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Coca-Cola Co (KO) CEO James Quincey on Q3 2019 Results - Earnings Call Transcript

Oct. 18, 2019 1:12 PM ET | 3 Likes
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Q3: 10-18-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.56 misses by $-0.00 | Revenue of $9.5B (14.97% Y/Y) beats by $75.79M

Earning Call Audio

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00:00 -57:57

Coca-Cola Co (NYSE:KO) Q3 2019 Earnings Conference Call October 18, 2019 8:30 AM ET

Company Participants

Timothy Leveridge - VP & IR Officer

James Quincey - Chairman & CEO

John Murphy - EVP & CFO

Conference Call Participants

Stephen Powers - Deutsche Bank

Lauren Lieberman - Barclays Bank

Dara Mohsenian - Morgan Stanley

Bryan Spillane - Bank of America Merrill Lynch

Ali Dibadj - Sanford C. Bernstein & Co.

Sunil Modi - RBC Capital Markets

Andrea Teixeira - JPMorgan Chase & Co.

Kaumil Gajrawala - Crédit Suisse

Robert Ottenstein - Evercore ISI

William Chappell - SunTrust Robinson Humphrey

Laurent Grandet - Guggenheim Securities

Amit Sharma - BMO Capital Markets

Caroline Levy - Macquarie Research

Sean King - UBS Investment Bank

Kevin Grundy - Jefferies

Bonnie Herzog - Wells Fargo Securities

Vivien Azer - Cowen and Company

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. [Operator Instructions].

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 now begin.

Timothy Leveridge

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 posted schedules under the Financial Reports and 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.

We'd also like to note that you can find additional materials in the Investor section of our company's website that provide 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 periodic SEC report.

Following prepared remarks this morning, we will turn the call over for your questions. [Operator Instructions].

Now let me turn the call over to James.

James Quincey

Thanks, Tim. Good morning, everyone. As you'll have seen from our earnings release earlier today, we continue to deliver strong results. We are part of a great industry with solid long-term growth potential. For our company, the power of aligned and engaged system is driving solid top line growth across all our operating segments. We see that innovation, revenue growth management and improving execution ,all supported by greater brand building, are helping us sustain momentum across our business.

Our associates within the organization and across the system are responding to the cultural changes we are driving. So through the 3 quarters of the year, we've gained global value share with a balanced contribution from both developed and emerging markets, we're sustaining that solid top line performance with growth across all the operating segments and we're on track to deliver our EPS commitments, as momentum in the business have helped offset increased currency headwinds. And as John will talk about, free cash flow is up strongly year-to-date, which is also encouraging.

Looking around the world. As I said, all our operating segments delivered solid organic growth. In EMEA, we've seen sustained revenue growth of 7% year-to-date. Importantly, we're seeing contributions to growth come as much from developed markets as the emerging markets. This is partly due to our revenue growth management efforts over the last few years. And it's pretty encouraging, as we continue to roll out these revenue growth management initiatives, to developed markets in other areas of the world.

In Asia Pacific, we've grown organic revenue 4% year-to-date. We're gaining horizontal distribution and recruiting new consumers in emerging markets, like Southeast Asia, India and China, leading to strong volume growth. In Japan, while we still have work to do, we're seeing sequential quarterly improvement in both volume and revenue. The system continues to rebuild manufacturing capacity, and we're adapting the fast-changing consumer environment and evolving our operating models to drive efficiencies and effectiveness.

Turning to Latin America. Again, we're driving positive momentum, despite a more challenging economic environment, and they're up 9% organic growth year-to-date. Brazil has sustained strong performance even as the macro has slowed a little in the third quarter. This has been driven by improved execution and consistent investment behind cold drink equipments. Our approach has enabled the business to grow twice the rate of consumer spending in the third quarter. Our business in Mexico has actively adjusted to the -- to a more challenging economic environment, shifting the portfolio towards affordability with a push on returnable packaging. This has led to improvement in trends as we've moved through the year. In Argentina, though, a worsening economic situation and higher inflation has affected consumer spending, impacting our business and our industry. However, by following our playbook of carefully balancing price increases, while also focusing on maintaining our consumer base, we have gained value share year-to-date.

Finally, turning to North America. We saw a strong marketplace performance driven by innovation in our sparkling portfolio and improving performance in stills. We also continue to gain share. And so far, revenue growth -- organic revenue growth is up 2% year-to-date. This growth was largely driven by continued strong consumer demand for No Sugar versions of some of our best known sparkling soft drink brands as well as for smaller packages with less sugar per serving. Of course, we always have the opportunity to get better. For example, our performance in the water category has not been as strong as we'd like. We're working on further plans to address this in the marketplace in the near future.

Taking a step back and looking across all our markets. We are driving a platform for sustained performance through a disciplined portfolio growth approach, an aligned and engaged system and collaboration with our stakeholders. Within our portfolio, we focused on operationalizing further our leader, challenger and explorer framework to build quality leadership positions in more brands in more markets.

While consumer behavior is rapidly evolving, we continue to find new ways to connect with consumers through our leader brands. For example, we see continued strong performance in our sparkling portfolio led by trademark Coca-Cola, with 3% volume growth and 6% retail value growth, so far this year. Our brand and formula has been around for more than 130 years, and we continually work to make Coke relevant to recruit new generations of consumers.

In addition to great marketing campaigns, consumer-centric innovation has been a key factor, especially over the last few years. This includes smaller packaging, such as mini cans, which are growing at a rate of more than 15% year-to-date in the U.S. It includes lower and no calorie variants that help consumers moderate their sugar intake. For example, Coke Zero Sugar is growing globally 14% volume year-to-date. And most recently, it's included new launchers such as Coke Energy and Coke Plus Coffee, which is designed for consumers looking for a little extra upliftment. We've launched Coke Energy in more than 25 markets, and we're adjusting as we learn to how consumers are responding. As you know, we have plans to bring Coke Energy to the U.S. in 2020. Overall, we're seeing more consumers drink products from our flagship trademark globally.

Within challenger and explorer brands, innovation and sustained investment levels are helping drive performance across key geographies. In Asia, our Authentic Tea House brand is well ahead of the plan in China and across Southeast Asia. At the beginning of last year, we launched Fuze Tea in Europe. Now entering its second year, we've seen positive momentum in both revenue growth and share gains driven by marketing investments, innovation and added distribution. Fuze Tea has gained 3 points of value share across Western Europe, showing the importance of sustained investment to build challenger brands into leaders. Chi, West Africa's leading value-added dairy and juice brand, continues to perform well in the marketplace and expanded footprint across the region. The disciplined approach we are taking is yielding results. Consumers have responded, as shown by our sustained momentum. More broadly, we will continue to invest behind our brands.

Of course, strategy and marketing are only one part of the equation. Daily execution in the marketplace is also a critical component. Globally, our bottling partners are aligned and energized. They're committed to building scale and investing for the future. We're working with them to collectively raise the bar on consistent execution. Key levers of growth include driving new pack price architectures, increasing the availability of immediate consumption packages, expanding chilled space with more cold drink equipment and growing our customer base. In India, for example, immediate consumption transactions have grown double digit year-to-date, fueled by adding more than 650,000 new customer outlets during the year and placing more than 25 additional coolers in the market. These initiatives are allowing us to grow at double the rate of personal consumption expenditure. Globally, this kind of action has helped lead to volume growth in immediate consumption packages of 4% year-to-date.

Fundamentally, our business is driven by the ability to operate a more sustainable enterprise that makes a difference for all our stakeholders. And let me highlight one critical issue, we, of course, see across the world, which is package waste. We first shared our World Without Waste goals in 2018, and we provided updates from time to time. But I'd also like to share a recent example of initiatives around the world. In the U.S., we're working on a number of packaging plans with DASANI, including removing the equivalent of at least 1 billion virgin PET plastic bottles from the supply chain over the next 5 years.

DASANI will introduce a lineup of recyclable, reusable and package-free options, including aluminum packages and expansion of PureFill water dispensers, which leverage our Coca-Cola Freestyle technology.

In Great Britain, our system has switched Sprite bottles from green to clear plastic to make it easier to recycle into new bottles. And in 2020, we will double the recycled plastic in all of our bottles in Great Britain to at least 50%.

In Australia, by the end of the year, all single-serve PET bottles will be made from 100% recycled plastic. Finally, we and our partners just unveiled the first sample bottle made with recovered and recycled marine plastics. This shows the future potential for ocean debris to be recycled, packaging for foods and drinks.

Of course, none of this will be possible without the people throughout our company and our system that take an expansive approach to imagining what's possible. This is what gives me confidence this company and system is building a better shared future.

So in summary, we're driving a platform for sustained performance through disciplined portfolio growth, an aligned and engaged system and are working with our stakeholders. For the first 9 months of the year, we delivered strong underlying growth ahead of our initial guidance. This gives us confidence in our ability to achieve our full year EPS target and drive shareholder value.

And now I'm going to turn the call over to John.

John Murphy

Thank you, James, and thanks to all of you for joining us today. I'd like to start with a quick update on a few key areas of focus I've mentioned previously that are critical to the company, driving sustainable top line growth, expanding margins across our business segments and improving cash flow.

As I look at our progress in 2019, our top line continues to respond to the actions James has just spoken to, both to drive innovation, revenue growth management and improved execution, and all supported by a comprehensive range of brand building initiatives across the world. Organic revenue is up 6% year-to-date, and we've reached the ninth consecutive quarter of being within our long-term target. Our healthy top line and effective cost management are translating into solid underlying operating margin expansion across all 3 areas of the business: our geographic segments, Global Ventures and Bottling Investments. And we're doing this while continuing to invest in our brands. We've made steady progress in improving our free cash flow position, which is up 41% year-to-date. We're achieving this through solid underlying performance, acting on working capital initiatives, in addition to tapering off our productivity and restructuring costs.

Our progress has enabled us to grow in line with our earnings per share expectations, despite an 8 point currency headwind, setting us up to meet our guidance for the year. We are pleased that the business is responding to the actions we've been taking. But as always, we aim to do better. We will continue to make the right investments in the business to sustain this momentum into the future.

Turning to our financial performance for the quarter. We delivered solid 5% organic revenue growth with contributions across all operating segments. As expected, revenue growth was driven by strong price/mix due to our revenue growth management initiatives in the marketplace, along with some items we are cycling from the prior year.

The biggest driver of these items was cycling increased inventory levels in our Brazilian Bottler's from last year. This put more than 2 points of pressure on concentrate sales in the quarter, and this was partially offset by a corresponding price/mix benefit as our Brazilian business revenue per case is lower than the company average. We are also cycling the timing of certain deductions in the third quarter of last year, which was a slight benefit to price/mix in the quarter. However, no impact on the year-to-date performance. So adjusting for these items, I would look at this quarter's 5% organic revenue growth as being on an apples-to-apples basis, 1% volume and 4% price/mix.

Underlying growth margin expanded about 120 basis points during the quarter with contribution across our geographic segments, Global Ventures and Bottling Investments. Operating margin was roughly even on an underlying basis, negatively impacted by cycling the timing of expenses and concentrate shipments in the prior year, in addition to the timing of certain items in the current year, including investments in marketing. This translated to 5% growth in comparable currency neutral operating income, which was more than offset by a stronger-than-anticipated 7% currency headwind. Comparably, EPS declined 2% in the quarter, impacted by a 6 point currency headwind.

Turning to our outlook for the remainder of the year. With the momentum we see in the business, we're now guiding to organic revenue growth of at least 5%. This is translating into stronger underlying profit growth and an increase in our free cash flow guidance to at least $6.5 billion. Our underlying performance allows us to maintain our full year comparable EPS guidance, even in the face of increasing currency headwinds compared to previous expectations.

Staying on currency for a moment. On the second quarter call, we provided an initial review -- view of 2020, namely that based on rates at that time, we expected a benign outlook. Since then, the dollar has strengthened, which has impacted our outlook for the -- for next year. Based on those recent movements, there will be an approximate 1 to 2 point currency headwind of revenue. And given the natural multiplier effect due to business mix, a 2 to 3 point headwind at operating income for full year 2020. This is almost entirely from movement in market rates as our hedging gains and losses in 2019 are minimal so far.

With respect to our hedging program, we are nearly 100% hedged for the G10 currencies in 2020, but we have minimal hedges today for our non-G10 currencies. It goes without saying that several geopolitical factors can have an impact on our currency outlook between now and when we provide our full 2020 guidance in February.

Coming back to 2019. In quarter 4, there are a couple of things you should consider. First, we have an additional day in the fourth quarter, which adds about 1 point of revenue growth. Second, we expect an estimated 2 point headwind to top line growth, biggest factor being the reduction in inventory levels by our European bottlers. You may recall that in the first quarter, price/mix and concentrate shipments benefited from those bottlers increasing their safety stocks in advance of a potentially disruptive Brexit. We currently expect this to fully reverse in quarter 4, but, of course, it's subject to the pending Brexit outcome. The net of these 2 will result in a 1 point headwind to top line growth for the quarter.

So in summary, we are pleased with the momentum we have in the business. We continue to invest for sustainable growth in the future, and we remain very focused on raising the performance bar everywhere to capture the opportunity available to us.

Operator, we are now ready for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from Steve Powers with Deutsche Bank.

Stephen Powers

I almost hate to start on currency because there's so much talk about elsewhere, but it is a topic that's dominated conversation the last few months, especially. So John, looking ahead, I think the currency outlook for 2020 is less severe than a lot of investors feared. But I guess, the question is what levers do you feel you have to offset such FX impacts in terms of managing to dollar-based EPS and cash flow. My read is that in the past, the company leaned more on financial levers and hedging to try to work through FX headwinds, whereas now you think you can lean a little bit more on operating levers, like productivity and realized price/mix. But is that right? I just love a little bit more color if possible as to how you're thinking about it and, more importantly, how we should all think about your flexibility, especially to the extent that FX volatility and, I hope this isn't the case, but if it continues to get worse.

John Murphy

Thanks, Steve. Just a few comments. First of all, you're correct in that the outlook, as we go into 2020, it's an easier picture to paint given what I just described in the call. Secondly, I think it's important to emphasize that our overall growth algorithm continues to start with an objective to win locally in all of our markets around the world and to take the appropriate actions to be able to do that on a sustained basis. I think, at the moment, we are also doing, I think, a much more integrated job in determining with our local operating leaders the degree to which we can also manage the various headwinds and leverage, the tailwinds that we have on an ongoing basis and particularly with respect to currency.

As we think about next year, there's a lot of puts and takes still in the equation on both the operating and the nonoperating line, which we'll obviously provide more detailed guidance when we get to February. But I think the overall point I'd make is that with respect to managing this space as we go forward, it's important to keep in mind our primary focus is to deliver on that algorithm I just talked about, but we're doing it, I think, in a much more connected fashion around the world and taking advantage where it's possible of levers that allow us to mitigate some of the -- some of those headwinds.

Operator

Our next question comes from Lauren Lieberman with Barclays.

Lauren Lieberman

I just want to ask a little bit about cash flow. So in particular, on CapEx, I think you took down the CapEx budget this quarter, but my recollection is you actually raised it last quarter. So John, I know you've talked sort of a conscious effort to reassess balance sheet overall and then obviously cash flow, so wondering if you could talk a little bit about kind of the change in CapEx and how you're thinking about that going forward.

John Murphy

Sure. Thanks, Lauren. Yes, let me start just to emphasize year-to-date, the strong cash flow is driven by underlying growth. We're cycling some taxes that we paid in the prior year. We're getting the benefit from the -- from working capital and from the -- a lowering of our onetime restructuring payments. In the fourth quarter, we expect to see the -- our capital expenditures finish the year in line with our previous guidance, actually just a little bit lower. I think we started at $2.4 billion. We're down to $2.2 billion. And the timing of a number of the projects we have is actually scheduled for the fourth quarter. So there's really no major change in our expectation for this year and going to next year with respect to CapEx. But as I've discussed in some previous conversations, the improvement in overall free cash flow remains a top priority for us, and we expect to continue to work on the initiatives that I've just outlined as we go forward.

Operator

And our next question comes from Dara Mohsenian with Morgan Stanley.

Dara Mohsenian

John, I also wanted to keep on the cash flow topic. Operating cash flow guidance also moved up for the full year this quarter. So what's driving that? And as you think about the improved free cash flow outlook, you've now raised underlying free cash flow a couple of quarters in a row ex the structural items. So is that more timing-related and you're getting traction on some of the initiatives you put into place given your focus on this area? Or is it more you're discovering greater efficiencies with that focus and that means that the confidence around improving free cash flow conversion is actually moving up as you look beyond this year?

John Murphy

Yes. Thanks, Dara. First of all, I think the primary driver for this year is the underlying performance of the business. And so we're seeing an uptick in overall -- the overall delivery from operations. Yes, we have a plan underway, which is delivering on working capital. We're not -- I don't see -- I don't have any new news to talk about the working capital arena, but we just continue to plug away at the opportunities that we know are out there.

And with respect to CapEx, as I just mentioned in my -- in the previous question, we see, for this year or next year, the range to be in the -- in that $2.2 billion, $2.4 billion taking into account of the fact that we have taken back into the full South Africa and the Philippines in the last 12 to 18 months. So going forward, I expect to see the continued health of the business in the primary driver. And we will continue to advance on the working capital plan, as I've previously discussed. And also as we go into next year, we will see a further tapering off of the onetime restructuring and productivity cost that we've incurred as part of the productivity program over the last three years.

Operator

And our next question comes from Bryan Spillane with Bank of America.

Bryan Spillane

I wanted to ask about unit volume this quarter was -- and year-to-date has been pretty good, but in the press release and also in prepared remarks, you talked a bit about just the focus on immediate consumption, cooler placements, right, which also just kind of smaller pack types, right? So it's -- so if you -- could you just give us a sense of just where transactions are trending relative to unit case volumes and just some color on that to get a better perspective and just whether the lift is even bigger or better than what we see in unit cases?

James Quincey

Sure. I mean absolutely, it's being driven by a strategic focus on immediate consumption packages and smaller packages, in particular. Lots of different shapes and sizes, no pun intended. Example, the U.S., the mini cans growing at 15%, so some clear strategic focus on driving immediate consumption and smaller packages. Transactions have been running ahead of average unit cases for a number of quarters there. It's running about 4% compared to about 2% on volume. So clearly, this is encouraging and something that we're after. And so it's heartening to see that the transactions coming in perhaps to simply put a point ahead all of unit cases.

Operator

And our next question comes from Ali Dibadj with Bernstein.

Ali Dibadj

So I only have one question, but let me try to have questions, but both are just clarification questions. One, given that you're establishing the free cash flow improvement as perhaps the next leg of the Coke story, can you talk more about when we should think about that cash being used to buy back more stock than just the dilution because you curtailed that obviously a while ago? And then secondly, you talked again a little bit about this in the prepared remarks, so it's a half question. The gap between the 0 basis points improvement on operating margin -- underlying operating margin versus 120 basis points on underlying gross margin. Can you just elaborate a little bit more about what you're doing there from an investment perspective?

James Quincey

Maybe I'll start with the first half of the two questions. Free cash flow, look, we've been pretty clear as we've gone around, which is we have a dividend coverage, which is not where we wanted to be. We set ourselves a target of expanding that, but also made a clear point that it would clearly be our intent to see the dividend continue to grow. So we would like to see EPS track for multiple periods ahead of the dividend growth and obviously have the cash flow grow faster than the earnings. From where we are now, that -- we need some runway to get to a more comfortable point. So of course, when we come to our guidance for 2020 next year, we'll be clear on what we're doing, but I don't think we are likely to have a programmatic increase until there's substantially more flexibility.

Operator

Our next question comes from Nik Modi with RBC.

Sunil Modi

James, maybe you could just talk about and give us an update on cost and really trying to understand what the longer-term vision is with that particular part of the business. And then if I can slip another one in, and apologies for doing this, but you've talked in the past about kind of the balance sheet and kind of realign to the prior question. So just where are we in that process in terms of thinking about some of the equity investments you have and potentially having some cash to realign the balance sheet, so you can kind of fix the cash flow situation?

James Quincey

Yes. Sure. I mean cost, we've talked a little bit about it in the last call. The integration -- or the separation from Whitbread and the integration in the Coke system has gone well ahead of schedule. We bought the associates over. The business is also up. That's been accomplished successfully. It will be fair to say that in the short term, the U.K. business has been impacted by the consumer sentiment driven by Brexit in the U.K., which has affected everyone, the entire business outlook in the U.K. But I think, over the long term, we're actually more encouraged about the opportunities to drive the various platforms.

And we certainly see a lot of interest, and we're setting up the partnerships with the bottlers and working with customers on how we can bring a package of coffee platforms to support that growth, whether it be the Costa Express machine, which is -- continues to have a lot of extra placements coming through this year. And we see a lot more as we go into the future, all providing Proud to Serve or beans and machines as a service to customers and, then at some point, ready to drink, which is not going to likely be the first entry point. We'd like to see the brand exist before doing ready-to-drink. But we launched it in the U.K. and early days, but sales are ahead of expectations. It's doing very well in the context of the coffee strategy. So we see some good validation of the strategic idea of using the different platforms with our system to drive coffee as a solution for customers around the world.

Operator

And our next question comes from Andrea Teixeira with JPMorgan.

Andrea Teixeira

I was just trying to see what are your plans for Coke Energy in terms of ACV in the U.S. and how broadly you would think it can be positioned in terms of the shelf for the energy shelf? And if I can squeeze a Latin American question, I would appreciate it, but I'll defer to you.

James Quincey

Thanks, Andrea. So Coke Energy, obviously, we've launched it in sort of 20-plus countries around the world so far in 2019. And I think we've got some excellent learnings. It's resonated -- some things have resonated in some places. We've got some learnings on things we need to improve. We've been able to build that into the -- a sort of 2.0 version that we'll be rolling out in the U.S. I think the U.S. marketplace, in order to really drive towards a strategy that brings new consumers into the energy category, we're moving the flavor profile closer to Coke. Plans -- we'll save some of the bells and whistles of the plans for a later date, so that a very clear approach in the U.S. to drive additional growth for the energy category by taking the product closer in flavor to Coca-Cola Classic. And then in the rest of the world where we have launched it in some of those markets, we'll be building on the learnings to date and evolving next year. And we see an opportunity to play a role for Coke Energy in the energy category and within the Coke franchise to bring some new consumers and some new relevance to the trademark.

Operator

And our next question comes from Kaumil Gajrawala with Crédit Suisse.

Kaumil Gajrawala

You think about talking -- you mentioned affordable packaging in Mexico and that aligns with what we're hearing from a bunch of other CPG companies, including Diageo, which is normally high-end spirits. Is there something perhaps more secular permanent that you're seeing in some of these markets that leads you to focus more on affordability rather than just an economic cycle?

James Quincey

I think it's largely the economic cycle, especially in the case of Latin America. I mean there's no doubt that there's been a difference in the last 10 years than the previous 10 years where, prior to financial crisis, there was more creation in the middle ground. And over the last 10 years, there's been a section of society in -- all around the world that have felt under pressure, the lower income end. And more of the wealth has been generated at the top -- while income has been generated at the top. So you've seen, in the last 10 years, in general, across many industries a bifurcation growth in both the top end of the luxury end and growth in the value end. And so yes, there is a piece here, in general, of a spreading out of the pricing spectrum in categories based on that trend. But I think, in the case of Latin America and Mexico that we've talked about, this is very much the kind of the pressure that some of these economies have been under lately and a doubling down on affordability. And the reason we've been out there is because we have an infrastructure that's very much a set up to be able to serve the needs of those with less income.

Operator

And our next question comes from Robert Ottenstein with Evercore.

Robert Ottenstein

James, I was wondering if you could talk a little bit about trademark Coke in the U.S. It's doing quite nicely. And what I'm interested in learning is in terms of what's going on with the business, is it primarily share gains from your competitors? Or are you recruiting new customers to the brand? I'm particularly interested in how the brand is doing with consumers, let's say, under the age of 30 or 20, whatever number you want to take and to what extent you're able to continue to keep the brand very vibrant with the younger consumers.

James Quincey

Sure. I mean I think, firstly, clearly, part of this is a revitalization of the sparkling business. It's clear that the strategy of making Coke the brand relevant with marketing, with innovation, of getting it in formats that are more on target for consumers, whether that be the Zero Sugar or the smaller packages is part of getting growth to be in the sparkling soft drinks category. And I think you can see that and as a demonstration of what is going on with Coke. So I mean in a way, it's a formula that's always been true and is true around the world. You need innovation, you need marketing, you need relevance, you need packaging, you need execution and you need to be able to engage. And I think what you're starting to see is, yes, some reconsideration of the category by whatever age you want to take it down to, let's call it loosely, the millennials of the sparkling category. Has it flip-flopped overnight? No, it hasn't, but I think you're starting to see that if you bring relevantly marketed innovation for the right occasion to people, then they will engage.

Operator

Our next question comes from Bill Chappell with SunTrust.

William Chappell

Just want to follow back up on Brexit kind of near term and longer term. Didn't fully understand, for fourth quarter, is it -- if Brexit goes through, you'll have to destock and if it doesn't, you won't? Or is it automatically, the destock is expected to happen? And then do you expect, again, if Brexit goes through, for a pickup in sales? I mean do you expect a better environment as we move into 2020?

James Quincey

Well, I mean, if it mercifully all comes to an end, then yes, I do think our sentiment will improve, maybe not overnight, but over time and, hopefully, going into 2020. I think it's not as mechanistic of if they pass the vote, the stock drops out and if they don't pass the vote, the stock doesn't drop out. We'll need to see what happens tomorrow. I mean call us on Monday. We'll see what happens tomorrow with the super vote. But we would clearly like to err to seeing inventories normalize. So our preferred path would be to see normalization of the inventory by the end of the year. Clearly, we need to see what form the agreement does or doesn't take in the coming days. But as you should take it from us that our preferred outcome is unwinding of that extra inventory, but it's no -- there's no guarantee because we need to manage through it.

Operator

Our next question comes from Laurent Grandet with Guggenheim.

Laurent Grandet

Just to put off actually Coke Energy. I mean you announced the launch of Coke Energy in the U.S. from January 1 with 4 SKUs in total, 2 more than in Europe and at a price point where it's just in the middle between Red Bull and Monster and not any more aligned with Red Bull. So I'd like to understand what are the learnings you get from the launch you already did this year that triggered those changes. And what do you expect, I mean, for Coke Energy in the U.S.?

James Quincey

Sure. I mean I think the two most obvious learnings, one I mentioned that I'll just repeat, which is to bring the formula of Coke Energy closer to Coke Classic. The energy category in the U.S. is much more developed than many of the other markets. And therefore, we are clearly taking an approach of trying to bring new consumers into the category rather than competing for the current ones. And we believe that based on our experiences in the launch markets and our research in the U.S. that doing so with a formula closer to Coke will be more effective.

On the pricing, clearly, the structure of the pricing and the relative weights of competitors at price points in the U.S. is different to Europe. And therefore, we've chosen to go in that -- in a slightly different direction or slightly more balanced starting point with a broader portfolio of SKUs. Obviously, we're looking for shelf visibility by having the full packages of the 4 variants. And that's kind of part of what, of course, is a learning from Coke Energy, but actually that's true in many other categories, that you need to have some standout especially if the shelf has a lot of SKUs in it already. I mean if you go to some of the markets where we launched around the world and the energy category is underdeveloped, 1 or 2 SKUs is enough to make an impact. But if you're in a more developed part of the world and there's more competitive offering, then you need a bit more presence. And I think that's what's driving that. And we'll launch in the U.S. And no doubt, we'll learn and we'll continue to evolve and focus on driving this as part of driving the Coke Trademark and the revitalization of the Coke Trademark, which has been very pleasing for all of us.

Operator

[Operator Instructions]. Our next question comes from Amit Sharma with BMO Capital Markets.

Amit Sharma

James, it looks like the message, at least on the consumption point of view, is still fairly upbeat even as the macros continue to get a little bit tougher. And you've talked about that a little bit from a profitability point of view in L.A. But can you elaborate that a little bit historical connection between consumption and GDP? Is that changing a little bit? Or is the playbook different for Coke than it has been in the past recessions?

James Quincey

Sure. I mean, firstly, yes, on a long-term basis, our business is correlated with GDP growth. So in the long run, that matters. Secondly, as I commented in the last quarter, there are some storm clouds in the sky. It -- have raining in a few places, but it's not -- there's not a total problem here. And I think the approach we're taking is to not overinvest our time looking in the news as to whether that is or isn't a global recession, but to focus on what we can do and to recognize that a lot of work has revitalized our top line. And our emerging bottom line has been up in the actions we've taken. And as we look around the world, whilst we can certainly find places where we do things really well, we are not a 10 out of 10 on any of the strategic initiatives all over the world. So we have a lot more we can do over our marketing and portfolio management, on innovation, on revenue growth management, on investment in the media consumption and calls and on execution. And so the way we look at it is, look, you could waste your time looking at the forecast, but actually, if we stick to our needing and execute against that strategy, we can drive the growth we need.

Operator

Our next question comes from Caroline Levy with Macquarie.

Caroline Levy

And congratulations on a great growth on brand Coke.

James Quincey

Thank you.

Caroline Levy

I just want to touch on Global Ventures and Bottling Investments, which are businesses that should see faster top line growth than the rest of the business, I think. And the Global Ventures margin looks like running around 11% to 12% and bottling around 3%. So are these sort of unusually low levels because of all the recent changes in both divisions, the creation of one and the change in the other? And do you see those trending upwards beginning in 2020? Or is that longer term? And maybe you can just help us size out what a more normalized margin might look like on those businesses.

James Quincey

So let me start with that one. Yes. So firstly, should Global Ventures and BIG be going faster than the average? Yes. Clearly, part of the idea of the Global Ventures is we've invested in categories that we are treating slightly differently in order to drive much better growth. So one, yes, they should be growing faster.

Two, when looking at Global Ventures, and we might try and kind of explain more when we get to the February guidance, it's got a mix of some very different businesses, whether that be the Dogadan tea business or Innocent or the Monster partnership or Costa. So I don't think you can talk about a normalized margin for Global Ventures because it encompasses a set of different businesses. But what we certainly should see is faster growth on the top and the bottom line.

And in the case of BIG, clearly, we had a lot of ins and outs on that group. But I think if you like, philosophically, historically, we have, perhaps in using the expression hospital ward for some of our bottlers, invited the idea that they should be -- or that they're going to be underperforming. And I don't think that's how we want to look at that going forward. We think they should be making margin returns and growth rates that are equivalent to what the best of our bottlers do in like markets. I mean the margin structures in emerging markets and developed ones are not the same, but we should certainly be aspiring and heading towards performance that is above average for a like-for-like market.

Operator

Our next question comes from Sean King with UBS.

Sean King

Just maybe a little bit in a whiz, but given that this is the first time you're giving your -- a preliminary next year FX outlook and considering the very recent favorable move, when did you mark currencies to market for that outlook?

John Murphy

Let me take that. Monday, that's the very precise answer.

Operator

And our next question comes from Kevin Grundy with Jefferies.

Kevin Grundy

And congratulations on the strong result.

James Quincey

Thank you.

Kevin Grundy

Question on price/mix. You spend a lot of time on these calls discussing the various initiatives around revenue growth management. And while unit case results are quite good, the price/mix contribution is 6%, certainly materially higher than The Street had modeled and what we should expect going forward. So a few questions related to that, James. I mean, one, had price/mix come in relative to your own expectations in the quarter? Two, how much did Argentina contributed in the quarter? And then three, how should we be thinking about this in the fourth quarter and into next year?

James Quincey

Sure. So clearly, price/mix is atypically higher. It is -- there's a little bit of Argentina in that. But actually, there's a quite a bit about cycling some of the inventory that was in Brazil from last year. So I think it's much more sensibly thought of as a 4% rather than a 6%. Still a excellent number for the quarter. And I think if you look back over what's been happening in '18 and '19, you're seeing more of a 3%. Obviously, it was a number we expected to come in. And so I think the revenue growth management initiatives, which have been rolled out and still have some good runway ahead of them, along with the brand building and innovation, which earns us the right to be able to put the right pricing into the marketplace, is what makes us think we can take that forward.

Operator

Our next question comes from Bonnie Herzog with Wells Fargo.

Bonnie Herzog

I actually wanted to ask on margins. You've really done a good job of telegraphing some of the pressures you're facing from a margin perspective this year. But that said, just hoping you could give us a sense as to how we should expect margins to trend over the next years once the effects of FX and M&A start to subside. I think it would be helpful to hear some of the key levers you have that you can pull to ultimately drive margin expansion and really just touch on what gives you the confidence that the business can grow margins on an underlying basis.

John Murphy

Thanks, Bonnie. Let me take that. First of all, as I said, when we look at the total company, we're really looking at margins across the 3 business segments that we have, our geographic core businesses, Global Ventures and the Bottling Investments Group. Within each of those businesses, we -- we've got pretty clear line of sight on the levers that we have at our disposal. Starting with the top line -- if I take for example in our -- in the core business, starting on our top line, innovation and increasing focus on premiumizing the innovation agenda, continuing to take advantage of the revenue growth management works that's -- that we -- that's been in its current iteration and expanding that around the world are examples of ways in which we can drive at the -- certainty at the gross margin line. Cost management across each of these three groups, there's a different bucket of cost in each and there's ongoing -- we see ongoing opportunity to operate more efficiently and more effectively. And specifically within the marketing arena, we have a large $5 billion, $6 billion base. We continue to mind new ways of driving greater output from that investment base.

So overall, we -- we're confident that margin expansion, as is implicit in our long-term growth model, is manageable. Our performance year-to-date -- underlying performance year-to-date would -- gives me confidence that, that can continue. And as we work towards the February call and talk more about 2020, we'll be in a position to give you a little more texture on some of the specific areas of opportunity in the coming 12 months.

Operator

And our next question comes from Vivien Azer with Cowen and Company.

Vivien Azer

I was hoping to dig in a little bit more on the mini can business in the U.S., which is clearly doing exceptionally well. So a couple of questions on that. Number one, can you just remind what it represents as a percentage of sales for the Coca-Cola franchise? Number two, do you have any targets over the next kind of 1, 2, 3 years in terms of continued -- continuing to drive that mix shift? And number three, are there any CapEx considerations around future growth of mini cans or small format more broadly?

James Quincey

Sure. I mean we don't break out the percentage of the total business that mini cans is representing. But certainly, we are focused on driving that. Along with a series of other immediate consumption packages and smaller format packages, I think the mini cans being the most emblematic one, it grew 15% this quarter. So we're very pleased with this opportunity. We don't kind of, as a target to pursue, I said, well, it should be this percent of sales because, ultimately, if you're going to be consumer-centric, you will end up with the percentage that the consumers want to buy rather than what you want to sell. And so I think, philosophically, we focus most on making our brands or our packages or whatever bundle we're selling drive on the relevancy for the consumer. And if that's -- if we've got it right it, it will go up. And if we haven't, we have to go back to the drawing board. It is worth noting that mini cans do require some CapEx. And so, yes, the more successful they are, the more we'll have to adjust some of the manufacturing footprint to do it, but that's a good problem to have.

Operator

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

James Quincey

So thanks very much, everyone. To conclude and summarize, our performance, again, gives us confidence that our strategies are taking hold within the organization and across the system. And we remain focused on delivering our near-term and long-term goals. 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.