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The Coca-Cola Co. (KO)

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MANAGEMENT DISCUSSION SECTION

Operator: At this time, I'd like to welcome everyone to The Coca-Cola Company's First Quarter Earnings Results Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time. All participants will be on a listen-only mode until the formal question-and-answer portion of the call. I would like to remind everyone that the purpose of this conference is to talk with investors, and therefore, questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations department if they have any questions.

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

Timothy K. Leveridge

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

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

Note that we've posted schedules on our financial information in the Investors section at our company website at www.coca-colacompany.com. These schedules reconcile certain non-GAAP financial measures, which may be referred to by our senior executives during this morning's discussion to our results as reported on our generally accepted accounting principles. You can also find schedules in the same section of our website that provide an analysis of our gross and operating margins.

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

Now, I'll turn the call over to James.

James Quincey

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

Thanks, Tim, and good morning, everyone. First and foremost, on behalf of our company and our entire system, I'd like to share our deepest sympathies to all those who have been affected by what's happening in Ukraine. The safety of our people and their families continues to be our top priority, and as we highlighted in our release this morning, we are taking actions to provide that support.

Now, this morning, I'll discuss how we drove strong results in the quarter and that we are reiterating our guidance even in the face of incremental challenges. Then, John will discuss the financial details of the quarter and how our work has prepared us for whatever may be around the corner.

We all know that much has happened in the world since we last talked with you in February, leading, for sure, to an operating environment that is fast-changing and increasingly complex. However, we remain confident about

the future and are well-equipped to manage external factors worldwide through our strengthened leadership position with the right portfolio, the right strategy, and the right execution in the marketplace.

After a promising start to the year, the operating environment soon changed with very significant geopolitical conflict, a resurgence of COVID in various places, record high inflation, and continued challenges on the supply chain front. Nonetheless, we've consistently sustained our momentum from last year, moving with agility and positions changed to generate strong top and bottom line growth in the quarter.

We delivered 8% unit case volume growth, primarily driven by strong recovery in away-from-home channels and continued growth in at-home channels. Volume growth was strong across all operating segments, driven by marketing investments and aided by an increase in consumer mobility as the impact of the pandemic abated in most regions.

Our enhanced capabilities helped us gain value share overall in both at-home and away-from-home channels globally and across most of our geographic operating segments, a clear indicator of the power of our new approach.

Amidst the dynamic macro conditions and an inflationary cost backdrop, we've focused on delivering growth. The key competitive edge of the Coca-Cola system continues to be the ability to deliver value for our consumers and our customers in any environment.

Our accelerated agenda in marketing and innovation is tying our beverages to daily consumption occasions, adding and creating value for our brands. Additionally, we continue to work with our bottling partners to expand package offerings and strengthen distribution to capture growth opportunities using all the available revenue growth management levers, including price, to win in the marketplace. These scaled global initiatives are coming to life at a local level all around the world.

So, let's start with Asia-Pacific. In India, we drove excellence in integrated execution as consumer mobility improved across channels by stepping up product availability, adding approximately 240,000 outlets and over 50,000 coolers. We also continued to build relevance through innovation by launching Maaza Aam Panna to leverage our equity in Mango and Fanta Apple to expand our footprint in the fast-growing, fruit-flavored sparkling sub category.

Japan is emerging from an extended state of emergency, and we've increased our consumer base and driven market share gains in key categories. The Coke ON app reached 35 million app downloads, continuing the direct engagement with consumers to create and capture value.

We also continued our focus on ESG initiatives with 100% recycled PET bottles now available in Japan for five key brands, including Coke and Georgia Coffee.

In China, a strong start in January, led by an excellent Chinese New Year brand activation with Coke was followed by strict COVID lockdowns. And this resulted in reduced consumer mobility. Momentum reversed in February and March and led to a decline in unit case volumes during the quarter.

We're moving fast to focus on core SKUs and ensure product availability. We're adapting how we engage with consumers depending upon local market conditions, and we're working in close collaboration with our bottling partners to focus on execution basics, like increasing multipack availability and maximizing share of visible inventory in channels and regions that are open.

In ASEAN and South Pacific, we gained share in key countries and across most categories while consumer mobility was mixed and supply chain headwinds remained. Growth was led by trademark Coke and sparkling flavors, driven by strong end-to-end execution of the [ph] Zero Words (00:06:38), Sprite Heat Happens, and the Fanta Colorful People brand campaigns.

In EMEA, notwithstanding the conflict in Ukraine and an uptick in inflation, we delivered a strong performance in Europe in the quarter. The continued rollout of new and improved Coca-Cola Zero Sugar across key markets helped drive 5 percentage points of sparkling single-serve mix growth, which is ahead of pre-pandemic levels.

Topo Chico Hard Seltzer is closing the gap with the number-one Hard Seltzer brand in Europe and the eB2B business with mycce.com (sic) [my.ccep.com] (00:07:13) accounted for low-double digit contribution to total revenue. We are keeping a close watch on the spillover effects of the conflict in Ukraine on the health of the consumer and we remain ready to pivot and adapt.

In Africa, macroeconomic recovery is under way, although conditions remain challenging due to inflationary pressure. In South Africa, we accelerated refillable PET expansion and the execution of in-store sampling to retain consumers. We're connecting with our existing customers in the digital space and have surpassed 65,000 outlets on the Wabi eB2B platform significantly ahead of plan.

Despite macro volatility and intense inflation in the region, Eurasia and Middle East drove top line growth through a strong suite of marketing programs across categories, led by sparkling and ready-to-drink tea.

In Turkey, Coca-Cola Zero Sugar became the number two immediate consumption player in value share behind brand Coke. In Pakistan, Coke Studio, a platform that unites diverse cultures through the power of music, drove social engagement that reached an all-time high in terms of impressions and viewings.

In North America, we are seeing more inflation and are continuing to navigate supply chain dynamics. We're closely monitoring further pressure in some inputs such as high fructose corn syrup, PET, and metals along with wages and transportation as they impact us as well as our bottling partners. Despite these challenges, we continue to gain share in both at-home and away-from-home channels and across most categories.

The strong rollout of Real Magic platform and the successful launch of Coke Starlight resulted in Coke trademark being the fastest-growing trademark in measured retail, driving household penetration up a full point.

Powerade's Pause is Power launched during NCAA March Madness generating more than 1 billion impressions. We also continue to learn from the returnable glass bottle pilot that has been implemented in the Southwest.

In Latin America, we delivered strong performance despite challenging macro conditions, and the investments we made to sustain momentum are paying off. We remain focused on integrated execution and drove revenue growth faster than transaction growth, both of which grew faster than unit case volume growth. Our work to strengthen the traditional trade is paying off as the channel showed the best underlying performance across all channels.

The Prospera loyalty program added nearly 50,000 retailers in the quarter, while continuing to advance our customer-focused digital expansion.

Notably, we have digitized nearly 2 million customers in the region and we are leveraging the strong system in line with our bottling partners and are continuing to execute for growth.

Within Global Ventures, despite an inflationary backdrop in the UK, Costa continued to recover, driven by retail and strong like-for-like sales with Costa Express. In China, while retail sales were impacted by store closures due to the pandemic, Costa ready-to-drink coffee sustained its number-two position and continued to innovate with Costa Cha.

Finally, our Bottling Investments Group delivered strong Q1 performance, driven by the expansion of affordable, immediate consumption entry packs in key markets and this resulted in share gains in sparkling.

We also continued to make progress towards optimizing trade promotions and [ph] cost to (00:10:44) serve in our key markets and raise the bar on operational excellence.

Clearly, the operating environment is proving to be more challenging, but we're pleased with the results we've delivered in the first quarter. We continue to believe the recovery in 2022 will be asynchronous. We anticipate many new chapters and challenges, including, but not limited to, ongoing geopolitical conflict, uncertain consumer sentiment amidst the increasingly inflationary environment, accelerated cost pressures, and ongoing supply challenges, and of course continued evolution of the pandemic.

That said, the changes we have made during the pandemic have left us better-positioned than ever to capture growth, increasing our confidence in the future. The multiple levers of revenue growth management have never been more important, and our investments in building this capability over the past few years are giving us a clear advantage.

Further actions on pricing will depend on the consumer and inflationary environment as the year progresses, but we will continue to rely on a mix of price, package differentiation, and ever-sharper promotional strategies. Through integrated RGM and execution capabilities, we adapt to local market conditions and give consumers what they want, where they want it and at the right price. By extending package offerings to keep transaction-driving price points in play, we retain consumers through affordability, while also driving premiumization with innovation and targeted pricing.

For example, in Latin America, we are continuing the expansion of refillables to sparkling flavors and juices. And this remains a compelling consumer proposition to address the need for affordability.

In North America, we're maximizing value by initiatives like the one expanding the availability of mini cans for consumption across occasions such as breaks and meals, and by offering 6-packs, 10-packs, and 30-packs, driving an approximate 45% increase in retail dollars in measured channels and a near 20% increase in total distribution points.

Our networked organization structure extends to our system. Our bottling partners complement our progress against our capabilities by continuing to invest in the marketplace and they help put our purpose into action. We have strong partners with highly-capable and experienced leadership, and we continue to build and foster our business and economic relationship that drive system health and long-term growth opportunities.

With our purpose to refresh the world and make a difference, we continue to focus our ESG work on issues where we can have a measurable, positive impact on communities as well as create opportunities for our business to grow. We release our fourth combined business and ESG report tomorrow, an integrated approach to reporting

that is a strong demonstration of how sustainability is linked to our business, builds resilience, and demonstrates transparency.

We have a long history of assuring select sustainability metrics, while also providing key public disclosures against the TCFD recommendations as well as other reporting frameworks such as SASB, GRI, and the UN Global Compact. In the report, we highlight how we and our bottling partners are driving business growth through our interconnected ESG goals and how we continue to seek an exponentially greater impact by fostering collective action, partnering across industry, government, and society to address shared challenges.

In conclusion, while there is no doubt the world is more uncertain and the operating environment remains highly dynamic, our strategy remains the same: to execute the sustainable growth through strength and capabilities in innovation, marketing, RGM, and execution.

Now, I'll turn the call over to John.

John Murphy

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

Thank you, James, and good morning, everyone. Today, I'll highlight our first quarter performance and discuss our full year 2022 earnings guidance. Then, I'll provide commentary on the overall operating environment and how our organization is navigating effectively to drive results.

Let me first start by saying how pleased we are with the results in the first quarter. We delivered strong organic revenue growth of 18%. Unit cases grew 8%, with strong growth across all operating segments. Concentrate sales were ahead of unit cases by 3 points in the quarter, primarily due to the timing of shipments in Latin America and EMEA.

Our price/mix of 7% was driven by strategic pricing, revenue growth management initiatives, further improvement in away-from-home channels in most markets, and positive segment mix. Comparable gross margin for the quarter was down approximately 90 basis points versus the prior year, primarily due to the impact of two items: one, consolidating the BODYARMOR business; and two, currency headwinds.

Underlying gross margin expanded despite continued pressure from commodity costs due to pricing actions in the market and a benefit from the timing of concentrate shipments. We continued to prioritize consumer-facing marketing to maximize returns, while driving productivity in our operating costs leading to leverage in the P&L. Comparable operating margin expanded by approximately 50 basis points despite acquisition and currency headwinds.

First quarter comparable EPS of \$0.64 grew 16% year-over-year. This was driven by strong top line growth, which benefit from the timing of concentrate shipments and operating margin improvements, partially offset by currency and cost headwinds.

On the cash flow front, we delivered free cash flow of approximately \$400 million in the first quarter as our strong business performance was more than offset primarily by two items: one, cycling the timing of working capital benefits in the prior year; and two, higher 2021 annual incentives paid in the first quarter. We remain confident in our ability to deliver on our cash flow goals for the full year. Our balance sheet continues to be strong, with net debt leverage within our targeted range of 2 to 2.5 times.

As James mentioned, much has happened since we last gave guidance in February. The conflict in Ukraine has created further volatility in the world as well as added to the inflationary backdrop and impacted the currency markets. The resurgence of COVID in China and some other geographies around the world is a clear indication that the pandemic is still very much a part of the conversation and a reminder that the recovery path has been and will continue to be asynchronous.

Obviously, there are lots of puts and takes at play, and we see a number of potential futures coming at us. But notwithstanding this backdrop, we believe our organization is better prepared today and we're confident in the flexibility we've built and our ability to manage what's around the corner. We continue to spin the growth flywheel faster, and our local businesses are adapting and executing for growth.

With that in mind, this morning, we are reiterating our guidance for 2022. We continue to expect organic revenue growth of approximately 7% to 8%, and comparable currency-neutral earnings per share guidance of 8% to 10% growth versus 2021.

Based on current rates and our hedge positions, we are reiterating our currency outlook of a 2 to 3-point currency headwind to comparable net revenues and a 3 to 4-point currency headwind to comparable earnings per share for full year 2022.

Additionally, taking into account our current understanding of recently-issued regulations, we now expect an effective tax rate of 19.5% in 2022 versus the 20% that we had guided to previously.

All in, we continue to expect comparable earnings per share growth of 5% to 6% versus 2021. And we continue to expect to generate approximately \$10.5 billion of free cash flow for 2022 through approximately \$12 billion in cash from operations, less approximately \$1.5 billion in capital investments.

To put this guidance in context, there are some considerations to keep in mind for 2022. The direct impact of the Ukraine conflict and the resulting suspension of business in Russia is estimated to be approximately \$0.04 to comparable EPS. The recent increases in commodity costs are having an incremental effect, but based on current rates and hedge positions, we expect commodity price inflation to remain in the range of mid-single digit impact on comparable cost of goods sold in 2022. Additionally, we see incremental cost pressure coming from areas like wages and transportation.

The consolidation of the BODYARMOR finished goods business will continue to have a mechanical effect on margins.

When it comes to capital allocation, our priorities remain the same and we continue to balance financial flexibility with efficient capital structure. For 2022, we announced a dividend increase of 5%, a higher rate than in recent years, and we also announced the resumption of share repurchases with approximately \$500 million in net share repurchase expected this year.

Despite uncertainties around the world, our strategic transformation has fortified the organization to weather the storm, and we are extremely proud of how our people are responding and delivering. We are keeping consumers at the center, operating more effectively and efficiently, and unlocking the immense potential of our growth portfolio of brands. This gives us confidence that we can deliver on our guidance for 2022.

And 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 so much, and good morning. I was hoping we could talk a little bit more about Latin America, an area, like, you called out of outperformance, in particular, Mexico and Brazil this quarter, and I'd, sort of two sets of questions.

One is this is a region where your partnership with bottling has been particularly strong certainly versus the past. And if you could talk a little bit about how that may be enabling your ability to be performing as well as you are in this challenging time. So, that's kind of one.

And then two was there was a mention in the release about shares being down. I'm guessing it might be in juice, because I think you talked about sparkling being up, but anything in particular that you're doing or the degree to which the market share performance is an area, a watch-point for you, and how you're balancing that versus thinking about recovering cost inflation. Thanks.

James Quincey

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

A

Yeah, that was – I think we'll call that several questions.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Q

I never do it though, so I'm sorry. It's the first time.

James Quincey

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

A

Okay. In the spirit of generosity, we'll try, because they are very related. Look, we have a great partnership with our bottlers in Latin America from the two very big ones, Coke FEMSA, Arca Continental, through Andina and some of the more country-based bottlers. And we have developed collectively the system many capabilities on many fronts whether it be marketing or innovation but particularly, the levers of revenue growth management and execution in volatile times.

It escapes no one's attention that Latin America is a place that has had a rollercoaster of economic growth and inflation and difficulties. And we have a very deep partnership with these bottlers to work through these times, and that I think you see reflected in this quarter as we had a lot of good growth.

The share did come in negative overall. I think there's a couple of things going on there. As you say, we did a lot better in sparkling, a lot of good execution in sparkling. And there was some pressure as much in juice or some of the juice drink categories, but also category mix, we're very much focused on as we've talked about previously, that when you are in a cost environment that those cost increases, whether it be commodities or wages or

logistics or marketing costs, need to go through over time. We have to earn the right for the brands to take it, they need to go through.

Sometimes when you're in a very high share market like Latin America and you lead on pricing, not all competitors necessarily follow immediately and that can have temporary impacts on share. But we, with the bottlers, we're very focused on not only continuing to carry on growing, but to regain and expand our share position.

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. So, I just wanted to focus on top line visibility here. You obviously kept the full year top line guidance despite the Russia impact, so underlying sales are moving up ex-Russia and Q1 was another strong quarter, but clearly there's risk. Consumer spending might weaken with the unprecedented inflation we're seeing.

So first, maybe just looking backwards, can you give us an update on if you're seeing signs of consumer stress in terms of impact on your business or pushback to higher pricing around the world either late in Q1 or in April?

And then also, on a go-forward basis, can you juxtapose the positive impact of normalization of COVID behavior on your business as away-from-home recovers maybe versus any potential macro pressure you could see or consumer spending weakness and how that impacts your visibility in terms of full year top line view? Thanks.

James Quincey

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

Well, clearly, my act of generosity with Lauren has unleashed a torrent of multi-question questions, but it would be harsh to cut it off at this stage, Dara.

Look, a couple of things. We did come in with strong momentum out of 2021 coming into this year. And as I and John and we talked about previously on calls, we believe that pricing for our business has to be earned for the brands. We have to give the consumer and the retailer reason for the price increase and for the value of our brands whether it's the marketing, the innovation, the execution or the packaging options, we do those. It's not a cost-plus business, although we do seek, of course, to protect the margin structure by moving through changes in commodities and other costs.

But we very much foresee, as experience and history – who was it? Mark Twain said history doesn't repeat itself, it just rhymes. Well, when you go into high inflation, consumers come under pressure. There's clearly reductions in real purchasing power going on for some segments of the population, if not everyone around the world, and so our focus is very much to find those packaging and price options by channel, where we can stay connected to people who are coming under purchasing power pressure very much affordability, just building on the Latin America example from the last question. A lot of focus on returnable, refillable bottles because the economics of those packages work to an extent that you can have a lower price-point for the package. And with reductions in purchasing power, we very much see the actual out-of-pocket price point and keeping a low entry point into categories is very important, also pushing the expansion of refillables in places like South Africa.

So, very much acting on the signs of consumer purchasing power pressure but very much also anticipating that it will increase. It would be great if there were a perfect landing out of this inflationary environment. The rhyme of history would tell you that at some point, either inflation or reduction in purchasing power or supply constraints eventually create a bump, and at that point, we will want to both be accessing the premium opportunities that have but very much with an anchor in the affordability and entry price-point, opportunities and necessities as consumers come under pressure.

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, good morning. When I think about just the approach to capital allocation and business reinvestment, as you talked about it in the prepared remarks, you framed it as essentially unchanged as a framework, but with all the variability you called out in the operating environment, I guess I'm curious as to where there are areas of your going in plans where maybe you pulled back a bit versus other areas where you found yourself now leaving in more. Maybe, James, your answer to the last question, maybe it's affordability or something like that, but just again, overall spending as you framed it and as the guidance implies seems intact but my sense is it's moving around a lot under the covers, so just, I'm curious how that kind of agility is manifesting in terms of reallocations of spend. Thanks.

John Murphy

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

Thanks, Steve, it's John. Let me first just lay the picture of total capital allocation. The first priority is to invest in the business, and we – as James just said, when you think about the environment that we have been dealing in and we will be dealing with the rest of the year, the name of the game is right now is to do exactly that is to continue to invest in our brands so that we have the wherewithal to manage through whatever comes at us.

I think at a local level, the mix of investment is something that we continue to be very flexible with, and we are leveraging the work that we have been doing over the last couple of years to be even more effective in how we're spending our marketing dollars, whether it's on building our brands or whether it's on supporting our RGM efforts in the marketplace.

The other areas of our capital allocation framework, supporting the dividend, looking at opportunistic M&A, and share repurchase we covered in the script, with the dividend and share repurchase, we continue to be very open as to what opportunities may be out there. But in the here and now, the top priority is investing appropriately in the business, and as I say, the mix of that investment is something that varies and will continue to vary depending on what we need to do locally.

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

All right. Thank you. Good morning, everyone. I had just a big-picture question about how you're working with your bottlers who are experiencing pretty sharp cost pressures to essentially help them navigate through this tough environment. If you guys could talk about that.

And also looking at equity income in the quarter, it remained relatively strong, but is the expectation going forward that there will be a greater impact in the next couple of quarters given some of these pressures? Thank you.

James Quincey

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

Yeah, sure, Bonnie. I mean, I'm not sure it would be appropriate to comment on equity income into the future for our bottling partners. But as we go into a tough environment, as we always do historically, we make sure that we intensify our collaboration and partnership with our bottlers, both to work on what are the marketing programs and the innovation programs that are going to work in the consumer and the retailer environment that we face wherever we are in the world, and also the execution initiatives and focus areas the bottlers can drive on.

Because firstly, the environment is not the same in every country around the world, some are opening up exuberantly and actually chasing and keeping up with demand and the kind of reopening euphoria, all the way across the spectrum to parts of China like Shanghai, which is in full lockdown as though it were April 2020. So, the environment is absolutely not the same in every country and we have to work way around the curve of all the change [ph] are we, (00:34:08) and be very clear.

And in terms of the pressures you talked about it, the pressure is both headwind and tailwind. Clearly, there are headwinds in terms of cost, whether it be commodities, logistics, wages, and as I said earlier in one of the questions, we work with our system, our bottling partners to make sure we protect and sustain the margin structure over time. That's not necessarily true every single quarter, but that is our own – our overall objective, earning the right to price the brands so that the system has the sort of margin structure and stability of that over the course of time if not every single quarter.

But there are headwinds. There are – balancing those headwinds, there are tailwinds out there, as I said. The reopenings provide fuel not just for overall demand but improvements in channels, away-from-home channels, where we're strong and leaning in with investment produces great results. So, this is – there's a lot of variables at play in the downhill of the year, and really just the key is the intense partnership with our bottlers to make the most of the opportunity ahead of us and to prepare ourselves for step two and step three further down the road.

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

Bryan D. Spillane

Analyst, Bank of America Securities

Hey, thanks, operator. Good morning, everyone. James, I wanted to just circle back to the comments you made in the prepared remarks about ESG, and I guess tying it to comp. If I understood the proxy correctly, there's been two changes. One is the ESG component now being a portion of both the annual and long-term comp, I think it moves to 10%. And then also, for your annual long-term incentive comp, the amount that's paid out in stock options, I think goes up from like a third to a half. So, just wanted to sort of get your perspective on why make those changes now and just what it signals about your focus going forward.

James Quincey

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

Yeah, thanks, Bryan. Yeah, I mean, firstly, would refer everyone who wants greater depth to the proxy, that's out there on our website and we've tried to lay out some of the mechanics in our thinking behind the [ph] two

(00:36:35). We have made some changes, as you point out, Bryan, to the way the long-term incentives or the more specifically, the performance share units which are kind of a three-year program. We've got a 10% element in that that's linked to our ESG goals and so we are laying out some very specific targets that will drive a portion of those payouts. And because some of those ESG objectives take some time to execute against, we felt they were better embedded into the three-year stock award programs.

And then secondly, as you point out, with the board and with the compensation committee, we felt to increase greater alignment with shareowners. We would readjust the balance of performance share units versus options for myself and push that up to 50%. I mean, you can take that as a confidence in the future, but that's one very small stone on a large pile of stones of things we do to demonstrate that we believe this is a great company with a great future.

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

Filippo Falorni

Analyst, RBC Capital Markets LLC



Hi. Good morning. This is Filippo Falorni on for Nik. My question is on pricing. Clearly, price realization has been very strong in the carbonated soft drink category and particularly North America with a very rational environment and industry, and pretty low elasticities so far. So, can you comment how you balance the need to take pricing while ensuring affordability using price pack architecture, your revenue growth management, given this inflationary environment, the impact on consumer wallets in North America and in other parts of the world? And then, second, if you think you will see more promotional activity in the industry in the balance of the year. Thank you.

James Quincey

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



I mean, our approach to pricing, I've commented a little bit on it already. Firstly, the highest level principle is the brand has to earn the right for pricing. And that is – it's a combination of its activities in marketing, in innovation, in execution and the investments in the store and, of course, in RGM to make the packaging and pricing architecture fit the consumers' needs.

Obviously, what goes into a piece of that puzzle is also the cost environment, whether that be commodities, marketing, logistics, et cetera, et cetera. And we seek to balance the various challenges using RGM. As I said earlier, clearly, as we go into reducing consumer purchasing power, we need to have affordability as front-and-center and depending on where you are in the world can take the shape of different packaging, but it all becomes about the entry price-point to the category, not the kind of the higher end price points of the category. But you balance that out by having – moving up the price points on other package combinations.

It all has to go in the mix and it is all done with a perspective that, not necessarily every single day, but in a reasonable timeframe, the margin structure of the system needs to be sustained. You definitely don't want to get to a point where there's been a substantial cost push-through and that has not yet been passed on into the marketplace when any recessionary impact appears.

Trying to catch up on pricing in a recessionary environment is very hard, and so we have a bias to action, in the same way we have a bias to invest behind that brands in marketing and innovation, we have a bias to keep up

with cost pressures as they occur, and that of course leads us to take pricing more or less frequently depending on where you are in the world and I expect to see more of that in the rest of the year.

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

Hi. This should be a quick one in a single question. Is there any update on the tax litigation matter, perhaps maybe not just on your end, but some of the other moving parts I suppose, and what needs to happen there beforehand?

John Murphy

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

A

Thank you. Quick answer, no updates. No developments during the quarter. We'll keep you posted as they happen.

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. I was hoping you could give us an update on some of the stepped-up efforts for renewable packs – for refillable packages in Latin America and how that's going, please. Thanks.

James Quincey

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

A

Yeah, sure, thanks, Carlos. Clearly, as part of both our RGM initiatives because the refillable, reusable packages tend to give you the opportunity, especially in larger sizes, have a lower entry price point which is particularly useful in developing and emerging markets, and so you have an intersection of a very important business imperative on affordability and the fact that ultimately a refillable package is less likely to go to waste and has a lower carbon footprint, and so it really complements our World Without Waste ESG strategy, where we're looking to create circular economy around our packaging material.

So, the two intersect and give us two imperatives that both point in the same direction, and so we're very much looking to invest behind refillable packaging, making progress in gaining in mix in Latin America, also been driving that in parts of Africa.

We've even taken to experimenting with returnable glass in the Southwest of the US, and so we are very focused on this because it does work for both of these imperatives, and so expect to see kind of more focus and more investment behind keeping that up and working with retailers to make it simple for the consumers to get the credits when they return these reusable bottles. So, very much an investment focus.

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

**Andrea Teixeira**

Analyst, JPMorgan Chase & Co.

Thank you, and congrats for this quarter. James, just to conclude on pricing, you mentioned that you continue to monitor further inflation pressures and also alluded to potentially further pricing. Are you seeing – I'm assuming you're seeing better than anticipated price elasticity. Do you see room for additional pricing, perhaps, in developed markets, and in particular in certain clusters in the US? And if not, any flexibility to protect the bottom line with SG&A efficiencies that you can highlight at this point?

James Quincey

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



Well, clearly, I mean, I've talked about our approach to pricing several times, and that is going to lead to more. And there are going to be more price increases depending on where you are. I mean there are countries with inflation well into double digits, and you do see multiple price increases during the year as a matter, of course, when you're in those sorts of circumstances with cost pressures to push through as you seek to sustain margins over time.

Let me just address the elasticity question. It has been apparent and other people have commented on less elasticity in recent times as price increases have gone through. I do not expect elasticities to be inelastic going forward. There's a reason it got the name elasticity, and so I fully expect, as I commented earlier on, inflation generally ends with some pressure somewhere. I expect elasticities to increase at some point in the future. Will that be next quarter or will that be next year? I can't give you the answer to that because it's very dependent on some macros and it's probably going to vary by country.

But we are very attuned to it, which is why I've talked about how we are leaning into investing behind our brand so that we earn the right for the price increases so that we can minimize the elasticity and that we keep a sharp eye on affordability, which again tends to minimize elasticity if we use RGM well. But as I say, if the choice comes down to we think the elasticity is going up or we're going to have to not pass through some cost, we're going to err towards taking the price increase rather than not taking the price increase.

As I said earlier, not seeing the cost go through and arriving in a recession, being behind the curve is less desirable than embarking and having to take the hit from a greater elasticity in the short term. And so, that's our kind of modus operandi, and we will certainly seek to earn the right to take the price increases. We certainly aren't looking to take price increases just because we can. We want to earn them as a brand and we want to make sure we recover the cost over time.

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. James, in the opening comments, you mentioned that you had digitally connected, I believe, with 2 million customers in Latin America. Can you elaborate on what that allows you to do, what that means, the upside there, what you're seeing in the market from that, and how you expect to or how you plan to roll that out globally? Thank you.

James Quincey

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



Yeah, thanks, Robert. This is a very important area for us and our bottling partners. Simply put, the idea of connecting these customers is, essentially, that our retailers, particularly the traditional trade and the fragmented trade, remembering that, on a global basis, about half of our sales go to the fragmented trade, whether that's from grocery side or fragmented in terms of being away-from-home and eatery [ph] it's actually (00:47:49) about half of the global sales go to that, it's being able – so they can order the Cokes they need or the rest of the portfolio that they need, they don't have to necessarily wait for the sales person to turn up.

This isn't about replacing the sales person, very far from it. This is about enabling the selling system to be even more effective in that being able to connect with the retailers, generate orders. And so, very much it's about a sales force enabling system such that in the same way that consumers in the developed world can just use their phones with whatever system – with whatever app is appropriate to order things and they don't have to go to the store to get them, we see that the bottling system will be able to sell more and very much in the – where we've implemented these systems, where it's a complement to the sales force, it has driven extra sales and driven retailer loyalty.

And so, we think – we can see and obviously we're very much engaged with the bottling partners to drive the connectivity, particularly for the fragmented trade so that they could order whatever they want, whenever they want from the Coke portfolio. And that's as true in the rollouts as you called out in Latin America. MyCCEP.com (sic) [My.CCEP.com] is the same basic idea. It's all about technologically enabling the selling system to be more effective for the retailers.

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

Laurent Grandet

Analyst, Guggenheim Securities LLC

Hey, good morning, everyone. I'd like to come back to the progress of Costa Café. I mean, it was mentioned in your prepared remark I mean coffee was up 27%, but some of it was – of that growth was coming from cycling in the Costa store closures. Could you expand maybe more on the non-store business progress, hot and cold, where are you expanding the brand, which countries, and what are you seeing in term of consumer reaction? Thank you.

James Quincey

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

Yeah, hi, Laurent. Yeah, looking at the non-retail business of Costa, the express machines, the kind of vending digital barista machines had a very strong quarter with transactions growing strongly. And we're seeing now that reopenings have occurred, we're starting to see the focus on placement of new machines across Europe and the Middle East and also, in China, although that's got a little harder in the last couple months. But the Express machines still doing very well. Obviously, they need the opening of the world to happen.

And then on the Proud to Serve front, which is kind of providing the beans and machines to independent outlets, starting to ramp that up more in the European environment. Again, early days. We did launch some tests in at-home, and that's too early to kind of call. And then Costa ready-to-drink has done pretty well in China. It's sustained its number-two position. It's continuing to grow and we've launched it also in some of the European markets. So, starting to see those innovations roll out, and we'll see how they do in the coming quarters.

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

Kevin Grundy

Analyst, Jefferies LLC



Great. Thanks. Good morning, everyone. James, I wanted to pivot to your business in China, given the uptick in COVID cases there and related lockdown measures. Perhaps, you could just comment on, one, what you're seeing from a demand perspective; two, perhaps the exit rate for March and what you're seeing in April; and then three, maybe just more broadly, the company's ability to better execute, in your view, despite lower levels of consumer mobility now that we're two years into the pandemic. So, thanks for that.

James Quincey

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



Yeah, sure. I mean, clearly, China is an important market to us. As I said in the script, we had a strong start to the year going into Chinese New Year, but the lockdowns, particularly in Shanghai, took the steam out of things and we ended the quarter negative. The key factor will be the degree of mobility. And we had – and depending on how big that is will make a huge difference to the level of results.

I don't think there's anything to call from the early days of April that's different to what was happening at the back end of March. The lockdowns, as you can read in the newspapers, are still in full force, so to speak, in those cities where they are locking down, and I think that's going to remain the biggest factor.

Of course, we're going to focus on what we can control. We certainly had two years of trying to look at what that looked like over the last couple of years and we'll continue to build on those learnings and the playbook that we have and adapt as necessary. It's a little difficult to predict exactly what it's going to look like, but we feel – said a different way, we feel better prepared and more resilient for the COVID journey of 2022 in China than we did in 2020.

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



Hi. Good morning. So, actually, following up a bit on the prior question but more globally, John said in prepared remarks there was improvement in away-from-home channels in most markets, but not all. I appreciate Asia-Pacific will have specific impacts in the quarter, as just noted, but I wonder if you could just give us a sense of the progression of the away-from-home channel recovery globally perhaps relative to 2019, and if you have any context on total company or key region that'd be helpful.

Really underlying the question here is just a sense of the current state of the channel as we all contemplate prospects of slowing global growth and how the company will manage through any reversal back of the away-from-home with levers at its disposal. So, thanks for that.

James Quincey

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



Sure. I mean, firstly on – firstly, let me step back. The away-from-home channels, whilst we have recovered to our 2019 levels, the away-from-home channels have not yet fully recovered. And in part that – and we've – I think I've talked about this on previous calls. We've lost outlets in the course of the pandemic. That's true of the away-from-

home and that's also true of the fragmented grocery trades, and so there has been an impact on the number of outlets. It's not fully back.

Of course, there is a distinction by sub channel with away-from-home, particularly QSR has done well, particularly those with digital and drive-thru have done well, so the away-from-home channel, even in a country can't be considered as a thing. You need to break it down into the different sub-categories and really look at it by that. But again globally, it's not quite back at the 2019. There are big distinctions depending on what sort of sub channels we're looking at.

In terms of the current global status, yes, China very much impacted by COVID lockdowns, but there are other parts of Asia-Pacific, Southeast Asia, where there were pressures on the away-from-home channel. Let me include Japan, which only just lifted the state of emergency and we should start to see that improve.

So, as you think about the rest of the year, there are places where there is recovery yet to come, and of course if there are recessionary impacts either because of recession or loss of purchasing power in the face of inflation in certain parts of the world, then that will be an offsetting factor as we go into it.

Operator: Our next question comes from Brett Cooper from Consumer Edge Research. Please go ahead. Your line is open.

Brett Cooper

Analyst, Consumer Edge Research LLC

Good morning. Can you address your thoughts on adding non-owned products to your systems offerings to win in digitization of your customer relationships? And then maybe in alcohol specifically to help scale the system in what is a new area for the company on an aligned basis across markets? Thanks.

James Quincey

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

I mean we have a whole series of different situations around the world. I think the starting point is that not one universal answer to this question and part of that is because the nature of the retail landscape, the nature of the distribution systems and the nature of the alcohol regulation is different in different parts of the world. We certainly start from the principle that our primary interest is in the brands of The Coca-Cola Company.

To the extent – and you've heard me talk about like never say never in a kind of probabilistic view of things, to the extent that a case can be made for other products being on the trucks, probably other beverage products, including alcohol and that is somehow going to make the system, the bottlers and it's going to sell more of our brands then that is a question we're going to look at and there is certainly parts of the world, where going down that road has been successful in selling more Coke products.

Chile would be an example of that where there are other beverage brands, typically alcoholic ones whether that be beer or spirits on the truck and in the selling system, which has allowed us to have more salespeople with a digital overlay as we talked about on the previous question, so retailers can order things but ultimately is successful not because we can get more things on the truck, it's successful because we can sell more of the Coke brands and that was demonstrably true in Chile.

Other parts of the world and not necessarily the same initial starting point and it might not make more sense, but the question will always come back to – I'm always open to hear any ideas that are going to drive more business

results and better business results. And my starting point for more and better business results is selling more Cokes and Coke products.

Operator: Our next question comes from Bill Chappell from Truist Securities. Please go ahead. Your line is open.

Stephen J. Lengel

Analyst, Truist Securities

Hey, good morning, everyone. This is Stephen Lengel on your Bill Chappell. Can you help us understand the ultimate goal of the G.O.A.T. marketing campaign comparing regular Coke to Coke Zero? Is there a potential expectation that Coke Zero may be bigger than regular Coke in North America within the next five years? Thank you.

James Quincey

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

That's a simple one, no. I'm not sure there's anywhere in the world that Coke Zero is bigger than Coke. There are certainly some countries in the world where the combination of Diet Coke and Coke Zero sell approximately the same as Coke Classic. In the end, Coke is a great franchise. We make available the classic version, the Coke Zero Sugar version, and we invite consumers to drink the one that best suits them.

We are not trying to pre-determine the mix structure. We're trying to offer the alternatives to get the – invite the consumers into the franchise. But no, specifically, I don't expect Coke Zero to overtake Coke Classic in North America in the short term.

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

James Quincey

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

Thank you, operator. Well, just to summarize, obviously we're very pleased with our first quarter results, and while there are clearly more clouds on the horizon, our strategy is intact and we are well-equipped to execute and invest for sustained growth. Thank you for your interest, your investment in our company, and for joining us this morning.

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

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