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# The Coca-Cola Co. (KO)

Q4 2022 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** At this time, I'd like to welcome everyone to The Coca-Cola Company's Fourth Quarter and Full Year 2022 Earnings Results Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time. All participants will be on listen-only mode until the formal question-and-answer portion of the call.

I would like to remind everyone that the purpose of this conference is to talk with investors, and therefore questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations department if they have any questions.

I would now like to introduce Mr. Tim Leveridge, Vice President of IR and FP&A. Tim Leveridge, you may now begin.

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### Timothy K. Leveridge

*Vice President, Investor Relations Officer and Head of Financial Planning & Analysis, The Coca-Cola Co.*

Good morning, and thank you for joining us. I'm here with James Quincey, our Chairman and Chief Executive Officer; and John Murphy, our President and Chief Financial Officer.

We posted schedules under Financial Information in the Investors section of our company website at coca-colacompany.com. These schedules reconcile certain non-GAAP financial measures which may be referred to by our senior executives during this morning's discussion to our results as reported under Generally Accepted Accounting Principles. You can also find schedules on the same section of our website that provide an analysis of our gross and operating margins.

In addition, 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 turn the call over for questions. Please limit yourself to one question. If you have more than one, please ask your most pressing first and then reenter the queue.

Now let me turn the call over to James.

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### James Quincey

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

Thanks, Tim, and good morning, everyone. 2022 was a strong year for us. We executed well and grew amidst a challenging macro environment. We did this in part by focusing on expanding the sphere of what we can control. We delivered on our top line and bottom line guidance, and we continued to create value by investing in our loved brands even as we faced a very dynamic backdrop.

Today I'll reflect on our fourth quarter and the year's performance and set the stage for 2023. I'll also share how we're operating differently today, which makes us confident in our ability to deliver our 2023 guidance and well-equipped for a future that continues to be volatile and uncertain. John will then discuss our results and our 2023 outlook in more detail.

During the fourth quarter, the environment remained dynamic as inflation, geopolitical tensions, pandemic-related mobility restrictions and currency volatility persisted. Despite this range of factors, consumer demand held up relatively well and our industry remained strong.

In the fourth quarter, we remained focused on our growth strategy and continued to create value for our consumers and customers. We maintained agility to navigate this challenging environment and delivered 15% organic revenue growth in the quarter with strong growth across operating segments. This was driven by pricing actions across markets and revenue growth management initiatives to retain and add consumers.

While we saw robust volume growth across many markets, this was more than offset by the suspension of our business in Russia and the impact on consumption driven by varying levels of pandemic-related mobility restrictions and the surge in COVID cases in China.

Overall, throughout 2022, we have maintained consistent volume growth relative to 2019.

We've gained both volume and value share for the consolidated business for both the quarter and the year. So far in 2023, the volume growth trends versus 2019 are in line with last year, and we are laser-focused on executing on our growth plans.

Our streamlined portfolio of global and local brands and stepped up consumer-facing investments continue to fuel the competitive edge of the Coca-Cola system to deliver value in any environment. Our networked organizational structure enables this strategy. We've connected our operating units, our functions and our platform services organization for strong end-to-end coordination which helps us identify key opportunities for meaningful long-term growth. And on top of this, we remain well-aligned with our bottling partners, which further builds on our strength as a network system.

As we look to 2023, many uncertainties remain in the macro economy, whether from economic policies, consumer demand, inflation, supply chain, war, and geopolitics. Instead of trying to forecast and predict the many directions things could move, we are focused on delivering on our key objectives: firstly, pursuing excellence globally and winning locally through relentless consumer-centricity to continue the top line momentum; secondly, investing for the long-term health of the business and raising the bar across all elements of our strategic flywheel; thirdly, generating US-dollar EPS growth to deliver value for our shareholders.

We continue to build the right capabilities and strengthen the system alignment to deliver in a dynamic world, and we continue to invest to raise the bar. We are executing more efficiently and effectively on a local level while maintaining flexibility on a global level.

Throughout 2022, we saw many examples of harnessing our enhanced capabilities to win locally. Our new marketing model is working. We've linked occasions and passion points to drive engagement. We're experimenting to optimize marketing. This is driving deeper connections with consumers, reaching them in unique and new ways.

We are tying our beverages to consumption occasions and engaging consumers through local experiences. For example, in Vietnam, to support the reopening of away-from-home accounts, we launched the pilot of Coke is Cooking campaign in October. In this month-long campaign to help drive traffic back to stores, we partnered with more than 700 food shops. We created thousands of food-and-Coke combo deals that consumers purchased at these food shops along with Cokes is Cooking merchandising and digital support by local influencers. This was

the first time we used an on-ground event as a commercial asset creating a social and digital content generator. The campaign resulted in more than 1 million combo transactions and 20% uplift for participating merchants.

We're leveraging passion points locally to create immersive experiences and drive consumption. For example, in Latin America, our live music strategy created memorable in-person and digital experiences elevating consumer engagement. We partnered with Rock in Rio, one of the biggest music festivals in world, and created new opportunities for consumers to access content through livestreams and in the metaverse. As a result, we boosted our reach from approximately 700,000 attendees to more than 45 million consumers across the region, and our sales inside the festival increased 23% versus the last festival.

In India the Thums Up Stump Cam was a never-before-seen activation for cricket fans where consumers could scan a QR code on product label and get access to exclusive match moments of the ICC T20 Cricket World Cup through a camera installed on one of the wickets. Throughout the 45-day tournament, we used first-party data and artificial intelligence to send personalized content to consumers based on their favorite matches, and we amplified the experience through sports influencers.

This campaign showed strong results with Thums Up growing volume ahead of our total sparkling portfolio in India during the activation period, contributing to strong volume growth for Thums Up for the full year. This drove about one quarter of India's total volume growth for the year. Thums Up also experienced its highest monthly market share jump during the activation period.

We are driving consumer interest and action through digital experiences using the power of partnerships across platforms. For example, in Germany, we partnered with our key online customer and created voice-based branded experiences with its voice assistant to drive engagement and grow positive brand perception. This allowed consumers to learn more about Coca-Cola products and shop on voice-assistant-enabled devices using only their voice. The campaign delivered strong results with a reach of 11 million impressions. Additionally, consumers who engaged with this voice-based experience had a 25% add-to-cart rate.

And lastly, we're delivering new and unexpected innovation by leveraging Gen Z insights. In the US, we launched Minute Maid Aguas Frescas. The product is made with real fruit juices, is non-carbonated, and comes in three exciting flavors. It was originally available as a limited launch in 16-ounce ready-to-drink cans. A disruptive end-to-end digital-media marketing campaign created early momentum which led us to quickly scale this experiment to our Freestyle platform and other fountain offerings. In 2022, the product had a 60% repeat rate and won the Best New Product award from Convenience Store News.

We have been building our revenue growth management and execution capabilities for many years, and we've made good progress, as shown by our ability to offset some of the inflation we saw in 2022 and deliver strong volume and transaction growth. There is still much work to be done to maximize revenue by further segmenting our market and consumers based on additional variables. We're leveraging digital and data-backed insights to better understand our consumers. This will help drive affordable propositions for basket incidence growth and recruit new drinkers. It will also lead to premiumization to drive price and mix.

For example, in Europe, we grew both volume and value share for the last year. We partnered with key customers to drive growth through affordability and premiumization initiatives that tapped into the key consumption occasions of meals and breaks. This end-to-end execution resulted in higher basket incidents and buying households across all key channels in Europe. Globally, this strong system execution focus generated 80 million additional shopping trips for our products and added 17 million households to our base. Through our stepped-up capabilities, we are

getting better at synchronizing demand creation and demand fulfillment, driving top-tier value creation for our customers.

We measure success by the value we create for our stakeholders and by how we are creating a better shared future for people, communities and the planet. During 2022, we made progress across these sustainability priorities. We leveraged our marketing power to drive growth of our low- and no-calorie beverages and continued to provide smaller package choices to enable consumers to manage sugar intake. Approximately two-thirds of the products in our portfolio have less than 100-calories per 12-ounce serving.

On packaging, we've set a new industry-leading goal of 25% of our volume globally in refillable or reusable packaging by 2030. Additionally, we are continuing to increase core energy efficiency and the use of HFC-free coolers to make progress on our science-based targets while creating a clear roadmap with our systems and suppliers to achieve our carbon emissions reduction ambition.

On water, as part of our 2030 water security strategy, we stepped up investments in nature-based water solutions exemplified by the work we're doing with The Nature Conservancy and other partners. Globally, we are working to strengthen the links between replenishment projects and nature-based solutions.

We further embedded sustainability into our strategy by linking diversity, equity, inclusion performance measures to our executive annual incentive program and by linking water and rPET packaging measures to our executives' long-term incentive program. Overall, we continue to focus on using our leadership and scale to drive change while delivering results and building resilience.

Finally, before I hand it over to John, I want to acknowledge that our strong results in 2022 reflect the collective efforts of our system partners and the growth mindset of our system employees. Guided by our purpose, we are investing behind our capabilities and further cultivating our growth mindset to be well-positioned to create value and deliver on our objectives. While we have momentum in our business, we know uncertainty remains as we turn the page to a new year. We will continue to focus on expanding the sphere of what we can control to drive growth in 2023 and beyond. We'll talk about this in more detail when we return to CAGNY in person next Tuesday and would encourage all of you to listen in.

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 fourth quarter, we continued to drive strong top line-led results as we executed for growth in a dynamic operating environment. We grew organic revenues 15%. Unit cases declined 1% as broad-based growth across most markets and investments in the marketplace were more than offset by the suspension of business in Russia and a decline in China.

Concentrate sales were 3 points ahead of unit cases for the quarter primarily driven by one additional day and the timing of concentrate shipments. Our price/mix growth of 12% was driven by pricing actions across operating segments along with revenue growth management initiatives and favorable channel and package mix. Comparable gross margin for the quarter was down approximately 90 basis points versus the prior year, mainly driven by currency headwinds in the volatile macro backdrop and the mechanical effect of consolidating the BODYARMOR finished goods business.

Underlying gross margin was in line with the prior year, driven by strong organic revenue growth, offset by higher commodity costs. We continued to significantly accelerate our marketing investments to engage and retain existing consumers as well as to gain new consumers. Despite higher costs across the P&L, increased marketing and currency headwinds, comparable operating margin expanded 65 basis points for the quarter. This was primarily driven by underlying operating margin expansion due to robust top line growth across operating segments. Importantly, this resulted in full year comparable operating margin being in line with the prior year despite significant currency acquisitions and cost headwinds.

Below the line, we were impacted by higher net interest expense along with lower other income due to cycling higher pension income from the prior year. Therefore, fourth quarter comparable EPS of \$0.45 was in line with last year, despite higher-than-expected currency headwinds. This resulted in full year comparable EPS of \$2.48, an increase of 7% versus the prior year, driven by strong underlying business performance, partially offset by 10 points of currency headwinds.

For the year, we delivered free cash flow of \$9.5 billion, a decline of 15% versus the prior year. Much of the decline versus our expectations occurred due to the deliberate buildup of inventory in the face of a volatile commodity environment and higher-than-anticipated tax payments. Additionally, cash flow was impacted by cycling working capital benefits from the prior year and higher incentive payments in 2022.

Even with these items, our underlying cash flow generation remained strong, and we continued to make progress on our cash flow agenda. Our three-year average free cash flow conversion ratio is above 100%, ahead of our long-term target. Our balance sheet remained strong with our net debt leverage of 1.8 times EBITDA as of the end of 2022, which is below our targeted range of 2 times to 2.5 times. Our capital allocation priorities remain the same, and we continue to prioritize investing in the business to drive long-term growth as well as delivering dividend growth for our shareowners. At the same time, we remain mindful of maintaining our financial flexibility amidst the ongoing tax dispute with the IRS and are learning from the last few years of how important it is to build resilience in all of our plans.

As James mentioned, in 2023, we expect the operating environment to remain dynamic. We have the right portfolio, a very focused strategy, a flexible and adaptable structure and a system with the ability to reinvest in the business. This gives us the confidence that we will continue to deliver on our three key objectives: pursuing excellence globally and winning locally, investing for the long-term health of the business, generating US dollar EPS growth.

With that in mind, this morning we provided guidance for 2023 that builds on our strong results in 2022. We expect organic revenue growth of 7% to 8%, primarily led by price mix amidst the ongoing inflationary environment, and we expect comparable currency neutral earnings per share growth of 7% to 9% versus 2022.

Since we provided our initial outlook on currency in October, the currency environment has improved but remains volatile. Based on current rates on our hedge positions, we anticipate an approximate 2 points to 3 points currency headwind to comparable net revenues and an approximate 3-point to 4-point currency headwind to comparable earnings per share for full year 2023.

Based on current rates and hedge positions, we expect per-case commodity price inflation in the range of a mid-single-digit impact on comparable costs of goods sold in 2023. We continue to expect our underlying effective tax rate to be 19.5% for 2023. And all in, we expect comparable earnings per share growth of 4% to 5% versus \$2.48 in 2022. We expect to generate approximately \$9.5 billion of free cash flow in 2023 through approximately \$11.4 billion in cash from operations, less approximately \$1.9 billion in capital investments.

I would like to highlight that included in the \$11.4 billion of cash from operations are two to three items: transition tax payments of approximately \$720 million, a schedule increase of \$335 million versus 2022, and payments associated with various M&A transactions of approximately \$350 million. Excluding these, our implied free cash flow conversion would be within our long-term guidance. This guidance does not include any payments related to our ongoing US income tax dispute with the IRS.

Recently, the Tax Court issued an opinion on a case involving a separate company. The Tax Court will now apply this opinion to our case and ultimately render a final decision in our case, allowing us to move forward with the appeals process. As previously discussed, we intend to assert our claims on appeal, vigorously defend our position, and believe we will ultimately prevail. Overall, we don't expect this to have a bearing on our ability to deliver on our capital allocation agenda and drive long-term business growth.

There are some considerations to keep in mind for 2023. We expect price mix to moderate through the year as we cycle our pricing initiatives from the prior year. While the inflationary environment appears to be cooling, we are still expecting to see elevated inflation across our operating costs. We have stepped up our marketing investments over the last few years, and we will continue to invest to support momentum. Given the ongoing backdrop of rising interest rates, we expect to see higher net interest expense given our effective exposure to floating rate debt.

Finally, due to our reporting calendar, there will be one less day in the first quarter and one additional day in the fourth quarter.

Having delivered strong results in 2022, we are focused on driving a top line-led growth equation in many types of environments. We are well-positioned to deliver on guidance for 2023 thanks to the incredible people we have around the world, the strong alignment with have with our bottling partners, and the great plans we have for the coming year.

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

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question comes from Lauren Lieberman from Barclays. Please go ahead. Your line is open.

**Lauren R. Lieberman**

*Analyst, Barclays Capital, Inc.*

Q

Great. Thanks. Good morning. I guess in light of John's comment just now, the top line-led growth equation, I was hoping you could talk a little bit through the outlook for 2023 on top line. Just kind of puts and takes, how you think about that 7% to 8% relative to the mid-teens put up in the fourth quarter, and just kind of more color overall on that revenue outlook for this year would be great. Thanks.

**James Quincey**

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

A

Yeah. Sure. Good morning, Lauren. Firstly, as John said, we feel confident about our outlook to drive the year from the top line. Let me connect that perhaps starting to 2022.

As we commented, we saw steady volume growth through the year including the fourth quarter. I know we reported a headline number of minus 1%, but if you accommodate the suspension of Russia and the COVID restricts in China and take a three-year CAGR of volume growth, you see a pretty constant growth momentum through the year. And we would also comment that that growth momentum has continued into the beginning of 2023.

So we see strong underlying volume momentum or ongoing volume momentum that we have been able to achieve by our focus on the marketing, the innovation, the RGM and the execution to accommodate the need for affordability and premiumization in the face of inflation.

And as John commented, we do see both inflation moderating as we go through 2023 and of course our own pricing PMO beginning to moderate as we go through 2023, in part because the input costs of inflation is moderating but also because we begin to cycle some of the price increases from 2022.

And what that's likely to net out as, obviously we've given a 7% to 8% for the full year, and what we're likely to see is the beginning, the Q1, we're likely to see revenue growth more close to what the sorts of levels we were achieving coming out of last year and that then logically, the organic growth rate moderates as we get towards the end of the year, looking to close out under a more normalized level of revenue growth. And then when you average that out, you get to the 7% to 8%. So I think we're going to see some good momentum through the year, moderating revenue growth rate as a function of moderating inflation ultimately. And what will remain as a good strong underlying momentum of our business that has been powering the last five years and we are confident will continue to power the years ahead at the sort of level of top line relative to the long-term growth model that we have previously talked about.

**Lauren R. Lieberman**

*Analyst, Barclays Capital, Inc.*

Q

Okay. Great.

**Operator:** And our next...

**Lauren R. Lieberman**

*Analyst, Barclays Capital, Inc.*



And I guess – sorry. Can I? I didn't know if my line was open. Okay. Just a quick clarifying point on that, I apologize, was just to think about volumes. And whether you want to talk about the general concentrate sales or unit case volumes, do you still expect growth in the second half of the year from a volume standpoint? Or do you expect, not still. Do you expect?

**James Quincey**

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



Yeah. So the long-term – firstly, we had good growth last year, and we started the year with unit case growth obviously with PMO. As we look forward, what's normal on our growth revenue rate, we have called out we expect to get a balance of the growth between unit cases and price/mix on an ongoing basis. Exactly how that turns out in the second half will depend on the environment, the dynamics and whether inflation does moderate, how much pressure the consumer does come under. Our central view is we will continue to see unit case growth in the second half combined with price/mix moderating, as I talked about, as the overall organic trend.

But our focus remains executing against our plan and, obviously, that involves not just a focus on the marketing and innovation, but within the RGM, we have as one of our objectives to maintain consumers within our franchise by leveraging our pricing and packaging strategies to support affordability around the world to keep the perhaps lower-income consumers in the franchise, which of course is to some extent an underpinning on volume. We prefer that as a strategy than to have more price and less volume.

So again, our central view is to see continued level of unit case growth in the second half with obviously a moderating price mix to get to the overall revenue. But we're going to manage the business. In the end, we don't know exactly what's going to happen. There are lots of scenarios as to – as how this all might play out. But we're confident we can drive the momentum of the business.

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

**Dara Mohsenian**

*Analyst, Morgan Stanley & Co. LLC*



Hey. Good morning, guys. So just to follow up on that, James, can you give us a little bit of detail regionally on expectations for 2023? I know you're not going to quantify it, but just how you're thinking about the business conceptually relative to the results you delivered in Q4 here and take us around the world regionally.

And then I guess just secondly if I can slip a clarification in. You're obviously starting off the year with top line guidance higher than you typically do, higher than long-term algorithm, higher than you started 2022 at despite delivering great results in 2022. It's a less visible world, in theory, externally, so I guess it sounded more like a good start so far this year. You have a lot of visibility given that, and that's what's driving some of that confidence. But I'd love to hear from your vantage point what sort of gives you the confidence there. Thanks.

**James Quincey**

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



Sure. I'll take that in reverse order, Dara. We'll count that as two halves of a question rather than two questions. Let me give you another way of thinking about 2023, because I agree there is a good deal of uncertainty as to how this might play out. But there's been a tremendous amount of volatility and uncertainty over the last five years or four years. If you were to take a compound annual growth rate of unit cases and price/mix over the last, I don't know, four or five years and look at that number, I think you'd end up with something around 2% on volume and 4% or 5% on price.

So you could look back and say, wow, we were on a crazy ride there, but in the end we got a good number. And so I look at 2023 and say, yes, something unexpected is bound to happen, but as we have expanded our ability to influence our own business, we have been adaptable in the face of all sorts of circumstances and been able to deliver the results we wanted, which is winning locally and turning that into US dollar EPS growth.

And so that's what gives us the confidence. We don't know what's going to happen, but we do know we've generated a lot of momentum, a lot of flexibility, and a lot of agility to be able to manage through what's going to come at us. So that's really the source of the confidence rather than being able to say we know what the future holds entirely.

And as we walk around the world, taking the various different pieces, starting in Europe perhaps or in EMEA, clearly Europe's under some more pressure. The impacts of the conflict drove a much greater short-term spike in inflation. That's playing itself through. It looks like the European economies are going to avoid a technical recession, but clearly consumer demand is softening and I think that's likely to continue into the rest of the year.

And looking at the other markets in EMEA, if you're a resource seller, you're doing well. If you're a resource buyer, you're under measure pressure. Obviously, Türkiye, tragic situation with the earthquake, but also the economy has been under pressure already. So the emerging markets there are a full range, and similarly in Africa, South Africa's important to us. They've got a very big problem in terms of energy which is hampering the economy growth. So there's more pressure in EMEA.

The US continues to be strong. We've got momentum in the business on the top line, doing well. The situation seems to be moderating without causing a hard landing as of yet. We expect to see the pressure to continue to moderate, but the economy and the consumption at least of beverages continues to be good.

Latin America, similarly, obviously there's some places which continue to have very high inflation and the economic problems like the Argentinas of the world, but Latin America's doing well.

And then out to Asia, obviously the reopening of China is going to be a positive for the business certainly on a psyche basis. India is flying. ASEAN will, we expect, come back up as those two large economies do well, and we think that will also do well for Japan.

But we see both a continued growth in a number of markets, some doing really well, but the general context being a moderation of the inflation. And the zillion dollar question always comes back to, is the process of bringing inflation down going to be hard, soft, or a perfect landing? And that we will see.

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

**Bryan D. Spillane**

*Analyst, BofA Securities, Inc.*

Hey. Thanks, operator. Good morning. Just a question for John. I guess two, just related to cash flow and interest expense. I know you talked about net interest expense being up for the year in 2023. Can you just give us a little bit more detail in terms of I think consensus is sitting at like \$600 million for net interest. So just if you can just give us more help in terms of where we should be on net interest expense?

And then on free cash flow, you talked about the drivers that knock it down in 2023. Would we expect that as we kind of go into 2024, 2025, that should normalize? So is this more kind of contained within this year, and then you expect to normalize going forward? Thank you.

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**John Murphy**

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

**A**

Thanks, Bryan. Let me start with the second question, the key drivers for 2023. We have on top of strong underlying performance, we'll have two significant buckets. One is we are stepping up our capital investments to support the growth agenda in a number of our operations around the world and so that's \$400 million increase in 2023.

And then we have approximately \$700 million related to an uptick in the transition tax and some M&A-related initiatives. So for 2024, we've continued to invest in the business as the business needs especially when it comes to providing capital for our growth plans. The transition tax goes up a couple of hundred million in 2024. That'll be the second-last year of the transition tax [ph] there that ends in 2025. So you can do the math on the variances going in (00:35:40-00:35:48) from 2023 to 2024. We expect the underlying performance to continue. We'll invest as we need to in the business to support the growth agenda, and we do have, I'd say, a couple hundred million extra in 2024 on this transition tax.

And then with regard to interest, yeah, as we've highlighted, with our current debt portfolio, we will see an uptick in 2023 in interest expense. And I'm not going to go into the specific numbers, but you can expect a couple of points of deleverage primarily driven by interest expense as we navigate through this year.

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

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**Steve Powers**

*Analyst, Deutsche Bank Securities, Inc.*

**Q**

Yes. Hey. Good morning. Thank you. James, maybe going back to the top line. For a while you'd been making simultaneous efforts to drive both affordability on the one hand and then premiumization on the other hand and I think, doing a good job along the way balancing those, in some ways, competing efforts to net out in a way that ends up in both positive volume and positive price/mix territory. I guess the question is as you look at 2023, do you see more opportunity in your efforts to optimize revenue growth on the value side and the affordability side? Or is it on the premiumization side? And to the extent that there's a leaning, how does that impact where you prioritize incremental investment?

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**James Quincey**

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

**A**

Yeah. Thanks, Steve. Absolutely, we see opportunities in 2023 and frankly beyond to continue to leverage the capability around RGM to both use affordability to keep typically lower-income consumers engaged and engaged with our brand franchises whilst also pursuing premiumization. And it's going to be a dynamic implementation as we go forward. We're going to see continuations into 2023 of different sorts of packaging options, whether they be

drives around returnables, which obviously tend, given the economics of returnables, to have lower price points, whether we see, for example in emerging markets, the greater use of one-liter packaging instead of larger packaging for at-home occasions, we are going to continue to see a lot of opportunity to push forward right across the world with affordability options.

And given that they tend to be dilutive to margins, we also look for all those consumer opportunities for premiumization, whether it be directly a brand launch, I mean things like the Jack and Coke will be accretive to revenue, or directly within some of our brands to use the sleek cans and the smaller cans, to kind of put more premium packaging into the marketplace.

Yeah, it will be an ongoing effort, and we don't see the runway of that running out any time soon.

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**Operator:** Our next question comes from Nik Modi from RBC Capital Markets. Please go ahead. Your line is open.

**Nik Modi**

*Analyst, RBC Capital Markets LLC*

Thanks. Good morning, everyone. James, I just wanted to follow up on the last question regarding all the affordability packaging. Just based on the historical kind of observations across the world, how does it work with retail? I mean, are these incremental facings you're getting? Or is it replacing older pack sizes that might have a lot more price sensitivity?

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**James Quincey**

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

It could be both, Nik. And obviously, it depends whether we're talking about supermarkets, convenience stores or small mom-and-pops. The more we're talking about smaller stores of convenience or the mom-and-pops, the more it is replacement. Obviously, we make a big focus even in those smaller formats to gain incremental space, whether it be in the cold vaults or on the floor with our own coolers and our own racks. That absolutely does increase beverage category facings.

But there's nothing wrong in any given store with looking at the SKU layout, and saying look, I'm going to take some of these SKUs and replace them with more affordable SKUs, and I'm going to take some of them and put more premium options in such that the total mix works not just for us but also for the customer and, ultimately, for the consumer. It's got to work for the consumer; otherwise, it's not going to rotate faster than the setup that's already in there, because in the end, the customer's going to support these strategies because it works for them, because it works for the consumer; and everyone's better off with the implementation.

So, yes, a mix of incremental versus cannibalized facings. Ultimately, by focusing on the consumer, you get a better answer for them, it creates a better answer for the customer; it creates a better answer for the Coke system.

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

**Bonnie Herzog**

*Analyst, Goldman Sachs & Co. LLC*

Thank you. Good morning, everyone. I was hoping you could provide a little more color on your plans for reinvestments this year, and then maybe frame for us whether it will be stepped up versus last year. Also, how are you thinking about your marketing spend this year? Do you also have plans for that to accelerate? I guess I'm ultimately trying to understand how much flexibility you have to balance the momentum. You're certainly seeing your business with reinvesting while at the same time letting some of the strength flow to the bottom line. Thanks.

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

Yeah. Sure. We're clearly going to – as we have in 2021 and 2022, have a bias to invest for growth. That's our starting point. And as we demonstrated in the early years of the pandemic, if we see overall, or in any specific countries, that that allocation towards driving growth is inappropriate at some sort of level, we've demonstrated the ability to act quickly to redirect the money either somewhere else or to let it go to the bottom line. So we're going to use all the data we get in from the field to be very dynamic in our resource allocation.

We largely feel we have achieved an appropriate level of marketing. Yes, that's going to increase in 2023 because we're growing the business. In the same way, as John mentioned, we're going to increase our CapEx to support the bits of the business where CapEx needs to flow.

But we are going to manage all of this with an agile hand, depending on the circumstances. We talked in the answer to the other questions that we don't know what the year will hold. We have a central view that is growth orientated, that balances volume and price, that accommodates different pressures around the world and different speeds of moderation of inflation. But it's a bias towards growth, and we will be fast and adaptable in the face of anything different.

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

**Kaumil Gajrawala***Analyst, Credit Suisse Securities (USA) LLC***Q**

Hey. Good morning, everybody. Can you maybe touch on briefly what you're seeing from the retail environment? We're seeing more and more articles on retailers pushing back on price increases across really all of CPG. If you can maybe just give us a sense of what you're seeing in your categories.

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

Sure. I mean, firstly, one has to kind of break down the global dynamic because each major region or each country is a different place. But let me start with the central idea that we pursue, which is we need to earn the right to take price. It's not our strategy to think of our business as commoditized, where prices just flow up and down in a kind of mechanical way. We need to own our pricing by delivering for the consumers value that they appreciate through the marketing, through the innovation, through the RGM and the pricing and packaging work, through the execution, such that they see value in our brands that can sustain the pricing that the input costs are driving us towards. And that ultimately then has to work for the customers. And because it has to work for the consumers, it then flows down to the customers.

So we've earned the right to price for the consumers. Then we can go to our customer partners and say, look, we think that we can lead the beverage category to grow faster than your business. Yes, we believe we're going to be more competitive because we understand the consumers and we're going to gain share but we can lead the

beverage category to deliver more growth for you and be a disproportionate share of our revenue growth relative to other categories, which is what, for example, was demonstrated last year in Europe where I think we led. We added more revenue growth than any other system for retailers in Europe last year.

And that is the platform on which we then fold in the conversations around pricing and packaging for any given year. So yes, of course, there's pressure in the marketplace. But in the end, we have an approach we believe is consumer-centric and that drives growth for the customers because they also want to keep the consumers, too.

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

**Chris Carey**

*Analyst, Wells Fargo Securities LLC*

Q

Hi. Good morning. So clearly, the past several years have had big variability in your channel and package mix within the overall price/mix equation with mobility constraints and sharp recoveries thereafter. Just taking John's commentary on a price/mix-driven year for next year and James talking about volume will still be a factor, I guess what I'm wondering is, just underlying within that price-mix, whether you think channel and package mix have normalized? Right? You guys [indiscernible] (00:47:19) we're not really talking about recoveries in those line items and what's going forward will be more offensive or growing from a normalized base. And so do you think you're back to that normalized base from a channel and package mix from which to grow? And then in 2023, do you have any thoughts on what the contribution is from price relative to channel or package mix? Thanks.

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**James Quincey**

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

A

So firstly, in any given country, channel mix has largely recovered 2019 levels. Yes, there are some exceptions like China which is only just now reopening and a couple of other countries. And when I say largely normalized, if you take something like the US, clearly there are a number of away-from-home outlets that have dropped out of the marketplace. So there's a tail or there's a last piece of the recovery channel that is not going to happen overnight and may not happen for some time to come. But in headline terms, other than a little bit of positive channel effect perhaps in the first half, I think we can put a line on the channel mix being – or the recovery of the channel mix relative to the pandemic being a major driver of price/mix going forward.

Yes, package mix will continue to be a factor as it has been in previous years and prior to the pandemic. Clearly, as we pursue a dual strategy of keeping consumers in this franchise with affordability and looking for premiumization opportunities, the two can somewhat offset each other, and one's dilutive, one's accretive, but they're both valuable strategies that need to be taken forward. So I think predominantly what you're going to see in 2023 is the ongoing moderation of rate pricing, both as we cycle rate increases or price increases from 2022 and as inflation in general and inflation specifically to us, whether it be in SG&A or in commodities, begins to moderate.

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**Operator:** Our next question comes from Carlos Laboy from HSBC. Please go ahead. Your line is open.

**Carlos Laboy**

*Analyst, HSBC Securities (USA), Inc.*

Q

Yes. Good morning, everyone. The Latin American bottlers keep guiding for stepped-up investments in traditional trade DSD capabilities to fully exploit this new cooperation framework they have with your firm. Do you think this is already ticking in for this system's financial performance? And is the model, in your view, adaptable to other

parts of the world where the promise of maybe higher ROIC and stepped up bottling CapEx can drive system growth?

### James Quincey

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

Yeah. Let me take that in parts. The features that we have in the long-term relationship model in Latin America, we're rolling those out in a number of other places. And clearly the more we can intensify whatever the framework gets called, the degree of alignment towards investing to capture the opportunities in the marketplace, the better off we're going to be, us and our bottling partners, in any given geography. So absolutely we continue to see opportunities to work even closer together to capture opportunities in the marketplace.

The nature of those investments, the nature of the opportunity are not exactly the same as Latin America. Clearly the trade structure differs around the world. Latin America has a number of particular features that are not necessarily replicated in the US or Europe or Japan, for example. But the overall concept of a tighter, longer-term investment focus on the opportunities is really going to continue to drive performance into the future years.

And I think in Latin America, we've got a great business there collectively as a system because we've focused on investing into the marketplace and into the traditional trade for a very long time along with all the other customers in Latin America. But there are still plenty of opportunities to go for both from the top line and from the point of view of improving returns.

So I think you'll find, or everyone will find, that the Latin American bottlers, as bottlers around the world, we see a lot of – collectively we see a lot of opportunities ahead of us to drive the top line and to continue to improve returns on the bottling assets.

**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, operator, and good morning. James, as we think about this 7% to 8% organic sales growth guidance, what is the price/mix carryover into 2023? You said it obviously will moderate, but [ph] whilst (00:52:28) are you embedding any additional pricing that is not in the trade yet? And how are you planning for China volumes in 2023? What is the benefit from that? Or any mix dynamics we should be aware of? Thank you.

### James Quincey

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

Yeah. So we're certainly planning for China to become more normalized, sort of reopening à la the US and Europe, and so we will see a more normal level of volume in China and a recovery to the 2019 or growth on the 2019 numbers starting to come through as we go through the year in China.

And then in terms of the carryover, clearly there is some carryover, particularly in the first half from 2022, but we will be taking pricing in 2023. Now, having said we will be taking pricing, the world is very different. I mean, there are countries where inflation is well over 50%, so pricing is taken multiple times a year. Argentina is an obvious example.

So in the developed markets, it's likely we'll trend more back towards kind of more standard cycles of pricing, but there will be price increases across the world in 2023 to reflect both the continuing inflation in import and SG&A

costs. Obviously, we need to, as I talked about in the previous answer, earn the right for that pricing, but there will be pricing in 2023.

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

**Robert Ottenstein**

*Analyst, Evercore Group LLC*

Great. Thank you very much, and congratulations on a terrific year. So over the last few years, James, you and your team have made significant cultural changes, organizational changes, changes to the product portfolio. As you look at 2023, what are the key initiatives that you're looking to drive to set up for continued strong growth over the next decade or so longer term? And perhaps we've ended that answer where things are on Costa, on BODYARMOR and on any other new initiatives that you think would be helpful to discuss. Thank you.

**James Quincey**

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

Yeah. Great. Thanks, Rob. And certainly, we will unpack a little more of this at the CAGNY presentation and the CAGNY conversation, so I'm sure I won't do full justice to the question in this session.

In terms of the initiatives in the marketplace, we have an aspiration of being a total beverage company everywhere. That's not going to happen overnight, and so we need to make progress in a disciplined way in different category-country combinations, as we've talked about, to establish leadership positions, preferably quality leadership positions, in the next set of country-category combinations on our journey to the total aspirations.

And within that, there are ones that off to the races and flying away and there are ones where we still need to demonstrate to ourselves we can execute against the vision. If I take the two you called out, Costa and BODYARMOR, to start with, the essential thesis behind coffee remains the same. It's a huge market. It's growing. There's lots of money in it. If we can find a path, there's a tremendous growth opportunity for the Coke system there. We've got a vision. The reality is the timing was very unfortunate, getting it just before the pandemic.

In strategic terms, despite all the experimentation, despite all the learning, despite all the initial steps, in big strategic terms, we haven't advanced because essentially COVID put it on hold for three years. We now need to get the execution ramped up for Costa against the vision and in the coming years demonstrate that that holds water.

BODYARMOR, great job. We obviously incorporated that into the company last year. And I think, whilst we always expect some level of disruption as we move a business that has been growing quickly and prepared for sale by the founders into the Coke system, there's often some disruption in the short term. Frankly, I think that was more in 2022 than we expected or would have liked. But we have a good plan going forward in 2023 that will kind of reset BODYARMOR on a good path and in a complementary way to POWERADE.

Other initiatives which we're looking very interested in the degree of traction is some of the alcohol experiments, particularly looking to see Jack and Coke do well. Early data in Mexico launched at the end of last year was encouraging, ahead of expectations. The US launch will be very interesting at the end of March.

And all of that will be backed up by the continued work on the culture and organization; whilst nothing ever settles, it never ends, but I think really it's about continuing to stand up and execute against the internal initiatives we've

already launched with the organization is coming together. We made a few tweaks in North America coming into this year. But the organization is getting up and running and starting to hum. The marketing model change is starting to show good results and promise. So I think it's a question of seeing through the things we've launched to really up our game in the coming years.

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**Operator:** Our last question today will come from Charlie Higgs from Redburn. Please go ahead. Your line is open.

**Charlie Higgs**

*Analyst, Redburn (Europe) Ltd.*

Hi, James, John. Hope you're both well. My final question is just on India where it looks like it's had just a record year. Could you maybe just expand a little bit more on India? Is it still being driven by the affordable price-point strategy? Are you adding distribution that means maybe this volume growth is actual sustainable over the long term? And then, James, maybe you could just give some color on your long-term view on India. Thanks.

**James Quincey**

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

Yeah. India had a cracking year last year, and it's off to a strong start this year. I think the overall backdrop to this is, firstly, that the Indian economy and the Indian consumer base is approaching, in highest-level terms, a level of GDP per head at which historically the beverage industry has tended to accelerate its development. And so we are very encouraged by the potential in India to develop a fantastic beverage industry and beverage opportunity.

Ultimately, the development industry is very nascent in India, and there is a huge potential to build the industry over many decades. And so that's being driven not just by the affordable entry price points, although they are growing. Really it's a question of actually everything is growing on all dimensions. It's growing in terms of the depths of the different brands. It's growing in distribution. It's growing in number of packages. And so I think the there's a huge long potential in India. It won't in all likelihood be a straight line, but there is huge potential in India.

And really, in a way, India exemplifies the very long-term opportunity of a whole set of emerging markets, India, Africa, parts of Eurasia, parts of ASEAN to actually – they themselves have 80% of the world's population, and the development of the beverage industry is a third of what it is in the developed market. They [ph] only pay for about I think 3 in 10 of the commercial beverages – or 2 in 10 of the commercial beverages whereas it's 7 in 10 in the developed markets (01:01:38-01:01:46).

So India typifies the long-term potential of the beverage industry to keep growing, and I think it's a market that is set to take off. So...

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**Operator:** Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the call over to James Quincey for any closing remarks.

**James Quincey**

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

Thank you, operator. So, to summarize, we have momentum in our business. We're winning in the marketplace. Sustainability embedded in our strategies, and strong alignment with our bottling partners. We are pursuing excellence in brand-building, innovation, revenue growth management and execution to add and retain consumers and drive long-term value for our stakeholders.

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

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

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