Operator

At this time, I'd like to welcome everyone to The Coca-Cola Company's Third Quarter Earnings Results Conference Call.

Today's call is being recorded. If you have any objections, please disconnect at this time.

All participants will be on 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 any questions.

I would now like to introduce Mr. Tim Leveridge, Vice President and Investor Relations Officer. Mr. Leveridge, you may now 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 would like to remind you that this conference call may contain forward-looking statements, including statements concerning long-term earnings objectives, and should be considered in conjunction with our cautionary statements contained in our earnings release and in the company's most recent periodic SEC report.

We 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. Finally, during today's call, when our senior executives refer to comparable performance, they are referring to comparable performance from continuing operations.

Following prepared remarks this morning, we will turn the call over for your questions. Please limit yourself to one question. If you have more than one, please ask your most pressing one first and then reenter the queue.

Now, let me turn the call over to James.

James Quincey - The Coca-Cola Co.

Thanks, Tim, and good morning, everyone. We've had another solid quarter that has included a number of notable developments, from M&A to changes in our leadership team. And I'll come to all of that shortly, but let me start by focusing on our quarter and our year to-date performance.

We are gaining share in a growing industry. Industry growth has improved from last year, driven by better results across both developed and emerging markets. Some large emerging markets like China, India and Brazil, are clearly doing better. Others like Argentina, South Africa and the Middle East, are not doing so well. But collectively, we are seeing solid results.

We've been capturing more than our fair share of growth as we've continued to execute on our transformation as a total beverage company. And notably, the industry has seen better performance within the global sparkling soft drink category, delivering both volume and value growth year-to-date.

Turning to our operational performance, we are managing our business well across key dimensions. Organic revenue is up 5% year-to-date, driven by strength across all operating segments. Unit case volume is up 2%, led by Trademark Coca-Cola, which grew 3% globally. Comparable EPS is up 8% year-to-date, in line with our guidance of 8% to 10% for the full year.

This is despite significantly stronger currency headwinds than we anticipated at the beginning of 2018. We accomplished this through a combination of top-line growth and productivity initiatives as driving underline margin expansion even as we continue to invest back in the marketing and face a rising cost environment.

Finally, our top and bottom-line growth is broad-based. Developed markets have grown organic revenues low single digits year-to-date, and our emerging and developing markets have grown double digits year-to-date.

Turning to our geographic performance in the quarter, in EMEA, we grew organic revenue 9%, benefiting from solid operational price/mix as well as from geographic mix. During the quarter, we saw strong growth across Europe, driven by Coca-Cola Zero Sugar, Fuze Tea and innocent, all helped by good weather.

In some of the emerging and developing markets like Turkey and the Middle East, the macroeconomic environment is tough, but ongoing packaging and pricing initiatives are helping us deliver solid revenue growth while staying affordable.

Turning to Asia Pacific, despite cycling a more difficult comparison period, strong performance in China and India drove another quarter of mid-single-digit organic revenue growth for the segment. In Japan, a solid innovation pipeline was overshadowed by natural disasters in July and September, which included a flood that destroyed a production facility for our bottler, impacting our capacity. Looking ahead, we'll continue working closely with our bottler to minimize the impact and protect our position in the market.

In Latin America, we delivered 19% organic revenue growth for the quarter as we continued to execute against the fundamentals amid a variety of macroeconomic environments. Now worth noting, 9 points of that growth is due to the timing of concentrate shipments in Brazil, which will reverse out in the fourth quarter. However, even after adjusting for this timing element, we still delivered double-digit top-line growth in the quarter.

In Brazil, our business continued its recovery, with volume growth accelerating to 3% in the quarter, driven by positive performance in all category clusters. Argentina, on the other hand, faces increasingly challenging macro conditions, so we're focusing on expanding our returnable packaging infrastructure and adjusting our price/pack architecture to maintain key price points and affordability. It's a playbook we understand, even one I've personally managed before.

Mexico. Mexico continues to perform well, benefiting from new product launches and strong growth in Trademark Coca-Cola, supported by solid execution from our bottling system.

Finally, North America, we continue to deliver strong performance in the marketplace and gain value share. During the quarter, our system took a price increase to address pressure from higher import and transportation costs. As a result, our price/mix improved 3 points sequentially, resulting in a slight positive price/mix for the first quarter this year.

And we continue to deliver strong performance, especially within the Zero Sugar portfolio. This, in turn, led to accelerated organic revenue growth of 2% and comparable operating income growth of 5% in the third quarter.

Now, let's talk a bit about how we're driving disciplined growth in the business. Of course, it all starts with the consumer. Over the last few calls, we've discussed how we've been leveraging innovations, like Coke with coffee, to grow our portfolio by addressing key consumption occasions. And also how we're lifting, shifting and scaling successful brands, like Fuze Tea, across multiple markets.

However, there are times when we need or want to look externally and leverage M&A to drive our total beverage portfolio. M&A, of course, is not a strategy in of itself. It's an enabler of our strategy. And while the focus of M&A continuously evolves, what's consistent is we remain disciplined about our allocation of capital and about the mission of M&A as an enabler.

Over the last few months, we've announced quite a few acquisitions and investments. Each one is part of our larger strategy to broaden our consumer-centric portfolio, but don't read too much into the number of transactions in a single quarter and extrapolate that as the pace of activity going forward.

We, of course, use M&A for many purposes: to fill gaps in our portfolio, yes; enter emerging categories; or even obtain capabilities or platforms that complement our existing strengths. And we look for opportunity to create value by scaling brands to be bigger and better than they already are.

In North America, we invested in BODYARMOR, a premium sports performance and hydration brand that's one of the fastest-growing beverage trademarks in the United States. In Australia, we purchased Organic & Raw Trading Company, which gives us MOJO, our first company-owned kombucha brand. And we invested in the Made Group, which is known for products like cold-pressed juice and high-protein smoothies.

In Europe, we purchased Tropico, which gives our French business a strong foothold in the still fruit-flavored beverages. We believe these brands that have strong edge will eventually allow us to gain quality leadership in the respective categories.

And, of course, our biggest announcement in the quarter was our pending acquisition of Costa. What we get with Costa is more than just a brand. It's a platform that will give us the ability to scale within the $500 billion global hot beverage category. Despite the size of Costa, our approach will be similar to the other deals, like innocent and Honest. We'll aim to preserve Costa's unique capabilities, while adding the strength of the Coca-Cola system.

As with all our M&A, completing the acquisition is only the first step. What is critical is accelerating our results and executing with precision.

To ensure we properly connect and globally scale key acquisitions, investments and partnerships, we have created a new group, Global Ventures, to be led by Jennifer Mann. In this newly-created position, Jennifer and her team will focus on ensuring we get the maximum value from acquisition and investments like Costa, our partnership with Monster Beverages, et cetera. This group will also partner with colleagues around the world to identify and nurture the next series of fast-growing opportunities.

As you'll recall, this was just one of the organizational changes we announced in mid-October. Now, more than ever, we must constantly adapt our business to the changing marketplace. The leadership changes we're making over the coming months are significant, and I believe that they will set us up for success in the years to come.

Beginning January 1, Brian Smith will become our President and Chief Operating Officer. In this role, Brian will bring an accelerated focus on the execution of our initiatives in the field, while I'll focus on the overall success of the company, as well as our long-term strategic direction.

Brian is a valued business partner with tremendous experience, most recently as Group President for Europe, Middle East & Africa. At a time when our business is fast-changing and more complex than ever, it's important to have a skilled executive who can focus intently on the success of our field operations. I can't think of a better fit than Brian.

We've also announced a succession plan for our Chief Financial Officer. Kathy, who's had a tremendous 32-year career at the company, will retire as CFO in March of next year. She'll be succeeded as CFO by John Murphy, who will begin the transition to his new job by serving as Deputy CFO starting January 1. John currently leads our Asia Pacific group and is a great choice for the vital work of overseeing our Finance organization. John's extensive experience includes financial, strategy and operational roles, so he's a natural fit to step in.

And, finally, we elected Nancy Quan as Chief Technical Officer. Nancy will join my leadership team to focus on product supply, strategic sourcing and technical governance as we evolve as a total beverage company. These changes led to a number of others that we also announced. And I'm pleased that our deep bench allows us to move a group of diverse, talented and experienced leaders into new roles quickly.

So, in summary, the global economy is still growing, but remains volatile. Some markets are getting better, while others are struggling as the economic cycle moves to a different phase. Our industry is growing, driven by both developed and emerging markets. And we are winning with momentum in our business. So, despite currency moving against us, we remain focused on delivering the earnings guidance we laid out at the beginning of the year.

Finally, I'd like to thank Kathy. While Kathy will be with us through next March, I would be remiss not to take a moment to thank her and acknowledge her outstanding career. Over her 32 years here at the company, Kathy has made significant contributions to both our company and the system, working her way from Financial Analyst all the way to the most senior Finance role in the company, truly, a testament to the value she has brought through every phase of her journey.

And as CFO for the past five years, she executed the company's financials through the extremely complex refranchising process and she is leaving a strong foundation for John to build on. And, finally, she has been a critical partner to me and I have appreciated all her valuable support. Thank you, Kathy.

Kathy N. Waller - The Coca-Cola Co.

Thank you, James, and good morning, everyone. It has been a tremendous honor to serve as the Chief Financial Officer of The Coca-Cola Company. During my tenure with the company, I have seen our business evolve and grow from a sparkling beverage company with three principal brands to a total beverage company with numerous billion-dollar brands that span across all beverage categories.

It has also been a pleasure working for first Muhtar and now James. I'm excited for the future of the company. We have a great leadership team that will continue to build on and execute the company's strategy. And I'm particularly excited about the incoming CFO, John Murphy. John's experience and capabilities will allow him to be a great partner to James and a great leader for the Finance organization. So, I'm looking forward to working with my team as we close out the rest of 2018, and I look forward to working with John to ensure a smooth transition as he takes over in 2019.

Now, turning to our performance in the quarter, as James mentioned, we saw strong underlying growth, building on a solid first half. We delivered 6% organic revenue growth, driven by 4% concentrate shipments and 2% price/mix. Concentrate shipments outpaced unit case volume growth by 2 points in the quarter. This was due largely to Brazilian bottlers building inventory as a precaution to any further supply disruptions in the country around the presidential elections and ahead of changes in local tax regulation. We anticipate this inventory build will reverse in the fourth quarter, as the elections are now completed and the tax regulation has been phased-in.

So strong organic revenue growth, combined with ongoing productivity measures and the timing of expenses, drove 20% underlying operating income growth in the quarter. While the underlying results are strong, as you know, our reported financials continue to be affected by accounting changes enacted at the beginning of this year, and from cycling bottler refranchising activity from last year. Our comparable operating margin increased 575 basis points due to refranchising and strong underlying performance, partially offset by an approximate 130 basis point impact from new accounting standards and currency.

Productivity helped drive a roughly 400 basis point expansion in underlying operating margins, with actions across all of our operating segments. However, we saw a particular benefit in our North America and Corporate segment due to Lean enterprise initiatives.

The accounting impact from the change in revenue recognition was roughly in line with our expectations. It's important to note that the impact varied significantly by operating segment. For example, Latin America saw over a 400 basis points benefit in its margins, while North America's margin was impacted by roughly 250 basis points. So I recognize that there are a lot of moving parts, but if you were to neutralize each of these effects, our underlying operating margins expanded about 400 basis points in the quarter and about 200 basis points for the year-to-date period.

Below the line, we benefited from a lower tax rate. In order to bring our year-to-date effective tax rate in line with our revised full year expectation of 20.3%, we recorded an effective tax rate of 19% in the quarter. So all-in, good operational performance, coupled with a timing benefit and a lower effective tax rate, resulted in comparable EPS of $0.58 in the quarter, up 14%, which includes an 8% unfavorable impact from currency.

So before turning to the fourth quarter, let me provide an update on bottler transactions. I am happy to announce that with the sale of our company-owned bottler in Canada at the end of the third quarter, we have now completed our North America bottler refranchising process. We've set ourselves up for the future with an energized bottling system that is bringing a renewed focus on their local markets.

In Asia, we expect to acquire 51% of our Philippines bottler from Coca-Cola FEMSA during the fourth quarter. This will become part of our Bottling Investments Group, which is now comprised primarily of Southwest and Southeast Asian bottlers. These two transactions should roughly offset each other, resulting in a minimal structural impact in our P&L in 2019.

In Africa, we are moving forward with the sales process for our company-owned bottler, but we now expect to sell an equity stake in Coca-Cola Beverages Africa in 2019 rather than in the fourth quarter of 2018.

Now turning to the remainder of this year, considering our performance year-to-date and despite an increasingly challenging currency environment, we are maintaining our guidance on organic revenue and comparable EPS growth. Specifically, we continue to expect organic revenue growth of at least 4% and comparable EPS growth of 8% to 10%. However, there are two elements within that guidance that are changing and then there's a third element that impacts phasing. While these balance each other for the full year, due to the timing of each, they do result in a shift between quarters.

So first, we expect the third quarter inventory buildup in our Brazilian bottlers to reverse in the fourth quarter. Second, we now expect to sell CCBA, Coca-Cola Beverages Africa, in 2019 instead of in 2018. As such, a $0.02 structural benefit that we expected to receive from this transaction will now shift from the fourth quarter 2018 into our 2019 earnings.

Third, we now expect an effective tax rate of 20.3% for the full year versus our original estimate of 21%. Now while this will be a slight benefit to our fourth quarter earnings, it was a much larger benefit to our third quarter earnings. And this was because we needed to bring our year-to-date effective tax rate in line with our revised full year expectation. So as such, we recorded an effective tax rate of 19% in the third quarter. Now, taken together, these three changes represent a $0.03 unfavorable impact to fourth quarter earnings, while the full year does not change.

As always, our Investor Relations team will be happy to walk through each element in more detail as you build out your models for the year.

Turning to cash flow, we continue to expect to generate cash from operations of approximately $8 billion. And we remain disciplined in our capital allocation. We continue to expect to reinvest $1.7 billion in the business through capital expenditures. And we will return free cash flow to shareowners through dividends of approximately $6.7 billion and an expected $1 billion in net share repurchase.

So in summary, we delivered solid financial performance in both the quarter and year-to-date periods, and we remain focused on delivering full year comparable EPS within our previously-provided range of 8% to 10%. So, Operator, we're now ready for questions.

Question-and-Answer Session

Operator

Thank you. Our first question comes from Bryan Spillane of Bank of America Merrill Lynch. Your line is now open.

Bryan D. Spillane - Bank of America Merrill Lynch

Hey, good morning, everybody.

James Quincey - The Coca-Cola Co.

Morning, Bryan.

Kathy N. Waller - The Coca-Cola Co.

Morning.

Bryan D. Spillane - Bank of America Merrill Lynch

And, Kathy I want to wish you all the best. Thank you for all your help over the years.

Kathy N. Waller - The Coca-Cola Co.

Thank you.

Bryan D. Spillane - Bank of America Merrill Lynch

So I guess my question is related to CCBA. And I think in the press release, there's a write-down that's been described there. And so, I guess my question is a couple of things. One, what's driving the write-down in CCBA? And how should we think about maybe how you're thinking about structuring a deal going forward? Is that just lower the price? Or you're thinking about different types of ownership structures? Just any update there would be helpful.

James Quincey - The Coca-Cola Co.

Sure.

Kathy N. Waller - The Coca-Cola Co.

Yeah, want me to start? So, yeah, so the actual write-down was a function of the impairment indicators. So for accounting purposes, we have to look at all of our investments. And we do that at a certain time of year. And based upon the indicators, what happened with the macro environment, and particularly the currency devaluation in South Africa, drove us to have an impairment that we had to write down, basically. And it's not a function of trying to change the price to sell in the future. It's merely an accounting impairment.

James Quincey - The Coca-Cola Co.

Yeah, and I'm not sure that that radically changes how we're thinking about structuring the deal. We've got a number of conversations ongoing with different parties about how we might create a stronger system in South and East Africa.

If you invest in the emerging markets, you don't always expect a straight line. And that's kind of what's come through in the impairment driven by the macros, and as we've adapted to the sugar tax in the second quarter.

But our view of the long-term attractiveness of Africa, or the youngest billion, remains undimmed. And we think it's a very exciting asset. And so we're working with different parties on potential setups.

Operator

Thank you. And our next question comes from Steve Powers with Deutsche Bank. Your line is now open.

Stephen Powers - Deutsche Bank Securities, Inc.

Hi, everyone, good morning.

James Quincey - The Coca-Cola Co.

Good morning, Steve.

Kathy N. Waller - The Coca-Cola Co.

Morning.

Stephen Powers - Deutsche Bank Securities, Inc.

Congrats, Kathy, on a great career from me as well.

Kathy N. Waller - The Coca-Cola Co.

Thank you.

Stephen Powers - Deutsche Bank Securities, Inc.

So, James, I, too, was hoping to maybe step away from the quarter a moment and just ask a question on how new initiatives are being prioritized across the system under the total beverages company strategy. And specifically, how you've been able to streamline potential points of friction between yourselves and your bottling partners.

Over the years, I guess, it seems to me, at least, like there have been many good intentions, but oftentimes, the systems may have been bogged down in debating who should spend what portion of new initiative costs; conversely, who should reap more of the benefits. Just everyone seems to have a different definition of what equitable means.

But today, just by virtue of how fast the system is bringing new ideas to market, both organically and now, as you highlighted, through M&A, it seems like you've been able to maybe cut through some of that red tape and focus more on the end consumer.

So again, maybe just talk a little bit more, if you could, about the changes that have been made. Maybe how the new Global Ventures group may fit in going forward. And then, ultimately, how should investors, in fact, think about what portion of the costs versus what portion of the benefits accrues to KO versus the bottling partners? Thanks.

James Quincey - The Coca-Cola Co.

Well, that is indeed a broad question. I think, firstly, it would be fair to recognize that the system is benefiting from the experiments and the things we've been doing over the last 10-plus years around the world to try and expand into a number of other categories.

So we've been experimenting and learning and identifying what's good practice and what's not so good practice for a good number of years now. And you're seeing that base of knowledge and expertise growing, that's allowing us to have a foundation to move faster.

Clearly, the end of the refranchising process and having a kind of a clear partnership network with well-funded partners who want to invest and want to win in the marketplace, combined with a greater degree of organizational clarity and focus on empowerment and accountability and getting things done on the company side, whether that be the marketing, the innovation, the M&A, whichever piece of the puzzle is required, has clearly helped.

And then, I think the Global Ventures is another step in that direction. We've had acquisitions in parts of the world. We've had venturing emerging brands units in different parts of the world.

What we've not been so successful at is tying that together across regions, across the groups, if you like, and I think that's what this represents in terms of the Global Ventures. So rather than letting something be successful in one group and it taking forever to get to another group, this unit here will be there to help push and drive the agenda for greater speed going forward.

At the end of the day, how do we get faster? We get faster not just because of all those things, but because there are exciting, interesting, financially-attractive opportunities that the system can capture.

The relative economics and the capital needed differ by category. They differ depending on the starting point of the different systems in the different part of the world, what's already been built. And, of course, what we've learned over the years with our partners is how to move quickly to a place where it's attractive for everyone.

At the end of the day, if it's not attractive for everyone, it's not going to go very far, and that's us, our bottling partners and, ultimately, the customers and down to the end consumer. So, it just needs to be organized, so the incentives are clear and attractive.

Operator

Thank you. And our next question comes from Dara Mohsenian with Morgan Stanley. Your line is now open.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

Hey. Good morning, guys.

Kathy N. Waller - The Coca-Cola Co.

Morning.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

And congrats, Kathy.

Kathy N. Waller - The Coca-Cola Co.

Thanks.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

So, I wanted to focus on emerging markets. There's obviously been a lot of market concern over the slowing macros in China. There's been the election volatility down in Latin America. You mentioned a number of emerging markets, some of which are looking more positive. Some of which aren't looking as positive. So, I guess, James, can you just give us a bit of an update on your perspective on the macro outlook here in emerging markets as you look around the world; not so much a review of the quarter, but sort of what you saw sequentially as you moved through the quarter in October, and any forward-looking thoughts? And while we're on that subject, obviously, a stronger dollar sort of reflects those emerging markets concerns. So, any thoughts on sort of the FX pressure for 2019 earnings based on where we stand today would also be helpful. Thanks.

James Quincey - The Coca-Cola Co.

Yeah. Kind of in reverse order; it's a little early to provide FX guidance for 2019. But I think that, look, when you stand back, clearly, there are some emerging markets that got better. If we'd been talking two, three years ago, we were having a tougher time in China, Brazil, recently India. But those have all improved over the last 6 to 12 months. And we have good growth in all of them, including Brazil.

But in the meantime, it's got tougher in a number, whether that's Argentina, Turkey, South Africa and the Middle East. So I think there's clearly some additional volatility in the emerging markets. I think you can see that in the GDP numbers. You can see that in the GDP forecasts. At least the IMF and some of the others are coming and going, oh, okay, it's getting a little softer. And I think that's representative of the U.S. dollar's strength in recent months.

Exactly what the path forward would be is hard to predict exactly at this point in time. We're clearly moving to a slightly different phase in the economic recovery, and I think that will bring some ups and downs. But net-net, we've got a portfolio across 200-plus countries. We're seeing growth in the developed, in the developing, in the sum of the emerging.

And at the end of the day, we could do a lot of crystal ball gazing, but what's really important is we focus on what we can do, on what we can control, which is about staying close to the consumer, understanding what drinks and packages they want, working with our customers to work out how to create value for them, provide the right marketing and the right innovations, so the system can execute with excellence, and that will deliver us a winning formula in good days and in bad days.

Operator

Thank you. And our next question comes from Vivien Azer with Cowen & Company. Your line is now open.

Vivien Azer - Cowen & Co. LLC

Thank you. Good morning.

Kathy N. Waller - The Coca-Cola Co.

Morning.

James Quincey - The Coca-Cola Co.

Morning, Vivien.

Vivien Azer - Cowen & Co. LLC

So last month, there was public commentary that you guys are closely monitoring the non-psychoactive CBD category. So, James, I was hoping that you could expand on that comment and discuss what, if any, regulatory changes you would need to see to become more interested in the space in the U.S. and also internationally? Thanks.

James Quincey - The Coca-Cola Co.

Well, I think that's a simple one. We don't have any plans at this stage to get into this space. So that's kind of where we are.

Operator

Thank you. And our next question comes from Bonnie Herzog of Wells Fargo. Bonnie, your line is now open.

Bonnie L. Herzog - Wells Fargo Securities LLC

Good morning.

James Quincey - The Coca-Cola Co.

Morning, Bonnie.

Kathy N. Waller - The Coca-Cola Co.

Morning.

Bonnie L. Herzog - Wells Fargo Securities LLC

Hi. Congratulations, Kathy. I, too, wish you all the best.

Kathy N. Waller - The Coca-Cola Co.

Thank you.

Bonnie L. Herzog - Wells Fargo Securities LLC

I have a question for you guys on your marketing spend in the quarter and so far this year. In general, I'm wondering if you're seeing the lift you expected from your spending. And then, could you give us a sense of how much your spending has increased this year or not, and how we should think about that evolving in the future? I guess I'm assuming as a percentage of sales, it would likely increase, given your lower revenue base, but on an absolute dollar basis, how should we think about this going forward? Will you plan to increase spend in the future? Thanks.

James Quincey - The Coca-Cola Co.

Yeah. I think, clearly, there are some mechanical parts to the P&L as we sell some of the bottling and refranchising has come to a close. But we have been pursuing a steadfast strategy of reinvesting in our business for a number of years. And so I think there's no big discontinuity happening or seen out there at this stage.

So I think the marketing spend, I think is producing good results. We are winning in the marketplace. We're growing the soft drink category in revenue and volume. The Coke Trademark's growing. Coke Zero Sugar's growing. We're seeing the sales and volume and transaction uplifts, engagements by the consumers with the brands, so we think we're in a good place in terms of what are marketing is delivering for us. So leaving aside the mechanical effects of refranchising to the P&L and the percentage of DME, then I think it's relatively steady as we go. So yeah, I think you can see those examples.

Operator

Thank you. Our next question comes from Lauren Lieberman with Barclays. Your line is now open.

Lauren R. Lieberman - Barclays Capital, Inc.

Great. Thanks. I was hoping you could talk a little bit about competitive dynamics in North America. Latest Nielsen came out today and shows that Pepsi still does not appear to have moved on pricing. So if you could just talk a little bit about what you're seeing actually in the marketplace, because I know Nielsen is not always the most representative. Thanks.

James Quincey - The Coca-Cola Co.

Yeah. So clearly, we've taken some price increases this year in the U.S. marketplace, whether that be in the juice category by changes in the packaging, in soft drinks, in the number of channels. And, clearly, we've been pushing that through over the years under the headline of we're doing a lot of things to engage the consumer with the various categories in our portfolio from the marketing and the packaging, working with our customers to create value for them.

We think this is a strategy that has worked for us over the recent years and will continue and is continuing to work for us going forward. So, I'm not sure it makes that much sense for me to comment on short periods of competitive pricing activity. We've always said, look, we're going to follow a rational pricing approach with a few points of pricing, which is what's happening on an underlying basis. In the U.S., it won't necessarily be a straight line for all sorts of reasons, but we're going to stick to our strategy. And I think that's the one that will see us through to the right place.

Operator

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

Judy Hong - Goldman Sachs & Co. LLC

Thank you. Good morning and best wishes to you, Kathy, from me as well.

Kathy N. Waller - The Coca-Cola Co.

Thank you.

Judy Hong - Goldman Sachs & Co. LLC

So, I guess my question is just on the guidance. So, one is just clarification, so for this year, if we think about all the moving parts, on the comparable EPS, really the only thing that's changing is the tax rate coming down, which is about $0.02 or $0.03 benefit to your guidance. And then, I know you're not giving 2019 guidance, but as we think about, James, your sort of commitment to continue to grow comparable EPS even with some of the FX headwinds, you've got tax rate benefit going away next year, FX probably another 2 or 3 points headwind. So maybe conceptually, what are some of the P&L levers that you can continue to focus on to really drive growth and comparable EPS? Thanks.

James Quincey - The Coca-Cola Co.

Do you want to start with it?

Kathy N. Waller - The Coca-Cola Co.

Certainly. So, yes, there's the tax benefit for this year. And given that the structural is slightly worse than we said at the beginning of the year, and then, frankly, currency is worse than we said at the beginning of the year. We are going to stick to our 8% to 10% guidance.

James Quincey - The Coca-Cola Co.

Yeah. And 2019, it's too early to get into 2019. But in the end, we said we're going to follow three pillars in trying to manage the business going forward. We need to grow the top line by doing the right things for the consumer in terms of the beverages, the marketing, the packaging, the innovation. Create value with our customers, have the right refranchised bottlers to execute in the marketplace. That will drive local top line in each of the 200-plus countries we operate in.

We'll focus ourselves and as a system on being efficient stewards of the P&L and the capital, such that the margins, again, locally, will be appropriate for that business and for driving growth. And then, of course, the piece that we have to bring together as the portfolio management is paying attention to what that translates to in comparable EPS earnings. How are we going to put that puzzle together for 2019, we'll come back to in a future date.

Operator

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

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Hey, guys. Congrats as well from me.

Kathy N. Waller - The Coca-Cola Co.

Thanks.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

So, you're delivering pretty well on fanning out the portfolio to effectively to meet consumers' needs, including with M&A. Could you talk more about the pace of activity from you and I guess the size of activity we actually should extrapolate then for the company going forward?

And also, how specifically has management incentive expectations and structure kind of changed all the way throughout the organization to really make sure that these investments work and allow these brands to come in and be successful within your relatively complex ecosystem, without this, what we often see and I think what you guys have suffered for in the past, some sort of organ-rejection issues.

And then also from a strategic perspective, you've stuck to nonalcoholic ready-to-drink so far. What are your views about alcoholic right now? Clearly, there are some experimentations where your CFO is leaving – or your new CFO will be leaving from, but are you open to that world as well in the short term? Thanks a lot.

James Quincey - The Coca-Cola Co.

Thanks, Ali. Look, I think the pace of M&A, clearly, the third quarter was a more active quarter than normal.

When we look at M&A opportunities, it's obviously a function of, are we seeing things that work for us in terms of a role for that in our business, whether it be a role in the portfolio, a role in the capabilities, providing us with a new entry into something? So clearly, we've got to be focused on what does it do for us. Then, of course, there's a question of price and a question of availability of the things that we want.

So I'm not sure that extrapolation does make sense. And I think that's just something we'll have to cover as we go forward. We've made a number of statements as how we want to see the total company structured in terms of growth, in terms of leverage, in terms of returns to the shareholders.

So I think it's the management of the business that will need to go forward, but we've got some guardrails on how we think about the total.

And then, as we bought in some of these companies a little, as I talked on one of the earlier questions, we've learned over the last number of years on how to bring them in and what's the best way and what are the models that best work for different categories in different situations.

And that's allowed us both to do better as we bring them in, in the place that we're buying them, whichever part of the world that is, but also then do better in lifting and shifting and scaling them to other parts of the world.

We're not as good at that as we would like to be or are perhaps as fast as we would like to be, better said, which is why we're bringing the Global Ventures organizational unit into being, to just give an extra twist to accelerating that piece of the strategy of lifting, shifting and scaling.

And we'll learn more. And we'll learn more. And that's, of course, tied back to the incentives. We have general incentives to the broad population against revenue and profits and cash flow, which obviously link back to the M&A strategy. And then, for those teams specifically doing M&As, we have deal-specific incentives.

Operator

Thank you. Our next question comes from Bill Chappell with SunTrust. Your line is now open.

William B. Chappell - SunTrust Robinson Humphrey, Inc.

Thanks. Good morning.

James Quincey - The Coca-Cola Co.

Morning, Bill.

Timothy K. Leveridge - The Coca-Cola Co.

Morning.

Kathy N. Waller - The Coca-Cola Co.

Morning, Bill.

William B. Chappell - SunTrust Robinson Humphrey, Inc.

And congratulations, Kathy.

Kathy N. Waller - The Coca-Cola Co.

Thank you.

William B. Chappell - SunTrust Robinson Humphrey, Inc.

Actually, James, wanted to talk a little bit about the management transition. Just a few things. One, why now? I mean, I guess, Muhtar, for a while, didn't have a COO. And so it seems an interesting time to add that.

And two, looking at all the hires and all the kind of leads, they all seem to date back to your time in working in Latin America. And so is this kind of a getting a band back together? And with that, are you trying to replicate something or expand something that happened in Latin America to across the company?

James Quincey - The Coca-Cola Co.

So I think, the management changes, why now is, I think it's a simple function of we've ended a phase. We had some initial reinvestment going back in brand KO. We set out the refranchising. We've brought that to a conclusion. We built on our foundations of the last number of years in setting out Beverages for Life with a clear vision for where we want to go. We've added flesh and bone to that vision over the last 12, 18 months.

And what's clear is we've got a lot of things to do. And so that's why I think bringing Brian in as COO will allow us to be able to execute against the leadership agenda with speed.

Of course, we could just go slower with less people, but we need to be able to execute at speed and be able in a world that's volatile. And we're in a lot of places, we need to be able to lead the enterprise forward.

And I think Brian just brings that extra capacity with a focus on the field operations that allows me to look across the whole company, and we'll be able to work as a double act to bring a lot of that going forward. And so I think that's why it's the right time to bring Brian on.

On are we putting a band back together, I wish I was good at music. I'd love to be in a band, but there was zero chance of that happening. So here I am.

I think what you're seeing is executives being promoted across a broad section of the global talent pool. Yes, Brian spent some time in Latin America, as did John. Brian's also been in Europe. He's been in the U.S. John's been in Asia. So what I think you're seeing is people who've worked around the world coming up through the organization taking on strong roles.

Nancy, who hasn't worked in Latin America, worked in Corporate, worked in North America, she's come up. You've seen the new Group Presidents, like Nikos [Koumettis], come up through the European business, worked in Canada as well. Manolo [Arroyo], who's gone to Asia, spent most of his time between Europe and Asia. You see Jennifer Mann, who has come up through the U.S.

I think you're seeing a lot of people come up through the U.S. organization, come up through the organization and take different jobs, and the new business unit presidents, you know Galya [Molinas] has gone from Turkey to Mexico via the U.S.

So you're seeing a lot of movement. And I think it's testament to the talent pipeline around the world and our ability to have people grow by giving them different experiences in different parts of the world and different types and business situations that makes them stronger leaders, that then allows us to deploy them to the best use and the greatest opportunity for the company.

Operator

Thank you. And our next question comes from Caroline Levy with Macquarie. Your line is now open.

Caroline Levy - Macquarie Capital (USA), Inc.

Thank you. Good morning. Kathy, we will miss you. Good luck in the future.

Kathy N. Waller - The Coca-Cola Co.

Thank you.

Caroline Levy - Macquarie Capital (USA), Inc.

And my question is around impact cost pressures. I'm assuming they are largely in North America, and just trying to understand what your hedges look like, how much you've been affected so far by transport costs, PET, aluminum and what you're seeing in the fourth quarter, what you're expecting.

Kathy N. Waller - The Coca-Cola Co.

You want me to take that?

James Quincey - The Coca-Cola Co.

Please.

Kathy N. Waller - The Coca-Cola Co.

So on commodities, pressure on input costs, yes, we are seeing that primarily in North America, given the structure of the businesses there, the foodservice business as well as our Minute Maid business and in our BIG segment, is where we will primarily see that pressure from commodities.

For the fourth quarter, we anticipate it to be much in line with like we have seen year-to-date, with freight pressure continuing for North America into the fourth quarter.

Basically, we have hedges on our primary input costs, input commodities, but I don't anticipate the fourth quarter to be significantly different from what we've seen year-to-date.

Operator

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

Brett Cooper - Consumer Edge Research LLC

Congratulations to you, Kathy, as well.

Kathy N. Waller - The Coca-Cola Co.

Thank you.

Brett Cooper - Consumer Edge Research LLC

Question on business performance or cluster performance, right, if we look at that year-to-date or in the third quarter, the numbers don't necessarily bear out the diversification of your business. I know there's been efforts to rationalize SKUs and so forth and so on. There's pricing and mix impact, so I don't know the best way to go through it, but can you talk about how you see the business progressing year-to-date or over a longer period of time in terms of diversification that may not bear out the numbers that you report within the release? Thanks.

James Quincey - The Coca-Cola Co.

Sure. Yeah, look, we grew. I'm just going to go through the clusters to make it easy. Sparkling did really well this quarter year-to-date. We saw strong growth around the world in all the groups. In Trademark Coke, in Diet Coke in the U.S., and actually Coke Zero Sugar had its best quarter of growth in 10 years. So clearly, a lot of what we're doing in sparkling is working, is engaging with consumers. And that's very pleasing.

As we go into the other categories, what we see in water is a change to the recent trend. So in the last number of quarters, we were actually declining or doing worse in water. And this time, we've done better because we're kind of moving out of the phase of deprioritize something in the low value water, and starting to see some of the benefits of our focus on the premium waters, whether that's China, some of the innovations in Mexico around CL, (48:35) or even North America with smartwater and with Topo Chico.

So, I think you're starting to see growth coming back into water as we've done a bit of deprioritizing and moved more into premium and innovation.

In the case of juice, the juice category, that is down this quarter. A lot of that is driven by a couple of pieces. One, we've talked about before, which is the North American resizing of the juice; and secondly, the macroeconomics in the Middle East, in particular, have hit our Aujan juice business quite hard. So, there's a clear macroeconomic impact.

So, what we're doing as, in fact, we've done across each of the categories is focus on if there is bits of the business that need to be deprioritized or rightsized or reshaped, so that we are going to drive revenue growth in an attractive business, we need to get that done, so I think you're seeing some of that adjustment still going on in the juice business.

Where there is a stronger foundation with the right structures for the business and attractive consumer propositions, you saw good growth. So, in Mexico, Western Europe, India, Brazil, we saw strong performance in the juice, dairy and plant cluster. So, it's about us still focusing on getting some bits right.

And, lastly, tea and coffee; coffee was up in the quarter, driven by growth in Japan. Coffee, at least for now, is largely a Japanese story. And we had not done as well as we had wanted recently. We've not kept up with the innovation. We brought more innovation to the table that allowed us to do better in the third quarter. Clearly, the natural disasters and the destruction of the plant is going to be a problem, but we think we're back on the right track.

And then, tea, actually we've done really well in tea with the completion of the globalization of Fuze, but we have decided to sell less of the non-ready-to-drink tea. That was a focus in Turkey. So, what you're seeing is growth in underlying businesses across all the categories, building better positions from which to go forward on. And, of course, there is some netting with things that we are deprioritizing or where macros are impacting us.

Operator

Thank you. Our next question comes from Kevin Grundy with Jefferies. Your line is now open.

Kevin Grundy - Jefferies LLC

Thanks. Good morning, everyone, and congratulations, Kathy.

Kathy N. Waller - The Coca-Cola Co.

Thank you.

Kevin Grundy - Jefferies LLC

James, I wanted to drill down a bit on the sports drink strategy now for KO, following the announcement of the BODYARMOR relationship. So, specifically, maybe talk a little bit about positioning of the brand versus Powerade, any potential friction you see there, balancing investment at the BODYARMOR level versus what maybe incurred at KO or by bottlers' growth opportunities for the brand as you see it outside the U.S. And then, lastly, with respect to the path to ownership, because limited detail has been provided, anything you can share there, even sort of a rough timeline would be helpful. Thank you.

James Quincey - The Coca-Cola Co.

Yeah. No. So, what we've announced in terms of any future stages of timeline are not there yet. But I think the first important point is to recognize this is a minority investment for us and it's going to be run as a separate business. So, the BODYARMOR team are going to make the decisions about how to grow the brand, what innovations and formulas and packages to bring to the marketplace. We have a clear agreement on how they will go through the Coke bottling system, and that will take place. And the Powerade team will continue to focus on Powerade.

I think it's fair to say the two sit in quite different positions today. BODYARMOR is clearly coming from a more premium space with a different consumer proposition in terms of the ingredients and the setup of the drink. So, I think there's space for both. And we expect to be able to go forward, but I think it is worth noting that they are going to be run as two parallel and separate businesses at this stage. And ditto, that goes for any expansion outside the U.S. That's a decision that BODYARMOR needs to make.

Operator

Thank you. And our next question comes from Amit Sharma with 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.

Morning

Timothy K. Leveridge - The Coca-Cola Co.

Morning.

James Quincey - The Coca-Cola Co.

Morning, Amit.

Amit Sharma - BMO Capital Markets (United States)

James, you talked about the coffee category is $500 billion. Can you just flesh that out for us a little bit in the context of the Costa acquisition? I mean, understanding that potentially, you're not going into the retail side of the business, where else do you see opportunities? Is it RTD? Is it single-serve? And if it includes single-serve, like, where is Costa today from either a percent of sales or partnership basis?

James Quincey - The Coca-Cola Co.

Sure. Look, I think there's a number of exciting things that can be done as Costa becomes part of our global coffee platform and our ability to grow in coffee. Obviously, ready-to-drink is an opportunity that makes a lot of sense for us to focus on. I think the other pieces where we can for sure grow our coffee business is in being a better beverage partner to the many customers out there in the many different channels, whether that be through the use of a bean to machines relationship within their facilities, or the use of the Costa vending machines, which is a bit like our Freestyle machines on the Coke side.

There are a lot of ways to work with immediate consumption customers to bring a coffee offering from The Coca-Cola Company, whether in the brand, and the drink and the machinery. And, of course, then there's the at-home market, whether that be pods, capsules, loose beans, there is a substantive opportunity to grow that space as well.

Operator

Thank you. And our next question comes from Laurent Grandet with Guggenheim. Your line is now open.

Laurent Grandet - Guggenheim Partners

Hi, everyone, and, Kathy, I wish you all the best for the future. It has been a pleasure working with you.

Kathy N. Waller - The Coca-Cola Co.

Thank you, Laurent.

Laurent Grandet - Guggenheim Partners

So like to focus on pricing, could you please help us better understand the price/mix increase in the quarter, whether that's coming from price increase, promotional activity or packaging or category mix. And also you had an off cycle price increase early in the summer to cope with some commodities increase. Are you planning still to increase price early next year? And what will be the magnitude of it? Thank you.

James Quincey - The Coca-Cola Co.

I presume you're talking just about North America rather than globally. And, obviously, we're not going to provide a guidance or indications on what we're going to do next year on pricing.

I think when you look at the North America pricing, of course, you look at it and then perhaps it's easier just to look at the year-to-date. You see that we're down a point in terms of price/mix in North America year-to-date. And then, obviously, we've been taking pricing in the marketplace. And it generated the question last quarter, and whilst it's moved in the right direction this quarter, it's still the same sort of gap.

What's happening is, firstly, we had the conversation about the freight costs, which are a deduction to revenue in the way that we're looking about this. That's a point across the year-to-date. Depending on the quarter, there's been some timing of promotional items. The last quarter, it was a headwind. This quarter, it was a positive. On year-to-date, it's all in balance. So let's just ignore that for a second. Otherwise, it gets very confusing looking at the minutia of each quarter.

The big picture is it's been down one on freight. Timing and promotions is a intra-quarter issue. And then, the biggest gap between what we report as pricing and what you see in the marketplace and what the bottlers report, is the business mix of the different business models in our North American business.

Unlike the rest of the globe, the U.S. has a big portion where we have finished products, so Minute Maid, juice, the fountain business, but we also sell a lot of concentrate on sparkling to the bottlers. And, therefore, you can end up with a curious mathematical situation, where you take price increases, and prices are going up in each of those three business systems, and yet the average is going down because of the different average prices per gallon of the different business models.

And the reality is because of the rightsizing we did on juice, that which is a higher revenue per gallon business, it produces this curious mathematical effect, which is why I keep underlying that what's going on underneath is we have been taking price, given the input costs and given what's going on in the U.S. marketplace, and to support the reinvestment in the business, and that strategy remains true. And it's helped us win in the marketplace.

James Quincey - The Coca-Cola Co.

Okay. I think we're at the end of the questions. So thank you very much, everyone. To conclude, we had a solid quarter. We're on track to close out the year per our guidance. As always, we thank you for your interest, your investment in our company and for joining us today. Thank you. See you soon.