Operator

At this time, I would like to welcome everyone to The Coca-Cola Company's First Quarter 2017 Earnings Results Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time. All participants will be in a listen-only mode until the formal question-and-answer portion of the call.

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

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

Timothy K. Leveridge - The Coca-Cola Co.

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

Before we begin, I would like to 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.

In addition, 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 website. These schedules reconcile certain non-GAAP financial measures, which may be referred to by our senior executives during this morning's discussion, to our results as reported under Generally Accepted Accounting Principles. Please look on our website for this information.

Following prepared remarks this morning, we will turn the call over for your questions. In order to allow as many people to ask questions as possible, we ask that you limit yourself to one question. If you have multiple questions, please ask your most pertinent question first and then return to the queue in order to ask additional ones.

Now, I'd like to turn the call over to Muhtar.

Ahmet Muhtar Kent - The Coca-Cola Co.

Thank you, Tim, and good morning, everyone. This will be my last earnings call as CEO of this great company. First and foremost, I'd like to thank all of you for your support and collaboration. It's been my distinct privilege and pleasure to serve you and all of our shareholders as CEO for almost nine years now. During this time, we achieved a lot. We delivered $110 billion of share-owner value with continued annual dividend increases and growth in our share price. We embarked on the biggest re-franchising in bottling restructuring effort in our history, transforming our company to a pure and effective consumer and brand business with approximately 50% of our Global Bottling business in positive motion.

With today's announcement, we're on track to achieve almost $5 billion in savings from 2008 through 2019, through productivity and reinvestment programs. We completed a net total of around $16 billion of M&A, bringing in some of our strongest and fastest-growing brands, including smartwater, Santa Clara, Innocent, Jugos del Valle, Honest Tea and Fairlife, just to name a few. We introduced almost 1,000 new products and added $9-billion brands, bringing our total to 21. We grew daily servings by nearly 0.5 billion from 1.5 billion at the end of 2007 to more than 1.9 billion today, and we achieved 39 consecutive quarters of global value-share gains.

By focusing on our Three W's; Women, Water and Well-Being, we've created the most progressive, sustainable and connected business cycle, empowering 1.7 million women in our value chain through the 5by20 initiative to support economic empowerment of 5 million women by 2020, becoming the first Fortune 500 company to announce that it is replenishing 100% of its global water use and supporting the World Health Organization's guidelines of limiting sugar intake. And finally, we expanded our portfolio to become the largest juice company in the world and strengthened our leadership in straw beverages.

Our brands, our bottling system and our various partnerships are the strongest they have ever been, but most importantly, and for which I'm the most proud, in just a few days we will be completing the smoothest and the most seamless leadership succession. The foundation of our company is as strong as it's been ever being. As we move to the next phase, I have every confidence, that our company and our system will accelerate growth under James' new leadership as CEO, and I very much look forward to following and supporting him in every way I can.

As I've said before, the future is bright. We compete in a fantastic industry with solid growth prospects. We have the greatest brands, our strength in bottling system is comprised of passionate partners, and we have a great new CEO and a fabulous leadership team.

It is with a great sense of pride, therefore, that I'm passing on the role of CEO to James in a few days, and I have great confidence in our future. Thank you for your support and your trust and confidence over the past nine years.

So with that, I will turn the call over to James, The Coca-Cola Company's next Chief Executive Officer.

James Quincey - The Coca-Cola Co.

Good morning, everyone, and thank you, Muhtar. Thank you for your leadership over the last nine years and for your unwavering partnership. It is truly a privilege to succeed you as Chief Executive Officer, and I look forward to your continued support as we take the next steps to further capture the full array of opportunities before us. To do this, for these next steps we've laid out how our strategies and operating model will evolve and provided guidance as to our expectations for the first steps and through 2017.

So let me turn, then, to the quarter firstly. Operating results were in line with our expectations, and we are on track to deliver against our full-year guidance. As we anticipated, organic revenue was even in the quarter with solid price mix offset by declining concentrate shipments, and it's worth noting the 3% decline in concentrate shipments was primarily driven by a few factors that will self-correct over the balance of the year.

Our first quarter had two fewer days this year, impacting growth by about 2%, and of course, Easter shifted into the second quarter. Additionally, there was a time lag between our unit case sales and concentrate shipments.

Price mix, meanwhile, was a healthy 3% with good performance across our operating segments. So the way I think about it is we delivered even unit case volume growth and 3% price mix, so we're running at around a 3% trajectory, in line with our full-year organic revenue guidance. And while revenue growth is a key objective, we also intend to do this efficiently, and so the underlying operating margin expansion in the quarter underscores our commitment to value creation.

Now looking around the world, many of our key markets like North America, Europe, Mexico and Japan continue to perform well. We also saw improved performance in China, in part driven by a strong Chinese New Year campaign, and India, while it began the year slowly, performance improved with any remaining impact from the demonetization largely worked through by the end of the quarter. However, consumer demand challenges in Brazil and Venezuela in particular continued to pressure our performance, impacting total company volume growth by over a point in the quarter.

Now, let's turn to the actions we're taking against the five strategic priorities we laid out at CAGNY. These are those that will help us realize our goal of becoming a total beverage company and to deliver our long term financial targets. Namely, one, accelerate growth of the consumer-centric brand portfolio. Second, drive revenue growth. Third, strengthen the system. Fourth, digitize the enterprise. And fifth, unlock the power of our people.

So as we've made progress, let me give you a few examples. For our portfolio we continue to broaden and innovate with new product launches, reformulations of existing products to reduce added sugar, and acquisitions in on-trend categories like plant-based beverages.

During the quarter, we completed the acquisition of AdeS, the leading soy-based beverage in Latin America and the latest addition to our growing juice, dairy and plant category cluster. This adds to a list of successful acquisitions, including Jugos del Valle, Santa Clara, and Tonicorp that are building a strong presence in this nutrition-focused portfolio.

Within our hydration cluster we continue to expand our premium smartwater brand, driving double-digit volume growth for this brand in Europe, and building off smartwater sparkling's early success in both the U.S. and the U.K., we will soon be launching flavored sparkling smartwater in GB.

In the sparkling soft drink category, we're working to drive top-line growth through innovation and reformulation. For example, we've seen the excellent results for Coca-Cola Zero Sugar. I told you at CAGNY, we'd be expanding this new and improved formula, supported by a new visual identity, to more markets around the world. In the quarter, we rolled this out to 11 of our top markets, resulting in double-digit volume growth for the brand. By the end of the second quarter, we expect to be in five more markets, with the intent to be in most of our top markets by the end of the year.

We're also targeting the adult sparkling mixer categories, a key growth opportunity. We feel Schweppes, our premium tonic water, is relevant and appealing to the growing cohort of adult consumers. So starting in Western Europe, we relaunched Schweppes in early April with the intent to roll out to other markets in Latin America, Africa and Asia this year.

In the U.S. we're leveraging our digital capabilities by using data captured through our innovative Freestyle machines to identify new variants and flavors popular with consumers. As a consequence, during the quarter we began bottling Sprite Cherry and Sprite Cherry Zero as the first national launch of new beverages in response to their popularity on Freestyle.

Finally, we're looking to add functional benefits where applicable. In Japan we have launched new zero sugar products fortified with fiber, like Coca-

Cola Plus and Canada Dry Plus in the fast-growing segment, where ingredients are added to beverages to address specific dietary needs.

So these actions, along with others, are part of growing our consumer-centric brand portfolio. Of course, generating revenue and profits for the whole portfolio, new and existing, requires having the right package offering at the right price in the right channel, and that starts with a deep understanding not just of the consumer, but the shopper's needs.

For example, in Brazil, we are in the midst of resetting our price pack architecture to hit key price points as consumers' purchasing power has decreased during the country's worst economic contraction. While we are still in early days, we expect by the end of the year, the actions we are taking will return our Brazil business to growth.

So having the right portfolio is critical, but so is having the best-in-class market execution to support it. To date this year, we have already achieved several milestones in strengthening our system across Africa, Asia, and the U.S. During the quarter, we reached definitive agreement with ABI on its stake in Coca-Cola Beverages Africa. We are now working through the necessary regulatory approvals and expect to close these transactions around the end of the year. As previously announced, we plan to hold these bottling territories temporarily until they can be refranchised to other partners.

Also earlier this month, we refranchised the majority of our company and bottling operations in China to strong local partners. And our two largest bottlers in Japan completed their merger.

Finally, in the U.S. we closed several transactions in the quarter, and on the 1 of April, swapped our Southwest operating unit, comprised principally of Texas, for a 20% stake in Arca Continental beverage business.

At CAGNY I also talked about the need to create a new, leaner, more agile operating model to enable this growth strategy going forward, which included anticipating the structure of our business post-refranchising. And that to capture fully the opportunity before us, we need to become more category focused to outweigh resources to innovation, IT and digital.

So we've made some changes. We've created one new position in the center and elevated two others.

Firstly, the new Chief Growth Officer. He will have a clear leadership mandate for global growth across category clusters with marketing, customer, commercial leadership and strategy all reporting into this position. I've asked Francisco Crespo, previously President of our Mexico business unit, to take on this opportunity. Under Francisco's leadership, our Mexico business has shown remarkable strength, driving growth within our existing portfolio, expanding into new categories like value-added dairy, and building a healthy direct to consumer route to market. He is the right person to drive greater connectivity across our business, enabling our growth in each of the five category clusters.

Innovation will be critical to our goal for a consumer-centric brand portfolio. We have a need for hundreds of new products and continued evolution of our beverages, packages, ingredients and other areas of our business. To do this, we are separating out R&D and making it a direct report to the CEO. Calling it the Chief Innovation Officer is reflective of the need for greater impact.

Additionally, as part of our work to digitize the enterprise, we elevated the information technology function and our Chief Information Officer role which will now also be a direct report to the CEO.

Lastly, we're working through redesigning the organization to be faster and more agile. When we first laid out the new operating model in February, we were clear that this is about a new way of doing business. It's about creating an environment that can enable growth for long term. We are well on the way to designing the new corporate organization with a clear understanding of what work will stop, what work will shift to other areas and what that means to our people.

As we create a more focused, lean corporate center and broadened enabling services, we expect this will result in approximately 1,200 job reductions beginning in the second half of 2017 and carrying into 2018. While these necessary changes are always very difficult, they will help us to do fewer things better to lead and support our operating units while upholding best-in-class corporate governance.

As a consequence of this new operating model and further productivity opportunities across our entire spend base, we now expect to achieve incremental savings of approximately $800 million. This will bring our current program to $3.8 billion, or $4.3 billion including the $500 million of productivity that will transfer to our bottling partners due to the accelerated pace of refranchising.

Given the phasing of the initiatives, we expect the majority of the upside to accrue in 2018 and 2019 as we have already included an estimate of the savings we expect to capture in 2017 in the guidance we provided earlier this year.

To the question of how will we use this increased financial flexibility, our goal, and we're clear on this, is long term value creation. So to the extent we see reinvestment opportunities to improve our current revenue run rate through further category expansion, we'll take a disciplined approach to make that happen, but we will make the final determination on reinvestment when we move into the 2018 to 2020 business planning process, as this decision will also depend on economic and currency environment. But based on our current expectations of the opportunities, we expect to reinvest at least half the savings.

So in summary, we are on track with our strategic transformation plan, and as to the remainder of the year, I'm confident we will achieve our full-year outlook and that the actions we are taking today will enable us to deliver margin expansion and higher EPS growth into 2018 and 2019.

With that, I'll turn the call over to Kathy to take you through the numbers.

Kathy N. Waller - The Coca-Cola Co.

Thank you, James, and good morning, everyone. As James mentioned, organic revenue growth was even in the quarter. We also continued divesting company-owned bottling operations which resulted in a 12% decline in comparable net revenues. Price mix benefited from positive package mix with immediate consumption packages outpacing future consumption packages across all operating groups.

Comparable growth margin increased 120 basis points, reflecting strong price mix and the margin benefit from refranchising, partially offset by increased commodity costs and about a 60 basis point currency impact. And comparable operating margins grew nearly 140 basis points as our productivity initiatives remain on track and we sold off lower margin bottling businesses.

Moving to cash flow, we generated $788 million in cash from operations, up 30% driven by the cycling of a pension plan contribution, partially offset by the impact of two fewer days in the quarter and our ongoing refranchising efforts. And we received a $1.4 billion cash inflow from the sale of certain North American and Chinese bottling assets.

For 2017, we increased our annual dividend by 6% to $1.48 per share. Our net share repurchases during the quarter totaled $836 million dollar, and for the full-year, we expect to achieve the $2 billion in net repurchases as we communicated during our last earnings call. We expect to return approximately $8.4 billion to shareowners in the form of dividends and net share repurchases for the year.

Turning to outlook, we continue to expect to deliver 3% organic revenue growth and 7% to 8% underlying profit before tax growth with momentum building throughout the year as our plans gain traction. In addition, we expect our comparable growth and operating margins to expand as we continue to divest lower margin bottling businesses throughout the year.

Due to a strengthening in several currencies including the Mexican peso, we now expect a 3 point currency headwind on profit before tax which is at the low end of our previously provided range. However, currencies continue to be extremely volatile. We remain hedged on the hard currencies, so fluctuations and flat rates will not necessarily impact our P&L to the degree that you might expect. Therefore, we will continue to update you as we move through the year.

As a result, we are tightening the range of our full-year EPS guidance. We now expect comparable EPS to be down 1% to 3% this year as we return to a high-margin, capital-light business model.

As we model the second quarter, there are a couple of items to consider. First, we expect the net impact of acquisitions, divestitures and other structural items to be a 17 point to 18 point headwind on net revenue and a 3 point to 4 point headwind on profit before tax. And therefore, we expect this to result in greater comparable growth and operating margin expansion than we saw in the first quarter.

Second, we expect that currency will be a 1 point to 2 point headwind on net revenue and a 3 point headwind on profit before taxes.

In closing, we are on track and fully expect to deliver our commitment for 2017. Operator, we are now ready for questions.

Timothy K. Leveridge - The Coca-Cola Co.

Operator? Ready for questions?

Question-and-Answer Session

Operator

Yes, we are, sir. We'll now open up the line for questions. And we have Mr. Nik Modi from RBC Capital Markets.

Nik Modi - RBC Capital Markets LLC

Thanks. Good morning, everyone, and Muhtar, congrats. And James, congrats again on your new roles. I guess a quick clarification, James, and then a broader question just on the clarification. When you talked about the global macros, you sounded a bit more constructive, so I wanted to get a sense because we're hearing from a lot of companies, yes, January and February were tough, but March seemed to have improved not just in the U.S. but globally. So just wanted to get a clarification there.

And the broader question is, as I'm out in the market and talking to the bottlers, there seems to be some concern regarding the focus outside of CSDs. Not that Coke doesn't need to do it, but there's just too much emphasis outside the CSD business where in fact the bottlers make 85% to 90% of the profit from CSDs. So when you speak to them, how do you reconcile that dilemma? Any context around that would be helpful.

Ahmet Muhtar Kent - The Coca-Cola Co.

Good morning, Nik. This is Muhtar. Just let me say a few things on the global macros. Then I'll pass it over to James also to reflect on your – particularly your second question. And I assume the second question you had was mainly talking to U.S. bottlers, but you can clarify that.

The world growth, based on the latest numbers from the IMF or taken from any other organization, is expected to rise in 2017 versus 2016 by about 0.5%, so going from 3.1% to about 3.5%, just under 0.5%, and further expect it to slightly improve in 2018 based on the latest numbers.

Now always what we have seen in our business is that Industrial Production Index, IPI, goes a little bit of ahead of disposable income growth, and that's what we are experiencing once again here. So yes, some countries' growth looks better. China for sure. India, with the impact of the currency exchange initiative still is moving out of that, as James mentioned. And as well as Brazil and Venezuela I think we can term as being in deep recession. And then geopolitical factors in the Middle East and part of North Africa probably means the balance of risks remains still tilted to the downside, if you like.

But there was a divergence in terms of the Consumer Confidence Index since 2014, and that's narrowing down between the developing world and the developed world, which is a positive that. That means the developing world is getting a little better from a confidence index point of view, and I think we're seeing that in parts of Africa, like particularly big markets in Nigeria. Again, our business in China also is reflecting the improved macros.

And then we still see growth in Japan, Korea, in the industrial markets, which is a very positive sign, again, as the emerging and developing markets get better. We see there's still growth coming from the developed markets as in Western Europe and Japan and Korea. So that's sort of what I'd like to just say on the macros. James, go ahead and...

James Quincey - The Coca-Cola Co.

Sure. Thanks, Muhtar. So, Nik, I think particularly, as your question seemed more U.S. oriented, in the end this is an and answer. Our objective is not to run from one side of the ship to the other. This is an and answer.

We need the company and the bottlers individually and collectively to make both work, and I think the U.S. is an example where we have a vibrantly growing revenue line for sparkling and a vibrantly growing revenue line for the other categories. We're engaging the consumers. We're improving our execution. So I think it's about growth. It's about expanding and responding to consumer and customer needs, and I think we have demonstrated over the last number of years that we can vibrantly grow both. And that is absolutely our strategy going forward. And that'll be good for us, and it'll be good for the bottlers.

Operator

Next we have Dara Mohsenian from Morgan Stanley.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

Heard it down at CAGNY and then again today that you're focused on becoming even more of a total beverage company, but it seems like it will be difficult to transform your revenue mix quickly or substantially from an organic standpoint. So A, I was just hoping for any thoughts on how quickly you can shift the business mix over the next few years. Maybe what your ultimate vision is, whether that's percent of sales mix outside of sparkling or mix in low sugar products versus today?

However, you'd define it or however you think about the topic? I'll leave that up to you. And then second, how big a part do you think M&A will play? Because clearly that's a way of more rapidly shifting your portfolio? And then within that M&A theme, Coke staying within beverages I think has been sacrosanct at the company historically. How open would you be or what are your thoughts on potentially acquiring outside of beverages? Thanks.

James Quincey - The Coca-Cola Co.

Thanks, Dara. And I'll probably go with the M&A and then the portfolio question. Obviously we're not going to comment on our outlook on likely M&A. I think we've said three things related to M&A in the past, and I would reunderline them.

One, anything we do needs to fit strategically in where we're trying to go. Secondly, it needs to be financially attractive, and that's not always the case. And third, there is some degree of opportunism, because it takes two to tango. You need not just a willing acquirer, you need a willing seller.

So I think whilst we have an ongoing view of what assets are out there, small, medium and large that are attractive to us, of course that is something that is not predictable in time. So whilst we imagine we will continue to do bolt-on acquisitions, everything else is not – you can't predicate your strategy necessarily on that. So we focus on driving what we can organically. We have taken the rest of the portfolio, outside of sparkling, from a single digit piece of our business at the turn of – when 10, 15 years ago to over a quarter of the business.

Of course, we would love to increase the run rate at which we broaden our portfolio, and we will certainly seeking to do so. But the law of big numbers is also true. It's not going to magically change overnight. We need to build winning propositions with the consumers, with the customers, and build the physical infrastructure that economically makes that happen in a profitable way.

So yes, more acceleration outside of sparkling. While, and I turn to the answer to the previous question, it's an and (30:13), continuing to grow the revenue of the sparkling category, and therefore we will consecutively broaden out where we get to. At some point, will it be more balanced? Absolutely. Will it be broader? Absolutely. But we will look to do the right things at the right pace.

Operator

Next we have Mr. Steve Powers from UBS.

Stephen R. Powers - UBS Securities LLC

James, maybe you could just round that out by talking about just firstly, the cost side of that organic growth push? We talk a lot about the objective, which I think we all agree with, but what's the cost side? Will structural investments and growth in new categories have to accelerate? And if so, for how long?

But my broader question was actually with respect to the leadership appointments and really the new operating model that you've announced over the last few months. Can you talk more about just how the day-to-day work is to be impacted and improved as a result?

And specifically, what Francisco's role as Chief Growth Officer is going to look like? Maybe how large his organization is going to be? How he's going to interface with the other Group Presidents et cetera? Because I guess at some level, I have always thought of the CEO of Coke as the Chief Growth Officer. So maybe just talk about why separating that function out as a dedicated role I think at the group president level, is set up to structurally improve things? Thanks.

James Quincey - The Coca-Cola Co.

Sure. I'm not sure that obeys the dynamic of one question at a time, but I'll give it a go and cover off some of those pieces.

On the categories and balancing, of course, as we push into new brands or new categories in new countries, there is an investment curve as you build the brand. But this needs to be a managed portfolio. I mean one – the fact that a new brand is being launched in country X doesn't mean it's not already developed in country Y. And therefore it's already profitable and generating cash. So we need to manage the total portfolio effect, which is not just across categories, but across the life stage development of any one brand and category across the world, because they're not equally developed everywhere. So there's a portfolio management thing.

Of course our objective, whatever the category, is to build brands and positions that are inherently profitable once we get to the appropriate scale. So we're not trying to build things that will never arrive. We're trying to build brands and categories whether it's inherent in the brand or inherent in the package size that can be profitable for us and the bottling system.

In terms of the leadership appointments and how the work will be impacted. I mean we've done a number of things. I mean a lot of the impact on the work is, it's the nexus of we're about to enter the post refranchising stage. So we're going to go from well over 100,000 employees to under 40,000 employees by some point next year. There is just physically less stuff that needs to get done at the corporate center to support that organization.

Secondly, technology keeps advancing. And what is possible to anticipate and get done using technology and change the way work can be done is a lot more today than it was a number of years ago. We need to embed that in the organization.

And then the third thing is the ongoing effort to find new ways of doing the same thing with less resources, or getting more bang for the buck, because we can be innovative in the way we run our processes. So that goes across each of the corporate functions, including the enabling transactions based services. And there's a plan in each place.

Now as it relates to Francisco and that organization. I think one of the – the two points that I base our logic to. The first one is, if our principal operating model is local and geographic because it's a franchise system. I mean you've got to choose one principal avenue to organize against. Anything you organize against will have its blind spot, and then you can mitigate against that. So one of the roles of Francisco's group is to provide the global perspective and the category perspective, because it's the inverse. It's a thing that some of the field might miss. So that's part of why the corporate center exists.

The second reason to bring all the pieces together is as brands and experiences are created today and into the future, it's less cleanly delineated between a TV ad or a customer program or anything else. There's a much greater intersection and integration of how to engage your consumers and shoppers. And therefore bringing together in one group the classical marketing pieces with the customer piece, with the commercial piece and with the strategy, underpinned with a digital engagement, is what can allow us to more seamlessly operate in this new environment.

Operator

Next we have Lauren Lieberman from Barclays.

Lauren Rae Lieberman - Barclays Capital, Inc.

Thanks. Good morning.

James Quincey - The Coca-Cola Co.

Good morning. How are you?

Lauren Rae Lieberman - Barclays Capital, Inc.

Great. I was hoping you could talk a little bit more about Brazil. I know you've talked about addressing price pack architecture and trying to hit key price points, but it just looks like the downdraft in Latin America has significantly worsened this quarter. And I know, again, you said better by the end of the year, but are these kind of technical changes, longer term strategic changes in Brazil that you're making? And any kind of detail would really be helpful. Thanks.

James Quincey - The Coca-Cola Co.

Sure. So I think the changes are structural and strategic. We need to reset the price pack architecture. We're going to use more returnables. That's an infrastructure and investment challenge. So we're resetting.

It's worth remembering that the contraction in the Brazilian economy – it's contracted more in the last few years than it contracted in the last decade of the 1980s, and more than it contracted in the depression in the 1920s last century. So Brazil has undergone a major economic contraction. So we're resetting what we're doing in Brazil around pack price architecture, how we go to the market and how we push that forward. So it will take some time to get it in place, and also, frankly, the stabilization of the Brazilian economy will continue to take time.

Now, the other thing impacting the Latin America numbers, it's worth underlining that it doesn't always hit everyone's radar screen, is Venezuela. And Venezuela is substantially negative in the first quarter, and I think that really is macroeconomic. It's not about resetting our business. It's about the country is in the state it's in.

But the Brazilian thing, just to summarize – the changes are strategic. They'll take some time. We expect that to play through this year.

Operator

Next we have Ali Dibadj from Bernstein.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Hey, guys. So I do have two questions. One is on the cost savings. Excellent that it went up. I want to better understand the drivers of change, and I also want to better understand the drivers of the increase. But I also want to better understand the "long term value creation" that you mentioned as well as at this point we expect to "reinvest at least half." Is that of the incremental? Or is that of the $3.8 billion total? Or $4.3 billion total? Is it of the $3.8 billion at least? Because you've cut about $2 billion so far, it sounds like you should be roughly on pace to that in short order at the very least, and almost all of that I think has been reinvested. So if you take almost $2 billion on a $3.8 billion, that's already $1.5 billion.

So how much of what's going to be on the come, so to speak, what's going forward, will be reinvested? Is that going to be at least half? Or is that of the total program? So very specific question on that. And then second thing is around refranchising, and if you can talk a little bit about some of the potential delays that may happen in refranchising? If you see anything going forward? Or if that's very much on plan?

And importantly, if you see the benefit so far of the refranchised territories from an improvement and performance perspective? Volumetrically, perhaps? But even just overall top line? We've heard on the order of one point as you move from company-owned to noncompany-owned, so would love some inkling of that from your own experiences. Thanks. Sorry for the two.

James Quincey - The Coca-Cola Co.

Sure. So starting with the additional $800 million, the driver of the change, the principal driver, is the reorganization of the corporate center, the 1,200 positions I talked about. That's the majority of the $800 million, or a little over half the $800 million. Then there's some parts in cost of goods and a little bit in marketing.

So the majority is in operating expense and in the reorganization of the corporate organization that I just talked about. So that's what's driving it, and it's about the three things I've said. It's anticipating post refranchising, it's the impact of technology and it's the choices on what work we do and doing the work differently. That's what's driving the extra $800 million.

Now, the comment around reinvesting half was related to the $800 million very specifically. So that's that one. Obviously, we've seen some margin expansion. Implicit in our guidance this year already is some dropping of the base productivity program through into margin because you'll calculate that the revenue currency-neutral structural is at the three, and whether you take operating income is substantially higher than that. And then obviously that's offset by some negative financing leverage.

So 2014, 2015 and 2016, I think you're largely right. In 2017 you're seeing much more drop into operating leverage, and the comment is about the $800 million going forward. A little over half is reinvested.

As it relates to refranchising, we still believe we can meet the deadline and get the U.S. refranchised this year. Of course, we're not going to do the wrong deals for the sake of hitting a date, but we think the right deals are possible. And we think that we're still on track with that plan, and as you say, we're seeing benefits in the refranchised territories.

I'm not sure I would give a specific number that can be kind of inserted over the top on everything else, but clearly the idea of reorienting and rebuilding the U.S. system so that it's stronger, putting in place the different pieces, the manufacturing, the governance, the IT, the way the system works, support our long-term strategy of rational pricing and some growth for continued revenue growth in U.S. is underpinned by the success of the refranchisings in the U.S. And obviously we closed out on the 1 of April China and the merger of the Japanese bottlers.

Operator

Next we have Laurent Grandet from Credit Suisse.

Laurent Grandet - Credit Suisse Securities (USA) LLC

Yes. Good morning, everyone. You specified the sales growth by cluster, and that's great to give us some more granularity of where the growth is coming from. If I may, could you tell us more specifically what's your starting point by revenue, by cluster, by region? And also what are your goals by cluster? And what will be the incentive for the new Chief Growth Officer to achieve those goals?

James Quincey - The Coca-Cola Co.

So firstly, Laurent, I hate to disappoint you, but we're not going to be disclosing the starting point or breakdown the geographic groups as well by cluster and have all of that laid out.

The goals by cluster – clearly, we have goals by cluster. The more they move from sparkling, the more they move from the things we've been building over the last 15 years, the faster we expect the percentage growth rate, but in absolutes, it is worth remembering that sparkling still in absolute terms provides the greatest incremental amount of revenue to the corporation of any one category.

As I said, just let me make a detailed point that growth obviously – we're not moving to an operating model where we're having global category P&Ls and running the business through global category P&Ls. The operating model is to run the business locally, to drive local entrepreneurship and empowerment of the operating unit.

But to use the growth opportunity setup to be strategic to make sure that we stay connected to what's happening when you take a top down perspective or a categories perspective and have the rights and some authority on bringing those insights and those needs and those initiatives to the table so that when we as a corporation – we're not going to try and run everything for the operating units, but we will make a few strategic bets. And some of those will be driven from the cluster approach.

Operator

Next we have Mr. Bryan Spillane from Bank of America. I'm sorry. Our next question is from Ms. Judy Hong from Goldman Sachs.

Judy E. Hong - Goldman Sachs & Co.

Thank you. Good morning. So one is just a quick follow-up to earlier question about reinvestment. The $800 million, half of that going back to reinvestment. How would the nature of these reinvestments differ versus sort of the prior reinvestment that Coke has made? Whether it's different categories, or different activities? Just a little bit color there would be great.

And then on the price mix in the quarter in North America sparkling up 1%, I think you called out some timing issues. So can you elaborate on how much of that was a factor? And as it relates to sort of the broader price mix question, if you look at the clusters outside of sparkling, can you just talk about how much the price mix plays a role in growing those segments' revenues?

James Quincey - The Coca-Cola Co.

Sure. Good morning, Judy. So I think that the principal difference on the reinvestment of the half of the $800 million is up to now, I would say the majority of what we've done has gone into the sparkling category business around the world. I think here the clear intent is that this is more directed to some of the newer categories, or some of the other categories to drive growth there. So it is principally orientated around growth of the other categories. That's the headline answer there.

Then in terms of the North American sparkling pricing. As you say, as we call that, that's principally timing and it's really related to the different channels. The price, the – obviously we have a large fountain operation which we run directly in North America, and so the timing of gallon shipments, whether they go through the bottlers or through the fountain business, can move the average price mix by North America. And it's the timing around those gallons that has created that unusually lower 1%, and that's the majority of the difference between what we would expect to happen on sparkling pricing and what actually you see in the first quarter in North America, and that should correct itself.

Operator

And next we have Mr. Bryan Spillane from Bank of America.

Bryan D. Spillane - Bank of America Merrill Lynch

Just one question. And I guess from our perspective we get a lot of questions about the total beverage company model and what it looks like going forward, and it's difficult to see with a lot of the moving parts in the business today. But I guess from our perspective, Western Europe is really the one market or is one of the markets this year where you can really see it sort of in action.

So, A, James, do you agree with that? And, B, can you maybe talk a little bit more about sort of your planning with the bottlers in Western Europe this year? And sort of how it's – this total beverage company model has really sort of been a difference in the planning process now versus maybe prior years?

James Quincey - The Coca-Cola Co.

Yes. Look, I don't think I would say this is a kind of a night and day change for us. Look, we've been on a journey to expand our portfolio. I think this is about making a commitment to press further and faster and make the full psychological journey to. This is about a full set of categories and responding to the consumer, not a central portfolio with some periphery.

We're making good progress with the Coca-Cola European partners. Obviously there we did a lot of planning last year at the setup of the new bottler and its integration and the plans for the marketplace.

I think you've seen a number of actions, whether it's the rolling out of smartwater, the launch of Honest Tea, where we've taken some proactive steps with them in different categories. But also I would underline we've been very proactive with European partners on Coca-Cola Zero Sugar, which drove a lot of growth in GB in this quarter. So we've got a great new bottler that's been stood up. We're broadening the portfolio. We're taking action across more categories, and I think that's part of the future.

Now, would I say that's the one place to look at? No. I think if you look at the U.S. or Japan, to take two other examples, you see a broader portfolio, and us continuing to invest and expand across categories and even within categories, re-segmenting each category for multiple different reasons to drive value growth for ourselves, the bottlers and collectively as a system.

Operator

Our next question is from Mr. Kevin Grundy from Jefferies.

Kevin Grundy - Jefferies LLC

Thanks. Good morning, guys.

Ahmet Muhtar Kent - The Coca-Cola Co.

Good morning.

Kevin Grundy - Jefferies LLC

James, I wanted to come back to some of the changes you put in place, specifically with the new Growth Officer and five category clusters. The first question would be, when should investors expect to see tangible benefits from the new structure? Understanding that the macro is very difficult and the company's skew towards sparkling. Or said differently, would you be disappointed if the company couldn't return to 4% core sales growth looking out to next year, even if the environment doesn't change very much, including the macro? Or is this just more of an evolution of the strategy to deliver on the company's objectives?

And then related to that, James, do you feel like the company has the right incentive structure in place internally for your leadership to balance the growth agenda with profit objectives? Or do you see any potential conflict that may exist there? Thank you.

James Quincey - The Coca-Cola Co.

Morning, Kevin. I'll go in reverse order. The incentive structure is balanced between the top line and the bottom line today. Having said that, we're going to take this year to have a fundamental relook at our total compensation approach. That may result in no changes whatsoever. We may end up going, no, there's no perfect solution, and the one we've got is the right one. Or we may make some tweaks. That is yet to be determined. But it is worth noting the incentives are half top line, effectively, and half bottom line.

In terms of the tangible benefits we're obviously not going to provide guidance for 2018 and 2019 and beyond at this stage. Having said that, we've been pretty clear that we want to be in a long-term growth model in terms of the top line and have some leverage within that. So to the extent that we've guided for 3% this year, we would be disappointed if the opportunities in the marketplace and the macros offered us an opportunity to get back into our range, and we did not achieve it.

Operator

And our next question is from Mark Swartzberg from Stifel, Nicolaus.

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

One question, James. On the larger subject of cost cutting and whether it's $800 million or some added number a year from now or three years from now, could you just characterize how far you believe the organization has gone and might yet go in the area of budgeting costs? Whether it's on a ZBB basis or some other basis to help us understand how you think about the opportunity to do what you're doing today as a habit, so to speak, versus something you do day one, so to speak, as a new CEO?

James Quincey - The Coca-Cola Co.

Sure. We've been steadily learning and getting better at zero-based work over the last number of years. I think we've been getting better at doing less one-off events that then don't necessarily always stick. And getting much better at making it part of our discipline of going, how do we use the resources available to the best means possible to get the results we're after? So I think that's been a steady organizational learning process that's been going on.

And the latest changes are just another iteration. The $800 million is another iteration of that. Every year we look at it. At the back end of last year we looked at the strategy evolution coming up, imagining the post-refranchised world, the impact of technology. And we just considered what we could do and how we could do things differently, and that's reflected in the strategy. And as part of the strategy it's reflected in the organizational changes we are making and the increased productivity savings.

We will continue to run the zero-based work process, and be clear that the efficient use of resources is one of the ways to drive the top line and to enable long term value creation.

Operator

And our next question is from Amit Sharma from BMO.

Amit Sharma - BMO Capital Markets (United States)

Hi. Good morning, everyone.

Kathy N. Waller - The Coca-Cola Co.

Morning.

Ahmet Muhtar Kent - The Coca-Cola Co.

Morning, Amit.

Amit Sharma - BMO Capital Markets (United States)

A couple of quick questions. Number one, James, can you clarify your comments about M&A? You talked about bolt-ons are always in play, and then I think you didn't rule out if something larger, bigger came along, you would look at it. That's number one. And number two, from our retailers, you're hitting a lot more focus on pricing and maybe more promotion, private label. Are you hearing anything different from the retailers about price rationality that we have seen in the CSD category? Just to rule out that that's not at risk here in North America.

James Quincey - The Coca-Cola Co.

Well, on M&A we have a track record of doing bolt-on acquisitions over the years. I think there should be a reasonable expectation that they will continue at some sort of similar rate. Larger opportunities I think obey the logic of they have to be strategic, they have to be financially viable and they have to be available. As and when things meet those three criteria, we will look harder at them and that's as much as I can say at this stage.

In terms of retailers in the U.S. Look, I think they are looking, they have their – each one has their own strategies, their own positions slightly differently, so I don't think one can look at them in an aggregate and say they're all trying to do the same thing. I think pricing rationalization is certainly our strategy. We're engaged with customers in, you know, how it fits their strategies, each one individually. And largely I would say that you know, we're finding how to create value together. Are there risks that for comparative reasons by customers or competitive reasons by our competitors, something happens in some quarters to knock that off course. Yes. But that risk has existed, and still exists. But we're clear on where we're trying to get to.

Operator

And our next question is from Mr. Brett Cooper from Consumer Edge Research.

Brett Cooper - Consumer Edge Research LLC

Thanks, guys. Two questions. Within your clusters, can you talk about where you have scale or the ability to lift and shift as sub-category from one country or region to another? Where you see the most work needed? And then maybe as a reference for us, can you talk about the evolution of profitability in juice as you built that out to a global leadership position? Thanks.

James Quincey - The Coca-Cola Co.

Sure. I think, look, in – we talked at CAGNY, we have about a 50% share of the sparkling category, and of all the other categories we're somewhere between a 10% and 15% share on a global basis. But even that's a very average number. You know, you can go to some parts of the world and we are clear market leaders, at the same sort of share levels that we have in sparkling, and other parts of the world, we are not present.

So there's not a short answer, except to say that we have – we are going through, and have gone through, and always update the process of looking at where are the next stages of growth both bottom up, each country going, look, I think I need to go to grow out this category or that category. And top down, both a global view and the category view saying look, if we want to progress, actually, we think we need to push out smartwater into more countries or tea, for example, Honest Tea into more countries and that's the intersection of the global growth perspective and the country perspective.

And then evolution of profitability in juice. Probably depends whether we built the business through bolt-on acquisitions or whether we did it from scratch. Either way, the evolution is as you'd expect, as we build a good either leadership position or a close number two, we tend to come into a much more attractive profitability status which is why if we have small positions in categories, we've either got to get up or have a clear path to leadership or a some number two, or not over invest because being sub scale is not a part of profitability.

Operator

I would now like to turn the call back to Muhtar Kent for any closing remarks.

Ahmet Muhtar Kent - The Coca-Cola Co.

Thank you. I think James is going to do them this time. So thank you.

James Quincey - The Coca-Cola Co.

Thank you, operator. Thank you, Kathy, Tim, and thank you Muhtar for your leadership over the past nine years for the solid foundation created under your watch. I look forward to continuing our partnership as you remain Chairman of the board. We've already been on a transformational journey under Muhtar's leadership over the last few years as we completely reshape our bottling system. Jump started growth in our flagship North American markets. Increased productivity and launched hundreds of new brands and products.

Even so, we know there is more we can and must do. We led a clear path to transform the company to be bigger than our past, to be a company that is bigger than just the Coca-Cola brand, to be a total beverage company that is well-positioned across a wide range of beverage categories, and we are successfully beginning to execute that plan. As always, we thank you for your interest, your investment in our company and for joining us this morning.