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The Coca-Cola Co. (KO)

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MANAGEMENT DISCUSSION SECTION

Operator: At this time, I'd like to welcome everyone to the Coca-Cola Company's Third Quarter 2025 Earnings Results Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time. [Operator instructions] I would now like to remind everyone that the purpose of this conference is to talk with investors and therefore questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations Department if they have any questions.

I would now like to introduce Ms. Robin Halpern, Vice President and Head of Investor Relations. Ms. Halpern, you may now begin.

Robin Halpern

Vice President & Head-Investor Relations, The Coca-Cola Co.

Good morning, and thank you for joining us. I'm here with James Quincey, our Chairman and Chief Executive Officer; Henrique Braun, our Chief Operating Officer; and John Murphy, our President and Chief Financial Officer. We've posted schedules under Financial Information in the Investors section of our company website. These reconcile certain non-GAAP financial measures that may be referred to this morning to results as reported under Generally Accepted Accounting Principles. You can also find schedules in the same section of our website that provide an analysis of our gross and operating margins.

This call may contain forward-looking statements, including statements concerning long-term earnings objectives, which should be considered in conjunction with cautionary statements contained in our earnings release and in the company's periodic SEC reports. Following prepared remarks, we will take your questions. Please limit yourself to one question. Reenter the queue to ask follow-ups.

Now, I will turn the call over to James.

James Quincey

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

Thanks, Robin, and good morning, everyone. In the third quarter, the external environment remained dynamic. And in response, we adapted our plans as needed, focusing on sharper execution and investments to drive growth. With one quarter remaining in 2025, we're on track to deliver on our reiterated top line and bottom line guidance. We also believe we're well positioned to achieve our longer-term commitments.

This morning, I'll provide some context on how we're executing our all-weather strategy in the current operating environment. Then, I'll pass the call to Henrique, who will discuss our segment performance and how we're working to unlock the full potential of our system. Finally, John will discuss financial details for the quarter, our guidance for the full year 2025, and some early considerations for 2026.

During the quarter, the operating landscape remained complex. While many consumers remain in overall good shape, certain segments of the population are under pressure due to varying factors. Some factors are transitory, like unseasonable weather, others may be long lasting, like the cumulative impact of inflationary pressures, uncertain trade dynamics, and an ever changing geopolitical environment. Despite this backdrop, we've delivered volume growth.

July and August were slow to start, but September ended on a stronger note. Organic revenue growth continued to be at the high end of our long-term growth model, and ongoing efficiency and effectiveness initiatives drove comparable operating margin expansion. This led to 6% comparable earnings per share growth, despite 6% currency headwinds.

We benefit from operating in a vibrant and resilient industry, with ample headroom for growth. For the 18th consecutive quarter, we gained overall value share. We also held or gained value share across each of our geographic segments.

By offering consumers choice across our total beverage portfolio and by leveraging our systems capabilities, we continue to build momentum to develop our industry and expand our lead over the long term.

To deliver in today's environment, we're capitalizing on the strength of our portfolio and focusing on improving execution across all aspects of our strategic growth flywheel. We have unparalleled portfolio power, as demonstrated by our 30 billion-dollar brands, which we estimate represents approximately a quarter of the billion-dollar brands in the industry, and is approximately double our nearest competitor. As we continue to develop loved brands, we expect our number of billion dollar brands to grow.

Our marketing transformation is centered on connecting deeply with consumers through digital engagement, personalized experiences and cultural relevance. For example, we recently partnered with Universal Pictures and Blumhouse on a Halloween campaign for Fanta that was activated in approximately 50 markets. Building on last year's success, the campaign featured iconic horror characters on our packaging, limited-time flavors, and immersive retail and digital experiences.

While we're building capabilities in marketing, we're also prioritizing bigger and bolder innovation like Sprite + Tea in North America, BACARDÍ Mixed with Coca-Cola in Mexico and Europe, and Powerade Springboks Edition in South Africa. During the first three quarters of this year, innovation contributed strongly to revenue growth and we're continuing to have strong velocities on our innovation.

Last, our marketing and innovation agenda is brought to life by execution in the market. Over the past decade, we've been on a journey to refranchise company-owned bottlers to fortify our system and unlock further growth. Recently, we reached two significant steps in completing this journey. In July, we sold a 40% ownership stake in our company-owned Indian bottler to the Jubilant Bhartia Group.

Additionally, this morning, Coca-Cola Hellenic announced its intention to acquire a controlling interest in Coca-Cola Beverages Africa, which is expected to close next year, subject to regulatory approvals. We believe these moves will unlock growth opportunities in India and Africa.

Jubilant Bhartia has built and grown consumer businesses in India and Coca-Cola Hellenic has demonstrated a strong track record in Nigeria and Egypt. Our global franchise model is a strategic differentiator and is very difficult to replicate. With these milestones, we have a clear line of sight to complete our refranchising strategy, allowing us to further focus on brand building and innovation, complemented by integrated execution with our bottling partners.

In summary, we're confident we can navigate what comes at us, deliver on our 2025 guidance and create long-term value for our stakeholders.

With that, I'd like to hand off the call to Henrique. In his nearly 30 years at the company, Henrique has worked on multiple continents and has been a strong partner to me and to our system in driving sustainable growth.

Henrique Gnani Braun

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

Thank you, James. I'm glad to be joining the call today. I'd like to begin by discussing how we responded to varying market dynamics during the quarter by adapting faster, and then I will spend some time covering actions that we are taking to ensure we get better and sharper every day.

Starting with North America, we delivered strong results. Despite ongoing differences in spending between income groups and slower traffic across channels, volume was flat and improved sequentially for the second consecutive quarter. We also gained value share and had strong revenue and profit growth.

We are investing behind our brands, which led to broad-based strength across our total beverage portfolio. In addition to ongoing strength with Coca-Cola Zero Sugar, Diet Coke had strong volume growth by reaching a new generation of consumers with campaigns like Know the Signs, which invites drinkers to take a Diet Coke break.

We also launched innovations for our loyal consumer base like Retro Diet Coke with Cherry. And this October, we are bringing back Retro Diet Coke with Lime nationwide in the US. Across our portfolio, our system accelerated cold-drink equipment placement, expanded availability for key packages and won share of visible inventory.

In Latin America, volume was flat, but we gained value share and grew organic revenue and comparable currency-neutral operating income. We are taking steps to address softening macroeconomic conditions in key markets like Mexico. We're seeing good reactions to some of our interventions, but we believe it will take time.

We had continued growth in Brazil, where we gained value share with strong performance from Coca-Cola Zero Sugar, driven by increasing trial with dual packs, further linking the brand to the meals occasion and expanding refillable packaging options. Also in Mexico, Santa Clara recently became the value share leader within value-added dairy.

In EMEA, we continued to grow volume and delivered strong revenue and profit growth. In Europe, volume declined, driven by cycling tougher comparison versus previous year and mixed performance across western and eastern markets. We partnered with the English Premier League with Coca-Cola, smartwater and Powerade to tap into consumers' passion for football. We featured this partnership on our packaging and offered exclusive fan activations and access to tickets, which helped recruit weekly plus drinkers.

In Eurasia and the Middle East and in Africa, we grew volume in both operating units despite volatile macroeconomic backdrops. We further emphasized our mix of local and global brands, launched impactful marketing campaigns like our partnership with Springboks Rugby in South Africa and innovations like Cappy Bubble in Turkey. Also, we sharpened our revenue growth management capability and highlighted the localness of our system.

Lastly, in Asia Pacific, volume declined across each of the operating units, driven by softer consumer spending, weaker industry performance, and inclement weather in a few markets like India and the Philippines. However, we gained value share and grew revenue and profit for the segment. We are focusing on granular channel execution plans, tailoring our brand-price-pack architecture with a focus on affordability and investing for growth. Putting it all together, we continue to execute in an uncertain external environment with strong plans in place and a focus on driving profitable growth.

While our strategy continues to deliver, the world around us is changing. And as we have done throughout our history, we will continue to evolve to capture the full potential of our system. Together with our bottling partners, we're leveraging capabilities to deepen consumer connections, build on brands and execute with excellence. Digital platforms are helping us to connect the dots across our system, enabling better experiences for our consumers and customers.

As we adapt, we will enhance the way we work to move faster and with greater precision. We will become even more consumer-centric to drive enduring growth for our system and industry. Overall, I'm encouraged by the energy across the network. We are learning fast, pushing boundaries and unlocking new opportunities to deliver for the long term.

With that, I will hand the call over to John.

John Murphy

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

Thank you, Henrique, and good morning, everyone. Today, I'll comment on our third quarter performance, discuss the outlook for the remainder of 2025, and provide some early commentary on 2026.

During the third quarter, we grew organic revenues 6%. Unit cases grew 1%. After a slower start, we ended with improved performance. During the quarter, two-year volume trends accelerated each month.

Concentrate sales were 1 point behind unit case sales, driven primarily by the timing of concentrate shipments. Our price/mix growth of 6% was primarily driven by approximately 4 points of pricing actions and 2 points of favorable mix. Pricing from intense inflationary markets has largely abated.

Comparable gross margin declined approximately 10 basis points, while comparable operating margin increased approximately 120 basis points. Our year-to-date comparable operating margin expansion has been driven by our continued productivity mindset. While we're continuing to invest for growth, we're also driving productivity, including prioritizing supply chain efficiencies, improving the efficiency of our advertising spend, and being prudent with our expense base. Putting it all together, third quarter comparable EPS of $0.82 increased 6% year-over-year despite 6% currency headwinds, higher net interest expense and an increase in our effective tax rate.

Free cash flow, excluding the fairlife contingent consideration payment, was $8.5 billion, which was an increase versus the prior year. Growth was driven by underlying business performance and lower tax payments, partially offset by cycling working capital benefits in the prior year.

Our balance sheet remained strong, with our net debt leverage of 1.8 times EBITDA, which is below our targeted range of 2 to 2.5 times. We're confident in our long-term free cash flow generation and have ample balance sheet capacity to pursue our capital allocation agenda, which prioritizes reinvesting in our business and returning capital to our shareowners.

I also want to give a quick update regarding our ongoing dispute with the US Internal Revenue Service. A portion of our case relates to royalties from our Brazilian affiliate that were blocked under Brazilian law. The recent 3M appellate court decision addressed the same underlying regulation. We believe this case is highly supportive of our position. As we have said many times in the past, we're continuing to vigorously defend our overall position and are encouraged about our chances of prevailing on appeal.

As previously mentioned, we're confident we will deliver on our 2025 guidance. We continue to expect organic revenue growth of 5% to 6% and expect comparable currency-neutral earnings per share growth of approximately 8%, both of which reflect delivery in line with our long-term growth algorithm.

Based on current rates and our hedge positions, we continue to expect a 1 to 2 point currency headwind to comparable net revenues and an approximate 5 point currency headwind to comparable earnings per share for full year 2025.

Our underlying effective tax rate for 2025 is now expected to be 20.7%. All-in, based on what we know today, we continue to expect 2025 comparable earnings per share growth of approximately 3% versus $2.88 in 2024.

Last, excluding the fairlife contingent consideration payment, we now expect to generate at least $9.8 billion of free cash flow in 2025. There are a couple of considerations to keep in mind for the fourth quarter of 2025. We're cycling a more difficult volume comparison in some of our key markets. And due to our reporting calendar, there will be one additional day in the fourth quarter.

While it is too early to provide specific guidance for 2026, we want to share some considerations based on what we know today. First, a calendar shift will impact the quarterly cadence, as we will have six additional days in the first quarter and six fewer days in the fourth quarter. We're focused on driving balanced top line growth with volume as a key priority. As inflation moderates, we anticipate pricing to normalize and we'll lean into both affordability and premiumization, depending on what the market demands.

With respect to commodities, while we're experiencing cost inflation, we believe the overall impact is manageable. However, the company and our system saw several items exposed to volatility and trade dynamics, which could cause our outlook to vary across our market. We continue to challenge all aspects of how we work, and we see opportunities to unlock cost efficiencies that can be reinvested to support portfolio growth and long-term value creation.

Regarding currency, if we assume current rates and our hedged positions, there would be a slight tailwind to both comparable net revenues and comparable earnings per share for full year 2026. Many factors could impact both our currency outlook and broader business outlook between now and when we expect to provide guidance in February.

In summary, while our external environment is dynamic, we see great potential for our industry and remain steadfastly focused on driving growth. We are confident in our ability to deliver on our 2025 guidance and create enduring value for our stakeholders.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Steve Powers from Deutsche Bank. Please go ahead. Your line is open.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Great. James, John, Henrique, good morning. Thank you. As I think each of you alluded to in your remarks, entering September, you'd called out momentum that was trending a bit slower than expected in the third quarter. And you highlighted a few specific markets at the time, Mexico and Latin America, India, Vietnam, Thailand and Asia. Obviously, it appears that you came out the quarter with seeing a bit more acceleration, which is obviously encouraging, but I'm curious as to whether you ascribe that to sequential improvement in underlying category trends or more your own interventions made in response to the shifting consumer sentiment.

And then either way, maybe just a little bit more color on how those recent observations factor into both your 4Q – your fourth quarter views, as well as your approach to the fiscal 2026 planning? Thank you.

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

A

Yeah, sure. Thanks, Steve. Yeah, as you say, we – when I think Henrique was at the conference, we pulled out a little bit of softness in the opening part of Q3. You talked about where it was, Mexico and a number of parts of Asia, India, China and some of the ASEAN countries. Clearly we got a bit better in September, some sequential improvement. I think it would be fair to say, as much as anything that was a doubling down by the system, increases in marketing and focus in innovation from us working with the bottlers on some affordability and revenue management options and some step-ups in execution. So, I don't think the environment changed markedly in September from July and August. We just got more focused on drilling down into what needed to be done and to driving the quarter.

And I think, therefore, as you look out to Q4, I don't think the environment is changing that quickly. So, I think we're going to have to be on the top of our game. We certainly expect to lean into and invest for growth in the fourth quarter. We have a lot of good marketing and innovations programs coming from Halloween all the way through to Christmas. So, we'll be driving that and obviously executing with our bottlers.

But I think, again, as you kind of hinted in the question, the environment is going to stay more or less the same, and we've got to focus on driving our own results and trying to get volume growth going into the fourth quarter, especially as we're cycling a steeper comparison versus last year.

And then as we look out to 2026, that's going to be a long way away from here and going through the year. Certainly, as John commented in his considerations, we certainly expect to see inflation and pricing moderate back to a more normal range. I think as we talked about on the previous call, if our long-term growth model calls for 4% to 6% on the top line and we look for balance, which kind of implies 2% to 3% on volume, 2% to 3% on price, certainly that hopefully will get easier as we go through the year, but that's what we're aiming for.

Our long-term objective remains to grow volume as a way of expanding our consumer franchise and earning the right to pricing so that we can stay at the top end of our revenue growth algorithm.

Operator: Our next question comes from Lauren Lieberman from Barclays. Please go ahead. Your line is open.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.
Q

Great. Thanks. Good morning. Wanted to ask you guys a little bit about local competition in various markets because I think historically, when consumers are under pressure, affordability becomes a discussion point, you'll start to see some bubbling up of local competition, particularly in sparkling. So, I was wondering if you could just go through with us any markets where that's been a factor. And then kind of what you're doing in response? Thanks.

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

Yes Thanks. Thanks, Lauren. I think actually there's a big overall shift to a little more localness, not just from a competitive point of view. If you kind of look back the last five years, the whole world went on a kind of a similar journey with COVID, with lockdown, with coming out of lockdown, with inflation. There was a certain all-on-the-same-roller-coaster effect of the last five years. And now, that is starting to diverge in all sorts of ways, geopolitically, economically and we are certainly seeing that there's more dynamism in regional competitors and some of the local competition. I think regional would be more fair to call it that.

And I don't – but I don't think it's just about affordability. I think this is part of a sort of kind of pendulum that swings out there with things becoming a little more global or a little more local, and then a little more global. And what we're seeing at the moment is there's kind of a swing of the pendulum a little more to regionality. Affordability is a feature of that, but it's certainly not the only feature that identity of the brands, the innovation that's coming, you see different things in different places. So, as we go forward, we're responding by driving more resources to the front line so that we can have different responses in different places.

And that's one of the things that Henrique was calling out in his piece, which looks like we need to get even closer to the consumer, which is a way of saying we need to be able to have different responses in different places, using the great strength of our global system and the scale that gives us but being able to respond to the different dynamics and the intimacy needed in the different parts of the world.

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

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC
Q

Hey. Good morning. So, James and Henrique, you mentioned some of the consumer stresses that we're seeing in general around the world. I just wanted to dive a bit deeper into Latin America. It's obviously tied in with the US economy, but also the policy changes that we're seeing in the US. So, I think it'd just be helpful to get an update on what you're seeing in the ground in Mexico as well as Brazil in the last few months. And just how that consumer environment might impact your forward performance but also your strategy changes in that region, specifically Henrique mentioned some of the Mexico changes more recently. It'd be helpful to get a deeper update there. Thanks.

Henrique Gnani Braun
Chief Operating Officer & Executive Vice President, The Coca-Cola Co.
A

Yeah. Hey, Dara, good to hear from you. Look, Latin America continues to be a market that has very strong system. And we are coming off like years of strong growth. Most recently, you have seen that we have over the last few quarters, on a progressive improvement this quarter coming to flat, but also it's important to unpack that saying that Brazil continues to be pretty strong. Colombia and Chile also grew in the quarter. And then Mexico is also a big market. But it's on a progressive improvement, but not yet where we want it to be.

There are macroeconomic issues in the country. And also, our plans to really pivot and address that has been put in place in the last few quarters. We have seen some of the bright spots coming out of that. But it's too early to say that we are out of the woods here on getting Mexico really on a growth trajectory. What we see is that's going to take a little bit more time in there. And in the rest of Latin America, we have more momentum. So, to your question about whether it's something more related to the whole region, it's not specific to that. It's more related to the country itself.

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

Filippo Falorni
Analyst, Citigroup Global Markets, Inc.
Q

Hi. Good morning, everyone. I wanted to ask about the refranchising efforts given this morning announcement on CCBA, which is clearly a very important step in your goal of becoming the world's smallest bottler. I guess, can you walk us through what will be left after the transaction closes in terms of other territories to potentially refranchise?

And then in terms of the margin implications from refranchising, a few years ago, you had a target of like a mid-30s operating margin target for the Coca-Cola Company. And it seems like you're getting pretty close there to that after this transaction. So, can you walk us through, like, the path on the margins post refranchising? Thank you.

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

Sure, Filippo. I'll let John jump in on that margin target and the evolution towards it. Look, with the two deals that we have announced with the Bhartia Group, Jubilant Bhartia Group in India and with Hellenic relative to Coca-Cola Beverages Africa, actually those two transactions are the last two large pieces setting us on the path to completing the refranchising strategy that we started in 2015.

And just to remind, because that's taken us 10 years, the most important thing here was to find the right partners for each of those assets, the right owners who could drive the investment in capabilities into the future. And we have seen through all the refranchisings we've done over time that if we find the right partner to put these bottlers into their hands, that they invest more, they do better, the bottler performs better and it helps us drive overall growth of the total system. So, the combination grows faster and is more profitable. So, it's been a very successful strategy over the years. And with these two pieces, we will largely put ourselves on the path to completing refranchise.

The things that will be left are just a handful of smaller countries like Malaysia and Singapore. And so, think of it as this is the final piece of stone in putting refranchising strategy to bed. And we now have a system that is super capable and set up to drive growth well into the future. And I'll let you answer the margin question, John?

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

Sure. Sure, James. Thanks, Filippo. Maybe it's worth taking a step back and going back a few years. And in 2017, our operating margin was 26.5%. And since that period, there have been two primary positive impacts offset by ongoing FX headwinds. The first has been the refranchising to-date. And the second has been our continued focus on expanding margins in line with the implied guidance in our long-term growth model.

As you look at this year-to-date, the primary driver has been the latter. In other words, as I mentioned in my remarks, lot of focus on managing our cost base, lot of focus on managing our supply chain, and getting some of the benefits to the bottom line of the marketing productivity work that we've had underway.

And so, as you look to the next couple of years, you can, I think, assume that the implied expansion that we expect from the core business will continue and the math will play itself out in terms of the uplift in the overall margin profile of the company, with the latest refranchising that James just talked about and our expectations for the next couple of years to finish the play.

Operator: Our next question comes from Chris Carey from Wells Fargo Securities. Please go ahead. Your line is open.

Chris Carey
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning, everyone. I wanted to ask two category questions. So, just on coffee, it was the second quarter of unit case growth after about a year-and-a-half of declines. Can you just reorient us on your latest thinking on your coffee strategy? Why has it been a bit tougher, perhaps, some of the drivers of the recent improvement and how you see the general attractiveness of this category going forward?

And if I could, just on Zero Sugar, it's had this really nice run of reacceleration over the past couple of years from some slowing in 2023. Can you just talk about the runway there? And I ask because you're starting to bring up Diet Coke a bit more over the past couple of quarters and I just want to maybe test a bit whether there is some broadening of this, let's call it a zero – a light strategy with a bit more breadth. So, thanks so much for those two.

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

A

Yeah, thanks, Chris. Oh, let me start on coffee. I mean, firstly, the coffee category is a super attractive category. I mean it's very large, it's profitable and it's growing and it's relatively unconsolidated. So, let's start with coffee is an interesting category. If we can find a – one, it's interesting. Two, interesting for the Coke system if we can find a way to play in it that works for us.

And we've tried a number of things over the last decades to find a path that works for us in coffee, Costa being the most recent iteration of that. And what – the summary on what's happening there is, actually the Costa business is doing well. As you say, it's returned to volume growth. We've been reinvesting in the stores, principally in the UK, continuing to increase the footprint of the total park of the Costa Express machines and doing kind of beans to machines in a number of other countries.

So, the business is doing well and is getting some good growth from the top to the bottom line. The commentary we made last time is the investment hypothesis didn't work out as we expected in the sense that we were looking for much more growth in the non-retail store side of the business, which much more suits the Coke system and that has not – we have not found a path to that in the last number of years. And so, we are kind of standing back and reflecting on what that means for us and where we should go next in coffee.

But in the meantime, it's a great business across the business, and we continue to run it to be successful. It just didn't create a multiplier so far that we're looking for into our broader business.

And then on the lights and Zeros and Diets, look, the headline number is – Zeros and Diets are our mid-teens percentage of total soft drink volume. So, there's both an opportunity or a possibility that they could become a bigger piece of soft drink and actually help to continue to grow the sparkling category around the world. And so, I think you're seeing both some degree of self-cannibalization in sparkling, but also a way of the sparkling category continuing to grow globally and particularly in the developed markets.

And I think the – yes, we called out Diet Coke because I think there was a period of time, decade-long, maybe longer, maybe two decades, where Diet Coke, particularly in the English-speaking countries, was declining, and it has more recently stabilized over the last years and is actually growing this year as long – we well as seeing Coke Zero Sugar grow.

So, the strategy has always been there to do justice for each brand on its own, but we have found more recently, more responsiveness to investments in marketing and innovation for Diet Coke in particular, and that has gone alongside sustained growth in Coke Zero, so lots of growth in the future.

Operator: Our next question comes from Kaumil Gajrawala from Jefferies. Please go ahead. Your line is open.

Kaumil Gajrawala
Analyst, Jefferies LLC

Q

Thank you. Can you dig a little more maybe on the consumer and CPG, particularly in the US and Europe? We are hearing mixed messages, I suppose, from whether it's banks and retailers versus what we're hearing from CPG. And many of your CPGs have restructured. So, curious where you stand and where we are. Obviously, there's no restructuring. There's a bit of productivity. But can you just maybe talk about the differences in what we're hearing versus what maybe we're seeing for your business?

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

A

Yeah. Okay. I mean, let me stand back and have a thought on the industry and where we sit in it. And certainly, I hear from the banks that there's bits of the CPG industry that are under pressure in recent years. But let me focus in on beverages more particularly.

The beverage industry has been characterized for many, many decades as being a growth industry. You can do a histogram of the growth rates of the beverage industry for decades and the kind of all the growth rates cluster around the 4% to 5% growth each year. So, it's a – and there are underlying structural reasons about economic growth, urbanization that drive the creation of the beverage industry. And as we've talked about in previous investor conferences, actually the number one feature of the beverage industry is it's yet to be created. There's actually tons of potential ahead. So, it's an industry that grows.

And we, for the last 5, 10 years, have been very focused on how do we not only be the leader in that industry but the winner in terms of market share. So, we can take the industry growth, which we support through our investments, but also win and lead in that industry.

And how have we done that? We've talked about the flywheels of investing in marketing, innovation, RGM execution. And we've supported those by using marketing funds. But also, as John alluded to in his comments, we have had ongoing programs of productivity through the whole P&L, whether that be in COGS, marketing or in SG&A.

Sometimes that is more of an event. We've reorganized ourselves a couple of times. You'll remember Lean Center a number of years ago, then we did a thing called emerging stronger coming out of COVID. So, there are more episodic, more big events of moving the organization around. But each year, we're looking for continuous improvements and continuous productivity.

And as we think about what's coming next, and you mentioned that a number of people have talked about restructuring, what we see going forward is, look, the industry is going to keep growing, we're the leader and we're winning share. And what we need to do is to continue to fuel the top line growth. There was a – if I diverge for a second, there's a famous, in – at least famous at Coke, speech that was written by the CEO of Coke, Robert Woodruff, on the 50th anniversary, which is almost 90 years ago, it was only one and a half pages. Speeches were shorter in those days. And he didn't have a title, and he wrote on the title, the future belongs to the discontented. And I think that is the key feature of what's coming.

Yes, we've been growing, we've been winning in the marketplace. And it's easy to be discontented if you're not doing well and you're under pressure from everyone else in the investor base. The hardest thing is to say, I've done well and be discontented enough with yourself that you know you need to change and you know you need to transform.

So, think of what's coming as we're going to continue to drive that top line revenue growth. We're going to find the extra investments to drive that growth. And, yes, we will be discontented with ourselves and think, what do we need to continue, what do we need to evolve, and what do we need to transform to generate those funds for growth. And that will include ongoing productivity as we bring in AI and agentic tech over the coming years. And we'll do some restructuring of the organization in the coming – in 2026. But this is all about replicating the game plan of the last 10 years of finding productivity through the whole P&L to invest and drive top line growth that falls to the bottom line.

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

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC
Q

All right. Thank you. Good morning, everyone. I actually just had a quick question on your business in Asia. Organic sales in the quarter were up 7% and accelerated sequentially. So, I guess, hoping for some more color on the strength you're seeing in the region. And how sustainable the strong, I guess, high single-digit price/mix is? Thanks.

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

Yeah. Thanks, Bonnie. This falls into the bucket of what are the sporadic questions about how strange the Asia Pacific segment is. And what I would encourage is to look at multi-quarter trends in Asia Pacific because for management reasons, Asia, they're all on a different time and it's much easier to manage when you're out there and you put them all together, but they are quite disparately different businesses.

You've got the emerging market businesses with, let's say, India at one end, with huge, huge, huge potential for growth in volume over many, many years, but much lower prices, all the way through China, ASEAN, and then the other end of the spectrum, you get to Australia and Japan, which have been growing, but have much higher realized prices given the developed economy.

And so, one of the predominant effects in Asia Pacific is how fast did each of those components grow. And in this particular quarter, as we talked about earlier, India, because of the monsoon; China, because of some of the economic pressures; and ASEAN, those markets underperformed our expectations in volume terms.

And so, as the mechanical effect of putting all that together, that means that in a weighting sense, the lower-priced countries did poorer, which means that the mix looks like it's shot up – well, not shot up, well, increased slightly in Japan and Australia, which then produces a PMO effect that looks like pricing went up a lot in Asia Pacific, which is the inverse of what normally happens, which is when the emerging markets grow, it looks like prices are flat or declining in Asia Pacific because of the growth of the lower-price markets.

So, this is a mix effect problem or weighting problem of the way the segment is constructed. We manage each country to drive the business. And so, I would not overemphasize this. We should look for Asia Pacific over time to drive volume growth in the emerging markets, the pricing will go up in each country. But as that mix is out in the segment, you don't see it come through in Asia Pacific segment quite so obviously.

Operator: Our next question comes from Robert Ottenstein from Evercore. Please go ahead, your line is open.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Great. Thank you very much. James, I wonder if we can kind of circle back to a topic that was in much discussion a couple of years ago and has faded a little bit is GLP-1 drugs. And at this point, you ought to have some reasonably good data on their impact on beverage consumption. One consultant that we work with talks about an increase in consumption of protein, energy and hydration-driven products from GLP-1. So, I was wondering what your data says. Do you see those interests increases? Do you see areas where there's weakness?

And then just to double-click on protein, if you can give us an update on your platform, how capacity looks and when it comes on and how you see the competitive environment developing as competitors kind of sharpen their tools and new competition comes in? Thank you.

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

A

Sure. Thanks, Robert. Yes, we certainly are out there generating data on what seems to be happening with households and people that are on GLP-1s. I think it's still ultimately early days to know the full cycle. But I think what you're seeing is very similar to what we're seeing. Obviously, we track not just what they do on non-alcoholic beverages, but across what they eat and the alcoholic beverages and so one can see the full change in the diet make-up.

As it relates to non-alcoholic, clearly, we can see some very emerging conclusions. They tend to drink less full sugar soft drinks, but they tend to drink more diet soft drinks, also hydration, more coffee, and as you say, a big shift towards protein drinks. I think that's a really standard set of conclusions that everyone is seeing.

And then as it relates to what we're doing on protein, obviously, we've got fairlife and Core Power, which have been standout successes for the last number of years and continued to grow in the third quarter. The capacity that we've talked about of the big factory in Upstate New York is on track. We expect to begin to produce on time and ramp up that capacity through the course of 2026. As much as I would love it to all be available on January 1, that will not be the case. And so, we do see ourselves having a much more unconstrained ability to satisfy consumer demand over the course of 2026.

Yes, competitors are coming into the space across all sorts of food and beverages into protein. We believe we have great brands. We have excellent products. There'll be a lot of new innovation. Our objective is to drive the fairlife and the Core Power brands. We have lots of new innovation, and we will have more capacity coming online, and it's going to be a growth area for sure in 2026.

Operator: Our next question comes from Andrea Teixeira from JPMorgan. Please go ahead. Your line is open.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you, everyone and good morning. And James, I guess, your comment takes me to the question. I appreciate that – what you said, the culture of discontent and grit in the organization. And your comment right now on fairlife and Core Power. You obviously had a lot of success. Retailers [ph] are similar allocation (00:48:27) and fully understand that you're not going to have the capacity right on January 1.

But how should we be thinking like given the allocation and innovation you spoke to, as we go into 2026, perhaps in the second half, we're going to see the acceleration there? And then, as you think about like potentially lifting into international, I understand that this is going to be more of a – probably not a 2026, but long term, would you see a fit, perhaps, even like with Santa Clara in Mexico and other places where you can build that protein, obviously, is a very difficult supply chain, or I shouldn't say difficult, but just a longer-term supply chain. Is that something that you're thinking longer term?

And then thinking of staying in Mexico, since we spoke about Santa Clara, how should we be thinking about like the sugar drink taxes that you faced? Obviously, in 2014, you pivoted really well, you bounced back much higher than you were before. And that was one piece, I think, in pricing. So, how can you think about like how to face potentially if that is implemented? Thank you.

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

A

Yeah. Okay. Fairlife, look, the New York factory when at full capacity will give us about 30% more capacity or volume potential for fairlife. So, we certainly are going to have the opportunity to significantly grow into 2026 and to move out of having the product on allocation to our retail partners and that will take some time through 2026. So, this is not a small factory. It's, I think, one of the largest, if not the largest dairy processing facilities in the US and it's going to add 30% capacity. So, that will be good and that will help us get out of the kind of bottlenecks that we're in at the moment and get into the marketplace.

As it relates to international expansion, you alluded to and I've said it before, that the dairy industry is a complicated and protected industry around the world. It's certainly not a lift and shift in a simple sense of the word. But obviously, we are looking at the growth in the sorts of beverages and brands that we have achieved with fairlife, and we have taken some of our learnings from the US and helped to shape the way we've executed Santa

Clara in Mexico. So Santa Clara in Mexico, for example, grew 13% in volume in the third quarter and became the number one value-added dairy brand in Mexico.

I think since we bought Santa Clara a decade or so ago, we've increased its size by 10 times. So, we've clearly found something that if we have the right platform we can make it work with the brand and the product ideas. But we have also had some failures in the dairy business. Luckily, the successes were way bigger than the failures, which were small but we do know that it's a complicated business to get into around the world. But we will be looking to see how we can leverage the essential product ideas behind fairlife and Santa Clara into innovations around the rest of the world.

As it relates to the Mexico tax, which I believe was passed like a couple of days ago, yes, it's a significant increase. Obviously, we're working with the bottling system to look at how we accommodate and adapt to these increases that will be January 1, 2026. As you pointed out, 2014, there was a tax increase in Mexico, which we were able to adapt to by doubling down on the marketing and the innovation using all our RGM technology and the execution of the bottling system to come through it stronger.

Obviously, there's likely to be some impact in the early days, and then as we use all the implementation to recover from that. But yes, we are expecting it to come in in the beginning of next year, and we will be all hands on deck to come up with the latest adaptations of the strategy now that we know what the final policy actually is in Mexico to come up with a plan and execute it starting this year.

Operator: Our next question comes from Peter Galbo from Bank of America. Please go ahead. Your line is open.

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Hey, good morning, guys. Thanks for the question. I had a question on North America. I think it was one of the markets actually where you did see that two-year kind of stack growth rate accelerate a bit, both on volumes and maybe on organic sales. Henrique, in your comments, I think you spoke a bit about just differences between spending on income groups and then maybe some different activities on channels. So, I just was hoping to get a bit more detail and color on, on one hand, you're seeing the business actually perform relatively well in North America, it seems like maybe there's a bit of cautious comments on some of the other factors, both on consumer and on channel that I would love to get a bit more detail on? Thanks very much.

Henrique Gnani Braun
Chief Operating Officer & Executive Vice President, The Coca-Cola Co.

A

Yeah. Sure. Glad to do that. So, look, we had a tough Q1, as you remember. And since January, we have been seeing sequential improvement in North American volume-wise, we're really pleased with that. And that in the Q3, we not only grew that, but we won volume and value share. When we look from a consumer point of view, we continue to see divergency in spending between the income groups. The pressure on middle and low-end income consumers is still there.

What we have done since Q1 that has been really paying off, it's really to go back to the drawing board and have the plan that would really tackle not only affordability but premiumization as well. And you see that actually reflected on our price/mix composition. 2 points of that positive mix came from premium brands like Topo Chicos, Smartwater and fairlife, but we're also pleased with the introduction of packaging architecture that are addressing that pressure that the consumers have on their daily disposable income with the introduction, for instance, of mini cans that today, it already represents $1 billion in revenue by itself. So, we're pivoting accordingly. We know that the consumer landscape has not changed, but that's going to be – continue our game, working together with our bottlers throughout this to come out stronger.

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

Peter Grom
Analyst, UBS Securities LLC

Q

Thank you. Good morning, everyone. I wanted to go back to Steve's question just on the volume progression, where it sounds like a lot of the improvement is related to better execution rather than a better backdrop. So, two questions. One, have you seen that improvement sustain as we move into October? And then second, John, you mentioned tougher volume comps in the fourth quarter in some key markets. So, would you anticipate unit case volume stepping back versus what we just saw? Or could we see continued momentum despite the tougher comps? Thanks.

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

A

So it's a little early in October to call October for anything. But I would say the market is still growing. This is not something that there's some sort of precipitable decline in anything going on. It's just I think the weight of what's going to drive success is more – or slightly more on our own actions, our own marketing, our own innovation and our own execution. And yes, the tougher comps will be there, but that's not a way of saying we want to decline in the fourth quarter. We are certainly looking to continue to rebuild momentum and we'll see where we get to on that.

Operator: Our next question comes from Michael Lavery from Piper Sandler. Please go ahead. Your line is open.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Thank you. Good morning. I wanted to ask a margin question, maybe with two kind of quick components. One is just maybe understanding if you have any visibility on currency impact next year. You called out the 100 basis points, I assume, transactional headwind in the gross margin build. Is that likely to fade? Or how do we think about maybe how that flows through in 2026, if you've got the better currency on the top and EPS side?

And then just also in the quarter, you had EBIT margins up well ahead of the gross margin performance. Were there any timing considerations or how sticky should we consider that to be? Is there anything in there we need to think about that's maybe a one-off?

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

A

Thanks. Michael, let me – on the first one, yeah, I think in my script, I mentioned we – right now, based on everything that we know, there will be a slight tailwind for 2026. And assuming that that actually materializes, yes, I think we would see a slight benefit to the – on the margin front. So, part one.

Part two, step out of – I know we spend most of the time on the quarter itself. I think when it comes to the margin trends, I really like to step back and look at the trends over multiple quarters. And in line with our – with the long-term algorithm, we continue to be focused on delivering against that over time.

We have had some timing benefits in Q3 and we also are in 2025 earning more productivity in the marketing area with some of the digitization work, et cetera, that we have underway, that is more pronounced for this year. I don't see that being the same every year. But as we go into 2026, we should have a little bit of a tailwind and the objective will be to continue to have that expansion of margins in line with the algorithm.

Operator: Our next question comes from Kevin Grundy from BNP Paribas. Please go ahead. Your line is open.

Kevin Grundy
Analyst, BNP Paribas Exane

Q

Great. Thanks. Morning, everyone. I wanted to come back to Lauren's question on competition, but focus here on North America. So, your two key competitors are addressing bigger structural considerations with activist investors uniquely involved at both PepsiCo and Keurig Dr Pepper. Can you please comment on what you think this will mean for The Coca-Cola Company, both near term and longer term? And to the extent you care to comment, and you may not, what dynamics, whether this is potential refranchising, just a more deliberate strategic focus, scope of brand support, do you think is potentially most critical competitively for The Coca-Cola Company? So, your thoughts there would be appreciated. Thank you.

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

A

You almost got that, Kevin, to my favorite answer, which is I couldn't possibly comment because it's M&A. Look, clearly, there's a lot going on around us globally and, in particular, in North America with the competition. But let me go back a little bit to what I said with Lauren. It's a great industry. That's why people want to be in it. We're the leader, and we've been winning share consistently over the last number of years.

Clearly, we have to focus on what we need to do. And to the extent that competitors are doing other things other than trying to win immediately in the marketplace, and I'm sure they've got a sense of urgency anyway. We – as I said on the call, we got to remain discontented. We've been doing well. And the number one thing we've got to do is avoid being contented with our performance and what's happened around us. We've got to think about what's next. And we've got to transform from a position of solid performance. And that's what's going to drive the extra investment, drive the growth and extend our leadership in the marketplace. And that's all we can do. And we've got to take this opportunity to double down and pull further ahead in the US and around the world.

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

Robert Moskow
Analyst, TD Cowen

Q

Hi. Just a quick question on Europe. It's not a huge part of your business, but volume was down. And I thought with the hot weather in third quarter, that would have provided a tailwind to offset the tough comparisons to a year ago. Can you be more specific about your market share in Europe on a volume basis? Was it up or was it down?

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

A

Look, Europe, there were hot parts of the world – there were hot parts. There were some places in Europe which had strong weather. I would say that Europe has been largely resilient in the third quarter and over time. But it's also true what we talked about in terms of the US consumer is also relatively true for the European consumer.

The top end of the pyramid has got money and has been investing. But the bottom end has been under pressure. And so, we've been doing okay in Europe. But there's definitely pressure the same way there is in the US on the bottom end of the consumer. And you can see those same kind of value-seeking behavior trends that you see in the US for the bottom end in terms of channel, in terms of package mix, in terms of channel performance. So, I don't think there's anything much more to say there. But I think the European business has been doing okay, and we'll continue to focus on where we need to go.

Operator: Our last question today will come from Carlos Laboy from HSBC. Please go ahead. Your line is open.

Carlos Laboy
Analyst, HSBC Securities (USA), Inc.

Q

Yes. Good morning. Thank you. James, you spoke about how you continue to evolve to drive revenues. It'd be good to hear how your governance principles keep improving with the bottlers for that purpose. So, in Latin America, for example, five years ago, you redesigned the governance principles with the bottlers, and we got that LTRM agreement and some common KPIs between bottling executives and your executives and it's produced more CapEx and faster revenue and higher ROIC from the bottlers.

So, against that backdrop, can you speak to how you've revisited the locally relevant governance principles in these recently franchised territories of Africa, India, maybe Philippines, Indonesia or with other bottlers in order to continue to evolve this mutually agreed clarity of what each side is supposed to do and allow to keep for the purpose of faster revenues and higher ROIC?

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

A

Yeah. Thanks, Carlos. Yeah, look, as we've gone around the refranchising outside Latin America, I think two things are important to highlight. One, which I kind of alluded to earlier, which is the process of choosing the new ownership groups and very much thinking and evaluating that, if you like, through a kind of skill and will matrix, like who has skill, who has the will and who has the capital to drive these franchises forward into the future. And that's why we've been very choiceful in finding the right partners and taking our time to set these up well.

And then as it relates to how we set the relationships up, of course, we've done so in a very similar way around the world to the way that we have evolved the relationships in Latin America, which were, of course, not refranchising, but evolutions of very enduring, long-lasting relationships with long-term owners of our bottling assets in Latin America.

And with a very similar mindset, we have started these relationships around the rest of the world, whether it be the creation of CCP in Europe, the refranchising in the Philippines, the most recent deals in India or in Africa or even in other parts of Asia. The direction of travel is a very clear corridor similar to Latin America.

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

James Quincey

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

Thank you, operator. So, to summarize, we're confident we'll deliver on our near-term and longer-term objectives. We're continuing to invest behind our brands and enhance our capabilities and fortify our systems drive long-term growth. Thank you for your interest, your investment in the company and for joining us this morning.

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