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MANAGEMENT DISCUSSION SECTION

Operator: At this time, I'd like to welcome everyone to The Coca-Cola Company's Fourth Quarter 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's Relations Department if they have any questions.

I would now like to introduce Mr. Tim Leveridge, Vice President of Investor Relations, Financial Planning and Analysis. Mr. Leveridge, you may now begin.

Timothy K. Leveridge

Vice President Investor Relations, Financial Planning & Analysis, 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'd like to inform you that we've posted schedules under the Financial Reports & Information tab in the Investor 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 discussion, to our results as reported under generally accepted accounting principles.

I would also like to note that you can find additional materials in the Investor section of our company's website that provide the accompanying slides for today's discussion and an analysis of our margin structure.

In addition, this conference call 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 SEC report.

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

Now, I will turn the call over to James.

James Quincey

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

Thanks, Tim, and good morning, everyone. I'd like to begin today's call by reflecting on the past year, including our fourth quarter performance. Then, let's turn the page and look at the new year. I'll provide thoughts on the current environment and how we will continue to manage through near-term volatility. Finally, I will share how we are thinking about the year ahead and why we remain confident about the future. John will then discuss the quarter and our outlook in more detail.

Now, before we dive in, I'd like to address our US income tax dispute with the Internal Revenue Service, including both the case and the opinion that was issued by the US Tax Court in November. We believe that the Tax Court

misinterpreted and misapplied the applicable regulations in its conclusions. We intend to assert our claims on appeal and vigorously defend our position.

We've consulted with outside advisors and conducted comprehensive analyses. We've considered all relevant information, including the constitutionality of the IRS's retroactive imposition of tax liability. Putting this all together, we believe we will ultimately prevail on appeal.

John will provide insight into the range of risks we see should the case not go in our favor. I also encourage you to refer to Exhibit 99.2 in the Form 8-K we filed this morning for the updated disclosure. The tax matter is clearly important. And we are dedicating ample resources to its resolution, but it is likely to take some time.

We remain steadfastly focused on delivering growth in our business and driving long-term value for our stakeholders.

In 2020, we faced significant challenges posed by the global pandemic. Our company proved resilient, moving with agility to adapt our business and accelerate our strategic transformation. Our work isn't done. And I recognize and appreciate the ongoing support, dedication and progress from our people and our system.

Turning to the fourth quarter, we saw improving trends through November, but a resurgence in the virus drove renewed lockdowns in many parts of the world. The rise in restrictions impacted our recovery in many markets, resulting in a modest deceleration in volume in December, which has continued year-to-date, with volume currently down mid-single digits.

Speaking generally, trends are still tied to our exposure to away-from-home coupled with the level of lockdown, but our business has become more durable compared to the spring of 2020 based on the learnings and actions we have taken. Our teams around the world have applied these learnings from the peak of the crisis to better navigate short-term setbacks.

Globally, in the fourth quarter, progress remained mixed. And even within regions, there was ongoing recovery as well as challenges. For example, in Asia Pacific, countries are at different stages. In China, we are indeed emerging stronger, thanks to our strategic actions, with Q4 share gains to complement our 2020 share gains in both on and off-premise.

Japan drove incremental transactions through their price/pack decoupling, but soft traffic in vending continued to pressure mix. In India, challenges remain but at-home trends were strong, and we saw signs of recovery in away-from-home channels through the holidays.

EMEA showed resilience, despite experiencing varying levels of lockdown through the quarter, driving a dispersion in results between developed and developing markets. Western Europe was the most affected by the resurgence, while West Africa and Turkey showed positive momentum.

In North America, away-from-home volumes were impacted by multiple states restricting bars and banning indoor dining. Sparkling water trends remained robust, with the expansion of AHA and Topo Chico mineral water, as well as Simply and fairlife also performing well.

In Latin America, trends were strong early in the quarter, but slowed in December due to restrictions and less stimulus support. Single-serve is recovering as a percent of mix in our business and multi-serve refilling grew at a double-digit pace. Brazil's results remained strong and Mexico improved sequentially.

In Global Ventures, despite the headwind of renewed UK lockdowns impacting our Costa retail stores, Express machines performed well. We continued expansion in China, Japan, and further into Europe, in our testing Express and Proud to Serve platforms along with the launch of CostaCoffee.com in the US.

Our Bottling Investment Group further improved operating margin performance and made progress on cooler productivity and SKU rationalization. Almost all markets gained or maintained share, with Vietnam achieving its highest-ever sparkling share. From a category perspective, we saw relative outperformance for sparkling in the fourth quarter. Trademark Coke delivered 1% volume growth, delivered by our Zero Sugar offerings, which were up 3% for the quarter and 4% for the year.

While our overall market share performance continued to be impacted by channel mix as our higher share away-from-home business remains pressured, we did gain underlying value share in both at-home and away-from-home channels. We are poised to emerge stronger in both channels due to our actions to support customers and to ensure seamless execution from a supply chain perspective.

Thinking about 2021, there is no doubt the near-term trajectory of our recovery will still be impacted by the presence of the virus in most markets. It is still early days in the vaccination process. And we'd expect to see further improvements in our business as vaccinations become more widely available over the coming months.

It's clear that the pace and availability of vaccines will look different around the world, and, therefore, we'll likely see some level of asynchronous recovery, depending both on vaccine distribution and other macroeconomic factors. Amidst this backdrop, we will ensure that the system remains flexible to adjust to near-term uncertainties, while, at the same time, continuing to push forward on initiatives we have championed to emerge stronger.

So let me touch briefly on our progress against several initiatives today. And we'll provide further detail on these, as well as other important business drivers, at our virtual CAGNY presentation next week.

Our networked organization is coming together and creating empowerment through clear decision rights and accountability. We have our overall operating unit and global category team structures and are already changing the way we work. We've established our new platform services organization. Nine hubs are currently being stood up. Our ultimate goal is to scale our resources and capabilities to drive value and growth, including investing in new consumer analytics and digital tools. As we go through the transformation, we are ensuring that we have a diverse and equitable representation across our global workforce.

Our long-term profitable growth will be powered by our optimized brand portfolio. We streamlined our portfolio from 400 to 200 master brands, allowing global category teams to identify the greatest opportunities and allocate investments accordingly. These targeted investments will leverage our leader brands more effectively, and convert challenger and explorer brands into leaders more quickly and consistently. Additionally, our portfolio streamlining allows us to focus attention and resources on what we do best, brand building and innovation. This will make room for more consumer-centric products down the road.

Great brand building begins with a deep understanding of our consumer, that converts into superior quality products. To enhance our marketing effectiveness, we are building targeted, experiential campaigns that are data-driven, and occasion-based and always on. We are eager to share upcoming work generated by this new marketing model, including our first-ever global Sprite campaign. It's called Let's Be Clear. It invites drinkers to reset and refresh. And Fanta's new colorful initiative seeks to make snacking moments more playful around the world.

At the same time, we are optimizing our marketing spend, focusing on our strongest brands and most compelling opportunities. We have a global creative and media-agency review underway, which will improve processes, eliminate duplication and drive efficiency to fuel reinvestment in our brands.

Our innovation pipeline for 2021 has been shaped and coordinated for scale and impact, consists of global bets like the new taste and design for Coke Zero Sugar, and regional bets across categories like the expansion of our Authentic Tea House franchise across Asia.

We're still pursuing intelligent local experimentation, like adding functional benefits to some of our local hydration brands. And there's also innovation that leverages our strength in revenue growth management through packaging initiatives. This includes our first 100% recycled PET bottles in the US for smartwater and DASANI, along with a new 13.2-ounce 100% recycled PET bottle for Trademark Coca-Cola. We will also continue to expand Topo Chico Hard Seltzer, which has already launched in several cities in Latin America and Europe.

The global pandemic has undoubtedly expedited the shift to a digital world. And we're structuring the organization around this opportunity. We've been digitizing the enterprise for several years and have stepped up our evolution into an organization that can skillfully execute marketing, commercial, sales and distribution, both offline and online. We're also leveraging existing pockets of excellence in e-commerce around the globe.

The myCoke B2B platform continues to add outlets and is expanding to new markets. Our O2O partnerships with multiple food aggregators ensure beverage availability and visibility. Our multi-platform venture, WABI – it connects our system and other consumer products companies to store owners and end consumers through an ecosystem of digital apps. Thanks to our network model, WABI is now available in 23 cities across five continents. The ecosystem is powerful and has already attracted bottler interest and collaboration in several regions.

Bottler alignment also remains an imperative. Seamless system connectivity helps us maintain local relevance while benefiting from global scale. We continue to engage with our bottling partners holistically to fuel the network for long-term growth. We're working to lift and shift capabilities. We can focus on being successful today, while also pursuing our ambitions for the future.

And before I turn over to John, I wanted to express how proud I am of our support for communities and our sustainability achievements during a year that brought much disruption to the world. We remain grounded by our purpose, and our ESG work is embedded in our business and the value we create. We contributed to COVID-19 relief around the world. We continue to focus on racial equity, including the introduction of our global social justice framework.

We've made progress against priorities such as World Without Waste, which includes setting a new target to reduce the use of virgin PET in our packaging. We're also making progress against our 2030 science-based carbon target, which is a critical milestone to achieving our ambition to be net zero carbon by 2050.

We accomplished our goal to empower 5 million women by 2020, creating shared value for these women, their families and communities while growing our business through their involvement in both retail and distribution businesses. And we won't stop there. We'll have more updates in our Business & Sustainability Report and World Without Waste Report in the coming months.

To summarize. We are confident that we will successfully navigate through a dynamic market environment in 2021 to deliver against our objectives. We'll emerge stronger with more consumers, higher share, stronger system

economics and greater stakeholder impact. As vaccine distributions continue, we'll have more visibility into how the global recovery will take shape. And given our confidence in the levers we have to manage the business, we are providing an outlook for 2021.

Importantly, we're staying true to our commitment to consumer centricity and our Beverages For Life strategy. We've made great progress in equipping the company to win for years to come as we will fulfill our purpose to refresh the world and make a difference.

Now, John will provide more details on our results and our guidance.

John Murphy

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

Thank you, James, and good morning, everyone. Today, I'll go over our fourth quarter performance and touch on the components of our outlook for 2021.

First, let me start with a comment on the tax case that James referred to earlier in the call. As he mentioned, we disagree with the US Tax Court opinion and will vigorously defend our position. In the Form 8-K filed this morning, we provide detail on the process we've undergone in arriving at our current position and determining next steps.

Thorough analysis has led us to believe we will ultimately be successful. And while we have recorded a tax reserve of \$438 million in consideration of the alternative transfer pricing methodologies that could be applied by the courts in resolving the litigated matters, we have not made any changes to our underlying effective tax rate going forward.

That said, there is no assurance that the courts will ultimately rule in the company's favor. It is possible that all or some portion of the adjustment proposed by the IRS and affirmed by the Tax Court could be upheld. To this end, we have estimated approximately \$12 billion for the aggregate incremental tax liability for years up to and including 2020, including interest accrued through December 31, 2020.

This amount assumes the IRS prevails and applies their methodology and considers any adjustments from previously accrued transition tax payable under the Tax Cuts and Jobs Act of 2017. We have also indicated that applying their methodology would increase our underlying effective tax rate by approximately 3.5%.

There are many puts and takes that inform the range of incremental liability and potential change in tax rate. I encourage you to refer to the disclosure in the Form 8-K for more in-depth detail.

While there is uncertainty associated with the timing and ultimate resolution, we will continue to prioritize investing in the business to drive long-term growth, as well as supporting dividend growth for our shareowners. While we strongly believe we will prevail, we are confident we have ample flexibility between our cash generation and balance sheet to manage the range of outcomes outlined in this morning's disclosure. We will be as transparent as possible throughout this process.

Turning to our performance in the fourth quarter and fiscal year 2020. Our Q4 organic revenue decline of 3% showed sequential improvement from the 6% decline in the third quarter and 9% decline for the full year. October and November volumes were down low single digits and approaching flat year-over-year trends. But, as James mentioned, we saw a slowdown in December due to a resurgence in the virus and increased lockdown restrictions in many markets.

The contraction in the comparable gross margin was primarily driven by continued pressure on our channel and package mix between away-from-home and at-home, as well as currency headwinds. Additionally, segment mix swung to a headwind in the quarter due to outperformance of our Bottling Investments Group.

Comparable operating margin expanded through ongoing disciplined cost management, more than offsetting pressure from the top line. It's worth noting the decline in SG&A spend this quarter was impacted by timing due to the phasing effect of marketing reduction over the year.

As we've previously stated, we have been reintroducing marketing spend in a targeted way, identifying compelling opportunities to invest across countries, categories and brands.

Fourth quarter comparable EPS of \$0.47 represents an increase of 6% and full year comparable earnings of \$1.95 reflects an 8% decline relative to our 2019 results.

On a comparable currency-neutral basis, earnings were up 14% for the quarter and down 2% for the year. Throughout the crisis, we have remained intensely focused on our cash flow goals. While our cash from operations was down 6% for the year, we have continued to make good progress on our working capital and have exercised tight management of our capital spend.

This is exemplified by our 2020 free cash flow performance, coming off strong momentum in 2019. We finished up 3% for the year and reached free cash flow conversion of over 100%, despite the headwinds our business faced.

As we begin to see prospects for a recovery later in 2021, driven by vaccination and consumers returning to many of their previous routines of socializing, work and travel, our focus will be on converting top line growth to maximize returns.

Our improving level of visibility into recovery as the year goes on, as well as the many lessons we've learned in the last year, have enabled us to provide an outlook for 2021. We currently expect organic revenue percentage growth of high single digits, and comparable earnings per share percentage growth of high single to low double digits versus 2020.

While we're confident we will see recovery this year and expect to deliver 2021 earnings that are at or above 2019 levels, we've provided a wider range than usual to account for lingering uncertainty in the near term, as well as the potential for the acceleration to be asynchronous in nature.

There are many considerations as you think about the drivers of our guidance. A calendar shift will impact the quarterly cadence, as we have five additional days in the first quarter and six fewer days in the fourth quarter this year.

The trajectory of the recovery will be a significant factor. And we expect to be dealing with COVID-19 for the better part of the year, with the first half likely to be more challenging than the second half. Currently, year-to-date volume is down mid-single digits as we lap the toughest quarterly comparison of 2020 before the pandemic hit much of the world.

To the degree that the top line is driven by away-from-home recovery, we'd expect the channel and package pressures experienced last year to abate, which would drive price/mix improvement and gross margin expansion.

From a cost perspective, we see several factors at play. In 2020, there were many operating expenses that were significantly reduced or eliminated that are likely to come back this year.

We will continue to step up levels of investment behind our brands to drive the top line. We expect the return on that spend to become more favorable as mobility stabilizes and away-from-home channels regain momentum.

The changes we are driving with our strategic transformation will lead to more efficient and productive spending over time. These changes include our organizational restructuring, streamlined portfolio, disciplined innovation and optimized marketing approach. We will continue to flex our spend relative to what is dictated by the market conditions around us.

While we are seeing commodity prices begin to rise, given our hedge positions, we currently expect the impact to cost of goods sold to be benign. As we noted in our release, based on current spot rates and our hedge positions, we expect currency to be a tailwind of approximately 2% to 3% to the top line and approximately 3% to 4% to comparable EPS in 2021.

We will continue to focus on free cash flow and expect to deliver at least \$10 billion in cash from operations, while we expect capital expenditures of approximately \$1.5 billion. This does not contemplate any payment relating to the tax case.

We look forward to providing more insight into the drivers of our outlook during our virtual CAGNY presentation next week.

In the face of this global pandemic, I am extremely grateful for our team around the world and the way they were able to pivot and execute through such a challenging environment. I'm also excited about the work we've undertaken to set us up for a very promising future. I am confident that our overall strategic direction will enable us to deliver 2021 earnings that are at or above 2019 levels, as we emerge stronger.

With that, operator, we are ready to take Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Steve Powers from Deutsche Bank. Please go ahead. Your line is now open.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.



Hey, guys. Good morning. Thanks. So the profit and the free cash flow flow-through that you've delivered in 2020 and guided to in the year to come is impressive, given the top line headwinds and the complexities you're facing. I know a lot of that is driven by underlying productivity that is set to continue. But I'd also seen it's been aided by some level of diminished level of strategic investment, marketing capabilities, that kind of thing, that is probably set to continue for a good part of 2021 before demand is more clearly on an upswing.

So I guess the question is, is there a way to frame how much strategic investment is embed in the 2021 outlook, perhaps relative to 2019 or some other benchmark? And where do you think the right level of investment will be post-pandemic on a run-rate basis to make sure you're positioned to hit the high end of the long-term algorithm that you've been targeting? And if there's a way to talk a little bit about the phasing, does that investment come in coincident with recovery? Is it – should we expect it to be ahead of recovery? Just how you're thinking about those dynamics would be great. Thank you.

James Quincey

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



Sure. Morning, Steve.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.



Morning.

James Quincey

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



Let me start with the future and work backwards. When things have become new normal, post-pandemic, the world is fully open, clearly, we'll be back investing at the sort of pressure levels of marketing and all the other components of the business that we believe is necessary to drive the top line in a margin-accretive fashion that is consistent with the long-term growth models.

And as you think about comparing that to 2019, clearly, we will have baked into that the benefits of not just a new organization, but the fundamental rework of the marketing. Some of it is a reprogramming of where the marketing goes. And that's most obviously reflected in the advertising number that we show in our disclosures.

But there are other marketing spend, which typically gets called enabling, where we have a major program to really look at how we can make that much more efficient right across the board with all the things we do from relooking at the agencies, relooking at the way we do research, the digitization of many things. So there will, when comparing the new normal to 2019, be an embedded degree of efficiency across the board. But in the end, we are of the view that the marketing pressure will need to be similar to the sorts of pressure levels that it was in

2018 and 2019 when we were achieving the sorts of revenue growth rates at the time you see them flow-through into profit that we were looking for.

In the run-up from now to that future, we have, of course, taken a measured and balanced view of what we think 2021 will look like. And our guidance ultimately is a corridor where we believe we can manage. Whether things get better, in line with our view, or quicker than our view, we'll be in the corridor. And we'll start reapplying the pressure of the marketing and the innovation that we believe will drive the revenue growth. Or if things are a little slower on the opening, we'll pull the levers and be more cautious about the rate at which we reapply the marketing pressures or in the – as you mentioned, free cash flow, obviously, one of the levers to sustaining or, in fact, growing free cash flow last year was to back off on some of the CapEx.

Simply understood, some of our CapEx is in new fountain equipment or new vending equipment. And if those channels are not open, there's no point in putting new equipment in there until they're on the verge of being opened. So there's a self-regulation between the marketing and some of the CapEx on if the lockdown is greater, we will logically back off and then as the lockdown reduces and the market more open, those things will come back on and so we'd spend more marketing, more CapEx, we'd have more revenue. And that's why we believe we can operate within the corridor of the guidance we've provided and emerge stronger from this and really drive growth into the future.

Operator: Your 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.

 Q

Great. Thanks. Good morning. I want to talk a little bit about North America profitability over the longer term. I mean, obviously, this year, there was a nice step-up, but tough to look at 2020 as, I guess, change in isolation. But I was struck by the news, and you mentioned it today, the 13-ounce bottle. So I was just curious about efforts to get broader and more aggressive on price/pack management, revenue growth management in the US; thoughts about what that could mean for longer-term profitability in North America, even without addressing the nature of your supply chain here. And, by the way, if there's anything you are starting to explore in terms of supply chain structure in the US. Thanks.

James Quincey

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

 A

Sure. I mean, the revenue growth management journey has been a multi-year journey globally and, indeed, more recently in North America. We've started to see some good benefits come through from that. The 13 – just over 13-ounce bottle is obviously good from a revenue growth point of view. It is also worth mentioning that's 100% recycled PET bottle on Coke, which is the first one in US that's very linked to our World Without Waste strategy.

So, clearly, we are going to continue to explore and drive, particularly some of the smaller packages, whether it's this smaller bottle or some of the sleeker cans, as part of providing the sizes that consumers are interested in. This also connects with our revenue growth management story. And, as I said on previous calls, I believe there's a multi-year runway for our efforts on RGM in North America that are starting to pay dividends over time; that is not just helping on the margin front, but, frankly, it's helping on the revenue front. So I think there's a lot more that can be done to drive that in North America.

And that's kind of in the underlying category of margin. Of course, there are structural changes to the margin on whether we have re-franchised or not to the bottlers or whether we continue what our exact role is in kind of the system's internal supply chain. And, therefore, if we do finished products or we get all the bottlers manufacture those products, of course, what we will do over time is look to do the most efficient and effective ecosystem of supply options for ourselves and our bottling partners.

We have recently moved some lines to third-party co-packing of water. And as and when other opportunities are there, we'll consider them. But ultimately, we have to have the most efficient and effective supply chain between ourselves and the bottlers to satisfy the consumers.

Operator: Your 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

Hi. Good morning. So, John, I just wanted to follow up on the comments around ample flexibility to handle the tax judgment. And I was just looking for a bit more detail on two separate scenarios. One, just more short-term, versus the unfavorable \$3 billion opinion. Potentially, in order to appeal that, might you have to post cash that could impact your dividend plans? How do you think about that as well as capital allocation?

And then a second, if we think about the subsequent decade, if there were to be an unfavorable outcome – I understand that's not what you believe – but what-if type of scenario. Are the cash outflows far enough out that it doesn't have a significant impact in terms of the way you think about the dividend and sustainability? Or do you have to sort of adjust plans ahead of time in case? And how do you think through that conceptually?

John Murphy

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

Thanks, Dara. As I mentioned in the script, I think we've got ample flexibility, through both the way in which we've been managing the balance sheet and when we think about the cash generation prospects for the next few years, to manage any scenario. We continue to believe that we have a very strong case and unlikely to have to consider that worst case scenario.

But the work we've done, really beginning last year to organize our debt portfolio in a way that gives us most flexibility, and when we take that into consideration, along with the cash we'll generate in the next two to three years, I think we feel pretty confident we can take care of just about any scenario.

Operator: Your 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. I'd like to ask for a few more details on advertising spend. I think, John, you mentioned few phrases, creative media review, marketing efficiency and such. Then, also, I think you mentioned marketing pressure being similar to kind of 2018-2019 levels. So if we look at 2019, the ad spend was roughly around \$4.3 billion.

Obviously, it was much lower than that for 2020. Should we expect that figure to get back to where it was this year? Or is it a sort of thing that you've just become more efficient and perhaps it's a figure that's 5% lower or 10% lower than what it was running at before?

John Murphy

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

A

Yeah, thanks, Kaumil. I don't think we're fixed on a number that's necessarily linked to 2019, given a couple of factors. Number one, the work that we have highlighted, we are doing around efficiency. We believe that there's a tremendous opportunity for us to drive greater efficiency across the marketing spend portfolio and particularly in the enabling area.

Secondly, we've also become, I think, a lot more flexible. We've learned a lot in the last year that allows us to, so to speak, turn the tap on and off with much greater fluency than perhaps we've done in the past.

And then, thirdly, as you look at the marketing landscape, the mix of spending that will be required market-to-market is going to evolve, and we need to be flexible in order to handle that.

So the net-net is we will continue to focus on what our markets need, both in total investment in terms as well as in the mix of spend that's appropriate for each of these markets. We will continue to drive the kind of efficiency that we now know is available to us. And I think we land in whatever landing spot that means in terms of total dollars. But I think we've got a good handle on both being efficient, being effective and investing appropriately as markets recover across the world.

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

Q

Bonnie Herzog

Analyst, Goldman Sachs

Thank you. Good morning, everyone. I wanted to touch on innovation. Obviously, it sounds like you're making a lot of progress on your portfolio streamlining initiatives. And you've been doing, I think, a good job at managing all this, but I guess I'm trying to understand how you're balancing this innovation and messaging your new more streamlined portfolio strategy within your organization. And then, are you at all concerned that this increases some risk of stifling innovation and possibly discouraging risk-taking over the long term?

James Quincey

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

A

I guess the headline answer is no. We don't think we're going to stifle innovation, quite the opposite. We're looking, actually, for innovation to continue where it was in 2018 and 2019 in terms of playing an important role in driving consumer engagement, interest to customers, and, therefore, revenue growth and on to profitability. And so, this is very much about finding a way to be able to identify the biggest bets within the innovation pipeline, understanding that there's still going to be a very important role for experimentation.

There's just no way of knowing from the outset, no matter what one might think from a personal point of view, as to which ones are going to be the absolute best going forward. So we're back to innovation. Clearly, we did less in 2020. We'll be increasing meaningfully the degree of innovation in 2021, very focused on are these attracting more consumers to our portfolios? Is it allowing them to enjoy our beverages perhaps more frequently, or at greater financial – at greater prices?

Ultimately, we're looking for more impact. We have looked at our innovation pipeline. And while we have done a lot, we had some inefficiency in it, so we're driving for greater impact, which we were able to achieve in 2020, and that we will get again in 2021.

So I think there's absolutely the right level of focus on innovation. We'll continue to learn more as we go through 2021. But none of this rationalization of the portfolio is about [ph] stopping anything (41:38), quite the contrary, it's about, if you like, clearing away the least successful, so there's more room for the most successful, and for the next generation of innovation.

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

Sean R. King

Analyst, UBS Securities LLC

Q

Hi. Good morning. Again, with respect to your restructuring and streamlining plans announced mid-last year, are you seeing any areas for greater opportunity for savings across the organization, I guess, just given that the disruption has dragged on longer than most would have thought at the time?

James Quincey

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

A

I think what we have at the moment is a very clear plan that we have been implementing on resetting the organization to go forward. Again, the need and the objectives of the organizational change we made were preexisting to COVID. We knew we needed to find a way to make the organization more agile, more focused, and to scale up some of the activities to a more platform level, especially given the ever-increasing importance of data, and the logic that that can't be done lots of different ways everywhere.

So it was a preexisting idea that we took the necessity, if you like, or the opportunity in the course of 2020 to accelerate its implementation. Of course, there'll be ongoing opportunities, and we'll learn. The world will evolve. We will evolve. And change will happen into the future. But I would not start to plan in that this is recurring levels of productivity at these sorts of levels much beyond the couple of current years it will impact at the moment.

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

William B. Chappell

Analyst, Truist Securities, Inc.

Q

Thanks. Good morning. Hey. Just a question on the comments of a balanced outlook for 2021. I mean, I fully appreciate that you're giving guidance, and it's a wider range, and there's a lot of uncertainty, but I mean how do you figure out what sales do look like in the third and fourth quarter this year? I mean, are you going off of vaccination rates by country and then assuming things open up 30 days later? I appreciate any effort, but I just don't – I'm interested how you do kind of a bottoms-up approach to looking at country-by-country around the world to come up with kind of even a rough ballpark?

James Quincey

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

A

Great question, Bill. Look, we relatively early on in the crisis, actually going back to the second quarter of last year, there was a team that did a lot of very intense and interesting work on looking at prior crises, whether military, economic, or pandemic, going all the way back through our history for 100 years, and looking at what

happened and the curves. And we came up with a set of assumptions and a set of analyses that then shaped our view as to what the various scenarios we faced were.

And in simple terms, the biggest indicator or driver was a view on how long the pandemic would last and, therefore, how long each country would take to get back to its 2019 levels of GDP. So you could take all the countries in the world and you can segment them into, it'll take them one year, it'll take them two years, it'll take them three years, and there are countries that'll take four years to get back there. And that is what we've done. And we were able to see, obviously, by the end of 2020, that the progress of the world and the progress of countries quite closely followed the scenarios in our model and in that overall macro idea. So it has given us some sense as we continue into year two of those projections as to what the sort of corridor we'll be looking at going forward through 2021 and into 2022 is likely to look like by country, by region.

Operator: Your 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, James and John. I'd like to focus this morning on the 2021 guidance. It seems soft in term of EPS growth, especially in a year where you expect high single-digit organic top line growth and 3% to 4% ForEx tailwind on top of it. So it probably doesn't embed a fast recovery of the on-premise channel, that is more profitable, so. But could you help reconcile or should we think it's a conservative EPS guide?

James Quincey

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



I think the simple starting point to reconcile this is a few points, Laurent. One, that the impact in 2020 came – a lot of it came on some of our finished goods businesses that do not have the same margin levels as the concentrate business. So for a simple example, the closure of a Costa store has a disproportional impact on revenue versus profits versus not selling some Coke products through the concentrate business.

So what we expect in 2021 is a greater recovery in some of these away-from-home, particularly our finished product businesses, whether it be some of the Costa businesses or the BIG bottlers, and those are mechanically headwinds in terms of margin.

The second, very important effect in 2021 is, of course, the reversal of our stewarding of resources in 2020. We clearly took the decision that if there was not good reasons to invest in marketing or in market-facing CapEx or market-facing operating expenses, then we would not do so. And those – the more the recovery occurs in 2021, the more we are going to reinstate those expenses, as well as, of course, a number of elements of the incentive schemes, which will be budgeted for at 100% in 2021.

So that's why we have not gone for line-by-line guidance within 2021, because there's so many moving pieces that are not your typical year of moving from a normal year and comparing it to another normal year. You've got these weird effects of what's actually in 2020 and the way we stewarded the resources and were still able to drive free cash flow. That's why we've given some wider corridors and have given the top and the bottom line, which we think are the most measured and balanced approach that we can give today.

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



Kevin Grundy

Analyst, Jefferies LLC

Great. Thanks. Morning, everyone. James, I wanted to spend a little bit of time on the Topo Chico Hard Seltzer launch in the US, but sort of within the context of learnings from the launch of the product in Latin America and Europe. You spent a little bit of time earlier in the call. As I recall, the company made some tweaks to Coke Energy on the formulation with some learnings in Europe. So a handful of questions. How is the product delivering against market share objectives so far in those regions? Where is its sourcing occasions? Has that been in line with expectations? And then, maybe we spend some time on investment. Where does the Topo Chico Hard Seltzer launch in the US sort of rank in terms of the other priorities? You mentioned a global campaign around Sprite, the importance of tea in Asia. Maybe you can just sort of characterize for us, even at a high level, how big of a priority the product success is this year in the US. So thanks for all that.

James Quincey

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



Yeah, sure. So we've launched Topo Chico Hard Seltzer in a number of Latin American markets; Mexico, Costa Rica, Peru, Chile, Brazil. Strong initial feedback from consumers and customers. Still very early to even have market share reads, but the rate of sales and the repeats look very good, but, obviously, still too early really to tell.

Also, we've launched in a few markets in Europe. Again, still very early to tell, but the repeat rates and rate of sale look encouraging. And so, in the coming quarters, we'll be happy to share some of those learnings. I'm sure there'll be learnings, and we'll tweak things as we go forward.

Now, as it relates to your question about the US, it's important here to remember how different the US is versus the rest of the international markets. Because of US alcohol market regulations, the Topo Chico Hard Seltzer will not be going through the company/the bottling system in the US. It will be handled by a collaboration with the Molson Coors team. So it is not competing in any way, shape, or form as a priority with all the other things that are going on that are all obviously being done by ourselves and the bottlers in the US.

And I think Molson Coors are very excited about the opportunity in the US. There's certainly been good initial reception from distributors in that marketplace. More to come in future quarters.

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

Robert Ottenstein

Analyst, Evercore Group LLC



Great. Thank you very much. You referred in the earnings call press release that Q4 had better market share trends, roughly even as opposed to down a little bit for the full year. How much of that was due to at least the initial reopening of on-premise and so a channel mix effect? And how much of that was due to commercial momentum, either in particular countries or particular brands, that you would expect to carry on into 2021?

And then, just as a follow-up on a prior question, can you just give us an update on Coca-Cola Energy? Thank you.

James Quincey

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



So fourth quarter market share trends were definitely better than they had been in the previous two quarters. And whilst, yes, we did benefit from the reopening, remembering that we have, generally speaking, materially higher share in the away-from-home than the at-home, then, obviously, the reopening tends to improve the overall share trends. But we were also gaining share in Q4 versus Q3 or Q2 in both at-home and away-from-home. So there is, in the end, commercial momentum built into what was going on in those channels. And we would certainly expect to gain share away and at-home in 2021 and, therefore, gain share overall, particularly as the reopenings happen.

And then Coke Energy, we will be, obviously, particularly in the US – that was trying to launch that coming into the beginning of 2020 was particularly difficult, given the immediate lockdowns. And so we are going to come back on Coke Energy in 2021, despite the challenges.

We've had interesting repeat rates. We've recruited new users to the category at rates that are very interesting versus other recent launches in the category by bringing new drinkers into Energy and had interesting levels of dollar retail sales in year one compared to other innovations. So we think there's something working there, back to the original hypothesis that there was space in the energy category to come in with a proposition that would attract new drinkers to the category. So we've got reasons to think that we should double-down again in 2021.

Operator: Your 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

Thank you, and good morning. So my question is a follow-up on the expense saving from the reorganization. And I also have a follow-up on RGM. So how much are you embedding in savings from the reorg into EPS guidance through the year? And on the clarification, James, on the comment on RGM and the relationship with the bottlers, are you embedding higher suggest – list pricing to be executed by the bottlers? Or the incidence costs on top of the lower straight spend, so perhaps partially offset the mix impact that you had in 2020 and as the pandemic lingers?

John Murphy

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

Andrea, let me take that one. On the expense savings, we had highlighted in our release last year, an expected benefit of between \$350 million and \$550 million. And we're on track to deliver that. Some of it falls into this year. Some of it will fall into the first part of next year, kind of aligned to the progress that we make on the implementation of the new model. So that's on the expenses.

And on the whole topic of RGM, the past year has actually, I think, highlighted even more than ever the importance of having this as a key part of our top line algorithm. I don't expect us to have material changes in the how we go about it. We're very clear on the drivers at the local market level when it comes to both pricing and its relationship with inflation, and having the right packaging architecture to enable us to manage it as in an optimal way the conditions of any given market.

And if anything, I think our teams around the world are even more focused on that area as a way to navigate a path forward that allows us to deliver on the revenue objectives that we've outlined.

Operator: Your next question comes from the line of Chris Carey from Wells Fargo Securities. Please go ahead. Your line is now open.



Christopher M. Carey

Analyst, Wells Fargo Securities

Hi. Good morning. Just a higher-level or longer-term question. So in the past, the company has had longer-term goals for operating margins. Clearly, some M&A and tax accounting changes made those margins less relevant. But given there's even greater focus on efficiencies and the recent margin flow-through, and probably that gives you some increased confidence around your ability to lean on margins in case of uncertain outcomes, just judging by your outlook for 2021, and I guess appreciating your response to prior questions around mix and spending levels, that could potentially return.

But I wonder if you have any just high-level thoughts from the learnings that you had this year about your ability to be drive margin on where you think the company's margin structure might be able to go over the longer term and maybe specifically how North America factors into that outlook? Thanks.

John Murphy

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



Thanks, Chris. Yeah, like I think the answer really is rooted in our belief in the sustainability of our long-term growth algorithm. And, as you know, embedded into that algorithm is an assumption that, over time, we can and we will continue to expand margins. I think any given year needs to be taken in the context of that longer-term perspective. 2020, as you say, was a particularly unusual year. And it afforded us the opportunity to – under the umbrella of never waste a crisis, to drive greater efficiency and to have a bump in our operating margin performance for 2020.

But I would think of the longer term in the context of the long-term growth model. And we manage a portfolio of very distinctive markets around the world, and they contribute at different times along that journey. And North America is no different. We see plenty of opportunity, as James highlighted earlier, in the North American business to improve profitability levels over time. And that will, I think, be a key factor in our belief that the long-term growth model, as it's currently expressed, is doable and sustainable. And so, I'd sort of couch the whole margin topic in that frame.

James Quincey

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

Great. Thanks very much, everyone. Just a few closing thoughts. The objectives and the priorities we set for ourselves at the peak of the crisis have really galvanized the company and are driving our ability to continue to execute through the volatile near-term dynamics. And while the virus is still a factor in the near term, we're well on our way to emerging stronger and to returning to the path of delivering at the high end of our long-term growth model. The focus and the flexibility of the network model will drive the entire Coke system for years to come.

As always, we thank you for your interest, your investment in our company and for joining us today. Thank you.

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

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