Operator

At this time, I'd like to welcome everyone to The Coca-Cola Company's First Quarter 2019 Earnings Results Conference Call. Today's call is being recorded. If you have any objections please disconnect at this time.

All participants will be on listen-only mode until the formal question-and-answer portion of the call. I would like to remind everyone that the purpose of this conference is to talk with investors, and therefore, questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations Department if they have any questions.

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

Tim Leveridge

Thank you. Good morning and thank you for joining us today. I am here with James Quincey, our Chief Executive Officer; and John Murphy our Chief Financial Officer. Before we begin, I'd like to remind you that 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.

We've posted schedules under the Financial Reports and Information tab in the Investors section of our 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 results as reported under generally accepted accounting principles. Finally, during today's call, when our senior executives refer to comparable performance, they're referring to comparable performance from continuing operations.

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

Now, let me turn the call over to James.

James Quincey

Thanks Tim and good morning everyone. 2019 is off to a good start with strong underlying performance as we leverage our transformation as a total beverage company. We continue to win in a growing industry. The non-alcoholic ready-to-drink beverage industry grew value 4% in the quarter and we gained global value share with a balanced contribution from most developed and emerging markets led by strong performance within our sparkling soft drink business.

During the quarter, we delivered 6% organic revenue growth, cycling 5% last year. Growth was broad-based with positive performance across each of our operating segments.

Of course there are often timing impacts on a quarterly basis and we did see a net benefit in this quarter which John will cover in more detail. But to be clear, we delivered strong topline growth in the quarter which we converted into 16% comparable currency-neutral operating income growth and comparable EPS was up 2%, which was comprised of 13% comparable currency-neutral EPS growth, partially offset by an 11% currency headwind. So, our disciplined growth strategies are working well and we're on track to deliver our full year guidance.

As you know our industry continues to evolve and our approach to addressing this encompasses our system acting with discipline to drive growth. First, innovating and investing in our core categories and brands as well as in emerging spaces. This encompasses everything from massive categories like hot beverages to emerging ones like Kombucha and it allows us to proactively address innovation opportunities that stem from blurring category lines.

Second, we're looking at how we operate as a company from our existing geographic segments to our new Global Ventures segment. Third, our system is aligned and engaged with improved execution. Our bottling partners are investing for growth including cold-drinks equipment and incremental feet on the street as well as implementing more segmented revenue growth strategies. At the same time, we're investing in digital capabilities. We engage with consumers, interact with our customers, and reduced costs across our enterprise.

So, starting with our brands, constant innovation is crucial for sustained growth. Brand Coke, which includes our flagship product and its many variants, has momentum because it has been continually updated to maintain its relevance.

Over the past three years, innovation has helped accelerate global retail value growth each year including up to 6% growth in 2018. This growth is in large part because of the success of Coke Zero Sugar which didn't happen of course overnight. We refined and expanded Zero Sugar over time and we see more growth ahead.

Coke Zero Sugar succeeds because it builds on the brand edge of original Coke, on its taste, its upliftment, on the energy boost that the product provides, all these in a product that doesn't have calories or sugar.

So, what's next for brand Coke? You will see us to continue to innovate to capture additional consumption occasions and need states. One example that I've talked about before is Coca-Cola coffee which we tested in several Asian markets last year. Coke coffee was designed to reach consumers during specific occasions and channels like the mid-afternoon energy slump at work. We've learned from these pilots and we now plan to launch in more than 25 markets around the world by year end.

We're also pursuing another logical extension on the Coca-Cola brand with our test of Coke Energy. This takes one of the original brand edges of Coke, its energy boost, to a new level and a new taste. This product is designed to the white spaces where the energy category isn't well-developed.

But our approach to innovation is not limited to brand Coke. We're taking other brands and pushing into new spaces to offer consumers what they want by leveraging the brand edges. For example, Innocent, our leading juice business in Europe, expanded into plant-based beverages. And within our Challenger brand, Simply, our premium juice brand in the U.S. recently launched a new line of smoothies.

We're also improving the way we operationalize our innovation pipeline. Within our Explorer brands, almost half of our country category combinations are growing volume double-digits, which is up from about a third a year ago.

While we often talk about innovating in products, our evolution is just as much about changing how we work. Our organizational needs are ever-changing, as our portfolio and competitive environment become more complex around the world. So we're adapting.

One example is the creation of a new operating group Global Ventures. The goal is to accelerate some of our businesses, like Innocent and Costa Coffee that have the potential for growth across traditional borders.

While the acquisition of Costa Coffee plays a significant entry point into hot beverages, it's also more than that. Costa is a platform in coffee overall. This requires more and better connectivity than ever before.

We spent the first three months ensuring the transition from Whitbread went smoothly while building connections within our existing business units. And Costa is performing in line with expectations. As we look to the second quarter, we'll be launching our first ready-to-drink Costa products; expect to hear more about that in the weeks ahead.

Turning now to our geographic performance, we saw good results in many markets around the world. Our emerging and developing markets are growing organic revenue double-digits. And our developed markets are performing well, delivering mid-single-digit organic revenue growth.

In EMEA, we grew organic revenue 14%, driven by continued growth in Europe and Turkey, and improved performance in Russia. We also benefited from our European bottlers increasing their inventory levels as a safeguard for a potentially disruptive Brexit.

Across Europe, revenue growth management initiatives and Zero Sugar innovations are creating sustained momentum in the majority of our markets. Not only has this benefited price/mix, but unit case volume was up 4% for our European sparkling soft drink portfolio. This performance is balanced with growth in our tea and hydration categories as we broaden out the portfolio.

Turning to North America, our results continue to mount steady progress driven by strong marketing and execution. Organic revenue was unfavorably impacted by 2 points for one less day in the quarter and the Easter shift, and grew 1% driven by disciplined price pack management and solid value growth within sparkling soft drinks, juice drinks, and value-added dairy.

Our sparkling portfolio benefited from the continued strong performance in Coke Zero Sugar and new flavor innovations like Orange Vanilla Coke, which helped drive 6% retail value growth for brand Coca-Cola in our flagship markets.

Unit case volume declined by 1% in North America as we continued to focus on providing consumers with smaller pack sizes, for example, mini cans grew 14% in the quarter contributing to transactions and our [pacing] [ph] volume while driving significant value for our system and our customers.

In Latin America, we delivered 6% organic revenue growth in an increasingly difficult operating environment. Argentina's economic environment worsened, the high inflation increased the salary gap and impacted private consumption. The volume here declined double-digits, but we gained value and volume share by adjusting the price pack architecture focused on transactions and maintaining our consumer base.

In Mexico, we're working with our bottling partners to ensure our revenue growth management initiatives continue to drive momentum. And Brazil, Brazil is on upward trajectory. Our turnaround plan is working with volume up 5% and transactions up double-digits in the quarter. Incremental cooler placements and increased availability of our refillable packages are helping to drive this acceleration.

Finally, in Asia Pacific, we saw good performance in China and India along with accelerating momentum in our Southeast Asia business unit, which drove 4% organic revenue growth for the segment overall. Execution around Chinese New Year was strong, contributing to 9% volume growth and double-digit transaction growth in China.

In Japan, our system continues to deal with the supply chain impact from natural disasters last year. Manufacturing capacity remains tight, but is improving, with additional lines ramping up in the second quarter. So we expect this to ease the capacity shortage, but full recovery will take until next year.

In Japan, unit case volume was even. New product launches drove momentum in tea and coffee during the first quarter while we cycle the benefit of a strong innovation pipeline in sparkling soft drinks last year.

So, in summary, we had a good start to the year. Our strategy of being more consumer focused and creating value for our customers is working. And we are confident we will deliver our full year targets and drive shareholder value.

I'll now 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 cover three topics. One, our financial results in the quarter; two, our outlook for the remainder of the year; and three, I'd like to say a few points on our currency hedging program.

So starting with our financial performance in the quarter. As James said, we got off to a good start to the year. You'll see that, the composition of organic revenue growth in the first quarter was the inverse of what we saw last year driven more by price/mix than volume. Price/mix was 5%, cycling 1% and trending ahead of our recent run rate driven by strong price/mix in North America, EMEA and Latin America. Our concentrate shipments grew 1%, cycling 4%, adversely impacted by one less day in the quarter.

Of course with a portfolio as diverse as ours there will often be variability in timing from quarter-to-quarter. The largest timing impact we saw was in Europe, where our bottlers increased safety stock in advance of a potentially disruptive Brexit. This benefited both global price/mix and concentrate shipments, since Europe comprises high revenue per case markets.

After normalizing for the estimated two points timing benefit and impact from one less day in the quarter the best way to think of the underlying top line performance in the first quarter is 5%.

Over the remainder of 2019, we expect a more balanced volume and price/mix. Importantly, I'm really encouraged by our organic performance in the first quarter and the sustainability of that growth going forward.

Turning now to margins for both growth and operating margins, we delivered another quarter of underlying margin expansion. In line with our expectations, our geographic groups were the primary driver, a function of continued innovation, revenue growth management, strategies and the effect of management of our cost structure. However, comparable margins contracted in the quarter due to the impact of acquisitions and currency.

At the gross profit level, we saw underlying gross margin expand about 30 basis points. Currencies and net acquisitions impacted gross margin by about 100 basis points and 80 basis points respectively. This was expected with the impact from net acquisitions driven, primarily by bottler transactions within our bottling investments segment.

At the operating profit level, a continued focus on productivity as well as the timing of certain expenses drove a 240 basis point expansion in underlying operating margin. But this was offset by about 130 basis point impact from currencies and about 130 basis point impact from net acquisitions.

As James noted, comparable EPS growth grew 2% in the quarter which was comprised of 13% comparable currency-neutral growth, partially offset by an 11% currency headwind. Finally, we generated free cash flow of $335 million in the quarter in line with our expectations. Strong underlying cash generation was offset by the impact of currency headwinds along with an increase in capital expenditures and cash tax payments.

Looking now at the remainder of the year. We are confident we can deliver the full year guidance we have spoken about previously and is included in our release. We do expect the quarterly phasing to be a bit uneven. So let me just highlight some considerations to factor into your models. The timing benefit we received from bottlers stocking up in anticipation of Brexit was roughly $0.02 into the first quarter EPS. But as we move forward, we expect this to reverse this year. This is a fluid situation, but our current estimate is that our bottlers will hold their safety stock through the second and third quarter. So for modeling purposes I would take the $0.02 out of the fourth quarter.

Before giving a currency outlook, I'd like to highlight a few points. Since CAGNY, we've taken a close look at how we manage foreign exchange in over 70 functional currencies. For developed market currencies, I believe we have the right hedging strategy to mitigate fluctuations to cash flows. This approach has provided a significant cash flow benefit over the past five years, which is important for our company given our large domestic cash obligations including the dividend.

Our challenge is emerging market currencies given the increasing importance of emerging markets to our earnings base. While we have not underperformed versus other approaches there has been a limited amount we can do to hedge this exposure in a cost-efficient manner. Going forward we will continue to evaluate our approach to optimally manage this area. We'll provide insight if and when that approach evolves.

I'd also like us to a better job on overall communications. So going forward in quarters where it is significant, we will begin calling out hedging as a component of the overall currency impact so it's clear what gains or losses, we'll be cycling next year. For example in the first quarter of 2019, the currency impact to operating income was not materially affected by hedging activities and is primarily the result of a change in spot rates. We will also provide preliminary currency outlook for the following year once we have better insight into our hedging activity for the latter year. I expect this to be on the third quarter earnings call.

Returning to our near-term outlook. In the second quarter, we expect a 7 point currency impact to operating income. This includes a 2 point impact from hedging activity driven almost entirely by gains we are cycling from the prior year. We are hedged through options near current market rates for the G10 currencies as well as for certain emerging market currencies. So we have downside protection in the quarter and some upside opportunities should the dollar weaken.

As we move into the back half of the year, we expect the impact from currencies to become less of a headwind each quarter. However, while we are hedged on the hard currencies through the end of 2019, we do have some exposure to fluctuations in emerging market currencies and our currency outlook will reflect this accordingly.

As always our Investor Relations team will be happy to answer any questions as you build-out your models for the year. So in summary, organic revenue growth is strong and is broad-based. Currency and acquisitions impacted margins in the quarter, but pricing and productivity are driving underlying margin expansion. And we are confident in our ability to deliver our full year guidance.

Operator, we are now ready for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Steve Powers with Deutsche Bank. Your line is now open.

Steve Powers

Great. Thanks. Good morning.

James Quincey

Good morning.

Steve Powers

I guess -- James, congrats on the quarter. I think the prepared remarks gave a lot of clarity. I wanted to start actually stepping back and talking about a bigger picture issue, just in terms of innovation. You've talked a lot about incremental innovation, I mean, how you work and how you introduce new products since you've taken over as CEO. And about the need to try more not be afraid of failure, but also when you do fail to -- fail fast and fail cheaply. And I guess my question is as you step back, just how do you assess your progress against those innovation objectives?

You cited some things in the prepared remarks that have shown promise. But what metrics are you specifically tracking when it comes to innovation? And maybe if you could, could you share some of those with us? Is it simply a matter of accelerating the number of new product innovations and introductions? And if so have those in fact accelerated? Or are there other metrics in terms of success rates or product contributions to growth or the balance of innovation across categories and geographies? Just a little bit more context around how you're approaching the measurement of innovation success?

James Quincey

Sure. Let me offer you a couple of thoughts, Steve. I think one is to -- one metric that we track, and I think, we've put some numbers in our CAGNY presentation if I remember correctly, is looking at the contribution of innovation to overall volume or revenue growth or gross margin growth. So just tracking quite simply what was existing and what was new and what's contributing to the base. And that is useful to us not just to know what's new and what's existing, but on the thesis that the most important thing is to work out how to stay relevant there are innovations which are about new products, but there are innovations about marketing and packaging, which is all aimed to help us stay relevant.

So innovation shouldn't be seen just as narrowly as the physical liquid product. It needs to be also seen as the packaging and the marketing. So we do measure the narrow, which is the product but we're also [interested] [ph] in the broad. And ultimately what that ladders up to is driving the framework we've talked about, which is the leader, challenger, explorer and the zombies.

So in the end, the innovations in the product, the packaging, the marketing, the execution, the co-brand it's all about getting more quality leadership positions. And so we're measuring there how many of the leaders are growing faster than personal consumption. Are they expanding their leadership position? How many of the challengers are gaining a decent amount of value share each year, because if they don't gain a decent amount of value share each year, they'll never arrive at being leader. And how many of the explorers are growing double-digits? We called out in the scriptures then that with half the explorers are growing double-digits, so there was only one-third last year. So innovation should be seen as in service of creating quality leadership for the brands and that's the highest level metric that we look at in the end.

Operator

Thank you. And our next question comes from Lauren Lieberman with Barclays. Your line is now open.

Lauren Lieberman

Great. Thanks, good morning.

James Quincey

Hey, Lauren.

Lauren Lieberman

The volume performance in Asia was really notable this quarter. And so I know in the release you mentioned China, Southeast Asia and India. But could you just walk through specifically what's driving the performance? Even like just talk about it in a sequential acceleration. And also I'm sure it's quite small, but you did mention this authentic tea house launch in China. And I just know that's been a tough country category combination for you historically. So if you could just comment on that, because if you put it in the release it must be worth talking about. Thanks.

James Quincey

Yeah. Okay. I think the first thing I would say is that the Asia Pacific volume growth in the first quarter was very much in line with the volume growth in 2018. I think the question that was out there was in the fourth quarter when it softened a little was that a blip or was that the emergence of something else? And I think at least with the first quarter, the fourth quarter looks more like a blip.

So I think it's a retaking of the momentum we have in 2018. Specifically what was driving it was, for example, in China we had very strong performance by the whole Coca-Cola trademark, as well as emphasizing single serve water and the recreating value in the water category that has been an ongoing theme for us in the China business. Obviously all of that was wrapped together with a good Chinese New Year. Tremendous activation on the marketing programs there. So, really a solid quarter by the Chinese business.

In India, we did well, good performance by the sparkling but we also had in the case of India really strong growth in the juices. Maaza, which is the local mango centered juice business, was up very strongly along with some of the Minute Maid local Indian fruit flavors, so a nice performance there.

We also saw Southeast Asia do better. Philippines, Thailand, Indonesia, Vietnam they were all in double-digits, so a really good performance across Southeast Asia. And Authentic Tea House, I know it made it into the release and I think it's starting to continue to do well. So we are pleased with the initial results. It's going to be a very -- it's definitively in the category of explorer. So it's growing. But I think there's a long, long road to go before we are happy with where we end up in tea in China.

Operator

Thank you. And our next question comes from Bonnie Herzog with Wells Fargo. Your line is now open.

Bonnie Herzog

All right Thank you, good morning. So I had a question on your margins. The underlying margins were quite impressive in the quarter ex FX and acquisitions. So I was hoping you could help bucket some of the key drivers behind the strength in the quarter. And then maybe give us a sense as to how much of the benefit you got from productivity savings versus the lift you might be getting from some of the strong pricing you're seeing? Thanks.

John Murphy

Thank you. Let me start with a quick walk forward on gross margin first and then I'll cover operating margin. As I mentioned in my remarks, the underlying margin expansion of what's 30 basis points in gross margin was led by EMEA. And the benefits of Brexit was clearly part of that, but there was also a positive benefit of geographical mix overall. And this was partially offset by North America due to growth in the finished good businesses.

I think importantly, we need to take into account the currency headwinds and they were particularly related to the Argentinean peso. And we also were cycling some hedge gains from prior year. In addition to which we also had a structural impact mainly driven by the acquisition of the Philippines bottling business. And there was a slight offset there on the kind of the bottler refranchising.

On the operating margin front, the underlying expansion of 250 basis points was due to EMEA and the Brexit impact where we have a higher revenue and would've had no expenses there and North America also due to productivity in the -- across-the-board and the timing of some expenses. We also saw though the headwinds on operating margin on the acquisition front and the currency headwinds due to the peso and hedging gains I mentioned before. So underlying margin expansion net positive, but purely been impacted by the headwinds on currency and acquisitions.

Operator

Thank you. And our next question comes from Judy Hong with Goldman Sachs. Your line is now open.

Q – Judy Hong

Thank you. Good morning. So James, I guess I'm just trying to get a little bit more color just in terms of your organic revenue growth outlook for the full year. I think in the fourth quarter call, you talked about some of the cautions around some of the macroeconomic volatility in markets like Middle East and Argentina. It seems like first quarter certainly came in a little bit better even setting aside some of the timing noise. So how are you thinking about the 4% number? Do you feel like there's maybe some cushion as you kind of think about the volatility perhaps being a little bit less or certain markets actually doing a little bit better than you thought? Thank you.

A – James Quincey

Sure. I mean, I think firstly, it's certainly encouraging to come out of the gate in the first quarter with a strong start. And as you say taking the timing aside, I think we can call the first quarter a five. It's obviously our smallest quarter. So there's still a long way to go in the rest of 2019. And I think it's still a question of the macros versus what we can execute against ourselves very much as it was in the last call.

I think since we last spoke, the IMF has come out and reduced its forecast for the year again. So I think the macro environment remains of a lower level of growth than it was in 2018 and a degree of uncertainty as to how some of the bigger issues around trade are going to play out. Depending on the week, it can be blowing a little. We're optimistic, a little more pessimistic, but I think fundamentally, the macro environment remains very similar to what we have been planning against for the last number of months.

Obviously what we are focused on is the execution against our strategy. We think we have a strategy that's right for the consumers and the customers for 2019 and well into the future. We and the bottling partners are focused on executing against that. We're going to have to deal with the ups and downs in some of the trickier parts of the world whether that's Argentina or the Middle East or other places that are under pressure. But we think we have a plan that's going to work. So I think in the end, it comes down to. We are confident in our guidance. We had a good start in the first quarter, although it's the smallest quarter. And we will continue to focus on managing what we can manage to deliver a good result in 2019.

Operator

Thank you. And our next question comes from Ali Dibadj with Bernstein. Your line is now open.

Q – Ali Dibadj

Hey guys. So I was just wondering about the SG&A improvement. It looked pretty strong in the quarter, notwithstanding some of the gross margin impact and FX impact. What's underlying that in particular given a little bit of detail John a moment ago? But I guess, I ask in the context of the $3.8 billion restructuring target that was set a few years ago and whether there's an opportunity to up that number. It certainly seems like you have more room there understanding a lot of moving parts. And then, the second thing is related to Coke Energy. You mentioned it James in your opening remarks. Do you have any detail further about the opportunities there? That would be helpful as well. Thanks.

John Murphy

Thanks. Ali on SG&A, we had a slight increase in comparables at 1.1% and there's a couple of things in there. One, it does reflect the integration of the new businesses, but it's offset by currency and the structural impact. So, when you look at the comparisons take those into account. We did have some savings in SG&A during the quarter, a benefit of the ongoing productivity work that we have been doing, plus some timing of expenses in North America.

And as we look to the future, I quote our ongoing work on productivity in under the whole margin expansion arena, where we would be embedding into just the way we operate a critical focus across the enterprise on driving costs at every line our cost to sales line. We see opportunities to continue to drive, or concentrate supply business more efficiently through harmonization of formulas et cetera. There is ongoing opportunity in the OpEx arena, to drive more efficiency particularly with some of the digitization initiatives we have underway. And then finally, there's always ways to I think be more effective and efficient, with our marketing spend and that's a key area of focus going forward across the enterprise.

Operator

Thank you. And our next question comes from Bill Chappell with SunTrust. Your line is now open.

Bill Chappell

Thanks. Good morning.

James Quincey

Good morning.

Bill Chappell

Could you talk a little more on the innovation especially on the coffee side? Just trying to understand, I guess one how the Coke coffee works with Costa? And also, kind of timing of some of these launches? Will they be in North America? Will they have an impact in 1Q, 2Q, 3Q? Just a little more color on how that flows through the year would be helpful. Thank you.

James Quincey

Sure. I think firstly, the way we are seeing the opportunities for innovation in a product sense is in a way at the blurring edge or partly at the blurring edge with some of the categories. So the opportunity to have a Coke and coffee variant of Coca-Cola is really at that juncture of what are the benefits that people see in Coke versus what are the benefits they look for in coffee, especially perhaps in some of the markets where the occasions are less well-developed. Said another way, in the developed economies three-quarters of what people drink is already a commercial beverage. So they have a certain view as to what drinks go for what and what occasions. But in the emerging economies only a quarter of what they drink is a commercial beverage.

So there's still a lot of in a way creating of the occasions and connecting of brands and benefits to certain occasions. So, there is opportunities to expand categories and to leverage the blurring of the edges. And I think Coke coffee is a great example of that, started out in Southeast Asia in that afternoon slump, and really married the benefits of Coke with coffee in a very unique way and has done most. And there's nothing about that that detracts from some of the more direct coffee drinks that we launched.

Obviously, we've got Georgia coffee, we've got some other coffee drinks in the U.S. with partners, and we see a great opportunity to bring Costa ready-to-drink to the marketplace. We will be doing that later in the second quarter. So as we do that, of course, it's likely that will be concentrated in the markets where Costa already is and we'll be coming up with that later in the second quarter.

And then as for how we foresee the rollout of the coffee platform not just the ready-to-drink, but the vending and being a beverage partner with beans and machines that we'll come back to later in the year as we have time to really solidify the expansion plans with the management of Costa.

Obviously, we closed the acquisition well ahead of schedule. The integration has gone well and is ahead of schedule taking the business and the services out of Whitbread and connecting them to the Coke system. And we're currently working through the various stages of the synergy plans we see ahead.

Operator

Thank you. And our next question comes from Bryan Spillane with Bank of America. Your line is now open.

Bryan Spillane

Hey, good morning everyone.

James Quincey

Good morning.

Bryan Spillane

John I guess just a couple of questions, balance sheet-related questions for you. One is, if you look at the, I guess, long-term debt in the quarter went up and even net debt went up. And I know part of that is with the Costa acquisition. But it was a little surprised to see net debt that was going up. So if you could just talk about kind of the evolution of the balance sheet and debt balances going forward, first?

Then second, just related to your comments earlier on currency hedging. Can you just give us a high-level view of what the trade-offs are? So hedging -- the currency hedging has been a part of Coke for a long time. So if you decided not to do it, I guess, with the emerging market currencies just what's the trade-off? What benefit do you derive from doing it now that you might have -- you might give up, if you'd change the policy going forward?

John Murphy

Okay. Let me start with the balance sheet question and just a few key highlights from the quarter. First of all, our cash, our balance is slightly lower and that was driven by the acquisition of Costa. We saw an increase in our non-current assets $7.2 billion also driven by Costa and CHI. And that's affecting two line items. One is, the intangibles increased by $5.5 billion. And secondly, there was an increase of $0.5 billion in our plants and equipment line.

We do have lower short-term debt balances driven by lower commercial paper balances. In the first quarter, we did issue a long-term euro debt, which combined with those lower cash balance that I mentioned is driving net debt slightly higher.

So our net debt-to-EBITDA is at 2.7x slightly above our target of 2.5x. But we do expect to get that back to within range. So that's on the balance sheet.

With respect to the hedging questions, I think, there's a couple of points to consider. First of all, we -- when you look at why we do it in the first place and why we've taken the approach, we've taken, we know we have U.S. cash outgoings slated in the course of the year. And then it's important for us that we have certainty with respect to the inflows in order to cover those obligations.

So having that certainty is really important and is a key factor. Historically, we've also wanted to smooth the impact over time periods. And when you take the long view on that, I think the treasury team has done a really good job on it. We did -- over the last few weeks, we did actually take a look at what would have happened over the last 10 years if we had deployed other approaches. And for developed currencies, I think the hedging program we have in place by far delivered a better outcome than if we had done nothing or if we had been sort of more inactive in this area.

The area and I mentioned it in my remarks, the area that's a challenge will be working with our emerging currency portfolio. And as you know the cost of hedging, the more volatile currencies sometimes is not worth doing. And we don't have, I don't think anybody has actually a perfect model or system to cover the risks implicit in, filling in a more volatile emerging currency. So that's an area that we will continue to work on. In the short to medium term, we do have some positions, which we believe are prudent and again give us more certainty in the short-term and allow us to minimize the downside.

Operator

Thank you. And our next question comes from Andrea Teixeira with JPMorgan. Your line is now open.

James Quincey

Hi, Andrea.

Peter Grom

Hi, good morning, everyone. This is Peter Grom on for Andrea.

James Quincey

Hi, Peter.

Peter Grom

So I just wanted to ask a quick follow-up on Coke Energy. So James in the prepared remarks you talked about launching in white spaces where the energy category is not yet developed. Is that more looking at specific countries across the world? Or are you speaking to maybe a particular sub-segment of the category that you think is underdeveloped? Thanks.

James Quincey

Yeah. I mean, Coke Energy the -- again this is something that debase the dynamic of the blurring of some of the categories and the boundary between some of the categories. So there's -- with every category in energy is no different. There's a very core to the category, a central proposition that everyone understands the category to be.

And then as the boundary of the category people have made innovations by adding other ingredients and starting to connect to benefits from other categories. And in the case of the energy category there has been a lot of growth in the central core of what the category stands for and that's what's propelled the category forward in largely North America and Europe and a few other parts of the world. The energy category in itself is still in development in many emerging markets.

And, therefore, there's an opportunity in complement to the core brands within the energy category to work at the boundary. And Coke Energy is based on that dynamic. I mean, it's got the credentials and some of the origins to be able to connect to some of the energy need states. So we see that as a space where the energy category can grow. And we see that across our whole series of geographies. And we're going to experiment with Coke Energy and see how it works and then, obviously, refine the proposition. And we think it will help complement the other brands that sell successfully in this category.

Operator

Thank you. And our next question comes from Robert Ottenstein with Evercore. Your line is now open.

Brendan Metrano

Good morning. This is Brendan Metrano for Robert. John, a quick follow-up for you. Could you quantify the benefit to gross and operating margin from that concentrate build in EMEA?

And then for James, I'm wondering if you could expand on trends in Brazil and Mexico and some of the initiatives that you're implementing in those markets. Brazil seems to be turning for a while. The staples company in Mexico is, obviously, an important business for you guys. Thanks.

John Murphy

Okay. Let me take the Brexit question. Yes, the timing benefit to margins on Brexit was 70 basis points in the quarter.

Brendan Metrano

And that was for gross and operating?

John Murphy

Operating.

Brendan Metrano

Operating?

John Murphy

Yes.

James Quincey

We'll give everyone a shot at the questions before we come back to the second one. Is there someone else?

Operator

Our next question comes from Kaumil Gajrawala with Credit Suisse. Your line is now open.

Kaumil Gajrawala

Hey, good morning guys. I wanted to ask a little bit for a little more detail on the Coke brand. And maybe specifically you've had Coke Zero Sugar for a period of time. Now you have orange and coffee and energy. How do you know you're not overextending the brand and maybe the underlying business becomes less stable and a lot more reliant on the newest innovations?

James Quincey

Yeah. Great question. I think there's a difference between what's central to the brand and what are innovations that are likely to be either in or out or in a way noncore to the identity or the most central part of the brand. And so I would see brand Coke and what it stands for, and therefore Coke Zero Sugar as a key part of what the Coca-Cola brand is.

Now things like coffee that's at the beginning we'll see how that develops. Clearly, that's a product variant that's crossing over into another category with coffee. And obviously, there is a danger there as you say that it becomes -- it starts to change the nature of Coke itself. Orange and Vanilla, I think is a flavor. We've had some history with flavors. Whether it will ultimately end up proving to be one of those ones that endures and is available in the market that doesn't get support or not time will tell. There are a number of them and they are different in different countries.

And I think they add some interest and some connection to the brand. But they are ultimately not marketed in that sense and really driven by availability. In the end, what we have to steward is the vibrancy of the total brand. And of course, those variants that make up the core of the brand. We do that through a whole series of metrics, whether it be consumer metrics or in-market metrics. And I think that is a key challenge and an imperative, not just for the brand teams, but for the management as well.

Operator

Thank you. And our next question comes from Brett Cooper with Consumer Edge. Your line is now open.

Brett Cooper

Good morning. I was wondering if you guys can talk about the process of expanding information or innovation from the original market, particularly interested in whether it is pushed from the center and pulled from the country. And then, what happens between test and further rollout? And I guess the final thing is just can you talk about the speed of doing that? And is that where you want it to be? Thanks.

James Quincey

Well I think the nature of being in CEO or in corporate management is nothing is ever as fast as you'd like it, but that's a challenge on how to improve its speed rather than something you can live with philosophically. I think look the reality is that you get a bit of everything. When there's a successful innovation in a market there's a very high likelihood that one of the neighboring markets will have seen it and moved on it before anyone from the center needs to say anything.

In the end, we have to set up a system that allows that. Why? Because it's impossible for an enterprise as large as Coke to have everything directed from the center. It's just not possible to know everything and it's not possible to issue enough instructions to all the different markets. The system has to rely on the center focusing on the highest-leverage decisions. That could be moving in innovation around the world or ensuring that an innovation stay in a certain form. But it tends to be directed at a few big decisions and then a focus on talent and culture and a system that can allow an organic amount of self-generation.

So to take the example we've talked about so far today Coke with coffee. That started out in Asia Pacific. They came up with one variant. The next market then started to move on it before it was really something that the seller was worrying about or looking at. They actually then updated the formula, so it already went from 1.0 to 2.0 by the time it went to the second country based on some of the learnings. And then as it got moved out further, yes, there have been further evolutions of the formula.

Obviously, one of the things we've done from the Corporate Center is try to make sure there's some unity in how the variant is being thought about and how the formulas are being developed. Because ultimately, we have to push against the trend that every market thinks it necessarily has to make the thing better and that we'd end up with 200 versions of everything. It doesn't have to be one version, but 200 is also probably the wrong answer. And so we do apply a process of pressure to get into a corridor that we believe is appropriate to both satisfy local consumer differences, yet drive the growth of a global brand and an efficiency of an overall supply chain.

Brett Cooper

Thank you.

John Murphy

And I'd just add -- if I add one additional comment. Just from my experience over the last couple of years, Brett is that I think we've moved from more of a hub and spoke model to a network model. Our R&D center is now reporting into local operations. We have one in Shanghai, Tokyo, Brussels and Mexico. And they're very much wired together and connected to our business units. So the speed at which stuff is moving around has increased a lot over the last two years, not for what we would ideally want it to be, but it's certainly a key part of the overall profit that James just referenced.

Operator

Thank you. And our next question comes from Laurent Grandet with Guggenheim Securities. Your line is now open.

Laurent Grandet

Good morning, James. Good morning, John. I'd like to focus on Coke Energy again. I mean, could you please update us on the Coke Energy launch in Europe? The reception from bottlers and retailers and maybe already from consumers? If sales are incremental to the Coke franchise or if it's taking share from competition? Any update on upcoming launches outside of Europe? That will help. Thank you.

James Quincey

Yeah. Sure. I think that the headline unfortunately Laurent is too early to tell. It's only really just gone – it's only really just been launched. The first sales are only just being made. It seems to have resonated well in the first couple of weeks. And so given how early on it is, it's not – we're not at the stage where we can really make a good call on where are the incremental sales coming from. So they're still small at this stage. So I think it's very – it's too early to tell. Obviously, we'll be looking at it in the coming weeks and months, and we'll be able to become clearer as we go forward.

Operator

Thank you. And our final question comes from Amit Sharma with BMO Capital Markets. Your line is now open.

Drew Levine

Hi, everyone. This is Drew Levine on for Amit. Thanks for taking the question. I just wanted to ask about the competitive environment in the U.S. Your main competitor said that, they are at least not losing share on their cola brand anymore. So I just wanted to see what you're seeing in the market, if you're happy with your market share performance in cola. And then kind of related to that in sports drinks any plans to expand the scope of BODYARMOR or additional support for the sports drinks given some plans by your competitor to increase spending on their own brand? Thanks.

James Quincey

Yeah. We've got a good strategy in the U.S. focused on investing in the brands, building out the portfolio, working with the new network of bottlers post refranchising to execute the strategy in the marketplace with a packaging approach a smaller packaging. We have a standing strategy in the U.S. that has been successful in allowing us to help the industry to grow for our customers, and for us to be able to gain share within that total industry, and that again played out in the first quarter this year.

So we think it's a – our strategy that works for us. Obviously, as other parties large or small invest in the industry, I think it says two things. One it says, the industry is attractive, because it's got growth and profitability. That's why people want to enter. And it says, we need to up our game because the industry is going to become more competitive. And I think that's in the end good news for The Coca-Cola Company and it certainly has been over the last number of years in North America. We've been focused on driving sparkling beverages and that's continuing to do well, particularly our Coke Zero Sugar. BODYARMOR had a good start in the sports drinks category. It's certainly been one of the things that's been driving growth in that category. So we're going to continue to invest. We're going to stick to our overall game plan. And we'll focus on working to make our brands as relevant for consumers and our plans as value creating for the customers, so we can remain competitive in this attractive industry.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session for today's call. I would now like to turn the call back over to James Quincey for any further remarks.

James Quincey

Thank you everyone for joining the call today. To conclude, we had a solid start to the year. We've capitalized on our momentum coming out of 2018 and we'll continue to drive our strategies for the remainder of the year. We remain confident. We will deliver our full year guidance. As always, we thank you for your interest, your investment in our company and for joining us today. Thank you.

Operator