Operator

At this time, I would like to welcome everyone to The Coca-Cola Company's Second 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 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.

Timothy K. Leveridge - Vice President & Director-Investor Relations

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 website 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 & Information tab in the Investor section of our company website. These schedules reconcile certain non-GAAP financial measures, which may be referral to by our senior executives during this morning's discussion, to our results as reported under generally accepted accounting principles. Please look on our website for this information.

In addition, this conference call may contain forward-looking statements, including statements concerning long-term earnings objectives, and should be considered in conjunction with cautionary statements contained in our earnings release and in the company's most recent periodic SEC report.

Following prepared remarks 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, Executive Vice President and 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 let me turn the call over to Muhtar.

Muhtar Kent - Chairman & Chief Executive Officer

Thank you, Tim, and good morning, everyone. While many markets around the world face macroeconomic challenges, our focus on improving our execution enabled us to deliver improved top line results. Net revenues grew 4% on an organic basis, driven by positive price/mix and 3% growth in concentrate shipments, as outlined on our second quarter performance scorecard on slide four.

Our top line performance was broad-based, with each operating segments delivering positive organic revenue growth, demonstrating the strength of our global brand portfolio and the robust distribution capabilities of our bottling partners.

As a result, we once again gained global value share in non-alcoholic ready-to-drink beverages in the quarter, with gains in both sparkling and still beverages. This represents the 32nd quarter in a row that we've gained NARTD value share, an important metric for us, particularly in a tough macroeconomic environment. Notably, the levels of our volume and value share gains are accelerating versus the second quarter of last year.

Unit case volume grew 2% in the quarter, cycling 3% in the prior-year. We've seen an improvement with all operating groups growing despite a shift in Easter holiday sales from the second quarter last year into the first quarter this year, as well as challenges in key emerging markets, most notably Brazil, Russia and India.

During the quarter, we continued our strong focus on controlling operating expenses. Even with a double-digit increase in our media spend, we were able to deliver a 50 basis point improvement in our operating margin on a comparable currency-neutral basis and grow our comparable currency-neutral operating income and PBT by 6% and 3% respectively in the quarter.

Finally, we generated record cash from operations and grew free cash flow 16% on a year-to-date basis, due in part to the six extra days in the first quarter, but also due to effective working capital initiatives, something Kathy will talk about later in the call.

Last year, we took decisive action to reinvigorate our growth and increase profitability. Halfway through our transition year, we're pleased with the progress we're making, but recognize that we still have much to do. We're acting with speed, with urgency against each of our five strategic initiatives.

First and foremost, our enhanced focus on revenue growth across market is delivering value share gains ahead of volume share gains on a consolidated basis, as well as in our International and North America businesses.

Our North America business delivered a very strong quarter, with 5% growth in organic revenues and 8% in comparable income before tax. This performance reflects increased marketing, a disciplined approach to managing volume, price and mix as well as the shift of July 4 holiday sales and our Share a Coke campaign into the second quarter this year versus the third quarter last year.

Importantly, in North America we delivered revenue growth in our sparkling portfolio in the quarter due to further expansion of our pricing strategy, resulting in 4% sparkling price/mix. Our disciplined price/pack strategy has seen wide adoption across all retail channels as we emphasize smaller proprietary packages, while also raising prices on traditional packages, including 12-ounce cans and two-liter bottles. While sparkling unit case volume grew 1%, transactions increased 2% due to strong growth in the smaller packages, which are on trend with consumer preferences, such as our mini cans, which grew volume double-digits during the quarter.

The second action to reinvigorate growth is to increase our media investments globally to fully fund our brands across our markets around the world, while enhancing the quality of our advertising at the same time. In the markets where we are investing more with better quality, we're seeing better performance. Let me just give you an example of how marketing, along with solid execution by our bottling partners, is driving top line growth across our emerging, developing and developed markets.

Starting with our emerging markets, despite a soft macro environment in China, we grew brand Coca-Cola volume double-digits. A record 20 million consumers participated in China's Coca-Cola Break consumer promotion, which along with the third edition of the Share a Coke campaign, fueled our growth.

Turning to our developing markets; in Argentina, we gained both volume and value share and importantly gained value share ahead of volume share for the second quarter in a row, due in part to integrated marketing campaigns around Copa América, the main International football tournament for national teams in South America.

Finally, both the quantity and quality of marketing in North America helped us realize four points of sparkling price/mix, resulting in solid revenue performance. The trends we're seeing in these markets, as well as initial results in other markets, gives us continued confidence that our stepped-up investments are working. Further, we still have significant opportunity in many other markets where we began increasing media investments towards the end of 2014. Given the typical 12-month to 24-month time period for these investments to deliver their full return, it will be 2016 before we see real results in some of these other regions.

Turning to productivity; we remain focused on fueling our reinvestment through embedding productivity into our DNA. We're on track across all spend areas to hit key milestones this year and deliver $3 billion in annualized savings by 2019. One area, which we are seeing momentum is supply chain related savings, which benefited our gross margin in the quarter. Year-to-date, we've consolidated three distribution centers and closed one plant in North America, as well as began the process of installing in-line blow molding equipment.

Further, we recently kicked off the next phase of our zero-based work, which consists of a launch in our international markets and a second year of this work in corporate, as well as North America. Zero-based work is a mechanism that helps our leaders make very tough choices to free up resources that can be redeployed and reinvested to fund growth. As we go through this process, we're working to ensure that the priorities we are funding to drive growth in our business units are also seamlessly prioritized across our entire system.

The implementation of our new operating model is on track, and we have made significant headway on the previously announced head count reductions. This now includes Europe, where we began implementing changes this quarter following the appropriate consultations. As we begin operating within our new structure, we are actively engaging in connecting our global organization and implementing our standard processes.

Finally, focusing on our core business model, we continue to make progress on our North America refranchising efforts. During the quarter, we transitioned territories representing over 5% of the U.S. bottle/can volume. Additionally, we announced the signing of new Letters of Intent for territories covering close to another 10% of the U.S. bottle/can volume.

In aggregate, territories transitioned to-date and those covered by definitive agreements or Letters of Intent represent approximately 25% of the total U.S. bottle/can volume. We're getting better; we're getting faster, which is why we are confident we're going to achieve our previously-stated goal to have approximately two-thirds of U.S. bottle/can volume distributed by our independent bottlers by the end of 2017.

Our bottling partners are critical to our success. We held our annual global system meeting in May this year; and I can tell you that the level of engagement among our bottling partners was very high. They are encouraged by our plans, and have committed to support our investments with further enhanced focus on local market execution.

To conclude, I would like to address the macro environment, given the challenges many CPG companies are encountering today and the fact that approximately 75% of our operating income is generated overseas.

The global economic recovery remains uneven. Given the continued slowdown of the Chinese economy, the prospective U.S. tightening cycle, as the U.S. prepares to increase interest rates, and the ongoing uncertainty surrounding Greece and its place in the Eurozone. Additionally, many emerging markets, large and small, remain challenged, as evidenced by our low single-digit volume declines in both Brazil and Russia this quarter.

While we have the right strategic plans in place to navigate through the volatile operating environment, we're not fully immune. With that said, as we pass the midpoint of 2015, we're broadly where we expected to be.

I remain encouraged by our progress to-date, but also acknowledge that there's still much work ahead of us. We're confident in our strategies and execution, and remain on track to deliver against our full-year comparable currency-neutral growth expectations.

I'll now hand 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 for 2015.

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

Thank you, Muhtar, and good morning, everyone. The second quarter came in broadly as we expected. Organic revenue growth was driven by 3% growth in concentrate shipment and one point of positive price/mix. Consolidated price/mix in the quarter was driven by positive pricing and product mix initiatives across many of our markets, partially offset by negative geographic mix, consistent with the outlook we provided last quarter.

Concentrate shipments outpaced unit cases in the quarter, primarily due to the timing of shipments in our Asia Pacific group. After adjusting for the additional days in the first quarter, year-to-date concentrate shipments were generally in line with unit cases on a consolidated basis.

Our comparable gross margin declined on a consolidated basis as positive pricing, productivity savings, and a slightly lower commodity cost were offset by currency headwinds and structural changes. Positive comparable currency-neutral operating leverage was driven primarily by the impact of structural items which unfavorably impacted gross margin, but was roughly neutral at operating income and income before taxes. For the quarter, comparable currency-neutral operating income grew 6%, including a mid single-digit increase in DME.

Below the operating line; on a comparable currency-neutral basis, net interest income, equity income, and other income were lower, resulting in 3% growth in comparable currency-neutral income before tax. Consistent with the outlook we provided on the last call, on a comparable basis, other income benefited from foreign exchange gains associated with the euro-denominated debt issued during the first quarter.

Our second quarter comparable EPS was $0.63, which included a six point currency headwind. On a comparable currency-neutral basis, our EPS grew 4% in the quarter. Items impacting comparability in the quarter were primarily related to a net gain recognized in connection with the closing of the transaction with Monster Beverage Corporation.

During the first six months of the year, we generated $4 billion in free cash flow, up 16%, primarily due to the efficient management of working capital and the impact of six additional days, partially offset by an unfavorable impact from currency exchange rates. We returned $3.8 billion to share owners in the form of dividends and net share repurchases during the first six months.

I'd like to take a moment to talk about working capital management, which we view as another key focus of productivity, as it is incremental to our P&L project and it adds significant value to the company and share owners by targeting cash flow improvements.

In 2013, we initiated a program to better manage our working capital with an initial focus on our trade receivables and payables. As a result of this program, we have improved our cash conversion cycle, which resulted in $400 million of incremental cash flow for the first six months of 2015 versus the prior-year.

Turning to outlook, halfway through our transition year we are where we expected to be, recognizing that economic growth remains challenging in many markets; notably Brazil, Russia and China. For the full-year 2015, our comparable currency-neutral outlook remains unchanged, although there are a few adjustments to specific items.

Our outlook for net interest is slightly more favorable, offset by a slightly larger impact from structural items at the profit before tax line. We estimate an increase in the currency impact in the back half of the year based on the latest exchange rates, and after considering our hedge position, current spot rates and the cycling of our prior-year rates, we now expect an approximate six point currency headwind on net revenue, 11 point headwind on operating income, and a seven point to eight point headwind on income before tax for the full-year 2015. And we expect net share repurchases for the year to be in the range of $2 billion to $2.5 billion.

In addition, there a couple of phasing items you should consider when modeling the third quarter. Due to the timing of our fiscal quarter end, the benefit associated with the July 4 holiday fell in the second quarter this year versus the third quarter last year. We expect structural items to be a slight headwind on net revenue and a one point to two point headwind on income before tax.

We currently estimate currency will be an approximate seven point headwind on net revenues, 13 point headwind on operating income, and a 10 point headwind on income before tax in the third quarter as we cycle more favorable rates from the prior-year. The variance between the currency headwind on operating income and on income before tax is primarily due to the cycling re-measurement losses in the prior-year. Finally, while not a third quarter consideration, I wanted to remind you that in 2015 our fourth quarter will have six fewer selling days.

In summary, we are seeing initial progress based on our plan to reinvigorate top line growth, while recognizing that we continue to operate in a challenging macro environment. Therefore, while currency headwinds are increasing, we see no change to our full-year comparable currency-neutral growth expectations. Operator, we are now ready for questions.

Question-and-Answer Session

Operator

Thank you, ma'am. The first question on queue is from Mr. John Faucher of JPMorgan. Sir, your line is open.

John A. Faucher - JPMorgan Securities LLC

Thank you. Good morning. I want to talk a little bit about the advertising spending. There's been some questions – and I've had them myself – in terms of whether you're just sort of fighting a headwind in terms of trying to advertise the category. So, can you talk a little bit about what you're seeing, how you're gauging the success that you're having, and kind of what we should expect from an advertising spending increase as a percentage of sales as we look out over the next sort of 12 months to 18 months? Thanks.

Muhtar Kent - Chairman & Chief Executive Officer

Good morning, John. It's Muhtar here. I'll just say a few top line remarks about it and then also ask both Sandy and Ahmet to give some more specific details on their – in specific markets. I'd say overall pleased with our initial results, but as we've previously discussed and as I've just recently said it takes some time, anywhere from 12 months to 18 months, to realize the full value in terms of a return on those investments. We've found that disciplined quality marketing investments drive growth better than any other strategy or action.

We're seeing good initial results in markets that have received the incremental media investment and also have improved the quality of marketing in our case, and the marketing investments in North America is a great point, which is a clear contributing factor in the strong performance in the quarter – continued strong performance in North America and the performance is getting better with 5% growth in organic revenues and 4% price/mix. That price/mix and that volume and that, therefore, growth in organic revenue would not have been achieved clearly without the infusion of that marketing and the quality and the quantity.

In China, also seeing positive trends, strong marketing activation, as I mentioned in my remarks. Sparkling growing at 7%, Coke growing at double-digits in the quarter, allowing us to gain – continued to gain significant share in that market. And additionally, we're seeing accelerated trends in our value share gains, where you compare them against our trends a year ago.

So with that said, clear that it will take some time for the full benefit on a quarterly basis as these investments take some time to ramp up, also challenging consumer environment and macro environments, and so, those are really what I would say.

And in terms of our results, you see year-to-date, our marketing investments are growing and our margin is expanding by 50 basis points. So, I think the key is to be able to achieve both, and we are confident that we will continue to see more positive results. So with that, let me turn for some more specifics to Sandy and then to Ahmet for International example.

J. Alexander M. Douglas, Jr. - Executive Vice President & President, Coca-Cola North America

Thanks, Muhtar. And good morning, John. The core driver of our business across the world over time is the quality and quantity of our advertising and the related execution and activation by our bottlers.

And in the U.S., over the past 18 months, we've vigorously pursued that strategy, increasing our advertising spend significantly, and you're seeing the payoff in the top line results that Muhtar just went through. But underneath that, a metric that you can watch also is just the price elasticity of our brands and how volume reacts to price over time. And it's a good metric of the payoff of advertising, along with the efforts of our bottlers in the marketplace.

As we look ahead, we see advertising as an important proactive item to grow the business, but as you start to see in North America over the past few quarters, we're now leveraging the P&L, so that the infusion of advertising is coming from the accelerated top line growth and expense efficiency across the total business. So, net-net, it's part of our ongoing algorithm and an important part of the way we intend to drive growth going forward. Ahmet?

Ahmet C. Bozer - Executive Vice President & President, Coca-Cola International

Thanks, Sandy. Hey, John. We have a very similar story in Coke International. The bottlers and our teams have strong conviction about how better and more advertising drives top line. The examples that Muhtar quoted, there's more depth to that. I would add developed markets such as Germany and Spain to that list. I would add a developing market such as Mexico to that list. I would add an emerging market such as Nigeria as a good example. And there are other examples, where we increased media and we improved the quality of that communication, revenue results improve. Having said that, the history of this increase is less than a year for most Coke International markets. I would caution that it is early days; but definitely, we're seeing the positive examples of this action.

John A. Faucher - JPMorgan Securities LLC

Great. Thanks.

Operator

Thank you. Our next question is from Mr. Steve Powers of UBS. Sir, your line is open.

Stephen R. Powers - UBS Securities LLC

Hi. Good morning. Thanks. I guess, first, could you just, maybe I missed it, but could you just address the reduction in net buybacks for the year and what lies behind that? Is free cash flow coming in weaker, because that would seem surprising, just given your working capital comments, et cetera? Or is there a competing use for cash that we should be considering? Just a housekeeping question.

And then a kind of a broader question on productivity, the update and the report card you provided was certainly helpful, but I was wondering if you could maybe quantify what those initiatives translated into in terms of savings in the quarter? And how far along you are, admittedly early, against that ultimate $3 billion goal? I think that would help just frame where you are in the overarching initiative.

And actually, if you could perhaps talk about other initiatives underway and what kinds of achievements we should look for on Q3 or Q4 report cards, that would be great as well? Thanks.

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

Sure, Steve. On the share buybacks; basically, we've given the range of $2 billion to $3 billion, so we're still in that range. We've looked at where we were for the first half of the year and then we looked at cash, particularly because of the currency getting worse in the back half, and just tightened the range. So, basically, we're still in that range, in that corridor, we just tightened the range.

And then on the second question, on productivity, we have basically stated that we are $500 million for – we are on track. The working capital has allowed us to basically focus on share repurchase, even with the significant currency headwinds, so basically the productivity initiatives we – that we are on track.

We didn't give specific initiatives that we were working on for this year; you know about the people initiatives that we had, and we said we were going to be on target with the $500 million for this year. They're still coming from the three areas, so we're still actively working on reducing our cost of goods sold and moving DME from more promotional activities into media spend. So we are basically on track. I don't know – I can't give you any other specifics, other than we are basically on track for the $500 million that we anticipated that we would have for this year.

Stephen R. Powers - UBS Securities LLC

Okay. That's helpful. Is it fair to assume that the savings build, and that there's more of an impact in the second half versus the first half? Or is it more kind of ratable throughout the year?

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

You know, I don't know that I can quantify how they come throughout the year. Part of it was dependent upon when we started to see movement with some of the people, and we've not gotten – for instance, Europe has to focus on the working – had to work with the Work Council, so their initiatives with people are really just starting – although everybody is aware, the movement of people is just starting. So part of that will be coming out, now that they've been able to focus on their moving people initiative, but I don't know that I can quantify the how and when it all comes through, because we focus on dealing with the work first. And we deal with the work first and then a lot of the other impact will kind of trail, making sure that we deal with – that the organization is appropriately set up for success going forward, which included focusing on the global organization and restructuring how we worked with the global organization. So all I can say is, we are on target with everything that we've done.

Muhtar Kent - Chairman & Chief Executive Officer

Just adding to what Kathy mentioned, Steve, I'd say that also, in terms of simplifying our organization, wiring our business units closer and more directly to the functional centers in our company, that largely has taken place.

We have essentially eliminated a functional layer in the company, allowing us to make faster and quicker and more effective decision-making in the company. That is already largely in place, and I think lots of continued work streams going on in COGS that will continue to benefit and help us to deliver more than the $500 million in savings for the year.

Stephen R. Powers - UBS Securities LLC

Thanks very much.

Operator

Thank you. Our next question is from Mr. Mark Swartzberg of SFI (sic) [Stifel] (29:58) Financial. Sir, your line is open.

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

Yeah, thanks. It's Stifel Financial. But good morning, everyone. I guess, two questions here; one a region question, Muhtar, and then more a strategy question. With Asia Pac, at least versus my model, the price/mix was disappointing. It's only a quarter, and you highlighted China and I think some product mix issues; but when you think longer-term about price/mix in Asia Pac, given the superior growth I think you expect from China, what's a sound way to think about that region in the larger Coke system?

And then, unrelated to that, or less related to that, when you think about scale and bolt-on M&A, can you just update us on your thinking for the larger Coke – how you're thinking about scale M&A and how you're thinking about bolt-on M&A?

Muhtar Kent - Chairman & Chief Executive Officer

Yeah. First, Mark, good morning. On the Asia Pac, I think it pretty much came in line with what we were expecting, and it's related to timing, it's related to how you look at it on a year-to-date basis. And I'll have Ahmed comment on that once I finish. I'll just say a few things about the second question.

In terms of scale M&A and bolt-on M&A, I think you need to think, we will be again looking at bolt-on targets that fit our strategic portfolio. That's the way you should think about our continued interest in any M&A, and how we target M&A.

Just the same way as you've seen us look at it in the last three, four, five years, how we look at the acquisitions that we made, in terms of Innocent, in terms of Honest Tea, in terms of ZICO, in terms of other bolt-on and then, more recently, the announcement from China that we had.

So essentially, bolt-on acquisitions that complement our current portfolio, and that give us an ability to also scale it up from a geographic scale, goes up from a geographic point of view, just like you saw us launch smartwater in other European markets more recently. That's a good example of how the scale-up continues, and how we've turned smartwater into one of the leading premium waters in the world, both here in the United States and now in some other new markets. Ahmet, comments on Asia-Pacific?

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

Can I just ask one quick one there as a follow-up, Muhtar? It sounds like what you're saying there this precludes an interest in scale M&A. The focus, just to be super clear, the focus is on bolt-on to the exclusion of scale – and we could debate scale, I realize, but it sounds like that's the focus.

Muhtar Kent - Chairman & Chief Executive Officer

I won't say it excludes anything, but I'm saying our focus would be – I think you should assume that it would continue in that area. If there's something that – obviously, the future, none of us know what the future holds, we can never be – we're always guided by the past, the future as something, and there may come some opportunities that we will look at. But, right now, what I will say to you is, base it on what I've said, the past few years being an indication of the future.

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

Great. Okay. Got it.

Muhtar Kent - Chairman & Chief Executive Officer

Yes.

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

Thank you.

Ahmet C. Bozer - Executive Vice President & President, Coca-Cola International

Mark, just to add on to the price/mix on Asia Pacific, the minus 6% was not a surprise to us. It was expected, and there was a lot of timing between the first and second quarters. If you look at the first half price/mix for Asia Pacific, we're in negative 2%, which is very much in line with what has been happening in Asia Pacific due to geographic mix and other channel mix issues. So, no surprises there.

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

Got it. Great. Okay. Great. Thank you, gentlemen.

Operator

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

Dara W. Mohsenian - Morgan Stanley & Co. LLC

Good morning.

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

Morning.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

So Muhtar, clearly very strong 4% pricing in North America. Can you run through how much of that was mix versus price, and then comment on the sustainability of higher pricing as you look out through the back half of the year once you cycle the higher pricing from last year? And longer term, how you think about any pricing? Clearly, we've seen a big improvement here over the last year, looks like it's worked well in terms of limited demand elasticity, some more longer term thoughts on pricing in North America?

Muhtar Kent - Chairman & Chief Executive Officer

Yeah, thanks. I'd say look, I think, North America delivered strong second quarter revenue profit, value share performance, driven by better increased marketing, better marketing and a disciplined approach to both volume, price and mix management.

Few things; mix management is working in our favor, consumer is very much approving the smaller packages. Smaller packages are growing much faster than larger packages, smaller packages have a higher NSR per liter, per gallon, per case; and therefore – then when price driven by – and the ability to keep the volume where it is and gain the price/mix, our historic best in terms of the past quarter performance in the United States.

Why is that happening? More marketing, more focus on better marketing as well. So, the rate is coming through, mix from transactions and packs coming through, that is the general comment I'd make. And Sandy, if you want to provide more color to this?

J. Alexander M. Douglas, Jr. - Executive Vice President & President, Coca-Cola North America

No, I absolutely agree with that, Dara. And our strategy is, as Irial and I said a year and a half ago, we were putting in place a strategy of building strong valuable brands with accelerated quantity and quality of marketing, and we were going to take proactive opportunities to get our price in line with the value of the brand and to lead price up in a consistent and strategic way, working on the development of packages that consumers want, in particular, premium packages, and the consumer is pulling very clearly to smaller packages, so they can enjoy the ice cold refreshing taste of one of our beverages, but in a portion size that they want.

The net effect, as Muhtar said, is that we have a benefit for mix, but our strategy as we look forward is to continue to lead. We see this strategy of disciplined price pack volume management underneath the brand building of strong powerful brand, as a long-term strategy and we continue to take action across our system every day to reinforce it, to grow our capability and to continue to grow our business in a very balanced and disciplined way.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

Okay. So, it sounds like the way you approach pricing in North America going forward, you think you'll continue to see progress both from a mix and rate perspective, and obviously while we could see a sequential slowdown as you comp over this period you're pretty committed to the efforts longer-term. Is that fair?

J. Alexander M. Douglas, Jr. - Executive Vice President & President, Coca-Cola North America

Absolutely. The strategy is very consistent and we continue to be optimistic about our ability to make the levers work because our brands are strong and we're investing in them and because our bottling system is executing very well and we continue to get better.

I think one of the mantras in our team, Dara, is that we've got the right strategy, but we are just beginning to hit our stride from a capability standpoint and we have much more opportunity to improve than we have progress made so far.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

Okay. Thanks.

Operator

Thank you. Next question is from Vivien Azer of Cowen & Co. Your line is open.

Vivien Nicole Azer - Cowen & Co. LLC

Hi. Thank you so much for taking my question. I was going to focus on Diet Coke. While your total sparkling unit case volume growth was clearly impressive, Diet Coke continues to be challenged. And so, Sandy, could you please update us on what you're seeing in terms of North America? And then, Muhtar, if you could comment on any other geographies where you're seeing Diet present a challenge? Thank you.

Muhtar Kent - Chairman & Chief Executive Officer

Sure, Vivien. Firstly, I'd say, the challenge is never taken for granted, but the challenge is broadly very much a U.S. centric one, so let me just preface that and then have Sandy comment on what's happening in the United

States and also comment – give you some more comments on other diet drinks like Coke Zero performance and so forth.

J. Alexander M. Douglas, Jr. - Executive Vice President & President, Coca-Cola North America

Sure. As we've discussed in several of these calls and in our interactions more one-on-one, the Diet and frozen parts of the food and beverage industry have been struggling for a number of quarters, it's getting into years now, as the consumer, the U.S. consumer moves really strongly to fresh. It's a good dietary change, actually, for the country, but the impact on categories and particularly categories that are appealing to diet-oriented positionings has been pretty negative.

Inside our particular portfolio, we have brands growing and have brands struggling, Coke Zero, as Muhtar mentioned, grew in the quarter. Diet Coke continues to struggle. Our near-term improvements, though, we're starting to see the consumer base stabilize. We have an incredible number of very loyal drinkers in Diet Coke that love Diet Coke, and our milestone that we're seeking to achieve soon is to level our revenue to match price and volume such that Diet Coke's revenue gets to flat and then starts to grow again.

As we look ahead, what I would tell you about Diet Coke is that we believe strongly in the Diet Coke franchise. Diet Coke, the brand is the number one diet beverage in the United States and it will be for a long time to come. We also are looking at changes in the category. Our largest competitor is changing their formula and they'll be launching that in August and that'll create a lot of buzz in the category, some of it good, as the good science of the safety of non-nutritive sweeteners gets out in the marketplace and is reinforced.

We are looking at multiple programs to not only strengthen Diet Coke, but to offer consumers adjacent innovation in the Diet Coke franchise and we're excited about the long-term future. But, as we say around here, it's a work in progress and a lot more work to do, but we still are very optimistic about the long-term.

Vivien Nicole Azer - Cowen & Co. LLC

Thank you.

Operator

Thank you. Next question is from Bryan Spillane of Bank of America.

Bryan D. Spillane - Bank of America Merrill Lynch

Hey. Good morning, everyone.

Muhtar Kent - Chairman & Chief Executive Officer

Hi, Bryan.

Bryan D. Spillane - Bank of America Merrill Lynch

Morning. So, just I had a question about geographic mix. I think you came up earlier that geographic mix was negative in the quarter. And is there any way you can outline for us if geographic mix also had a negative effect on profit margins or profitability? I know there's a lot of moving parts in the P&L, but when you kind of look at it currency-neutral, you saw some margin expansion. My thought is, within that margin expansion, you actually had some negative geographic mix on margins. So, any help on that would be helpful.

And then I guess related to that, as we're modeling out the balance of this year and I guess it goes back to Mark Swartzberg's question about the Pacific region, should we continue to model in negative price, geographic price/mix into our models for Pacific in the back half of the year? Thank you.

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

Okay. Hi, Bryan. Yes, on the margin question, our margins were negatively impacted by currency and by structural. Obviously, there is always some negative geographic mix that plays into that, but if you look at our margins and if you look at Pacific gross margins first of all, and if you look at them on a comparable basis, we lost some margin; but then if you take out currency and then you take out structural, then we were at positive margins again. And the issue more is about gross margin, it's not so much about operating margin. Then on your second question, which was...

Bryan D. Spillane - Bank of America Merrill Lynch

Just related to price/mix, price/mix in Pacific, should we continue to see negative geographic mix there?

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

It is normal in the Pacific to have negative geographic mix, just because of the base of the country – Japan, and then all of the emerging markets there. So, yeah, I would say for the remainder of the year, I would anticipate that we would have negative geographic mix in Pacific. Ahmet, do you want to comment on that?

Ahmet C. Bozer - Executive Vice President & President, Coca-Cola International

Yeah. I mean definitely not in the numbers that you've seen in the second quarter, but the general trend of – around a couple of points of (44:11). However, we do continue to aggressively implement our more balanced top line growth in terms of price and volume across the territory, and we are aiming to improve on that.

Bryan D. Spillane - Bank of America Merrill Lynch

All right. Thank you. And if I could just sneak one last one in for Sandy, if we're looking at smaller packs, the effect of smaller pack sizes in North America and just simply looking at it on transactions, I know it's kind of early, but is it incremental? So, if we were just measuring transactions, are the purchases of those smaller packages, are they incremental to the base business? Or is it cannibalistic? Thank you.

Muhtar Kent - Chairman & Chief Executive Officer

Yeah. Before Sandy comments on that, Bryan, let me just also say that also, in many parts of the Pacific, since your question was somewhat related to the Pacific and in terms of geographic mix, I think sparkling and particularly, Bryan, Coca-Cola, again with things that are happening around advertising and media spend and better quality, is getting stronger. Whether you take Indonesia or whether you take Southeast Asia, whether you take China, sparkling is getting stronger, and momentum on sparkling is getting better.

And therefore, I think you're also seeing a positive shift in category mix for us that is somewhat countered by continued geographic mix. So, I think there's a balance there, and I think we're happy to see that balance coming through.

I just want to mention that, that important this year, we see that balance beginning to come through – more favorable balance coming through. And then, Sandy, if you want to talk about the smaller packages referenced?

J. Alexander M. Douglas, Jr. - Executive Vice President & President, Coca-Cola North America

Sure. The growth in North America transactions is healthy, and that's coming from a number of things, but the small packages clearly are driving a tremendous amount of positive growth. Some of it is cannibalistic, but the cannibalistic nature of it accrues to higher margin; so the mix shift is positive, and then you have the incremental transaction growth that's being driven there.

And the primary reason is that the consumers want smaller packages. That's why they're buying more Cokes. Our marketing model is about more people enjoying more Cokes more often for a little bit more money, and that's what we seek to accomplish in the marketing and execution of our brands. And what you can see by the mid-teen growth of the smaller packages is, they're driving that transaction growth and transaction performance positive, so the net effect of it is that it's positive in net-net.

The other comment I'd make is that we have data in some of our retail partnerships that shows that moms, in particular, like small packs and are returning to the category to use small packs as a way of giving treats to teenagers and others in the household, and it's a particularly positive thing, because moms can do that with a pack that isn't too big; whereas, for many years in the category, we marketed packages that were too big, that were either wasted or over-consumed. Our package mix no longer does that, and it's one of the reasons why our growth is accelerating.

Bryan D. Spillane - Bank of America Merrill Lynch

Thank you.

Operator

Thank you. The next question is from Nik Modi of RBC Capital. Sir, your line is open.

Nik H. Modi - RBC Capital Markets LLC

Yeah. Thanks for the question. So, I just wanted to go back to the bottler reinvestment question, and maybe, Muhtar, you can give us some perspective on where the bottling match and resourcing has been most significant, just so we can get an understanding of kind of where there could be potential leading indicators on that impact on volume growth?

Muhtar Kent - Chairman & Chief Executive Officer

Thanks, Nik. Firstly, I would say to you, as I mentioned in my script, in remarks, that we had a very successful global system meeting back in May, and I've seen much more improved engagement and also commitment by our bottling partners across the board: small, large, Asia, Europe, Latin America, Eurasia and Africa, North America. So I'd say to you, it's broad-based; and I'd say to you that there is a great deal of excitement that is around our plans, particularly our reinvestment plan, and also great amount of commitment for better execution and more investment on the side of our bottling partners.

So, as I look at the pipeline of investment, I would say, I am much more encouraged today than I was, say, 12 months to 18 months ago. And I believe that that's driven by our plans and, basically, our belief in the future, and what is happening is yielding early results, and that is driving that engagement.

Nik H. Modi - RBC Capital Markets LLC

And Muhtar, are we starting to see cooler placements actually hit the market, and more feet on the street? Or is this kind of bottler commitments on that they're going to do it at some point in the next quarter or two?

Muhtar Kent - Chairman & Chief Executive Officer

No. We see it this year, and we will see it at a trend that continues to increase next year and beyond – certainly over a three-year period – here in the United States, in Latin America, in Europe, in Asia Pacific, in Eurasia and Africa.

Nik H. Modi - RBC Capital Markets LLC

Great. Thanks so much.

Operator

Thank you. Last question is from Ali Dibadj of Bernstein. Your line is open. You may proceed with your question.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Hey, guys. Thanks. A couple of things I wanted to talk about, if possible. One is around top line and one is around asset base. First on the top line, I think you guys have done a pretty good job explaining and playing out the pieces in terms of price/mix, which is great.

On the volume side, how would you describe the company trajectory right now, from a volume growth perspective? So, do you think we've seen the bottom, in terms of volume growth, after a series of kind of plus 1% and now at 2% and some easier comps going forward? So do you think we should be projecting kind of a turning point upward, in terms of volume growth for the company going forward? And I'll come back with the asset question in a second.

Muhtar Kent - Chairman & Chief Executive Officer

So, Ali, the algebra is volume times, price is what we generate as revenue and I think it's good that you ask that question and it's one of the important elements of the algebra.

I think we're encouraged by actions where we basically expected to be. We're cycling 3% and we generated 2% and I think the volatility, as I mentioned in Russia on the verge of a recession today, from a macro point of view or Brazil where there's still significant challenges in disposable incomes; China disposable income levels haven't improved significantly. But importantly, improving trends on share were an all-time high in many markets, value share particularly which is very important and value share is driven again by the actions that we're taking.

So, based on your question have you seen the bottom? I'd say, we're about where we expected to be, and we see that what we're doing is continuing to help keep that equation in place at an improving trend; equation being if the marketing wasn't there, the volume wouldn't hold up where it was and the price wouldn't hold up where it was. See it in that respect – both being propped up by the investments that we're putting into the marketplace and those investments being driven by the zero-based work that we're generating.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Okay. Very helpful answer. On the asset side of things, if you look at Germany and India and Vietnam, (53:12) those continue to do quite well. Seem like they're improving.

In North America from discussions we've had – this call, other calls – it looks like that's getting better too. You know productivity and profits are actually growing finally. Do you think there are ways – what are the hurdles given all those improvements for you not to be able to divest or re-franchise those assets more quickly and have a smaller asset base, which is a long-term plan even more quickly than you've laid out so far?

Muhtar Kent - Chairman & Chief Executive Officer

I think you said it, those are continuing to improve. As they improve, they become – there's more that are getting in line for those assets and that's a good place to be. And I think basically we see those are great markets, not just in our hands but in the right hands. And that's the way we see it. And I think that we are encouraged by the internal plans we have, and I think that's all I can say right now. We're in a place where, let's call it this way, the fruit is getting riper.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Okay. I just hope it's not overripe at some point. I appreciate it. Thanks, guys.

Muhtar Kent - Chairman & Chief Executive Officer

This fruit will never get overripe. It will be good on the tree and off the tree.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Thanks, guys.

Operator

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

Muhtar Kent - Chairman & Chief Executive Officer

Thank you, Kathy, Ahmet, Sandy, Irial and Tim. In summary, our second quarter results were in line with our expectations and as we enter the second half of our transition year, we are where we expected to be. While there's more work to do. As I said, we remain confident that we have the right plans in place to restore momentum in our global business.

The long-term dynamics of our industry remain promising. And we absolutely believe that The Coca-Cola Company is best positioned to capture that growth in non-alcoholic beverages and to deliver long-term value to our share owners. As always, we thank you for your interest, your investment in our company and for joining us this morning.