Operator

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

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

Timothy K. Leveridge - The Coca-Cola Co.

Good morning and thank you for joining us today. I'm here with James Quincey, our Chief Executive Officer; and Kathy Waller, our Chief Financial Officer.

Before we begin, I'd like to remind you that this conference call may contain forward-looking statements, including statements concerning long-term earnings objectives and should be considered in conjunction with cautionary statements contained in our earnings release and in the company's most recent periodic SEC report.

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'll turn the call over for your questions.

As a reminder, please limit yourself to one question. If you have more than one, please ask your most pressing question first and then re-enter the queue after that.

Now, let me turn the call over to James.

James Quincey - The Coca-Cola Co.

Thank you, Tim. Good morning, everyone. We were encouraged with our performance this quarter, and we can report that we are on track to deliver our full year plan. Today, I'd like to talk to you about the performance in the quarter and then drill down a little bit into the actions that we're taking to expand our portfolio and drive top line growth and, finally, update you a little bit on the refranchising process.

In the quarter, we gained global value share and grew organic revenue 4%. This was driven by North America, Europe, Mexico and China. We also benefited from improvements in certain large emerging markets like India. Our strategic focus on small baskets and packs continued in the quarter, resulting in strong 3% price/mix and transactions outpacing volume by two points. Finally, our ongoing productivity initiatives helped drive strong underlying operating margin expansion in both the quarter and year to date.

Turning to our operations around the world. We are pleased with our continued good performance in North America, and we have full confidence in our sustainable growth strategy. As we announced on Monday, Sandy Douglas will retire as President of Coca-Cola North America after a remarkable three-decade career with the company. He'll be succeeded by Jim Dinkins, who currently serves as Head of the Minute Maid business unit and Chief Retail Sales Officer for Coca-Cola North America.

Sandy's done an outstanding job leading our flagship market through a period of enormous system change and has set it up for success in the coming years. We thank him for his leadership and wish him well in his retirement. Jim, who is a highly experienced and respected leader within the Coca-Cola system, will assume the leadership of our North American segment as of January 1, 2018. We look forward to introducing him to many of you at our upcoming Investor Day on November 16.

Turning to Mexico, our volume did decline a point in the quarter, negatively impacted by some cooler weather and natural disasters, and higher rainfall as well as slightly softer consumer environment. And in our Europe, Middle East and Africa group, solid marketing and innovation, coupled with improved execution, continued to drive mid-single-digit organic revenue growth.

In our emerging markets, China saw another quarter of improving performance, with volume up 2% due to strong marketing campaigns across sparkling soft drinks, juice and premium water. At the same time, the business has made a strategic decision to de-emphasize low-margin water, which follows the strategy we are executing with success elsewhere. Whilst this resulted in a 3-point impact to China's volume growth in the quarter, it did not impact our profitability.

Also, during the quarter, India returned to growth, with volume up 6%, driven by solid performance across the portfolio. Our business successfully moved past the recent difficulties related to demonetization and the implementation of a Goods and Service Tax during the first half of the year.

With that said, we are still facing difficult conditions in certain markets, notably in Latin America. Venezuela and Brazil were a 1-point drag on our overall global volume. However, there are some indications of light at the end of the tunnel in Brazil where we've seen the first signs of recovery in GDP for the country. However, consumption of consumer goods appears to be lagging behind durable goods and services, so it may take further time for recovery to translate into faster FMCG growth.

So, we're continuing to build out our returnable packaging infrastructure and adjust our price/pack architecture, which has resulted in sequential improvement in volume trends as we have progressed through the year. Since launching our affordability plan, we've seen good results from entry packs, which grew double-digits in the quarter.

Now while we see various opportunities and challenges in each of our markets, one thing is consistent across all of our businesses: the consumer landscape is changing. We see an increasing number of small and fast competitors; consumers' desires are evolving, whether they're seeking low or no sugar options, drinks with functional benefits or simply more variety.

In order to thrive in this kind of environment, we need to be more entrepreneurial and agile, to take intelligent risks, and build a broader consumer-centric portfolio. As we accelerate our way forward to becoming a total beverage company, new categories and premium segments will play key roles in our growth. We are growing our portfolio in multiple ways whilst leveraging the strength of our core brands as its foundation.

First, we're identifying and incubating high-growth brands. For example, in the U.S., we acquired the rights to Topo Chico, a premium sparkling mineral water from Mexico that has earned a strong following in Texas and beyond. Our Venturing & Emerging Brands unit will serve as an incubator for Topo Chico and will guide the development of the brand's distribution footprint. Within VEB, this approach has been highly successful for other investments, like Honest Tea, maintaining the essence of the brand and the entrepreneurial culture of the company while supporting its rapid growth phase within the power of the Coca-Cola system.

Second, we're building stronger capability to nurture and expand small brands internationally. We've learned a lot from the VEB model in the U.S., and we're leveraging those lessons to develop similar structures and processes in other markets. For example, in Central and Eastern Europe, we recently launched a unit in partnership with our bottling partner, Coca-Cola Hellenic.

We will seek emerging brands and potential partnerships, but we will start by testing premium brands in high-value outlets and channels through a separate and dedicated sales force. Many of these, like smartwater, ZICO, Appletiser, will be lifted and shifted from other places. Products will follow the incubate grow and scale path, with a goal to expand fast and discontinue quickly if necessary.

Third, we're looking at opportunities in growing premium segments such as adult craft beverages. As you know, more consumers, most notably adults, are seeking unique and distinct products with sophisticated flavors, quality ingredients, and smaller-scale craft production.

Mixers are seeing a resurgence in many parts of the world as part of this trend. So earlier this year, in Spain, we introduced a line of premium mixers in glass bottles called Royal Bliss for sale only in the on-premise channel. In Great Britain, we just relaunched the storied Schweppes brand to offer mixers designed to pair even better with premium spirits, including a new range of premium mixers called Schweppes 1783.

We're also building on a solid foundation in sophisticated flavors through brands like Blue Sky, Barrilitos Aguas Frescas in the U.S., and Appletiser and BOBO (09:27) in Europe. And we plan to leverage these in the appropriate channels where these premium products can excel.

Now while innovating and growing small brands in new categories is critical, it is only part of the equation. That's why we're continuing to invest in our core billion-dollar brands to drive relevance. We increased our media investments behind our sparkling brands before moving aggressively into non-sparkling categories, and we will continue to innovate within these core brands as well, for in the end, a healthy core will fuel our expansion as a total beverage company.

So for example, we launched Coca-Cola Zero Sugar in the United Kingdom last year. And with the combination of a great-tasting reformulated product, better marketing, new packaging, and improved execution, this product has been in the market for more than a year, and we continue to see double-digit growth in the UK.

And we started to roll out Coke Zero Sugar to other markets around the world, including the U.S., which leveraged the UK marketing and execution playbook to launch in the third quarter. We've seen positive results, including a meaningful acceleration in Coke Zero's trends in the U.S. since launch, and year-to-date global volume and revenue for the brand is growing double digits.

We're applying the same concept to refresh our important Fanta brand. We relaunched Fanta globally this year, reaching most of our major markets by the end of the second quarter. We did this with a four-pillar playbook. That was a new look and a new integrated marketing campaign, a new recipe that tastes great and reduces added sugar, a new spiral bottle that differentiates Fanta on the shelf, and improved execution and more media investment. Thanks to this work, we've seen a return to volume growth and an acceleration in revenue growth for Fanta.

Now obviously, not everything is going to work. That is why an agile testing and learning approach is essential. For example, in Costa Rica, we launched Fanta sweetened only with juice and with no added sugar. And we learned that consumers saw the new formula really as an incremental brand rather than an improvement to the existing brand. So we had to bring back the original formula and are retooling the market for this new approach.

The lesson is ultimately a single approach across all markets will not work. We need to tailor our approach based on consumer mindset and tastes in each market. Further, our model needs to be flexible, so if a brand introduction isn't successful, we can adapt and change strategies quickly. And we have empowered our local leaders to make these key brand decisions.

Lastly, moving on to our system, as we approach the end of 2017, we're nearing the completion of the refranchising process. In the U.S., our refranchising will be complete when the Tri-State Operating Unit and the West Operating Unit transactions close, which we expect to be in the coming weeks. This will leave Canada to be refranchised, and our expectation is to transition to a partner in 2018. Also in early October, we closed on a transaction that makes our company the majority owner of Coca-Cola Beverages Africa. As we've previously disclosed, we're in discussions to refranchise this territory, and also expect this to happen in 2018.

Before I hand the call over to Kathy, I'll end by saying this was a solid quarter and that we're committed to delivering against our full-year targets. We will continue to execute our plan with innovation and marketing by focusing on the consumer and building a culture that embraces change, focuses on growth, and is entrepreneurial in spirit.

Thank you and, Kathy, I'll hand over to you for the key financial results.

Kathy N. Waller - The Coca-Cola Co.

Thank you, James, and good morning, everyone. I'll start by highlighting a few key items we've reported today before moving on to talk about guidance.

We delivered solid financial results in line with our expectations, with strong organic revenue growth and operating expense leverage driving double-digit growth in underlying profit before tax.

As James mentioned, we continue to refranchise our company-owned bottling operations, which resulted in a 15% decline in comparable net revenues. However, adjusting for those divestitures, we grew organic revenue 4% in the quarter, with positive performance across all operating segments.

Comparable gross margin increased over 150 basis points, reflecting the benefit from refranchising our bottling businesses and strong price/mix, partially offset by increased commodity costs and a slight currency impact. Comparable operating margin grew over 400 basis points, driven by the divestitures and continued productivity, including the ongoing removal of stranded costs in Coca-Cola Refreshments.

Moving to cash flow, we generated $4.7 billion in free cash flow year to date and have returned that excess cash to our shareowners. Year to date, we've returned $3.2 billion in the form of dividends, reflecting a 6% increase in our dividend this year and $1.7 billion in net share repurchases.

Now turning to outlook, we continue to expect comparable EPS to be flat to down 2% this year as we complete the bottler refranchising process and return to a higher-margin, capital-light business model. We continue to expect to deliver 3% organic revenue growth and 7% to 8% growth in underlying profit before tax.

We now expect currency to be a 1-point headwind on profit before tax for the full year. The improvement in the currency outlook is offset by an increase in the full-year structural outlook. The higher structural headwind is due to the transition of our interest in Coca-Cola Beverages Africa, which we will account for as a discontinued operation, as we intend to divest the operations in 2018. As such, we will no longer derive equity income from our previous minority stake in CCBA.

In addition, the largest driver of the structural impact in Q4 is from the one-time impact from eliminating intercompany profit from our concentrate sales. In addition, because CCBA will be accounted for as a discontinued operation, we will exclude CCBA's net income from our comparable earnings.

So in summarizing the above, for the full year, we expect a $0.02 lower currency headwind to offset a $0.02 higher structural headwind, so our full-year comparable guidance remains the same. In terms of phasing, the improved currency outlook with a $0.01 benefit to the third quarter, and we expect it to benefit the fourth quarter by roughly a $0.01. However, we expect the $0.02 increase structural headwind to impact the fourth quarter.

As you model the fourth quarter, there are few other items to consider. First, our calendar fourth quarter will benefit from one extra day versus the prior-year period, which equates to roughly one additional point of topline growth for the quarter. Second, the hurricanes that occurred in North America during the third quarter caused disruption to our supply chain, leading to an estimated $50 million increase in costs, the majority of which will impact the fourth quarter.

Third, we expect the net impact of acquisitions, divestitures and other structural items to be a 27-point headwind on net revenue and an 11- to 12-point headwind on profit before tax. And finally, we expect currency to shift to a zero- to 1-point tailwind on net revenue and a 4 to 5-point tailwind on profit before tax as we cycle significant volatility in the U.S. dollar from the fourth quarter of last year.

Now, looking beyond the fourth quarter, we will provide more comprehensive 2018 guidance on our fourth quarter call in February. However, we are reaffirming the outlook on certain items provided at the beginning of this year. We continue to expect structural items to be a 1- to 2-point headwind on profit before tax. Remember, we have a rolling hedging program on hard currencies, so the currency benefit we expect in the fourth quarter should not be taken out of context and extrapolated into a similar benefit for 2018. As such, we still expect currency in 2018 to be a low single-digit headwind on profit before tax. And finally, we continue to expect that our effective tax rate will increase to 26% in 2018.

As you recall, we are holding an Investor Day on November 16. During that time, we'll focus on our longer-term opportunities and how we'll get there. We look forward to sharing much more with you then. So, please plan to join us via our webcast.

And with that, operator, please open the call for questions.

Question-and-Answer Session

Operator

Certainly. We will now begin the question-and-answer session. Speakers, our first question comes from Dara Mohsenian from Morgan Stanley. Your line is now open.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

Hey, good morning.

James Quincey - The Coca-Cola Co.

Hi Dara.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

My question was really around North American pricing long term. Obviously there's been a lot of concern in general over the pricing environment in the U.S., not just in beverages but across the CPG industry with brick and mortar retailer struggles and theoretically pushback as they look for lower pricing and differentiate themselves or just a margin grab versus CPG suppliers. So, I was hoping in that context, you could give us a review on if Coke's increased focus on pricing in the U.S. over the last few years, is that pressured at all longer term by these retailer dynamics? How do you manage through that? What are you hearing from your customers? And also, just given the new leadership in North America as well as the bottler refranchise, I mean, how does that play into that pricing focus longer term? And how do those changes impact that? Thanks.

James Quincey - The Coca-Cola Co.

Yeah, sure, Dara. Look, a few thoughts. Firstly, I think the most important thing we focus on as a starting point is making sure we are bringing the innovation, the marketing and the execution to bear for each customer such as the beverage category grows faster than their overall business. And that is the basis on which you get better in-store placements, execution, and the pricing conversation becomes more manageable because in the end, you're creating disproportionate value for the customer. So, that's the first objective.

The second point I would make is we have different – to some people, we are a very multi-channel business. Yes, we have large presence in the grocery channel, but we have multiple other environments where we sell our beverages. And therefore, part of it is being in lots of different places that helps manage the pack/price architecture dynamics and creates value for all our customers in the different channels.

And I would, perhaps, leave a last third thought on the marketplace, which is, yeah, some of the extra pressure from private labels or the stratification of retailers on strategy and pricing is somewhat of an emerging dynamic in U.S., but it has been present in other parts of the world and we have found ways to work with each of our customers to make it work for them and for us. So, we are believers in our ability to create value for ourselves by creating value with the customers even in this ongoing changing environment.

And I'll leave you with the last thought, which is, there's no one better positioned to understand this in the context of North America than Jim Dinkins because he's ran the national sales company for the U.S. system for a large number of years. He's worked as – leading accounts in lots of other channels, too. So he understands this dynamic very clearly, and he has been at the forefront of leading a team to build value with our customers in collaboration with our bottling system.

Operator

The next question comes from Carlos Laboy from HSBC. Your line is now open.

Carlos Laboy - HSBC Securities USA, Inc.

Hey everyone.

James Quincey - The Coca-Cola Co.

Good morning.

Carlos Laboy - HSBC Securities USA, Inc.

James, what might be some of the green shoots of performance list that you're seeing in the North American territories that were first refranchised?

James Quincey - The Coca-Cola Co.

Well, I think, the first and most important green shoot is to look at the performance once you get past the 12-month mark, by which I mean that it's as much like having any new thing, management attention and focus gets heavily directed to new things. And so, of course, you would expect better performance initially on refranchising, and we have got that in the vast majority of territories. But I think the most interesting thing is that after 12 months, when it's cycling and people have got the real hard work of building for the long term, we're still seeing the vast majority of the refranchised territories performing ahead of where they were before.

So they've been able to build on the great re-foundation work that CCR in conjunction with the North American team did. And the sorts of places we're seeing that performance coming from is not just doing better with existing customers which is true, but also in finding new customer outlets expanding the universe of the customer outlets and performing better in the small formats which in a way is partly the theory of the case of why refranchise to local partners.

Operator

The next question comes from Nik Modi from RBC. Your line is now open.

Nik Modi - RBC Capital Markets LLC

Thanks. Good morning everyone.

James Quincey - The Coca-Cola Co.

Good morning.

Nik Modi - RBC Capital Markets LLC

James, a quick question on Coke Zero Sugar. When you think about the launch in the markets that you have and also the early data points from the U.S., how much interaction is there with Coke Classic and if you could just give us some context on kind of overlapping cannibalization rates?

James Quincey - The Coca-Cola Co.

Yeah, I mean, I'm not going to get into the mathematical specificity, but I think look the headline is that as Coke Zero Sugar is coming to marketplaces. And particularly interesting, those ones where it's been there for more than 12 months, a bit like my comment on refranchising, we're seeing continued acceleration of Coke Zero Sugar. It's lifting the whole franchise.

Yes, it is cannibalizing at times either Coke Light or sometimes Coke Original. But in the net, there is additional volume and additional consumers coming back into the franchise. I think it's unrealistic to expect cannibalization to be zero. But obviously the key is that to be a net positive. So, we are pleased with how it's playing out. It's slightly different in different countries depending on the mix of the Coke franchise in those countries, but it's a net positive and we are encouraged.

Operator

The next question comes from Ali Dibadj from Bernstein. Your line is now open.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Hey, guys.

Kathy N. Waller - The Coca-Cola Co.

Hi.

James Quincey - The Coca-Cola Co.

Good morning.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

I wanted to get an update on the progress from a productivity perspective. So the $3.8 billion that you mentioned last time, where are we on reinvestment phase versus dropping to the bottom line phase? And essentially, coming to brass tacks, how much in billions of dollars should we expect to drop to the bottom line?

And if you want to be generous and answer a second question, lower priority question, can you talk about the Topo Chico brand positioning versus LaCroix for example in the marketplace? Thanks. Please choose the first one if you're going to choose one.

Kathy N. Waller - The Coca-Cola Co.

Okay, so I will take the first one and James can decide if he plans to be generous or not. So first of all, we separate those two programs, Ali, from the $3 billion program, the original program that we announced earlier and then the $800 million program that we added on. On the $3 billion program, I would say we are on target. The productivity is clearly coming from three different places, cost of goods, DME, and OpEx. And we're on target to do around $400 million this year. And we had always said about half of that would be reinvested to drive growth.

Of the $800 million program, that is associated with our Lean Enterprise activities. Those activities really just got started last quarter, so this year. So they really – and we've said that you'll see the benefits of those in 2018 and 2019, and they'll be split between those two years. And again, about half of that will go to reinvestment and half will hit the bottom line. So we are on target with both programs, and the Lean Enterprise program has started off well so far. And we will plan to update you as we continue to go along.

James Quincey - The Coca-Cola Co.

And if we have time, we'll come back to Topo Chico, Ali, so that we can respect everyone's one question at a time.

Operator

The next question comes from Laurent Grandet from Credit Suisse. Your line is now open.

Laurent Grandet - Credit Suisse Securities (USA) LLC

Good morning, James. Good morning, Kathy.

James Quincey - The Coca-Cola Co.

Good morning.

Kathy N. Waller - The Coca-Cola Co.

Good morning.

Laurent Grandet - Credit Suisse Securities (USA) LLC

My question is about e-commerce. Your commentary in the last earnings laid down the size of the opportunity of e-commerce and the way they were investing ahead of the curve in people and big data, saying that they had a larger market share in e-commerce than elsewhere. Could you please tell us how you are doing after that channel, your objectives, and how you plan to get there?

James Quincey - The Coca-Cola Co.

Sure. Firstly, we over-index in terms of share, generally speaking, online. I think the second thing I would say is e-commerce is not one thing. It's a spectrum. And in part, what I mean by that is there are pure-play e-commerce players. There are bricks-and-mortars who have e-commerce. And you can say that the omnichannel, there are aggregators. Remember, we're not just grocery. We work with a lot of restaurants, and there are all sorts of restaurant aggregator platforms, and restaurants or some QSR chains have their own platforms as well. So there's a wide spectrum of different versions of how consumers are interacting with customers that is digitally enabled.

As I said, we very generally over-index. Our objective is to work with each customer, helping them drive value for the beverage category with their consumers. And generally speaking, we do better when that happens. And so you can see progress in the traditional grocery idea of e-commerce, whether omnichannel or pure-play. You can see progress on restaurant or quick service platforms. So there's a lot of growth, a lot of activity.

But in the simplest sense, it comes back to the central idea. If we can work with them to help the beverage business grow faster than their overall business and be a key participant, it creates a lot of value for them. And therefore, we have a lot of engagement with many of these companies on how can we help create value for them within the context of their strategy.

Operator

The next question comes from Bryan Spillane from Bank of America Merrill Lynch. Your line is now open.

Bryan D. Spillane - Bank of America-Merrill Lynch

Hi, good morning, everyone.

Kathy N. Waller - The Coca-Cola Co.

Good morning.

James Quincey - The Coca-Cola Co.

Good morning, Bryan.

Bryan D. Spillane - Bank of America-Merrill Lynch

Hi. I have a question about Latin America. And, James, if you could just maybe give us a little bit of an update on it's been a drag to organic sales growth and unit case volume, or I guess you'd say it's been a drag on unit case volume. A lot of that is Brazil, Venezuela, I guess the Central America business unit as well. Can you give us a description of, A), how far away are we from maybe the environment bottoming? Second, maybe just some of the actions that Coke has taken to adjust to the environment? I'm just trying to get a sense for how far away we are from being at maybe a clean base where you can start to grow again.

James Quincey - The Coca-Cola Co.

I think let me take them in pieces. Each one is a slightly different story, although the headline is, I'm hoping to see the light at the end of the tunnel by the end of the year.

What does that mean? In Brazil, we've talked about the actions we've been taking around price/package architecture, around returnables, investing in new infrastructure, not over-promoting to try and protect the volume but to try and reestablish our price/pack architecture that's going to work for the medium term.

Brazil as a country is struggling or has struggled. There are some signs, as I commented on the script, of light at the end of the tunnel. FMCG is lagging durables a bit in that. Am I completely happy in Brazil? No, I wouldn't say so. I think there's more that we can do that's within our control. But I am still somewhat hopeful that that will all play out by the end of the year and things will start bottoming out in the fourth quarter. It has been sequentially improving as we've gone through the year. I think with more focus and more effort, we can see this play through, and so it will bottom out by the end of the year. We'll see, but I think the signs are encouraging.

Venezuela is really a very tough human situation. It's almost a tragedy. And I think that the simple reality is the fourth quarter of significant declines in Venezuela will be the fourth quarter this year, at which point it will have shrunk to a size that it won't be able to impact our overall numbers to the same extent in 2018. I would love to think it's going to get better. I'm not hopeful in the short term. But I would say it's going to stop impacting our numbers heavily once we get into 2018, and then Colombia similarly to Brazil.

So I think the sum of all that is what I said at the beginning, we've been through a very tough year. We've been taking action. We are happy with some of the things we've done. We've got more work to do in places. But the floor should be set by the end of the year.

Operator

The next question comes from Judy Hong from Goldman Sachs. Your line is now open.

Judy E. Hong - Goldman Sachs & Co.

Thank you. Good morning.

James Quincey - The Coca-Cola Co.

Good morning.

Kathy N. Waller - The Coca-Cola Co.

Good morning.

Judy E. Hong - Goldman Sachs & Co.

James, can you give us your perspective around your performance in some of the non-sparkling category clusters? You look at the quarter I think the growth actually softened across all of your segments there. Why do you think we aren't really seeing stronger growth, setting aside what you're doing in China? And then I think you talked about maybe increasing investment behind some of your bigger brands. So maybe you can elaborate on your strategy and the investment, whether that will be funded by shifting investments from sparkling to these brands or the total portfolio really looking to further increase investments.

James Quincey - The Coca-Cola Co.

I think there are a few questions in there, Judy. Look, I think, as we disaggregate the categories, obviously, the categories intersect with the geographies. And so the story is not neither claimed by geography, nor by category. But let me try and add a little texture to what we see going on. I think sparkling beverage growth got a little bit better volumetrically in the quarter. And I think that that shows a slightly improving trend.

So I think firstly, the sparkling has got volumetrically better. It's back to slightly across the zero line, whereas it was negative at the beginning of the year, and that's coming with better revenue growth. So our focus on Coke Zero Sugar, the re-launch of Fanta, Sprite in some places, smaller packages, working with customers is getting a better volume trend sequentially and good pricing. So, I think there's good progress there.

In terms of juices, what we're really seeing there is doing a lot better on the top end, things like chilled juices, plant-based drinks, fairlife, the premium dairy going strongly, would love to have more capacity to grow even faster. You're seeing some growth in the juice drinks end of spectrum, where there's some volume has come out, it's more in the nectars. I think that's part of people converting up and converting down. So, I think there's continued trend there.

In terms of teas, good growth there, volume growth, price growth. We're pleased with our performance in teas. We're going to continue to invest in tea. Coffee, lots of up in coffee. In the U.S., we've launched our own brands. We've launched some brands in partnerships with some other players. All of those have gone successfully well. We've got new innovations coming. We had a bit of a bump in coffee in Japan in the quarter. Not so pleased about that, but we have the plans in place to do better.

The one where we have done less well and it was a choiceful decision is on water. In some parts of the world where we have been too heavily into very low-margin, large bulk water, we have pulled back deliberately in the quarter and that has affected some of our water growth rate numbers.

Operator

The next question comes from Lauren Lieberman from Barclays. Your line is now open.

Lauren Rae Lieberman - Barclays Capital, Inc.

Great, thank you. Good morning.

Kathy N. Waller - The Coca-Cola Co.

Good morning.

James Quincey - The Coca-Cola Co.

Good morning, Lauren.

Lauren Rae Lieberman - Barclays Capital, Inc.

Just want to ask a bit about, in North America, sticking with the conversation around price/mix, so it just jumped out to me that sparkling price/mix is up 3% but total for North America was 2%. So what was the drag there? Was it price? Was it mix? Was it category performance? And then, in particular, if the answer, since I get one question, was it something in water in particular with smartwater? Are there plans in place for re-accelerating that business? Thanks.

James Quincey - The Coca-Cola Co.

So, yeah. I mean, we're going to re-accelerate smartwater. Look, I think the key in terms of North America is to see a bit of a trend on the price/mix. You'll remember from last quarter, for example, that we talked about a point of the revenue growth was extra inventory in our fountain business ahead of the summer. Obviously, that's been boxed out in the third quarter.

So said in simple terms, I think the easiest way to understand North America and look through inventory and look through natural disasters is as I look to summer as a period, let's add the second quarter and the third quarter together and look at what we got. And there, I think, you can see revenue is 3% to 4%, price/mix is on average 3% which is in line with the year-to-date trend and is in line with what we did in previous years more or less.

So I think when you just look past some of the blips what you see is an ongoing successful track record of driving the North American strategy, reinvigorating the portfolio, a focus on revenue, a focus on smaller packages, a focus ultimately that drives price/mix ahead of volume, with transactions ahead of volume. And I think that's what you saw once you ignore the blips in the third quarter. And so, we're committed to our strategy, and we continue to drive it.

Operator

The next question comes from Kevin Grundy from Jefferies. Your line is now open.

Kevin Grundy - Jefferies LLC

Thanks. Good morning.

Kathy N. Waller - The Coca-Cola Co.

Good morning.

James Quincey - The Coca-Cola Co.

Good morning, Kevin.

Kevin Grundy - Jefferies LLC

So James, just sticking with the topic of North America. But my question relates to your expectations with respect to competitive activity. And, I guess, I ask you in the context that your key competitor had probably one of the most difficult quarters they've had in a long time in North America beverages and they have discussed ramping investment in key categories to address some of these market share losses, which will include carbonated soft drinks and sports drinks. So, you've talked a lot about your strategy, which has been helpful. Can you talk about your expectations with respect to competitive environment in the near to intermediate term and your ability to flex up spending to respond, if necessary, within your guidance? Thank you.

James Quincey - The Coca-Cola Co.

Look, I think the North American market is certainly one of the most competitive markets around the world. It's not just one large competitor we face. There are multiple competitors large, medium and small. There's a lot of activity, a lot of innovation, a lot of jockeying. In the end, we will continue to focus on our strategy.

We have a clear strategy about driving the portfolio inspired by the consumer, working with customers to create value for the beverage category, our underlying category because that includes all people, brands and products. We work with the customers to create value for the beverage category, which will drive, ultimately, growth.

And I think that has shown that we have been able to gain share over the long-term, on a steady basis, as we have deployed this strategy, supported, of course, by the increased and improved bottler execution investment through the refranchising. It's a long-term game plan. I've commented on previous quarterly calls.

Will there occasionally be quarters where customers take certain decisions that cause disruptions to that or competitors do? Of course, that may happen, and we will respond. But we believe in our strategy. We think it's the right long-term play and we will always look to get back to it even if we respond to short-term actions.

Operator

The next question comes from Andrea Teixeira from JPMorgan. Your line is now open.

Andrea F. Teixeira - JPMorgan Securities LLC

Thank you. James, if you can expand on the comment about better execution of the refranchised bottlers in North America. So how was the performance gap of the refranchised territories against BIG in terms of volumes and pricing? And as it relates to better execution at the trade or would you say the flat fizzy volumes against negative before has been mostly driven by innovation by Coke Zero Sugar, smaller packs? So basically, I wanted to ask you if the 2% is coming – performance that you had is coming from better execution or just better mix?

James Quincey - The Coca-Cola Co.

I think the top part of the answer is if all the pieces worked together. It's about having the right portfolio for the consumers, the right marketing, the right innovation and the right execution. There's no question that when you bring all those things together, that's when you get the best possible result. In terms of what better execution from the refranchised bottlers, I think that they have been able to build on the foundation that was created by the CCR team. That was we pushed more devolution of accountability, of empowerment, down into the organization of this national bottling company. We were refounded some of the manufacturing supply chain and execution of processes. I think the local bottlers have been able to take that, bringing their passion, their entrepreneurialism, their local knowledge and turned that into an even better result.

As I mentioned earlier, that's typified by things like more outlets, typified by things like working better with the smaller format, yet also, at the same time, being able to increase the degree of execution and service to some of the larger customers. So it's been an ability to work across the board. There wasn't a silver bullet. It was in fact getting a little bit better across the spectrum, from the largest customers to the smallest customers, in support of our portfolio marketing and innovation plan.

Operator

The next question comes from Brett Cooper from Consumer Edge. Your line is now open.

Brett Cooper - Consumer Edge Research LLC

Good morning.

James Quincey - The Coca-Cola Co.

Good morning.

Brett Cooper - Consumer Edge Research LLC

A question on reinvestment. And when the company started the program of savings and reinvestment, emerging markets were turning negative or in some cases were already negative, and probably didn't get as much investment as they otherwise would have. As we're seeing some signs of emerging markets improving, is it safe to assume that we'll see investments accelerate there?

And then can you just expand on what you've learned from the activity you've undertaken in developed markets, and then finally, where those funds, if my assumption that increased investment is coming will come from? Thanks.

James Quincey - The Coca-Cola Co.

So yes, it's safe to assume that we're going to invest where we see the opportunity for growth. And therefore, as the emerging markets begin to bounce back, I'm not sure they're all going to bounce back to the same degree as they were pre-crisis. But we absolutely will be investing to drive our market position.

Now I would just underline that other than some situations very specifically, we don't tend to try and pull back very aggressively when markets turn down. We generally speaking adopt the strategy when there's a downturn, particularly in some of the emerging markets, it's better to invest through it to gain competitive position so that you are positioned even better for the upturn. So it's not the case that we pulled the cord on loss of markets.

Having said that, as I said at the beginning, we will up the investment as we start to see the acceleration, and you can see that we've talked about things we started to do in India, things we started to do in China. As we see the momentum starting to come back, we're investing behind those.

Will it be across the portfolio? Yes. It won't be shotgun. It needs to be focused on helping us achieve category leadership positions or near-leadership positions or driving new interesting consumer innovation in conjunction with the execution of our bottling partners. We're not trying to do more mediocre stuff. We're trying to generate good strong consumer brands, whether they be large or they be niche, but that they be profitable and they be successful.

Operator

The next question comes from Mark Swartzberg from Stifel. Your line is now open.

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

Thanks, good morning, James and Kathy. My one question, James, is refranchising-related and how much runway you think you face for sustained improvement in price/mix in Western Europe, where you're a little more into the exercise of refranchising, and also China and Africa where refranchising has begun or will soon begin, simply the price/mix opportunity in front of you in those markets?

James Quincey - The Coca-Cola Co.

I think in Western Europe, we've had a very good start to the creation of CCEP [Coca-Cola European Partners]. Yes, it was a little bouncy in the third quarter with some localized poor weather that offset the better weather that was in Q2. If you look past those blips, I think you see momentum in Western Europe coming back in and good growth.

I've talked previously about expectations on price/mix, where in Western Europe I think we can have, in comparison perhaps to the U.S., a little more volume growth and therefore a little more balance between volume and price in Europe. As we go forward, the U.S. is more assertively looking for a package price architecture mix led part of the equation. So I think that the sustained idea for Western Europe is a balance.

In terms of China and Africa, there's a slightly different situation in Africa. Clearly, there's more opportunity for expansion of the portfolio volumetrically, although of course there will be a price/mix element. And China is again a place where we're looking to rebuild the volume momentum with a moderate degree of price/mix.

Operator

The next question comes from Bill Chappell from SunTrust. Your line is now open.

William B. Chappell - SunTrust Robinson Humphrey, Inc.

Thanks, good morning.

Kathy N. Waller - The Coca-Cola Co.

Good morning.

Timothy K. Leveridge - The Coca-Cola Co.

Good morning, Bill.

James Quincey - The Coca-Cola Co.

Good morning.

William B. Chappell - SunTrust Robinson Humphrey, Inc.

James, can you just talk a little bit more about Mexico? I think you alluded both to the weather, and then you did a little bit of a slowdown in the category. Any way to quantify what the hurricanes or anything had impact on the quarter, and then if there's any lingering impact, and then just touching on the slowdown you said for the quarter?

James Quincey - The Coca-Cola Co.

Clearly, the natural disasters in the whole Caribbean basin, whether we're talking Florida, Texas, Puerto Rico, or Mexico with the earthquakes, all occurred in the same quarter, so there's clearly an impact.

I'm not going to attach a number to it because I'm not really a big fan of putting it all into the one-off temporary basket, but clearly there was an impact. The weather was a bit more miserable in the third quarter, and there was a bit of softening of consumer sentiment through the third quarter in Mexico. I don't think these are new enduring trends, certainly not the natural disasters hopefully not, nor is the consumer one. I think that will slowly reverse over the balance of the year. We'll see. So I don't think there's a big issue in Mexico.

Of course, it's one of those places too where we're looking to work on our price and package architecture and the full portfolio that we've developed as a system over the last few decades there to really be able to continue to drive revenue and I think it was a strong revenue quarter for the system in Mexico and I think that will continue.

Operator

The next question comes from Amit Sharma from BMO Capital Markets. Your line is now open.

Amit Sharma - BMO Capital Markets (United States)

Hi. Good morning, everyone.

Kathy N. Waller - The Coca-Cola Co.

Good morning.

Timothy K. Leveridge - The Coca-Cola Co.

Good morning.

James Quincey - The Coca-Cola Co.

Good morning.

Amit Sharma - BMO Capital Markets (United States)

James, talking about the leadership change in CCR can you talk about what would Jim Dinkins key priorities would be? And then as this leadership transition happens here, do you see that as an opportunity to maybe reorient the organization to develop new muscles as you transition the portfolio?

James Quincey - The Coca-Cola Co.

Look, I think the leadership change in North America, I mean, leaders don't last forever and this is another one of those changes. There's a new chapter about to begin in North America.

We've had a great run over a few years. We've successfully carried out a humongous refranchising task and I think Sandy made a decision this time for a new leader. And I think Jim is the right person. He's got full portfolio experience, he got marketing experience, he knows the customers across the whole spectrum and he has the right capabilities as a leader to take us to the next stage of growth.

What does that need to be? Clearly, it needs to be about continuing to execute the strategy we got in place. But like all strategies, they need to evolve in the same way that company's global strategy evolves for the circumstances we face so will the North America one. It's not just the fact that the leader changes that you need to continue to evolve and build new capabilities. We knew that before. We had some things under development. Of course, we'll learn new things and we'll identify new ideas.

So I think it's about the continued journey of the North American business. It's a great team. It's a great system. They've got their mojo back. They know they need to do more things to execute and complete the mission in the short-term and to evolve and build new capabilities for the long-term.

Operator

The next question comes from Robert Ottenstein from Evercore. Your line is now open.

Robert Ottenstein - Evercore Group LLC

Great. Thank you very much. James, in the beginning, you talked about increasing desire of consumers for variety that helped driving innovation and many new brands, new competitors. I think that's mostly a comment about the U.S., but I'm wondering if you could take that comment and those trends and talk about how that is playing out in the rest of the world and whether that is something that if you've seen it sort of first in the U.S., you can kind of get ahead of it and take advantage of, perhaps learnings in the U.S. to perhaps capture more of those opportunities in other countries. Thank you.

James Quincey - The Coca-Cola Co.

Yeah. Look, I think it's not just the U.S. trend. You can look at Japan where, arguably, beverage diversity is even greater than the U.S. But I think the central point is the following. If you look back over time and you look at what is the behavior of teens and young adults of each generation as it comes through, there's one key fact. Each generation consumes and, importantly, buys more commercial beverages than the previous one.

The second important fact is they do so across a greater variety of drinks. It's not that they buy more commercial beverages and drink ever-increasing amounts of the same thing. They go for diversity. Therefore, you can see around the world that those places which have the highest amounts of disposable income, each generation is coming along and looking for that diversity. That's true in the U.S. It's true in Japan. It's true in other developed markets and other wealthy parts of even emerging markets.

And so the learnings that are available are actually not just one directional, they are actually from many different places across the world. We've got to find ways to take the learnings from the U.S., from other parts, Japan, from Europe, from Australia and finding the best of the best and allowing ourselves to fuel the diversity of the portfolio, yet understanding that, in the end, what grows are the global brands.

I mean, the world, over the last number of years has been typified, at least in beverages, by outsized growth by global brands and the entry of lots of new smaller brands. The bit in the middle was tougher. So you have to keep fueling the machine by having innovation and testing the frontier of variety, yet, over time graduating those to large-scale consumer franchises, not necessarily single flavor franchises but consumer franchises.

Operator

The next question comes from Andrew Holland from Soc Gén. Your line is now open.

Timothy K. Leveridge - The Coca-Cola Co.

Andrew, are you there?

Andrew Holland - Société Générale SA (UK)

Yes. Can you hear me?

Timothy K. Leveridge - The Coca-Cola Co.

Yeah, please.

Kathy N. Waller - The Coca-Cola Co.

Yes.

Andrew Holland - Société Générale SA (UK)

Okay. Sorry, I'll try again. So just related to CCBA, you're saying that you're now expecting completion in 2018. I'm pretty sure that this time last year, you were expecting it in the second half of 2017. I'm just wondering what on earth is taking so long, mindful that, for example, (56:00) dropped out of that process, I think, as long ago as March. Are we left concluding that the business that is up for sale is not in a state where anybody wants to buy it?

James Quincey - The Coca-Cola Co.

No, that's the wrong conclusion, Andrew. The simple answer is that the regulatory process in South Africa is not time-regulated and the fact is we got regulatory clearance in the last month or so, and that then led us to closing. And now we will proceed to work with our prospective partners that are interested and have substantive interest. And when we say 2018 that's because it includes regulatory and closing approval. So that's the simple answer.

So I think that's it. That's time, ladies and gentlemen. Thank you for joining in. To conclude, I think we delivered a solid quarter. We're on track to close out a successful year. And as always, we thank you for your interest, your investment in our company and for joining us. And again, we look forward to sharing with you more during our Investor Day on November 16. Thank you.