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The Coca-Cola Co. (KO)

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MANAGEMENT DISCUSSION SECTION

Operator: At this time, I would like to welcome everyone to The Coca-Cola Company Fourth Quarter 2016 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-mode until the formal question-and-answer. [Operator Instructions]

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 questions.

I would now like to introduce Mr. Tim Leveridge, Vice President and Investor Relations Officer. Mr. Leveridge, you may begin.

Timothy K. Leveridge

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

Good morning and thank you for being with us today. I'm joined by Muhtar Kent, our Chairman and Chief Executive Officer; James Quincey, our President and Chief Operating Officer; and Kathy Waller, our Chief Financial Officer. Before we begin, I would like to inform you that you can find webcast materials in the Investors section of our company website at www.Coca-ColaCompany.com that support the prepared remarks by Muhtar, James and Kathy this morning.

As a reminder, we will be hosting a separate modeling call at 11:30 AM this morning to review our 2017 outlook in greater detail and allow sufficient time for questions pertaining to guidance. I would also like to note that we have posted schedules under the Financial Reports & Information tab in the Investors section of our company website. These schedules reconcile certain non-GAAP financial measures, which may be referred to by our senior executives during this morning's discussion, to our results as reported under Generally Accepted Accounting Principles. Please look on our website for this information.

In addition, this conference call may contain forward-looking statements, including statements concerning long-term earnings objectives, and should be considered in conjunction with cautionary statements contained in our earnings release and in the company's most recent periodic SEC report.

Following prepared remarks this morning, we will turn the call over for your questions. In order to allow as many people to ask questions as possible, we ask that you limit yourself to one question. If you have multiple questions, please ask your most pressing question first and then re-enter the queue in order to ask any additional questions.

Now, I'd like to turn the call over to Muhtar.

Ahmet Muhtar Kent

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

Thank you, Tim, and good morning, everyone. Today, I'll cover a few key highlights before handing off to James to provide a more detailed operational review of our performance. We're committed to transform our company to a brand-centric organization, leading a great franchise system. This journey began back in late 2014, when we got behind a set of strategic actions designed to invigorate growth and increase profitability.

Since then, we've been advancing on a path to deliver greater long-term sustainable value to our shareowners, associates, partners and stakeholders. We've simplified our organizational structure for speed and flexibility. We're driving aggressive productivity. We're redeploying more and better marketing. We're driving revenue through segmented growth strategies and embarking also on the biggest refranchising and bottler restructuring in our history.

2016 was a critical year, as we continued to make strong progress in transforming our company while keeping focused on our consumers. We continued to gain momentum in building revenue growth through segmented market roles and disciplined brand investments. Since launching our incremental media investment plan in early 2014, our core business has accelerated top line performance even with slowing macroeconomic growth. We've strengthened our brands and portfolios through better and more marketing, innovation and targeted acquisitions. We've brought to market more than 500 new products, nearly 400 of which were teas, juices, coffees, waters or other still beverages. We generated over \$600 million in productivity, for a three-year total of over \$1.7 billion, taking a balanced approach to investing in our brands while leveraging our P&L in 2016.

Finally, we continue to strengthen our bottling system. The world's largest independent Coca-Cola bottler based on revenue, Coca-Cola European Partners, began operations in a market that represents one of our most valuable profit centers. We signed definitive agreements to sell our bottling businesses in China and we expect to close these transactions during the first half of 2017. Our two largest bottlers in Japan agreed to merge, which will create a single bottler covering roughly 85% of our system's volume in Japan, a very important profit pool again. We successfully helped to create Coca-Cola Beverages Africa, and we're now working to transition ownership from ABI to a strong partner of our choice.

Finally, we made substantial progress refranchising our North America bottling operations. At the same time, the North America business has flourished throughout this process, delivering top-tier FMCG performance with mid-single-digit organic revenue growth in each of the past two years. Taken together, half of our system revenue has been in motion through these actions. We accomplished a lot and built a very strong and purposeful foundation for the future.

Now, it's time to write the next chapter in our growth story with the appointment of James Quincey as our next CEO. I have every confidence in James and our management team. And throughout his career, James has shown insightful leadership in addressing the changing consumer environment by expanding product offerings and, most recently, driving systematic portfolio reformulation to reduce added sugar with hundreds of initiatives in progress. He's absolutely the right leader at the right time. James is well-prepared to deliver the next level, value creation. He knows that in order to deliver robust and sustainable value creation for shareowners, we will also need to create value for all of our stakeholders. I'm excited about what's ahead for our company and for our system and James will have my full and vigorous support as I continue to serve as Chairman of the Board.

Now, I'll hand over the call to James, who will take you through our operating performance in 2016 as well as provide thoughts on our performance this coming year.

James Quincey

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

Thank you. Good morning, everyone. Thanks, Muhtar. And it will be an honor and a privilege to succeed you as Chief Executive. This is a pivotal time of change for our company, our system and our industry. We're seeing consumer preferences evolve, technology and e-commerce transform the retail landscape and, of course, ongoing volatile global economic conditions.

And the actions we've taken over the past few years have set a strong foundation for our company, and I look forward to steering us through our next phase of growth. I will take you through some of the hows when we present at CAGNY in a couple of weeks. So today, let me just cover a few topics: our top line performance for the quarter; a summary of our actions and performance for the whole year; and a little on our expectations for 2017. Then, I'll hand the call to Kathy to walk you through some additional financial details.

So let's start with our top-line performance in the fourth quarter. Here, we delivered good organic revenue growth, even allowing for the fact the quarter had two extra days. Clearly, this was driven by 6% price/mix, while volume didn't grow. Mostly, this is a result of what we planned for and expected, but with a couple of twists. Firstly, those things we expected included our continuing focus on momentum in our developed country markets. For example, North America, which had another very strong quarter. And also, we expected to cycle negative price/mix from last year in Asia Pacific, producing a strong number this year.

Things we saw occur in the quarter and responded to included, for example, India, where demonetization impacted the whole CPG landscape. Our system responded quickly by facilitating digital payments, extending credit to mitigate destocking, and increasing our emphasis on the modern trade. Also, macro conditions worsened in Brazil. Here, we chose not to drive [ph] poor (9:05) value promotions to overprotect volume, but focused instead on more fundamentally resetting the price/package architecture to support affordability. And this will take some time to fully implement. These not only hit our consolidated volume, but, in curious way, mechanically improved our price/mix as well.

Now, clearly, six points of price/mix is a one-off and is not our destination, nor is a 1% decline in volume. So rather than focus just on the quarter, let's look at the full year results, which I believe are a better indicator of how we think about the full-year success in 2016 and going forward into 2017.

For the full-year 2016, we delivered 3% organic revenue growth, amidst more challenging macro conditions than we expected. Our core, being the company that will exist after the refranchising, our core business grew organic revenue by 4% and we gained NARTD value share. Given the refranchising of our company-owned bottling businesses, we look at this core business as an important indicator of the longer-term trajectory of our top line and remain encouraged that we're growing the core in line with our long-term revenue target, even if at the bottom end.

Finally, we expanded our operating margin through strong price/mix and by balancing over \$600 million in productivity with disciplined investments given the overall macro environment in 2016. These actions enabled us to grow comparable currency neutral ex-structural income before tax by 8%, at the high end of the target range we laid out at the beginning of the year.

Now, for some texture on 2016, I'll touch on a few of our operations around the world. We performed well in certain key markets. We took action in others as needed and managed through some other difficult operating conditions. Our developed country markets perform well, as we continue to execute against our strategy of transforming the system, investing in good marketing and better execution. In North America, we saw all elements of this strategy come together, resulting in 4% revenue growth. Japan and Mexico both performed well. And in Western Europe, increased investments, coupled with a new reinvigorated bottling partner, drove good results there.

Our developing and emerging markets saw more of a mixed bag of performance. Markets like Nigeria and Pakistan performed very strongly. China, which began the year with a pretty challenging situation, but through a combination of adjusted strategies, focus on the consumer, our performance has improved as we moved into the

back half of the year. A few markets faced significant challenges, Brazil, Argentina, Venezuela, and they impacted our overall results. There, we focused on the basics, like the example I gave on packaging in Brazil.

Turning and looking forward to 2017, we expect another year of volatility around the world. I don't need to tell you about the rapid change that's taking place at geopolitical and macro level and how this will bring continued challenges and yet also opportunities across the portfolio. Some markets will get better and some will get worse, but net-net, we see the overall environment to be similar as it did to 2016.

Historically, our approach has been to grow the consumer franchise in each local market by driving: consumer incidents, effectively, the number of consumers enjoying our brands; value share; and transactions; and to deliver locally against our comparable currently neutral profit targets. So while we are pleased with our underlying trajectory, our comparable EPS has not grown over the last several years. So going forward, if currency swings aren't balancing out over time to let currency neutral result be a proxy for U.S. dollar growth, then we must adapt.

So importantly, we are intensifying our focus on delivering comparable EPS growth each year. We won't sacrifice the long-term health of the business, but we need to better balance investing to grow the business with delivering earnings growth in an environment like this. So starting with 2017, even in the face of strengthening dollar, higher tax and interest rates, we expect to grow comparable EPS before the impact of our M&A transactions, 2017 particularly those due to refranchising. So while the refranchising effect in 2017 is meaningful, it ultimately has laid the foundation for accelerated growth. And, as you read in our release, this becomes a much less significant factor to overall growth as we move into 2018 and beyond.

Now, to deliver all this, it starts with revenue growth and then getting the operating leverage right. Revenue growth will be built through a consumer-centric brand portfolio by: scaling in regions where we have leadership positions, like U.S. and Japan; expanding successful brands globally; and continuing to execute bolt-on M&A and partnerships. So, for example, we launched smartwater and Honest Tea in Western Europe in the past year and plans to further expand in 2017. In the U.S., our investment in fairlife milk is paying off. It captured over one-third of the retail dollar growth in value-added dairy during its second year on the market. And, of course, sparkling soft drinks remain a key focus as one of the principal categories in which we compete.

Within our sparkling soft drink portfolio, we are reshaping our growth equation to continue to drive revenue growth, building on the revenue growth we delivered in 2016. We'll do this through a continued mix of great marketing, great execution, combined with helping reduce over-consumption of added sugar. This includes the reformulated products to reduce content, leveraging our One Brand strategy to expand zero-sugar products and driving the availability of small packs. All of this we're approaching with a mindset of test and learn, knowing that not every strategy will work in every market, but that speed, flexibility, and adaptation are paramount to success. I look forward to sharing more of what we're doing at CAGNY.

So, in summary, we're going to make the right decisions for the business and for our shareholders, looking out for the consumer franchise, tasking the local operations to grow locally and managing across the portfolio and the levers of our business to deliver comparable EPS growth.

With that, I'll turn the call over to Kathy to take you through our outlook.

Kathy N. Waller

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

Thank you, James, and good morning, everyone. As I look back at 2016, I'm pleased with the progress that we've made against our strategic initiatives. We drove organic revenue growth through segmented market roles and

disciplined investments, further imbedded productivity into our culture and strengthened our system in several key markets. Importantly, we delivered our profit target amidst a tough operating environment, and we returned \$8.3 billion to shareowners through dividends and net share repurchases.

Now, looking at 2017, we have a strong foundation in place, but we still have a lot of assets across the system in motion. In North America, we will rebrand more this year than we have cumulatively to-date. In addition, China will close and Africa is on track. We have strong plans in place and we recognize this level of change requires a disciplined focus to minimize any potential disruption.

As with any endeavor of this size, it is understandable that timetables may move. So the best way to think about our rebranding is take both the 2017 and 2018 expected impacts together to arrive at the total expected impact to revenues and profits. That way, you can understand the dynamics and effectively model what any change in timing this year means for next year.

Starting at the top, we expect the global environment in 2017 to be roughly similar to that of 2016, with continued macroeconomic challenges in the emerging and developing world and continued growth in the developed world. However, there's a significant amount of uncertainty and geopolitical tension which could result in a changing macro environment. Therefore, we expect 3% organic revenue growth, led more by pricing than by volume growth. And we expect the core business to outpace our consolidated results, consistent with our performance in 2016. We will take a disciplined approach to our marketing investments and our operating expenses in 2017, and we'll continue to flow productivity through to the bottom line.

At the same time, CCR, our company-owned North American bottler, is eliminating stranded costs as quickly as possible, while transitioning territories to new partners. We expect the elimination of these costs to contribute roughly two points of underlying operating income growth. Therefore, with another year of price/mix and expense management, we expect to drive very strong underlying operating margin expansion for the year.

Below the operating line, we expect an impact from higher interest expense, thereby resulting in underlying income before tax growth of 7% to 8%. As you all know, currencies remain volatile. And since we operate in over 200 markets, we are not immune to this effect. Based on current spot rates, hedging activity and what we are cycling, we expect a three to four point headwind to income before tax. We expect our effective tax rate will increase in 2017 to 24%, due to geographic mix, the impact of currencies and bottler transactions.

Though we are encouraged by the prospects for corporate tax reform in the United States, for business planning purposes, we have not assumed any change to the U.S. tax environment for the coming year. Finally, we expect net share repurchases of approximately \$2 billion.

2017 marks a turning point in our return to a more efficient, capital-light model. It is the largest year for divesting profitable bottling businesses, primarily in North America. Therefore, we expect a five to six point structural headwind to income before tax, which will negatively affect our comparable EPS growth. So while this is absolutely the right thing to do for our company and our system, we expect it will result in a 1% to 4% decline in comparable EPS in 2017.

Now, looking further out to 2018, while it is premature to talk about underlying growth, I wanted to provide some additional thoughts on a few items in 2018, given all of the complexity impacting our financial performances this year. First, based on the timing of our 2017 actions, we expect structural headwinds in 2018 of 16% to 17% on revenue, and 1% to 2% on income before tax. Please note, this does not include any impact from the transition of

ownership of Coca-Cola Beverages Africa or the acquisition of any other ABI territories, which would be minimal as we intend to account for these as discontinued operations given our intent to immediately rebrand.

Second, we are hedged on a number of hard currencies through the end of 2018, but at slightly less attractive rates than for 2017. Assuming today's spot rates remain constant, we would expect a low single-digit currency headwind to 2018 income before tax. Finally, we expect that, absent U.S. tax reform, our effective tax rate would increase to 26% in 2018. Again, we believe reform is possible in the year ahead; however, the details are still uncertain and, therefore, we have assumed no change to the U.S. tax environment.

Returning to the immediate future, there are a few items to consider. Our first quarter in 2017 has two fewer days than first quarter 2016, and Easter will fall in the second quarter this year as compared to the first quarter last year. In some of the markets experiencing challenges at the end of 2016, these conditions will continue into early 2017. For example, in India, where we own the majority of our bottling system, the tough operating environment stemming from demonetization is likely to persist at the start of the year before gradually recovering. And due to the timing of when we issued debt last year and Fed rate increases, the year-over-year increase in interest expense will be more heavily skewed to the first half of 2017 than the back half.

We expect structural items to be a 12 to 13 point headwind on net revenue and a 1 to 2 point headwind on income before tax in the first quarter. Finally, we expect currency to be a 1 to 2 point headwind on net revenue and a 3 to 4 point headwind on income before tax in the first quarter.

Now, for those of you who want to get into greater detail, the IR team will host a modeling call at 11:30 AM today to take you through additional details as well as answer any questions you might have. Prior to that call, we will post a separate modeling presentation on our website at 10:30, so you will have supplementary materials to follow.

Operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: And our first question comes from Bryan Spillane of BofA Merrill Lynch. Your line is now open.

Bryan Spillane

Analyst, Bank of America Merrill Lynch



Hey, good morning, everybody. And I just wanted to offer my congratulations and best of luck to both you, Muhtar, and to James.

Ahmet Muhtar Kent

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



Thank you.

James Quincey

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



Thank you.

Bryan Spillane

Analyst, Bank of America Merrill Lynch



I have a question, James, regarding price, price/mix. And I guess as you're looking out over what the environment is like over the next couple years, can you just talk a little bit how you're balancing the desire to get some price/mix in with how you think about that relative volume and also relative to maybe affordability, especially in some of the emerging markets where the consumer environment's still pretty tough?

James Quincey

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



Sure. Morning, Bryan. A couple of thoughts then, I mean, over the long-term, we've said we're looking for a balance between price and volume, or price/mix and volume. And that's certainly our long-term objective. Now, given what's happening, I think it's almost, as you said, it's easier to divide the world into the developed and the emerging markets. In the developed countries, we're looking to drive probably a little more price than volume. And you can see that happening in the U.S. marketplace as we focus on smaller packages, as we focus on higher value categories or subcategories. You see that across North America. Western Europe is a little more balanced and similarly into Japan. So that's our approach for the developed markets.

In the emerging markets, obviously, over the long-term, we expect them to be a bigger source of underlying volume growth and that'll bring the total company equation into balance, so they would be more volume-driven and less price-driven. Now, what's happening is in some of the markets, say, for example, a Brazil, where the macros are really under pressure – I mean, GDP over the last three years in Brazil has probably declined by more than it did in the great recession or the lost decade of the 1980s. So there, what we focus on is in any moment that we will do those promotional things that make sense in returns, so we don't over-protect volume. We do what makes sense on a quarterly or a monthly basis. And the principal axis we act on is trying to reform the packaging strategy to make it more affordable, whether that be smaller one-way packaging or more returnable packages, backed up by good marketing that really emphasizes with the economic situation the consumers are in and obviously great execution by the bottling system.

So net-net, likely over time, developed markets will get more price/mix and slightly less volume and in the emerging markets, more volume and slightly less price/mix, with that caveat that those markets that struggle, we have a game plan that we've developed over the years and that we find helps us really build a good strong consumer franchise going forward and balances the short term.

Timothy K. Leveridge

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

A

Next question, please.

Operator: The next question comes from Steve Powers of UBS. Your line is now open.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Hey. Thanks. And congratulations from me as well to both of you.

James Quincey

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

A

Thank you.

Stephen R. Powers

Analyst, UBS Securities LLC

Q

Just following on Bryan's question on price/mix, when you have a great price/mix quarter like you did here in Q4, I guess the question that is in my mind is why aren't we seeing more flow through to the bottom line? Because in a vacuum, you'd think five or six points of price and mix would be significantly margin accretive. So I guess is it the case that what maybe mix accretive on the revenue line is actually margin or even penny profit dilutive on the bottom line? And I'm thinking here really about the structural shift from sparkling to stills, but perhaps some of the packaging changes and geographic shifts in the balance of your overall business may play a role as well. Could you just talk about that, why we're not seeing more profit flow thorough on the price/mix?

James Quincey

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

A

Sure. Well, I think you saw lots of flow through actually in the fourth quarter. Operating income currency neutral ex-structure was up 18% off a gross profit of 8%, so there was 10 points of leverage. So we got a lot of leverage coming through. The reason that didn't translate from operating income to PBT, is more of those other factors like interest or other corporate items. Actually, when I talk about PBT growing at 8% in 2016 and what we've guided in 2017, actually, the underlying operating income performance is actually even better than that. And then, we've got a bit of a headwind in interest in some of those other items. So there's actually a lot of leverage coming through from the operation as we focus on segmented revenue, as we focus on higher value categories, as we focus on smaller packages, we're getting a lot of operating leverage between that revenue line and the operating income line. Some of it's getting netted off in the headwind. So it is there.

In the fourth quarter, just to make the point, 6% is not projectable going forward. You'll see in the numbers, for example, we were cycling a big negative in Asia Pacific from last year, so we got a big positive this year. We had some very good results, some improvements where we own bottling operations like China, which was very much weaker in the first half. So there's some oddities in the fourth quarter. I would encourage everyone to look at maybe the full year 2016, look through to the core operation, where we were drawing at 4%, 8% PBT. Bear in

mind some interest headwinds as a higher operating income growth, lots of leverage. This is the game plan for 2017.

Operator: And our next question comes from Dara Mohsenian of Morgan Stanley. Your line is now open.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning.

Ahmet Muhtar Kent

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

A

Morning.

Kathy N. Waller

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

A

Morning.

James Quincey

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

A

Morning.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

So, James, in your prepared remarks, you touched on plans to reinvigorate sparkling growth. Can you give us more detail on where you think you stand currently in terms of the areas you mentioned, effectiveness of marketing, shift to [indiscernible] (29:03) products, et cetera, and any big changes you're planning going forward to drive improved trends? And then, you also mentioned tuck-in M&A. So how big a role should we expect diversification into other subcategories to play out over the next few years for your company? Thanks.

James Quincey

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

A

Sure. Of course, I'll save some things for CAGNY. Look, let me start with the sparkling business is growing revenue. It grew revenue in 2015. It grew revenue in 2016. Momentum's rebuilding. If you look at the U.S., sparkling was up 1% in the fourth quarter in the U.S., in aggregate, in volume and, obviously, much more in revenue. So the sparkling category is growing in revenue. Another piece under that, just take a couple of examples, in this quarter and last quarter as well, total, if you take the combination of Diet Coke, Coke light and Coke Zero, they came into robust growth in the back of the year. The growth of those altogether, so no-calorie colas, exceeds the growth of sparkling and actually exceeds the growth of our total portfolio in most of our other categories. So there's robust growth as we press into zero sugar colas, we're getting the growth.

And in North America and some of the other places where we're pushing smaller packages, we're getting the good growth. Smaller packs in the U.S. grew almost 10% in the fourth quarter. So the game plan out there of smaller packages, zero sugar, re-engagement with the sparkling category, is driving the revenue growth and we believe it will continue to do so. And the shape and the quality of that in terms of sustainability is looking better over time. Obviously, tuck-on M&A won't be sparkling-related. We've consistently done a few things each year.

Hopefully, we'll do a few in 2017. We'll do those that make strategic sense, financial sense and where we find willing partners.

Operator: And your next question comes from Ali Dibadj of Bernstein. Your line is now open.

Ali Dibadj

Analyst, Sanford C. Bernstein & Co. LLC

Hey, guys. A couple questions on guidance, especially in the context, James, of your focus on EPS growth going forward. So for 2017, very helpful in line with kind of our thought process at least, except why only 3% organic sales growth? For 2018, it seems like your EPS would be barely ticking up, based on an assumption of high single-digit comparable currency neutral income growth before taxes, so 2017-like kind of based to growth. So 2018 doesn't look like it's growing EPS very much at all. Does that sound right on 2018 and why, or is your statement in the prepared remarks suggesting that, look, in 2018, we're going to do things like incremental cost cutting, we're going to do things to really grow the EPS? And then, I can't resist to throw this one in as well, slightly different, but why does the total growth structural PBT headwind look like something like 9% to 11% versus what you'd said at CAGNY at 7.5%? So thanks for throwing all those. Thanks.

James Quincey

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

I'll start, maybe and then, Kathy, if you feel like jumping in at any point, let me know.

Kathy N. Waller

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

Sure. Okay.

James Quincey

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

The 2017 3%, I think we see a similar year in 2017 in terms of macros that we did in 2016. And I think we're making a prudent call that, given everything that's going on in the world, on a consolidated basis, we're expecting a similar outlook and a similar number for the total company. Obviously, as Kathy said, we'd like to see the core business grow above that, as we did in 2016 where the consolidated was 3% and the core was 4%, which is the bottom end of our range and then obviously lots of operating leverage. That's how we're seeing it. We just see the way the world is going.

In terms of 2018, obviously, we're not providing guidance on 2018. We're just providing some of the elements that we know are important from a modeling perspective. So, obviously, 2018 conversation will have to wait. But we wanted people to understand the structural piece because, obviously, the timing of when we sell those transactions makes a big difference. And so as timing varies, the structural adjustment can move backwards and forwards between 2018, so we just wanted to give people a total perspective. I don't know, Kathy, about number three. I'm not sure we have the thing in front of us, Ali.

Kathy N. Waller

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

Yes. So the bridge of total structural versus what we'd shown at CAGNY, the part of what I think is misunderstood in structural adjustments is, particularly in this year, we talked about the 5% to 6%. The two additional things you

need to factor in in your structural adjustments, the CCR business is not standing still. It's continuing to grow, as well as the fact that they are taking out stranded costs.

Now, we think of stranded costs a lot like productivity, if you will. And so, we have embedded those and that's why I said in my prepared remarks that we had two points of stranded costs that are coming out, as well, in our number. But the stranded costs of all that productivity in that, they don't just transfer with the territories. There's work to do to get them out. And, for some reason if they don't transfer, they're a part of our business, and we have to do work to get them out long term. So the standard costs, we treat that as part of the business. And you can choose to net those or not, to better understand the structural impact, but that's how they represent themselves in our numbers. And, again, we're not giving any other underlying growth guidance for 2018 at this point.

Operator: And our next question comes from Bill Schmitz of Deutsche Bank. Your line is now open.

Bill Schmitz

Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Good morning.

Ahmet Muhtar Kent

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

A

Morning.

James Quincey

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

A

Morning.

Kathy N. Waller

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

A

Morning.

Bill Schmitz

Analyst, Deutsche Bank Securities, Inc.

Q

Could you guys just give a little bit more color on what sounds like a little bit lower advertising spending next year? I think you mentioned in the prepared comments, so is it something that like you realize that maybe the advertising efficiency isn't as much, so like what the numbers are, Is it going to be lower as a ratio and in dollars? And then, it seems like there's probably a lot of initiatives you need to support next year also, so like the plan with getting Coke Zero Sugar out beyond Europe, if that's also in the plan for next year. So I tried to wrap two questions in one, but it's the absolute and ratio of advertising spending, the rational for reducing it and then if you do, in fact, plan to take Coke Zero Sugar to other markets outside of Europe. Thanks.

James Quincey

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

A

Sure. Morning, Bill, James here. So firstly, the aggregate amount of marketing spend is slightly below gross profit. You are correct. Now, what is super important to know within that is we'll continue to increase what we would call working spend of the marketing ahead of revenue, but we are driving material productivity in the way we organize and produce the marketing to become much more efficient. So we are able to grow media, if you like, in all its different forms, ahead of revenue, but with the extra productivity initiatives, we are actually growing total spend

less than revenue. That's how that dynamic is working. So we'll be able to do much more in the marketplace in a more efficient way.

And then, secondly, on Coke Zero Sugar, absolutely you should expect us to move around the world things that are successful and that had a great start in GB in the back end of 2016, was growing double digits, very good start. We're rolling out in Europe. It's just launched in Australia. So you can absolutely expect us to push it into those markets where we think it can be really effective, including Latin America soon, so absolutely. And I think that is part of why you're now seeing the continued acceleration of Coke Zero Sugar each year. We grew several points faster in volume in 2015 than 2014 and we grew several points faster in 2016 than the rate we were growing in 2015. And, as I said, aggregate, no-calorie colas is in good mid-single-digits growth as we exited the year.

Operator: And our next question comes from Judy Hong of Goldman Sachs. Your line is now open.

Judy E. Hong

Analyst, Goldman Sachs & Co.

Q

Thank you. Good morning and my congratulations to both of you as well.

Ahmet Muhtar Kent

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

A

Thank you, Judy.

James Quincey

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

A

Thank you.

Kathy N. Waller

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

A

Morning.

Judy E. Hong

Analyst, Goldman Sachs & Co.

Q

First, just a follow-up on price/mix, specifically in North America. Obviously, we've all learned that the Nielsen data is not perfect, but there seems to be a pretty big disconnect between particularly in the fourth quarter, where you got the 4% pricing versus the softer pricing that we've seen in the data, so if you can just elaborate on that as a follow-up. And then, James, I'm just wondering if you can talk a little bit about how much of a priority in 2017 is really a shift towards stills. If I look at 2016 performance, 3% growth that you got in still, it seems like it could be much stronger in the context of a lot of the categories that seems to be growing at a faster rate. So can you just talk about either on the innovation front or investment front, how much of that focus that you'll look towards in 2017 on the still category?

James Quincey

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

A

Sure. Yeah, I mean, clearly there's a disconnect. The Nielsen universe is a much smaller piece of our total business. Obviously, when you look at the aggregate of North America, fountain is very important to us. It's almost a third of the volume in North America, and that's not going through Nielsen. And obviously, there's a lot of

warehouse business there where we sell some of the still categories directly. But we have not deviated from our strategy. We've talked on previous quarters that sometimes the pricing, at least the apparent pricing in Nielsen, will look a little softer or a little better.

The important message is we have not changed our strategy. We continue to focus on realizing pricing intelligently and through packaging and pricing in the sparkling category and focusing on those bits of the other categories that we believe have value in terms of revenue and profitability. And so, every now and again, you will see this disconnect between Nielsen and our total results, but know that our strategy has not changed. And we plan to continue to pursue it into 2017.

And then, in terms of the other categories, absolutely we continue to innovate and invest there. I think the underlying trend is even better than what it jumps out in the volume, bearing in mind, the strategy is to participate in those categories with the highest value to us, both in revenue and in terms of profitability. So, for example, if you went to China and you looked at what was happening in some of the stills categories, maybe water, you'd see a growth rate of X, but what you don't see in the volume is actually we're selling less of the cheap water and more of the higher value water, as we cycle and re-innovate our business to drive the positioning [ph] in the premium nooks (40:50) through different brands and reset the way we attack some of these categories.

So we're after driving a consumer franchise that's about incidents of consumers, the number of times they drink our beverages, even if that's a smaller package, and about competing for value on the top and the bottom line.

Operator: And our next question comes from Nik Modi of RBC Capital Markets. Your line is now open.

Nik Modi

Analyst, RBC Capital Markets LLC

Yeah, thanks, and congrats, guys, from me as well. The question, James, I guess is when we look at North America, numbers have looked pretty good relative to I think most peoples' expectations going back about a year and a half. A lot of the initiatives that you have put in place have started in North America. So I'm just wondering if you can help us kind of map out how to think about what's happened in North America and the applicability to the rest of the world. That would be helpful. Thank you.

James Quincey

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

Yeah, Nik, morning. Absolutely North America's had a great run. The team's done a good job. The strategy's working. The numbers in 2015 and 2016 have put us at kind of the top end of CPGs in terms of revenue growth with our customers. We're very pleased with that. I think what you see in the North American strategy, which is likely what you should expect, is a fusion. And what I mean by that is things that they have done, they have taken from other parts of the world successfully and they have blended it with new ideas and things that are relevant for the North American market and that's what's turned into the winning plan they've put in place and they've executed and it's been doing well.

And so you should expect us always to be taking ideas from one place, applying the learnings in another place. And, fundamentally, I think North America's a great example of where we reinvest marketing behind the right strategy and a balanced portfolio with execution by the bottling system. And I underline the importance of the execution by the bottling system and our own fountain and what wholesale business is during a time of tremendous change through the franchising.

Operator: And our next question comes from Robert Ottenstein of Evercore. Your line is now open.

Robert Ottenstein

Analyst, Evercore Group LLC

Great, thank you very much. Two questions, first, to the extent that you're able to talk about it, love to understand the thought process about not purchasing Bai, which Dr Pepper ended up buying. It seemed to check a lot of boxes. Is it the product? Is it the timing, any color on that? And second, could you discuss whether all the franchising, and particularly in Africa, has caused any disruptions in the business, any headwinds through that process and a little bit more on the expected timing on Africa? Thank you very much.

James Quincey

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

Sure. I don't think it would be appropriate to comment on the M&A process of Bai, so I'm going skip that one, if I may. Refranchising in Africa, I think there's been a very robust process and I think the management team of the bottler, both prior to the closing of the SAB transaction under ABI on the board, as well, and ongoing, the management team has remained focused on doing the right things in the marketplace, so a creditable performance by the management team in conjunction with the local business unit. So we see no disruption there, and I think everything is going well.

The refranchising itself, as Muhtar commented and as you've seen, we reached agreement with ABI at the close of last year. And the rest of the process is ongoing, both from a regulatory process point of view and a selection and determination of the partner from those that will be strongest and those that are interested.

Operator: Next question comes from Bonnie Herzog of Wells Fargo. Your line is now open.

Bonnie L. Herzog

Analyst, Wells Fargo Securities LLC

Good morning and congratulations to both of you.

James Quincey

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

Thank you.

Kathy N. Waller

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

Good morning.

Bonnie L. Herzog

Analyst, Wells Fargo Securities LLC

I was hoping you guys could drill down a little further on headwinds and the consumer in some of your key emerging markets. And then, how has the overall category been performing in these markets? And really, how has it been holding up, given some of the headwinds and pressures on consumer spending and whether you're taking share? And then, specifically in China, things seemed to reaccelerate in the second half last year. So could you guys talk a little bit more about current trends, whether that be near and then long-term outlook for China? Thank you.

A**James Quincey***President & Chief Operating Officer, The Coca-Cola Co.*

Sure. I think the emerging markets is a very mixed bag. I mean, there are some which are doing well. I called out some, like Nigeria, which had a very strong year, even the close of the year, as the currency came under pressure, places like Mexico. There are a number of emerging markets, South Africa, which we did well in. Now, there are others where the macros were tough, whether that be Venezuela, very tough. Argentina, Brazil and there, we applied our strategies, a combination of what's the right tactical use of promotions to balance the system. We don't want to [ph] do scale, (46:24) but we don't want to overinvest in promotions, while resetting the pack/price architecture to really drive long-term affordability. So it's very much a mixed bag across the world. Obviously, India is something a lot of people have commented on. I'm not sure any more I can add on the India example.

In terms of China, I think China's a great example where you see us executing the game plan I talked about for Brazil. So the China back-end of 2015 coming into the first and the second quarters of 2016 was a very rough period for CPG, a rough period for beverages in China. We went per our game plan, exactly what I said about Brazil and we started to do some promotional things and then we reset some of the pack/price architecture. We focused on the right package sizes in the right brands, doing the marketing in a right way, and a reset of what was important in terms of execution, where you should execute in terms of channels and focus of the cities.

So in the case of China, the markets are actually doing pretty well in the top-tier cities. There was lots of growth. It looked more like the strategy of focus on the value end, focus on the premium end of the business. And then in the more rural and lower-tier cities, really affordability and smaller package sizes.

And then, in the second half of 2016, China rebounded. We grew in both the third and the fourth quarter in volume terms and in revenue terms in China. So the game plan worked. Obviously, it's not instantaneous, but we know what to do when markets get into trouble if we focus on understanding the consumer, understanding the customer and getting organized as a system.

Ahmet Muhtar Kent*Chairman & Chief Executive Officer, The Coca-Cola Co.***A**

Yeah, Bonnie, I'd just add one point just to complement what James said is that this was the 38th consecutive quarter for us in gaining value share, 38th in NARTD. And in sparkling, this was the 12th consecutive quarter of share gains. And then in North America, importantly, 27th consecutive quarter of share gains, so we continue to gain share as we implement this playbook that's really working. And the business is getting stronger over a much, much bigger base than any one of our competitors going forward. So I just wanted to add that.

Operator: And your next question comes from Mark Swartzberg of Stifel. Your line is now open.**Q****Mark Swartzberg***Analyst, Stifel, Nicolaus & Co., Inc.*

Yeah, thanks. Good morning, everyone.

Ahmet Muhtar Kent*Chairman & Chief Executive Officer, The Coca-Cola Co.***A**

Morning.

James Quincey

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

A

Morning.

Kathy N. Waller

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

A

Morning.

Mark Swartzberg

Analyst, Stifel, Nicolaus & Co., Inc.

Q

And my congratulations as well, James and Muhtar. I wanted to, if we could, do kind of a tale of three countries here, James. And what I mean by that is Mexico, your results, Diageo's results, Walmex, ANTAD retail data, it seems that the consumer's doing rather fine there and, of course, there's a lot of concern about Mexico since November 8. So in Mexico specifically, could you just give us a feel for what you're seeing in terms of broad consumer behavior since November 8?

And then, with Brazil and India, with the pricing you have taken some of it, invisible, if you will, because of what you're doing with price/pack architecture, what's the level of confidence you have in those markets that the elasticity that you experience will not be worse than what you've actually – that you have sort of an adverse elasticity impact greater than what your models say?

James Quincey

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

A

Sure. Well, Mexico, in all honestly, I'm not sure the Mexican consumers in terms of what happened in the marketplace, the purchasing patterns really changed that much pre and post that date. I think the Mexican economy, there's been a lot of focus on it. There were the reforms. I think it's performed well, and we have a great business in Mexico. I think our system there has been innovating. It's truly one of the places where we've been most innovative and most creative across the total portfolio, where we compete in almost every category. And they've done a really robust job of building a good business. And I think that that is what you see in the Mexico result. And they continued to build on a strong 2015 with a stronger 2016. And I think it's a wonderful operation down there. And they did a very creditable result. And hopefully, that will continue into 2017. Certainly, we think that our system is up to the challenge, come what may in Mexico.

In terms of Brazil and India, I think they're two very different examples. India, it's certainly a truly one-off event. The demonetization effectively drained liquidity. I don't think that's about price elasticity. I think that's about the kind of shock to the circulation in the liquidity. Clearly, we're of the view that a formalization of the economy helps the formal players. And I think it'll be good in the medium-term and the long-term. We expected the short-term disruptions to kind of mitigate or to tail-off as we come in 2017, though not from January 1. And I think what we just need to see is some stabilization there, and we will be able to then come back and execute our game plan. So I don't think that's particularly about resetting everything we do in India. I think it's about working through the effects of this one-off demonetization.

Brazil is a different thing. Brazil, I've talked about. We've taken quite a bit of pricing in Brazil over the end of 2015 and the beginning of 2016. I think the consumer environment got worse towards the end of the year in Brazil. I know a number of the states in Brazil had trouble with some of the public employee payrolls going into the back of the year. So there was a kind of reduction in the mass of consumer disposable income, perhaps more aggravated Q3 going into Q4. And I think there, the elasticities and the effects of pricing did become worse.

I mean, the value of the promotions wasn't as good as perhaps the high lows. Wasn't as good as it was at the beginning of the year or even in 2015 and I think that's what's caused us to do some things in the fourth quarter to balance pricing and volume, but to recognize we need to come in for 2017 with a more aggressive reset of the pack/price architecture. Given the circumstances in Brazil, they're not likely to be completely fixed overnight. I think there's some focus on improving things. And we expect Brazil to slowly get better, but we are going to execute and implement our pack/price, reset some parts of it, with the expectation that it'll start to rebuild the business as the economics get a bit better.

Operator: Our next question comes from Bill Chappell of SunTrust. Your line is now open.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks. Good morning.

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

A

Morning.

James Quincey
President & Chief Operating Officer, The Coca-Cola Co.

A

Morning.

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

A

Morning.

Timothy K. Leveridge
Vice President & Investor Relations Officer, The Coca-Cola Co.

A

Morning.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Just a quick question on commodities; maybe I missed it, but the net exposure as we look forward for this year in terms of headwind, tailwind. And then also, maybe help understand how that changes with the refranchising? Do you have less exposure to certain things or is it really unchanged?

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

A

Certainly. Hi, Bill.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Good morning.

A**Kathy N. Waller***Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

This year, the commodity environment was relatively benign and we anticipate that next year, the same thing. As we said, next year will be largely the same as what we've seen in 2016. Yeah, we do anticipate that with the refranchising, that our exposure to commodities goes down significantly, as we talked about at, I think, last CAGNY. And we'll give you some more flavor of this, I think, in the modeling call, but, yes, there is a significant change in the impact to The Coca-Cola Company as it relates to commodities.

Operator: And now, I would like to turn the call back to Mr. Kent for closing remarks.

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

Thanks, James, Kathy and Tim. Last year, we made significant progress as we accelerated the transformation of our company into a higher margin business, while keeping focused on consumers. With a strong foundation set, now is the time for a seamless leadership transition. And I have every confidence that James is the best person to take us through the next phase of our sustainable growth. There's no question that this phase will look different than the past, driven by a broad consumer-centric portfolio across all categories, while enabling consumers to control their intake of added sugar. This is going require a change to some of our strategies, many of which have already begun and now need further scale in regions all around the world.

As always, we thank you for your interest, your investment in our company and for joining us this morning.

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