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MANAGEMENT DISCUSSION SECTION

Operator: At this time, I'd like to welcome everyone to The Coca-Cola Company's Third Quarter 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. Mr. Leveridge, you may now begin.

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 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, 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.

James Quincey

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

Thanks, Tim, and good morning, everyone. After a strong first half of the year, we continued our momentum in the third quarter with effective execution across our global system, despite a macro backdrop that remains challenging. In the face of these pressures, consumers stayed resilient, and we continued to invest behind our loved brands to drive value in the marketplace and growth in our business.

Given our strong results year-to-date and increased visibility into the rest of the year, we are raising our top line and bottom line guidance, while continuing to invest strategically.

So this morning, I'll provide a business update and discuss how we are expanding the circumference of what we can control. Then I'll pass to John, and he will discuss financial details for the quarter, our revised guidance for the full year 2022, and some early considerations for 2023.

During the third quarter, macroeconomic crosscurrents continued to impact the operating environment. The conflict in Ukraine is ongoing, which creates challenges in that country and beyond. And we saw renewed pandemic-related mobility restrictions in China. Inflationary forces are driving costs, pricing, and interest rates higher, resulting in currency volatility in many parts of the world.

Against this backdrop, our industry remains healthy and is growing both in value and volume, which continues to include some benefit from cycling COVID-related impacts for the prior year. In the third quarter, we delivered strong organic revenue growth across all operating segments. This was driven by pricing actions and robust volume growth. We had share gains overall and across most categories, as well as within both at-home and away-from-home channels.

We accomplished this by investing in our business and providing the right portfolio of brands and packages to retain and add consumers. Notably, we drove revenue growth ahead of transactions growth, which was also ahead of volume growth in the quarter, reflecting the strength of our revenue growth management capabilities.

Consumer elasticities in core categories have continued to hold up well. We are leveraging our consumer-centric marketing model and increasingly using digital engagement to link consumption occasions with passion points.

Our system has never been stronger. And our global network model is allowing us to leverage the vast experiences of the systems' leaders from various parts of the world. We are increasingly sharing learnings and generating faster responses to a changing environment through the right mix of local relevance and scale.

Now, recapping the third quarter performance across the world, starting with Asia Pacific, in India, we continued the strength from the first half of the year as we gained share in sparkling soft drinks. Trademark Coke delivered strong growth through effective execution and occasion-based marketing. Year-to-date, we drove approximately 2.5 billion transactions at affordable price points through the expansion of returnable glass bottles and single-serve PET packages.

Sprite has grown to become a \$1 billion brand in the market, driven by the success of locally adapted occasion-based global marketing campaigns like Heat Happens and [ph] Screen Time (5:21).

In Japan, we continued to strengthen our business. Amidst an inflationary environment in the country for the first time in many years, we took price increases in large PET packages. Through intelligent innovation on small packs, we've gained value share, transactions, and household penetration year-to-date. Additionally, we continued our strong share gains in vending in the quarter and we expanded our leadership position in e-commerce.

In China, we grew volume in the quarter and achieved strong growth in sparkling soft drinks during the summer selling season amidst varying levels of pandemic-related mobility restrictions. We focused on digital to unlock new opportunities. We deployed [ph] Fans Festival, a drink, scan, win pilot at scale (6:08), which drove widespread brand exposure and connected consumer traffic to more than 30,000 outlets. We remain focused on executing RGM strategies to drive outlet expansion and increase key SKU availability.

In ASEAN and South Pacific, we saw strong volume and transaction growth across most markets, driven by new product launches and continued recovery in away-from-home channels. We saw significant top line improvement in sparkling flavors for most markets, driven by our [ph] Sprite Lemon Plus (6:45) and Schweppes Soda Zero Sugar innovations.

In EMEA, European consumers continue to experience inflationary costs. We leveraged RGM strategies to drive away-from-home single-serve mix and retained consumers and delivered value share gains across most categories. Our system has delivered top-tier incremental retail value for customers year-to-date, the second year in a row. We accelerated digital engagement with more than 4 million connected consumers year-to-date.

In Africa, despite the macro environment remaining challenging, we gained volume and value share. We focused relentlessly on excellence in execution and reduced retail out-of-stocks. We've built sustainable customer engagement in more than 80,000 points of sale year-to-date through a [ph] customer loyalty partnership program (7:40).

In Eurasia and Middle East, we remained resilient amidst an unprecedented inflationary environment in many markets and some supply-related disruptions. A cross-market launch of [ph] FIFA activations and the Fan Fest campaign (7:54) were key enablers of growth. With strong focus on execution, we placed over 50,000 coolers and have gained availability in 33,000 new outlets year-to-date.

In North America, we drove volume and value share gains through strong core sparkling performance complemented by robust innovation and music-led experiential marketing, despite intermittent supply chain challenges.

[ph] Small wallet growth (8:27) was strong during the quarter and innovations like Coca-Cola Creations and Minute Maid Aguas Frescas continued to expand and exceed expectations. Coca-Cola Value Bundle, a collection of core sparkling offerings providing more choices to cost-conscious consumers, is helping to retain and recruit more consumers while creating value for our customers.

In Latin America, we leveraged connected experiences and strong execution to drive top line growth and sequentially improve on our share losses. We strengthened our connections with use through music, leveraging the Coca-Cola Marshmallow flavor to stream Rock in Rio across the continent. Through RGM initiatives, we focused on single-serve package growth to drive transaction growth. Alignment with our bottling partners remains strong and our joint market initiatives are ensuring our focus on accelerating growth.

In Global Ventures, we witnessed robust volume growth. However, overall cost of performance was impacted by a dynamic operating environment in the UK, along with investments in the marketplace as we expand internationally.

China ready-to-drink value share grew with the strong performance of innovations like [ph] Costa Chai Tea and Oat Coffee (9:43). Ready-to-drink in Japan is also delivering strong performance, supported by sampling, in-store execution, and the launch of Caramel Latte.

Finally, our Bottling Investments Group delivered strong volume and top line performance, driven by a focus on affordable entry pack expansion across all markets. Additionally, we're driving availability and efficiencies in cost to serve.

As we look forward beyond this year, we continue to see great opportunity for our industry. We are allocating resources in a disciplined way to gain share. Success from our marketing model is based on two critical components, linking occasions and passion points to drive engagement, and leveraging experiments to optimize our marketing. This drives deeper connections with consumers, reaching them in new and unique ways.

The launch of the Believing is Magic global campaign for the FIFA World Cup celebrates the passionate journey of soccer fans by unveiling a suite of digital experiences that capture the full extent of fans' devotion to their beloved teams. The campaign includes the FIFA World Cup Trophy Tour as well as a digital hub called Coca-Cola Fan Zone, which creates in-person opportunities for fans to come together to trade Panini stickers behind the Coca-Cola labels. This campaign has already led to a gain of more than 3.5 million consumers [ph] for (11:10) direct engagement.

Building on our digital experiments, we also announced a strategic partnership in six countries with Grab, Southeast Asia's leading connected app. This builds new consumer connections and offers a new level of convenience. Through a mix of offline advertising on the Grab fleet, online advertising in the Grab app, gamification and product sampling, we are building more purchasing occasions to grow demand for at-home consumption.

Our innovations have delivered strong results, with more than 25% contribution to incremental gross profit year-to-date. Our innovations span markets and categories, with 55% of year-to-date innovations outside of the sparkling category. Our pipeline is robust, and we are excited about their unique consumer propositions.

For example, Coca-Cola Creations is providing bold on-trend flavors designed to build buzz with younger consumers. Ready-to-drink Costa offers new and exciting flavors with authentic rich coffee and milk taste. We are also excited about the potential for Jack Daniels and Coca-Cola ready-to-drink, which will launch in Mexico in the fourth quarter and is coming to additional markets next year including the US in the spring through our agreements with Brown-Forman. This will give consumers a convenient way to enjoy the world's most popular bar call. Our innovations are designed with scalability in mind to further support our growth portfolio.

We expect inflationary pressures to continue, so we are leveraging all the lever of RGM at our disposal, including price, promotional intelligence, and proactive mix management. And our RGM capability is mining insights, such as consumer motivations as well as category and customer opportunities, giving us a precise approach to package, placement, and promotional investments. This drives trip conversion and value growth for customers.

For example, in Japan, we are seeing strong results from our segmented approach. Instead of our key 500 ml PET pack for Fanta, we now sell one smaller 350 ml PET pack for on-the-go and one larger 700 ml PET pack for home occasions. This dual pack strategy has increased beverage incidence by 9%. In Q3, retail value, transactions and market share were all up for these packages.

Our system is investing to grow our executional footprint, adding to what was already pervasive distribution, resulting in availability of our products in nearly two-thirds of all outlets globally.

These strong results are clear proof points of what is possible when our aligned system leans forward for growth.

Underpinning all of this work is our purpose to refresh the world to make a difference. Sustainability remains an integral part of our business and strategy and is a key driver of future growth and business resilience.

While we have made progress towards our World Without Waste goals, we remain committed to do more and faster so we can grow our business the right way. We're continuing to partner with other businesses, civil society, and governments to support cooperative action on this critical issue.

During the quarter, we played a leadership role and helped launch the Business Coalition for a Global Plastics treaty convened by key partners, the Ellen MacArthur Foundation and World Wildlife Fund, alongside other private sector companies.

We are also continuing to take steps to help drive the circular economy by making our bottles more eco-friendly. In North America and Latin America, Sprite has shifted all of its PET packaging from green to clear, improving the efficiency of recycling systems and increasing the availability of food-grade rPET. In Vietnam, we launched Coca-Cola bottles made from 100% recycled plastic, excluding the cap and the label. We now have more than 30 markets where we offer at least one brand in a 100% rPET package, with similar launches planned in additional markets next year.

In an operating environment that increasingly puts more variables into the equation than we've seen in the past, we are focused on delivering and executing for growth. We are encouraged by what we are seeing in the business. We are committed to expanding the circumference of what we can control by delivering world-class marketing, disciplined innovation, excellence in revenue growth management, and laser-sharp execution in the marketplace, with a goal of operating at a higher level through these challenging market conditions.

We are doing this with capable and aligned bottling partners around the world. The combination of strong loved brands and a pervasive distribution system is a formula for resilience in times like these, and we are pleased to be raising both our top line and bottom line guidance today.

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

John Murphy

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

Thank you, James, and good morning, everyone. Today, I'll comment on our third quarter performance and provide considerations for our updated guidance to this year. I'll also provide some early commentary on 2023 and what actions we are taking to drive a top line-led growth equation to navigate this dynamic environment.

We are encouraged with the continued momentum of our business, and we delivered another set of strong results in the third quarter. We grew organic revenue 16%. Unit cases grew 4%, with broad-based growth across most operating segments and targeted investments in the marketplace. Concentrate sales were in line with unit cases for the quarter.

Our price/mix of 12% was driven primarily by pricing actions across operating segments, along with 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 190 basis points versus the prior year. The underlying margin compression was approximately 60 basis points, with the rest of the impact coming from currency headwinds driven by the volatile macro backdrop and the mechanical effect of consolidating the BODYARMOR finished goods business.

We significantly stepped up our consumer and customer-facing investments to support our robust marketing agenda and strong innovation pipeline. Notwithstanding higher costs and continued investments in the marketplace, we expanded underlying operating margin by approximately 100 basis points, driven by strong top line growth. Comparable operating margin, however, compressed by approximately 50 basis points, due to the impact of the BODYARMOR acquisition and currency headwinds.

Below-the-line, we benefited from a lower than expected effective tax rate for the full year. All-in third quarter comparable EPS of \$0.69 grew 7% year-over-year, and this was impacted by 11 points of currency headwinds.

On cash flow, we delivered free cash flow of \$7.3 billion year-to-date, driven by our strong business performance. This was 14% lower versus the prior year, primarily due to 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.

Additionally, our net debt leverage is 1.8 times EBITDA, which is slightly below our targeted range of 2 to 2.5 times.

As we look to the operating environment, there are clearly many variables at play today, as James mentioned. We are spinning our top line and bottom line flywheels faster to fortify our business and manage through many types of environments, and we're investing in the marketplace to create value for our customers and consumers.

Given our strong results and the visibility we have for the rest of the year, we are raising guidance for the full year. We now expect to deliver organic revenue growth of 14% to 15% and comparable currency neutral EPS growth of 15% to 16%. Based on current rates and our hedge positions, we expect currency to be a 7 point headwind to comparable net revenues and a 9 point headwind to comparable earnings per share for full year 2022. We now expect an underlying effective tax rate of 19% in 2022. All-in, we expect comparable earnings per share growth of 6% to 7% versus 2021.

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 about \$1.5 billion in capital investments.

There are some considerations to keep in mind for Q4 that we factored into our full year guidance. There is an additional day in the fourth quarter. However, we expect concentrate sales to end the year in line with unit case sales. We are investing in consumer-facing marketing to get a fast start for next year. Lastly, given the backdrop of rising interest rates, we expect to see an impact on our interest expense, given our effective exposure to floating rate debt.

The environment remains volatile. And while we are preparing for many futures in 2023, we did want to share some early considerations for next year, based on what we know today. We are encouraged by the momentum in our top line and we leverage our capability to sustain top line growth with the ongoing inflationary backdrop.

As we look to our cost outlook, we expect global inflation to continue to impact our expenses across the board and commodities to remain volatile. We benefited from hedges in our commodity exposure this year. And even though some of the commodities have started to come off their highs, we expect another year of elevated inflation on a per case basis next year.

We estimate the underlying effective tax rate to be 19.5% for 2023. Regarding currency, if we were to assume current rates and our hedge positions, there would be an approximate 5 to 6 point currency headwind to comparable net revenues and an approximate 7 to 8 point currency headwind to comparable earnings per share for full year 2023. However, given the amount of volatility in the currency markets, this initial view could change when we come back to you for the fourth quarter call in February.

We are committed to delivering top line-led growth. And we remain focused and confident in our ability to achieve our three key objectives: investing for the long term health of the business; winning locally; and generating US dollar EPS growth.

We are pleased with our results so far and have the visibility to deliver on our updated guidance, creating value for our shareowners through strong top line growth, cash flow generation, and dividend growth. Our strong system leadership and the tremendous ongoing commitment of our people around the world gives us confidence that we will continue to deliver sustainable results in the year ahead.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Bryan Spillane from Bank of America. Please go ahead. Your line is open.

Bryan D. Spillane

Analyst, Bank of America Securities



Hi. Thanks, operator. Good morning, everyone. So I guess, John, wanted to just pick up on your commentary about 2023. We've got this question a bunch this morning about dollar earnings growth next year. So just want to clarify in your comments and those three objectives, does that apply to next year kind of based on where you sit now?

And then, maybe if you can just talk about some of the trade-offs with regards to delivering on dollar earnings growth, given all of the dynamics that are going on in the marketplace.

John Murphy

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



Thanks, Bryan. Yes, those comments were very much related to next year. We do see a path to generating US dollar EPS growth next year. Clearly, there's a lot of variables in the equation and, if anything, there's even more variability with some of those variables.

We've talked a lot about our strategy is to lead a sustainable equation from the top line. We continue to have confidence in the momentum that our business has and to continue that momentum. The cost outlook does remain more elevated than we are used to, but we've got a higher revenue, higher cost algorithm that we are looking to manage going into next year.

I think the work we've done over the last couple of years to build flexibility to be able to adapt quicker than perhaps we have done historically to changes in the markets around us is something that we take on board and we'll continue to drive. And with that, we've given the guidance or the considerations for next year and we are very focused on finishing the year strong, starting fast, and being able to deliver on those three objectives.

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, guys. So obviously another set of strong top line results in the quarter. You also mentioned the underlying top line momentum in the release when thinking about 2023. So just wanted to get a bit of an update given the external environment. There's obviously a lot of concerns around weaker consumer spending and some of the pressure points out there. Did you guys see anything towards the end of the quarter, or so far in October, that would give you any cause for concern? And as you think about these much higher than typical levels of pricing, are you seeing any sort of changes in consumer volume demand elasticity of that pricing as you look around the world here? That would be helpful. Thanks.

James Quincey

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



Yeah, thanks, Dara. The short answer is yes. We're seeing some changes in consumer behavior. I mean, overall in the third quarter, the consumer remained pretty resilient and elasticities were at the better end of the spectrum. Clearly, there are some changes in consumer behavior going on. We talked last quarter about how we have typically experienced recessions. In other words, there tends to be a sequence, which is that the consumers back off on some more discretionary, higher ticket items, white goods types of things. And then, as the pressure comes on purchasing power, they start to re-evaluate the total basket. They tend to squeeze down the basket size per trip. And they look in some categories where the equity isn't as strong to have perhaps trade down to some private label or smaller packages. And you can clearly see that happening, beginning to happen, in a number of places.

It would seem to us that Europe is probably the most obvious example, where, in the at-home channel, you can see some growth in private label across a number of categories. In beverages, you could see it tick up a little in water and juices. You can certainly see the growth of the hard discounters, some channel shifting in Europe. That's very consistent with purchasing power squeeze behavior. Some signs of that, too, in the US with the dollar channels.

So there's clearly the impact of inflation running ahead of wages is starting to come through now that the summer is over and back-to-school has happened. Our focus and our confidence in our year-to-go and going into next year is about the momentum we've created in our business over the years and our ability to not just to continue with marketing and innovation, but to leverage all the thinking behind revenue growth management and the price/pack [ph] form of (29:05) architectures to maximize affordability and, therefore, accessibility of our categories for those consumers that are under pressure and, of course, backed by excellence in execution and generating value for retailers by our system that will help us get through what is likely, in all likelihood, going to be a tighter situation for the next six to 12 months.

And if I just come back and close the circle by using the European example, where consumers are under pressure, in the third quarter, the Coke system was the biggest creator of additional retail value for at-home retailers, well ahead of the rest of CPG. But we believe we have a strategy that's given us momentum. It will see us through the year-to-go. It will see us into 2023. It may, as John said, end up with above algorithm pricing and some pressure on volume, but we believe our top line can go forward.

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

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.



Great. Thanks. Good morning. You mentioned the ability for the company to adapt more quickly than in the past. And I was intrigued by the example you gave of the value packs in North America that you've started to roll out. So I was curious if you could tell us a bit more about kind of how broad-based those are, the degree to which that's something that's being explored for other markets, since, James, you just mentioned some of the pressures in [ph] Eastern (30:42) Europe, but anything you can share on the kind of leveraging experience and learning across the global system in terms of how to manage through and different RGM type practices. Thanks.

James Quincey

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

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Yeah, absolutely. I mean, value packs or ensuring affordability for the consumer is one of the core pieces of RGM. It's about extending the price ladder and, in recessionary times, about making sure the entry price point, whether it be on the larger packs or on the smaller packs, becomes as low down in the price spectrum, the actual out-of-pocket, as possible.

As I told [ph] really (31:24) the last answer, one of the recessionary behaviors tends to be to try and reduce the dollar outlay of the basket and, therefore, the price point becomes even more important than the price per liter.

And so around the world, that's absolutely what we're pursuing, whether it's in the US having smaller bottles, or smaller multi-packs of less cans per multi-pack, or the example I used in Japan, where we took the 500 ml and split it into a 350 ml and 700 ml. Of course, around the world in a number of countries, we leverage our capabilities with returnable bottles. Given the economics of returnables, particularly in the developing markets, that is a way of generating a lower price point, because, of course, in effect, you don't pay for the packaging because it comes back again. And so those returnable bottles that we refill are a way of bringing the price points down and keeping the consumer in the category.

And so that's – it's a well-developed skill around the world. The bottlers share a lot of learnings between themselves on how to think about the technology of RGM and that allows us to leverage it to its maximum, particularly in times like these.

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

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

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Thank you very much. I guess just to drill a little bit further into the path to dollar-based EPS growth next year, clearly, as we stand here today, there are a number of headwinds to overcome. And you've outlined and quantified some of them, between FX and interest expense, underlying inflation, higher year-over-year tax rate next year. I guess what I'm left trying to unravel is how dependent is the path to dollar-based EPS growth next year on this continued top line momentum that you've emphasized today versus are there other levers that you can look to, whether that's paring back a bit on marketing investments and the innovation agenda investments or just doubling-down on productivity? I guess the question I'm asking is underneath, from an underlying perspective, how dependent are we on that top line momentum continuing versus there being other levers that the company can look to?

James Quincey

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

A

The simple answer is, Steve, is we're very dependent on top line momentum. In the sense that we are going to continue, we believe, barring something very unforeseen [ph] or at this state (34:09), we believe we're going to continue to invest for the long-term health of the business and that's going to drive top line growth, as it has. I mean, if I – just for the sake of the argument, if you take the five year CAGR of revenue through all the ups and downs of COVID and everything, in round numbers, it's trending at 6% compound for the last five years.

So preserving and sustaining top line momentum is actually the key starting point. Now, of course, if there are parts of the world where circumstances do not merit continued high levels of marketing investment and there's reasons to pare back, then, as John mentioned earlier, we absolutely will lean on our increased degree of agility and adaptability to make those adjustments in the moment and, similarly, with any SG&A.

But the predominant drivers again is going to be the top line. We will manage the other elements of the P&L based on the local markets. I don't think it's our expectation that this is going to be like the second quarter of 2020, where everything stops everywhere at the same time. If there are to be pressures, it's likely that they are spread out over time, so the predominant modus operandi will be lean into growth, invest in top line growth, and then, yes, we expect, at times, different markets to kind of have to, yes, optimize the marketing, but on an overall basis, it's top line momentum-driven.

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

Yeah, thank you. Good morning, everyone. So, James, I was wondering if you could just comment, I saw some of the organizational priorities that came out of the US bottler meeting recently. And I was hoping, just linked to this top line momentum comment, if you can provide some context on other markets in terms of organizational priorities, whether it be some of your larger markets, like in Japan or in Western Europe or Latin America, maybe you can just share some thoughts on how you're thinking about some key initiatives in those regions.

James Quincey

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

Sure. I mean, let's start with Japan. Clearly, in Japan, we're very focused on the marketing innovation. It tends to be a market that's very driven by engagement with the consumer. Also important in Japan, after perhaps multiple decades of not taking price, we have taken price on large packs in Japan in the third quarter. Actually, in the fourth quarter, we've been taking pricing on immediate consumption packaging in Japan, so I think we're going to see an opportunity to lean a little more on the RGM lever in Japan as we continue to engage with the consumer there.

In Western Europe, clearly, the basic strategy of investing in marketing, investing in innovation, leveraging RGM, and driving in-store execution and value for retailers has been working in Western Europe. As we go into the winter and going into next year, that's still going to be the push we make. The bottlers have got great momentum in execution. Of course, Europe is where there's more of the developed world inflation. Think commodities plus the devaluation of the euro, so that's feeding through, and so we're likely to have to lean heavier on RGM in Europe in the next 12 months, backed up by the marketing innovation execution.

And then Latin America, a lot of work over the last number of years with the long-term relationship model. Bottlers there have good momentum. Clearly, it's one of our strongest regions. We lost a little share in the beginning of the year. They're very focused on getting that back, obviously starting from a high bar.

And I think perhaps overall, it would be worth commenting that, obviously, in COVID, we took a number of what were difficult decisions at the time, slimming down the portfolio, changing the marketing model, changing the organizational model of the company. We got that done and stood up, and I think now we're reaping the benefits of both being able to drive growth with a more agile organization ourselves, combined with really strong and aligned bottling partners, we've driven growth this year and we're well set up for next year.

I mean, just to cap it all, we had a global system talk with a number of the bottlers a few weeks ago, and I think everyone is ready and energized for what's ahead.

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

Hi, guys. Good morning. Can you talk a bit about fixed versus floating debt and how that might impact both your cash balance and your interest expense in the coming year?

John Murphy

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

Sure, Kaumil. Thanks for the question. Yeah, as you know, we manage our funding through with an eye towards liquidity risk and with a multiyear lens and have done that for many years. Through COVID, I think we talked about we pushed our age of our debt out a number of years and we do have a mix of fixed and floating. Most of the floating is in euro, and so we will wait and see what the ECB does over the coming months to have a clearer picture on the impact for 2023.

But I think it's an area that we'll provide more detail on in February, subject to the developments by the Fed here and by ECB over the coming months.

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. I have a question on your commodity inflation. John, you touched on this, but hoping you could help frame the commodity inflation expectation next year. You mentioned another year of expected growth. But is it realistic to expect this growth might be more modest versus this year, possibly in the mid-single digit range, given some of your commodities peaking as well as hedges you have in place?

And then, I guess I'm asking in the context of the pricing environment and whether you think it's likely that ongoing price increases maybe won't need to be as aggressive and we might actually see a step-up in promotional spend to ensure price points for consumers are affordable, and then, if so, is it realistic to expect a better balance between price/mix and volume growth next year? Thanks.

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John Murphy

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

A lot of questions, Bonnie. Let me start with the commodity point and our outlook for the year ahead.

As I said at the – I think in answer to the first question, there are a lot of variables in that equation and, indeed, the variability with some of them is maybe even broader. When I think about the cost environment, not just the commodity environment, I think about both our commodities, the commodity pressures that we have within our business and the non-commodity pressures that we have. And so as we look at 2023 on the commodities front, we are rolling off some very favorable hedges that we were fortunate to have this year. And it's still – in our mind, it's still unclear as to how commodities will trend over the next six to 12 months. So we'll have more visibility on that when we get to the call in February.

With regard to the non-commodity items, just within that, you've got a bucket of different – freight, logistics, the transportation in our finished goods models, the overall wage environment. We have to take into account that the wage environment is not the same everywhere. And indirect impacts on supply chain pressures. As we think about the supply chain, it's important to not just have efficiency as a metric, we also need to make sure that we have continuity we have for the short and longer term. And we're able to manage many of the pressures that I think we've talked about on previous calls to manage those effectively.

So there's a lot going on inside of the cost of goods line and, hence, I think it's better for us to just provide you with how we're seeing as overall and we'll come back in February with more specifics.

And to your second question on ongoing price increases, I think I'd link us back to some of James' comments earlier. The name of the game is to optimize our revenue equation over the next 12, 18 months. That's going to be a combination of smart pricing, understanding the mix both from a channel and package perspective, and being able to utilize the many levers that we have inside of the RGM toolkit that our bottlers have.

So again, I think at this stage, it's still early to say what the exact numbers will be for each of those topics, but I think the broader point is that the top line momentum that we have, we have enjoyed year-to-date, that we see continuing to hold through the rest of the year is something that we expect to be able to generate into 2023.

Q

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

All right. Thank you.

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

Q

Chris Carey

Analyst, Wells Fargo Securities LLC

Hi. Good morning. So just following up on that, I think it's pretty well established price/mix versus volume algorithm will probably be more skewed to price/mix next year again. This could be for James or John. But is it fair to assume that the rate of pricing is likely to be a bigger percentage of the price/mix equation going forward as we lap the recovery in the away-from-home channel and some other channel mix dynamics?

And [ph] then, just connected (45:31), James, it's been harder to see the underlying rate of pricing this year relative to the price/mix. Can you just remind us your philosophy for the rate of pricing to track inflation and

whether you believe your business is close to satisfying that objective today and perhaps how much room you have? So thanks for that.

James Quincey

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

A

Yeah, Chris. I think, yes, clearly, it's likely that next year price/mix will run ahead of volume in a similar way to it has this year. I mean, our long-term growth algorithm has assumed a relative balance between price and mix. Clearly, at the moment, we're in a period where there's more price/mix than there is volume, and that seems likely to continue into next year.

It is also true that this year, there has been some benefit from the channel mix on the reopening. The reopening benefit that was obviously a reopening cost in the previous year in price/mix is now largely done. And so that kind of tailwind won't be there next year.

Are all the channels away-from-home completely reopened? No. But the remaining kind of sliver is either a function of closed outlets or something that's going to take a while to come back and, of course, some of the mobility restrictions in places like China, which I think also won't snap back certainly in the first half of next year.

So the away-from-home component of price/mix won't be the tailwind next year. And so, in that sense, yes, we'll be very much back to it's all about what's the rate and what's the benefit from all the RGM strategies, whether to drive affordability or to offer premium categories or package sizes, and that will be the primary driver going into next year.

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

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Q

Thank you. Good morning. So I wanted to go back to John's comment on growing EPS in dollar terms next year. And along with that, James, you mentioned that you're looking at pricing [ph] above algorithm (48:01), which makes sense, but given the volume elasticity, I was just hoping if you can comment, in general as we stand right now, that operating income would probably grow faster than EPS in order to absorb some of the unfavorable hedges and issues in the financial expenses, is that the way we should be thinking of next year to a more muted EPS growth, or you still think you can grow above low single next year in EPS?

John Murphy

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

A

So, Andrea, thanks. I'll take that. As we said earlier, I think it's too early to get into those specifics for next year. I think the way to think about the year ahead is I think it's going to be another year out of our typical algorithm. We continue to build greater visibility around ahead what to expect and predicting the first half of the year when we'll be looking for that fast start. What each line item of the income statement looks like is, it's just too early. We'll come back in February with that detail.

I think the key takeaway is that, as we sit here, we do see a path to generating US dollar EPS growth in 2023. As I said earlier, there's many variables to bring that path to fruition. And we know that the – that as the top line-driven smart investments and effective management of our cost structure, those three will deliver. And below the

operating income line, as I said, there's a lot that still needs to play out in the next few months to give you a clearer picture on what to expect. And we'll come back in February with that detail.

Andrea Teixeira

Analyst, JPMorgan Securities LLC



Thank you.

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

Carlos Laboy

Analyst, HSBC Securities (USA), Inc.



Yes, good morning. Some of the benefits of the new Latin American LTRM are obvious, like faster revenue growth, higher ROIC for the bottlers, for the system really, clarity of profits splits, but can you expand on some of the less obvious, but important, benefits that are important to you, James?

James Quincey

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



Sure. Thanks, Carlos. I mean, clearly, this is a feature of particularly the Latin American system. We're using similar models in conversations around the world that build on many years of working together collaboratively in Latin America.

And then, other than some of the features that you mentioned, I think what's really kind of less visible perhaps is its ability to speed up the rate at which actions or decisions and actions are taken by the system. And so it has provided a stimulus to really focusing in on getting to grips with some of the knottier problems and to moving with speed and simplifying the decision-making progress in a whole series of areas, particularly those that have been kind of slower historically. Some of the stills business models come to mind, particularly as it relates to Latin America. And that will ultimately feed through to, as I said, speed of decision-making, which then is better marketplace actions, whether that be marketing, innovation, RGM, or execution. And I think the system in Latin America is very energized and building on their historic great position and set for further momentum going forward.

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

Robert Ottenstein

Analyst, Evercore ISI



Great. Thank you very much, and terrific results. I was wondering, James, if you could drill down a little bit more on what's going on in emerging markets, in the emerging market consumer. We were a little surprised by the results of China, looking to be maybe a little bit more, do a little better than we had modeled, given the lockdowns, some of the other emerging markets a little bit weaker than we would have thought. So I guess the question is, is local competition a problem? Is it demand? Is it too much pricing? And, obviously, it depends market-by-market, but if you could give us some sense of what is going on in the major emerging markets, that would be helpful. Thank you.

James Quincey

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



Sure. I'm not sure which one's you're putting in the bucket of weaker, but let me do a little walk around some of the emerging markets. We had good results, we feel, in China for the quarter. I mean, we had good growth overall for China, notwithstanding some of the mobility restrictions that came in a whole raft of cities, so China remains a good long-term opportunity. We have a good business there, good bottling partners and there was some resilience to the business in the quarter.

Just keeping with the Asian theme, India had a knock-out quarter. Clearly, they're having a very strong run this year. Lots of growth in India, really powering forward, very pleased with that. Looking, of course, to extend that into the future, probably won't be a straight line, but certainly looking to continue to invest strongly in India. The rest of ASEAN, there was some pluses and minuses, but generally positive.

If I switch to Africa, Africa, you've heard me talk, in the past, that it's always a roller coaster. There was a little bit of roller coaster in the quarter, but overall we had good growth in those markets we were focused on. There was growth that was ultimately pretty broad-based, whether that was South Africa or elsewhere.

It would be worth noting that this quarter, remember, we made a switch in our franchise partner in a number of territories across Africa. So we brought to a close our relationship with BGI, the Castel Group, in a whole raft of African markets. And some of them, we had partners ready to go. And some of them, we're still working on it. So there is a transition loss of volume in those ex-BGI territories where we ceased that partnership, and so that weighs on the Africa number.

And then, as you keep going round the world, obviously, Latin America had a good quarter. And then, I think the last one I'm really missing is a bit of Eurasia. And there, we had a pretty decent quarter. We had growth in Turkey, which is an important market to us, and a number of other Central Asian markets and the Middle Eastern markets. Obviously, those ones that are – tend to have resources or oil exporting countries, tend to have done better than the heavily oil importing countries. So the Middle East was better than Egypt. Of course, remember, that the EMEA numbers have the dropout of the Russia business.

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

Charlie Higgs

Analyst, Redburn (Europe) Ltd.

Hi, James and John. Hope you're both well. So we're a year now into the reformulation of Coca-Cola Zero Sugar. And to cap it off, we've seen 11% volume growth and double-digit growth in developed markets. So, James, I just wondering if your opinion on Coke Zero, how it's done since the relaunch? And then also just looking into 2023, does your approach to innovations change at all if we think we're going to enter a weakening consumer environment? Thank you.

James Quincey

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

Yeah, sure. Look, super happy with Coke Zero Sugar. We have been investing behind it for a good number of years and have been driving double-digit Coke Zero Sugar volumes for many years in a row. And, obviously, that's getting really material, including strong double-digit growth in the US, so very pleased with the reformulation update. Of course, we continue to bring new marketing and new innovation to Coke Zero Sugar, and that is going to be a big focus of what we drive going forward.

On innovation as it relates to 2023, I mean, yes, there will be a [ph] kind of a buyer shift (57:43) in the mix of the innovation for 2023. If one of the imperatives remains affordability and to kind of anchor price points at the low end of the actual dollar outlay, then clearly package innovation takes a bigger role in that sort of environment, whether it be smaller packages, whether it be the returnable packaging, big investments going in by the bottling system in returnable packaging to help the affordability strategy.

So in a kind of purchasing power pressured year for the consumer, expect innovation to be slightly heavier on the packaging side, particularly to drive affordability, but, of course, that will also have its other side of the coin, which is to try and ensure there are some perhaps more premium options for those that still have plenty of disposable income. Not everyone will have exactly the same effect in this period, so likely to see continued push, for example in the US, on small cans or sleek cans to really stretching out the pricing ladder, not just putting all the bets on the affordable end.

And we will continue with the brand and the product innovation. I don't know if you went to the NACS. There was a lot of innovation on show – the convenience store conference for the North America. There was a lot of innovation on display there, both package and product, and so we will be approaching 2023 with a broad innovation agenda, but with some slight weighting to packaging to stretch on the price ladder.

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

Peter Grom

Analyst, UBS Securities LLC

Hey, good morning, everyone. Hope you're doing well. So I guess I wanted to circle back to 2023 guidance. And I guess what I'm trying to understand is the company's long-term algorithm has largely embedded some operating leverage over time. And maybe I'm just reading too much into this, but there was just a lot of emphasis throughout the call today, that next year will be a top line-driven year. And so I guess based on where things stand today, should we expect underlying growth from a top line and operating profit perspective to be more in line versus what's embedded in the long-term algorithm? Again, I could be misinterpreting the emphasis, but if that's correct, it would imply very strong top line growth in order to deliver US dollar EPS growth. Thanks.

John Murphy

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

Thanks for the question, and just to maybe to reiterate, there's a difference, I think, between the long-term growth algorithm and what may be coming at us over the next year or so. I think it's going to be somewhat out of algorithm, given the various factors that we have discussed on the call and, indeed, have discussed throughout the year.

So at this point in time, I think it is too soon to give you line-by-line guidance, but we continue to see a path to generate US dollar EPS growth in 2023. And that will be – will need to be driven by – from the top line. The cost pressures are there. We're very aware of them. We talked about the currency outlook. And so we still think when you put all the pieces together, that we have that path, but we'll have a lot more coming at us over the next three to four months and, in February, can give you a more granular breakdown of how we expect to get there.

Operator: Our last question will come from Bill Chappell from Truist Securities. Please go ahead. Your line is open.



William B. Chappell

Analyst, Truist Securities, Inc.

Good morning, and thanks for squeezing me in. Just I guess a question on some of the competitive response or individual markets. Everything we've talked about today has certainly been positive. And I guess any of the setbacks have been kind of attributed to macro issues. Are there any areas where you're worried about, where there's been a competitive response where you need to step up, be it on a product or an individual country, or is it really just there's just so much momentum and anything else is just macro related?

James Quincey

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



It would be a particularly delusional position to take to say I'm not worried about anything. That would be very weird. But clearly, we have a – it's a competitive industry. There are a lot of good competitors, big and small. So we absolutely are worried what they're up to.

We always take it from satisfying the consumer and the retailer point of view. We're not chasing the competitors. We're chasing the consumers and the retailers. And certainly there, we could point to a set of things where competitors have done well. And that calls attention to us to whether we are really doing everything we can to satisfy the consumer or the retailer.

I think one obvious example is in sport drinks, advanced hydration in the US, where, this year, our competitors are coming off having a whole series of supply chain challenges last year and that's – we had a great year last year, and we're had a not so great year this year. And we're also obviously in the transition of taking over BODYARMOR. But the US bottlers are very energized about the BODYARMOR and Powerade plans going forward. A lot of innovation on the brand, on the product, on the packaging set up. So we'll be back. But what guides us is are we satisfying the consumer and the retailer.

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. So just in summary, third quarter results, I think, exemplify how we're executing and winning in the marketplace. It's been driven by the work we've done as a system and the transformation we've undergone over the last few years. We are a more resilient business and we're committed to delivering long-term value for our shareholders and stakeholders. And 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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