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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 a 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, Investor Relations Officer. Mr. Leveridge, you may now begin.

Timothy K. Leveridge

Vice President & Investor Relations Officer, 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, I'd like to inform you that we posted schedules under the financial and 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 results as reported under generally accepted accounting principles. I'd also like to note that you can find additional materials in the Investors section of our company website that provide accompanying slides for today's discussion and an analysis of our margin structure.

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'll turn the call over to your questions. We recognize there may be lots of 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 let me turn the call over to James.

James Quincey

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

Thanks, Tim, and good morning, everyone. We've just closed the books on what has arguably been the toughest and most complex quarter in Coca-Cola history. And given the global pandemic, of course, this comes as no surprise. From the initial lockdowns and closures of hundreds of thousands of our customer outlets, with a gradual reopening and now another round of spikes in various countries, the impacts have been profound.

In this challenging environment, we've seen some remarkable actions around the world, and I'd like to express my thanks to the countless people on the frontlines who are working to improve our communities worldwide. And I'd

also like to recognize my colleagues across the across the Coca-Cola Company and our bottling system for their tireless efforts in prioritizing the safety of our people, ensuring the resiliency of our supply chain, supporting our millions of customers globally and for being a force for good in their communities.

As we navigated the quarter, we used a combination of focus and flexibility to manage through what we believe will be the peak levels of global lockdown. John will discuss the results in further detail, but as you think about the quarter and consider the future, I'd like to highlight the strong relationship of our performance with the intersection of two key factors: the trajectory of our business trends in the near term is closely linked to the size of our away-from-home business in any given country and the level of lockdowns in the market.

For example, markets like Western Europe, which had high levels of restrictions and a meaningful away-from-home exposures, and India, which had an intense lockdown, experienced significant impacts. However, many of our Latin America markets with less restricted measures and a lower away-from-home presence fared better.

Further, as we went through the quarter and restrictions generally eased globally, our business saw improvements from the 25% volume declines in April to the single-digit declines, we are seeing now in July.

The lockdowns also affected our share performance in the quarter. Our underlying performance in NARTD was positive and benefited from strong share gains in the at-home channel. However, this was entirely offset by a full point of negative channel mix due to the away-from-home pressure where we have strong shares. And as on-premise begins to revive, we fully expect to return to share growth, and we are already seeing sequential improvements in monthly trends.

Moving forward, we are maintaining that same level of focus and flexibility that helped us navigate the quarter as we focus on winning during the reopening phases. Thankfully, a good starting point matters. As a system, we went into the crisis in a strong position, and the system has rallied. There is a sense of optimism about what is possible as we move forward.

Importantly, we are leveraging the crisis as a catalyst to accelerate the business transformation that was already underway, and we remain guided by our purpose, which is to refresh the world and make a difference. And we are clear on how we will emerge stronger. We will win more consumers, gain share, maintain strong system economics, strengthen our impact across our stakeholders and equip our organization to win in the future.

And as we think about that future, there are two important points, I'd like to make. In addition to the near term realities of the pandemic and consumer shifts, the uncertainty around the trajectory of the macroeconomic environment is significant. We generally align with forecasts that imply the global economy could take two to three years to fully recover. Notwithstanding the macros, our North Star is to return to pre-COVID levels and to do this ahead of the economic recovery.

Second, we see the underlying structural reasons that Beverages for Life strategy with the consumer at the heart of everything we do, remains essential. The commercial beverage industry will remain vibrant in the years to come. We know consumers will continue to spend more on commercial beverages and they will continue to demand greater choice. This drives the need for a broad, strong portfolio and a powerful scale distribution system to supply that demand.

Our Beverages for Life vision began a transformation of the organization, supported by a refreshed culture focused on a growth mindset. We are already well on our way down this path and seeing good results. The pandemic is prompting us to move even faster. At CAGNY, earlier this year, we introduced the key elements of

our strategy to accelerate top line growth and maximize returns. We recognize that some elements need to evolve, and others need to be pushed harder to reflect the new reality.

So we are accelerating our strategy across five priorities. First, we are prioritizing a portfolio that combines strong global brands plus regional and scaled local brands to address critical age cohorts, need dates and drinking occasions. Second, we are establishing a more disciplined innovation framework and a new path forward for increased marketing effectiveness and efficiency.

Third, we are strengthening our RGM and execution capabilities to drive relevance and responsiveness. And to capitalize on these initiatives, we are enhancing our system collaboration and capturing supply chain efficiencies to fuel growth. And as a result, we're continuing to evolve our organization to support the accelerated strategy and invest in new capabilities to accomplish these objectives. John will discuss how we are leveraging each of these initiatives to drive improved returns and prioritize our capital allocation to the most attractive opportunities.

Turning to the portfolio. At the outset of the pandemic, our goal was to ruthlessly prioritize core brands and SKUs to strengthen the resilience of our supply chain. In China, we placed a big emphasis on our sparkling portfolio during the height of the lockdown, and as a result, the category grew 14% in volume this quarter, led by trademark Coke, with strong growth in Zero Sugar offerings. The learnings in the last several months and the insights from our already accelerated SKU rationalization has convinced us to go even deeper on this opportunity by streamlining brands. We are shifting to prioritizing fewer but bigger and stronger brands across various consumer needs. At the same time, we need to do a better job nurturing and growing smaller, more enduring propositions and exiting some zombie brands not just zombie SKUs.

As a reference point, of our 400 master brands, more than half are single country brands with little to no scale. The total combined revenue of those brands is approximately 2% of our total. They're growing slower than the company average, but each one still requires resources and investment. So in the case of a brand like Odwalla and its chilled direct store delivery, which has struggled over the last several years, we started to stop operations effective July 31. This gives us the flexibility to support our investments in brands like Minute Maid and Simply and to continue to scale rising start like Topo Chico.

Turning to innovation and marketing. Innovation remains critical to our Beverages for Life strategy and launch activity has been on the rise over several years. While this expansion of innovation has been a considerable growth driver for the Coke system, many launches fail to escape the tail and struggle to grow. We can do better. We believe the best way forward is to be more choiceful and target bigger, more scalable bets and be disciplined in our experimentation. Over time, our leader, challenger and explorer brands can grow positions that deliver scale and profitability.

We are raising the bar and adding more discipline to our innovation pipeline against defined criteria, either recruiting new consumers, increasing the frequency of existing consumers and/or being margin accretive. We are leading with global bets like the continued opportunity with reduced sugar offerings in brand Coke. We'll also continue a high potential regional and local bets like AHA flavored sparkling water in the US. AHA captured double-digit retail value share in its first 18 weeks and has even more potential given its wide appeal.

With consumers prioritizing health, safety and hygiene even more, there is a runway for innovation in functional benefits and contactless solutions. We'll prioritize innovation centers on products, packaging and equipment. Last week, for example, we announced the introduction of touchless freestyle machines in the US which allows consumers to choose and pour drinks from their phones in just a few seconds without the need to create an

account or download an app. This is an example of leveraging increased flexibility to create a solution, test it and roll it out in a few months.

In addressing our marketing effectiveness and efficiency, we are targeting several areas to improve how we do things. In effect, taking a fresh approach to ensure all our investments have a future role. We are increasing our focus on the cut-through quality of our messages and their alignment within market execution plans through purpose-driven occasion-based initiatives.

The next phase of our global campaign that started with the pandemic is going live now with a large program pairing Coke & Meals. Together Tastes Better will kick off in the US, but will be rolled out globally. Open to Better, another holistic program invites the world to enjoy the simple and important things in life and will also be introduced this summer across multiple media channels. These campaigns are designed to be flexible and were creative for creative for Coca-Cola teams around the world to tailor and localize in their markets and platforms. They're prime examples of how driving maximum impact and reach with focused investment.

Further, on the efficiency side, we are pushing our marketing ratios and reassessing our overall marketing return on investment on everything from ad viewership across traditional media to improving effectiveness in digital.

Turning to RGM and execution. Beyond these brand and innovation initiatives, we are deploying our capabilities in revenue growth management and execution to adapt to changing channel dynamics. Providing beverages people desire at a price they can afford is increasingly important, given the macroeconomic pressures could be substantial and enduring.

By segmenting our markets to provide solutions to fit every budget, revenue growth management also creates opportunity to deliver value through more profitable channels and premium packages. RGM is not just about price, it is about offering a range of solutions to consumers at every part of the value chain and balancing profitability to maintain and grow our consumer base.

In the case of Latin America, we are moving quickly to increase our refillable offerings to address affordability. At the same time, in Japan, we're working to decouple the 500 ml Coke offering to a larger and smaller pack options to help drive both transactions and enhance our revenue per case.

Beyond RGM, we are working with our bottling partners to improve execution by addressing changing channel dynamics and supporting our customers, be it through periods of elevated demand, like we've seen in grocery and modern trade, or the lockdown-related challenges we're seeing in on-premise restaurants.

In Europe, we're launching a new campaign, Open Like Never Before, as a means to support on-premise re-openings as well as smaller independent outlets and at home occasions. In the US, we've helped over 300,000 of our foodservice outlets manage through the lockdown and now we are there to help them get back and be stronger than ever through initiatives like our Rapid Response Resource.

We are continuing to invest heavily in executing digital strategies to drive sales, efficiencies and data analytics across our business. We recently appointed a global VP of offline to online digital transformation, to work closely with leaders across the system to unify and scale at e-commerce and digital strategy.

We're aggressively going after the omni-channel opportunity with the consumer at the center. Partnering with a large e-commerce platform in China, we increased our system revenue through that customer by 65% during the recent 618 festival, the largest midyear shopping festival in China.

Our partnerships with third-party aggregators are driving incidents as consumers quickly migrate to mobile delivery for groceries and prepared meals.

For instance, working with large restaurant delivery intermediaries in North America, we added value bundles to over 4,500 restaurant menus in the quarter. We're also accelerating our B2B platforms to streamline the value chain with modern trade. In the US, we've added more than 8,000 outlets to the myCoke digitized ordering platform just this quarter, allowing a contactless relationship with our customers.

Finally, we're experimenting with direct-to-consumer by expanding platforms like Coca-Cola En Tu Hogar throughout Latin America. This web-based solution delivers to homes as quickly as the next day and currently enjoys 1 million household users and a healthy double-digit growth rate.

To execute these initiatives with speed and effectiveness, we've worked closely with our bottling partners through the crisis. The connectivity across the system has been extraordinary. In the last few months, we've held global and regional system meetings with leadership, allowing us to accomplish even more than we thought possible.

We will continue this increased engagement and sharing of best practices with our bottlers from top to bottom post pandemic, as we recognize the opportunity to collaborate even more closely across the supply chain and to leverage our collective global scale. Ultimately, we aspire to grow faster system-wide and deliver stronger results that will enable us to continue investing and putting our purpose into action.

Turning to the organization. Since we set out on the Beverages for Life journey, we have evolved our organization every step of the way. And we continue to do so to ensure structure follows strategy. The focus on a growth portfolio of profitable brands with quality leadership positions that is supported by an efficient and effective marketing model will need to be flexible.

Our system is continuing to move further away from a complicated three-dimensional organizational structure to more of a network model, improving our agility and maximizing scale. As the pandemic acts as a catalyst to accelerate our strategy, our organization is moving into the future faster, too, and we must set up properly to empower our system to win. This will require us to reallocate people resources and could mean some reductions due to our evolving approach.

There is no doubt that we faced significant pressures in the second quarter, but we exited the quarter with promising signs the most challenging period is indeed behind us in much of the world. There's still a lot of work to do. There's no doubt the world will be different following the crisis. In many ways, the future is coming at us faster than ever. We are embracing the changes and pivoting our business to take advantage of new opportunities. We are poised, as a system, to accelerate our transformation to return to driving growth in years to come.

Before I hand the call over to John, I'd like to take a moment to comment on the social justice movements that had significant impacts around the world. Let me be clear. Our stance is there is no place for racism, or institutionalized inequality, in the world. We are taking an active approach and focusing our efforts on listening, leading, investing and advocating. We are engaging stakeholders, employees and other business leaders. And we've paused social media for the time being, while we review our policies to ensure a higher level of accountability and transparency. We recently committed to spend an incremental \$500 million with Black-owned suppliers and are actively contributing to communities on this important issue.

With that, John will discuss our results and provide more details on how we plan to drive returns as our increased focus provides the flexibility we need.

John Murphy

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

Thank you, James, and good morning, everyone. I'd like to spend my time this morning focused on three things: one, some commentary on the quarter and the rest of year outlook; two, thoughts on the broader and longer term implications to value creation for our company and our system; and finally, on our capital allocation priorities.

As expected, our second quarter was one with significant hurdles to overcome, as lockdown and social distancing requirements placed profound pressures on our customers and consumers. In the second quarter, volumes were down 16%, driven by declines in higher revenue per case away-from-home channels. Organic revenues declined 26%, driven by a 22% decline in concentrate shipments and a 4% decline in price/mix. The gap between concentrate shipments and unit cases this quarter is attributable to cycling the timing of shipments from last year, primarily in EMEA and Latin America, along with rationalization of stock levels after some safety stock building in the first quarter.

The majority of the price mix pressure during the quarter was driven by segment mix from meaningful declines in our Costa business in Global Ventures as well as Bottling Investments. Underlying gross margin was down approximately 300 basis points, primarily driven by volume declines in capital-intensive finished goods businesses like Costa, food service in North America and our Bottling Investments in addition to negative package and channel mix pressure.

Despite the significant pressure of top line and gross margin, in addition to the currency headwinds, comparable operating margins were only slightly lower than last year given the effective management of our SG&A expenses. While we had a considerable amount of leverage during the quarter from cost management, part of it is attributable to timing due to modifying our full year marketing spend forecast, which included an adjustment from the first quarter.

As we look to the remainder of the year, we will continue to hold off on providing full year guidance, given the amount of uncertainty that remains. That said, there are some factors worth highlighting as you think about the second half. While we believe the second quarter will be the most severely impacted, we do expect the top line trajectory to continue to correlate closely to the level of mobility of consumers and the health of the away-from-home channels, as James discussed earlier. The pandemic is not behind us. There is still a good reason to be cautious as global COVID infections continue to increase, with case growth generally shifting from developed to emerging markets.

While we are seeing sequential improvement, recovery will likely not to be linear. Some markets that were recovering are having a second spike in cases like we're seeing in Iran, Australia, Romania and here in the United States. Depending on the trajectory of recovery in away-from-home, channel and package mix will continue to put pressure on our gross margin. At the same time, while we do expect continued cost savings in the back half, the amount of leverage should moderate as we look to accelerate our marketing investments, given improving ROI characteristics in a number of markets. I'd also add that if the top line improves faster than expectations, we are prepared to reinvest more aggressively to further strengthen our position heading into 2021.

And finally, moving to below the line, in an effort to extend the duration of our outstanding debt, in the first half, we issued \$11.5 billion of long term maturities, resulting in higher interest expense. While we firmly believe this is the

right thing to do longer term, you will continue to see a year-over-year increase in interest expense in the back half of the year.

James laid out the approach we are taking on the portfolio, innovation, marketing, execution and system efficiencies to return our company to top line growth at the high-end of our growth algorithm. We believe strongly in our future being propelled by top line growth, but we also appreciate the top line must ultimately create value that meets or exceeds our shareholder expectations.

To this end, we are focused on the following critical objectives. First, we are defining even more sharply the optimal shape of our P&L and balance sheet. We have developed a clear mission, strategic drivers and financial expectations for each of our business segments and have set objectives to improve margins and free cash flow across the board. We leverage these improved returns and invest what is needed to fund continued growth while ensuring our balance sheet remains fit-for-purpose for our future needs.

Second, opportunities abound to cultivate more efficient growth. As James discussed earlier, we are moving with speed to optimize marketing spend, consolidated behind our growth portfolio and business segment priorities. Using our productivity mindset, we are continuing to uncover cost saving opportunities across the supply chain and operating expenses. While the hallmark of our business is winning locally with our consumers and customers, we continue to see opportunities to scale several services across the system to unlock synergies. In addition, as we evolve the organization to follow the strategy, this too will drive better resource allocation.

And as James mentioned, our global system will continue to collaborate as our strategy accelerates and evolves. And together, we are working to be nimbler to sustain the growth that follows. As we pursue these objectives, our capital allocation priorities remain the same: reinvest where appropriate in the business to drive momentum and continue to grow the dividend, returning cash to our shareholders. M&A and share repurchase are unlikely to play a prominent role in the near term. Our balance sheet is strong, and we remain confident in our liquidity position as we continue to navigate through the crisis.

As we work with the system to manage through the current challenges caused by COVID-19, our bottlers are not immune to the effects of the business disruption. That said, approximately 80% of our business volumetrically is in the hands of our top 15 bottlers or run through our Bottling Investments Group. The remaining 20% are small-to-midsize.

Our large public bottlers are well-managed companies with healthy balance sheets. Nearly all of our small-to-midsized bottlers are in a stable position and taking proactive steps on efficient working capital management, expenses and capital to manage the situation.

As we close the books on the second quarter, there is no doubt that this has been a challenging time for the Coca-Cola system. Throughout, our system has remained focused on the journey ahead, pivoting and adapting to ensure that we accelerate our transformation, allowing our system to emerge stronger.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Bryan Spillane with Bank of America. Please go ahead, your line is now open.

Bryan D. Spillane

Analyst, Bank of America Merrill Lynch

Q

Hi, thank you and good morning, everyone.

James Quincey

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

A

Morning.

Bryan D. Spillane

Analyst, Bank of America Merrill Lynch

Q

I guess, my question is just around the balance between efficiency and growth. We've come a long way in the last couple of years to exit last year to be at the top-end of the revenue growth algorithm. And I guess now we're contemplating trying to get back to that level, but at the same time with a focus on efficiency. So James, maybe if you could talk a little bit about organizationally how you're just going to balance trying to achieve both of those things at the same time?

James Quincey

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

A

Yeah. Thanks, Bryan. Look, clearly, we've got to do both. If we just aim for top line growth, we – I'm sure we'll get back-up to the top-end of the algorithm where we were for the last few years. But if we do that without focusing on efficiency, that's not going to work for the company or work for the bottlers or work for the shareholders. And the inverse is true. If we just stop worrying about the top-line and focus on efficiency, we'll do well for a year or two, but then the wheels will come off. So we've got to do both and the way we're going to approach it is to really attack the priorities we've talked about.

In the good years, the pre-COVID years, we got up to the top-end of the revenue growth thing. We were doing a lot of innovation. We were curating a lot of brands. We knew we had things that were working really well and other brands that were struggling. And as we were at the top-end, of course, you see that you need to not just remove the zombie SKUs, but prune down some of the explorer brands, so you can refocus on those with most potential. When times are going well, you set a certain pace for that sort of activity.

And now in the COVID times and in these more impaired economic times for at least for the near future, we need to accelerate that. So that's why we said, look, we need to let's really bring forward the agenda of which every wave of innovation generates, you diverge and then you need to converge on the best products investment, let's accelerate that. Let's get really focused, that will also allow us to get more focused and more efficient on how we do the marketing and where we direct the marketing investments. So the two things will work together for both be more able to drive the top-line, because we're more able to get back to the sort of growth rates we want all the top line, and be able to win new consumers and win share in the marketplace and yet do so in a more efficient way.

We've also seen over the last number of years, as we've moved to platform services, as we've evolved our organization, we can see that we had things that were ahead of us that could also be done, and we're going to accelerate those. Not just as a company, but we're looking for ways as a system. So how can we build on some of the great collaboration that already exists like the Cross Enterprise Procurement Group, where we buy collectively our core imports, our core commodities? How can we take that to the next level?

So we're really looking for the really – to build on the learnings of the pre-COVID. We knew we had things that have to be done. Let's accelerate those so that we can generate the efficiencies that will both fuel the growth and getting the top line back-up and allow us to bridge in terms of resources, given the revenue is still impacted in the near term.

So it's got to be done, and we're going to – the last thought to do that is really, it's going to build on the cultural work we've done in recent years to focus on a growth mindset. We've got to keep pushing that idea and keep looking for what's working and take the resources from the brands and the ideas and the projects that aren't working and funnel them back to those with the most opportunity.

So it's really an end-to-end idea from the consumer backwards through to the structure and the culture of the organization, so that actually you end up with an agenda. It's not just a mix of two things, strategy, growth and efficiency, but actually each of those components is necessary and enables the other.

Operator: Your next question comes from the line of Lauren Lieberman with Barclays. Please go ahead. Your line is now open.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Good morning. I was hoping you touched a bit, of course, on revenue growth management, but I think that's an area where we've all been I think well educated on revenue growth management as a great tool to drive growth in let's call it roughly economic expansion. And then in an economic downturn still probably a bit less explored, the price mix performance in Latin America and I think you highlighted Mexico, in particular, in the press release was really notable. So if you could talk a little bit about where you are in terms of implementing revenue growth management strategies to benefit you or to help support the business in a downturn. Is Mexico simply a lead market and there's much more to come on that front, but additional color there I think could be helpful. Thanks.

James Quincey

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

A

Sure, Lauren. Yeah, I mean, interestingly, the whole approach for revenue growth management, certainly in one of its early iterations at the company with the bottlers actually came at times of economic difficulty, particularly in Latin America. So it is an approach that is a capability, a way of doing things that is just as useful in the good times as it is in the bad times. And so once you see us applying that capability, which the company, together with the bottlers, have spent the last few years refreshing, it's now being directed at the new challenges.

And as you say, whereas we might have been putting more emphasis on using it to develop the premium opportunities in the last few years, we're going to have to use it to focus on some of the affordability opportunities. Examples of those is really – for example, in Mexico, but also places like Brazil and a number of others, really focusing down on refillable packaging. The benefit of refillable packaging in the context of RGM is, of course, you can – the economics allow you to offer the product at a lower price point. So we can really connect to what is

likely to be some economic stress on disposable income, and therefore the need for affordable products for refillables that works in Latin America, that works in Africa, that works in a number of different places.

But it also – as a capability, RGM can work in countries like Japan. In Japan, we sell a lot of half liter PET bottles with something like Coke. And in this current environment, what we're going to do is try and split that up. So have one slightly bigger package and one slightly smaller package. The smaller package, obviously, will allow us to offer a lower price point. And the slightly bigger package will be a sharing package which will offer more advantage per liter.

And so we can really use this capability to come in and adapt the portfolio, not just in the emerging markets, but also in the developed markets, knowing that, yes, there will still be people looking for premium products and stock up. But there are also people under a lot of disposable income pressure. And there, the number one objective, at least in the beverage category for us, is to bring down the entry price point. What's the lowest price at which you can buy a Coke.

Operator: Your next question comes from the line of Dara Mohsenian with Morgan Stanley. Please go ahead. Your line is now open.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning, guys.

James Quincey

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

A

Good morning.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Just taking a step back. Obviously, the June and July to-date unit case volume trends showed a significant sequential improvement versus April and May. Do you feel like you have enough visibility that it's reasonable at this point to generally expect sequential progress from those July numbers as we look at the balance of the year and the remainder of the back half? I know you obviously won't give us a specific number, but more conceptually perhaps you could touch on that. And that's a global question, but within that answer, I was hoping you could parse out thoughts by region a bit more. I'd imagine the answer may be very different in Asia and Europe versus the US and Latin America, just given the relative differences we're seeing in sequential COVID case counts.

James Quincey

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

A

Sure. I think the simple answer is no. And by no, what I mean is there are too many – to use the famous Rumsfeld's little framework, there are too many known unknowns ahead of us. Because whilst, yes, we have seen sequential improvement through the second quarter into the beginning of July, in all geographies, all major geographies around the world, the principle unknown is the degree of lockdown going forward.

As we talked about it in the second quarter, the biggest variables affecting the business were: one, the degree of lockdown; and two, the degree of away-from-home business in that country with the lockdown. And the simple fact remains that while things have got better, undoubtedly, July is better than June. June was better than May.

May was better than April. The reality remains that the virus is not completely under control. There have been countries which have repeated lockdowns or cities and states within countries that have repeated lockdowns.

And so, honestly, I think we could – if we saw the virus starting to be under control, we would imagine, yes, we would see sequential improvement through the months and quarters going forward. But we cannot discount there might be further waves of lockdowns, partial or full.

Having said that, I am pretty confident that second quarter will ultimately prove to have been the most difficult and the most impacted quarter, principally because I think the governments are getting smarter about how they apply public health measures and get things under the control, such that we're unlikely to see the whole world entering a lockdown at the same point in time. I hope – I'm not sure that completely helps, but unfortunately, that's the outlook we see with a strong degree of uncertainty.

Operator: Your next question comes from the line of Nik Modi with RBC. Please go ahead. Your line is now open.

Nik Modi

Analyst, RBC Capital Markets LLC

Yeah. Thanks. Good morning, everyone. Maybe I could just take another spin on Dara's question and ask specifically on areas where we've seen the virus kind of come back. So you think about Australia, parts of Hong Kong, Texas, et cetera. James, I mean it's very helpful on understanding kind of the July trends, but things have been moving so quickly. Perhaps you can talk about maybe what you're seeing or just give us some context on some of those markets, just so we can get a better understanding of how things have shaped since the end of June.

James Quincey

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

Sure. I mean, look, the – I think the fairest thing would be to say that those markets where we've seen repeat lockdowns, they have never – or they have not yet gone down at the same sort of degree they went down in the first round of their lockdown, whether that be February, March or April. And on a global basis, obviously, April was the most difficult month. So we are not seeing that round two is as bad as round one. I think the – if you take somewhere like Japan, which started off with the lockdown, then they opened up a bit, then they locked down again. Yeah, the numbers started getting negative again, but they weren't really as bad as they had been at the initial stage.

So you do get a bit of wiggly line, so you can't – that's why I made the point on Dara's question. You can't assume – not that I necessarily think you were. You can't assume it was a straight line from where we are now to good. I think there's going to be some variations as you start to look across the months. But the second waves have not yet looked as bad as the first waves, whether I look across any of the countries you really mentioned or some of the other ones.

Operator: Your next question comes from the line of Rob Ottenstein with Evercore. Please go ahead. Your line is now open.

Robert Ottenstein

Analyst, Evercore ISI

Great. Thank you very much. James, I'd like to focus on the chart that you had on the 400 master brands, with 50% accounting for 98% of revenue and 50% just 2% of revenue. And I know this is a very big question that you could probably talk about for a long time, but kind of high level, what do you think the right mix is and how do you get to that right mix? Presumably, there were certain incentives, relationships with the bottlers that got you where you are now. How do you see that evolving over time? And what do you – how do you think the financial impact will be when you get to a more optimal mix? Thank you.

James Quincey

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

A

Sure. I'm not sure there's a destination where there's one right number of the mix between leaders, challengers and explorers. And we will always have a tail of smaller brands. That's not the issue that we're after. And actually, it would probably be a sign of weakness to have no smaller brands in the portfolio because it would mean we're not nurturing the future. We're not nurturing the explorers that will be challengers, that will be leaders in the future. What we want to see is a steady pipeline of progression of creating ever stronger brands of real quality leadership. Obviously, they've got to pass through the challengers phase.

And therefore, you've got to launch a whole series of explorers, small brands to try and get there, knowing that most of them will not make it. What we are looking at here is that we have not been as assertive enough and directive enough at weeding out the explorers that have not worked and are unlikely to work, so that we can redirect the resources onto the explorers and challengers that have the most opportunity into the future.

So it's not a question of a certain number of explorers are right or wrong. It's question of are they succeeding or not. And I think we talked at Investor Day, that the success criteria for explorer is very fast growth and starting to gain a core of a very engaged and loyal consumers and that you're really starting to make waves in the category even though small. And the success criteria for a challenger was being able to gain enough market share that over time you could believe you were going to get to leadership, because at leadership, you have both scale and disproportionately more favorable economics and margin versus the other two categories.

So what we're looking at here is, in a way the result of lots of experimentation, exploration, which is a good thing, but we are looking at an incomplete task of weeding out the ones that work. And so what we're looking at, particularly in a large bucket of smaller brands, is they stayed small for some good period of time and they're not growing, so they're not meeting the success criteria for staying there as an explorer brand and that's true across all categories.

I mean, our objective remains to create a broad portfolio of leaders across all sorts of categories. And so really, we are just accelerating the work that we knew needed to happen on all those explorer brands that were not meeting our own success criteria, if they were going somewhere, they were growing et cetera and that will allow us to redirect resources to those that are best positioned to grow. So again, we'll be fuelling top line growth more efficiently, allowing us to get back to where we were in 2019 and emerge stronger ahead of the pack with better margins for our system.

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

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Yes, hi everyone. Good morning. I guess a question for me on capital allocation. John, you were pretty clear on the priorities and the near term de-emphasis on M&A and share repurchase. But the implication there is that you have high confidence in your ability to both reinvest heavily in the business and also continue to maintain, even grow, the dividend, whereas the market's been increasingly concerned about your ability to do just that in recent weeks and months.

So can you maybe expand on what drives your confidence there? And is there any set of circumstances that you can envision in the near to medium term that might better challenge your ability to defend the dividend, again, given the precedence that healthy business reinvestment takes in your prioritization? Thanks.

John Murphy

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

A

Thanks, Steve. First and foremost, I think the decisions on capital allocation, we take into account not just the short term, but also taken a view as to where we think the business will be over the next couple of years. And as we look at that, even though, as James said, there are a number of known unknowns, I think you got to divide the calendar into a few parts. One is what's happening in here and now. Number two is the sort of the length and shape of the recovery. And then number is getting back to some degree of what people are, I think, calling a new normal.

So we've got tremendous confidence in the beverage industry in general. We think that the fundamentals for growth going forward. Longer term remain the same, albeit with the challenges in the near term. And we think that we can and we'll get back to the high end of our long term growth algorithm over time.

And so with that context, we're comfortable in maintaining our position around our capital allocation priorities. First and foremost, continuing to support the business as we go forward in terms of capital and marketing investments. And then number two, continuing to support the dividend in that period.

Wrapped around that, of course, is our overall debt strategy. We are confident with the decisions we've taken year-to-date, that the balance sheet is strong enough to withhold the near term pressures. And while we may go slightly outside of our range this year, we see that being a short term blip.

So I'll also say we're confident in the industry in our ability to emerge stronger. And with that in mind, the priorities that we lay out, we think are achievable. Obviously, as James said, there are lots of kind of known unknowns, and we'll continue to review and adapt as those unknowns become more known.

Operator: Your next question comes from the line of Laurent Grandet with Guggenheim. Please go ahead. Your line is now open.

Laurent Grandet

Analyst, Guggenheim Securities LLC

Q

Yes. Good morning, everyone. James, I'd like to focus my question on the on-premise channel. Can you please unbundle the on-premise performance and trends. So what are you seeing in QSRs versus casual dining, contract caterers or sports concert venues or travel. Trying to figure out in the pace of the recovery by those sub-channels and is it fair to assume that the piece that is recurring the fastest like QSR is probably not the most profitable? Thank you.

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

Sure. I'll try and add a little bit of texture on this one for you. But the first thing to bear in mind is the predominance effect is the degree of lockdown in the country as it relates to those channels. So there isn't really a way to describe the global trends by those different channels, because it very much depended or does depend still on what sort of measures governments have put in place for health reasons. And so there's – the global trend is not really that meaningful. I would just urge you to look more at the degree of lockdown on the total business.

If we take one country and look at what we see as to have happened there, and take the US, which the one you're probably most familiar with. If we look at the away-from-home channel, first point to know is there was sequential improvement as we went from April to May to June, and so things got better. Clearly, the biggest determinant of how our channel did was what percent of its business needed people to be inside the building. So you mentioned QSR, actually QSR was one of the – in aggregate in the US was at the better end of the impact. Why? Because many of them have well developed drive through and digitally enabled takeaway businesses. So actually, they not only improved, but they were not the most affected of the eating away channels.

The source of channels that were most impacted by the lockdowns were bars, food service restaurants, at-work locations. Some of these places were, simply put, there was no foot traffic. And so the declines were significant. And given that many offices are still not going back to full working, if at all. For example, at-work remains one of the most affected channels, much more so than QSR or other casual dining or even bars and restaurants.

So the simplest way to think about or to analyze the away-from-home channels is simply to look at the degree that the restrictions in place at any moment in time, and how that affects their business vis-à-vis, do they have takeaway or business that can leave the location and to what extent are they dependent fully on people being in the location?

Operator: Your next question comes from the line of Bonnie Herzog with Goldman Sachs. Please go ahead. Your line is now open.

Q**Bonnie Herzog***Analyst, Goldman Sachs & Co. LLC*

Good morning. I actually had a question on the ramping of your marketing spend in the second half as it sounds like you've started to accelerate spending ahead of the recovery. So I really wanted to understand, how quickly you expect the spending to impact the top-line, given there's typically a lag? And then, I assume there will be a bigger drag on your margins from the stepped-up spending in the second half, but maybe clarify that and then maybe highlight any offsets you might have or levers you can pull to minimize the impact from this? Thanks.

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

Thanks, Bonnie. Let me take that one. Again, as I mentioned here, I think it's important to kind of divide the calendar up. As you know, for the second quarter, we did take a significant step back from marketing, because we didn't think it was going to be that effective. And as we look to the second half of the year, I think the name of the game is to stay flexible and be able to adapt as quickly as possible. With that in mind, as we see the shape of the recovery taking place around the world, there are opportunities to step up – to set back up our investment levels. And I think there's also an opportunity to use this time to completely rethink the amount of investment and markets actually needs in an optimal level going forward. So that's very much a key priority for the second half of the year.

In terms of specific numbers, I don't have specific numbers to provide because I think it's, again, going back to what I said about being flexible, it's a function of being able to adapt and react as markets demonstrate the trajectory that they're on. But as we go forward and as we go into 2021, a key priority is to emerge stronger, as James alluded to earlier, and to emerge stronger, faster.

And so with that in mind, it's a key objective in the second half of the year is to position ourselves well for 2021 and particularly in the markets that are really important to us and the markets where the competitive pressures are strongest. So stepping it up on a case-by-case basis in the second half of the year and being ready for 2021. And for sure, as I said in the script, as we look into the second half of the year, you're not going to potentially see the same cost efficiencies that drove the sort of the operating margin impact in the second quarter – in the second half of the year as we continue to look us – at our marketing needs and take decisions accordingly.

Operator: Your next question comes from the line of Bill Chappell with SunTrust. Please go ahead. Your line is now open.

William B. Chappell

Analyst, SunTrust Robinson Humphrey, Inc.

Hey, thanks. Good morning. James, I just wanted to step back, trying to understand like how we should look at the – in the slide deck, the announcements today, because I mean on one side, you can say, look, we're trying to be more nimble, we're trying to be stronger coming out. The other side, you can say, look, earnings don't matter this year, they might not really matter this year, let's not waste a good crisis, let's step up all our spending and move forward and we can really accelerate everything over the next year. And if it's the latter, then you didn't really talk about kind of how much this is going to cost, whether it's going to impact this year and next year in terms of costs. So maybe a little more color on which way it is and what you're expecting to spend?

James Quincey

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

I'm not sure whether you are referring as much the DME or any additional costs because we're changing our product. But let me try a couple of things and then see whether it answers the question. I mean, firstly, let me just underline what John said. We are going to be good stewards of our capital. And yeah, of course, we could just pile on the marketing spend because inverted commas, no one cares about the earnings this year. Yeah, but that still comes from our bottom line and our capital available. And if you look – if you ignore calendar years and just think about the business, why would I want to spend money in a period if I can't get the return, particularly if there's a strong lockdown? So we don't take an approach of overly thinking in the calendar years when it comes to marketing. We're about generating momentum for the brands and the business.

And, as John said, if we see opportunities to invest and generate and accelerate the top line growth, that's what we're going to do, which is the inverse of what we saw in the second quarter. We thought no marketing is going to make much difference in the second quarter, so we pulled back heavily. And then, we'll have to gauge and be adaptable as we work through the uncertainty in these known unknowns as to where or which countries and which categories versus which lockdowns is it going to make sense to spend. So we are going to be judicious in our use of marketing, in our use of capital expenditure.

We – much as you can see the sales trend improving through the quarter in July, our expectation is that the general direction of travel is sequential improvement. Therefore, we expect to come back and spend more marketing. But we're going to be focused on getting that right.

But said more generally, if we're going to emerge stronger, we need to get the business back to the right level of investment to drive the top line growth. That's what's going to create the profit growth for The Coca-Cola Company. And that is going to go behind the revamped approach the portfolio, the revamped approach to how we continue to do marketing. If we do have to let go of some brands, potentially even ones we've acquired like Odwalla, we may need to take some charges and even though it wouldn't affect the cash flow because we're using it. Perhaps we converted the brand to something else or maybe it wasn't making any money, but there might have to be some charges. Obviously, our intent would be to make those decisions as quickly as possible and recognize them as soon as they're made. I hope that provides something of color to your question.

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

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Thank you, good morning. So I'm wondering if you can elaborate more on the efficiency and ROI commentary that you guys just made. If you can see operating margins [ph] inflect (62:37) already in the third quarter year-over-year or more of a fourth quarter aspiration. And a clarification on John's comments about capital allocation. Is there any room to accelerate the divestitures of the bottling Investments that you've done so far and become even more asset-light to repurpose the funds into dividends and buybacks? Thank you.

John Murphy

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

So thanks, Andrea. On the second question, there's – as we've talked in previous calls, I think we have a very open book with respect to the balance sheet and rightsizing and optimizing the balance sheet as we go forward. And there's no investment on the balance sheet that does not get a regular review and determination as to whether it should still be there.

With respect to that part of the decision making, our Bottling Investments Group is an important piece of the equation. We don't have a timetable for further refranchising, but it certainly is our longer term goal to be more asset-light, just as we have, I think, stated on previous occasions, and have acted accordingly with previous refranchising efforts. So that will and continues to be a part of the agenda, but not a specific timeline on it.

And then, with respect to the comment on operating margins, I don't have a clear number to give you for either Q3 or Q4. But it goes without saying is that as we look at the opportunities that present themselves, we're not necessarily as focused on the months, but we're more focused on building momentum for the business and sustaining it in the – particularly in the markets that have got outsized importance to us.

So we'll make those decisions as they come and as they appear to be the right ones to make at the right time, and the consequences will flow through accordingly.

Operator: Your next question comes from the line of Carlos Laboy with HSBC. Please go ahead. Your line is now open.

Carlos Laboy

Analyst, HSBC Securities USA, Inc.

Yes. Good morning, everyone. You know big sparkling declines in India, Western Europe and fountain in the US, have deep structural changes, such as heavy client turnover in any of those three situations, prompted you to move toward a reset of the model in those three businesses?

James Quincey

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

A

Carlos, no, I don't think I would describe any of those as a deep structural change that has driven some sort of reset of the model. Again, they're very, very linked to the degree of lockdown that has been mandated because of COVID. And if you just take the three both, I mean, fountain, or foodservice and on-premise in the US and a lot of EMEA, particularly the Western Europe have a lot of away-from-home business, the outlets were shut. And what we found is that as the outlets start to open, the business starts to flourish again.

And India, simply put, there isn't a modern trade, as you'd understand it in the developed markets at a large scale. And so when they had a lockdown, it locked down all the small stores. And so literally, the whole marketplace was closed down at that point in time in what would have been a peak season in India.

So it's really lockdown-related. And I think as they come off, you'll see the reopenings. We are social creatures as humans and we like experiences. People will want to go out. There will be habits that will have changed, but we will go out and experience the world and these channels will bounce back. John?

Operator: Your next...

John Murphy

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

A

Yeah, James. Just – if I could just add to that. I think, Carlos, I think what we will see both in some of the developing markets, like India, and even here in the United States is, I think there will be a higher turnover, particularly of small customers in both the sort of more modern away-from-home as well as the traditional away-from-home. So I think we expect to see that. But that, in and of itself, I don't think means a structural reset is necessary. It will just mean there will be more new ones coming along. And for our system, it just – it will be a key area of focus as we come out of the recovery period.

Operator: Your next question comes from the line of Kevin Grundy with Jefferies. Please go ahead. Your line is now open.

Kevin Grundy

Analyst, Jefferies LLC

Q

Hey, good morning, everyone. And thanks for taking the question. I wanted come back to investment levels. It was talked about a couple of different prior questions. But asked it differently and really focus on North America, and my question isn't so much about cadence, but really more about adequacy. In the context being that your key competitor has committed to supporting its brands, this is on the fields of stepped-up investment levels last year, they're not starting to hit an external earnings number and market share is increasing focus, if I'm not mistaken, it's also a bigger part of executive comp.

And then, of course, the snack side of the business is thriving, which gives them the flexibility to lean in on beverages. So setting aside the COVID-related pressures, can you comment on what you're seeing competitively in North America? John, I think you commented a moment ago that there's also willingness internally at the Coca-

Cola Company before they only showed a profit targets to lean in and make sure that you're adequately reinvested in key markets, presumably the US would be included in that, maybe you just can confirm it?

And then maybe talk a little bit about some of the governors and key metrics that you guys are looking at, brand equity, market share, absolute levels of A&M spending to ensure that your brands are indeed adequately supported and that you don't end up credit into year-end and looking out to next year, falling short is that you're underinvested? Thank you.

James Quincey

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

A

Do you want to go, John?

John Murphy

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

A

No, go ahead.

James Quincey

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

A

I'll go start then you can jump in. Clearly, we are on – I mean, we've set a North Star, emerge stronger, which is gain more – engage with more consumers, gain more drinkers, gain share and reestablish system economics for us and the bottling system. So that is where we're headed. And very clearly, we're going – if we have to choose between investing and not investing in making more money, but damaging the top line, we're going to invest to drive the top line.

The fundamentals of the Coke system work when we can get back to where we were pre-crisis, which was the top end of the growth algorithm, on the top line, and that then flows through with the leverage into the bottling. So that is going to be the North Star globally. And in North America, we need to make sure that happens. And clearly, we're going to do that in a flexible way that John talked about DME. Having said that, we fully expect to be spending sequentially more DME in North America in Q3 and into Q4.

Obviously, we have key metrics by brand as to what we expect from each brand and what they're doing and going for that. And what we see in the marketplace is, again, a bit like the total volume performance. In terms of share, what we see is that where the world is open, we've been able to gain share. The predominant negative effect is channel mix, and it's worth remembering that our – we have half as much a gain market share in away-from-home channels as we have in at-home channels.

So the closing of the way-from-home, of course, makes a negative impact to our market share. So what we're focusing on is in the channels that are open, let's focus on gaining share where the world is still working, knowing that as the reopenings occur, and being social humans, we'll go out for the experiences, that we will structurally gain share in channels and then we'll be favored as those where we have historically been stronger start to reopen it. So that's our approach overall and in North America.

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.

Thank you, everyone. So to sum up, we're using the current moment of the pandemic as an opportunity to accelerate the implementation of our strategies. With a portfolio of strong brands, a focus on high impact marketing innovation and a structure that fits the strategy, we are confident that our system will emerge stronger from this crisis and return to delivering good growth for the years to come. 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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