brand Coke and driven in part by Coca-Cola Zero Sugar, which has contributed double-digit growth in value and volume year-to-date. The new Coca-Cola Zero Sugar recipe has already launched in nearly 50 markets across six of our operating units, including last week's announcement in the US, with more to come this year. Early results indicate that the recipe and simplified packaging design are resonating strongly with consumers.

In sparkling flavors, we're accelerating our Zero Sugar offerings and executing global campaigns to focus on key occasions. Sprite has done well globally, benefiting from the Let's Be Clear campaign, which has led to improved share gains. Likewise, Want The Fanta mystery flavor campaign in Europe drove accelerated growth and improved share.

Dairy remains an opportunity for their overall portfolio with premium offerings in key brands like Hollandia drinkable yogurt and Santa Clara's flavored milk showing healthy growth. We continue to leverage fairlife's great success in the US with a recent expansion in Canada.

There are many bright spots in hydration, sports, tea and coffee. We see momentum across brands in the US, including good results from our renewed focus on smartwater, a new brand bundle from Gold Peak tea, exciting flavor innovations in Dunkin' coffee, and continued growth from expanded distribution of Topo Chico sparkling mineral water.

We've had early success with Costa ready-to-drink launches in Asia with meaningful share gains in key markets in China, and was already voted a hit product in Japan.

The rapid consumer traction and attractive proposition of healthy indulgence by AHA which began as an intelligent local experiment in the US led us to believe it can transition to be a bigger bet and travel internationally. The recent launch in China with the local name of Little Universe has been encouraging, with meaningful value share gains in a short period of time.

We continued to build our momentum with the launch of AHA's first 360-degree marketing campaign with a significant digital emphasis titled Can I Get an AHA?

Finally, last summer we announced more exploration in the dynamic flavored alcoholic beverage category with the launch of Topo Chico Hard Seltzer. Topo Chico Hard Seltzer is now in 17 markets worldwide, and we've authorized Molson Coors the right to produce and sell Topo Chico Hard Seltzer in the United States.

Launching a global brand in markets where the categories are at different stages of development comes with many learnings, and our local knowledge allows us to adapt with speed-to-win or, in some cases, develop this new category. From strong performance in Europe where available, to top two position in Mexico, to the US where velocity is robust and the products has enjoyed positive consumer reaction, we are encouraged by recent trends and are gaining valuable insights along the way.

We continue to make progress with our consumer-facing digital propositions. Internally, we were building out our platform services organization to support the enterprise as we have a sizable opportunity to become a holistic digital leader. Digital is of the utmost importance, and we're also building an integrated ecosystem of platforms that create value across the digital and physical worlds.

We are partnering with our bottlers to leverage the power of the system's physical footprint online, creating enhanced value for customers across the globe for a best-in-class e-B2B platform. With pockets of excellence in many regions, we are working with our bottling partners to evolve and streamline our approach. Working together as a system allows us to improve distribution economics, solve unmet needs of outlet owners, and opens new revenue streams by providing other CPG brands access to our deep customer relationships and global distribution network.

We are building a digital one-stop shop for customers, seamlessly offering most of the products they need to stock their shelves and operate their daily business. We're also ensuring consumers get the frictionless experience they demand, with more availability and assortment of the products they need and love.

On top of the initiatives discussed today, we also continued to work with our bottlers to embed RGM principles and integrate execution capabilities into our processes to continue driving basket value and incidents as the world reopens. Through enhanced execution, we have an opportunity to win with more consumers and grow share by having the right products, in the right channel, at the right price, supported by the right activations.

We also continue with our sustainability agenda to create shared value for our stakeholders and communities we serve. In addition to integrating ESG considerations into our daily business decisions, during the second quarter, we released our Business & ESG Report, highlighting progress across all our goals, as well as our World Without Waste Report which focuses exclusively on our work to create a circular economy for our packaging materials.

Highlights include the continued rollout of 100% recycled PET with 30 markets representing approximately 30% of our total sales offering at least one brand in 100% rPET packaging. We've continued the expansion of refillables and dispense packaging and ultralight-weighting technologies and we delivered a 60% global collection rate for packaging in 2020. We are proud of these achievements and we know there is more work to be done.

Recently, we announced that we've become a global implementation partner for The Ocean Cleanup's River Project, supporting the deployment of clean-up systems across 15 rivers across the world. We will embed our marketing capabilities into this partnership to create consumer awareness of the issues and the actions we're all taking.

Putting it all together, we realize there's a range of possible outcomes when it comes to the pandemic in the second half of the year given the asynchronous recovery. While we over-delivered relative to our expectations in the first half and have raised guidance for 2021, we are biased towards a growth mentality and will invest behind this momentum going into the rest of the year. Our networked organization is beginning to help us move faster to capture opportunities and create value for our stakeholders. As a system, we are increasingly equipped to win, and we're excited about the future.

Now, I'll turn the call over to John to discuss our second quarter results and the drivers of our updated outlook.

John Murphy

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

Thank you, James. This morning, I'll highlight the drivers of our second quarter performance as well as our revised guidance.

In the second quarter, we built on the momentum from the beginning of the year and our business mix improved as consumer mobility increased across many markets. Our Q2 organic revenues was up 37% comprised of concentrate shipments up 26% and price/mix improvement of 11% as we lapped the biggest pandemic impacts of 2020.

Unit case growth was 18%. Our shipments outpaced unit cases in the quarter and year-to-date due to cycling the destocking we experienced last year and certain timing impacts this year, including five additional days in the first quarter.

Improvement in the away-from-home channels and positive segment mix from higher growth in our finished goods businesses positively impacted our price/mix. Channel and package mix also affected comparable gross margin which showed significant improvement relative to last year, even with certain inflationary costs like transportation coming through.

As we've said throughout the pandemic, our goal is to emerge stronger, and we are investing ahead of recovery as markets reopen. As a result, we have doubled our marketing dollars year-over-year, cycling the significant pullback from the same period last year.

Even with a step-up in those investments, we delivered a 170-basis point improvement in comparable operating margins driven by the strong top line. [ph] The low (00:18:00) operating income, we saw a benefit from improvement in our equity income as our bottling partners also emerged stronger, as well as reduced interest expense on a comparable basis.

As a result, second quarter comparable EPS of \$0.68 was an increase of 61% year-over-year. We also delivered strong year-to-date free cash flow of approximately \$5 billion, double last year's results. Our cash flow performance has also driven the return of our leverage to within the targeted range of 2.0 to 2.5 times.

Since we reiterated guidance last quarter, the operating environment and our business have clearly improved. Given the improvement year-to-date and the increased visibility, we are raising our outlook for the full-year. We now expect to deliver year-over-year organic revenue growth of 12% to 14% and comparable EPS growth of 13% to 15% in 2021.

Our steady focus on cash generation continues to yield progress, and our updated guidance for free cash flow of at least \$9 billion implies a dividend payout ratio significantly improved from where we began the year and is edging closer to our targeted level of 75% over the long-term.

So, as we think about the remainder of the year, a few things to keep in mind. The recovery phase continues to be asynchronous, creating a dynamic demand environment in addition to causing many parts of the supply chain to experience tightness as a result. While experiencing some isolated pressure points, our team is navigating the challenges well through supplier diversification and inventory management.

Despite recent upward pressures in many commodities driven by pandemic-related disruption, we feel good about the rest of the year. And as we anticipate hedges rolling off in 2022, we are working with our system to take appropriate action in the back half of this year to manage the ongoing volatility using revenue growth management capabilities and supply chain productivity levers.

With regard to marketing investment, we have three priorities: increase consumer-facing marketing spend toward levels similar to 2019; improve the quality of that spend; and allocate the spend in a more targeted manner.

Our currency outlook continues to contemplate a tailwind of 1% to 2% to the top line and approximately 2% to 3% to comparable EPS in 2021 based on current spot rates and our hedge positions.

That said, the currency markets remain volatile and dependent on recovery from the pandemic as well as macroeconomic factors. We will also have some additional timing considerations with the leveling out of our concentrate shipments that are running a bit ahead year-to-date as well as six fewer days in the fourth quarter.

To summarize, our company and our system have tackled many challenges through the pandemic, but we are emerging stronger, thanks to the hard work of our people and the focus on our strategic priorities. With our networked organization up and running, we're on a path to operate more efficiently and effectively and to unlock the enormous potential we have in our brand and across our market.

James mentioned earlier, we remain clear-eyed as we look at the rest of the year, with many markets continuing to face obstacles such as the spread of the COVID-19 Delta variant, but others continue to see the benefits of re-opening. Overall, we are pleased with our progress in the first half of the year, and we're grateful for the commitment from the stakeholders across our ecosystem that contributed to our results.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Dara Mohsenian with Morgan Stanley. Your line is open.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Hey, guys. So, on the revenue front, in markets like the US where COVID concerns have now dissipated, can you just discuss how quickly consumer behavior is coming back, how that compares versus what you originally expected? Presumably it's better than expected with the raised full-year top line guidance, but how that impacts your strategy going forward, and maybe also what you see as the lasting changes in consumer behavior in some of those markets.

James Quincey

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

Yeah, sure, Dara. Well, firstly, I'm not sure I would characterize the US as past COVID. It's certainly moved to a phase like several other markets where there's high levels of vaccination where the COVID, the most serious parts of the COVID are affecting mainly the unvaccinated as well as some of the vulnerable. So, it's not over and we can see that in the numbers.

If you just take a look for a second at what's happened in the US, a couple of interesting things as it's moved into this re-opening phase. Firstly, consumers, as we've talked before on these calls, we've always believed that humans are social creatures and that once the restrictions come down and the panorama of the virus allows people with confidence to go out that they will go back out to all of the away-from-home channels. They want to be social and they will go after the experiences.

And this you can see very much beginning to happen in the second quarter. So, if we look at our away-from-home channels, you can obviously see large rebounds compared to the second quarter last year, which is obviously logical given how much they fell last year. But they have not yet all reached the levels of 2019. You can take a couple of channels like QSR which was one of the ones that went down least last year as they pushed delivery, as they pushed pickup and closed the in-room dinings.

Those channels, even though many QSRs have still not yet fully reopened in restaurant dining, they have bounced back and are back kind of at or above 2019 levels. So, for example, QSR did well and they're doing very well now. Whereas, if you take channels like bars and taverns, they went down by about three-quarters last – Q2 last year.

Now, of course, they've reopened, people have flocked back, and they have gone up by 200-odd-percent, but that still means they're not back to 2019 levels. And you can go through the various away-from-home channels. Obviously, travel and transportation are very like [indiscernible] (00:25:39). So, people who had a good second quarter last year have generally held on or expanded on those gains in this 2021, and some which have bounced back are still not there, in part because COVID restrictions are still not fully gone and confidence is still not fully back.

But interestingly, and I think positively, from The Coca-Cola Company's point of view, if you look at the at-home channels, those that – those gains or those – that extra consumer interaction with brands and products at-home

over the last 15 months has created some new behaviors and engagement with brands that may well be enduring. So, it's quite possible that over time we will both regain the away-from-home business that we had before and hang on to some of the gains in the at-home.

I mean, you can look at e-commerce which was the poster child for growth in Q2 last year, which grew exponentially. That has basically stabilized, grown a little bit this year, so they've held on to a step-up. But you can also see that in some of the large stores which obviously did well last year. They continued to grow this year, so you're getting growth-on-growth, and even the small stores that were impacted last year are bouncing back.

So, net-net, you look at the US, you see an enduring resilience in the step-up of the at-home business and a rebound in the away-from-home business that is in-progress but not yet complete, and I think that's what's driving the business. And that pattern I think is very visible if you look around other countries at like stages of development in the COVID trajectory.

In other words, restrictions are coming down and there's a high percentage of the population vaccinated, and therefore, re-opening whether it's the UK or other places going into Europe.

Operator: Thank you. Your next question comes from...

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Great. Thanks.

Operator: ...Lauren Lieberman with Barclays.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Great. Thanks. Good morning. John, you offered definitely some perspective on the bigger picture profitability, and I know this quarter was kind of a new high watermark on operating margins, but I was curious if you think about the full-year and frankly even into 2022, how you're thinking about the ability to better leverage your sales growth as a result of some of the restructuring work that you've been doing but also in the vein of this come out stronger and what you've been able to achieve already and think you'll still be able to achieve in terms of changing package mix and premiumization. So, again, it's sort of a longer-term margin question with the awareness that perhaps this quarter is more timing than something directly related to my question. Thanks.

John Murphy

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

Yeah, thanks, Lauren, and you're right, it would take the rest of the call to explain all that happened in the quarter. So, I'll spare you. But let's take a step back and I think it's the first part to your question or the first part of the answer is, let's think about the two-year picture.

In 2020, we saw – at the gross margin line we saw expansion driven primarily by a significant scale-back of our operating costs and marketing investments, even despite there being also some gross margin compression in the same period. In 2021, we are pleased with the progress year-to-date on getting gross margins back to where we would like them to be, and I think we'll continue to see us get back close to 2019 levels by the end of the year.

But we're also – as James highlighted in his – in the script, we're also very focused on investing in our brands and our key markets for the future. We've seen a good step-up already year-to-date, and we continue to have that as a major priority for the second half of the year.

So in a nutshell, if you take a two-year picture, you're going to see, on the operating margin front, you'll see 2021 is – there will be some compression versus 2020 just given the nature of what I just said, gross margins getting back, not quite there, significant focus on reinvesting back into the business for the mid- to long-term, but the good news, I think, by the end of this year, 2021, will be better than 2019. So, that's part one.

Part two is, if you look at 2022 onwards, we've talked about our flywheel driving the business from the top line through a much stronger marketing and innovation agenda to support the streamlined portfolio of brands that we now are focused on. We've talked about innovation as being a continued driver of growth in the future, and that all wraps into execution in the marketplace with our bottling partners and through a variety of levers and not the least of which is our RGM lever.

So, going into 2022, 2023, 2024, the goal is the same as it has been. It's to continue to be hyper-focused on improving our overall margin equation, and Q2 was a good shot in the arm for us to continue on that path.

Operator: Our next question comes from Nik Modi with RBC.

Nik Modi

Analyst, RBC Capital Markets LLC

Thanks. Good morning, everyone. I was – James, I was hoping you can talk a little bit about Wabi and the fact that you're rolling out to more countries. Maybe if you could just give us some context on where exactly you're rolling it out, and what have you seen from that initiative from a data standpoint, because I know you can get direct access to that, whereas maybe some other direct-to-consumer platforms you won't get that data, and if it's something that you think could work in the US market.

James Quincey

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

Sure. Wabi is a set of features in a digital ecosystem that allow us to both do direct-to-consumer – and I'll come back to it specifically how – and to do B2B, both or either for just the beverages or for multi-category orders.

Now, predominantly, where we're using Wabi in partnership with our bottlers is more in the B2B space. We have done some experiments doing B2C, but in the case of Wabi, the model that was used which is very appropriate in Latin America where you have a very high-density of mom-and-pop stores, essentially the consumer uses the Wabi app to place an order, if they want to have a whole set of Cokes and Fantas and Sprites or whatever. That order goes into the app and the app then shops the order to the mom-and-pops that are nearest to the consumer, and they can accept that order much like a ride hailing service, and given that they're likely to be 50, 100, 200 meters from the consumer in these high-density cities, they will just run around the product and deliver it in a very short space of time, 15 or 20 minutes or less. And so, it is very interesting and we've actually also used that platform with some of the QSR restaurants in places like Argentina to do the same thing.

So, it's an interesting experiment. We're getting a lot of insights and data. We have also expanded on the B2C place to actually add other categories of other FMCG partners, so now you can place an order at the mom-and-pop for a whole series of categories not just beverages. So, getting lots of interesting data and insights on that.

The other thing that we're doing with B2B with a number of the bottlers is using it to accelerate the digitization of one part of the relationship particularly with the fragmented trade, whether it be the mom-and-pops or restaurants and cafes around the world, which is, of course, now that the rollout of smartphones and smart devices everywhere is expanding, you don't necessarily need the sales person to turn up at the store in order to capture an order.

And so, we're blending the use of the sales force to drive account development and drive all of the in-store activations that we know create impulse purchases and give us advantaged execution, but leverage the platforms to drive order taking. And again, we're getting a lot of learnings with the bottler on how that improves not just efficiency, but just as importantly, the effectiveness of the selling and the execution process.

Again, there are, depending on where you are in the world, sometimes that's just a beverage approach, but we've also got some experiments where it's a multi-category approach through the platform and links to either wholesalers who deliver either all or the non-beverage categories, et cetera.

Anyway, standing back, the net of it is, we continue to see the ongoing digitization of the interaction both at the consumer with the retailer and the retailer with the suppliers, and we think the Coke system globally with our bottling partners is in a tremendous position to expand the depth of our relationship with the retailers, and we are being open-minded as to exactly what form that takes and working with them to drive a whole set of experiments to see what works. More to come.

Operator: Our next question comes from the line of Bryan Spillane with Bank of America.

Bryan D. Spillane

Analyst, Bank of America

Hey, guys. Good morning. So, I think just a follow-up to Lauren's question earlier around margins, and then just two items, John, if you can provide.

One is, just, in terms of marketing for this year, I think I heard, the way I read it was that you've actually increased the spend or plan to increase the spend now more versus, I guess, what was in your original plan.

And then, the second is, I don't know if I missed it, but just can you give us kind of where we stand today in terms of how much of the savings from the reorganization have been captured and how much more there is to go?

John Murphy

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

Thanks, Bryan. Yeah, on the first part, I think, again, looking at the year-to-date, I think we saw a big rebound in the second quarter. We're doubling our spend on consumer-facing activities and for the rest of the year with an eye to both delivering the year but also being well-prepared for 2022. We have a very robust investment agenda that will see us getting back to 2019 levels, and that's just comparing dollars.

When you look under the hood, though, I think one of the big changes we've made in recent months is to improve the quality of that spend. And so, my working with Manolo, our objective is to be able to actually generate more with the same and we're pleased with progress that we're making in that space, particularly as you think about some of the newer areas, digital media, et cetera.

Regarding the savings, it's a piece of the overall equation, and I think for me, rather than provide hard numbers, it's – it gives us a degree of flexibility to invest behind some of the bigger bets, to think about our ongoing ability to pivot as market conditions dictate. And so, it's really less around taking those savings to the bottom line and much more around having to flex to be well-positioned to go after opportunities as we see them.

Operator: Our next question comes from the line of Steve Powers with Deutsche Bank.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Thanks, and good morning. James, or maybe John wants to answer too, but following up on where you started with Dara and panning out globally, the updated guidance from today seems to call for a further acceleration in underlying growth on a two-year basis in the back half versus 2019, especially at the top-end of the range. And, I guess, I'm curious where you see that most being sourced from a segment perspective, but also whether you have a bias as to that acceleration and sequential improvement being more volume-led versus 2019, or price/mix-led as the system fights through inflation, or whether you see a bit of both, just how you're thinking about the mix of revenue in the back half. Thanks.

James Quincey

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

Yeah, sure. So, our expectations for the year, obviously we said we wanted to get back to 2019 levels and we made good progress and we believe we're emerging stronger and we're obviously raising the guidance. As we look into the back half of the year, as John said, we're being clear-eyed about the puts and takes that exist out there. I think the first thing I would suggest to you is really take a look at the 2021, whether it's – whichever quarter you want to look at, and have it on a two-year stack basis, whether that be the volume or the price/mix.

Obviously, you've got to look through the stocking and destocking of the gallons, because obviously, this time last year, we were de-stocking gallons rapidly and then notwithstanding the extra days in the first quarter. We've been re-stocking gallons in this second quarter. But if you look at volume and price/mix on a two-year basis, what we're expecting to see is, yes, some continued improvement into the back half of the year on a two-year stacked volume basis as more countries get more vaccinations done and more restrictions come off.

Clearly, there's plenty of room for different things to happen, the famous asynchronization because markets go up and markets go down. But generally speaking, we expect to see steady – some steady, although very moderate, sequential improvements on a two-year basis.

And similarly, on a price/mix basis, we're looking, actually, we start looking at price/mix on a two-year basis in Q2. You see it in the sort of ballpark we've always talked about. We've always talked about in the long-term growth model that we're kind of expecting two to three on price on any average year, and when you start looking on an annual, on a two-year basis and taking the annual increase, you start to see that in the second quarter. And so, our expectations of price/mix are not to see something radically different, notwithstanding the 11% you saw in the second quarter. Clearly, it's not going to continue at 11% because it's cycling a much more negative number in Q2 last year, which is heavily driven by package and channel mix. But once you look through all of that, we, in underlying terms, essentially maintaining the same approach that we have had historically pre-COVID during this kind of reopening.

Operator: Our next question comes from the line of Bonnie Herzog with Goldman Sachs.

**Bonnie Herzog**

Analyst, Goldman Sachs & Co. LLC

Thank you. Good morning. I actually had a question on your guidance. You raised your full-year outlook given the strength you saw in the quarter, but you didn't flow-through the entire beat, especially on the bottom line, given your new guidance now suggests EPS growth in the second half will be negative. So, I was really hoping to understand the drivers behind this. Is it cost pressures that might have gotten worse in the last few months versus the planned stepped-up investments that you called out ahead of the recovery? Thanks.

John Murphy

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



Thanks, Bonnie. A couple of comments there. One is, the first half of the year, we saw gallons ahead of cases, which we would expect to normalize in the second half of the year. So, I think you've got to factor that into account.

Secondly, the first quarter we had a few extra days, and they will come off in the fourth quarter. So, that's a big piece of the equation that we've designed for the full-year.

And then, secondly, as we've already discussed, in the investment space too, we're – we'd love to sort of end the full-year with our marketing investments continuing to step-up and margins back to better than 2019, but not as strong as 2020. So, that's all factored in.

Operator: Our next question comes from the line of Kaumil Gajrawala with Credit Suisse.**Kaumil Gajrawala**

Analyst, Credit Suisse Securities (USA) LLC

Hi. Can you, just maybe over-simplifying it, but can you maybe help us, your business has changed a bit in recent years, and maybe if you could just help us with what operating leverage looks like. Does a 5% revenue mean a 7% profit growth? Does 6% revenue mean 10%? Can you just give us an idea where leverage lives down the P&L?

John Murphy

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



Yeah, I'd say that refer us back to our long-term algorithm. We're managing through, as we've been discussing, a very interesting period. We still think that the – when you take all the puts and takes with the businesses that we have at the moment that the long-term algorithm is still one that best reflects what we can deliver over the coming years.

Now, clearly as the business mix changes, we would need to review that. But I think the – I'd just refer you back to the algorithm and we don't see that changing in the foreseeable future.

Operator: Our next question comes from the line of Andrea Teixeira with JPMorgan.**Andrea Teixeira**

Analyst, JPMorgan Securities LLC

Hi. Thank you so much. So, I just wanted to go back to the how the on-premise has been tracking as you exit the quarter. So., I was hoping to see if you can, it sounds – James, it sounds that you're confident that we're seeing

that lapping and obviously, looking at the US as an example, as you mentioned, you were quite confident that worldwide we're going to see that adding to the recovery and adding to the at-home consumption. So, I was hoping to see how you exit the quarter in places where infections have come back on a global basis and how can you quantify how volumes fit relative to 2019 levels. I think you called out in developed coming back to the same levels, but – and how your mix in terms of finished goods and single-serve is relative to 2019.

James Quincey

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

A

Sure. I'll try and offer a few thoughts that might help. Clearly, when countries have gone – when infections go up and greater restrictions have come back in during the course of the second quarter, you do see negative impacts on the business. Now, over the last 15 months, we have worked very hard to make our business more adaptable and more agile and able to pivot in the restrictions to help the consumers get the beverages they love, but often in the very short-term, it impacts the business.

So, if you look at places where infections have spiked up recently in the second quarter, so Vietnam went into some restrictions. They've done a good job of avoiding large restrictions, and so they were doing fine the first few months of the year and then all of a sudden they've had some restrictions and they were negative in June.

Similarly, India, earlier in the quarter, brought in a strong set of restrictions and the business went negative. But then when they reopened, they bounced back. So, clearly, whilst we have adapted the business and made it more resilient to levels of lockdown, when these do occur, wherever they do occur around the world, it's going to impact the business.

We're going to bounce-back quicker and we're going to suffer less, but it is going to impact the business. And so, as you think about the outlook, clearly, the direction of travel of COVID, its variants, the levels of infections and the levels of restrictions are going to make a difference to the business.

And then as it relates to immediate consumption and future consumption, if I look on a worldwide basis and I look on a two-year stack rate, what you can see is that now we have steadily improved through the course of the pandemic such that the immediate consumption of volumes are now slightly ahead of 2019 levels as we exited the second quarter in June. So – and as I said in the opening or in the reflections on that first question from Dara on the US, that has not been followed by a mirror image decline in the at-home.

Clearly, some of the at-home on a two-year stack basis goes down because people are now out and about and at work. And so, you now see the two of them tracking. You see the at-home tracking at the 2019 levels as well. So that's why we feel that there's some sequential improvement coming in the downhill, moderate but some.

Operator: Our next question comes from the line of Rob Ottenstein with Evercore.

Robert Ottenstein

Analyst, Evercore Group LLC

Q

Great. Thank you very much. Can you please talk maybe a little bit more about headline pricing and promo intensity? I think I heard you say that in Q2, your pricing was sort of at historical levels of 2% to 3%. I also heard you say that in the second half of the year you would look to address higher input costs with revenue growth management initiatives. So, maybe kind of talk about your thoughts on pricing in an environment where we've seen more inflation than we have in many years, and how able the consumer is in your key geographies to be able to take additional prices. Thank you.

James Quincey

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

Yeah, so clearly, obviously the comments I made about pricing are on the two-year stack basis and that we kind of see when one takes out the effects of channel and geography, what you would see if you had all of the data, but what I'm saying is that over the course of the pandemic, we have taken a steady approach to pricing to continue to price for our brand strength and RGM.

And then, of course, we manage input costs increases over time and we use our hedging strategies to not have – to try and minimize the amount of sudden bumps, because our overall belief is that if we focus on creating the growth of the beverage category for our retail customers ahead of their overall business, then that will be good for them and then we will do and gain share within that overall strategy.

And that is best executed through steady investment in brands, steady investment in execution, and the use of RGM to meet the consumer with the pack size and the price point that they want. And that includes, then, managing through the increases in input costs in a rational and staged way, and we obviously leverage hedging to make that easier for us to do.

And so, we do believe that categories, although people who have brands that have strong consumer resonance will be able to pass through costs, as we have done historically. We've – whilst in the US, inflation has been very moderate for an extended period of time as it has been in Europe, we have plenty other country in the world which experienced high or double-digit levels of inflation. And so, the strategy on how to manage through that and stay engaged with the consumer to keep the momentum in the business and keep the margin structure steady or improving is a capability of the Coke system.

Operator: Our next question comes from the line of Carlos Laboy with HSBC.

Carlos Laboy

Analyst, HSBC Securities (USA), Inc.

Yes, good morning, everyone. James, about three to four years ago, you said you wanted more robust experimentation and small experiments become big experiments, drive collaboration and revenues, and we see this thriving in America, but might you share with us perhaps in some developed markets where we don't have as clear line of sight how this is coming along, and maybe are there some wins that really stand out in this area?

James Quincey

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

Sure, thanks, Carlos. I mean, we continue to drive the collaborations and the innovations. If I just pick up a few of the ones that we've sort of elliptically connected to today, Wabi, which started in Latin America both as B2C and B2B, we have used the platform to work with our bottlers in other parts of the world, whether that be Europe or beyond, on helping us work together to improve the digitization and the B2B capability beyond that. So, you're seeing expansions of those experiments out of Latin America.

You'll see expansions of experiments in the US, whether it be AHA, which has continued to perform very well in the US so far this year. We've launched that in China; or in fairlife, which has done very well in the US. We're taking that to China as well. And so, there's some kind of moving from the West to the East.

You've got experiments that were taking place on Topo Chico Hard Seltzer which kind of started in a way as a global idea. It's now in each of the continents, and we've continued to expand it.

There are some things going on in Asia in the kind of non-black tea segments where we experimented in some of the ASEAN countries and that is expanding around. So, there really are some great experiments out there. You could even go to some of the packaging ones like the use of rPET, 100% recycled PET, which is really a key factor in driving a circular economy around packaging materials; started really in Europe, coming to the US recently with the 13-ounce bottle that we've put into the marketplace.

So, we're never satisfied as a kind of philosophical starting point, but they're certainly starting to see more experiments happen out there and more discipline in working – which aren't working and stopping them, and which have legs to be taken to the next place. And interestingly, you're starting to see those experiments move in all directions. It's not just developed to developing or West to East or any one direction. It's actually really starting to be ideas coming from all around the world and really having to go through and work out which ones deserve the shot at expanding globally.

John Murphy*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.***A**

And if I may, James, I think in the supply chain also, there's over the last 12 to 18 months a tremendous amount of partnership collaboration that is delivering results in the individual entities across the world that I think will continue.

Operator: Our next question comes from the line of Kevin Grundy with Jefferies.

Kevin Grundy*Analyst, Jefferies LLC***Q**

Great. Thanks. Good morning. A question for James. Just picking up on the last line of questioning there around innovation, my question specifically for hard seltzers and some of the early success that you've had there. So, James, you mentioned some of the early learnings. I was hoping you could perhaps share those with us, particularly as it pertains to the seltzer category?

And then, more broadly, James, whether the success that you've had in the alcohol space emboldens the company a bit for further exploration in alcohol, sort of outside non-alcohol. Your comments there would be helpful. Thank you.

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

Yeah, sure. So, we're still very much in the learning phase. It's not a category we are familiar with, particularly with the alcohol. It's got a number of important characteristics and regulatory characteristics and business characteristics that we need to learn about. So, we have not got to a stage of concluding anything more strategic or coming to the point of view that there is a bigger vision for us out there in the flavored alcoholic beverage space. We want to learn and understand more before we decide anything one direction or the other.

As it relates to some of the learnings so far, I mean, clearly what we've discovered is obviously it makes a difference if the category exists or doesn't exist in any particular country. I mean, we're in 17 markets to-date. We're on track to be in 28 markets around the world by the end of the year. We're learning what it takes to compete where the category exists. We're learning what it takes to help grow the category where it doesn't exist. So, we're pleased, for example, in Latin America, where for example, in Mexico, we're the number-two hard

seltzer and getting some good traction and good velocity in Brazil where it's more of an undeveloped category. There's more kind of development needed as we're trying to work out how that happens.

Similarly in Europe, it's the number-one or two performer in terms of rates and velocity in Europe. And so, I think it's very interesting what's happening there. And obviously in the US, it's got a lot of good traction. While it's still, of course, relatively small overall nationally, it's done particularly well where we have focused or where Molson is focused to launch, which is in Texas, and it's done very well in Texas, looking good in kind of the southern states, California, in Florida, too. Retail customers, we understand they're very bullish, lots of display activity and activity, so we're looking to see that continue to expand.

Of course, we're conscious that the overall hard seltzer category has come down in terms of its overall growth rates in the US. That's not ultimately that big of a surprise to us, because it is a category that has been predominantly an at-home channel category, much less bars and restaurants category. And so, as people have gone back out, clearly, some of those occasions have moved from at-home to away-from-home. So, it's not too surprising that some of the strong tailwinds the category got in the lockdowns have lessened. But we still think it's very interesting. It's got some long-term potential in the US. It's very on-trend for a lot of consumers. And so, we're continuing to look at that and push on that and invest to see where we can go.

Operator: Our next question comes from the line of Sean King with UBS.

Sean R. King

Analyst, UBS Securities LLC

Great. Thanks for the question. How do you stand to benefit from the Olympics starting later this week, really given a pandemic-driven disruption around the world? Can you shed any light on any marketing activation plans or just a general outlook on this opportunity given the pent-up sort of excitement for this type of event?

James Quincey

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

Yeah, I mean, in terms of – kind of two ways of looking at it. One, those countries where the Olympics are broadcast too and then the actual activations in Japan itself.

I mean, clearly, in Japan, given the restrictions, we have dialed back all the physical activations and are supporting appropriately, keeping supply of beverages to the athletes, et cetera. But the physical activation is essentially not going to happen.

And then – and so, really, it's as much as anything. It's about leveraging the airtime that the Olympics are going to get in places like the US to market our programs, but very specific marketing activation at a large galley isn't going to happen, in part, it was like the uncertainty of whether they were going to happen or not led us to move away from having any large extra fixed cost investment in activating the market, the Olympics for this year, so we will leverage the airtime to market our brands.

You can still note even today the deputy, one of the people in Tokyo, said that who knows what's going to happen whether it'll actually start. So, we very much are taking the approach of take away the physical activation. Take away any fixed-cost that can only be used in the event of the Olympics and use any rights and times we have for the general marketing of our brands.

Operator: Our next question comes from the line of Laurent Grandet with Guggenheim.

Q

Laurent Grandet

Analyst, Guggenheim Securities LLC

Hey, good morning, everyone. Thanks for squeezing me in. Got a question on Coca-Cola Zero, please. You highlighted in your prepared remarks that we launched Coca-Cola Zero with new packaging and recipe, boost further to Coke regular. So, in countries where it has already been launched, is the volume upside you are seeing coming from regular, actually, or there is competition? So, any color would help. Thanks.

James Quincey

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

A

Yeah, Laurent, I mean, obviously, the answer is it depends in a way, because each country has a slightly different mix from the starting point of Zero or depending if you're in a country that still has got Diet or Light and the size of Classic. And so, the starting point matters.

Two, clearly, it's a mix of everything. What we like most about driving Coke Zero Sugar is, we get a lot of business that is not self-cannibalization. If it was all just coming from Coke and Coke Light, it would be perhaps necessary, but not very exciting. What's exciting about it is that we are helping expand the Coke franchise.

So, in other words, if you start standing back and looking at it globally, you can see both the growth of Coke Original, the very fast growth of Coke Zero, only some of which is coming from the cannibalization of Coke Light or Diet Coke depending on wherever you are in the world. So, it's a net accretion to the Coke franchise.

Operator: Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the call back over to James Quincey for any closing remarks.

James Quincey

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

Thanks very much, everyone. As we said at the beginning, look, we're delivering on the priorities we set out for ourselves to emerge stronger. Hopefully you could see that in both the results and our guidance. And we just want to take the opportunity to thank once again the extraordinary effort of our associates, of our bottling partners, and all our partners that have allowed us to deliver these results and to raise our guidance for the outlook.

Our system is strong, our bottling partners are strong. We continue to invest behind momentum and the huge growth opportunity ahead of us. Thanks for your interest, your investment, and for joining us today.

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

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