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CORPORATE PARTICIPANTS

Timothy K. Leveridge

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

James Quincey

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

John Murphy

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

OTHER PARTICIPANTS

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Bryan D. Spillane

Analyst, Bank of America-Merrill Lynch

Nik Modi

Analyst, RBC Capital Markets LLC

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Carlos Laboy

Analyst, HSBC Securities (USA), Inc.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Bonnie Herzog

Analyst, Goldman Sachs

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Kaumil Gajrawala

Analyst, Credit Suisse Securities (USA) LLC

Robert Ottenstein

Analyst, Evercore Group LLC

Kevin Grundy

Analyst, Jefferies LLC

Sean R. King

Analyst, UBS Securities LLC

Laurent Grandet

Analyst, Guggenheim Securities LLC

William B. Chappell

Analyst, Truist Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: At this time, I'd like to welcome everyone to The Coca-Cola Company's first 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, 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. If you have more than one, please ask your most pressing question first and then reenter the queue.

Now, I will turn the call over to James.

James Quincey

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

Thanks, Tim, and good morning, everyone. In what remains a highly-dynamic environment, our first quarter results showed promising signs that a broader recovery is on the horizon. We're encouraged by early results in markets where mobility is on the rise.

This morning, I'll share what we're seeing around the world and provide an update on the actions we've taken to accelerate our transformation, including improvements in our portfolio, innovation, and marketing approaches enabled by the evolution of our culture and our network organization. Then, I'll hand over the call to John to discuss the financial details of the quarter and how we'll continue to deliver on our objectives over the course of the year.

In the first quarter, we positioned our business for recovery while executing against our emerging stronger agenda, equipping our system to win. At the start of the year, pandemic-related lockdowns were still impacting many markets. We moved quickly as conditions changed, improving along the way and getting better at managing each wave and its resulting lockdowns. During quarter, we saw mobility increase in some parts of the world where lockdowns eased and vaccinations accelerated.

Leveraging our learnings, we drove sequential improvement in our business throughout the quarter and while we saw mid-single-digit volume declines through mid-February, trends have improved since then. We're pleased to say that March marked a return to volume levels seen in March 2019 prior to the pandemic.

We continue to see ongoing strength in at-home channels offset by away-from-home trends which have improved sequentially but remain pressured relative to pre-pandemic levels. We're working with our customers and bottling partners to sustain at-home momentum and capture improving away-from-home demand.

For example, in Latin America, our Prospera program with our bottlers helps the traditional trade thrive through assistance with their marketing efforts resulting in outperformance in this critical channel. In Great Britain, we launched Open a business accelerator program to support pubs, bars and cafes. In North America, our use of meal bundles is driving incidence of pickup and delivery transactions with foodservice customers.

In 2020, we gained underlying share in both at-home and away-from-home channels offset by negative channel mix. This continues to be the dynamic affecting our share year-to-date. Through our ongoing initiatives, and as away-from-home demand improves over the course of the year, we'll seek to build on these wins in 2021. There are clear opportunities to reaccelerate share positions as the recovery plays out and we'll invest to drive momentum with focus and flexibility.

In markets at the forefront of the recovery, we've seen early signs that our actions taken during the pandemic are helping us outpace recovery. It's important to note that the path to a full recovery remains asynchronous around the world. Many markets haven't yet turned the corner and are still managing through the restrictions.

Looking around the world, in Asia-Pacific, China continues to lead the recovery with volume in the first quarter ahead of 2019 results and foot traffic almost back to pre-pandemic levels. Strong performance in India and Southwest Asia was driven by effective marketing across brands, affordable solutions, and distribution expansion with 250,000 new outlets and 45% more new callers despite the unexpected state of emergency earlier in the year. Japan expanded successful RGM initiatives geographically and across brands to help drive improvements later in the quarter.

In EMEA, vaccine rollout in Europe has been slower than anticipated and many countries have been impacted by ongoing lockdowns. In Eurasia and Middle East, brand Coke recruited 4.4 million consumers through affordability packages and a focus on at-home occasions. New marketing campaigns drove improvement in flavored sparkling soft drinks and FUZE tea reached an all-time high-value share in Turkey.

In Africa, mass vaccination is expected to take longer than the developed markets. And despite ongoing volatility, Africa worked closely with our bottlers to deliver volume growth led by stepped-up execution through cooler placement and affordability packs like returnable glass bottles.

In North America, the year is off to a good start. Ongoing strength in at-home channels was driven by core brands in our sparkling portfolio as well as Simply, fairlife and Gold Peak, all with encouraging results. Away-from-home began to improve in March as vaccinations and mobility picked up.

In Latin America, we leveraged our core brands, digital initiatives and refillable packages to recover ahead of the economy and our industry despite ongoing restrictions. While from away-from-home continues to be impacted by lockdowns, we're expanding the at-home consumption opportunity, leveraging consumer dynamics like indulgence and single-serve multi-packs.

Global Ventures continued to be impacted by lockdowns in the UK, but as restrictions loosen, we're focusing on driving digital engagement and traffic back to the Costa stores. Costa Express machines continued to deliver strong performance.

Turning to our transformation, our operating units are up and running and off to a very good start in the rollout of our new model. Across markets, our newly networked organization has us working more collaboratively with the overall enterprise in mind. Our operating unit and category leadership teams are working together to identify the most promising combinations across the industry based on economic outlook, consumer trends, channel dynamics, and execution imperatives. We're using more disciplined resource allocation to capture the biggest opportunities while making ongoing portfolio decisions faster and at scale.

We're focused on our streamlined growth portfolio, actively and thoughtfully transitioning brands to more powerful trademarks using a phased approach to bring the consumer with us on the journey, and we're maximizing shelf space for new product launches and higher velocity products to drive higher quality growth.

As we discussed at CAGNY, we're focusing on what we do best, marketing our loved brands in more efficient and effective ways. Our Sprite Let's Be Clear campaign kicked off in markets from Asia to Africa to Latin America. The message is resonating with consumers with impressions, views, and engagement levels above last year and intent to purchase metrics showing promising signs. This campaign aligns with our transition to a more sustainable clear bottle, which is important in helping us achieve our World without Waste goals.

Our media and creative agency reviews are progressing, and we're also executing more targeted opportunities in addition to the big strategic shifts. For instance, we've taken a scaled, digitized approach to buying trade materials, resulting in up to 15% cost reduction and improved user experience, all while offering more consistent, better quality, and sustainable alternatives. We've extended this pooled buying opportunity to our bottlers, many of whom are already onboard to share the benefits system-wide.

Our more disciplined innovation approach is yielding results as we balance big bets with intelligent experimentation. Using our networked approach, we are scaling our best innovations quickly and effectively while being disciplined with those that don't get the traction required for further investment.

Local experiments like Aquarius with functional benefits and Ayataka Cafe Matcha Latte in Japan, Fanta's exciting mystery flavor innovation in Europe, and package innovations like the 13.2-ounce recycled PET bottle in North America could all be lifted and shifted globally over time, similar to what we're doing this year with our hard flavored sparkling water.

Our big bets for 2021 include ongoing work to scale our coffee platform under Costa. We're expanding ready-to-drink coffee in China and taking a portfolio approach to complement our powerful Georgia coffee brand in Japan. We're also rolling out an enhanced formula and package design for Coca-Cola Zero Sugar this month in Europe and Latin America and across markets globally later this year. The improved recipe brings its taste even closer to that of the iconic Coca-Cola original taste. This was influenced by consumer insight and our focus on constant improvement. And despite its enormous success, Coca-Cola Zero Sugar still represents a relatively small

percentage of the trademark. And we continue to respond to consumer desires for lower sugar options, and the rollout will be supported by global occasion-based marketing campaign.

Finally, it's early days, but we're excited to come back and report on our expanded experimentation in flavored alcoholic beverages with Topo Chico Hard Seltzer in Latin America, Europe, and most recently the US.

We also continued to rapidly digitize our ecosystem. For example, our chat bot in South Africa engages with consumers on social media to increase away-from-home transactions. In China, we've used digital campaigns to harness consumer data to drive traffic and incidents, leading to incremental growth. We're using machine learning and AI tools to stay on top of the rapidly evolving consumer trends and identify emerging needs. Our dedicated digital transformation structure is leading to strong online-to-offline growth. We've seen e-commerce share gains in our key advanced markets like North America, Japan, and Great Britain. And in markets like Turkey, where the channel is still developing, we've more than tripled sales and gained almost 10 points of share versus last year.

As always, we're supporting these initiatives with strong revenue growth management and execution. Through RGM, we continue to capture at-home occasions with multi-pack options in both premium and affordable segments while expanding distribution of smaller packaging like our sleek cans in China. And we have affordability plays like our successful refillables in Latin America, the Philippines, and now Africa.

As part of our new organization, we're dedicating more resources to RGM, continuing to raise the bar to even higher standards. In many markets, we're working with our bottling partners to optimize cooler placement, driving incremental volume through outstanding customer service, higher cooler productivity, and innovation.

Our bottling partners are executing strongly, and together we are working on initiatives across the enterprise to identify more efficiencies. We're operating in a networked way, leveraging our platform services organization to scale our collective data, marketing, digital, and supply chain capabilities.

Our system continues to evolve, as shown by the pending combination of Coca-Cola European Partners and Coca-Cola Amatil. And just this morning we announced our intent to list Coca-Cola Beverages Africa as an independent African bottler through an initial public offering.

I'm especially proud of how we're delivering on our purpose as a company. Every action is guided by our ambition to create a more sustainable business and better shared future that makes a difference in people's lives, our communities, and the planet. Throughout the pandemic, we've focused on helping communities through relief funds from the company and The Coca-Cola Foundation.

In this next phase, we are supporting vaccination efforts in regions where distribution has been slower. For instance, in Brazil, our system has partnered with the country's Ministry of Health to co-create a vaccine awareness campaign. We're using our networks to deliver 700,000 doses with vaccine information to more than 350,000 mom-and-pop stores.

Tomorrow we'll release our 2020 business and ESG report, where we will highlight last year's progress. While 2020 was a milestone year in terms of meeting and exceeding some previous goals by women's empowerment and global water replenishment, we continue to work toward an even more ambitious agenda. This includes our 2025 and 2030 packaging goals, our 2030 climate goal, and our new 2030 water security strategy, with more details to come later this year.

In conclusion, we're optimistic about the future and bullish about our ability to continue to deliver on the objectives we laid out at the height of the crisis: more consumers; more share; better system economics; and a positive stakeholder impact.

Now, I'll turn the call to John to discuss how we're delivering results through a continued dynamic environment.

John Murphy

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

Thank you, James, and good morning to everybody on the call. Today, I will highlight our first quarter performance and go over our top line and earnings guidance, which we are reiterating. Then, I'll provide a progress update on working capital, our ability to manage through the current commodity environment, and other factors that may impact our outlook.

2021 is off to a good start with the quarter showing steady sequential monthly improvement. We're leveraging our learnings and strategic initiatives from 2020 and leaning into growth in a thoughtful way.

Our Q1 organic revenue was up 6% driven by concentrate shipments up 5% and price/mix improvement up 1%. While shipments benefited from certain timing impacts and the five additional days this quarter versus last year, unit case volume was flat versus the toughest quarterly compare of 2020 and March volume was in line with 2019 levels, largely driven by strength in Asia Pacific.

Comparable gross margins, although still down year-over-year, improved sequentially driven by less pressure from channel and package mix, and while currency was still somewhat of a drag, it was less of a headwind than prior quarters. Comparable operating margin expanded through ongoing disciplined cost management. We continue to reintroduce marketing spend in a targeted way, particularly as we ramp up investments in markets that are seeing recovery.

First quarter comparable EPS of \$0.55 is an increase of 8% year-over-year and was driven by top line growth, margin improvement, and some contribution from equity income offset by currency headwinds. Regarding our ongoing tax case with the IRS, there are no material updates since our last report.

Our decisions and actions from last year certainly were not easy, but we are seeing results of our efforts start to come through and our organization is embracing the changes as we move forward into the recovery phase. We've stayed very focused on driving a healthy top line and we remain on a journey to maximize returns including strong cash flow generation. We never relented on our cash flow goals and indeed have an even sharper focus on managing capital spend and working capital.

Since we embarked on the journey to our best-in-class working capital performance, we've made great strides in extending our payment terms, generating a working capital improvement of more than \$1 billion over two years. In the same vein, we are implementing accounts receivables factoring programs which are rolling out across a number of markets, and also looking at initiatives to better manage inventory days.

At the center of these efforts is a robust digitization and automation agenda. In addition, and you've heard us talk conceptually about the network model, this is a great example of the network in action. And when you put the right people from different parts of the organization against key initiatives, it delivers a step-change in performance.

Last quarter, we said that despite a rising commodity environment, we expected a relatively benign impact in 2021 given our hedged positions. While this continues to be the case, we're closely monitoring upward pressure

in some inputs such as high-fructose corn syrup, PET, metals, and other packaging materials as they impact us as well as our bottling partners. Given the environment, we'll continue to benefit from revenue growth management initiatives. Through an intelligently diverse price pack architecture, we can produce a range of options that meet the needs of consumers across the income spectrum while also capturing value for customers.

2020 provided great learnings on how to be more surgical and data-driven in our promotions, and we continue to be purposeful in our approach driven by the consumer and the strength of our brands. We also continue to pursue productivity across the supply chain, pushing all levers at our disposal.

Since we last provided guidance, the US dollar has strengthened, and as we noted in our release, we now expect currency to be a tailwind of approximately 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. For the full year, we now expect an underlying effective tax rate of 19.1%.

Putting it all together, our quarterly performance and the momentum we saw in March give us confidence in our ability to achieve our 2021 guidance. We expect high-single-digit organic revenue growth and high-single-digit to low-double-digit growth in comparable earnings per share. We still expect the recovery to be asynchronous and to see signs of return to normal in more markets later in 2021.

We are preparing our end-to-end supply chain for stronger demand and we'll fuel the momentum in recovering markets as they emerge from the pandemic by accelerating investments in our brands.

There's no doubt that uncertainty remains. Europe continues to see challenges. Many countries and regions like Latin America and Africa expect further waves and slower vaccine distribution, and India is seeing a surge in cases and responding with localized lockdowns. But as we begin to lap the most difficult periods from last year, we feel good about our position and our ability to navigate the environment as a company and as a system based on the lessons we've learned and the agility provided by our new networked organization. We remain confident that our actions and the progress we've made will enable us to deliver 2021 earnings at or above 2019 levels.

With that, operator, we're ready to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Dara Mohsenian with Morgan Stanley. Dara, your line is open.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Hey, guys. So clearly, top line growth in Q1, it recovered to a greater extent than the market expected. You guys mentioned a good start to the year with the sequential improvement. So I guess, A), can you just discuss volume trends in March in markets where restrictions have loosened and mobility has picked up such as the US, maybe contrast that with the markets where restrictions are still in place and what that portends going forward?

And then, B), I totally understand it's a very fluid environment, but with March volume already back to 2019 levels, the top line upside in the quarter, can you just help me understand the unchanged full year top line outlook? Is it just that it's early given the volatility and we only have one quarter in the books and become more positive on the full year? Just sort of trying to understand your mindset on the full year revenue guidance relative to the Q1 upside. Thanks.

James Quincey

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

A

Sure. Thanks, Dara. So firstly, the first quarter was strong. Absolutely we gained momentum and we achieved that good momentum in the first quarter which was really the fruition of the emerging stronger plan we set out a year ago saying we wanted to get back to 2019 levels well ahead of the economy by gaining more share, more customers, better system economics, and I think what else – what you're just starting to see happen in the first quarter and obviously, we've been driving that by focusing on the brands and on the innovation, and the bottlers have been executing in the marketplace and it's certainly heartening to see us get back to 2019 volume levels in March, and we did all of that whilst doing – finishing the implementation of the reorganization, so the employees on the company side were able to both deliver results and standup the organization with the operating units in platform services and really hit the ground running. So I think it is actually a super creditable performance in the first quarter.

Secondly, the downhill and the question about guidance. I mean, ultimately it's early. And it's not early just in a normal sense, it's early in the context of the pandemic. Also, breaking the news today is the weekly new cases of COVID has hit an all-time peak, so whilst vaccinations are rising in many countries, US, UK, et cetera, the flip side is there's actually a new high in terms of cases. Obviously, a number of developing markets but also Europe as well, Continental Europe as well, so the a visibility into the downhill is very much linked to the trajectory of the pandemic, and as it relates to our business the trajectory of the lockdowns.

Very clearly, as we've talked on previous quarters, lockdowns, because we have half our business in away-from-home, are impacted directly by the degree of lockdown and there are still lockdowns coming on, a number in Europe, some of the developing markets.

Conversely, as markets start to open, it's worth remembering it's not an on/off switch. There's a phasing of how markets tend to reopen. That's true of the US, so for example, in the US, the fountain volumes were still negative in March because whilst people are going out to restaurants and there's more mobility, it's not back to what it was. The occupancy levels of offices are nowhere near 100%, and so reopening is not an on/off switch. There's a

rebuilding and there's a series of phases of reopening. And so that's a very important factor and it's somewhat unpredictable for the downhill.

So it's too early to call not in a business sense, but in a lockdown and reopening sense, and the reality is that there are more cases now than there were a while ago. So we still feel very confident in our guidance on the top and the bottom line, but there's a lot of managing left to do and we're certainly focused on giving ourselves the flexibility and agility to be able to do that, which leads me to my third point which I think is worth making.

Unlike normal times, one should not automatically assume that more revenue is always going to flow straight down to the bottom line. Much as we did in 2020, we are going to be very judicious and focused on investing where we believe reopening and demand is coming back and not investing if we don't think the response in the marketplace is there. So you're going to see as we go through 2021, we will be looking at both levers. If we see that demand is coming in at kind of the higher end because more reopenings happen more quickly for whatever reason, and revenue starts to accelerate, we'll also likely reaccelerate the restitution of the marketing spend.

Conversely, if for whatever reason revenue starts to look a little weaker, then we are likely to hold back on some of the marketing. So I think it's important as you think about the rest of the year that you don't think of it as a normal times. One has to think about how we are using the resources judiciously and wanting to invest to drive growth and get back to normal.

Operator: Your next question comes from the line of Bryan Spillane with Bank of America. Bryan, your line is open.

Bryan D. Spillane

Analyst, Bank of America-Merrill Lynch

Hey, thank you, operator. Good morning, everyone. John, I wanted to pick up on some of the comments you made relative to inflation, and I guess kind of thinking about it past 2021 into the 2022 just given the recent trends which have elevated pretty meaningfully across a lot of inputs really across our whole coverage universe. If that stays in effect for 2022, can you talk a little bit about what you can do working with the system, so with the bottlers, to try to manage that inflation, and really beyond revenue management.

So just how much – what type of actions can you take in terms of procurement, maybe finding inefficiencies that exist between The Coca-Cola Company and the bottling system, just really trying to understand in a scenario where inflation stays meaningfully elevated in a way that we haven't seen in a real long time, just what types of things you could contemplate to try to help the system manage that inflation.

John Murphy

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

Thank you, Bryan. Good morning. Good topic and one that with our bottling partners around the world, we're looking at it in a very holistic manner. Managing inflation is not new to the system and it's one – it's an area that needs to be looked at locally and working closely in partnership with our bottlers.

As you said, the inflationary pressures particularly surrounding some of our key commodities, it looks like it is going to be more of a headwind in 2022. 2021 we are, as we said in the release, pretty well-covered and in good shape, and so when you think about the actions we take, first and foremost, I think it is important to highlight that as an overarching principle around the world, we typically look to take pricing in line with inflation. And I would

expect that that principle will continue to be adhered to as we move into the back half of 2021 and even then into 2022.

Secondly, while I know you mentioned beyond RGM, I do think it's important to reinforce the value that RGM brings to be able to execute a pricing strategy in the most relevant and meaningful fashion locally, and so that will continue to be a key priority.

Thirdly, on the things that we can do on the productivity area, I would point to our supply chain, particularly with our bottling partners, in the last 6 to 12 months coming through the pandemic and indeed coming out of it. The level of engagement we've had with within the system on unlocking value in the supply chain through greater efficiencies has been phenomenal, and I would expect that momentum to continue into the rest of this year and into 2022.

We have had over the last number of years the benefit of leveraging our Cross Enterprise Procurement Group, a group of people that work on behalf of the entire system around the world that are able to leverage the global scale of the system and I think arrive at some of the most competitive pricing that we can guess, that anybody can guess, when it comes to key inputs.

So when you take sort of an overarching holistic view of it, we've got, I think, a tried and true practice of being able to take pricing in line with inflation, leverage RGM to do it in the most intelligent fashion, and increasingly operate as a global system to leverage our scale, taking into account some of the historic groups we have like Cross Enterprise Procurement but also new opportunities abounding as a result of the overall strategy we've been pursuing during and after the pandemic.

Operator: Your next question comes from the line of Nik Modi with RBC Capital Markets. Nik, your line is open.

Nik Modi

Analyst, RBC Capital Markets LLC



Thank you. Good morning, everyone. James, I was hoping you could provide some tangible examples of how the company's new decision-making infrastructure is manifesting in better outcomes generally, and maybe just kind of contrast that to what those decisions would have looked like under the older model. Thank you.

James Quincey

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



Sure, Nik, a few examples. One, I think John has already mentioned the cash flow. We struggled for many years to get up into best-in-class cash conversion or working capital. And the work that has been done by the finance network has produced a great result, and that's clearly flowing through not just in terms of the kind of theoretical amount of days working capital but the actual cash coming into the company in the first quarter, which was a really strong result, and that's something that we have struggled to do in the past.

Another example would be we've been rolling out a global campaign on Sprite, which has got excellent early traction in terms of consumer engagement, in terms of purchase intent. And that was developed by the category leads and the key operating units and has been rolled out across the world. Something that we were unable to do or unable to convince ourselves to do historically, and so we believe that that is making some cut through.

The supply chain optimization, working with the bottlers and really focusing on reducing the unit costs of what we do and looking across all the metrics and increasing data transparency, is happening. And then you go to some of

the platform services where we're really starting to be able to implement, especially in those areas where one single global solution makes total sense, we've had examples from buying trade materials through global platforms, driving significant savings for ourselves and the system. And then hopefully, later this month we'll turn on our latest SAP update, which will go from one that was done 20 years ago which was probably one of the world's most complicated and therefore most expensive to a much more effective solution.

So I think across the company, from the front end of marketing and engaging with consumers through our operations, through to the bottlers, we're able to make the contact points and get faster, better solutions.

Operator: Your next question comes from the line of Lauren Lieberman with Barclays. Lauren, your line is open.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.



Great, thanks so much. Good morning. This is probably a good lead-in from all three of the last questions, but I want to talk a little bit about profitability because it was interesting to me that I think margins in almost every division outside of EMEA were comfortably ahead of where they were in the first quarter of 2019, and knowing that COVID comps weren't necessarily a dynamic for all regions in the first quarter of last year, if I still benchmark back to 2019, the profitability improvements are significant.

And so I was curious how much knowing, James, your comments on wanting to invest to support recovery is a very important dynamic, but how much do you think of that margin improvement that we're seeing at this point is tied to these, call it, broad range of cost management initiatives across the board and RGM inclusive versus timing of marketing, the need to put back in and continue funding the business? And it may be different region-to-region, of course, as well. Thanks.

James Quincey

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



Thanks, Lauren. Look, clearly, the reinvestment of marketing is going to vary somewhat by region in 2021 for the reasons I outlined in that answer to the first question. So I think it's important as you think about margins to recognize that 2021 is also going to be a somewhat atypical year. There will be markets around the world where we judge the situation such that we don't have a normal level of marketing. And so that does tend to favor margins, operating margins at that point in time. And so it is important to break it apart and look at it by the different regions.

We certainly are not coming out with some numerical margin target for many of the same reasons that we removed the previous target, but we are focused ultimately on growing the business. And embedded in our long-term growth model is an implicit assumption that we can slowly, or steadily perhaps better said, improve margins over time because there is a lot of efficiency work going on within the cost of goods sold, within the DME, particularly the non-working part of the DME, we've got a lot of focus on the agency roster and how we spend the money we spend before it even gets to see the consumer. And obviously we've done the networked organization which was about making us better able to support the growth aspirations, but it is also a more efficient organization.

And so all those things will go into the mix and it would be remiss of me to not include the impact of RGM because to the extent that we can leverage RGM, that also helps on the gross margin and ultimately operating income margin as well. So we will be pulling all those levers as we go through 2021, but again, it won't be a fully normal year in every region, and so you will see some of these strange effects.

Operator: Your next question comes from the line of Carlos Laboy with HSBC. Carlos, your line is open.

Carlos Laboy

Analyst, HSBC Securities (USA), Inc.

Q

Yes, good morning, everyone. Could you give us a sense of where you are seeing some notable progress this past year on digital transformation perhaps tied into this inflation and margin question, right, by commenting on how digital tools are perhaps helping you mitigate or stay ahead of inflationary pressure in some markets that might be getting ahead of the curve here?

James Quincey

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

A

The digital transformation is much above and beyond coping with inflation, although of course some of the tools will help us manage if there is an inflationary spike. Clearly, you could look at the digital transformation in terms of our engagement with consumers, and there are some good examples of progress. China, which has started the year very strongly, not just compared to 2020 but compared to 2019, has been a much bigger shift into digital engagement with consumers or even in Japan with our own Coke ON apps that we use to connect people to the vending machines and the cashless options and a large uptick in monthly active consumers.

So there is a great deal of progress being made in terms of how we engage through digital media, how we engage directly with consumers in a digital relationship that's helping there.

The system, I talked about the example of buying materials with digital platforms, but clearly, there's a huge piece of what needs to happen which is the backbone of both the company and the bottlers and the interoperability of all of the data where we're making excellent progress. And ultimately, all those insights and all those efficiencies help us manage the inflationary pressures out there, whether we use the insights to engage more consumers or we use the insights to drive the RGM thinking and implementations or to identify efficiencies.

I mean, in a way, digital is becoming just the way business is done, and it's just like saying I turn up and have to manage the business and use all of these tools to do all of the things I've got to do.

John Murphy

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

A

Maybe I'll just add one comment there, James. If you think about the emerging stronger program that we've outlined over the last six to nine months, it would not have been possible to do three years ago. The degree to which we have been able to operate in a fast and efficient manner across the globe to deliver this program is all due to the fact that we have essentially become digitized in how we work and how we operate just to support, James, your last comment there.

Operator: Your next question comes from the line of Steve Powers with Deutsche Bank. Steve, your line is open.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Maybe pivoting back to the top line, so March volumes back to even with 2019 is just a very key and promising milestone, and we've seen sequential progress over the last few quarters, but I guess I'm curious whether that trend back in 2019 levels have been relatively smooth on a global basis or if there's been more volatility underneath the service than we may appreciate looking at the headline numbers.

So maybe if you could just frame for us how performance versus 2019 has trended over the past few months and if you expect those trends to – and how you expect those trends to evolve over the course of the year in terms of whether it'd be relatively smooth and even or lumpy with case count and vaccinations and the like. And I guess ultimately, do you expect to be back to growth versus 2019 when the dust settles on April, or is that too ambitious?

James Quincey

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

A

So the progress when you stand back and look at the numbers in aggregate, clearly, April was the deepest hole that we fell into in 2020 and then as we adapted the business and really drove what we were doing, then we sequentially got better. So kind of we fell into the hole I think it was like minus 25 or something in April last year, and then it was negative teens and then negative single-digits slowly improving through the rest of 2020. And then coming into 2021, obviously, within cycling the bad year, but if we compare to 2019 it got better as we went from January and February which was still below the 2019 levels and obviously March was above.

I mean, April has started well. It's obviously going to be the weirdest month because we're cycling something very low. I think most importantly, I would refer you back to the comment I made the second thing I said relative in the first answer which is just because March has got back to the level and just because April has started well one week, there's no guarantee that that has been some kind of trend that is in the bank.

The principal uncertainty remains the risk of additional lockdowns. Much as 2020's numbers were heavily impacted by the degree of lockdown, that will remain true this year. So whilst we've got back above the line of flotation in March, there's no guarantee there won't be some extra degree of lockdowns in May or September or December that then puts pressure back on the business.

So I don't think, I know I keep hitting this point. We had a super start to the year. The momentum's building, but this very unusual factor of the pandemic and lockdowns continues to be an uncertainty factor that one can't draw a straight line through the historic data. Now once you get under the surface of the overall global numbers which kind of look like the kind of the tick mark, if you like, going down and then kind of steadily improving, clearly, you get much more variability at a country level, again heavily influenced by the degree of lockdowns. So in a sense, April last year was the worst because you had the most number of countries, the highest degree of synchronization of lockdowns globally, and I think this idea of saying the recovery will be asynchronous is we already see that in the first half.

You've got countries where the vaccine levels are going up and the reopening is occurring. US, UK, China, for examples, and yet you've got countries going in exactly the opposite direction with cases shooting up and more levels of lockdown, and that's what we're trying to highlight with this asynchronous. It may be that as a total company, it all looks smoothed out somewhat, but this asynchronous feature will be very important in 2021.

Operator: Your next question comes from the line of Bonnie Herzog with Goldman Sachs. Bonnie, your line is open.

Bonnie Herzog

Analyst, Goldman Sachs

Q

All right. Thank you and good morning, everyone. I was hoping to switch gears a little bit and maybe hear a little bit more color behind your decision to IPO Africa. I know you guys have explored a sale in the past, but why do

you think this is the right decision for that business? And then, how do you expect this will impact the performance of the business going forward, and maybe potential benefits you might see. Thanks.

James Quincey

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

Sure, thanks, Bonnie. I mean, certainly, it's always been our intention to reduce our ownership in CCBA in line with our strategy as John puts it to become the world's smallest Coke bottler, and so we were always contemplating how we would re-franchise CCBA. I mean the CCBA, Coca-Cola Beverages Africa is a strong, well-structured, capable bottler and we have always considered as one of the options whether to have it be a freestanding entity in Africa and we have reached a conclusion that if one thinks about the future potential of the African market and the African continent and how much long growth there is there.

I mean it is the youngest billion people are in Africa, we think we've ultimately come to the conclusion, it would be right for the development of the business in Africa to have an African headquartered African bottler that is operating on the continent. And so the read-through is we believe in the future of Africa as a continent, as an economy, we think we've got a great, capable bottler that can help lead our ability to grow there and then an IPO will allow us to set that up to be a source of growth for many years to come.

Operator: Your next question comes from the line of Andrea Teixeira with JPMorgan. Andrea, your line is open.

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Thank you, operator. Good morning. And so can you quantify how much the impact of the winter storms had on your volumes in Q1? And then as a follow-up on your comments before, can you please give us an idea how you're trending in Q2 the same way you did, and it helped us in the first quarter. And just because – just a quick one on the US tax dispute, what is your base case in terms of the timing for the IPO at this point and your impact on the cash flow?

James Quincey

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

John, do you...

John Murphy

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

Yeah, I'll take it. Maybe start with the tax question. Andrea, thank you for the questions. But let's start with the tax question. In terms of timing, we do not have a picture at the moment. We are dependent on the outcome of another case before any further developments take place with our own case and we have no visibility into that outcome, so we'll keep you apprised as we know more.

On the storms in the US, not a material impact to our business. And with regard to volumes in Q2, it's still early in the quarter. Not a lot to say at the moment. I think the key highlights really as we look at the downhill is the fact that March was significantly improved in a number of markets where mobility is improving, and we continue, I think, to see a close relationship between mobility and our performance.

Operator: Your next question comes from the line of Kaumil Gajrawala from Credit Suisse. Kaumil, your line is open.



Kaumil Gajrawala

Analyst, Credit Suisse Securities (USA) LLC

Hi, good morning, everybody, and fantastic pronunciation, operator. I don't get that frequently. Thank you. If I may ask, James and John, about competition, and maybe particularly in the United States, it looks like Pepsi is getting some momentum. We obviously just heard from them on Friday. Here it seems of course that pricing remains rational, but perhaps from a competitiveness ex-pricing maybe that's increasing. So if you could just talk about what you're seeing there, that would be useful. Thanks.

James Quincey

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



Certainly, we always are happy to see other companies invest into the beverage industry because that tends to create more consumer engagement, and obviously we pay attention to what they're doing, so hopefully we can learn from them. There are a lot of very capable competitors out there, so we like to learn from them. But in the end, we focus on what we can do, and in the US in particular, cat channel mix aside, we gained share. We gained share going forward in beverages in the US business. And we feel confident that as the channel trends and the reopening bring back the away-from-home businesses, which of course they started to do in March, then we will be able to capitalize on those trends as well.

And as it relates to promotional activity, ultimately we are seeing kind of rational pricing and promotional environment in the US, and we'll certainly be looking to build on that with our RGM capabilities and with the bottling system to really drive and leverage the investments we're collectively making as a system in the marketing and the execution to drive the business forward.

Operator: Your next question comes from the line of Rob Ottenstein with Evercore ISI. Rob, your line is open.

Robert Ottenstein

Analyst, Evercore Group LLC



Great, thank you very much. A couple of questions on Topo Chico. It looks like a very strong start in the US with about a 3% market share, but you started even earlier, I think in October in Mexico and Brazil and now rolling out in Europe. Can you talk to us a little bit about how you feel about the execution of the bottling network with an adult beverage? Any signs of trends in terms of repeat in some of the earlier markets, and any general learnings that you've gotten so far as you evaluate what could be a new growth engine for the company? Thank you.

James Quincey

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



Thanks, Robert. So in the markets where it's been in longer, so Latin America and Europe, about 14 markets between them, a couple of things we're seeing. Obviously, the degree of resonance is depending on the degree of category development that might already exist or not exist in some of those markets, and so we're seeing different levels of engagement depending on whether the category is there or not.

Secondly, we're clearly in the mold of learning how to compete in this category both from a branding point of view and from an execution point of view, but we're definitely starting to see improving trends and good repeats in the context of the different markets where it's been launched, whether that be Latin America or in Europe. We're still building out distribution in Mexico, for example, but we've done a good start in Europe, a little easier as I said, because the category is a bit more developed in the West versus the East, and so our focus is maximizing the amount of learning that we're doing.

And as it relates to the US, whilst our overall share is 3%, and I would double-underline that Topo Chico as a brand is well-known in the US. And therefore, driving or creating trial on a well-known brand with an innovation is actually relatively straightforward. The key is repeat, and we have not yet got to the point of having good repeat data in the US.

Having opened a big caveat umbrella, I would comment that Topo Chico Hard Seltzer might have 3% overall in the US. But actually in Texas, where we've kind of concentrated some of the launch, it's almost hit a 20% share in the first two weeks of launch. So we are encouraged by the early results, but it's all going to come down to repeat and nothing's worth anything without repeat.

Operator: Your next question comes from the line of Kevin Grundy with Jefferies. Kevin, your line is open.

Kevin Grundy

Analyst, Jefferies LLC

Great, thanks. Good morning, everyone, and congratulations on the nice progress this quarter. James, I wanted to come back to your Asia-Pacific business, specifically China, obviously a really strong result. This comes on the heels of PepsiCo's strong results in China as well. China obviously earlier to the pandemic than other countries, and then you're seeing nice strong consumer demand here. So a few questions, please.

One, can you talk about what you're seeing by channel both at-home and away-from-home, maybe comment briefly on the trends in April relative to the strong result in the first quarter? And then lastly, just how the strong demand in China may be informing your view with respect to recovery in other markets? Thank you.

James Quincey

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

Sure. Yes, clearly good results in China. We're definitely -obviously we're lapping or beginning to lap the kind of the worst part of 2020. But ahead of 2019, we've lent into the reopening and the reenergizing of China with the consumer marketing with a big push into digital engagement with the consumer, with a big push into e-commerce, and we are benefiting from that.

It is worth noting that in terms of the channels, almost what we see, and this is true when you look at not just China but if you start look at Australia or even the US, you see kind of phases or waves of the reopening. And so as the reopening occurs, actually you get a lot of people going out to restaurants and the kind of the full-service eating away, and that goes up, bearing in mind that the universe of mom-and-pop stores and the universe of small restaurants has shrunk. The number of people running those sorts of businesses has shrunk, and I think we're going to see that all across the world, so there is a consolidation factor. But as the reopening occurs, you see a lot of going out in the evenings, so all the channels related to that come back first.

The second kind of wave of improvements in channels is loosely in the bucket of office and commuting because as the reopening happens, people go out, yet the offices aren't back to 100% capacity so you've not got that ecosystem of commuting and lunchtime in the big city centers at full, and that's kind of the second business coming back in China and actually you don't see that back yet in the US in March. You see the restaurants kind of bouncing back, but you don't see the kind of the ecosystem of commuting and offices having bounced back anywhere near to the same degree.

And then there's a third phase which hasn't really happened yet, which is kind of the large gatherings kind of phase of channels, whether that be cinemas, concerts, sporting events, et cetera, et cetera, and that's only very partial coming back. So think of this kind of a set of waves of reopening as the economy normalizes, and we've thought about that and we're kind of investing both in the consumer and the bottlers are doing a great job of investing for the customers and retailers and we're seeing a very nice result.

Operator: Your next question comes from the line of Sean King with UBS. Sean, your line is open.

Sean R. King

Analyst, UBS Securities LLC

Q

Great, thanks. This happened in a number of regions, but the APAC concentrate sales came in 11 points ahead of the unit case volume, but what drove that gap besides I guess the calendar shifts, and should we expect like a reversal in this dynamic or is this something that is sort of going to continue as we see markets reopen?

James Quincey

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

A

So for APAC, just specifically on your question, yes, APAC did run ahead mainly due to the extra days in the quarter, and we also had a timing impact with regard to Chinese New Year in China, obviously. And so but for the quarter, overall, you saw gallons running ahead mainly due to the extra days in the quarter.

Operator: Your next question comes from the line of Laurent Grandet with Guggenheim. Laurent, your line is open.

Laurent Grandet

Analyst, Guggenheim Securities LLC

Q

Yes, very nice pronunciation as well. So good morning, everyone. Yeah, so I'd like to focus on emerging markets. So you said in your prepared remarks that the volume case is created through the consumer mobility driven by vaccination rate. So as I got into the WHO, vaccination rate should be about 70% by the end of the year in developed markets but sadly just about 20% in emerging markets. So should we consider then that emerging markets would be slower to recover and really probably if you can provide some of your thoughts there and maybe some granularity between regions. Thank you.

James Quincey

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

A

Sure. So I think as you say, clearly, the vaccination rates in the developed markets is going to be ahead of the developing markets for the duration of this year. The critical factor to add to that is the market response to the level of cases or the low vaccination rates in the developing markets because the thing that impacts our business most directly is the degree of lockdown, and so it's the response to the level of cases of the COVID and the resulting lockdowns rather than necessarily directly the level of vaccination because there are countries where the level of vaccination is low but because they had a strong lockdown and then kind of locked the country up, say Australia or whatever, then they've started to reopen.

So the key factor to look for is the degree of lockdown and think through for that market, what's likely to happen connected of course to the level of vaccination but also to the level of cases and what the policy response in the country is likely to be. And there will be countries where I think frankly and unfortunately, they don't have the wherewithal and the fiscal capacity to implement large lockdowns even if they haven't got all the vaccines that

they want and the markets remain open and of course we will look for ways to adapt the business to support the people, support the retailers and continue to engage with consumers as that goes on.

Operator: Your next question comes from the line of Bill Chappell with Truist Securities. Bill, your line is open.

William B. Chappell

Analyst, Truist Securities, Inc.



Thanks. Good morning. Just want to follow-up and this is fairly near-term and acute to the US, but I'm just trying to understand kind of the commentary of how you're looking at the business and that I mean it seems that the US will be different in kind of the reopening of everywhere else, so I mean high majority of the population will be inoculated in the next 30 days just as schools are getting out, just as the weather's getting good. You have kind of sporting events talking about full capacity in June. I mean are you – is that a scenario you're prepared for and the bottling network is prepared for if the business, the on-premise business just explodes, and or do you really think that this just going to be kind of go from Phase II to Phase III in May and Phase IV in June and slowly kind of open up over the summer?

James Quincey

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



I think the phases are going to exist, Bill. They're just going to happen very quickly in the US. So if I look at what's already happening, I put eating and drinking in the evening in kind of Phase I. I mean, that bit of the away-from-home was trending negative in volumes strongly negative in volume in January and February and as the reopening happened, it jumps up in March, and as you say, as education and at-work opens, both of which are still running negative in March, I think they're going to jump up again.

So what I think we're going to see as the US completes its kind of rapid vaccination is a quick succession of the phases rather than a drawn out set of the phases. Other parts of the world where the vaccination programs are slower, then I think you'll see a more gradual phasing of what happens.

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.

Okay. So thanks very much, everyone. It's certainly been great talking to you all. We had an excellent first quarter, very encouraging. Still many of the parts of the world yet to emerge from the pandemic, but as we navigate this kind of dynamic environment, we'll continue to evolve and do better, and we're well-positioned for the recovery as it plays out both as an organization and as a system. And as always, we thank you for your interest, your investment in our company, and for joining us today. Thank you.

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

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