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# The Coca-Cola Co. (KO)

Q2 2024 Earnings Call

## CORPORATE PARTICIPANTS

### Robin Halpern

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

### James Quincey

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

### John Murphy

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

## OTHER PARTICIPANTS

### Dara Mohsenian

*Analyst, Morgan Stanley & Co. LLC*

### Lauren R. Lieberman

*Analyst, Barclays Capital, Inc.*

### Bryan D. Spillane

*Analyst, BofA Securities, Inc.*

### Bonnie Herzog

*Analyst, Goldman Sachs & Co. LLC*

### Steve Powers

*Analyst, Deutsche Bank Securities, Inc.*

### Filippo Falorni

*Analyst, Citigroup Global Markets, Inc.*

### Chris Carey

*Analyst, Wells Fargo Securities LLC*

### Andrea Teixeira

*Analyst, JPMorgan Securities LLC*

### Kaumil Gajrawala

*Analyst, Jefferies LLC*

### Robert Ottenstein

*Analyst, Evercore ISI*

### Peter Grom

*Analyst, UBS Securities LLC*

### Charlie Higgs

*Analyst, Redburn (Europe) Ltd.*

### Kevin Grundy

*Analyst, BNP Paribas*

### Robert Moskow

*Analyst, TD Cowen*

## MANAGEMENT DISCUSSION SECTION

**Operator:** At this time, I'd like to welcome everyone to The Coca-Cola Company's Second Quarter 2024 Earnings Results Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time.

All participants will be on listen-only mode until the formal question-and-answer portion of the call. I would like to remind everyone that the purpose of this conference is to talk with investors and, therefore, questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations department if they have any questions.

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

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### Robin Halpern

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

Good morning, and thank you for joining us. I am here with: James Quincey, our Chairman and Chief Executive 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 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.

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### James Quincey

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

Thanks, Robin, and good morning, everyone. After a good start to the year, we continued our momentum in the second quarter in a world with a wide spectrum of market dynamics our all-weather strategy is working. We're winning in the marketplace by leveraging our scale and continuing to foster a growth mindset. Given our strong year-to-date results we are raising both our top-line and our bottom-line guidance today.

This morning, I'll start by discussing the current operating environment and reviewing our second quarter performance. Then I'll explain how we are enhancing our capabilities to drive more effective and efficient operations including leveraging digital and tech enabled innovations that ultimately contribute to our earnings growth. Finally, John will discuss our financial results and the raised 2024 guidance.

In the second quarter, we grew volume, generated strong organic revenue growth and expanded margins while continuing to invest in our business, we also gained value share. This culminated in 7% comparable earnings per share growth despite 10% currency headwinds and 2% headwinds from bottler refranchising. Overall, our industry remains attractive and is expanding. We believe we're well-positioned to capture the vast opportunities available to us. Across the world, we're continuing to navigate many varying market dynamics locally to deliver our global objectives.

In Asia Pacific, we had strong performance across most of our footprint. In ASEAN and South Pacific, the refranchising of the Philippines is off to a good start.

In the Philippines, we grew volume by double digits and drove strong value share gains by increasing focus on affordable packages including refillable price points and refillable offerings. Growth across ASEAN and South Pacific was driven by strong end-to-end execution across our sparkling portfolio.

Our business in India recovered nicely from a slower start to the year driven by Sprite and Fanta as well as strong local brands such as Thums Up and Maaza. Strong end-to-end execution across our growth flywheel led to double-digit volume growth.

In China, consumer confidence remained subdued. We continue to focus on our core business and invest behind profitable long-term growth. Lastly, in Japan and South Korea we generated volume growth during the quarter and won value share. We successfully relaunched Ayataka, a much loved local tea brand in Japan and we are also benefiting from stronger execution in e-commerce channels.

In EMEA, external environment remains mixed. In Europe, we saw pressure in our away from home business due to some reduced foot traffic and adverse weather in Western Europe. To capture value we're investing in several high anticipated activations including music festivals, the Euro 2024 Football Championship and of course, the Paris Olympics.

We're increasing our focus on brands with strong momentum across our total beverage portfolio including Fuze Tea and Powerade and on promising sparkling innovations such as Coke Lemon and reformulated Sprite.

In Eurasia and Middle East, geopolitical tension and economic uncertainty continue to impact our business. We're working closely with our local partners to navigate these headwinds while investing for the longer-term. In Africa, despite multiple currency devaluations, strong integrated execution led to robust performance across our markets. For example, in Nigeria our system quickly responded to the intense inflationary environment by focusing on affordable packages including accessible price points and refillable offerings, and increasing outlet coverage to win both volume and value share.

Across Africa, we grew volume in mid-single digits and similarly won both volume and value share. In North America, we generated robust top-line and bottom-line growth and won value share. Our volume decline was driven by softness in away-from-home channels. To offset this, we're partnering with foodservice customers to market food and drink combo meals to drive traffic and beverage incidence. Excluding mainstream packaged water, at-home volumes held up well. fairlife and trademark Coke finished number one and number two as the at-home retail sales growth leaders for the industry during the quarter.

Our juice business also had a strong quarter and recent innovations including Sprite Chill and Topo Chico Sabores are off to a solid start. In Latin America, volume momentum continued led by strength in Mexico and Brazil. Growth was driven across our entire total beverage portfolio. Coca-Cola Zero Sugar had a standup quarter

with over 20% volume growth and we're continuing to take integrated execution to the next level by increasing investment behind cold drink equipment to win share of visible inventory and create additional consumer demand.

Finally, in Global Ventures, despite pressures in key markets such as United Kingdom and China we generated organic revenue growth and expanded margins. Costa is driving loyalty through targeted promotions like Treat-Drop and innocent gained value share in Europe.

Putting it all together, despite an ever-changing external environment, our business remains very resilient. The power of our portfolio amplified by our system's unique capabilities is a clear advantage. While we're delivering on our near-term commitments, we're also building capabilities and innovating across our flywheel to become a more agile, effective and efficient organization.

Starting with marketing and innovations, last year we stood up StudioX which is our digital and organizational ecosystem that integrates marketing capabilities and connects them to our global network structure. We're producing tailored content at scale and with speed and are able to measure impact in real time. We're also refining our innovation process to prioritize bigger and bolder bets, and we're removing barriers to deliver a more holistic approach, shorten the time to launch and improve success rates.

We know that innovations that grow in the second year have a much greater odds of multiyear success and deliver far greater impact. We focus on sustaining investments and have consistently improved second-year performance success rates in each of the past four years. Continued innovation successes include Sprite and Fanta reformulations, Fuze Tea in Europe and Minute Maid Zero Sugar in North America among many others. As a result of these combined initiatives, we have greatly improved our ability to rapidly produce and deliver marketing content, integrate activations with timely innovations and scale successes to drive the greatest impact.

One example from the second quarter, Coca-Cola's partnership with Marvel which featured nearly 40 different limited edition collectible graphics and QR codes on our packaging to connect consumers with unique augmented reality experiences. We collaborated closely with Marvel Studios and the Walt Disney Company and tapped into the best-in-class animation and activation to quickly scale to over 50 markets. As a result of this and other growth initiatives, trademark Coca-Cola grew volume and won volume and value share during the quarter.

Our marketing and innovation transformation journey contributed to trademark Coke winning Creative Brand of the Year for the first time ever at the Cannes Lions in June. We won 18 different awards at Cannes Lions.

Beyond marketing and innovation, we're flexing our muscle in revenue growth management and integrated execution to sustain competitive advantage. Even in markets with very well-developed capabilities there's potential to be even better. For example, Mexico is one of the markets at the forefront of revenue growth management and has the highest cold drink equipment density in the world. During the quarter, we drove affordability with refills and premiumization with single-serve transactions. Our system also added over 80,000 coolers year to date. So with these and similar initiatives we grew volume mid-single digits during the quarter, continuing the momentum for the past few quarters.

Each day, consumers enjoy approximately 2.2 billion servings of our products, translating into about 800 billion servings annually. This kind of scale gives us unique insights into the consumer which helps us to better tailor offerings.

Emerging technologies including those enhanced by AI have the potential to create value for retailers and consumers. For example, we're piloting an AI-based price packed channel optimization tool across several

markets that evaluates opportunities to better tailor solutions to drive incremental volume and revenue. Early results show the tool helps improve both our offerings and speed to market.

Our system is also piloting an AI driven initiative to push personalized messages to retailers with suggested items based on previous orders and market data. Initial pilots indicate that retailers who receive the messages are over 30% more likely to purchase recommended SKUs, which results in incremental sales for our retailers and the system. We're just scratching the surface of what's possible, and we're taking steps to seize opportunities down the road. To sum it all up, while we recognize there's still much work to be done to capture the vast opportunities available, we're encouraged by our year-to-date results and efforts to improve every aspect of how we do business.

As we look forward to the second half of the year, the external backdrop remains uncertain including some signs of pressure in various consumer segments across developed markets. However, thanks to the power of our portfolio and the unwavering dedication of our system employs, we are confident we will deliver on our updated 2024 guidance and longer-term commitments.

With that, I'll turn the call over to John.

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**John Murphy**

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

Thank you, James, and good morning, everyone. In the second quarter, we delivered strong results. We grew organic revenues 15%. This consisted of 2% unit case growth. Concentrate sales were ahead of volume by four points, driven primarily by timing of concentrate shipments and some disruptions in the global supply chain that we partly expect to reverse next quarter.

Our price/mix growth of 9% in the quarter was primarily driven by two items. One, approximately 5 points of intense inflationary pricing across a handful of markets to offset significant currency devaluation. And, two, an array of pricing and mix actions across our markets. Excluding the impacts from concentrate shipment timing and pricing from markets with intense inflation, organic revenue growth during the quarter was at the high end of our long-term growth algorithm.

Comparable gross margin was up approximately 200 basis points driven by underlying expansion and the benefit from bottler re-franchising, partially offset by currency headwinds. Comparable operating margin expanded approximately 120 basis points. Comparable operating margin expansion was less than comparable gross margin expansion due to less benefit from bottler re-franchising and greater currency headwinds to comparable operating margin. Putting it all together, second quarter comparable EPS of \$0.84 was up 7% year-over-year despite 10% currency headwinds and 2% headwind from bottler re-franchising.

Free cash flow was approximately \$3.3 billion, down approximately \$700 million versus the prior year due to higher tax payments, cycling working capital benefits from the prior year and higher capital expenditures.

We continue to take actions to achieve a fit-for-purpose balance sheet that will best support our growth agenda.

During the quarter, we raised approximately \$4 billion in cash by issuing long-term debt for general corporate purposes. This may include pre-funding upcoming payments related to the IRS tax case and the fairlife contingent consideration.

With respect to our IRS tax case, which we continue to vigorously defend, we're making progress toward next steps and we expect we will be able to move forward on appeal by the end of the year. Given the continued outperformance of fairlife, we recorded a charge of \$1.3 billion during the quarter. Our estimated final payment related to this acquisition is \$5.3 billion which will be made in 2025. We are encouraged by fairlife's performance and the value it has created for our company.

So far this year, we've realized nearly \$3 billion in gross proceeds from bottler re-franchising and streamlining our equity investments, we'll continue to prioritize higher-growth businesses and take passive capital off the table. Return on invested capital is 24%, up approximately 5 points from three years ago.

Our balance sheet is strong as demonstrated by our net debt leverage of 1.5 times EDITDA, which is well below our targeted range of 2 to 2.5 times. We have ample capacity to pursue our capital allocation agenda which prioritizes investing to drive further growth, continuing to support our dividend and staying dynamic, agile and opportunistic.

As James mentioned, we're proactively managing our portfolio to deliver on our commitments. Our updated 2024 guidance reflects the momentum of our business in the first half of the year and our confidence in our ability to execute on our plans during the second half of this year.

We now expect organic revenue growth of 9% to 10% and comparable currency-neutral earnings per share growth of 13% to 15%. Bottler re-franchising is still expected to be a 4- to 5-point headwind to comparable net revenues. And we now expect a 1- to 2-point headwind to comparable earnings per share.

Based on current rates and our hedge positions, we now anticipate an approximate 5- to 6-point currency headwind to comparable net revenues and an approximate 8- to 9-point currency headwind to comparable earnings per share for full year 2024. This increase in currency headwinds is driven by small number of intense inflationary markets while the rest of the currency basket is relatively neutral to our results. All in, we now expect comparable earnings per share growth of 5% to 6% versus \$2.69 in 2023.

There are some considerations to keep in mind. We expect unit cases and concentrate shipments to be relatively in line with each other for the full year 2024. Please keep in mind there are two extra days in the fourth quarter. Taking everything into consideration, we expect earnings growth during the remainder of 2024 will be weighted towards the fourth quarter.

To summarize, we're encouraged by our track record and the underlying momentum of our business. Our system remains incredibly focused and motivated to drive growth. We're continuing to drive quality top-line growth, expand margins, grow comparable earnings per share and improve the return profile of our business. And we're confident we will deliver on our guidance and longer-term objectives.

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

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first 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. It'd be helpful to get an update on North America given questions around consumer spending. If you could just discuss any demand impact you're seeing on your business, any variance in channel performance and how that informs your view going forward? And then also, as we transition to a more normalized cost environment, can you give us any perspective on what's a more sustained price/mix run rate going forward in North America? Thanks.

**James Quincey**

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

A

Yeah. Sure. No problem, Dara. Firstly, overall, it'd be fair to say that the consumer sentiment in the aggregate is actually pretty strong, pretty resilient. Within that, there are some softer spots, particularly I think which has been relatively put out there already, some softness in away-from-home channels with a little lower traffic and some increase in value seeking for combo meals. So definitely, there's a piece of the lower income consumers which are either going out slightly less or when they do go somewhere, they're looking for greater value through combo meals. And then, of course, in the at-home channels, there's a slightly greater focus by those consumers on getting kind of value deals or promo deals.

Having said that, there's just as much consumers spending on more premium categories or more premium price points and experiences. So that's all aggregating out at a sort of resilience for the average overall consumer.

Within that, I think we've done very well. We've seen strong growth across the portfolio. We saw strong growth in Coke trademark, in fairlife, in Topo Chico, in juice drinks, so and in aggregate we won value share in the quarter. So broad-based growth, some hotspots in terms of demand up/demand down, but overall resilience for the consumer.

And as you look out, the first thing that I think is worth underlining in North America in particular is the nature of the price/mix. Remember that our North American business atypically compared to the other parts of the world, we consolidate a set of vertically integrated businesses and a set of franchise concentrate businesses, such that the growth of a channel or a category can produce a mix effect independent of pricing in the marketplace.

As you look at the 11 points of price/mix in the second quarter in North America, it's important to understand that only half of that is actually price. The other half is mix so when the juice drinks and fairlife and the juice business grows, Topo Chico grows and Dasani is weaker, you get a mechanical business mix effect that makes the price/mix looks like it's gone up, but it hasn't really in the marketplace.

So think of it as half of it is business mix and half of it is real pricing in the marketplace which gets you to a much more logical match to the level of inflation that's going on in the marketplace in general, such that I think in North America and actually overall in general around the world, excluding the high – the intense inflation markets John mentioned in the comments, we see that inflation is largely coming into the landing zone.

Yes, central banks would like to squeeze out another point or so, but generally, we're getting there, and I think that's reflected in our price/mix. We still have input costs that are going up, typically the agricultural ones rather than the metal or commodity-based ones, but in the end, our strategy remains. Yes, there'll be cost inflation. Yes, we'll look to put it through. Yes, we'll work on productivity. But any pricing we're going to take, we're going to have to earn with the marketing, in the innovation, and the execution. But it is as I said earlier, approaching the normalization zone.

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

**Lauren R. Lieberman**

*Analyst, Barclays Capital, Inc.*



Great. Thanks so much. I'd love to have a similar conversation about Western Europe because, James, you mentioned a bit on some also slowness in away-from-home. But the summer sports kind of has already kicked off. Right? June was certainly part of it, and so I know the weather has been challenging but maybe a little surprising to see the softness in the unit case volume in EMEA. So I'd love some just a similar run-through as you just did on North America on some of the dynamics, particularly in Western Europe. Thanks.

**James Quincey**

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



Yeah. Sure. So let me first just separate Europe from EMEA, which obviously includes the Middle East and Africa. Africa had a strong second quarter, good volume growth building on good volume growth in the first quarter. Price/mix, obviously, there's a lot of swings around about macro economically going on in Africa, but actually net-net, the Africa business had really good quarter, winning volume and value share, managing through the inflation and good volume growth and good price growth.

The flipside is Middle East. Obviously, the conflict is continuing to affect the business in that part of the world, so there is some headwinds there. And then if you come to Europe within EMEA, Europe was overall not where we'd like to be. We'd like to see a little more growth coming out of the European business. And, really, it's a complete mix across the countries in Europe.

There's more pressure on the away-from-home in the West than the East. Yes. Some of the sporting programs have certainly helped, whether it was UEFA that's already happened, or Olympics, which is imminently going to start. The sporting has helped, but there's been some pressure on the away-from-home, as I said, in the West. And so the immediate consumption packs have been growing slower there. But the – strong programs but not yet enough to offset the weather in some of the countries and the same general effect is the US in terms of the lower income consumers seeking value and doing less away-from-home trips.

So big picture, Europe not too dissimilar from the US, perhaps a little worse weather and a little more sporting events but in an aggregate sense, very similar.

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**Operator:** Our next question comes from Bryan Spillane from Bank of America. Please go ahead. Your line is open.

**Bryan D. Spillane**

*Analyst, BofA Securities, Inc.*



Hey. Thanks, operator. Good morning, everyone. John, just a question for you. Two points maybe related to the concentrate shipments. One is, I know you've talked about expecting that the lineup by the end of the year, but I

guess can you talk a little bit about what's driving this? How much of it is the Red Sea and, I don't know, just it's maybe more difficult to get stuff around versus just kind of the regular timing differences. And I guess what's underneath this is should we expect a little more volatility in the near term just around shipments versus units, just simply because the world's a little bit unsettled right now?

And the second if you can, just give us a perspective on how much margin, gross margin, benefited from the excess shipments in the quarter. Thanks.

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**John Murphy**

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

A

Okay. Thanks, Bryan. So on the first question, yes. We had a number of events during the quarter that affected that relationship between unit cases and concentrate. You mentioned a couple of them, the congestion in the Red Sea at Singapore. In LATAM, we had some restocking in the wake of the floods in Brazil. And in our India operations we had some stocking up to anticipate some future demand, so a range of factors. None of them with a thread, a common thread to them.

Our guidance assumes a more normal second half of the year, but as you rightly highlighted, there is likely to be something ahead of us that we had not anticipated. And if that were to happen, we'd certainly advise. But our goal is, over the longer haul is to continue to have cases and gallons in line.

And with regards to the gross margin impact, there's a slight benefit on both the gross and operating margins related to the stocking, but it's in the tens of basis points and again reflected in our guidance years ago with that leveling out that we expect. Thanks.

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

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**Bonnie Herzog**

*Analyst, Goldman Sachs & Co. LLC*

Q

All right. Thank you. Good morning, everyone. I did want to ask a little bit more about your away-from-home business, James, which you did touch on. I guess, I was hoping to hear how much your business in this channel decelerated in Q2 versus Q1 and what your outlook is for the remainder of the year. And then assuming growth in the channel moderates further, how do we think about the impact this may have on your top-line and margins? And maybe just touch on any initiatives you've implemented to accelerate growth in this channel moving forward. I think that would be helpful. Thank you.

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**James Quincey**

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

A

Yeah. Sure, Bonnie. I don't think it would be worth saying there is a big deceleration going on as we come into the second quarter from the first quarter. If you just stand back a bit and look at what happened, and I think we were already calling out some softness in away-from-home in the backend of last year. And so I would characterize it more as it's in a slow build from the back half of last year through the first and the second quarter.

First and second quarter may be a little more negative than the back half last year, but really, it's been a kind of a slow softening rather than anything major and abrupt, and it's not like accelerating off a cliff. It's kind of a slow softening. It's kind of just running at a softest level when thinking about away-from-home in the US.

And then in terms of what we're doing about it, which is obviously the key question, is we've really been more focused on how can we make sure that we bring to bear in the away-from-home channel in a sense all the thinking that we have historically done from affordability and price pack architecture in some of the mom-and-pop and at-home channels to make sure working with our partners across the different channels that we can provide whether it's the meal combos or whatever format of offering so that there is a laddering of pricing to allow people to stay within the category and the channel. And so those are rolling out as we speak. We would expect to see them making an impact in the years to go.

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**Operator:** Our next question comes from Steve Powers from Deutsche Bank. Please go ahead. Your line is open.

**Steve Powers**

*Analyst, Deutsche Bank Securities, Inc.*



Hey. Thank you and good morning. Maybe, John, just to maybe put a wrap around the margin driver conversation and the impact of mix and concentrate timing, et cetera, year-to-date, the underlying margin performance both in the quarter and year-to-date, I guess, has been strong. As I'm penciling it out right, it doesn't feel like you're expecting a material difference in the underlying margin performance of the business in the back half despite the slower concentrate sales and some of the macro drivers.

Just want to play that back and confirm that and if there are any material differences, maybe just help us as to what are the drivers.

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**John Murphy**

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



Sure, Steve. Thanks. So on gross margin just to maybe highlight the big drivers, typically are underlying performance. Any structural changes we have in the quarter, most of which nowadays relates to our re-franchising activity and then having a currency impact. So year-to-date, we're reflecting almost 200 basis points of increase and that's primarily driven by structural and underlying with some offset on currency.

And for the second half of the year, typically, the margin profile in the second half of the year is slightly lower than the first half. But I would say the overall trends in the second half of the year would be similar to what we've seen in the first half. And maybe just to step it down to the operating margin line, not dissimilar. We have had more benefit on the underlying margins in the first half of the year than on structural, and then second half of the year, I expect it to be more even. And yet as we've discussed in prior calls, we sort of reserved the right to stay flexible in the event that we make investment decisions that's linked to what's happening in our many markets around the world. But overall, direction of travel on both the gross and operating line is our margin profile to be strengthening and to be pretty much in line with some of the previous conversations we've had on this topic. Thanks.

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

**Filippo Falorni**

*Analyst, Citigroup Global Markets, Inc.*



Hey. Good morning, everyone. I wanted to ask about the Latin America business. It continues to be a very strong driver of your total company growth with very strong unit case volume, still very strong price/mix. There was obviously some temporary impasse with the flooding in Brazil. But just curious, A, what is working well? I know your bottler relationship have improved significantly over the last couple of years. And also just a general sense

on how the consumer is behaving in your key markets: Brazil, Mexico and some of the other countries. Thank you.

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### James Quincey

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

A

Yeah. Sure, Filippo. Yeah, Latin America had another strong result in the quarter. It sustained the volume momentum as you mentioned, clearly being driven from Mexico and Brazil. It's a pretty broad-based category, a success story including not just Coke trademark but now Coke Zero, 20% volume growth.

Obviously, part of this is a long-term capability momentum building approach with our bottlers in Latin America, really bringing together all of the components of the strategy that we talk about, whether it be the marketing transformation, the focus on innovation, the execution of price packaging in the marketplace, particularly in markets like Latin America, making sure we both have premiumization and opportunities but also, critically important, affordability options whether that be with regular packaging or returnable packaging, but really making sure we have ways of keeping people in the franchise, and all executed by the bottling system which has really doubled down not just on traditional execution and putting more cold doors out there but the digitization of their relationships with the retailers. So really a representation of what is possible when all the elements of the strategy of the system are executed in the marketplace.

I think it's worth noting that obviously, yes, strong volume performance of 5%. Please do take in mind that the price/mix is heavily affected by the Argentinian high inflation, and two-thirds of the price/mix is actually due to Argentina so that leaves you about roughly 6% for "normal" pricing for the rest of the countries. Nevertheless, a very strong result in Latin America, very pleasing and looking forward to seeing that continue into the future.

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

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### Chris Carey

*Analyst, Wells Fargo Securities LLC*

Q

Hi. Good morning. I wanted to ask a question on just balance sheet, cash flow specifically around fairlife. Clearly, it's a positive development that fairlife continues to do so well. The liability does, however, continue to grow. John, can you just maybe comment on what you can do to perhaps limit the negative impact from raising additional capital to cover fairlife, to cover the escrow payment, and specifically from a cash flow perspective in the next 12 to 18 months, and perhaps just an overall view on how you see the net interest expense versus income trending as you have some of these major payments ahead. Thanks.

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### John Murphy

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

A

Sure, Chris, thank you. Well, first, as I said, we're very pleased with the performance of fairlife, and the end is in sight relative to the overall construct of the deal we have in place there.

With regard to the broader free cash flow conversation, yeah, the sources we have are cash from operation. And in the short term as we continue to re-franchise some of our businesses from the proceeds that come in from that. During the second quarter, we also went into the debt market and we issued some long-term debt. And so, it's really a combination of those three that we are managing very closely to deal with the end of this year and into 2025 on the outflows that we see.

Balance sheet remains strong. We go into 2025 with a clear line of sight as to what needs to be taken care of. And yet as we have discussed on many occasions relative to our overall capital allocation strategy, we'll continue to invest in the business as appropriate to support a dividend while we take care of the fairlife acquisition and the tax payment that is on the horizon relative to the IRS tax case. So all in all, it's going to be an interesting 18 months to work through, but we very feel very confident that the work we've done to-date prepares us well to manage through it.

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

**Andrea Teixeira**

*Analyst, JPMorgan Securities LLC*



Thank you. Good morning. So, James, on the price/mix in North America, you mentioned about half of the 11 points driven by mix and the other pretty much pricing but still quite driven by innovation. Can you talk about the cadence of what to expect moving ahead? Of course, you've done amazing well and the team there in terms of the marketing campaigns and marketing in and around packaging and all of that, RGM playbook that you have. So looking ahead, is there any additional gains you expect and how we should be thinking, I guess, broadly even not only in North America but also in Brazil and Mexico, how to think of additional gains there as well as in EMEA? Thank you.

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**James Quincey**

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



Sure. I mean, absolutely we're going to continue to press ahead with the marketing, with the innovation, with the price pack, with the execution. That's the way we earn the right to take a reasonable level of pricing. Clearly, some of the inflationary effects and some of the mix effects are likely to become more subdued as we go into the back half of the year. So I'm not expecting, for example, in North America, if half of it is from mix and half of it is from core pricing, I think the mix piece will start to trend down over time. And in part, it does so because it starts cycling itself. And so I think the key for me is to look through the mix and the inflation effects and think about core pricing.

And if you do that at an overall company level and look at the second quarter in its totality, again there a big piece of it was inflation. You take it out and you're at the 4-ish percent in core pricing or for 2% volume, there you are right in the sweet spot of the top end of the algorithm that we've been looking to deliver on. So I think kind of the central assumption is kind of a landing zone for these effects like inflation and mix and starting to see more of the price/mix being the core actions across the strategy flywheels driving the business.

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

**Kaumil Gajrawala**

*Analyst, Jefferies LLC*



Hi. You delivered 2% case volume growth, and when we look across the rest of staples, we're seeing quite a bit of slowdown in volumes, and I think you're positive everywhere with the exception maybe of North America. Can you maybe just talk a bit more as you provided your operating environment views, but also AI innovation, new sports, sporting events, these types of things. What should we be looking at over the medium-term in terms of volume growth?

A

**James Quincey**

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

Yeah, so we, as from a strategy perspective, have taken the approach over the last number of years, to not say even longer, but it's critically important particularly when times get tougher to try and keep as many consumers in the franchise as possible rather than trying to re-recoup them at some later stage. And they're in our focus not just on marketing and innovation but affordability within the price pack architecture.

So clearly, an objective of ours is not to see negative volumes and to make sure we keep people in and use all the elements to do that. And so, as you say, we got 2% in the quarter, we had a run rate there. We've talked in the past, it remains true today that the central long-term growth algorithm we're looking for revenue of 4% to 6%, and we've set ourselves the ambition of staying in the 5% to 6% range with a balance of volume and price/mix, so that's essentially a way of if you split that, you're saying 2% to 3% in volume and 2% to 3% in price where we're kind of in that range in the quarter with the 2% volume.

So I think in the long run we will continue to pursue that. Talked earlier this year that in the shorter-term it's likely to be slightly more price and slightly less volume, which was kind of exactly what happened in the second quarter. So it would not surprise me as we go through the rest of the year that that remains true, that we see slightly less volume than the kind of standard algorithm and slightly more price as pricing tends towards – inflation tends towards the landing zone, and I think that's likely to be true as we go into the – as we go through the rest of the summer.

Hopefully, the weather gets a bit better, but we're likely to see that slightly less volume, slightly more price, and probably a repetition of where that volume is coming from in terms of the rest of the year. The positives largely being the developing economies, Latin America, India, Africa, Southeast Asia and to some extent Japan, and the kind of weighing on a little kind of the parts of North America and Europe channel and income-specific and some of the disruptions from the Middle East. But net-net, we think we've got a strong strategy that's playing out and is winning, and we're confident that we can drive that to get the balanced algorithm of growth through the rest of this year for our guidance and into the future.

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**Operator:** Our next question comes from Robert Ottenstein from Evercore ISI. Please go ahead. Your line is open.

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Q

**Robert Ottenstein**

*Analyst, Evercore ISI*

Great. Thank you very much. I'd like to go back to North America but look at it more on a category basis for the first half of the year with more emphasis on maybe the second quarter and get your thoughts on a couple of things.

Number one, it looks like for the first time that I can think of sparkling is doing better than energy as a sector. I'd love to get your thoughts on maybe what the drivers are there. Second, sports drinks, how your new strategy is working combining Powerade and BODYARMOR under one management team. And then third, any other particular things that you're seeing on the category side that are worth noting. Thank you.

A

**James Quincey**

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

Yeah. Sure, Rob. So definitely, yeah, North America had a good second quarter. The standouts in terms of growth, clearly – well, actually what's interesting is actually if you look at the Nielsen universe and you look at

which two trademarks provided most dollar retail growth in Q2, and the answer is fairlife and Coca-Cola. And so in a way, you could see that as a sort of microcosm of the overall strategy work. And you've got broad ends of the portfolio working, and it's being executed in the marketplace and driving really substantial growth. So good performance by fairlife, good performance by overall Coca-Cola with growth obviously being led by Coca-Cola Zero.

In the sports category, getting better. We had some positive volume growth in BODYARMOR and Powerade, and we're really starting to see the kind of stabilization with the marketing and the innovation and some pack price work going on there. We're not yet gaining all the share we want to gain, but we've stabilized and starting to turn the corner with some of those innovations on Zero and Flash I.V. and Powerade Sour. So a good kind of step forward on turning the corner and clearly looking to do better. I'm not sure there's much more to say. Great quarter and long may it last.

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

**Peter Grom**

*Analyst, UBS Securities LLC*



Thanks, operator, and good morning. So I guess I just wanted to follow up on Robert's question, just specifically on energy drinks. Right? I mean, it's one of the few categories where we've seen a pretty notable change here. So do you have any perspective, James, on what may be driving the weaker performance? And then, as you look ahead, would you anticipate maybe some of this pressure to be short-lived? Is there something you're seeing that would suggest this weakness could persist through the balance of the year and into maybe 2025? Thanks.

**James Quincey**

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



Sure. I think you need to kind of break it up a bit. I mean, firstly, look, we've had a great partnership with Monster. It created tremendous value for Monster, for us, Coca-Cola, and for the bottling partners. Clearly, in the case of the US, there has been what happens in every category when people create a category and there's one or two brands is people look for the white spaces and start to innovate and start to bring new news to the category. I think that's what's happening in energy, particularly in the US.

And so I think working with Monster that we'll respond to the evolution, the way the consumer is looking at the category. I think it's also important to understand that the energy category is one of the categories that responds to overall consumer need state of being fueled for their lives. And so from a company point of view, we see that as something where we bring multiple brands to bear against that need state.

And each brand in each category needs to play its part in kind of delivering on that and each one has to do their own work to do it. But I think there's more to be done across the board including in the Monster energy portfolio and we're working with them on that.

And then I think internationally there's robust growth in the energy category and making good progress around the world in different ways in different forms. So I think one has to kind of pull apart energy category and look at it kind of geographically to see that overall it's still got some good growth and there's different jobs to be done in different parts of the world.

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**Operator:** Our next question comes from Charlie Higgs from Redburn. Please go ahead. Your line is open.



**Charlie Higgs**

*Analyst, Redburn (Europe) Ltd.*

Yeah. Hi, James, John. Hope you're both well. I've got a question on Asia-Pacific, the performance in Q2, please, where volumes are up 3% and price/mix is down 3%. Can you maybe just talk a bit more about the volumes up 3% and specifically how China performed and what you're seeing on the ground there in China in Q2? And then the price/mix down 3%, is that purely just negative geographic mix from India and Philippines, also in Japan? Or was there negative pricing within that? Thank you.

A

**James Quincey**

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

Yeah, sure. I'll take it in reverse order, Charlie. Yeah. The negative pricing is more than driven by the mix effect. So core pricing is positive if you went operating unit by operating unit, but overall, Asia price/mix is negative because of the way the mathematics of the thing works. But the central answer there is it's more than just geography mix. Geography mix is consuming core pricing and taking it down to minus 3%.

And if I go back to the performance of the different operating units, clearly the big swing in Asia-Pacific is driven by the bounce back of India, you'll remember that in the first quarter, India had a soft first quarter. The second quarter was very strong and so that produces, obviously, a big swing in the results. So India had a good double-digit growth of volume in the second quarter. Still very bullish on India, still very realistic in terms of it won't be a straight line into the future, but they certainly had a good quarter in the second quarter.

We also saw good volume growth across Southeast Asia including also volume growth across Japan and South Korea. Volumes were negative in the China operating unit. There's two parts to this story. The first is, yes, there's a general macro softness as the overall economy works through some of the structural issues around real estate, pricing, et cetera, et cetera. But within the things that we control, we have essentially been prioritizing and restructuring where we invest across the category portfolio focusing more on sparkling and juice drinks and teas, and deprioritizing what is essentially case pack water where we don't make money in China. So the overall volumes were negative in China, but that's entirely driven by the deprioritization of the water. And actually, I think the sparkling volume was slightly positive in China fourth quarter.

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



**Kevin Grundy**

*Analyst, BNP Paribas*

Great. Thanks. Good morning, everyone. A question for John, please, just kind of building on some of the questions earlier on cash flow. Can we get an update please on timing of potential bottlers re-franchising? I think it's probably largely a question on CCBA and understanding that market conditions may potentially dictate. But can you help us how you're currently thinking about potential timing there? And then as you're thinking about value creation for shareholders, how much did EPS dilution come into that? We hear that from shareholders sometimes, if at all, as you're thinking about moving forward with that. Thanks.

A

**John Murphy**

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

So regarding the timing, we're not giving out dates as to when we expect the re-franchising process to finish. We're staying very thoughtful, disciplined in recruiting new partners in the areas that are still outstanding, and so there's good work underway but no imminent decisions and we'll advise as that work bears fruition. But I think the

overall message is we continue to be very clear internally on the path forward and will expect over the next couple of years to have the bulk of the re-franchising done, if not all of us.

With regard to the impact on EPS dilution, it's a mechanical effect that comes from the broader strategic decisions that we believe are right for the Coca-Cola Company and over time for the Coca-Cola system. The re-franchising work that started back in the mid-teens is demonstrating time and again that the overall system benefits when there's a step change in overall performance. And with that step change, we benefit over the longer haul. So as you've seen this year, there is a mechanical impact on the EPS line, but longer term we think that the broader value proposition of the Coca-Cola Company is staying very focused on what we do best and having a balance sheet then that's designed to support what we do best. Working in partnership with great bottlers around the world is the recipe for us to meet and exceed our long-term growth model.

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**Operator:** Our last question today will come from Robert Moskow from TD Cowen. Please go ahead. Your line is open.

**Robert Moskow**

*Analyst, TD Cowen*

Q

Hi. Thanks for the question. Maybe I missed it, but did you make any commentary about your intentions on marketing investment for the year, whether anything has changed since the start of the year? I think you talked about maybe some surgical efforts in certain markets and certain categories. But can I assume that there's no signal here that it needs to be incremental investment to improve volume?

**James Quincey**

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

A

Let me tack the answer in a different way. Our bias is to lean in and invest where we see opportunities. And, to the extent that we continue to see opportunities, we continue to invest, and if we see more opportunity, we'll invest more. And the contrary is also true. If we see softness that doesn't warrant certain level of investment then we will look to pull back.

Having said that, there's nothing particularly in the guidance that's trying to tell you it's changing radically in one direction or the other. We continue to see the need for marketing pressure. It's not a pick some that is not subject to inflation, but there's nothing in the guidance that's trying to tell you something radically different. It's very much we continue to invest and drive top-line, and we see the two marching together.

**James Quincey**

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

Okay. Thanks, Robert. That was the last question. So to summarize, we're building a culture that emphasizes improving every aspect of how we do business. We have lots of opportunities in front of us. We think we're well positioned to capture these opportunities, and we're confident that we will successfully execute our strategy and create value for our stakeholders.

Thank you for your interest, your investment in our company and for joining us this morning. Thank you.

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

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