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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 and Investor Relations Officer. Mr. Leveridge, you may begin.

Timothy K. Leveridge

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

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

Before we begin, I would like to inform you that we posted schedules under the financial reports and information tab in the Investors section of 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 discussions to our results as reported under generally accepted accounting principles. I'd also like to note that you can find additional materials in the Investors section of our company website that provide the accompanying slides for today's discussion and an analysis of our margin structure.

In addition, this conference may contain forward-looking statements, including statements concerning long-term earnings objectives, and should be considered in conjunction with cautionary statements contained in our earnings release and in the company's most recent periodic SEC report. Following prepared remarks this morning, we will turn the call over for your questions. Please limit yourself to one question. If you have more than one, please ask your most pressing question first and then re-enter the queue.

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

James Quincey

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

Thanks, Tim, and good morning, everyone. In the third quarter, we saw ongoing improvements in progress. While our business continued to be affected by lockdowns in some markets, especially in places with strong exposure to the away-from-home channels, we are encouraged by the response and execution in our system. Together with our bottlers, we continue to focus on winning as the world reopens. We've moved quickly to address the near-term realities and we are working to deliver on the priorities we outlined in our second quarter call.

I'm also inspired each and every day by what I see from our associates, their resilience, their drive and their pride in this great system. They're working purposely to serve our consumers and customers and to do it safely. They are making a difference in the communities around the world, and for this and much more, I offer my sincere thanks and appreciation.

Today, I'll provide an update on the quarter, including where we're seeing the most improvements in our business and where recovery is moving at a slow pace. Also, I'll share some thoughts on the remainder of the year and as we look forward to 2021. Then I'll share progress we're already making to emerge stronger, and finally, I'll hand over to John to discuss the quarter in more detail, including how we continue to execute in this challenging environment.

In the third quarter, we continued to rebound from the pressures we experienced at the peak of the lockdowns as the world generally moved into the recovery phase. That said, the trajectory of our business trends continued to be closely linked to the size of our away-from-home business in any given country and the level of the lockdowns in the markets. From the 25% volume decline that we saw in April, the mid-single digit decline through the summer, and the low-single digit decline since September, our volume trends have continued to improve.

Much of the sequential improvement has been driven by the away-from-home channels, which represent roughly half of our business globally. Our away-from-home volume was down in the mid-teens in the quarter, a significant improvement from the April lows, which approached 50% declines. This was driven by the agility of our sales teams throughout the system and the efforts to create value for our customers during the gradual reopening phase. We are seeing the away-from-home recovery starting to stabilize, given the ongoing restrictions in many regions.

Our at-home channels also saw an acceleration throughout the quarter. Specifically, grocery and e-commerce channels continued to experience solid demand, benefiting both from shifts in consumer behavior and our system's actions to capture those opportunities. The system is working jointly to manage the supply and distribution shifts, made key decisions around portfolio priorities, and leveraged digital data to identify new outlets to further growth.

We continue to see progress, but the environment remains dynamic, and it is not a straight-line recovery around the world. Different markets are seeing varying degrees of impact. In EMEA, at-home channels continued to perform well, and sparkling soft drinks and juices remained resilient. Volume improved in away-from-home channels throughout the quarter as activities resumed with limitations. In Latin America, volume improved as government restrictions eased, specifically Brazil continues to be an outperformer, but economic pressures remain and our recovery in Mexico has been slower than expected.

Moving to North America, strong performance in at-home channels was offset by continued softness in our foodservice business. While some away-from-home channels have been slower to recover, we've benefited from traffic improvements in channels like convenience retail and quick-service restaurants. Importantly, digital partnerships with restaurants and aggregators to optimize menus have resulted in a four-point increase in attachment rate and digital commerce retail sales have more than doubled year-to-date, outpacing the category.

In Asia Pacific, China is well on its way to emerge stronger driven by solid performance in sparkling soft drinks. Recovery efforts in India and Japan continue, and we have seen meaningful improvement in the face of ongoing restrictions. Global Ventures remains pressured, but has seen a significant improvement from Q2 with organic revenues improving by over 30 points.

Our Costa retail stores, one of the most affected parts of our company at the peak of the global lockdowns, are now almost entirely open. While traffic is unlikely to fully recover in the near-term, our First One on Us campaign has shown promising signs, driving over a 1 million new consumers to the Costa app. We continue our journey to be a global multi-platform coffee company under the Costa brand.

Across our channels and regions, our brand portfolio is working hard to return to pre-COVID levels of growth, and we have made progress in the quarter. For example, trademark Coke delivered volume growth in Q3. We also saw growth in local champions like Simply and fairlife in the US, and Thums Up in India. With the NARTD category continuing to be affected by a shift to at-home channels, our underlying strength in value share this quarter was more than offset by the negative mix in away-from-home where we tend to have stronger share positions.

Clicking down, we are seeing positive share momentum in EMEA and Latin America, including gains in sparkling soft drinks. In fact, trademark Coca-Cola saw share gains in 80% of our top markets globally this quarter. Share gains are a key metric of our determination to emerge stronger, and we are intent on recapturing lost ground and more through the recovery phase.

In summary, we are encouraged by the improvements in our business. However, it's important to remember the world is in a fragile state. We've seen reopening trends begin to moderate and the away-from-home recovery showed signs of stalling in September with the increase of restrictions in several markets. There is potential for increased regional lockdowns as we enter colder seasons in the northern hemisphere. We don't expect to return to the peak levels of global lockdown, but we are prepared for setbacks due to the local spikes in cases and targeted restrictions and closures. The pandemic has been a catalyst of change for our company, but the initial work behind our strategic transformation was in motion for some time before the crisis hit. We've been challenging legacy ways of doing business, and the pandemic helped us realize we could be bolder in our efforts.

Last quarter, we highlighted five priorities to accelerate our transformation. We set out to optimize our portfolio and instill more discipline in our innovation approach, coupled with more effective marketing, stepped-up revenue growth management and execution, and enhanced system collaboration. We also said we'll evolve our organization and invest in capabilities to ensure we can bring this strategy to life. We're moving swiftly to deliver against those priorities with our goal to reach pre-COVID growth levels ahead of the economic recovery.

Firstly, we set out to position our portfolio for success, focusing on scaled growth through targeted resource allocation and optimization. Over the past few months, a cross-functional team has worked to identify the right brands for growth portfolio that will drive quality leadership and help us achieve our Beverages for Life ambitions. We have finalized the master brands in this growth portfolio, which consist of about 200 global, regional and local brands that will allow us to remain truly consumer-centric, focusing on those brands that can be scaled to drive profits for the long-term. For the brands that were not selected, we have begun to work with our bottlers to quickly sunset or thoughtfully transition them to one of the growth brands over the next year.

Secondly, our marketing transformation is also underway. We have undertaken a global initiative to improve marketing efficiency and effectiveness, jointly led by our marketing, procurement, and finance teams. This is a top priority, and the initial work to-date has validated the opportunity to sustainably reduce our spend by our proven procurement methodologies and other efficiency levers, while maintaining and improving marketing effectiveness. Importantly, this is not a top-down driven exercise to reduce expenses. There is no savings target. Rather, by improving our processes, eliminating duplication, and optimizing spend on things like third-party agencies, we will increase our effectiveness and be able to fuel reinvestment in our brands.

When it comes to innovation, we're focusing on bigger, more scalable bets. And to be clear, this strategy does not mean less innovation overall. Already this mindset is showing results. Year-to-date, revenue contribution from innovation is higher than last year and the amount of revenue per innovation has doubled. Innovation will come in different forms. We can leverage a trademark to expand the category like we're doing with Coke Energy. We can also create a brand like AHA to participate in a growing category or subcategory. And we can also expand our

addressable market by entering a new category like we've done so with Topo Chico Hard Selzer, which debuted last month in select cities across Latin America with more markets coming soon, including the US.

Ultimately, we're combining discipline with agility to win drinkers, share and profits. We continue to experiment on a local level and our new approach allows us to move faster to find and scale our best initiatives. We have a robust pipeline in the works for next year and expect innovation to continue to contribute meaningfully to our growth going forward. And as we adapt our organization, we continue to apply our enhanced revenue growth management capabilities, provide beverage options at the right price and for the occasion consumers are looking for to bring new drinkers to our brands.

We are also strengthening our bottling partnerships across the system to enhance execution across channels. In order to ensure the structure of our company facilitate the success of our accelerated strategy, we're becoming a more networked organization that will combine the power of scale with deep knowledge to win locally. We expect this new networked model to be established and functioning at the beginning of the next year, and Platform Services will be fully integrated, standardized and scaled over the course of next year.

We're streamlining from 17 business units to nine operating units, which will accelerate decision-making, while maintaining local market execution. We've announced five global category leads to steer the new marketing model and ensure relentless consumer focus on brands that could be scaled to even stronger positions. We're also creating a new Platform Services organization, which will be a critical enabler in supporting a networked way of working. It will be a collection of 10 areas of expertise, known as hubs, that will partner with the operating units, categories and the center to develop the capabilities and services needed to support their strategies as well as enable collaboration and execution.

Our people are confident and engaged in this transformation and an enterprise mindset is taking hold. And new leadership teams have been formed and there are clear job descriptions to ensure accountability across functions. The changes to our structure will result in reallocation and a reduction in the number of associates. This is underway through a combination of voluntary separation programs as well as some level of involuntary reductions. Although these changes are never easy, I am certain they will allow us to emerge stronger.

In addition to executing on the five priorities, environmental, social and governance initiatives always remain at the forefront of our minds and actions. Our ESG goals are embedded in how we operate as a business, and we will continue to make progress across our key sustainability initiatives, including our World Without Waste goals. For example, cross markets representing 30% of our global volume, we now have introduced 100% recycled plastic packaging options in at least one brand, and this has grown even during the pandemic.

And last month, the Netherlands and Norway became the second and third markets after Sweden to now say we'll manufacture the entire local portfolio in 100% recycled PET. In the US, we continue to join other stakeholders in supporting policies to drive improved packaging collection and demand for recycled material, such as California's new mandatory recycled content legislation. In recognition of the importance of this topic to our company and I know to many of you as well, I hope you will join us for our virtual ESG Investor Day on November 13.

To sum up, we are continuing to navigate through the uncertainties of the global pandemic. We are heading to a phase where the world is adapting to a new way of living with COVID. The progress we've made on accelerating our strategic transformation will give us the focus and flexibility to manage our business and execute with excellence today and to set ourselves up for better results in the long run.

With that, I'll pass it over to you, John.

John Murphy

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

Thank you, James, and good morning, everyone. Today, I'd like to comment on our third quarter performance and give perspective on the financial implications of our structural changes and new operating model. I'll also provide some additional context on our outlook.

In the third quarter, I am pleased to report that our focus and flexibility enabled us to drive sequential improvement from the second quarter. Our organic revenue performance was down 6% driven by price/mix down 3% and concentrate sales down 4%. This quarter's performance compares to a 26% organic revenue decline in the second quarter. While most of that improvement came in the form of better volume trends, we also saw improved price/mix, particularly when you look at this on a two-year average.

Comparable gross margins contracted by about 140 basis points. And this was primarily driven by continued albeit less pressure from our channel mix between away-from-home and at-home, in addition to currency headwinds. Comparable operating margin expanded by approximately 230 basis points due to ongoing cost management offsetting the pressure from the top line. While our marketing spend remained below last year's levels, we did increase it sequentially and in a targeted way as we saw recovery in the business. We continue to monitor the effectiveness of spend with the goal of investing ahead of recovery.

Below operating income, we saw a strong sequential improvement in many of our equity stakes as our bottlers have quickly moved to adapt to the changes. Therefore, third quarter comparable EPS of \$0.55 declined 2% year-over-year. This was better than our internal expectations given the stronger-than-anticipated volume trends in September and the improved equity income. While the pandemic has weighed on our cash from operations year-to-date, we saw significant sequential improvement in the third quarter and remain intensely focused on the free cash flow opportunities ahead. These include further progress in our working capital initiatives and being better stewards of our capital spend.

While much has changed this year with the onset of the pandemic, our focus on converting top line growth to maximize returns has not. The changes we are making will lead us to more efficient and productive spending. These include our organizational restructuring, streamlined portfolio, disciplined innovation, and optimized marketing approach. As James mentioned, we're streamlining our master brands by approximately 50%, which significantly reduces complexity, with an impact of less than 1% to top line and profits. We expect this impact to be more than offset over time by the benefits of greater focus on our growth brands.

The combination of voluntary separation programs and involuntary reductions are estimated to result in expenses ranging from approximately \$350 million to \$550 million. While we are not defining a target level of cost savings, historically in these scenarios, we have seen a similar level of savings as compared to the cost of the programs. These actions will help us achieve a structure that is designed for growth, which in turn will fuel reinvestment to drive top line and margins for the long-term. Said another way, the strategic priorities we've accelerated are designed to drive results that get us back to our long-term growth algorithm as fast as possible.

In our last call, we talked about adapting to the various phases of the pandemic, focusing on what we can manage and control, and not getting ahead of ourselves with regard to when things might return to normal. We see no reason to change this approach for the remainder of the year. Different countries around the world are going through different phases, some still dealing with the first wave, others dealing with or expecting a second wave, and their respective governments taking a variety approach, all of which means continued uncertainty regarding the pandemic and the macroeconomic picture. So, within this context, we will continue to hold off on providing more detailed guidance today.

Having said that, there are important factors to consider for the fourth quarter. We will be benefiting from two extra days in the quarter. To the degree that away-from-home channels are impacted by targeted restrictions, we would expect price/mix pressure to continue due to channel and package mix. This mix shift in our business will also continue to have implications for gross margins. We will continue to be prudent in our marketing expenditures, but stepping up investment in a targeted way ahead of recovery with a more efficient and effective approach.

As we noted in our release, we expect a currency headwind of approximately 3% to the top line and approximately 9% to comparable operating income in the fourth quarter based on current spot rates and our hedged positions. Looking at today's rates and hedged positions, at this stage, the currency impact would be minimal as we head into next year.

Coming out of an unusual year like 2020 will surely have implications for 2021. It is fair to assume that 2021 will have several considerations, including the cycling of 2020 impacts, the step up in discretionary spending, as well as the strategic acceleration initiatives we've outlined. While it's too early to provide specific commentary, our actions give us increased confidence to recover faster than the broader economic recovery. We will provide more insight as part of our fourth quarter call.

As we think about the long-term, we will continue our journey to improve cash flow where we had made much progress last year, as well as focus on asset optimization with the goal to becoming asset-right over time. Our balance sheet remains strong and we continue to have confidence in the health of our system as we emerge from the peak of lockdowns across the globe. System health is crucial to our success. We also remain committed to our dividend policy and balance sheet goals. We recognize the dividend is important to our investor base and continue to believe our long-term model can deliver the cash necessary to reinvest to grow the business, while also supporting the dividend. We will continue to work to return to a dividend pay-out ratio as a percentage of free cash flow that approaches 75% over time.

The acceleration of our strategy and the progress James outlined today will help drive long-term top- and bottom-line growth, not only for us but for the entire Coke system. The challenges that we faced during this pandemic are by no means in the rear-view mirror. Nevertheless, we are seeing promising signs that the actions we're taking have put us on track to equip the organization and indeed the system to win. We are confident that we will return to the high end of our long-term growth model and do so having made an impact with our stakeholders and having gained consumers, share, and improved system economics.

With that, operator, we're ready to take questions.

QUESTION AND ANSWER SECTION

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

Bryan Spillane
Analyst, Bank of America

Q

Thank you, operator, and good morning, everyone.

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

A

Good morning.

Bryan Spillane
Analyst, Bank of America

Q

So, John, maybe you want to pick up a little bit on some of the commentary related to the outlook and into 2021. And I understand it's early, but I think a lot of investors are trying to figure out the game how quickly you can get back to the high watermark, so kind of 2019 levels, and kind of what that path looks like in 2021. So, maybe if you could help us a little bit with some of the puts and takes, I guess, for next year. There's going to be some cost savings, there's some discretionary spend that might have to come back. So, maybe if you could just kind of help us a little bit with what those building blocks will look like for next year.

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

A

Sure, Bryan. Thanks for the question. It's still early and there's – as we talked on the call, a fair degree of uncertainty remaining, and we have certainly a lot more to visibility I think when we get to the fourth quarter call. In the meantime, as we just discussed, 2021 will be an unusual year. We're cycling a number of unusual impacts from this year. We will see a step-up in our discretionary spending as we go into the fourth quarter and into the first half of next year.

And we're also going to, I believe, see the benefit from the strategic initiatives that we have outlined in the July and on this morning's call. Our new organization structure will be well in place at that stage. So, I would anchor our spending in 2021 going into 2022 off our 2019 base and take into account the actions that we have discussed that both drives the top line and to drive greater efficiency across the organization. And we'll be in a position to talk more in detail on the Q4 call.

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

**Lauren R.
Lieberman**
*Analyst, Barclays Capital,
Inc.*

Great. Thanks. Good morning. I wanted to talk maybe a little bit longer-term, because you have announced and have been discussing on today's call just a tremendous amount of change that you're introducing not just to your

organization immediately, but also to the broader system, all at a time when everyone needs to be nimble and quick in adapting to what's right in front of them and the near-term realities.

So, I guess, one, could you just talk a little bit about what you're hearing across the system in terms of comfort or excitement or fear about the changes, the ability to absorb? And then also, how might you describe kind of your long-term view? Pre-COVID, you were already optimistic. Post-COVID, we're looking at a world maybe with a smaller footprint and smaller traffic around away-from-home. So, how would you describe kind of your long-term view today versus maybe what it was 12 months ago? Thanks.

James Quincey

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

A

Sure. Look, the headline is we're more confident today in the long-term growth potential of the company and the bottling system than we were pre-COVID. And the reason I say that is, look, as we came into the crisis, we had obviously done a lot of things, reinvesting Coke, re-franchise, and we had launched the total beverage strategy with Beverages for Life. And we were starting to get traction. We were starting to see the business, both the company and bottlers, get up towards the higher end of our long-term growth model and come off several years of good revenue growth and starting to see the earnings take off in dollar terms for the company in EPS and for the bottlers as well.

And building off that strategy of Beverages for Life, the actions we're taking this year really being very focused on what are the brands that can take us into the future, as John said, we're letting go slightly more than half of the brands so we can focus on those with the greatest potential. They account for a relatively small amount of revenue and profit, but they take up a disproportionate to that amount of time, process and shelf space.

So, the focus on the portfolio, the updating and change to the marketing model, as John mentioned, not just the efficiency but the effectiveness of the model, with the new organization, with the new networked organization, and with the Platform Services, these actions are helping us not just adapt and prosper within the COVID crisis, and clearly Q3 was better than Q2, but it's giving us confidence that we are not only going to emerge from this crisis ahead of the economy overall in a stronger position, but we will be even better set up to drive the Beverages for Life strategy going forward.

And I think you can see that play through from the company into the bottlers. Yes, every country is not equal, but a simple sign is that our third quarter was better because our equity income was better, which is a direct result of the bottlers doing better in the third quarter. So, I think the way the system grasped the nettle in March and April, and rapidly shared the learnings and shared the adaptation strategies has paid dividends for the company and the bottlers during the crisis, and I think we are well set up and are all collectively being proactive in setting ourselves up to be stronger when this ends, whether that's because the bottlers are going to intersect with the upgraded marketing, with deeper execution against revenue growth management, and local execution.

Everyone is very focused on the efficiency of the supply chain, and the rationalization of the product portfolio will pay dividends through the bottling supply chain. The idea of moving resources from the kind of the back office onto the feet on the street will pay dividends in the bottling system. So, I think you see a system in sync philosophically and driving the changes needed to both win in the crisis and emerge stronger. And I believe we are in a better position, the company and the bottlers today, to be stronger in the long-term than we were pre-crisis.

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



Nik Modi

Analyst, RBC Capital Markets LLC

Yeah, good morning, everyone. So, James, I was wondering if you could just help us understand this, kind of two things. Some of the work we've done with just local players are making some inroads in terms of market share. This is mainly in the emerging markets. So, I want to understand the tension between your kind of SKU footprint or your brand footprint, and the need to be local so you can compete with some of these local competitors. And then just I guess wanted more clarity on what's the timeline? Like how do you think about the scaling-fast phenomenon that you've been discussing for the past several quarters? How much time are you going to give new initiatives before you decide you're going to axe them? Because sometimes you have to stick with an idea to kind of build it, but I just wanted to get your perspective around that.

James Quincey

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

A

Sure. I mean, market share, firstly, our headline approach on market share is to win in the channels that are open. I mean, we've talked about it on the last quarter. It's clear and we have a stronger position in away-from-home channels and a higher share in away-from-home channels than we have in at-home channels, and therefore mechanically, as those are closed down and locked down, we kind of mechanically lose share.

So, what we have focused on is to say to the system we must focus on winning share in the channels that are open. Because then, as the world recovers – and I'm a strong believer that as the world recovers, the fact that we are social animals means we will mix and mingle. Some of these channels will evolve, and not that they won't all come back in the same way, but away-from-home will come back, and humans will go out and socialize and do lots of things because they'll want the experiences. They're not going to stay stuck at home. So, it will come back.

So, we're focused on winning share in the channels that are open. And so, we have been winning share for the at-home channels. And that is true across the board. That's true across many, many, many of the countries. It's very rare to win in every country all the time, but we have been winning broadly across the world in the at-home channel. And so – and I think you've seen commentary about how bigger brands and people have been returning to the brands they know and love from other categories and other sectors too. So, I think that's very much what's going on.

And as we look forward to kind of the focus on going forward, the reduction of the portfolio by about half is actually going to allow us to bring more stronger innovation to the table. This is not about less innovation and less ability to tap into local insights. It's actually about leveraging the most successful vehicles to do that. So already this year we have seen the revenue-per-innovation double versus what we had last year. So it is about the combining the platforms, and the global and regional brands, and the platforms to connect to local insights. And that is part of the art of bringing it to life.

And of course, in terms of how long do you wait before you pull some of these innovations, we have some pretty clear metrics. Of course, the first thing is to decide what the innovation is for, what's its objective? It could be – we talked on the call, are we trying to get into a new category? Are we trying to do a flavor extension with an existing brand? Is it a packaging innovation? What sort of innovations are we talking about? Each one has its mission and has its goals, and we are very focused on tracking how it's doing, and we'll sunset it as and when – hope is no longer there or rational hope is no longer there.

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



Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Hey. Thanks. Good morning. Maybe you could pick up on some of what you were speaking to Lauren about and drill down a level. I'm wondering if you could talk about the organization's reaction internally to the announcements made over the last two months, just around restructuring and the pivot more formally to a network model and Platform Services, et cetera. I'm curious if you've been able to view any formal feedback or capture any formal feedback from employees in that regard? And, if so, if you found the reactions to vary at all by region or function, or make you more or less encouraged, just any feedback from the organization at large would be great to hear about? Thanks.



James Quincey

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

Sure. Look, firstly, two big things to say on that. Firstly, of course, we have not reached the end of the process. We have gone and made a decision very early on to make this redesign more in the open. I mean, often restructurings are done in the room by few people and then announced to everyone. That's not what we have done. We have decided that we are going to enroll, enlist and engage with much, much broader piece of the organization to make sure the design is what we want. And so therefore you have a more public – a longer public timeline, which is what we're in. We have gone through a large part of the voluntary separation plan, but we have not completely finished the design and we are still working on that. But all of that leads to the obvious conclusion that a lot of the feedback is around uncertainty and when will I know what happens to me, which is completely and totally understandable and we are working as fast as we can to provide as much certainty as possible. So, that is still ongoing.

And, as John commented, we expect the large majority of all of that to have been completed for the clarity by the end of the year. Some parts of the world not given local consultation requirements. But when you stand back from the restructuring process, when you take the feedback from the employees, and we've done surveys, both formal and informal, in the end you're going to end up with two types of feedback. You're either going to get a type of feedback which is, I don't understand what we're trying to do, or I don't understand how we're going to do it yet. And the very encouraging thing about where we got to so far is there's a great deal of clarity in the employee base around the strategic reasons to do what we're doing, and how it will help improve and drive the business.

And there's certainly from the people that have been announced as the leaders of the top piece of the network, they will also have that very clear and are very energized about bringing it to life. So the majority of the questions – the vast majority of the questions are on how is it going to come to life? And, of course, what does this mean to me? Which is an encouraging sign. It's a natural reaction, we saw some encouraging sign that this is on track to deliver the sorts of benefit and support the ability of the company and the system to drive the top line. And the feedback from the bottlers is also positive on how this will help them, and we will collectively as a system be stronger.

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



Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Hey. Good morning. So, James, I was hoping you'll review the restructuring program in a bit more detail. First, maybe just can you give us a sense and help us better understand how the program came about? How much of

the reorganization plans that were announced were in process pre-COVID, were already in the back of your mind and would play out over time, versus how much impact COVID may have had on changing your plans?

And then conceptually, just help us, give us some perspective for how significant you think changes under this program will be operational in your organization? Maybe a sense relative to past restructurings and sort of your enthusiasm for the ultimate fundamental as well as execution payback from the program? Thanks.

James Quincey

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

A

Sure. The thinking behind where we're going predates COVID. In fact, we had a senior leadership meeting with the top 200 in February before the crisis became completely apparent, where we started to talk about what would it take to bring a much more networked organization to life, and started to talk about some of the dimensions.

So the idea of the reorganization, the purpose of being a networked organization, predates COVID. And it's a logical consequence from starting to bring the Beverages for Life strategy to life, no pun intended. So it is very much a continuation of where we're going. It's an agenda item that was clear it was coming. Obviously, in February, we were at the relative beginning stages. What the time of COVID, particularly Q2, what that did to influence the program was really a couple of things.

One, it was clear that when we took the actions to refocus the system on safety and continuity of supply in Q2, the clarity of moving quickly on refocusing on fewer SKUs and the boldness of those decisions paid off very quickly. And the insight was not just that, but the ability of the organization to act with speed was very encouraging, that led us to conclude that we should accelerate even in the course of the pandemic, the move to the networked organization, and really drive that forward and push that on.

And so, that's what we've done. As I've just said on the answer to the last call, we are largely through it. Of course, the other thing that came out of the pandemic was the decision to try and make it as enrolling and engaging with the organization as possible, even at the risk of having a longer period of uncertainty because the design is more in the public. And I think that has proven to be very powerful in helping us optimize the design of what we want. And so, that increases our confidence level that it will be another key component to helping us emerge stronger from the crisis and get up to the top range of the long-term growth model.

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

Carlos Laboy

Analyst, HSBC Securities (USA), Inc.

Q

Yes. Good morning, everyone. James, you have several new presidents, including new heads for the US, Latin America and Europe. How might their respective divisions change under their new leadership? What might be some of the top opportunities that you wish for each of these individuals to focus on?

James Quincey

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

A

Yeah, they're not all new to the parts of the world they're in. Obviously, Nikos, who is leading Europe, was leading EMEA before, which obviously included Europe. So, very much in the case of Europe, which was doing very well, Nikos represents a great deal of strategic continuity. And obviously self-evidently, in the case of Europe, we have

the challenges of not just the expansion of the portfolio and success in the categories, but also the recovery of the away-from-home channel. But there's a great deal of leadership continuity in Europe.

In the case of Latin America, Henrique, who is now leading Latin America, was leading the Brazilian business, and Brazil is the star performer so far this year. And that is not just a consequence of the actions they've been taking in the short term. The Brazilian system also the bottlers have been very focused on responding to what several years ago was a very deep recessionary depression in the Brazilian economy, doubling down on the brand portfolio, doubling down on affordability through big investments with the bottlers in returnable packaging, looking at execution on coolers. And that is paying dividends this year in helping drive Brazil to be the best performing business unit so far in terms of absolute growth. And so Henrique deeply knows Latin America and the strategic challenges that we have there, and would be fully capable to lead that.

And then Alfredo is coming into US where we have been on a good track in terms of driving the portfolio and gaining share in the US business. And certainly we're hoping to continue the best of everything that was happening in the US before, but also infuse it with some of the thinking from Latin America, whether that be around revenue growth management, particularly in the economic times we're in, some of the sharpness on the portfolio and on the margins and are working with the bottlers as well on the supply chain.

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

Kevin Grundy

Analyst, Jefferies LLC

Great. Thanks. Good morning, everyone. Yeah, a quick housekeeping question and then, James, a question on sales. The housekeeping question is you indicated marketing spend was below last year's levels, but sort of picking up sequentially. Can you frame the magnitude for us at a year-over-year – or as a percent of sales?

James, the broader question is on the Topo Chico launch, in Hard Seltzers specifically in the US. Just maybe spend a little bit of time, how the agreement with Molson Coors came about? And why you determined they're the right partner? How The Coca-Cola Company is defining success in the category? Is there a specific market share ambition? And then more broadly, how do you plan to differentiate in an increasingly crowded category? What is Topo Chico's proverbial right to win? So thanks for all that.

John Murphy

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

First, the housekeeper here. I think a 30% decline year-over-year what Q3-on-Q2 showed, I don't have the number exactly in front but showed about a 65% [indiscernible] (48:03) on Q3 over Q2. So we continue to look at that sequential improvement, Kevin, quarter-to-quarter. And I'd expect Q4, based on what we're seeing around the world for us to continue to have targeted investments in those markets where it makes sense to do so.

And as I said earlier, as you look at 2021, I would encourage you to think about 2019 as an anchor and then from there factor in that the work that we have underway on the marketing area, particularly marketing innovation to drive greater efficiency. We know there's a lot of opportunity. When you wire the organization together in the way we're doing it, it unlocks a lot of opportunity for us to do the same with less, or to do more with the same. And that will be part of the strategy conversation going into 2021 as to which of the approaches we take on the market-by-market basis.

A

James Quincey

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

Yeah, Topo Chico. We're very excited about the opportunities for Topo Chico. Obviously, this is a fantastic sparkling mineral water brand and has done very well. The US situation is very unique and specific. Clearly, our starting position for innovations is to work with our bottling system. The best result is much more likely in terms of scale and profit to be the nexus between brands that the company owns and drives that go through the bottling system. And that's how we're approaching the Topo Chico Hard Seltzer outside the US.

In the US, it's very specifically driven by the nature of the regulation of the beer market or the alcohol market in the US. And many of you, I'm sure, are familiar with the three-tier system for the US marketplace, which is unique to the US. So we're launching in Latin America with our bottlers. But as it relates to the US, we have to find a path within the three-tier system, and so that's why we've looked for an external partner or more specifically a partner already in the alcohol industry. It also relates to the fact that having someone who is an existing brewer is a much easier supply chain path into the category. And it also happens to be the case that the networker distributors that Molson Coors has also connects with some of the parallel businesses of people who are connected to the Coke system. So the US structure is very specific to the US regulatory requirements and to the partners that we think can help us drive what's needed for Topo Chico.

How do we find success? This is going to be an explorer brand from us. We are for sure clear what we don't know about the alcohol and Hard Seltzer category is more than what we do know, and we need to continue to work our way to understand these opportunities, as much as we did with Lemondo in Japan, starting small, learning, and then expanding as we got success. And so we will take a very similar approach in the US with Topo Chico Hard Seltzer as to working exactly what connects with consumers and what connects with retailers.

And in terms of differentiation, clearly there's going to be differentiation through the flavors, through the product itself, through the packaging. But also, I think it builds on a tremendous strength. Topo Chico is still growing fantastically across the US and is the leading sparkling water brand in places like Texas. So I think the brand itself is an established iconic interesting brand for the consumers that are interested in Hard Seltzers. So I think everything there indicates there should be a great opportunity. We just need to bring it to life.

John Murphy

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

A

And, Kevin, just to clarify, when I said the 65%, it's 65% was Q2 over prior year, and Q3 was 30%.

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

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Q

Thank you. And so my question is more on what you can control. On the reinvestment commentary in the fourth quarter and the first quarter of next year, John, should we be thinking that would continue to be fully financed by the restructuring savings? In other words, should we expect your operating margins to continue to move in the right direction in 2021 given the cost savings and the mix improving? Thank you.

John Murphy

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

A

So I think you need to think about 2020 as being a very unusual year in which we have obviously been able to manage very tightly our cost base through the pandemic and particularly through the worst phases of it, which in turn has allowed us to deliver operating margin improvements that are out of the normal pattern you would expect.

I would encourage you to think about our long-term growth model as being, again, the anchor. Embedded in our long-term growth model is a belief that we can over time continue to expand margins. And the actions that we are taking, which will have an impact in 2021, going into 2022 also, those actions, I believe, will allow us to deliver on that algorithm as we go forward.

So, again, 2021 versus 2020, we're going to be cycling an unusual set of circumstances, and I think that needs to be appropriately factored in to the models that you will be deploying.

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

William B. Chappell

Analyst, Truist Securities, Inc.

Thanks. Good morning. Can you just give us a little more color on the master brand reduction? When I say that, I understand that it's only 1% of kind of total revenue, but maybe where that's dispersed in terms of, is there one geography that's going to see more cuts? Is there a bigger hit as we're kind of looking at our models from certain areas? And then also just trying to understand, I know they don't generate a lot of revenue but they certainly are occupying some shelf space. So how quickly can you replace that shelf space or is there any risk that shelf space is taken by competitors who see some free space? Just help me understand the kind of the color on how it really affects the revenue model over the next maybe 6 to 12 months?

James Quincey

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

Yeah, so the brands themselves are distributed across the categories, probably slightly more in the hydration space than any of the other sparkling, coffee and tea, or juice, dairy and plant. But the brands are distributed across all the different categories. They tend to be much more local in terms of brands. And so, two things are going to happen.

One, there's going to be some brands we're going to retire, but there are some brands where the better answer is to transition it into one of the regional brands. So it might be we have a strong regional juice brand and then there's a local brand in one market and we're going to transition it into the regional brand because it's going to be much more efficient and effective to leverage the marketing and the innovation, but from that regional brand rather than repeating everything into the local brand.

So we're talking mainly about the very – the tail and a much more local brand tail but brands that are spread across multiple categories. Clearly our objective is to convert the shelf space from these brands into ones that we own. Some of that has already effectively happened because of COVID. In the Q2 in particular, in order to preserve the effectiveness of the supply chain, we already stopped making a set of SKUs, including some of the brands and captured that shelf space for our main brands.

Other places where it's a transition from a local brand to a regional or a global brand, clearly, we'll be managing with that with the customers, so we would not expect to lose shelf space. I think in simple terms for the revenue

model, the benefits – I would think about it as the benefits we're going to get are from freeing up that shelf space and freeing up the process and innovation time of those brands should be made up by – at least made up by existing global or regional brands. And I would not – I certainly am not starting to think that this is a headwind to results in the next 6 to 12 months. I would just assume that we're going to make it all up with the portfolio we have.

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

Kaumil Gajrawala

Analyst, Credit Suisse Securities (USA) LLC

Thank you. Good morning, everyone. A couple of questions on some of your commentary. When you're talking about being at the high end of your algorithm, are you talking about being at the high end of the algorithm because of these structural changes that you've made or more because as we go into 2021 obviously there's a very unique comparison for this year? And also, I believe the commentary for share repurchase is new. If that's the case, can you maybe just provide a little more context on what you're seeing in terms of cash flow and balance sheet that makes you feel comfortable to be talking about a potential share repurchase at this juncture. Thank you.

John Murphy

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

So let me take that. On the last point, there's actually no change in our views on share repurchase. I think it's very consistent with what we've talked about on previous calls. Our priorities, as we look ahead are to reinvest in the business and to continue to support the dividend. We continue to have an opportunistic view on the M&A front. Although, don't expect a whole lot on that and on the horizon there. And then share repos have really – are number fourth on the priority list and expect them to stay there for the foreseeable future. So, that's on that point.

Regarding the higher end of the algorithm, yeah, I think 2021 is – we're going to be cycling a set of unusual factors. My view on the algorithm, I think James would share this too, is that we're talking about getting back to the higher end of the algorithm as you think about the – over the next – over the midterm. So the higher end. When I think about the algorithm, I'm looking at a 2022 versus 2019. 2021 versus 2020 is going to produce a not usual set I think of results, but that's to be expected given what's happened particularly in Q2 and in Q3.

Operator: Our next question comes from the line of Rob Ottenstein with Evercore. Please go ahead. Your line is now open.

Robert Ottenstein

Analyst, Evercore ISI

Great. Yeah. Thank you. Just a point of clarification on the brand reduction. What kind of impact will that have, if any, on working capital? And does that help you get where you want to go? And then my main question is on trademark Coke, which looked very, very strong. Can you give us more color on that? What you're doing to grow share despite the fact that you brought advertising down? And where you see the brand equity today compared to last year? Thank you.

John Murphy

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

Let me take the working capital question. Minimal impact overall. There's a real opportunity here to clean up our internal supply chain end-to-end. So, when you think about the amount of small purchases that are required to support these brands that represent the long end of the tail, it's a pretty sizable number. But with relative to our overall working capital, it's not that material. But it certainly gives us a little bit of a tailwind as we go into 2021.

James Quincey

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



Yeah. On Coke, I mean, look, firstly, while we have been judicious in our use of marketing spend in Q2 particularly but also in Q3, we have continued to market, including marketing strongly behind the Coke brand. So we have continued to market. Clearly that's also been linked by great work with the bottlers on some revenue growth management, particularly affordability plays in some parts of the world, adjusting the portfolio, the packaging portfolio, given the SKU to at-home channels in many other parts of the world, good local execution. So there is continued focus and investment behind Coke and I think that was clearly paying dividends as we've gone from Q2 to Q3.

So, as you point out, in Q3, Coke is growing, Coke is gaining share. And that is also being powered by ongoing focus on Coke Zero Sugar where that grew kind of high single-digits in the third quarter in terms of volume. So we are clearly continuing to invest behind Coke among many of the other brands, and we see the brand responding and doing well, and believe as we increase investment into the fourth quarter and into 2021 that Coke will continue to be a motor of growth.

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

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC



All right. Thank you. Good morning, everyone. I just had a quick question on North America. Your price/mix in the quarter was especially strong relative to expectation. So could you drill down a little bit more on the key drivers of the strength, especially since it looks like you took some pricing? And then really how should we think about this going forward in the context of mix and especially if we see some of the pressures in the on-premise channel getting better? Thanks.

James Quincey

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



Yeah, sure. Yes, obviously, it was pleasing in the third quarter to see the price/mix from North America. Firstly, that's got a big component being driven by our focus on some of the premium offerings, whether that be Simply or fairlife which – and some of the finished goods businesses we own. So obviously there's a sort of – there's good news because we're driving premium categories or subcategories but also recognize that that some of that is finished goods products that we are selling. And that offset some of the pressures we feel in fountain channels and in other away-from-home channels.

So it's good news. I'm not sure that we'll always do 4%, but it's being driven in part by this mix effect of the different finished goods versus non-finished goods and fountain business.

Operator: Our next question comes from the line of Sean King from UBS. Please go ahead. Your line is now open.

Sean R. King

Analyst, UBS Securities LLC



Good morning. You said that FX would have a minimal impact on your preliminary 2021 outlook. I guess how much variability could still exist? And are you hedged on the G10 currencies into 2021 at this point? And then, on top of that, any color you can provide on your inflation outlook given aluminum and freight rising recently?

John Murphy

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



Yeah. So, with regard to 2021, we are substantially hedged on the G10 currencies. And as we've discussed in prior calls, the bigger variable and point of volatility is what happens to the large emerging currencies, particularly in Latin America and in Africa. So, to the extent that they stay pretty solid, and we'll be in – as I said, we would see minimal impact.

And then with regard to the commodities situation, this year has been a favorable year for us on the commodity front. And we would expect 2021, based on the latest estimates we have on the various components, to be pretty even with 2020.

And to your point on aluminum in particular, there will be maybe just a slight favorability based on what we see at the moment. We do see on PET there will be some – I think some slight increases, but we can manage those with other offsets inside of the cost of goods line.

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

Laurent Grandet

Analyst, Guggenheim Securities LLC



Hey. Good morning, everyone, and thanks for squeezing me in the lineup. So got a question about the US fountain business. One particularity of the US business is that you own the fountain business. And in the current circumstances and with the broader fairly good reflection you have on your organization, I wanted to understand if you envisaged re-franchising the fountain business there and manage it same way you do outside of the US.

And what's the rationale to keep it in-house? And how are you adjusting that piece of the business to be more agile and super durable on goals you have set for the company post-COVID? Thank you.

James Quincey

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



Yeah, it was a little difficult to hear you there, Laurent, but I think you're asking a question about the US fountain business and how it's doing. I mean, clearly, it's a big part of the operation. It's about 30% of the volume in the US, and it's a very important package format or channel intersection.

Clearly, it's been heavily affected by the COVID crisis, and within that, QSRs have clearly been at the better end whereas things related to transport and amusement have been – continue to be at the more impacted end. But we very much manage the business not just to do the best for each and every one of the customers that use the fountain equipment but as one of the packaging formats that brings our brands to life.

So the brand strategies are holistic and look across the different packaging formats and different channel formats. And we continue to think that that business will be a prosperous business with a good road to recovery.

Operator: And, 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, in conclusion, we think during the third quarter we began to see some encouraging signs of recovery from the global lockdown. We also made progress in transforming our organizational structure to better position the Coca-Cola system to pursue our Beverages for Life strategy. These steps will enable us to scale our portfolio of drinks that will help us emerge stronger and win in this ever-changing marketplace. So, as always, we thank you for your interest, your investment in our company and for joining us today. Thank you.

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

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