

Operator

At this time, I would like to welcome everyone to The Coca-Cola Company's Second Quarter 2016 Earnings Results Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time. All participants will be in a listen-only mode until the formal question-and-answer portion of the call. [Operation 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 questions.

I would now like to introduce Tim Leveridge, Vice President and Investor Relations Officer. Mr. Leveridge, you may begin.

Timothy K. Leveridge - Vice President & Investor Relations Officer

Good morning and thank you for being with us today. I'm joined by Muhtar Kent, our Chairman and Chief Executive Officer; James Quincey, our President and Chief Operating Officer, and Kathy Waller, our Chief Financial Officer.

Before we begin, I would like to inform you that you can find webcast materials in the Investors section of our company website at www.coca-colacompany.com that support the prepared remarks by Muhtar, James and Kathy this morning. I'd also like to note that we have posted schedules under the Financial Reports & Information tab in the Investor section of the company website. 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. Please look on our website for this information.

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. In order to allow as many people to ask questions as possible, we ask that you limit yourself to one question. If you have multiple questions, please ask your most pressing question first and then re-enter the queue in order to ask any further ones. Recognizing the number of companies reporting today, we have limited our prepared remarks to provide plenty of time for questions and complete the call at approximately 9:50.

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

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Thank you, Tim, and good morning, everyone. Today, I will touch briefly on a few key highlights in the quarter before handing off to James to provide a more detailed review of our operational performance. During the quarter, we continued our progress towards transforming our company to a higher margin and return business focused on our core value creation model of building strong brands, enhancing customer value, and leading our franchise system. Our continued focus on our five strategic initiatives enabled us to deliver another quarter of global value share gains, while delivering 3% organic revenue growth in a worsening macroeconomic environment.

Importantly, our segmented revenue growth strategies drove three points of price/mix in the quarter. Further, our strong focus on productivity was instrumental in expanding operating profit margins and delivering our profit target. While we are pleased we accelerated our price/mix from 1% last quarter to 3% this quarter, our volume and top-line results still fell short of our expectations. This was largely due to a weakening demand in certain large emerging and developing markets, which also impacted our company-owned bottling operations' revenue growth. Within our Bottling Investments segment, positive pricing at our North American bottler was offset by challenges in our China bottling operations, resulting in even organic revenues for our company-owned bottling operations globally.

However, our core franchise operations continued to perform well, growing organic revenues a full point ahead of our consolidated organic revenues and in line with our long-term targets. Despite weaker conditions in several emerging and developing markets, we continued to see a positive return on our marketing investments, with solid performance in key markets such as United States, Japan, and Mexico, which James will touch on in more detail.

While the macroeconomic headwinds we are facing in these emerging and developing markets are cyclical in nature and not secular downturns, we're not expecting a material improvement in the remainder of the year, given the continuing volatility in the global economy. This outlook, coupled with where we are year-to-date, will make achieving our previous 4% to 5% organic revenue growth rate very challenging. Therefore, we are lowering our outlook for full-year consolidated organic revenue growth. James and Kathy will discuss this in greater detail later on the call.

With that being said, we remain fully committed and confident in achieving our underlying profit target, despite this challenging environment. We're also

confident that our core organic revenue growth will continue to outperform our consolidated organic revenue growth by a full point.

Finally, we remain on track with our refranchising efforts, and we are confident we will complete those efforts by the end of 2017. Over the past few months, we successfully completed the Coca-Cola European Partners and Coca-Cola Beverages Africa transactions, announced the transfer of certain territories in the United States to Arca Continental, UNITED venture and reached a new understanding with Coca-Cola FEMSA regarding joint value creation in Mexico and certain territorial expansion opportunities for company-owned bottling operations, which was announced just this morning. As we work through the comprehensive refranchising and near-term macro challenges, we will emerge a much stronger company with higher margins and returns and better positioned to deliver on our long-term growth targets.

I will now hand the call over to James, who will provide you with a more detailed look at our operating performance.

James Quincey - President & Chief Operating Officer

Thank you, Muhtar. Good morning, everyone. As Muhtar said, our consolidated volume and revenue results came in below our expectations. So let me first talk about where, why, and what we're doing about that. Our volume deceleration from the first quarter was concentrated in a few number of markets facing specific macroeconomic challenges; firstly, China, but also Argentina and Venezuela. The slowdown in our consolidated organic revenue versus our core organic revenue, which grew 4%, the consolidated slowdown was due to our Bottling Investments segment slowdown. It's the mechanical effect of owning both bottling operations as well as concentrate operations in certain challenged markets. BIG slowdown was principally driven by the challenges the industry, the broad industry, is facing in China.

So let's start with China. And what are we doing about it? There are three factors impacting our performance in China. First, no question, the overall consumer environment is weakening due to the economy's economic transition. Secondly, as this is occurring, wholesalers are adjusting to lower expected sales growth and bringing down inventory levels, which has a whiplash effect on our bottler sales. Third, there are some category mix shifts occurring as different consumer segments respond to these new circumstances. For example, juice and juice drinks category is the weakest performing, whereas premium water is stronger and positive. So there's an opportunity here to both innovate with more premium products positioned for the higher income new mainstream consumer segment, as well as

opportunities to address strong affordability needs across the rural and blue-collar areas.

So I guess importantly, perhaps most importantly, what are we doing about it? Firstly, we've got a number of new premiumizing offers across multiple categories we compete in being launched. We're also focusing on better execution, particularly in the second tier and rural areas where they serve more of the mass consumer segment and upping the game in terms of affordable offerings. We are also rebasing the way we approach trade incentives to drive better performance with wholesaler and from our own distributors.

Now, despite these actions to improve our business, we still expect our China operation to be under pressure for the remainder of the year. This is a key factor driving the organic revenue outlook, particularly the difference between consolidated and core, but I think it is worth finally making a note that we are keeping a long-term perspective with regard to China. We always knew that for a country as large as China, transitioning to a consumer-led economy was going to have its challenges. Those may have turned out to be more than we expected in the short-term; however, we absolutely believe in the long-term opportunity of this market of 1.4 billion consumers with relatively low beverage per capita compared to the global average.

Okay. So that's China. Let's move for a second to our core business. The core business, understood as the concentrate and the franchising business, this is where we grew organic revenues 4% for the first half of the year as segmented revenue growth strategies continue to drive positive results. Yes, some markets are tough, but others are doing very well.

Let me start, perhaps, with the more challenging markets. I've already touched on China, so let me move to a couple of the other ones I mentioned earlier. Argentina, we believe that the Argentinian government is taking the right steps to secure its economic recovery, but this is resulting in a contraction in the near-term that accelerated in the second quarter, therefore impacting our business. In Venezuela, severe shortages in certain raw materials resulted in us temporarily suspending production at the bottling partners' plants during the quarter, clearly impacting the results.

Additionally, Brazil, the challenges there are well-understood and we think will continue for the remainder of the year; however, we are focusing on key affordability packages and activating a strong Olympic marketing campaign in the coming weeks and months. We have lived through downturns before in emerging and developing markets and understand how to manage the business in these circumstances. It requires a disciplined approach to pricing

relative to inflation and, of course, where necessary, aggressively moving to address consumer dynamics through adjusting the portfolio, both in terms of affordability and product innovation.

But as I said earlier, not every market is under pressure. In markets with relatively stable economies, we are executing our strategies and seeing strong results. For example, in North America, we grew organic revenues 4% in the quarter, reflecting continued pricing initiatives for our sparkling business as well as the ongoing strength of our stills portfolio. In Mexico and Japan, we're delivering strong performance across our portfolio, driven heavily by innovation. And turning to some of the emerging markets, in Southeast Asia, we are growing volume double digits year-to-date behind strong integrated marketing and commercial initiatives across the core brands and key entry level packaging.

Taken together, these results give us confidence that in stable markets where we increase our investments in marketing innovation, combined with improving marketplace execution, we can continue to deliver strong performance. Ultimately, we operate in over 200 countries, and there will always be some markets with macro challenges. Our ability to grow doesn't require macro perfection.

In fact, even with this current broader macro adjustment phase in a good number of emerging markets, our segmented revenue growth strategies are enabling us to capture solid pricing of 3% year-to-date for our core operations on top of 1% volume growth. And we're using the productivity to prudently fund marketing where there is momentum and where we see a solid payback, but we're also holding on and making sure that we can use it to deliver strong underlying margin expansion. These actions have enabled us to grow underlying profit before tax in line with our expectations for the first half of the year, and despite more challenging conditions than we initially expected.

So let me conclude by saying we are confident in our growth strategies. We continue to push in markets where we see success and proactively address those markets that are more challenged, of course, while always keeping an eye on the long-term.

So with that, let me hand over to Kathy to take you through the numbers.

Kathy N. Waller - Chief Financial Officer & Executive Vice President

Thank you, James, and good morning, everyone. I'd like to touch quickly on our financial performance in the quarter before providing our full-year outlook. Starting at the top line, our organic revenue growth was impacted about a point by our segment mix, as our Bottling Investments segment

grew slower than our core business. At gross profit, our comparable margin declined 20 basis points due to currency and structural headwinds. Excluding the effect of these items, our underlying gross margin expanded over 100 basis points, driven by solid pricing, a slightly favorable cost environment, productivity and segment mix. Our comparable operating margin improved about 15 (14:31) basis points. Similar to gross margin, currency and structural headwinds impacted our operating margin. Excluding the effect of these items, our underlying operating margin increased about 180 basis points in the quarter, due to gross margin expansion, as well as the timing of productivity savings and certain expenses.

Now, turning to outlook, as Muhtar mentioned, we are revising our full-year top line target. For the full year, we now expect 3% organic revenue growth. With that said, we are confident our strategies will deliver stronger organic growth for our core business. And we are maintaining our full-year underlying profit target as we continue to manage our business. Therefore, we expect to deliver comparable currency neutral ex-structural income before tax growth of 6% to 8%, in line with our long-term target.

During the first half of the year, we generated strong underlying operating leverage. Consistent with our previously-provided guidance, we expect this to moderate as we begin to cycle more difficult comparisons in the back half of this year. Coca-Cola European Partners closed about a month earlier than we estimated in our previous structural guidance. And we continue to move faster with our refranchising efforts in North America. Therefore, we are updating our full-year structural outlook. We now expect a six to seven point structural headwind on net revenue and a four point headwind on income before tax. Our currency outlook remains the same as our previous guidance, a two to three point headwind on net revenue and an eight to nine point headwind on income before tax. So taking all of this into consideration, we expect full-year comparable EPS to decline 4% to 7%.

And there are a few phasing items to consider when constructing your models. Our fourth quarter has two additional days, as compared to last year, which will result in stronger top line growth in the fourth quarter than in the third quarter. In addition, the two additional days in the fourth quarter, coupled with what we are cycling in SG&A in the third quarter of last year, means operating leverage will skew strongly into the fourth quarter.

Therefore, we expect virtually all of our growth in comparable currency neutral ex-structural income before tax to come in the fourth quarter. We expect structural items to be a nine point headwind on net revenue and a three point headwind on income before tax in the third quarter. Finally, we

expect currency to be a two point headwind on net revenue and a two to three point headwind on income before tax in the third quarter.

In closing, our strategies are working in key markets. We are on track to deliver over \$600 million in productivity this year, and we continue to accelerate our refranchising efforts. While our expectations for top line growth have softened, we remain confident in our ability to deliver our profit target this year.

Operator, we are now ready for questions.

Question-and-Answer Session

Operator

Thank you. Our first question comes from Steve Powers of UBS. Your line is open.

Stephen R. Powers - UBS Securities LLC

Great. Hi. Good morning. Maybe we could start with a question for James on China mainly, because it sounds like that market was the biggest driver of the gap between your reported 3% organic growth and the 4% core number that you that cited, and I'm guessing it cost you roughly a point of unit case volume in the quarter as well. So first, is that right? But more importantly, is there a way to parse how much of the adverse impact is tied to the macro slowing, which I think is more likely to persist, versus supply chain corrections and wholesaler inventory de-stockings, which might hopefully be more transitory?

I guess I'm really trying to assess just how much of a headwind China was in Q2 and then how severe you expect the ongoing headwind to be, acknowledging the improvement initiatives that you called out? And then finally, do the issues facing BIG in China impede, at all, your ability to refranchise that market on time and on favorable terms? Thanks.

James Quincey - President & Chief Operating Officer

Okay. Morning, Steve. So, okay, let me try and get to China, and let me start from the top and work downwards, if I may. I mean, firstly, it's clear that, when you look at The Coke Company, almost half our revenue comes from bottling versus the other half comes from concentrate and franchise, but given, as you all know, that a bottling business comes with four to five times more revenue per drink sold and the accompanying cost, any effect on the revenue of the bottler is going to have a magnified impact on revenue and much less on profits, which is part of this dynamic.

So in China, it's our largest international bottling operation. We own bottlers that are roughly 20% of the global business, but the biggest one outside the U.S. is China. So that's where it's coming from. And it's the mechanical impact of being hit in China, where we own about a third of the system, that's creating that whole difference between the 3% and the 4%. And what we've assumed in our outlook, just to be more confident, clear in our confidence going forward, is we have not really assumed that China is going to get better in the rest of the year. So if it did, that would be great. But we are assuming it's not in terms of our outlook and guidance, but obviously we're working to try and make it better.

Now, as I said, as you kind of tried to split the difference, what's changing is both the consumer and the supply chain. I think in round numbers from a revenue perspective, you've got about half the impact coming from the consumer and half coming from the supply chain.

What's happening on the consumer, you can see is it in the scanned Neilson, and the non-scanned Neilson is probably a bit worse than the scanned Neilson in terms of slowdown in sell-out to the consumers of all types of FMCG categories, so it is a kind of a broad-based consumer slowdown. Within that, from a beverage point of view, you've got juice drinks and juices, which were kind of more for the rural areas and blue-collar, they are down double digits in terms of revenue from a consumer point of view. Something like Coke is down low single digits and premium waters is growing. So there's a shift in the category mix going on, which is also actually impacts revenue because juice drink prices tend to be higher than sparkling or water, so that doesn't flow through to profitability. So there is a kind of rebasing going on in there.

But as I said, about half of it's the supply chain, the whiplash effect of the de-stocking by the customers and that, as you say, is likely to be a much shorter-term impact, but, again, we're working on it, but we're not including an improvement in that in our outlook, although clearly, we want to get focused on it and get it to work.

I agree with you. The consumer thing will take a little more time to come back, which is why we're focused on our kind of the game plan we know that works in downturns, where we focus on affordability, on premiumizing for those parts of the country, like the premium metro areas, and bringing out new products for them. And that way, we believe we can gain value share, which we continue to do, in China, so that we're set up as the consumer starts recovering. So about half and half and we believe that the consumer will come back and the supply chain will sort itself out in the relative short-term in the rest of this year.

Now, with regard to the refranchising, obviously, can't really comment on the M&A, but I would say that we and our partners all believe in the long-term potential of the China market. We're very excited and, as I said, because a large part of what's happening in the short-term is de-stocking in inventory. Everyone's looking past that and looking to the long-term, and I think there's still good motivation and animation by everyone to get the deal done. And we'll obviously, from our point of view, make sure we do it on the right terms for ourselves. And they'll be looking for the right terms for them, but we still think it's the right deal for everyone and with a good likelihood of getting done.

Operator

Thank you. Our next question comes from Dara Mohsenian, Morgan Stanley. Your line is open.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

Hi. Good morning.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Morning.

James Quincey - President & Chief Operating Officer

Morning.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

I wanted to better understand why you maintain the FX-neutral income before taxes guidance, despite the negative full-year top-line revision. I'm assuming part of that is just the top-line weakness is in lower margin areas, so probably less of a margin impact, but can you give us more detail on why the local FX profit goals have not been as impacted by top-line weakness and how much visibility you have on the profit side and any leverage you have to protect downside if macros weaken further?

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Dara, I'll just comment first and then maybe ask Kathy and James if they want to add anything. But certainly you've answered part of it by saying that, yes, revenue challenges are coming from those areas that have much lower margins, number one, for sure. And then, secondly, productivity efforts are continuing that's driving the margin expansion in quarter two. Kathy mentioned the significant margin expansions that we have achieved. And I think productivity efforts are going to continue.

And then, finally, I think there's also a mix. Some of our better markets, more profitable markets, are doing well, like the United States and Mexico and also in the Far East and Japan, so there's a mix issue. And then, finally, the commodities continue to be pretty benign in terms of the outlook. So those are the things that play into all together, but primarily, the one that you mentioned, which is the revenue challenges are coming from much lower margin areas in terms of our business. Kathy, anything to add?

Kathy N. Waller - Chief Financial Officer & Executive Vice President

No, I would say that those are the reasons, Muhtar. I would say probably you are picking up the fact that we do have more difficult comps in the back half for some of the things that Muhtar mentioned, but we are confident that we will still be on our guidance.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Yeah, we're overall very confident that the changes in marketing, the strategy on innovation pipeline, the One Brand strategy, which is just at the beginning, the promotions that we have in store in the summer around the Olympics, the price/mix expansion that we've experienced in quarter two, all of that we feel play very into the equation and feel, give us confidence in the back half that there are likely more challenging comps in the back half that we can actually cycle them and achieve them going forward and feel confident that we can.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

Okay, great. Thanks.

Operator

Thank you. Our next question comes from Ali Dibadj, Bernstein. Your line is open.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Hey, guys.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Good morning.

Kathy N. Waller - Chief Financial Officer & Executive Vice President

Hi.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Just a couple of clarifications; one is on back to guidance, and, look, if comparable currency neutral income, excuse me, before taxes is still in the 6% to 8% range for 2016 relative to Q1 guidance, so you gave that same guidance in Q1, and the structural move only went from negative 3% to 4%, to negative 4%, so, like a 50 basis points change there, currency is still a 8% to 9% drag. I guess I'm confused about what's driving the EPS guidance effectively down by two points at the midpoint. So what's going on between profit before tax and the EPS to drag it down another two points? Because the only thing that seems like it's changing is the structural, in what you've told us, relative to Q1. That's my first question. I have another one, if you permit me.

Kathy N. Waller - Chief Financial Officer & Executive Vice President

Okay, Ali. So basically, it's in the rounding. So, yes, we gave comparable currency neutral guidance on EPS of 4% to 6%, and that was comparable currency neutral. So then when you either take out another rounded point of structural, so it rounded down, but it's really is a rounding point of structural. And then you take out currency, that gets you basically in the actual numbers, if you take out only a point of structural, gets you to 3% to 6%, but then it's in the rounding, so that's how we came up with the 4% to 7%.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Okay.

Kathy N. Waller - Chief Financial Officer & Executive Vice President

If you start with the 4% to 6%, you back out the currency and you back out a rounded point of structural, that gets you down to your 3% to 6% and then it's really in the rounding to get to the 4% to 7%.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Okay. I have trouble getting there. Maybe I'll follow up. I still see it being kind of an incremental point somewhere in there. But basically you're saying there's no change in the gap between PBT and EPS. Tax isn't changing. There's no other things in there, right?

Kathy N. Waller - Chief Financial Officer & Executive Vice President

No. That's correct.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Okay. Maybe I'll follow up just about the rounding point to help me with my math.

Kathy N. Waller - Chief Financial Officer & Executive Vice President

Okay.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

The second piece is in the press release and, James, in some of your comments, I think, you said, look, we are, from the release, "reassessing local market initiatives". Can you tell us a little bit more about what you mean exactly, so where? Is it all about China, perhaps Argentina? And is advertising spend as a percentage of sales still up for you in the quarter? And does it impact, in any way, this confidence we had a year ago, six months ago, about really good ROIs on the marketing spend? Thanks.

James Quincey - President & Chief Operating Officer

Sure. I think perhaps that's two questions in the second question there, Ali, but let me have a go. Look, in terms of reassessing the actions, that's both on the places with momentum and the places that are suffering. There are parts of the business that are growing strongly, whether that's at one end of the spectrum like the U.S. and Japan, where we've got good momentum. And the U.S. grew organically 4% in the quarter. Japan is growing well. We are increasing the amount of spend as we see the tailwinds and the effectiveness of the marketing, the innovation, the execution.

So we're reallocating money to the places that have momentum. And that's on the developed end, like the U.S. and Japan. It's also on the emerging end, like Indonesia and the Philippines and places like that. So we're going where we see the opportunity to get the biggest bang for the buck.

Now, we're taking some of the money from those markets that are under most pressure, and, in those places, we're prioritizing. Yes, there's still some advertising, but we're doing innovations and we're doing execution and very importantly, doing affordability. So the most extreme example perhaps is Venezuela, where there was no sugar. And we've actually doubled-down on really driving Coke with zero sugar in Venezuela with kind of a full red One Brand look. So there are places where we are adjusting to the need that just because you advertise, doesn't mean people are going to buy if it's an affordability problem. And I think China is a good example of where affordability is in there as well, and I think I've talked a bit about China.

But the game plan that we've used in those emerging markets under pressure, we're really (30:44) rolling out, so that reassessing is moving

some top line money to those with momentum and doubling-down on execution and affordability and innovation in those pressured markets. And that kind of goes a bit to the advertising. Advertising is up this quarter as we continue to see the value of advertising as part of the marketing mix in combination with innovation and execution. It's only when you get all of those together that you really get the best returns, and we always look to make sure that all three are there. Otherwise, we'll end up wasting our money.

So we're out there and we're pushing ahead with it. And I think what we always have said is that advertising takes some time to work. So, for example, the One Brand strategy that we announced in the first quarter, we started the rollout, the latest iteration of the graphics went into Mexico a couple of months ago. That sort of marketing innovation takes time to build up an effect. So we'll keep pressing away with the investment and keep assessing. It's too early to call the success. We'd do that towards the end of the year, but we are focused on making that work.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Ali, just to add to the point of ROIC on the marketing, when you take into account the price/mix expansion going from 1% to 3% in the quarter, when you take into account the core business that we have, which is really the company that's emerging out of this very rapid transformation and refranchising, is growing still at a point ahead of the total company currently consolidated number, which is at 4%, which is within our sort of long-term growth target that we've espoused to and talked about. I think that's also not maybe a micro metric, but certainly an important metric to consider in terms of the payback on also all the activity. And we are still in the early days of the One Brand strategy. It just launched in Mexico a few months ago, just launched in Europe and parts of Europe. So again, we feel confident that that is going to continue to work in our benefit, coupled with the marketing that James talked about.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

I look forward to it. Thank you.

Operator

Thank you. Our next question comes from Nik Modi of RBC Capital Markets. Your line is open.

Nik Modi - RBC Capital Markets LLC

Yeah, thanks for the question. Just two quick ones for me, there is a lot of stuff going on at Coke right now, international organization management, refranchising at an accelerated pace. I'm just curious if you can give us some clarity on maybe how much of the volume issue this quarter was partly related to disruption. And then, just on the price/mix, I mean, it's pretty good number. We've seen a kind of 3% price/mix a couple of times over the past two years. Just curious on what you think the sustainability of that magnitude of price/mix is as we think out the next one to two years.

James Quincey - President & Chief Operating Officer

Sure. Let me start. I don't think any of the unit case pressure in the second quarter was due to the reorganization. I think the trends on unit cases, and let me just throw out another way of looking at it, has started at the beginning of the year. I think it's probably one of the few times we've seen the developed and our developing countries grow volume and actually seen the emerging markets decline in aggregate. I know we only put out the numbers by groups. But if you look at developed companies and developing economies, you see volume growth in both those blocks of countries.

So in the end, our business, when you take the segmented roles, we've got volume growth and price/mix growth in developed and developing countries, which is very positive in terms of the long-term trajectory of the business. North America has got multi-years of making that work at the revenue line, so that's very strong. The volume weakness is all in the emerging markets, and it's all concentrated in a few of the emerging markets. It's big in some of those markets, but it's very concentrated. And the people then on the country levels are all largely still the same and working on these problems. So hopefully, that gives you a little insight on where the volume weakness is, but I don't think it has anything to do with the reorganization. In fact, I think the reorganization is helping us bring some refreshed views and some experience on what to do in emerging market weakness going forward in the downhill this year and into the future.

And then on the price/mix, 3% is a good result. I think we've always talked about our long-term growth model calls for 4% to 6% revenue growth. And we see a balanced split between volume and price/mix into the future. So that gives you a 2% to 3% for price/mix as the component of the long-term growth. And also, 3% is a strong result. Long may it live. For the long-term growth model, we're looking for 4% to 6% in a balanced way.

Nik Modi - RBC Capital Markets LLC

Thank you.

Operator

Thank you. Our next question comes from Mark Swartzberg of Stifel. Your line is open.

Mark Swartzberg - Stifel, Nicolaus & Co., Inc.

Yeah, thanks. Good morning, everyone.

Kathy N. Waller - Chief Financial Officer & Executive Vice President

Morning.

Mark Swartzberg - Stifel, Nicolaus & Co., Inc.

Two questions, one on Europe specifically, James, I guess I am surprised Spain was down in the quarter. You cited weather, but it's been doing pretty well, so what is going on in Spain beyond weather? And can you give us any color on Great Britain, because Europe overall had a nice sequential – or at least did better than where consensus was, so looking for some color there? And then, Kathy, on FX, really no change in your FX view for the year. Can you remind us how you're hedged on some key currencies and how that might play out, the duration of those hedges and what those currencies are?

James Quincey - President & Chief Operating Officer

Sure. On Europe, I think Europe got a little bit better this quarter. There are things weighing on our business. I'm not a big fan of calling out weather as a driver of performance. The weather occurs, for good or for bad, all around the world. Now, in the case of Spain and also France, at kind of that end of the Mediterranean, it was particularly poor in the middle part of the quarter. So that's really what's driving what's going on in the Spanish business and also it impacted the French business. So we see Europe getting a little bit better.

I mean, we had some good results out of Germany. And, as you said, some sequential improvement out of GB cycling out of some of the supply chain problems and as they got fixed, that came out of the first quarter. So we see that starting to improve going forward, but I think I hate calling out the weather, but I think that's really the reason in Spain, and France. And I think we'll start to see those businesses get better.

Now, it is worth saying that we've got a lot of good programs in Europe, but the recent tragic events in Belgium, in France, and recently in Germany, do weigh on consumer sentiment and consumer behavior. They go out less and we have strong on-premise businesses, in fact, particularly in Spain. And that is being dragged down as people respond to some of these tragic events by, perhaps, staying at home a little more. Now, that hopefully will get

better in time as the security situation improves, but I don't want to get into weather and global events. I think the business in Europe can get better. We've got a lot of launches coming up and we've got some strong programs. I think Europe can continue to perform.

Mark Swartzberg - Stifel, Nicolaus & Co., Inc.

Great. And quick follow-up on that specific to Spain, what does your work say about underlying health of the business, either because of performance in July? You're saying it sequentially should get better but I'm kind of wondering what's underlying that view. How are you getting to that?

James Quincey - President & Chief Operating Officer

I mean, I'm not going to comment on the beginning of July from a volume perspective. I would note that I think July was the biggest-ever month for Spain last year, so they've got some tough comps to cycle. They had a record summer last year. The underlying business in Spain is improving. Firstly, the economy is getting better. Secondly, the supermarket environment in terms of rational pricing and some of the activities is getting better. And the Spanish bottler made a massive investment going into last year to reinvest in returnable glass, which is one of the preeminent places in the world where this is true in the on-premise accounts. And that's starting to show good results, notwithstanding the weather and the security impacts in the year-to-date. And now, with the CCEP deal closed and management fully focused on leveraging the best of the marketing, the best of the innovation and really doubling-down on the execution, I think we'll start to see improvements in Spain and the other CCEP territories.

Mark Swartzberg - Stifel, Nicolaus & Co., Inc.

Excellent. Great. Thank you, James.

Kathy N. Waller - Chief Financial Officer & Executive Vice President

And on currency, so, yes, we did not change our guidance this quarter. We've had a lot of movement in some key currencies, but basically they are offsetting each other. Given the volatility that we've seen kind of across the portfolio, some currencies are getting better, like Brazil. Some are staying the same or getting worse, like a Mexico. Our hard currencies, we are hedged 100%, basically, and then we hedge our emerging market currencies on a short-term basis as kind of opportunistically. With 2017 being fully hedged for our hard currencies and, obviously, our exposure then would be basically in our emerging market currencies.

Mark Swartzberg - Stifel, Nicolaus & Co., Inc.

So you said you're fully hedged for hard currencies for calendar 2017, for the duration of 2017?

Kathy N. Waller - Chief Financial Officer & Executive Vice President

Yes. For 2017, that's correct.

Mark Swartzberg - Stifel, Nicolaus & Co., Inc.

Got it. Great. Okay. Thank you.

Kathy N. Waller - Chief Financial Officer & Executive Vice President

Okay.

Operator

Thank you. Our next question comes from Judy Hong of Goldman Sachs. Your line is open.

Judy E. Hong - Goldman Sachs & Co.

Thank you. Good morning.

James Quincey - President & Chief Operating Officer

Morning.

Judy E. Hong - Goldman Sachs & Co.

I wanted to go back and follow up on the price/mix question. And clearly, the 3% is a good number, but obviously you're benefiting from pretty high inflationary markets. So I just wanted to better understand how much of this is really coming from your segmentation, the revenue segmentation strategy versus the price growth that you're seeing in inflationary markets, so any granularity that you can give us would be helpful. And then a little bit related to that, I think the flat volume growth that you've seen this quarter, I can't recall the last time you had this kind of volume trend. So, again, how much of this is really a function of your strategy to focus more on revenue and not chase unprofitable volume growth and if this is something that you'd be willing to accept for some period of time?

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Judy, good morning, again. It's Muhtar. First, I think James talked in detail about where the volume shortfalls were coming from and specifically related to certain large emerging markets that drove that number, and so that's related to Brazil. That's related to China being the large ones, but also

Russia. All of those emerging markets that used to have better disposable incomes, better macro conditions, basically drove some of that. And going forward, certainly, we expect some improvement in that area. So that's number one.

Number two, I think important to note that, again, mentioned that the developed markets grew and developing markets grew volume and were ahead of the total company number, which was flat and ahead of emerging markets.

That itself will tell you that certainly the price/mix coming from those markets and then the total geographic mix that coupled with that, is something that was instrumental in driving our price/mix number in the way it landed in the quarter. So all of those factors and algebras, all the algebra coming together is what made that, the country mix coming out of that, the geographic mix and then the volume, coupled with the pricing that we got. And today, when you look at our U.S. business, with 4% organic revenue growth in North America, that tells you that that is in, certainly, in very much in the upper quartile of all large consumer businesses in the country. We are doing very, very well. Japan performed well.

Again, Mexico performed very well in terms of the volume and pricing combined, driving the total number of price/mix. So all of that really goes to explain and hopefully answers your question on that. Anything to add, James, there? Okay.

Kathy N. Waller - Chief Financial Officer & Executive Vice President

On the price/mix question, Judy, so we did have this quarter, price/mix was positive across in all of our groups. Yes, primarily driven by Latin America and inflationary pricing, but also operational pricing in EAG, but then it was offset by some segment mix coming from the Bottling Investments segment. So, as James said, pricing of 2% to 3% is what we expect and what we would think would be very good pricing and in line with our segmentation strategy, even though EAG was probably more than kind of out of its normal range at this point, but North America, pricing is still very strong. So we do believe in the segment strategy and the 2%, 3% is kind of what we expect going forward.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

And then, the sparkling segment, just to finalize that, continues to be a segment of the non-alcoholic, ready-to-drink, where consumers continue to spend a very large amount of money and in terms of consumer spend and in terms of the dollar value, is still very, very healthy. And that's why it gives us confidence looking into the future about what we're doing in terms of the

segmented revenue growth strategy and in terms of the marketing approach and the One Brand strategy in taking the lion's share of that spend going forward.

Operator

Thank you. Our next question comes from Bryan Spillane, Bank of America Merrill Lynch. Your line is open.

Bryan D. Spillane - Bank of America Merrill Lynch

Hi. Good morning, everyone.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Morning.

Bryan D. Spillane - Bank of America Merrill Lynch

Just two quick ones, one, for James, just you've talked a lot I think on this call about some of the short-term things that have affected organic sales and kind of changes, I guess, sequentially in the environment since the start of the year. Can you just update us on kind of what your view for the industry forecast is, maybe not so much for this year but just over the medium-term, has there been any change in terms what you think the non-alcohol ready-to-drink beverage industry is going to grow over the medium-term?

And then, second question, just you had mentioned Coke FEMSA earlier and it looks like you've got an agreement with them to negotiate on a preferred basis. Could you just sort of expand upon that a little bit? Are they exclusively looking at some of these territories or is it a matter that they're just getting a first look? Thank you.

James Quincey - President & Chief Operating Officer

Sure. I think in your first question, I mean, our medium-term outlook for the industry hasn't really changed. We're still expecting robust growth in the industry in the long-term, driven by the disposal income, urbanization, the middle class, innovation. We see these things expanding. Now, we've talked about that being in the 5% sort of ballpark and then probably in the next few years, talked about it being in the 4%. So we do see it coming back over time. But we do see industry growth slightly moderated in the short-term, as we talked a little bit about in some of the previous conferences.

Now, you did ask the question, which kind of seemed short to me because I think I would – give me a second to just re-underline from our point of view,

the biggest mechanical impact in the quarter and the year-to-date is this asymmetry between where we own bottlers and where it is less than 20% of the volume or about 20% of the volume versus being in 200 countries. If you part the bottling side, and just look at the core concentrate and franchise, we're running organic at 4% and we're meeting our profit guidance.

So we're not trying to say small ups and downs in the macro economies is what should buffet us every quarter, we just need to deal with those things. I just think there's this one asymmetrical effect of the bottling thing, which is kind of important, which is affecting the number. But I don't want to give the impression we're seeing a massive – or trying to signal a deterioration in outlook for the concentrate and franchise business.

Now, with regard to Coke FEMSA, yeah, we talked about looking at some territories on a preferred basis. I'm not going to get into exactly how that means in terms of what preferred means versus exclusive, et cetera, but they're our biggest bottling partner. We have a very strong relationship. We've made an agreement on how we're going to create more value together in Mexico and how they can look to participate in some of the refranchising of the territories that we own in bottling and we're very excited about doing more stuff together.

Bryan D. Spillane - Bank of America Merrill Lynch

Okay. Thank you.

Operator

Thank you. And we'll take our last question from Vivien Azer of Cowen & Company. Your line is open.

Vivien Azer - Cowen & Co. LLC

Hi. Good morning. Thank you for the question.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Hi.

Vivien Azer - Cowen & Co. LLC

So as I look at some of the disclosure in the press release, it seems like you've broken from convention a little bit, a lot less brand disclosure, Trademark Coca-Cola only called out in North America. You guys aren't breaking out sparkling and stills anymore. So I'm just curious if we can get a little more color on Trademark Coke outside of North America and China,

and also whether the change in convention speaks to a broader shift in terms of how you're thinking about balancing volumes across your portfolio? Thank you.

James Quincey - President & Chief Operating Officer

Yeah, I think, yes, I mean, in part, please read into this that we're moving the business to more of a revenue focus. I mean, absolutely under the heading everything communicates, that is part of what we're trying to say. We believe in our segmented revenue approach. It's not that we have forgotten about volume or don't believe it's an underlying driver in the long-term, particularly in the emerging markets of what's going to create the business over the long-term, but as we look at places like North America and some of the other developed markets, clearly, we're going after more of a revenue strategy that's driven by smaller packages, by some pricing actions, so we do want to call out that perhaps the best way to think about health of the business going into the future is the revenue growth.

And that's where I think what we're trying to say is, not just the beverage industry, the sparkling industry category and brand Coke all remain healthy in terms of revenue growth. All three of those are growing revenue globally, and we continue to see good attraction both in the U.S. in terms of sparkling revenue growth and internationally in terms of sparkling revenue growth.

Vivien Azer - Cowen & Co. LLC

Thank you.

Operator

Thank you. And I would like to turn the call back to Muhtar Kent for closing remarks.

Ahmet Muhtar Kent - Chairman & Chief Executive Officer

Thank you, James, Kathy and Tim. I'd say we're on track with transforming The Coca-Cola Company to one that is even more focused on our core value creation model of building strong brands, enhancing customer value and leading our franchise system, the transformation that will result in significantly higher margin and returns. The macro headwinds are putting pressure on our top line, but they're cyclical in nature and we're taking the right actions that give us confidence that we will emerge a much stronger company, while we also deliver our profit targets. We remain confident that the long-term dynamics of our industry are promising, and we absolutely believe that The Coca-Cola Company is well-positioned to deliver long-term value to our shareholders.

