Operator

Thank you. At this time, I would like to welcome everyone to The Coca-Cola Company's First Quarter 2015 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 a listen-only mode until the formal question-and-answer portion of the call. (Operator Instructions)

I would like to remind everyone that the purpose of this conference is to talk with investors and therefore questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations Department, if they have any questions.

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

Tim Leveridge

Good morning and thank you for being with us today. I'm joined by Muhtar Kent, our Chairman and Chief Executive 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 Investor section of our company Web site at www.coca-colacompany.com that support the prepared remarks by Muhtar and Kathy this morning. I would also like to note that we have posted schedules under the Financial Reports and Information tab in the Investors section of our company Web site.

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 Web site 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 by Muhtar and Kathy this morning, we will turn the call over for your questions. Ahmet Bozer, Executive Vice President and President of Coca-Cola International; Sandy Douglas, Senior Vice President, President of Coca-Cola North America; and Irial Finan, Executive Vice President and President of Bottling Investments will also be available for our Q&A session.

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

Muhtar Kent

Thank you, Tim and good morning everyone. First apologizes that for the stat of my voice I have a cold, so please bear with me. I'm going to start with some highlights from our first quarter performance and then review the progress we've made against our 5 strategic actions, we laid out last October to reignite growth.

Finally, I will touch on our outlook for the remainder of the year, before I turn the call over to Cathy. To take you through more details on the financial results. Let me begin by saying that I'm pleased to report early momentum in the beginning of 2015, a year of transition for the company. We delivered promising first quarter results, especially in light of the significant macroeconomic volatility in many regions around the world and the productivity and rewiring initiatives we are implementing this year.

For those of you following our Webcast, you can see our quarterly performance scorecard on Slide 4. Our performance was largely driven by the strength of our global brand portfolio and the strong distribution capabilities of our bottling partners as evidence by our continued global value share gains and NARTB, sparkling beverages as well as still beverages in the quarter.

While certain markets face significant currency devaluation economic slowdown or political unrest, our focus on improving our execution enabled us to deliver overall solid results. We grew our top line and bottom line due to initially improvements in the underlying business, the timing of Easter and six extra days in our fiscal quarter. Importantly, net revenues grew 8% on an organic basis driven by the extra selling days and positive 3% price mix globally while it's still early in the year we are pleased with the 3% global price mix and the 2% price mix in North America both ahead of full year 2014 results. This price mix is the result of disciplined implementation of our price back channel strategies which is a key and consistent portion of our long term approach to creating value for consumers, customers, bottlers and ourselves.

Productivity initiatives, [benign] commodity cost and favorable product mix in key markets grew gross and operating margin improvement. As we continue to invest substantially behind advertising leading to double-digit increase in marketing spend. The bottom line result was double-digit growth in comparable currency neutral income before tax.

Now turning to the five strategic actions we laid out for this year. One of our key strategic initiatives is making disciplined brand and growth investments.

As mentioned earlier we increased our media investments double-digits in the quarter as we work towards fully funded brand plan in markets around the world while at the same time enhancing the quality of our advertising. Great example of this is the new Coca-Cola marketing campaign during the Chinese New Year which helped our China business grow brand Coca-Cola volume 9% despite slowing economic conditions.

As we've said previous media investments take about 12 to 24 months to realize their full value. So while we are seeing initial positive results, we even more encouraged by the knowledge that is still early in the process and we have tremendous runway for continued improvement in our top-line growth. We remain resolutely focused on driving cost out of the business and embedding a culture of productivity into our DNA which is enabling us to fund our brand and growth investments. This change in culture is reflected in incorporating zero base work processes into all phases of our annual planning cycles. We remained on track across all spend areas to deliver more than $0.5 billion in savings this year and 3 billion in annualized savings by 2019.

The difficult, but necessary changes made during the end of 2014 are now accounted for in our budgets and tied to our objectives and goals. The initial implementation of our new operating model is on track and the previously announced headcount reductions associated with this change are well underway. We're continuing to work through the rewiring of business processes within the entire organization. So for example we've eliminated a layer in many of our functions at the group levels in different geographies and linked our corporate center directly to our business units.

In R&D this means connecting our corporate R&D efforts directly to our global development centers and linking both of these to service our business across -- business units across the world. So this allows us to scale our efforts in innovation, share new developments faster and accelerate development of new products.

In addition, we're also rewiring our marketing organization around consumer clusters to drive speed, to drive efficiency and effectiveness. This will allow us to better leverage learnings from similar markets regardless of the geographic location and improve the quality of our advertising through our networked marketing model. Great example of this is how we are strategically leveraging the 100th anniversary of our Contour Coca-Cola bottle to drive our business forward through integrating marketing, commercial and innovation under one umbrella to reach approximately 140 markets.

This campaign centers of the magic of drinking a coke with the emphasis on the experience as much as the bottle and as such it’s focused on driving profitable immediate consumption packages and purchase transactions. And as part of this campaign our system is investing in glass bottles all around the world while introducing the next generation Contour PET bottle and expanding the supply of our premium aluminum bottles in key developed markets.

Importantly, this is not simply a global campaign, rather it’s a new way of networked marketing that has led to the creation of 20 marketing assets that markets can use leverage in more cost effective modular manner. Some of our markets will leverage the campaign throughout the year while others quarter-by-quarter. As a result we have significantly been able to reduce our production and development cost per gross rating point allowing more dollars to be focused against the consumer.

We're seeing initial positive results for the marketing that have already launched the campaigns such as South Africa, Australia and Latin Center. Across the entire company our deeper markets segmentation strategy is also starting to yield early results. Two examples are North America and India here. In North America we're focused on generating revenue through a greater reliance on price realization, increased media investments coupled with our segmented price pack strategies drove revenue growth in our sparking portfolio through a strong 3% price mix and a 1% increase in transactions. Simply put more consumers are enjoying our products more often and are increasingly choosing smaller packages including our iconic Contour bottle.

Where as in India where our revenue growth strategy is focused on expanding distribution and recruiting new consumers we drove double-digit unit case volume growth in both our sparkling as well as still portfolio. Turning to our focus on our core business model we continue to make progress on our North America refranchising efforts in the quarter. First, we remain on track with our previously announced territory transfers to existing partners. During the quarter we transitioned four territories to Coco-Cola consolidated and are on track to transfer additional territories in Kentucky and Tennessee to consolidated and current Coco-Cola client this year.

We are slightly ahead of schedule to close the previously announced transactions with new entrance into our bottling network. So territory transfers to both Troy Taylor in Central Florida and Reyes Holdings in Chicago are slated to close in the second quarter. Together the territories pending to transition to these two new partners will represent approximately 5% of U.S. bottle\can volume.

Finally, just this morning we announced the signing of new letters of intent with the existing bottling partners for territories covering more than 5% of bottle\can volume. In aggregate territories transitioned to date and those covered by definitive agreements or letters of intent represent the little over 15% of total U.S. bottle\can volume. Further as we continue to transition territories with are getting better and faster, which is why we are confident that our previously stated time line to have two thirds of bottle\can volume distributed by our independent bottling partners by 2017 is very much on track.

Looking outside of North America, we closed our joint venture in Coco Cola Amatil, Indonesia in early April. I was in Jakarta earlier this year with the Indonesian bottler to celebrate this new venture. This investment will help us capture the growth opportunity in one of the largest and most dynamic countries in the world as we enable our system to be even more responsive to consumer and customer needs.

So, we are off to a solid start in 2015 and we are on track to deliver against our full year of currency neutral EPS expectation of mid-single digit growth. Importantly, I'm encouraged by the progress we have made and we remain confident that we have the right strategies in place to create sustainable shareholder value.

However there is still much work ahead of us, we continue to expect that the benefits from the announce initiatives will take time to fully materialize. Further we are operating in a very challenging environment, the cautious recovery in the U.S. is offset by our relatively sluggish expansion in Europe and Japan as well as weaknesses in emerging markets, notably Brazil and Russia, as well as China slowing down. Therefore we remain cautious in our outlook, so we will continue to focus on what we can control and execute against our strategic initiatives to emerge stronger and better positioned to capture growth in the global nonalcoholic beverage industry.

I would now pass the call over to our Chief Financial Officer, Kathy Waller, who will provide you with a more detailed look at our financial performance as well as update on our outlook on our business for 2015.

Kathy Waller

Thank you, Muhtar. And good morning everyone. As I'm going to spend few minutes discussing the quarter and then our outlook for 2015 as Muhtar just stated. Overall, we are pleased with our performance in the quarter and encouraged by some of the early signs of success. Our positive pricing continues as we focus on driving revenue in the marketplace and our reinvestment in brand Coco Cola is staring to yield results.

Focusing on the quarter, organic revenue growth was driven by 5% growth in concentrate shipment and 3 points to positive price mix. The concentrate shipment growth benefitted from the six extra days in the period. These extra days will reverse in the fourth quarter so you will see a corresponding impact in that period. After adjusting for the six extra days in this quarter concentrate shipments lag in many cases primarily due to the timing of shipments in our international markets. For the full year we expect concentrate shipments to be generally in line with unit cases.

Consolidated price mix in the quarter was driven by positive pricing and product mix initiatives across many of our markets. In addition, we benefited from positive geographic mix as markets where shipments lagged recorded unit cases were in lower revenue per CSE market. As we move through the year I'd like to remind you of a couple of points.

First we will begin to cycle better underlying pricing and second as we catch up from the timing up of shipments in international markets we will see negative pressure from geographic mix at the consolidated levels. Therefore while we remain resolutely focused on driving revenue in our market we do expect price mix to moderate from the current level. Our comparable growth margins improved about 75 basis points on a consolidated basis. This increase is driven primarily by better margins in North America due to positive pricing and business mix as well as moderately lower commodity cost.

As we think about the remainder of the year we will also expect many of these drivers to moderate as we begin to cycle more difficult comparison. Therefore our full year outlook on gross margins has not changed from our prior guidance.

Comparable currency neutral operating leverage came in better than anticipated in the quarter primarily due the strong growth in gross profit driven by the facts I just mentioned. Comparable currency neutral income before tax grew 13%. The combined impact of structural items and the provision in Venezuela resulted in a three point headwind on income before tax which was consistent with our previous outlook.

Our first quarter comparable EPS was $0.48 which included a six point currency headwind. On a comparable currency neutral basis our EPS grew 15% in the quarter. The six point currency headwind was slightly less than our original expectations primarily due to the benefit from foreign exchange gains associated with the euros denominated debt issued during the quarter.

Items impacting comparability in the quarter were primarily related to the early extinguishment of certain long-term debt, cost associated with our previously announced $3 billion productivity program and charges related to our Venezuelan operations.

As many of you know the Venezuela government introduced a new floating exchange rate mechanism call SIMADI in mid-February. We re-measured our bolívar-denominated net monitory asset at the end of the first quarter using the new SIMADI floating exchange rate of approximately 193 bolívar to the dollar and translated our Venezuelan subsidiaries local currency income statement into U.S. dollars using that same rate.

We generated $1.1 billion in free cash flow, up 72% primarily due to the efficient management of working capital, the impact of six additional days and the timing of capital expenditure and it's partially offset by an unfavorable impact from currency exchange rate.

We returned $1.8 billion to shareholder in the form of dividend and net share repurchases during the quarter which is reflective of our commitment to return cash to shareowners.

In 2015 we increased our annual dividend by 8% to $1.32 per share and it's worth noting that we've increased our dividend every year for more than half a country. Turning to outlook, while we are encouraged by some of the early signs of success it is still early in the year and global economic growth remains constrained by challenges in many markets as evidenced in regions like Brazil, Russia and China. Therefore we are maintaining our underlying full year currency neutral growth expectations as previously provided. However we are updating expected impacts from structural items and currency.

During our last call we said we expected the transaction with Monster Beverage Corporation to close in early Q2. We now expect closing to happen in later half of the second quarter as the parties are working to satisfy contractual closing considerations. However distribution of Monster products in the U.S. has already began transition into the KO system.

Finally, we are slightly ahead of schedule on close in the U.S. territory transfer to Troy Taylor and Reyes Holdings. We now estimate that the net impact of structural items on full year 2015 results will be a slight headwind our net revenue growth with no material change to our prior outlook on income before tax.

Therefore consistent with what we said in February for the full year 2015 we continue to expect mid-single digit comparable currency neutral EPS growth. However, we do see a slight change in the impact from currency exchange rates.

After considering our hedge positions, current spot rates and the cycling of our prior year rates we now expect an approximately six point currency headwind on net revenue and approximate 10 point currency headwind on operating income and approximate seven point headwind on income before tax for the full year 2015. The currency impact on income before tax remains roughly the same as our previous outlook. As the foreign exchange gains associated with our euro denominated debt issued this quarter is offset by the effects from translating our bolivar-denominated profit as the SIMADI exchange rate as well as the continued decline in several emerging and developing market currencies.

So when modeling the second quarter there are couple of phasing items you should consider. The timing of Easter benefitted the first quarter this year, while it benefitted the second quarter of last year. We expect structural items to be roughly neutral impact on net revenue and a 1 point to 2 point headwinds of income before tax. And then finally, we currently expect currency would be an approximate 7 point headwind on net revenue and an approximate 10 point headwind on operating income and a 5 point to 6 point headwind on income before tax in the second quarter as we cycle most favorable rates from the prior year. The variance between the currency headwind and operating income and net income before tax is primarily due to that foreign exchange gains associated with our euro debt.

In closing we are cautiously optimistic about the progress we see in the business, which gives us increased confidence that our strategies and actions of working. With that said it is still early days in a transition year as we implement significant change in our company and amid a volatile and challenging operating environment. But we absolutely believe that the Coco Cola company is best position to capture growth in nonalcoholic beverages and to continue to deliver long term value to our shareholders.

Operator we are now ready for questions.

Question-and-Answer Session

Operator

Thank you. (Operator Instructions) Our first question comes from Bryan Spillane of Bank of America.

Bryan Spillane

So, just I guess as we look at this quarter it just seem like some of the things that you laid out at the beginning of the year that were within your control have tracked inline maybe even a little bit better than expected, sounds like the refranchising and North America’s pacing maybe a little faster, closing the Monster transaction is taking a little bit longer and it sounds like you are sort of tracking pretty well in terms of cost savings and redeploying or spending more on marketing.

I guess when we think about the factors that are outside of your control which would be I guess some of the macro factors, the change in the Venezuela exchange rates, how some of the markets are moving and not sure if you have a great sense for maybe what's worse or what's better, so if you can maybe just sort of lay out for us versus where you were earlier this year when you initially gave us guidance in kind of what's better and what's worth, specially focusing on some of the things that are outside of your control?

Muhtar Kent

So, Bryan it's Muhtar here. Good morning again. So in North America, I'll start with North America. I would say that the outlook appears to be trending a little positive, raising hopes that potential ways growth and lower fuel prices could translate into consumer spending. In Latin America, Mexico's the best way I would say is relatively stable and continues to track closer to the Unites States because they are so closely linked.

Brazil continues to deteriorate faster than we expected, I would say that. Venezuela continues to increase as a concern given to increase -- the growing difficulty on maintaining supply in the market place. And Argentina just continues to be challenging and Columbia is again as the kind of the star in Latin America in terms of performance and macro conditions. So in Europe I think there are also some green shoots on the back of [indiscernible], but its early days, that just started.

But deflation still remains a concerned this year and overall consumer spending in Europe I would say is still sluggish as it will take time for I think monitory easing to flow to the consumer pockets and translate into increased consumer spending. And then risk to recover remains a still volatile environment and then off course you got the possible Greece exit issue still lingering on. In Eurasia and Africa, Russia continues to see significant challenges, the Russian consumer and we expected it to continue to remain challenging throughout the year this year.

[Sub-Saharan] in Africa is a strong bright spot and we're seeing that in our results and then Middle-East we've got some pockets where it's defined geopolitical environment, but overall obviously increased geopolitical risk there. And then in Asia and Pacific-China continues it's -- the disposal incomes, consumer spending, CFE in China continues to decelerate we saw that happening in Q1 versus the stated GDP of 7%, Japan remains sluggish

I'd say similar to Europe although we are starting to see some green shoots in the economy and finally in Asia-Pacific India continues to be a bright spot I'd say inside the brick in markets, the four brick market.

So, though that's a sort of walk through in terms of -- and then the commodity environment again talking about what we can control and what we can't, remains fairly benign, compared to previous years, stable and benign. And so given that value growth for us is highly correlated to PCE growth and I hope I've been able to give you a sort of quick walk through what's good and what not so good and what's more stable.

Bryan Spillane

That's very helpful Muhtar, thank you and I didn't mean to have you talk so long, your voice is definitely under some pressure this morning. Kathy, if I can just -- one follow up on the commodity piece, the comparisons were little bit better in the first quarter, just looking forward is there anything that we should be looking at that could make it maybe more favorable as the year goes on? Like how much of it is locked in I guess and how much of it might move based on commodity movements? Thank you.

Kathy Waller

As Muhtar just said commodities are for us will be benign this year, as we have worked in this quarter [indiscernible] recycling higher prices a little and back half -- in the first half of last year and thinking about something like oil, oil doesn't really impact us. So for our commodities, we're hedged. So we basically are not going to see specific benefits there because -- and they are going to be basically benign.

Operator

Thank you. Next question is John Faucher of JP Morgan.

John Faucher

Thank you. I wanted to follow up on two questions related with the price mix number which is I guess one, if we look at the gallon variances you mentioned it skews a little bit more towards high revenue per case. So can you give us an idea in the quarter in terms of how much of that benefit in geographic concentrate shipments, how much we'll need to take out over the balance of the year? And then going back to some of the comments that you guys made I think back in December about sort of a different global pricing strategy in terms of really trying to find the right balance region-by-region, can you talk about the outlook for pricing in Europe, it was obviously price mix was flat this quarter but that's when where it seems like there is some opportunities going forward. So what sort of the medium to longer term view on pricing in Europe? Thanks.

Kathy Waller

Okay. John, I'll take the first part of that question. So the gallons and the cases definitely when you mix the [adjustment] for days, gallons are behind cases and we got real moderate and -- but that will be based on as you just say that is what we see in the first quarter is the high revenue for CSE and so we did benefit from positive geographic mix, in our price mix. That will moderate and we will start to see when that catches up. More of the geographies that provide a lower revenue per CSE coming through which will then give us the negative geographic mix, it's coming through as well in the balance of the year.

And I think the second part of your question on the outlook of pricing, Sandy do you want to talk about it all in the North America price range specifically?

Sandy Douglas

Sure Kathy. Good morning John. The North America pricing situation is really the continuation of the strategies that we've been talking about for the last year and half. Irial and I talked about this I think six quarters ago that we were going to focus our business on the sustaining strategy of disciplined price, combine mix to maximize revenue. With an emphasis on price as a driver in the U.S. business and that's exactly what we've been doing and what we continue to plan to do with a lot of discipline and focus.

As you look at the first quarter if you look at each business by themselves, we met our pricing objectives in the first quarter. We saw a little bit faster growth in our fountain business which created a little bit of negative business mix, but net-to-net the year started according to plan and we see the outlook as being rational and our strategy remains very consistent.

Ahmet, you want to talk about Europe?

Ahmet Bozer

Thanks Sandy. Hey John. Just a couple of comments in general and then Europe, we are following exactly the same strategy of managing our product mix and price versus volume around the markets international, in fact we are getting some pretty good results in many of our big markets specifically in Europe one must remember that last year we've had some fairly aggressive pricing which resulted in our view somewhat of an imbalanced progression of our business where we have lost some market share, but get -- got great pricing.

So we were saying before that we would be moderating that somewhat this year so that we have a more balanced growth of volume and revenue. So what you saw in the first quarter is the result of that sort of moderation, but we do believe that we would be achieving reasonable price mix in Europe in the course of this year.

Muhtar Kent

John this is Muhtar, I'll just add one other point which is related to what I already mentioned that we're reorganizing and we have reorganized our marketing around the different clusters of developed, emerging and developing markets. I think that's also working, beginning to yield some early results and I think our new marketing leadership is very committed and very much part of this new reorganization of our marketing around the clusters and I can say very clearly that marketing is playing an important role in how we are generating enhanced revenue in our business that's really an important takeaway, I think.

John Faucher

Great, thank you. Feel better Muhtar.

Muhtar Kent

Thanks. I feel good, it's just my voice.

Operator

Thank you. Your next question is Dara Mohsenian of Morgan Stanley.

Dara Mohsenian

Hi guys. So I'll give Muhtar voice a break and maybe start with Kathy. The quarter came in better than expected from a margin perspective clearly versus consensus, but with the extra shipping days and Easter shift its kind tough to judge your margin performance. So, I was just hoping you could give us some perspective on where margins and profit came in this quarter versus your original expectations and some of the key puts and takes in the quarter again versus as original expectations.

Kathy Waller

So, the price mix obviously is three points as I just spoke about, we did benefit from the positive geographic mix and -- in the first quarter and as we will get concentrate shipments and timing starts to catch up we will have the impact of negative geographic mix which is for us is not surprising, that it's kind of normal run rate for several of our geography. So we did get the price in the quarter and in the benefit and then we had decided that would be the cost and when you adjust for structural and you adjust the currencies, cost of goods is really in line with concentrate shipments and then the other issue would then just be commodities and then as we're said the commodities are basically going to be benign for us and in the quarter we are cycling higher cost from full last year. So that was a slight benefit and that's for the most part and as I'm looking into the rest of the year commodity is still going to be benign so it's really basically the pricing that we got this quarter, offset by the cost that were better than prior year because we cycled a better cost.

Dara Mohsenian

Okay and then when you put everything together would you say from a profit standpoint or margin standpoint where did the quarter come in versus original expectations at the corporate level?

Kathy Waller

So, and also would add, one of the thing is seeing addition in North America specifically we had better mix which basically was about our food service business. So for the first quarter in our transition year we are obviously very pleased with our result and I would say that -- I would expect pricing to moderate for the back half of the year and continue with the cost commodity -- the cost of [control] continue to be in line with the concentrate shipment. So we we're -- basically given the quarter in line with our expectations and we expect to be in line with our full year expectations that we have provided.

Operator

Thank you. Your next is Steve Powers of UBS.

Steve Powers

Thanks. Muhtar feel free to weigh in, but I'll also try to give you a break and direct questions to Sandy and Kathy. So guys on North America the price utilization was solid but was actually a little lower than I at least had expected, just based on market data and I know you were lapping some fairly intense retailer promotion, so maybe that played a role, maybe it was again negative mix from still. I know you mentioned fountain dynamics Sandy, but I was hoping if you could expand on the trends there and whether you think 2% is a representative number for the year? This in term just the way you are charging it?

And then on a related note I was wondering if you also dimension for us the profit contribution to this price mix you are getting because clearly if it was all rates, Tier rate then it would sort of flow through 100% to profit all as equal. But given that lot of what we're seeing is category mix and these are just introduction of new package types. I'm wondering how to think about that profit contribution. Should we be assuming 50% as a rule of thumb roughly or are there reasons to be more optimistic or cautious related to extrapolating price mix to profit flow through?

Muhtar Kent

Steve the comment I make about overall pricing are to reiterate what I said earlier which is that on a business by business basis our pricing results in the first quarter we're solid, you saw in the Nelson very strong price growth, some of that was driven by wholesale improvement that we were achieving with our customers, some of that was lapping some really aggressive promotional activity that happens in the end of February and early march and some it was our customers making more money in the category, so the net effect of it was a really good start to the year in line with our plan.

If you cross our business over into our chilled minute maid business, we saw price realization there. We launched some new items that drove some incremental revenue and then as I mentioned the fountain business was stronger than we expected at the beginning of the year which creates a business mix drag overall. What I say from a profitability standpoint is that the combination of rate and mix was in line with our expectations, but I'd also pointed out that as we get into the second half of the year you are going to see more difficult pricing comparisons and we will continue our strategy of rigorous and disciplined and focused price volume management but will be lapping our sales and we'll be continuing to do so but against the little bit tougher comparison.

So net-to-net up to the start we'd hope to. Irial, any additional dimension?

Irial Finan

I think I'm repeating what you said but I'd go back and I'd say this for six calls. We're being very disciplined and rational about our pricing and what we've achieved in the first quarter is pretty well in line, Sandy has mentioned there is some channel mix impacts in there, but generally speaking very much in line. We intend to say disciplined and [indiscernible] ordinarily be boring in terms of how we approach the business. We wanted to remain disciplined and focused and doing the right things in the business and we believe we are on a good track. We intend to stand on track and I think as this quarter goes by you'll see positive momentum in the business.

Muhtar Kent

Can I just add one more thing there, that what Irial just said then creates the environment for our small packages to grow and the consumer is moving strongly to small packages and we're continuing to see low to mid-teens growth in those packages and all of which is supported by the impact of a step up in marketing which gives the whole thing more sustainability as we work through the more challenging comps.

Steve Powers

Okay. Maybe just follow up sort of related to seeing in different angle, maybe this is for Kathy. I noticed you've changed the reporting of regional profit to profit before tax, so regional operating profits or profit before tax consistent with the incentive changes you made. North American PBT was up like 100 basis points -- 180 basis points or so but I was wondering if you can comment, A; if there was any material benefit from sub-bottling payments in the quarter and B; if OI margin trends would have been sort of -- would have mirrored PBT and then assuming so, how much of that 180 basis points improvement was driven by some of the better pricing realization, the better productivity commodities that can kind of continue as a run rate versus timing benefits in the quarter related to the Easter and the calendar shifts? So if 180 is representative sort of the underlying OI trends and then what's the real run rate that we should be thinking about as sort of expecting margin improvement on the year? Thanks.

Kathy Waller

So the expected margin improvement over the balance of the year as Sandy just said, so we've got good pricing in the quarter and as Irial said we're very focused on continuing to be rational in price. We have higher comps in the back half of the year for pricing that we have to cycle. So as far as the franchising is concern I wouldn't expect to see much benefit at this point from the sub-bottling payments and as you know if you look at it from an external perspective, we have through structurally adjust those we've pulled them out. We pull out the benefits so that we put it back on an apples-to-apples basis year-over-year.

So there is not a big difference at operating versus PBT in our North American operations at this point. So the margin expansion that is basically really good pricing as we get really good pricing in the fourth quarter of last year, they are very focused on pricing that will continue, but are cycling higher prices in the back half of this year.

Operator

Thank you. Next question is Bill Chappell of SunTrust.

Bill Chappell

I guess two questions, I'll lump them together. One, on diet coke in the U.S. it did look like most recently the Nelson's looks like actually a positive number and we haven't seen that in a while, just wanted to see if maybe the trend you feel like you've got behind that where we could see some growth going forward at least stabilization. And then the second question, on the refranchising, anything you've seen thus far, I know it's early, where it may be accelerated even further in terms of the bottler network where it's just -- may be you have more of an update later as we move to the year?

Sandy Douglas

Bill, on diet coke I would describe diet coke still as a work in progress. We have done a number of things on the basics of marketing, graphics, adverting, packaging. We have some very advanced sort of big data driven customer relationship programs going on with consumers who love diet coke and we are seeing some improvement in the year-over-year revenue. But we're still very much focused on that as a work in progress and expect to. But I would say this, the team and I and our whole system believes that in fact we'll return diet coke to grow in the long term, but recent improvement, that still work in progress.

On refranchising, the refranchising is going according to plan. It is a, as we said before a massive project. We are putting the entire system in the common ERP systems and refranchising the territories one sale center at a time to make sure that the capability that we build continues to grow and that our customers are well served in the process and we're pleased with the progress, We have a plan in place that we expect to meet or beat and we're always looking for opportunities to accelerate it but not at the expense of really high quality customer servicing capability.

Operator

Thank you. Next question is Ali Dibadj from Bernstein.

Ali Dibadj

Hi, guys. So, throughout the press release and your commentary we pleasingly had heard and read about marketing increases so that's a good thing, that's very much on plan. However we don't really see or hear much reference to cost cutting benefit offsetting or funding some of those asset point, the only thing you said was, look we're on track for 500 million of cost savings this year. But we're not hearing or seeing a lot of that flowing through even offsetting things, I'm not saying all the way to the bottom line but at least offsetting from your investment. So when can we start hearing more about that savings offsetting your investments?

Muhtar Kent

Well Ali, this is Muhtar. First if it wasn't for the savings we would not be able to be -- to do what you see us doing, in terms of generating net increase marketing, generating all the other things that's basically are part of our five point strategy of focusing on revenue, focusing on productivity, focusing on better and more marketing rewiring the organization for better impact and focusing on our core which is the franchise that we talked about.

So I just sat to you, had is not being for the productivity we certainly would not be able to enable our organization to generate the kind of momentum that you see beginning to come back in that's clear there is no question about that. And so this is not a four or five sequential kind of compartments, these are very integrated sort of approach to how we bring more momentum into our business and everything that I mentioned is happening at the same time, better more -- better wide organization, better marketing, marketing that works around clusters, more infective marketing linked to social media as well as into a better cost per GRP.

All of that funded by incremental productivity and so I think that's how you need to see our entire sort of different bucket of our strategy coming to life.

Ali Dibadj

So, a follow up on that and separate question for Irial, just a follow up on than Muhtar if you could, is particularly in terms of the headcount reduction and the saving there off. Should we see that ramping up throughout the year and at risk of being cut off let me turn my second question here on a separate topic is, we do keep hearing Germany, India, Vietnam bottlers and BIG continue to be actually quite well and I always pause whenever I see that and I'll see that in countries, but some of those names including Germany. But when is the right time to divest those and get them out of hospital ward and what are you looking for to make sure that happens or potential buyers are looking forward at this point to commit to buying them?

Muhtar Kent

First, I mean I'll just say that I agree with you that they those bottlers are doing really well. Germany certainly is staring Europe. Southeast Asian bottlers are doing well particularly Vietnam the big one that we are running and I think it's important to keep in mind for you that Germany was not in the position to be refranchised until after 2012 because the consolidation was still taking place, so it's really being ready for the last sort of, it feels like 18 months to 24 months. And it has been the real bright spot in the Europe the last couple of years, it's profitable and we need to ensure that we get the -- find the right home and the right structure and the right value and so I could be clear with you that Germany is not a long term -- strategic long term holding and the right moment will be found. None of our, if you bike BIG operations are in a way long term strategic hold. So, that's what I would say about your question, Irial, you want to add anything to that.

Irial Finan

I guess the only add I'll give is the three markets you mentioned actually are not in the hospital ward. To move those clients actually they're all performing very well now and we've been very transparent about refranchising. I've said this many times in conferences that we would refranchise at the right time, Germany we've clearly said is ready to [indiscernible] in the meantime it continues to perform exceptionally well.

We have a fantastic group up of associates and managements in Germany and fell very good about it. But I've also said we expect to get a fair price, not get over paid but get fair price for territories because we owe that to our shareholder and we take it from there.

Muhtar Kent

Just to build on what Irial said, we are looking for three things. So in terms of the right partner -- description of the right partner; one, proven management team; two, a strong financial capabilities and three, willing to invest in the business and growing the business. So those are the three things and then I'm confident that we will reach that goal. On your -- finally on your question regarding head counts reduction, I think you've heard about our previously announced plan and we're sticking to that plan simply said.

Operator

Thank you. Next question is Ian Shackelton of Nomura.

Ian Shackelton

You announced the deal in China last week and I was just keen to get a little bit more detail of how that fits in. It's obviously divided from the structure of what we've seen with the more recent deals with Monster or [indiscernible].

Muhtar Kent

Ian, its Muhtar. It fits right into the strategy of what we said, is bolt on acquisition where they make sense. And we will look at them with -- and where we believe that they fit into our portfolio, where they actually add value, where we can generate value for our bottling partners through that acquisition and it fits right in there. And that's I will say about that, Ian.

Ian Shackelton

Okay. Thank you. But just follow up for Kathy, I know it can be quite volatile with equity income this time has almost come to zero, is this something specifically in there that's causing that?

Kathy Waller

Our equity income is impacted by currency. So we actually have -- don't pull out all of the currency that's been impacted because if you think about some of our locations they have -- their geography, they have many geographies. So when we report we take the main currency and transact that into U.S. dollar that means that there is still often a lot of currency impact in those numbers. So I would read into it that is a very, very difficult currency environment out there at the moment.

Ian Shackelton

Okay. So this is not a case of it being something one-off in terms of the equity holdings there?

Kathy Waller

No, there is nothing one-off down the way of the equity holdings.

Operator

Thank you. Next question is Bill Schmitz of Deutsche Bank.

Bill Schmitz

Is there any way to sort of strip out what the benefit in the quarter was on the operating profit side from the extra days?

Kathy Waller

So I guess the way I think about it is if you take our unit case sales of one and use that as a surrogate because that doesn't have the extra days in it and you take pricing of three in terms of pricing and then I would say that did benefit from positive geographic mix, that we'll moderate over the back half of the year. So I guess I would think of it using this price mix in average sales in unit cases.

Bill Schmitz

Except that there was no fixed cost leverage or anything with the extra days that might help the growth in operating margin?

Kathy Waller

So the days or the operating expenses, I would say no there was nothing specific in operating expenses that would help by the six days and then the sales and distribution expenses are impacted by the six days so they kind of watch out, I would say that it's nothing there.

Bill Schmitz

Okay. Now that's very helpful. And then just on BIG, I mean the year-over-year margin expansion was awesome, I mean massive, what's driving that and how sustainable is it?

Kathy Waller

So again [indiscernible] but then, we did benefit from the size of the geographic mix. So I think the only thing I would say in terms of this it will moderate in the back half of the year as we will get more of a normal run rate of negative geographic mix from concentrate shipment. And then Sandy talked about the impact of the business mix with the food service business in North America. So I think those are things that basically will say that that number will moderate over the back half of the year as we are still in a transition year.

Bill Schmitz

Okay, great. And then just lastly very quickly, I mean the delay in the Monster transaction, I mean -- is there any more color you can give us on why it -- and I think it supposed to close at maybe late 2014, early '15 and you guys said March now it's kind of towards the end of the quarter. Is there still a high probability that's going to close then?

Kathy Waller

Yes. So there is no issue there. It's was going to close, we always expected it to close in the first quarter than basically it's just the regulatory process that we have to go through that is delaying the close. We fully anticipate that it will close.

Bill Schmitz

Okay, great. That's very helpful. Thanks very much for the time.

Kathy Waller

Certainty.

Operator

Thank you. Our final question comes from Judy Hong of Goldman Sachs.

Judy Hong

Most of my questions are answered. So just the couple of P&L questions Kathy, one just in terms of the structural items impact this year, it sounds like a quite negative on revenue now as oppose to the prior call. So just a little bit of clarification on sort of the puts and takes on the revenue impact. Sounds like the impacts on bottom line is pretty minimal. And then on the FX you have the re-measurement gain in Q1, that was about a little bit more than $0.001, is that really what's the difference in terms of your full year outlook for PBT impact being at the low end of that 7% to 8% that you had pulled out that time?

Kathy Waller

Hi, Judy. So on the structural, the structural is impacted by the timing of the Monster transaction and then anytime we accelerate in the refranchising that is also going to impact that number. So that's why we gave you different structural guidance. And then on the re-measurement gain, yes, that's basically when we re-measure that euro debt that impacted currency positively and so that is what changed the outlook for currency over the back half of the year. I would also join in the impact of Venezuela and change using the SIMADI rate going forward.

Judy Hong

The timing of the Monster transaction though, I mean the deal itself is delayed, but you are getting the distribution into your bottling in this quarter, so that would be still a positive in terms of revenue benefit. But is the refranchising pacing really what's striking down in terms of the revenue impact?

Kathy Waller

So, the distribution is starting to transition, it has not fully transitioned, so that transition will take place over the year and so we at various turns and that's not something that's really under our control, that's really under Monster's control, as they transition that, so we can't -- we put in the estimate of how we think it's growing to transition. So it's not something that's already into our numbers, and that slower -- that's what slowing us. So, it's slower than expected because we expected it to start earlier.

Judy Hong

Nice thing. Okay, that's cool. Alright, thank you.

Operator

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

Muhtar Kent

Thank you, Kathy, Ahmet, Sandy, Irial and Tim. In summary we're seeing initial progress in our plan to reintegrate top line growth. However we still have much to do and the full benefits from the announced initiatives are going to take time to materialize. 2015 is a transition year as we transform our operating model for sustainable growth, amidst a challenging global consumer environment, while the macro environment remains challenging in the near term, we're confident in our ability to return to sustainable growth and the long term dynamics of our industry remain promising. Our clients and our global system are un-parallel we are fully dedicated to strengthening our position as the world's leading beverage company.

As always thank you for your interest. Thank you for your investment in our company and for joining us this morning.