Operator

At this time, I would like to welcome everyone to The Coca-Cola Company's Third Quarter 2016 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 - The Coca-Cola Co.

Thank you, Operator. Good morning and thank you for being with us today. I'm joined by Muhtar Kent, our Chairman and Chief Executive Officer; James Quincey, our President and Chief Operating Officer; and Kathy Waller, our Chief Financial Officer. Before we begin, I'd like to inform you that you can find webcast materials in the Investors section of our company website at www.Coca-ColaCompany.com that support the prepared remarks by Muhtar, James and Kathy this morning.

I'd also like to note that we have posted schedules under the Financial Reports & 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.

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 this morning, we will turn the call over for your questions. In order to allow as many people to ask questions as possible, we ask that you limit yourself to one question. If you have multiple questions, please ask your most pressing question first and then reenter the queue in order to ask any follow-ups.

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

Ahmet Muhtar Kent - The Coca-Cola Co.

Think you, Tim, and good morning, everyone. Today, I'll touch briefly on a few key highlights before handing off to James to provide a more detailed operational review of our performance. I'm pleased to report that we delivered third quarter results in line with our expectations, and we're on track to deliver against our full-year expectations.

Our continued focus on our five strategic initiatives enabled us to report another quarter of global value share gains, with 3% organic revenue growth and over 50 basis points of comparable currency neutral operating margin expansion. Our core business continued to perform well, delivering 4% organic revenue growth year-to-date, in line with our long-term target, driven by our segmented revenue growth strategies, improving marketing and portfolio diversification. Within our core business, developed markets performed well, delivering solid revenue results with 2% unit case volume growth year-to-date and a continued focus on price realization.

While we continue to see challenges in many emerging and developing markets, we're taking action to improve our performance. Importantly, we're delivering the profit target we laid out at the beginning of the year. Excluding the impact of structural items, comparable currency neutral income before tax grew 7% year-to-date. And we're confident we will deliver our full-year profit outlook of 6% to 8% growth, excluding these same items.

We continue our journey of transforming our company to a higher margin and higher return business, focused on building strong brands, enhancing customer value and leading a strong, dedicated global franchise system. This quarter, we continued to make solid progress to strengthen and evolve our global system. In North America, we signed definitive agreements on six territories and closed transactions on four territories, thereby remaining on track to complete our refranchising efforts in our flagship market by the end of 2017.

In Japan, our two largest bottlers, Coca-Cola West and Coca-Cola East Japan, reached a definitive agreement to merge their operations and create a strong consolidated bottler, representing over 85% of our system volume in Japan. In Latin America, we reached a long-term comprehensive agreement with Arca Continental regarding joint value creation in Mexico, along with a similar agreement with FEMSA in July.

Separately, Coca-Cola FEMSA reached agreement to acquire Vonpar, one of the largest privately-owned bottlers in the Brazilian Coca-Cola system, increasing its scale and leveraging FEMSA's strong commercial capabilities.

In Europe, Coca-Cola European Partners finished its full quarter of operations as a combined company and we're executing an aligned plan. And finally in Africa, we recently exercised our call option to acquire ABI's stake in Coca-Cola Beverages Africa. We have a number of partners who are highly interested in and qualified for these bottling territories, and we intend to implement our long-term strategic plan for these markets.

Over the coming months, we will negotiate the terms of the transaction with ABI, followed by a regulatory approval process. Simultaneously, we have commenced discussions with potential partners and plan to complete this important process as soon as feasible.

When I take a step back and think about the magnitude of change we have implemented over the past couple of years, I am truly encouraged. We've implemented segmented revenue growth strategies for our markets, invested in capabilities and created clear incentives for the entire organization to drive revenue growth rather than volume only. We're shaping our plan portfolio across the full range of sparkling and still beverage categories to meet changing consumer needs through leading marketing, innovation and targeted M&A, which James will discuss in more detail.

We launched Taste the Feeling, a new marketing campaign for Trademark Coca-Cola at the beginning of the year and are seeing positive response from our consumers and customers. And through our ongoing $3 billion productivity initiative, we're taking cost out to both reinvest in the business and drive margin expansion. And, as I've discussed, we are re-architecting the bottling system in key geographies and regions to better capture growth. To put it in perspective, these affected regions account for almost half of our global volume. So the actions we're taking today are going to have significant impact on our system's future performance.

Through these actions, we're becoming a much stronger company with higher margins and returns and better positioned to deliver on our long-term growth targets.

I will now hand the call over to James, who will provide you with a more detailed outlook at our operating performance.

James Quincey - The Coca-Cola Co.

Thank you, Muhtar, and good morning, everyone. As Muhtar said, we continue to implement our five strategic actions for growth and we're making the necessary changes to have the speed, agility and the focused leadership needed to win today and into the future. So before I jump into the results, as you know, we made a number of changes to our operating leadership structure during the quarter. I'd like to say these transitions occurred seamlessly, are a testament to our leaders and associates, and these new leaders are bringing a fresh perspective and are working diligently to identify opportunities to accelerate our performance around the world.

Now, let me turn to the results. I'd like to talk to you about these through two lenses: firstly, the traditional operating results in the quarter, somewhat seen by geography; and second, how we continue to evolve our brand marketing and portfolio to stay relevant and meet consumer preferences.

So, our performance in the quarter; our results were in line with our expectations, with 3% organic revenue growth and 2% underlying income before tax growth. Our core business grew organic revenue 3% in the quarter and, as we expected given the strong growth we were cycling from the third quarter last year, it's important to note that year-to-date, our core operations continue to grow organic revenue 4% and we remain on track to deliver this performance for the full year.

Our company-owned bottling operations grew organic revenue 2% in the quarter, an acceleration from the first half of the year, driven by North American bottling and an improvement in China. Unit case volume grew 1%, cycling a pretty strong 3% from last year and an acceleration from last quarter, due largely in part to the return to growth in China and a stronger performance in our Western European business. It's worth saying that the macro challenges persist in certain emerging markets, particularly, for example, Argentina and Venezuela, negatively impacting consolidated unit case volume growth by 1 point.

So, turning and looking around the world, we continue to push hard where we have momentum, take action where needed and manage through some of the difficult operating conditions. So, we continue to do well in a number of key markets with momentum, including places like North America, Mexico and Japan and so seek to further advance our strategies. For example, North America, we grew organic revenue 3% as we continue to successfully implement both our accelerated refranchising program while delivering top-tier growth among FMCG companies in the U.S. The strength and breadth of our full brand portfolio led to value share gains in both sparkling and still beverages. So that actually overall, we captured 40% of NARTD beverage retail sales growth year-to-date.

Also, as I said, we did well in Japan and Mexico, and both benefited from strong marketing and innovation, as the combination of the One Brand strategy and new product launches drove continued solid performance.

Turning to some of the other key markets, we saw improved performance in the quarter. Our actions are starting to bear fruit, but we still have more to do. In China, we returned to growth, driven by strong activation of our Olympic campaign, improved execution and, frankly, better weather. Our system has largely worked through the wholesale inventory issue. And we are continuing to innovate across the business towards the premium segment with examples like the launch of ZICO Coconut Water through the e-commerce channel, but also, at the same time, we're paying proper attention to the mass consumer segment. There, we're driving the availability of entry-level small packs, such as the 300-milliliter bottle, to address affordability issues, as the economy remains challenging and we expect continued near-term volatility.

Another key market that got better, Western Europe; solid marketing, innovation and commercial plans with the increased alignment with the new CCEP in its first full quarter as a new company and, again, a little bit of good weather resulted in strong performance in the quarter with our system gaining both value and volume share.

Now, while we're moving quickly in several markets and seeing success, it's true that we still compete in a number of markets with challenging macroeconomic conditions. The economic environment in Russia is improving slightly as the price of oil stabilizes; however, Brazil, Argentina and Venezuela all remain difficult operating environments for consumer products companies.

Therefore, we will continue to concentrate on what we can control. In Brazil and Argentina, we're focused on affordability by maintaining key consumer price points while evolving our price/pack architecture to protect our market share. And in Venezuela, we are addressing raw material shortages by rapidly scaling the availability of our Zero Sugar portfolio.

Now, as we look at this quarter but also at the future, I'd like to build on what I've shared in the past about our productivity efforts and evolving revenue growth strategies with an update on our growing and evolving brand portfolio. Of course, we recognize the consumer tastes and preferences change and are changing, and we are building a strong, diversified brand portfolio across sparkling and the stills categories to meet these needs, including through internal innovation, bolt-on acquisitions and a lift-and-shift geographic expansion model.

If you look at our still portfolio today, it includes 14 of our 20 billion-dollar brands, with number one or number two positions in juice, coffee, water, tea and sports drinks categories. Year-to-date, our system sold 5.8 billion incremental servings of our stills brands, capturing over 25% of the value growth in stills globally.

This performance has been driven by action around the world to expand our stills businesses. For example, take our Japan business, which has one of our most diversified portfolios. On top of good growth in our sparkling brands, we continue to drive strong performance across multiple categories through innovations like new premium packaging for our Georgia coffee brand, a new line extension of our Ayataka tea brand and new flavors of our premium I LOHAS water brand.

In the U.S., we extended smartwater into sparkling water. We revamped the packaging graphics on DASANI Sparkling, resulting in retail value growth of over 80% in the quarter for these two products. We expanded the Honest Tea trademark into juice drinks, with Honest Kids becoming the number one organic juice drink chosen for kids.

We see ready-to-drink coffee as an important growth category in the U.S. Today, we are the global leader in ready-to-drink coffee category with strong positions in Japan and Korea, so we are leveraging on this strength and launching Gold Peak ready-to-drink cold brew coffee and Dunkin' Donuts branded ready-to-drink coffee to begin capturing this opportunity in our flagship markets.

In Europe, we're expanding our stills portfolio by lifting our smartwater and Honest Tea brands from the U.S. and shifting them to Europe. We are also leveraging strong existing brands. For example, we're expanding geographically Innocent, our very successful premium juice and smoothie business, into a strong regional brand, but also extending ViO, our popular water brand in Germany, into juice drinks and sparkling lemonades. This has resulted in strong double-digit volume growth year-to-date for both brands.

And finally, bolt-on M&A and investments, when available, will continue to be a part of our portfolio expansion strategy, particularly in the value-added dairy and plant protein beverage spaces. We are pleased by the early results of fairlife in the U.S. and Santa Clara in Mexico and we look forward to closing our acquisition of plant-based brand AdeS in Latin America in early 2017.

Now, turning to our sparkling business, I'd like to talk a little bit about how we're doing things differently. We are bolding our sparkling portfolio strategy so that we can grow while reducing sugar consumption. Through these actions, we've been able to outpace a category that is growing retail value by 3% for the first nine months of the year. So let me give you a few examples of how we're doing this.

First, our Taste the Feeling marketing campaign is engaging consumers with better advertising around both the extrinsics and intrinsics of the brand. Second, we are also providing more sugar-free options. In several markets around the world, we have launched Coca-Cola Zero Sugar, with a new and improved taste as well as a new visual identity system under our One Brand strategy. And this is contributing high single-digit volume growth for this brand globally in the quarter.

Take GB, for example. While we're only 12 weeks in, we've seen a significant expansion in the consumption versus the former Coke Zero product, resulting in strong double-digit volume growth for Coca-Cola Zero Sugar during the quarter. And we are rolling this out, this new and improved product out across other European markets.

More broadly, we've been taking multiple actions to shape choice, to address changing consumer preferences around added sugar while working proactively with governments to provide positive solutions. We've been driving a systematic reformulation effort across our portfolio to reduce added sugar while delivering superior consumer taste and improving margins.

For example, we currently have over 200 reformulation initiatives underway to reduce added sugar. And so an example of where that might take us as a step forward in GB, for example, we reduced the sugar and the calories in brands such as Sprite and Fanta by 30%. In our Latin Center business unit, we reduced the sugar content in almost two-thirds of our flavored sparkling beverages.

And then in combination with this reformulation and innovation effort, we have also focused on small pack sizes: a great way to enjoy a drink with less calories. These packs can provide both a premium experience as well as being affordable, yet profitable, way to bring people into the franchise.

In Mexico, for example, small packs such as our sleek can and 8-ounce glass bottle are growing rapidly through both increased distribution and higher velocity per outlet. In China, our premium-priced fleet count for Diet Coke and Coke Zero is growing strongly. And in India, where we recently launched our new lightweight, affordable PET bottle in just a few territories, we have already sold over 20 million servings.

These actions and the results we are seeing give us confidence that we can further accelerate our sparkling business. So looking forward, we're working to grow by ensuring ongoing relevance and engagement with our existing brands, while also expanding our brand portfolio so that we can meet consumer preferences.

So, as I think about the rest of the year, from an operationals perspective, I, like Muhtar, am confident we will achieve our full-year outlook.

So with that, let me turn the call over to Kathy to take you through the numbers.

Kathy N. Waller - The Coca-Cola Co.

Thank you, James, and good morning, everyone. I'm going to talk quickly about our financial performance in the quarter before moving on to our full-year outlook.

Starting at the top line, organic revenue growth was driven equally by volume and price/mix. Consolidated price/mix in the quarter was driven both by rate and product mix initiatives across many of our markets, partially offset by 1 point of segment mix, due to slower growth in our Bottling Investments Group than in our core concentrate operations.

At gross profit, our comparable margin increased about 45 basis points, as solid pricing, a slightly favorable cost environment and productivity was partially offset by about an 80 basis point currency headwind. Our North America refranchising roughly offset the benefit from deconsolidating our German and South Africa bottling operations, resulting in a slight structural benefit to margins.

Excluding the effect of currency and structural items, our underlying gross margin expanded over 100 basis points. Our comparable operating margin declined about 35 basis points. Similar to gross margin, currency headwinds impacted our operating margins by about 90 basis points, while structural items, primarily the deconsolidation of our German and South African bottling operations, positively impacted our operating margins.

Turning to the cash flow, we continue to exercise strong cash flow management. Year-to-date, we have generated $6.7 billion in cash from operations. And we have returned $5.7 billion to shareowners through a combination of net share repurchases and $4.5 billion of dividends paid year-to-date, and that includes our third quarter dividend that was paid on October 3, right after our quarter closed.

Net share repurchases year-to-date were $1.2 billion, and we continue to expect them to be $2 billion to $2.5 billion for the full year, in line with our initial guidance.

Looking ahead to the remainder of the year, with one quarter remaining, we continue to expect our full-year comparable EPS to decline 4% to 7%, in line with our previously-communicated expectations. However, we now expect to spend slightly less than $2.5 billion on capital expenditures for the full year, down from our initial expectations of $2.5 billion to $3 billion.

As you construct your models, there are a few items to consider for the fourth quarter. Our fourth quarter has two additional days as compared to last year, which will result in stronger top-line growth than we saw in the third quarter. We expect structural items to be an 11-point headwind on net revenue and a 6-point to 7-point headwind on income before tax in the fourth quarter. And finally, we expect currency to be a 1-point to 2-point headwind on net revenue and an 8-point to 9-point headwind on income before tax in the fourth quarter.

So, in closing, our strategies are working in key markets. We are on track to deliver over $600 million in productivity this year, and we remain confident in our abilities to deliver our profit targets this year.

So with that, Operator, we are now ready for questions.

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. And our first question is from Nik Modi from RBC Capital Markets. Your line is now opened.

Nik Modi - RBC Capital Markets LLC

Thanks. Good morning, everyone. So just a quick question for me on the refranchising, now that you've kind of gone through the process and we're getting towards the end of getting all of the announcements out of the way, can you give us any early indications on kind of what the growth delta has been in the markets that have been refranchises versus not? And then, also wanted to get some context of what's going on in Western Europe, obviously, with the CCE integration going on there, have you seen any disruption, and if you think that'll start to phase out over the coming quarters. Thanks.

Ahmet Muhtar Kent - The Coca-Cola Co.

Nik, good morning. This is Muhtar. Thanks for your question. Look, I think first, once again, I want to reiterate the scale of what is being done here on a global basis. As I mentioned in my remarks, the geographies and the regions impacted by this refranchising, massive refranchising, is really when you aggregate it all, will impact 50% of our global volume. So this is really, really big, number one. Number two, the early indications that we have from both the U.S. refranchising efforts, which is the largest one, but also the

European restructuring under the Coca-Cola European Partners umbrella, which was the biggest refranchising in Europe in history in its structure, essentially early indications have been positive.

In the United States, if you look at it, the last six quarters, consecutively, we've had volume growth and very encouraging price/mix in the United States continued. And the last sort of year, four quarters have been the highest in terms of refranchising activity, so early indications are positive. Europe, the same; James mentioned the positive numbers coming out of the last quarter. Yes, helped by many other things other than just refranchising, but the impact is that there hasn't been the disruption. It's been going on very smoothly. And when you look at it going forward, we've got four to five quarters of intense refranchising remaining, as we bring out the other end of the tunnel another a company that is going to be totally transformed, revitalized in terms of its organizational capability, leadership structure, revitalization of the brands also with the investment in our brands and the new marketing, revitalization of our portfolio, of our bottling system as well as our cost base.

So we're encouraged with what we see as the transformed Coca-Cola Company coming out and also the integrity of the refranchising, as evidenced by the continued good results in North America and in Europe.

Operator

Thank you. And our next question is from the line of Dara Mohsenian from Morgan Stanley. Your line is now opened.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

Hi. Good morning.

Timothy K. Leveridge - The Coca-Cola Co.

Good morning, Dara.

Ahmet Muhtar Kent - The Coca-Cola Co.

Good morning.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

So developed market volume growth obviously outperformed emerging markets in the quarter. That's fairly unusual. So I was hoping you could give us a bit of a review in the emerging markets. You obviously had a number of cautionary notes in the prepared remarks, but are you seeing any signs that the macros may be close to bottoming here or are things pretty tenuous?

And, more importantly, as we look out to 2017 and beyond, do you think the year-to-date trends are more of a new normal or is there hope that with easier comparisons, that some of the strategy adjustments you've made, we can start to see emerging markets rebound closer to historical levels?

Ahmet Muhtar Kent - The Coca-Cola Co.

Dara, it's Muhtar here. I'll just mention very briefly, and then pass it over to James, that it is unusual. What you've just said is definitely – the fact that developed markets are growing at a higher pace than the developing and emerging markets, but it's not a surprise given the volatility that we all know that is taking place. But it is a mixed bag. It's not just a uniform, all emerging markets. Africa, for example, continues to be a very strong performer, both West Africa, led by Nigeria, but also other markets in Africa. Mexico, to name another one, so it is a mixed bag, but let me ask James to comment in more detail on how we see the future also in terms of the balance between emerging and developing versus developed markets.

James Quincey - The Coca-Cola Co.

Yeah, I think it is worth, as – morning, Dara – it is worth as we go into this, just underlining the collection of the developed markets are growing volume, growing price, strong revenue growth. We think we're taking actions to sustain that. The emerging markets, I think it's going to be a combination here of doing the things that we know we need to do and can control; and then, of course, is a question of what do the macroeconomics do and what actions do each country's governments take to put them on a better course or not? So that's part of the unknown going forward at this stage and the uncertainty.

But I think quite clearly, you see, as Muhtar commented, is a mixed bag. Across the world, you see those markets that are doing well sustain growth. He called out Nigeria, South Africa, the Philippines, other parts of the emerging markets. So it's good. But it's a mixed bag, and I think the actions are underway in a number of these countries to stabilize them where they're a little tougher, like Brazil, like Argentina, which I called out on the call earlier.

And we'll have to see how long it takes for this to take hold in the countries from a macro view. We don't have a clear sight on that. But what we do know is we need to focus on what we can control in those countries, go back to affordability, go back to execution, go back to the basics and build ourselves a better position with more market share, so that when it does turn and that combines with the growth in developed markets, we can be solidly in growth rates for our long term model.

Operator

Thank you. And our next question is from the line of Bill Schmitz from Deutsche Bank. Your line is now open.

William Schmitz - Deutsche Bank Securities, Inc.

A couple of quick questions; the first one is how do you get to 3% organic in the quarter from 1% and 1%? (30:44) So was volume better or price/mix better? I know they both probably rounded. I was just curious there. And then, the second question is the inflationary pricing in Latin America, is that mostly currency pass-through or is there sort of real price realization in the market? And kind of what happens into next year if these spot rates hold when some of the currency cross-rates starts to ease a little bit? Thanks.

Kathy N. Waller - The Coca-Cola Co.

Hi, Bill. So on your first question about the 3%. Yes, we did find another way to make 1.1 equal 3. It is rounding, and it's really balanced. So it was in the rounding, but it was a balanced impact from volume as well as a balanced impact from pricing.

James Quincey - The Coca-Cola Co.

On your second question, Bill, James here, I think what's worth remembering is essentially, we are not trying to pass through the devaluation. We focus on being competitive in each local market beverage and fast-moving consumer goods industry, and especially when the economies are in tough times focusing on staying competitive and gaining share for the long term. The net of all of that means we are much more likely to follow or be close to local inflation rates rather than adopt the strategy of a full pass-through of the devaluation of the dollar. So obviously, if the exchange rates change, that'll mean different dollar numbers for the corporation. But the local strategy remains stay competitive in the marketplace, and it looks more like local inflation. Does that answer your question?

Operator

Thank you. And our next question is from the line of Steve Powers from UBS. Your line is now open.

Stephen R. Powers - UBS Securities LLC

Thanks. Good morning. I was hoping actually to go back and focus on the stills versus sparkling portfolio, changes that, James, you referenced in your prepared remarks. Today, correctly me if I'm wrong, but I think your global portfolio still skews at least 70%-30% towards sparkling. But as you look forward, I'm curious as to what percentage of your growth you expect will come from traditional sparkling versus stills. I'm guessing it's probably not 70%-30%, but is it 50%-50% or is it some other split you could frame for us? And then, more importantly, do you think your growth investments today are aligned with that distribution?

In other words, if it is 50%-50%, for example, are your incremental growth investments aligned with that or is there still a legacy skew towards sparkling that might need to be rethought? Because I think from the outside, there's still a perception, right or wrong, that your incremental investments are a bit over-indexed towards core CSDs versus their future value contribution. And I was just hoping you could help clarify at least your thinking around that. Thanks.

James Quincey - The Coca-Cola Co.

Sure. I mean, let me start by saying you're approximately right in volume terms on the current split between sparkling and stills, about 70%-30%. I think it's worth noting that that split has been moving in the favor of stills by about 1 point a year. At the turn of the century, 10, 15 years ago, it was a single digit percent of the mix, so it's going up at about 1% a year. Now, part of that organic on the things we're doing and part of that is the net of some of the bolt-on acquisitions. But it's going up about 1% a year of mix.

I think as you look forward, clearly, given that we have 50% of the sparkling industry value share and 15% of the sum of all the stills categories value share, we fully expect to be able to grow faster in the stills categories because it will be the combination of the category growth rate but plus our ability to gain share, which then feeds into your third question, which is how are the investments aligned? I feel they're aligned. Obviously, it's an ongoing process. Each year, we look at it in the business planning process and we'll be doing that again this year. But I would not characterize it as we are over-invested in sparkling and under-invested in stills. We are invested behind what's growing.

And actually, just to add a little more texture to it, we're doing the right things on sparkling. We tend to be pushing more money towards driving the zeros, the lights, the smaller packages in the sparkling business. In the stills, it's not a one-size-fits-all category. It's actually a noteable (35:07) category. And there, we're selective on which ones have – are most on-trends with the consumers, which one have more premium pricing. And therefore, we're very selective about where we funnel the dollars and invest ahead of the curve or in line with the growth rates we're expecting.

Operator

Thank you. And our next question is from the line of Andrew Holland from Soc Gén. Your line is now open.

Andrew Holland - Société Générale SA (Broker)

Yeah, hi. Could I just ask you something – whether you could talk a little bit about the key qualities that you're looking for in a new bottler partner in Africa; any particular experiences or qualities that you're looking for?

Ahmet Muhtar Kent - The Coca-Cola Co.

Yeah, Andrew, good morning. This is Muhtar. I think you would expect us to be looking for proven capability, alignment and bottlers that have already got a track record in our system and that we have actually delivered together in alignment, and we have good examples of that, that we can refer to. That's basically it in a nutshell. And I think I know you probably have a loaded question but, in answer to your actual question, that's what I would say.

Operator

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

Bonnie L. Herzog - Wells Fargo Securities LLC

Thank you. Good morning.

Ahmet Muhtar Kent - The Coca-Cola Co.

Good morning, Bonnie.

Kathy N. Waller - The Coca-Cola Co.

Good morning, Bonnie.

James Quincey - The Coca-Cola Co.

Good morning, Bonnie.

Bonnie L. Herzog - Wells Fargo Securities LLC

I was actually hoping you could give us a little more detail on your stills portfolio in North America. You reported high single-digit growth in vitaminwater and then solid results in smartwater, but your still portfolio only grew 2%. So curious what's been the drag there? And then do you expect some of the innovations that you mentioned to drive growth in your stills portfolio back up towards the mid or even high single-digit range?

James Quincey - The Coca-Cola Co.

Yeah. Bonnie, yeah, we certainly did well in a number of the categories, particularly some of the premium categories. What was a little weaker in this quarter were some of the juice businesses and some of the tea businesses, which are not as high value to us, so that's what netted out on the 2%. What I think you see is over the year, you see very strong growth in vitaminwater, in sports drinks, in some of the other categories as well. So I think it's a broadening of the portfolio, a focus on innovation, but yet there's some headwinds on juice linked somewhat to commodities.

Operator

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

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Hey, guys. Would just like...

Ahmet Muhtar Kent - The Coca-Cola Co.

Hi, Ali.

Kathy N. Waller - The Coca-Cola Co.

Hi, Ali.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

...a little bit of your perspective on two markets, kind at the extremes of maturity right now for you guys. So first on North America, which obviously remains a key concern when I talk to investors, just given the views of consumer preferences. But North America's doing pretty well, right? Pretty robust, stable growth, 3% organic sales growth, relatively good volume, relatively good price/mix. What's working well for you in that market? Is it price/pack architecture or stills, just better marketing? I'm assuming it's all that stuff.

And what are you learning from that that might work for similar geographies, like Western Europe or Japan? And so should we expect kind of in those markets a little bit of a similar ramp up as we're seeing in North America?

And then at the other extreme, can you tell us a little bit more about the China rebound, so to speak. I know you mentioned weather there; clearly, weather must have helped. Could you give us a sense of what you think the underlying growth is? Has the market gotten any better? Clearly, you've worked through, thanks to weather, some of your destocking issues, but want to get a better sense of China at the other extreme. Thanks for those two.

James Quincey - The Coca-Cola Co.

Sure. Morning, Ali; James here. Look, North America, I think is a combination of many, many things. I mean it's, I think, been the result of a number of years working on multiple fronts: working on innovation across the portfolio, getting into categories, refining the propositions, learning, refining the propositions. It's about, in the sparkling business, the better marketing, the more media spend. It's about the focus on the pricing and packaging architect. There will be more smaller packages. It's about getting the execution right. It's the refranchising, bringing new excited bottlers.

In the end, this is a result that has been built by a great team of people who have been very focused over a number of years about regenerating growth in the North American business. As Muhtar said, they've had six very solid quarters of volume and revenue growth. And I think there are a lot of learnings. There's no silver bullet, but there are a lot of learnings.

Now having said that, actually, Japan has also been on a good run. I mean, it's had three quarters of very good volume growth, doing well on offsetting deflationary pressure. Again, it's a similar story. The team is very focused on a multiple category approach, innovation in the products, increasing the quality and quantity of the marketing, but always in parallel and in alignment with the bottler, where you've got to get better execution. Good marketing on its own is not going to get you the answers. It's got to be more and better marketing, along with more and better execution, and I think that's what you see.

And to some extent, Western Europe, they kind of came new Coca-Cola European Partners came well out of the stables on the first quarter. I think the formula is going to be the same. More and better marketing, more and better execution and a multi-lane focus on categories and cranking out the learning, the trying stuff, the innovation and pushing ahead. And I think that's going to be something we'll continue to press across the developed markets.

Now, turning to China, I think China, again, if I gave the impression it was all weather, that would unfair to the team on the ground in China and the system there. They've done a lot of work to address the big change in how the consumer responded to the economic circumstances in China.

I think part of it is you know, it's a part of the world that's had such consistent growth rates over the last decade, but a little bit of a slowdown maybe caused some exaggerated pull-back on spending, so I think there is a little bit of stabilization coming through in the macros. We saw that.

We've definitely taken action in the things we can control, not just in the commercial policies to strengthen the wholesaler and distributor network and working through the inventory problems, but also on the pricing and packaging. To give you one example, a very small example, but it's symptomatic of how fast China can change. If you go to the cafe channel in China, there are all the noodle shops up and down the streets. People go there at lunchtime.

Last year, they were packed with people. This year, you go, they're a third empty. You go, okay, maybe the economy has slowed down. No, that's not what's happening. The explosion of online to offline ordering and the availability of lots of people on motorbikes to deliver stuff, and the apps and the aggregator apps to buy food has seen an explosion of ordering of online and delivery food, such that there is just as many people buying from these cafes, but sometimes in some parts of China, a third of it's being delivered to people, whether they be at work or as students.

And so we've had to adapt our packaging. Having a returnable glass bottle in that cafe doesn't help you with off-line delivery. So we've had to revamp the packaging offer so that we're there with the right package to go where the consumer is going.

And that's a micro example of the sorts of things we have to do China to adapt to how the market is changing and is contributing to stabilization. But it is, again, as I said, a country undergoing change in its economic model and that'll throw up new and different consumer behaviors to which we'll have to adapt.

Operator

Thank you. And our next question is from the line of 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.

Ahmet Muhtar Kent - The Coca-Cola Co.

Good morning.

Kathy N. Waller - The Coca-Cola Co.

Good morning.

James Quincey - The Coca-Cola Co.

Morning.

Bryan D. Spillane - Bank of America Merrill Lynch

Could you give us an update on the Philippines? You know, in listening to the Coca-Cola FEMSA results last night, it sounds like volumes were up there, margins are improving. It's one of those markets where it's been sort of a long-term project to get that turned around. Could you just give us a sense of sort of where you feel the Philippines are at this point and maybe what you've done to improve things there? Thanks.

James Quincey - The Coca-Cola Co.

Sure. Hi, Bryan. It's James. Yeah, I mean, look, we've had a much better run in the Philippines in the last few quarters, actually, strong numbers the first three quarters of this year. Actually, last year was three very strong quarters as well. So I think since FEMSA's been in there, they've built on the work that BIG did. They've gone about fixing the fundamentals There were some fundamental structural stuff that still needed to be improved and I think they grasped the nettle in the early days. And we're starting to see the benefits of that coming through in the last six quarters.

Again, it's not silver bullet stuff. Is not too complicated in the sense of it's been about adapting the price/package architecture. It's about some of the emphasis on some of the sparkling brands in the Philippines. There were some of the local brands that we de-emphasized and re-emphasized some of the more global brands and the stronger local brands, rebuilding and continuing to construct a more solid distributor network. Obviously, Philippines is complicated, given all the islands and the issue in moving product around, but I think they've kind of worked the system in terms of getting the thing nicely oiled in terms of the cogs so the product can get everywhere, backed up with a little more marketing and a little sharper focus on certain categories. And I think that's played through and I think the team on the ground has done a good job of taking the performance to a higher level.

Operator

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

Brett Cooper - Consumer Edge Research LLC

Good morning.

Ahmet Muhtar Kent - The Coca-Cola Co.

Good morning, Brett.

Kathy N. Waller - The Coca-Cola Co.

Good morning, Brett.

James Quincey - The Coca-Cola Co.

Morning, Brett.

Brett Cooper - Consumer Edge Research LLC

If we look back, we've seen you implement a pretty significant cost savings program, what I think we would describe as accelerated or accelerating M&A activity in your bottling system, yielding synergies. And now, there's talk in the system looking outside in seeking efficiencies in Japan. Are there more innovative ways that you're open to to help the system find funds to be more competitive?

Ahmet Muhtar Kent - The Coca-Cola Co.

Hi, Brett. This is Muhtar. First, let me just say that over the last four, five years, we've been actually working really, really hard to reconfigure the Japanese bottling system. We had 13 bottlers, what, back five years, six years ago. And now, we're moving towards having 85% of the total business in Japan, which is, as you know, a very large business for us, under one roof. And I think that in itself first, without looking outside, without looking anywhere, is a huge re-architecture that is yielding substantial savings that we can re-deploy that into the route to market, into ways we actually get our products the most effective, efficient way to the customer and through the customer to the consumer in Japan.

So regardless of any encouragement from the outside, we are on a track to end up in a very efficient, very 21st century bottling system, a consumer goods delivery system in Japan that is working well. Now, are there are other opportunities? And that is not just related to cost saving, and yes, there has been early, very early, discussions in Japan, can't say any more than that. And we will continue to look at opportunities to see if we could even make our Japanese system even stronger. But that's very early days, again, in terms of the level of discussions that have taken place.

Operator

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

William B. Chappell - SunTrust Robinson Humphrey, Inc.

Thanks. Good morning.

Ahmet Muhtar Kent - The Coca-Cola Co.

Good morning, Bill.

Kathy N. Waller - The Coca-Cola Co.

Good morning, Bill.

Timothy K. Leveridge - The Coca-Cola Co.

Good morning.

William B. Chappell - SunTrust Robinson Humphrey, Inc.

Just wanted to follow-up back on Steve Powers' question. I mean, there's definitely a noticeable kind of increase in talk about the still growth and investment at the last conference and on the call today. And just trying to understand, I mean, certainly understand there's an opportunity, but what that means for margins as we move, especially gross margins, going forward? Because I think it's still much lower gross margin and so do you expect margin degradation or has the mix of business, with tea or higher end-type products offset that so as we can look to kind of 2018, 2019, we don't see that kind of margin degradation?

James Quincey - The Coca-Cola Co.

Sure. Let me say a couple of thoughts and then Kathy will give you some comments on the margin. Look, the stills, I think if I could say one thing, which is the stills is not a category. It's a combination of many different categories. And even those categories re-segment between premium, mainstream and more affordable. And so, what we are focused on doing as we invest in the stills business is, yes, growing in aggregate and top-line numbers, but we are being selective on focusing on those places where we think we can generate a better return in the long term.

It's not a growth of bulk water. It's focused on where is the consumer demand, what's on-trend. And if you just pick out a couple of things that are on-trend, things like coconut waters of premium juices or premium ready-to-drink coffees, these are all very high revenue products.

Kathy, do you want to say something about the margins?

Kathy N. Waller - The Coca-Cola Co.

Sure. So, hi, Bill. You are going to see some impact on margins, but mostly initially, because as we are going into these businesses, whether we are developing them internally or whether they're through bolt-on acquisitions, they do have a margin impact, but then as we get scale, as we continue to work on the supply chain, et cetera, we do start to improve the margin. So I would say it's an initial issue for margins. And then, over time, we are able to do things that will improve the margin impact. But initially, yes, as a category itself, a lot of these stills have higher cost of goods. They have higher revenue, but higher cost of goods, so that does impact margins.

Operator

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

Judy E. Hong - Goldman Sachs & Co.

Thank you. Good morning.

Ahmet Muhtar Kent - The Coca-Cola Co.

Good morning.

Kathy N. Waller - The Coca-Cola Co.

Morning.

Judy E. Hong - Goldman Sachs & Co.

I wanted to go back to China and ask a couple of follow-ups. So one is within the 2% growth in China, can you talk about sparkling versus still? And then, I think, James, we've seen certainly in that market, the premiumization is one of the key trends and just wanted to get a sense of how big you think that premium segment within NARTD in China is and what the growth rate is and kind of what you're doing to sort of tackle that consumer preference. And then separately, Kathy, the structural impact; obviously, fourth quarter is still a pretty big headwind. Is there any color you can give us as we think about 2017, sort of how much of the structural impact kind of lingers into 2017 and maybe even 2018? Thanks.

James Quincey - The Coca-Cola Co.

Sure. James here. Look, I think it's important to say that the premium opportunity in China is big, but it's not as big as the mainstream opportunity. We are absolutely going to focus on investing in that premium opportunity. It's very much about the big cities, the white-collar. It's going to be also about some of the premium parts of the stills categories, and we're going to go after that. But in the end, the biggest mass of consumers, the biggest mass of disposable income will be in the mainstream. So it will have to be a combination of, yes, addressing the premiums, but also going after the mainstream with a greater affordability, expanding the distribution reach, upgrading the execution into the third tier cities in the rural areas. That is also going to be a big driver of our revenue.

In terms of the categories, I think what has been going really well, by example, is we've taken an approach of premiumizing our water business in China. One of our most recent billion-dollar brands, (52:43) comes out of China effectively. And we're driving the business from a – in the end a 1 RMB price point to a 2 RMB price point. That's one of the biggest drivers of growth is the water at the 2 RMB. The places where we have a little tougher time is perhaps in the juice category, with sparkling in the middle.

Again, when you look at what's growing in terms of the categories, what you do see is it maps quite closely to the consumer segments in terms of who's suffering and who's not suffering in terms of disposable income. The juices, that were kind of ambient, that were more going to the rural areas, are being hit a little harder. The premium waters, which are perhaps more the cities, have been doing well.

Kathy N. Waller - The Coca-Cola Co.

Hi, Judy. On your second question about the structural impact, so we will obviously give more guidance on 2017 later as we get closer to the beginning of the year, but I will say that, particularly in North America refranchising, the impact will be significant in 2017, because as we are moving to get all of the refranchising completed in 2017, we will be moving more than we have moved in all of 2015 and 2016 combined. So it will be a large impact in 2017. And we will work to give you all more color on that later in the year or early 2017.

As far as 2018 is concerned, the refranchising will be done, but the impact will be basically the cycling of it, because, obviously, the timing of these transitions will be significant, not only to 2017, but also the impact it will have on 2018.

And then, we have some costs that we have to get out in 2018 that we will be working to get out in early 2018 that would be basically a function of the refranchising as well. So we'll give you more color as time passes.