Operator

At this time, I would like to welcome everyone to The Coca-Cola Company's first quarter 2013 earnings results conference call. Today's call is being recorded. If you have any objections, you may disconnect at this time. All participants will be in a listen-only mode until the formal question-and-answer portion of the call. (Operator Instructions).

Due to the interest in this call, we request a limit of one question per person. 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 Jackson Kelly, Vice President and Investor Relations Officer. Mr. Kelly, you may begin.

Jackson Kelly

Good morning, and thank you for being with us today. I am joined by Muhtar Kent, our Chairman and Chief Executive Officer and Gary Fayard, our Chief Financial Officer. Following prepared remarks by Muhtar and Gary this morning, we will turn the call over for your questions. Ahmet Bozer, President of Coca-Cola International, Steve Cahillane, President of Coca-Cola Americas and Irial Finan, President of our Bottling Investments Group will also be available for our Q&A session.

Before we begin, I would like to remind you that this conference call may contain forward-looking statements including statements concerning long-term earnings objectives and should be considered in conjunction with cautionary statements contained in our earnings release and in the company's most recent periodic SEC report. In addition, I would also like to note that we have posted schedules under the financial reports and information tab in the Investors section of our company website, at www.coca-colacompany.com.

These schedules reconciles 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.

Now, let me turn the call over to Muhtar.

Muhtar Kent

Thank you, Jackson and good morning, everyone. Before we review this quarter's operating results, I would like to take a moment to acknowledge the senseless events that took place in Boston yesterday. We were deeply saddened by this news and our thoughts and prayers are with those affected by this horrible tragedy.

Now turning to this quarter's results. We are pleased with our first quarter performance. The great women and men of The Coca Cola Company, Coca Cola system delivered solid performance results in line with our expectations. On a global basis, we once again gained value share. We have now gained global value share in nonalcoholic ready-to-drink beverages for 23 consecutive quarters.

In spite of a challenging global economic times of the last few years, our people and our system bottling partners are executing the right strategies to advance us further towards our 2020 vision. Since the launch of our 2020 vision at the beginning of 2010, we have increased daily servings by more than 225 million, we have lifted global volume and value share to the highest levels since 2003, and more than $48 billion have been added to the Coca-Cola Company's market capitalization.

Across the system, we are continuing to invest together for a better tomorrow. In fact, we enter 2013 and the fourth year of our journey to 2020 from a position of real strength clearly focused and well on track to reach our goals and objectives and our global bottling system is healthier than ever before.

The strength of our brands and the promise of sustainable growth are fueling our bottlers' efforts to become more efficient, improve capability and further strengthen execution. We are working closely with our bottling partners around the world to rapidly realize opportunities to execute with precision and to continue winning at the point of sale.

We are innovating and investing in the health of our brand, in our capabilities and in new opportunities for growth across the entire non-alcoholic ready-to-drink beverage landscape. We are leading the industry dialogue around obesity and strengthening the sparkling category by bringing forward new packaging choices, transparency in labeling and new sweetener solutions while also championing energy balance and promoting physical activity.

We are working across the golden triangle of government, civil society and business to create real value and to make a lasting positive difference. And more importantly, we continue to generate shareowner value.

To that end, in the first quarter of 2013, we grew worldwide volume by 4%, cycling 5% from prior year and once again captured global non-alcoholic ready-to-drink beverage value share with volume and value share gains in core sparkling category.

Our global sparkling portfolio grew 3%, led by brand Coca-Cola growth of 3%, while Fanta grew 6% and Sprite grew 5%. Sparkling brands contributed nearly two-thirds of our global volume growth.

Worldwide still beverage volume grew 6% in the quarter, with growth across most still beverage categories, including ready-to-drink tea, juices and juice drinks as well as packaged water. These gains enabled us to capture global still beverage volume and value share. And, immediate consumption volume also grew 3%, with growth across both, sparkling and still beverage.

As announced during our 2012 year-end earnings call, we implemented a new organizational structure effective January 1st of this year that includes Coca-Cola Americas, which began 2013 by growing volume 3% and Coca-Cola International, which grew volume by 5%.

Moving now to operating groups, I will start with North America, where we remain resolutely focused on driving sustainable growth. We are pleased to report that North America continued to build on three successive years of growth with 1% volume growth in the first quarter, resulting in volume and value share gains. We are winning by investing in our portfolio of preferred brands by executing with excellence at the point-of-sale and by creating efficiencies and synergies across our manufacturing sales and distribution networks.

Although sparkling volume was down by 1% in the quarter, we achieved 3% sparkling price mix reflecting our focus on value creation. Importantly, brand Coca-Cola grew this quarter, aided by double-digit growth in both, mini cans and in our 1.25-liter package, underscoring the strength of our flagship brand and the success of our occasion-based package architecture. Coca-Cola also extended its favorite brand lead to over two times its closest competitor in North America.

Sparkling beverages gained volume and value share as marketing and execution are enabling us to win in the marketplace. Still beverage volume grew 6% in the quarter, cycling 6% from prior year. Our portfolio of still beverage brands has now captured volume and value share for 21 of the past 23 quarters.

Our key brands grew strong double digits and captured volume and value share of the ready-to-drink tea category. Growth was driven by Hones Tea at the premium end of the market, the ongoing rollout of Fuze which is now available in 70% of total U.S. supermarkets and continued Gold Peak growth. As you may know, we have built Gold Peak from scratch since launching it in 2006. The brand has grown by double digits for 24 consecutive quarters and is rapidly on its way to becoming a $1 billion brand.

Our juice and juice drink portfolio grew 3% in the quarter gaining volume and value share, simply was up 9% thanks to the addition of new flavors and the growth in Simply Single-Serve. Our Minute Maid trademark grew 4% due to the expansion of Minute Maid punches as well as gains in the light segment of the chilled juice drink category. North America water business grew 5% led by growth of DASANI which continues to maintain a price premium to its primary competitors. Smart water maintained its streak delivering its 20th consecutive quarter of double digit growth. Now, energy portfolio delivered its 11th consecutive quarter of volume growth and gained volume and value share.

As announced earlier today, we are taking a significant step towards our 2020 vision by commencing the implementation of a 21st century beverage partnership model in the United States. The franchise system has always been the strength of the Coca Cola business globally and today we are accelerating the transformation of our U.S. system in ways that will establish a clear path to help us achieve our 2020 vision.

In the coming months, we will be collaborating with five of our bottling partners to implement a plan which will include the granting of exclusive territory rights and the sale of distribution assets with cold drink equipment. In the near term, production assets will remain with Coca Cola Refreshments which will facilitate future implementation of a national product supply system. These actions are being taken ahead of our previously stated timeline. The result will be further progress towards a more agile, modern, customer focused franchise business model unique to the United States.

We remain confident that we have the right strategies for North America and we are optimistic about the outlook for this important critical market despite the challenging competitive environment and macroeconomic backdrop. As today's results indicate, The Coca Cola Company's brand marketing, commercial execution and category leadership efforts are all working together to enable us to sustainably win at the point of sale.

Turning now to Latin America. We are building the business from a position of real strength having realized solid 4% volume growth in the quarter, cycling 5%. Sparkling beverages in Latin America grew 2% with brand Coca-Cola also up 2% enabling us to gain both volume and value share. Still beverages across Latin America delivered double-digit growth, gaining volume and value share thanks to growth across the portfolio including double digit growth for both Del Valle juices and juice drinks as well as POWERADE.

In Mexico, brand Coca-Cola growth combined with high single-digit growth of our still brands helped drive overall volume growth of 3% in the quarter enabling us to capture volume and value share of nonalcoholic ready-to-drink beverages.

In Brazil, where volume also grew 3%, brand Coca-Cola delivered 2% growth while Fanta grew 8% and Del Valle delivered 15% growth enabling us to gain volume and value share in this important market.

The Latin Fanta business unit, which stretches from Equador to Belize and encompasses the Caribbean grew volume by double-digits and trademark Coca-Cola expanded its leadership growing high single digits through consumer relevant propositions that include increasing availability of our 1.25 liter returnable glass bottle and expanding immediate consumption PET. We continue to see growth opportunities across Latin America which is the company's largest operating group in terms of unit case volume and where we have gained value share in 21 of the last 23 quarters.

Moving now to the Pacific group. We generated 3% overall volume growth, cycling 9% from prior year, led by high single digit growth in brand Coca-Cola. At a country level, volume in China grew by 1%, cycling strong 9% growth. Sparkling beverages grew high single digits while the juice and juice drinks business grew by double-digits following the introduction of Minute Maid Pulpy PET and Minute Maid Pulpy Mango.

This growth was partially offset by a decline in water volume as we cycled strong water growth. These results reflect sequential improvements and are in line with expectations we shared during our year end call. Importantly, we believe that we will continue to realize sequential improvements through 2013. At the same time, we also believe that it is going to take a period of time for consumption to return to the growth levels of previous years. Nevertheless, we had every confidence in the long-term resilience of our China business and we remain optimistic about our long-term opportunities to generate robust growth in this region over time.

In Japan, volume growth was 1%, in line with expectations, cycling 3% growth from prior year. Sparkling growth was up mid single-digit led by trademark Coca-Cola, and in particular, Coca-Cola Zero up double digits driven by the successful Zero Limit national promotion.

Ayataka green tea and LOHAS water our newest $1 billion-dollar brand in Japan continued their double-digit growth and contributed to solid growth in the important convenience store channel.

Turning to India, which as a reminder we are now reporting within the Pacific group, we delivered high single-digit volume growth, cycling strong double-digit growth from last year and we gained volume and value share in sparkling while also increasing our pricing. Growth was led by brand Coca-Cola, which grew a strong 30% in the quarter. Thanks to a strong, robust integrated marketing and communications' campaign and strong in-market execution.

In the first quarter alone, we added over 250,000 incremental outlets in India as significant increased chilled availability for our brands. Our still beverages in India grew mid-single digits, cycling strong double-digit growth while gaining both volume and value share.

In concluding our update of the Pacific, I would also like to recognize our continued strong performance in two exciting markets, Thailand and South Korea. In Thailand, we are maintain double-digit volume growth while rapidly investing in additional two factories. We are working in close alignment with our local bottling partners to further expand our leadership position in this important market.

In South Korea, we are generating broad-based growth across a diverse portfolio of strong brands with sparkling beverages growing high-single digits in the quarter led by brand Coca-Cola up 11%.

Turning now to the Eurasia and Africa group, we once again delivered double-digit volume growth, growing 15% while maintaining share. Brand Coca-Cola grew double digits bolstered by our award-winning Crazy for Good campaign. Fanta, Sprite and Coke Zero, all generated double-digit growth as well. Our still brand delivered double-digit growth led by Fuze Tea and the acquired volume related to the Aujan partnership.

Russia continued to deliver strong results, outpacing the non-alcoholic ready-to-drink beverage industry with high single-digit volume growth. Growth was led by sparkling beverages, where we gained share for the eighth consecutive quarter as brand Coca-Cola grew 15%. Our still beverage portfolio gained volume and value share and Dobry juice continue its double-digit expansion.

One highlight I would like to mentioned with regard to Russia, is our effort to deepen the emotional connection with the consumers by leveraging the 2014 Winter Olympic Games in Sochi. Our sponsorship of these games and the Torch relay will combine the passion of the Olympics spirit and Coca-Cola in the minds of millions of Russians as the porch will pass through thousands of Russians house. In fact, our activation of the porch really is already driving real connections to our consumers as evidenced by the more than 77,000 Torch bearer nominations we have received during our latest consumer promotion.

Turning to our Central Asia business unit, also continued a strong performance delivering double-digit growth in the quarter. Prior to concluding my update on Eurasia and Africa, I would like to note that the Middle East and North Africa business unit was recently awarded the company's Woodruff Cup. This is our most prestigious operating award honoring the top performance business units in our worldwide business system. Among other important accomplishments, the Middle East and North Africa business unit achieve double-digit volume and operating income growth for 2012.

We celebrated an important milestone with our partners at Aujan this quarter, as we toasted the billionth can of Rani juice produced since the start of our partnership. Rani is the leading juice brand in the Middle East and a terrific compliment to our existing juices in Eurasia and Africa, including Turkey which gained volume and value share for 10th consecutive quarter.

Turning now to Europe. The economic environment clearly remains uncertain across this region as persistent high unemployment, coupled with severe austerity measures are weighing on consumer sentiment and consumer spending. In fact, Nielson's latest global survey of consumer confidence and spending intentions indicate the consumer confidence fell in 20 of the 29 European markets in the fourth quarter of last year. Nevertheless our volume was even in the quarter cycling 1% growth from prior year which is a significant sequential improvement from the fourth quarter of last year. We grew volume and value share in nonalcoholic beverages, both sparkling beverages across the region including key markets like France, Germany and Great Britain.

There were pockets of volume growth across Europe with Germany growing a healthy 3%, the Nordic countries showing improvement and Great Britain returning to growth while gaining share due to strong integrated marketing campaigns and solid execution in the market place. For the near future, as European consumers remain cautious in their spending, we will keep investing for the long-term health of our business. These results from around the world underscore the laser focus that our system has on our strategic priorities as we advance further towards our 2020 vision.

Our five core strategic priorities are as follows. First, we must continue to grow sustainably and provide meaningful solutions that enhance the health and well-being of the communities we proudly serve. Second, we will win with Coca-Cola while actively promoting the brand and the category. Third, we must absolutely keep winning and executing with excellence at the point-of-sale. Fourth, we need to keep maximizing the value of our global beverage portfolio. Sixth, we will encourage and inspire our system and associates to deliver on our mission.

Looking back at the first quarter of 2013, we were also honored and humbled to receive several recognitions. We were again ranked number four on Fortune's list of Most Admired Companies and named one of the Most Innovative Companies in the World by FastCompany.

Also one of the most meaningful recognitions for the Coca-Cola system came from Catalyst, the leading nonprofit organization with a mission to expand opportunities for women in business. We were honored to accept the 2013 Catalyst Award in recognition of our global women initiative. This important initiative is focused on fuelling the advancement of women as dynamic leaders and entrepreneurs across the organization and also in communities throughout the world where we serve our customers and consumers.

Before moving on, I want to revisit a complex societal issue that touches us all, obesity. Beginning last year, The Coca-Cola Company took new steps to give consumers even more choices in packet sizes, sweeteners and beverages, including more low and no calories production while also providing clear nutritional information and by supporting fitness programs. Coca-Cola has a rich heritage of being associated with exercise, sports and active lifestyle.

Today we are using our marketing expertise and community connections to inform consumers about energy balance and to inspire more people to get moving. We firmly believe the challenges of obesity are solvable. The Coca-Cola system together with industry partners, NGOs and government is committed to being part of the solution.

In closing, I would like to reiterate that our brands are stronger than ever before. We delivered solid performance results this quarter in line with our expectations while continuing to gain global value share. Together, with our global system bottling partners, we are working diligently to unlock value, to execute with precision and to continue gaining volume and value share. We are leading the industry dialogue about obesity by bringing forward solutions, adding transparency to dialog around calories and championing energy dollars and physical activity.

We are generating value for our shareowners as evidenced by the recently announced 10% increase in our annual dividend, which is our

51st consecutive annual dividend increase. Even so, we remain constructively discontent as we seek to make the most of the growth opportunities we continue to see around the globe.

Please note that we are working each and every day to refresh the world, inspire moments of happiness and optimism, create value and make a meaningful difference in lives of our consumers, our customers and in the communities that we proudly serve.

With that, let me now turn the call over to Gary.

Gary Fayard

Thanks, Muhtar, and good morning everyone. We delivered solid results this quarter underscoring once again that our company and global system are well positioned to execute our strategic plans and alignment with our 2020 vision. Achieving such consistent performance during a time of ongoing macroeconomic uncertainty is a real testament to the strength of our global system and the investments we continue to make for long-term sustainable growth.

Before we get into the financial details of the quarter, let me remind you that we closed the sale of 51% of our bottling business in the Philippines to Coca-Cola FEMSA in January of this year and therefore we no longer are consolidating the Philippines results.

We anticipate that this transaction along with the previously announced, bottling merger in Brazil will have a 3% structural impact on our full year 2013 net revenues, likewise our full year operating results should see a 1% structural impact. However, there should be a corresponding improvement to equity income, to our share of the results of these operations moving forward. As I shared in our 2012 year-end call, we do not expect these transactions to have a material impact on our 2013 earnings results.

Moving now to our first quarter results, our comparable earnings per share were $0.46, up 5% versus the prior year quarter despite currency headwinds of approximately 4%. Our comparable currency-neutral operating income was up 5% despite the impact of two fewer selling days and the impact of certain structural items. Currency was a 3% headwind on top on comparable operating income.

Comparable currency neutral net revenue grew 1% and grew 2% after adjusting for the impact of structural items. After adjusting for the effects of two fewer selling days in the quarter, unit case sales were in line with concentrate sales.

Price mix for the quarter was even, cycling 3% in the prior year quarter, and remember in the second quarter, we will also be cycling 3% price mix. However stated in our last earnings call, we expect to earn low single-digit consolidated price mix for 2013, consistent with our long-term growth model. We continue executing our occasion-based brand, price package and channel strategies with precision around the world.

Our comparable gross margin was 61.5%. This represents a slight improvement compared to the prior year, primarily due to the impact of geographic mix, the consolidation of the Philippines bottler and the impact of our foreign currency hedging program. We expect the improvement in our gross margin to moderate over the remainder of the year due to a shift in geographic mix.

With regards to operating expense leverage, we achieved three points of favorable operating leverage in the quarter, despite the impact of two fewer selling days at the end of was primarily due to the deconsolidation of the Philippines bottler as well as the benefit from a reversal of expenses related to some of our long-term incentive plans. This was partially offset by sustained strategic investments in our brand building activities around the world.

As we have shared before, we continue to expect operating expense leverage to be even to slightly positive for the full year. As you model our 2013 operating results and our corresponding expense leverage, let me also remind everyone that the 2013 calendar will have one less day when compared to 2012 and based on our quarterly closing calendar, as I said, we had two less days this quarter when compared to the first quarter of 2012 and our fourth quarter of 2013 will have one more day when compared to the fourth quarter of 2012.

Moving now to net interest income. We came in at $14 million of income in this quarter, ahead of our initial forecast. We now expect net interest will be event to slightly positive for the remainder of the year.

Our underlying effective tax rate is 23.5%. We expect this rate to remain unchanged through 2014.

Cash flow from operations decreased 3% primarily due to the impact of the two fewer selling days in the period and unfavorable impact from currency and an increase in the use of working capital in preparation for the peak season of our growing global business. Looking ahead to the remainder of the year, we expect our cash flow growth rate to be more in line with our earnings growth rate.

Turning to share repurchase. Our net share repurchases during the quarter totaled approximately $1.1 billion. This places us well on track to achieve the $3 billion to $3.5 billion range for full year 2013 that we communicate during our last earnings call.

As for currencies, we remain fully hedged on the Euro, Yen and Sterling for 2013 and into 2014 and we also have near term coverage in place with several other currencies. After considering the hedged positions and current spot rates, we expect currencies to be a 3% headwind for the second quarter and a 2% headwind for the full year.

As you have all seen the movement of Yen in recent months, as mentioned, we have hedged our Yen exposure for this year and into next year but we do believe that the weaker Yen will ultimately be beneficial for the Japanese economy and for our business.

In closing, and as Muhtar shared earlier, we are delivering on our strategic priorities and achieving real success. We fully expect operating income to be in line with our long-term growth target for the full year. Our global system is committed to investing together for a better tomorrow and our proven ability to achieve consistent quality results provides us with a confidence that together, as a system, we will successfully crack the code to sustainable growth to meet our 2020 vision goals.

Operator, we are now ready for questions.

Question-and-Answer Session

Operator

(Operator Instructions) Your first question is from John Faucher with JPMorgan Chase. Mr. John, you can continue with your question.

John Faucher - JPMorgan Chase

Sorry, there is a lot of static. As you look at the bottler consolidation piece, is Spanish or Japanese bottler consolidation the beginning of the next wave of let's say a bottler-driven consolidation? And how much are you pushing this as opposed to letting the bottlers lead where the system is going?

Muhtar Kent

Hi, John, good morning. This is Muhtar. First, I think, its important to realize that there is not one model for the world. There is many different models for the world. As you can see, what's happening. This has been an exciting last several months with respect to the evolution, actually continuous evolution of our franchise system. We manage our business to create sustainable long-term value and evolution of our franchise system continues to play an absolutely critical role in that process.

So what you have seen recently, the Contal merger in Japan, the Brazil merger of three bottling partners creating a large Brazilian led bottling business, the Iberian merger of seven bottling partners in Iberia, the sale of the Philippines, of the majority shares of the Philippines and the control to FEMSA, and now the U.S. the process, the journey starting in the United States are all part of our vision, our plan and to ensure that we can continue to deliver on the commitments we made for our vision.

In some cases they use, partially, our capital. In some cases whether the sale of, obviously, we bring capital back into the Coca-Cola Company, but all the time ensuring that our bottling business is fully suited with the needs of 21st century delivering what is necessary ahead of consumer expectations, customer expectations and so not one-size-fits-all.

And in the case of the United States, again, we are pleased to report today that we have reached agreement in principle to start this journey. All along since the first day we've closed the transaction of the Coca-Cola Refreshments, I have always said there will be a meaningful role to invite partners back into the business. When we were asked about the timing, we've always said around the four-to-five year timeframe from the time we've closed - the close of Coca-Cola Refreshments was you will recall back in the latter part of 2010, and we are well within that timeline and it's a continuous evolution and sometimes it will necessitate for us to use our own capital, sometimes the mix and sometimes no capital and again not one-size-fits-all. The U.S. model is a very different, but it is again a model that invites partners to serve with us passionately, the communities that we operate in.

John Faucher - JPMorgan Chase

Great. If I could just as a follow-up on that, which would be as you look at the different options you gave for the U.S. pieces here in terms of sub-bottler agreements, asset sales, swaps, things like that, is there some way to think about the financial impact as you do this? I mean, this is a small piece of it. How long does this timeframe take out as you sort of push these U.S. pieces out? Thanks.

Muhtar Kent

Yes. I think we can't comment on the timing for the end game but all I can tell you is that we are intent on creating the evolution necessary for us to be able to serve both, our large customers and small independent customers in the best possible way with our bottling partners.

Again, we have always said right from the beginning and we are consistent to that that the U.S. will be slightly different. We want to create the best-in-class production, optimum cost production system coast-to-coast from the east to the west. That will be nationally managed. We also want to create a national, we managed a larger customer, management system that will essentially have the responsibility to put together of 21st century customer plan with our large partners in the United States, or at the same time invite partners to come in and be part of this new evolution in the United States.

It will take as long as it is necessary, and that is not our focus; it's going to be about doing the right thing as quickly as possible, as efficiently as possible and as effectively as possible and that's what we are going to be doing.

Operator

Thank you. Your next question comes from Bryan Spillane of Bank of America.

Bryan Spillane - Bank of America

Hi, good morning. A question for you, Gary, just on the on the operating leverage in the in the first quarter and maybe more specifically the gross margin. If I understood it right, this quarter would have been one of the highest in terms of the impact from commodity inflation and we also really had no positive benefit from price mix. And as we kind of look out going forward, right? We should get some benefit from price mix later in the year and maybe you some relief on commodity inflation. So, why would not there be maybe more leverage going through the year than we originally expected given the leverage you had in the first quarter?

Gary Fayard

Yes, Bryan, thanks. There are a couple of things to consider. First is, as I mentioned previously in the prepared remarks, that we reversed some compensation accruals in the first quarter. So that gave you more leverage in the quarter but you will not see that that’s more of one-time impact, if you will. So its more leveraged in the quarter.

The other significant piece is, the currencies had an impact as well and currencies are moderate going out. But the biggest thing will be geographic mix. We would expect to see geographic mix changing throughout the year as we go through the year. As that happens, it will have an impact on gross margin and operating leverage.

Bryan Spillane - Bank of America

So the geographic mix would be more negative going through the back half of the rest of the year?

Gary Fayard

Yes, that’s exactly right. In fact, think about North America. Actually I would expect North America, actually, in the first quarter of this year, North America's operating income on a recurring comparable basis was down 3% and it is down 3% primarily because of two fewer selling days. So if you adjusted for those selling days it would have been positive. But I would expect North America to actually improve versus where they were, minus 3%, but as they improve because it's a finished products business, it is going to have a negative gross margin impact and there will be reduced leverage.

Bryan Spillane - Bank of America

Okay, so more growth from lower margin geographies going forward and that will affect that margin impact?

Gary Fayard

That is what I was trying to say, more in code than the prepared remarks.

Bryan Spillane - Bank of America

All right, thank you.

Gary Fayard

We normally don't think North America, but that’s what it was.

Operator

Your next question comes from Dara Mohsenian with Morgan Stanley.

Dara Mohsenian - Morgan Stanley

Good morning. I was hoping you can update on the competitive environment around the world both in China and Western Europe which have been hotspots recently. Also, just your thoughts around how you manage the pricing environment in the U.S. Sparkling business in 2013 and beyond in light of the moderate commodity pressure and if that solid 3% sparkling growth we saw in Q1 can continues in the balance of the year?

Muhtar Kent

This is Muhtar. We haven’t seen anything markedly different from previous quarters as far as the competitive environment is concerned. China remains a very competitive environment. Actually the whole world, and again this is a competitive environment that is the mix of large international companies but also very much local companies in Asia, in parts of Africa, in the Middle East. We also see a somewhat more rational pricing,-particularly, in Europe as well as other parts of the world, in Latin America too. So the way we see the environment is it will continue to be challenged from a consumer perspective.

Whether you are talking about Asia coming back or whether you are talking about consumer sentiment in Europe will continue to be volatile and mixed at best, and therefore pricing is going to critical and therefore also ensuring leverage and ensuring productivity that can be generated out of operations for us to be able to continue to invest. It's going to be critical. But we are intent on continuing to invest in this environment. I will let Steve Cahillane talk a little bit about how we manage the pricing environment in the United States (inaudible) Price mix, 3%, in terms of a leverage in pricing for sparkling beverages in the past quarter.

Steve Cahillane

Thanks, Muhtar. We have seen a rational pricing environment in the United States over the course of a good period of time right now. We would expect that to continue. I have said many times that if commodities go down, don’t look for us to reinvest that in price. We have worked very hard to earn the price that we take in the marketplace. We don’t have an affordability problem in the United States with our sparkling beverages. We would love to continue to invest behind our brands.

We have got a terrific summer program for the Coca-Cola brand. We have got an exciting new partnership with Taylor Swift around Diet Coke. We will invest around activating those types of programs that continue to focus on one of our most important objective which is to continue to support, development and drive our sparkling category inside the United States business.

Dara Mohsenian - Morgan Stanley

Okay. Great. Thanks.

Operator

Your next question comes from Bill Pecoriello of Consumer Edge Research

Bill Pecoriello - Consumer Edge Research

Good morning, everybody. I wanted to follow up on the U.S. filing announcement. Onto the production assets for the territories the five bottlers picked up. Do you see these bottlers eventually contributing to manufacturing assets into a national production company to get at the cost savings opportunity that you talked about in the manufacturing side?

And also, would Coke be willing to let new partners bringing outside capital to help finance some of the additional territory sales given the size of the territory that Coke still holds onto in the U.S.? Thanks.

Muhtar Kent

Hi, Bill. This is Muhtar. Good morning. I'd say to you that this is again, we are at the beginning of this journey. We have reached agreement in principle with these five U.S. bottling partners. It is very important that we did reach that agreement in principle and now we can actually ensure that we put all the details into motion and we can implement effectively.

We have always said production in the United States is critical to our success in achieving a optimum cost 21st century production system nationally manage, coast-to-coast. That is going to take place. We've also said that managing large, 30 or so of our largest customers in the United States as going to be done nationally. That's also going to take place.

In terms of who else would be coming in, can't comment on that in terms of what will happen and what form and architecture production is going to take place in terms of what our current bottlers own. I can't comment on that. All I can tell you and I can assure you that we are intent on ensuring that we make the necessary changes in the format and architecture production to achieve what I just said which is a coast-to-coast nationally run production system that generates the efficiencies, synergies, productivity that allow us to continue to win in the marketplace. And again, there may be a future where our partners in the United States take certain ownership in the national production.

I wouldn't rule that out also, but it will be managed nationally from one point, single point.

Bill Pecoriello - Consumer Edge Research

Great. Thank you.

Operator

Your next question comes from Judy Hong of Goldman Sachs.

Judy Hong - Goldman Sachs

Thanks. Good morning. I just had a couple of questions on North America. First, in terms of volume performance, I think the macro data points and consumer data points have been a little bit choppy more recently. So maybe if you can give us a little bit color just in terms of category of your performance, immediate consumptions versus take home, and so do the expectation as you get out into the back half of the year lapping up some of the transitory headwinds whether it's in payroll taxes or weather related if you expect volumes performance to improve?

Then, Gary, just on the profitability in North America, I know you talked about this a little bit, but I look at first quarter, you had 1% volumes growth, 2% price mix and you did say profitability was up a little bit, but why aren't we seeing the profitability really improve more meaningfully and sort of what drives the sequential acceleration in North America profitability going forward?

Muhtar Kent

Okay. Judy, I'll have Steve answer the first part of your question before Gary comes in and sheds some light on the question on profitability. Steve?

Steve Cahillane

Yes. Thanks, Judy. First quarter clearly had a lot of a noise in it. We expected a benefit from Easter being in the first quarter. It's never as big a benefit when it comes that early in the year. Easter is always better when it comes later in April, because of the warmer weather, but obviously you referenced the weather. We saw some very dramatic changes.

Last year, we benefited from one of the hottest winters, warmest winters in the United States, and we cycled that with one of the coldest winters in the United States. So, clearly, that had an effect and we saw any benefit from Easter really being washed away, if you like, by the poor weather. There was clearly an effect in the payroll tax. It's a little bit of art and science trying to pick apart what's weather and what's payroll tax.

We would figure about two thirds is probably weather-related and one-third of the slowdown is based on the economy. We are go optimistic. Guardedly optimistic that the consumers are coming back. That the payroll tax and the economy is kind of a short-term need to get used to the discretionary impact that it has had. So we remain optimistic that we have got the right programs in place, that the economy is on the mend and we would expect continued good performance as we go out the next three quarters.

In terms of question of profitability, I will turn it over to Gary.

Gary Fayard

Judy, I would say a couple of things on profitability. Its really kind of repeating what Steve just said. If you take the first quarter and you throw in lousy weather, payroll tax, actually the price of gasoline, what then does to your immediate consumption versus future consumption business is going to have an impact on your profitability.

Now, if I go back to the answer I gave to Brian earlier though, when I saw that geographic mix that is North America, I would expect North America to be improving actually from the first quarter and from where we were. Then North America also has this two fewer days.

Now, I can tell you, Steve has got a number from minus 3%. I say it would have been positive. Steve has got a number but you can calculate it several different ways as to what would the impact of the two days be. We would all agree, I think, it is positive. They would have been positive as to operating income line. But you put all that together, the weather, by the way is as lousy as it has been and the impact on Steve's business has been given a lot of moisture to the Midwest for the drought for the corn crop.

So they look for commodities and we will see what happens there. Payroll taxes, consumers hopefully are starting to get used to it. Gasoline prices, looks like they are starting to trend down somewhat. So I think there is some reason to be cautiously optimistic. CCR continues to execute with excellence and continue to improve capability. So I think the there are lots of reasons to be optimistic on North America.

Judy Hong - Goldman Sachs

Okay, but from a profitability perspective, though, the bigger delta is really the mix shifting towards more immediate consumption as weather normalizes? Or is there a step up in cost savings or timing of marketing investments that help the profitability?

Gary Fayard

Judy, I would actually say, the biggest impact on the first quarter North America was two less selling days by far, and the whole company as well. But by far, the biggest impact was the two selling days.

Judy Hong - Goldman Sachs

Okay.

Steve Cahillane

Judy, I can answer this part of your question. The secondary impact is clearly weather impacted food service and immediate consumption more than the take home channel. So we would expect as weather moderates, those profitable parts of our business will start to normalize as well. But as Gary said, two less selling days when you got the fixed cost assets that we have in the North American business is really quite significant. Those extra two days are golden cases that are going out and when you lose those two days, it obviously has a big impact.

Judy Hong - Goldman Sachs

Got it, okay. Thank you very much.

Operator

Your next question comes from Caroline Levy of CLSA.

Caroline Levy - CLSA

Good morning, Muhtar, Gary and team. I would like to just understand, Muhtar, your vision, again going back to the United States. You talked a little bit about how manufacturing is going to evolve. A little bit of understanding the benefits of margin the operations of food service, your noncarbs and your CSCs into one production facility. Just can that actually be done and are there synergies there?

Then secondly, do you feel strongly that your own people have to get the product to market from the plant or could you use a third-party, such as assister?

Muhtar Kent

Yes, Caroline, I think first in terms of our capability in our system in the United States is, I would say, the best in the consumer products world in terms of how we go to market and how we can get the product from production facilities. So I wouldn't like to comment on how we can improve that. If there is a way for us to even improve and generate more productivity we will certainly look at it.

I think the most important thing though is that there is room to generate significant further synergies in production. I think today I wouldn’t say that the United States production system after three years of having integrated Coca-Cola Refreshments, it is where we needed to be and we need to continue on that roadmap to proceed towards a modern and best-in-class optimum cost production system coast-to-coast.

That will mean obviously a lot of changes, that will mean building new plants, that will mean combining some facilities, but I would like to also comment in terms of hot-fill and aseptic versus sparkling beverage plants, we will look at ensuring that we have the most modern, most productive facilities in place.

I don't believe the answer is to combine all under one roof. I think the answer is to combine many that are scattered across the country both, in terms of still and sparkling separately into some consolidation process and I can't comment any further. What I can tell you is that there is room for cost to come down, there is room for efficiencies to increase and we will achieve all of those.

This is all in line with our 2020 vision. We laid out a plan, when we took over the business of Coca-Cola Enterprises, we laid out a plan when I took over as the CEO back four and a half years ago and we are executing it meticulously and we are doing what we have said we would do and we are doing it ahead of time.

Caroline Levy - CLSA

That's excellent. I was just wondering in terms of getting shelf space, you see a big opportunity in up and down the street and to get better pricing much as you've done in Lat-Am. I'm often asked how you compete with all the new things that come in, be it, coconut water, energy drinks. I know you have some, but are you convinced you can keep or improve shelf space for your carbonated soft drinks?

Muhtar Kent

Absolutely. I think, we can improve service levels. I think, we can improve execution inside the point of sale. I think, we can improve availability. I think, we can improve availability of cold drink. I think, we can improve how we serve independent, and all of those things are going to be played out as we implement and execute this new strategy in the United States. And, I don't know, Steve, do you want to comment?

Steve Cahillane

No. I agree completely and part of what we are doing with this new bottler arrangement focuses on that up and down the street where bottlers and CCR add the most value which is not only big customer sales, but up and down the street execution and we have got also our venturing and emerging brands unit which you are familiar with which brings brands like Zico coconut water. It brought Honest Tea.

So, in that, those spaces that you are talking about we are very much innovating, we've got glaceau fruitwater which we just launched with great success a couple of weeks ago. That's being executed not only in the large stores, but importantly in the up and down the street foodservice, on-premise accounts as well, so we see that as a very important capability. We see ourselves as having a competitive advantage there when it comes to not just shelf space, but cold drink space and overall availability.

Muhtar Kent

Yes. And just to finally add on to that point, Caroline, the rest assured we are in an mode of evolution, rapid evolution, not just in the United Sates, across the whole world, and you will see us adapting, reinventing, how we go to market, how we serve customers and also how we communicate with consumers, very importantly. Our brands are at an all time high in terms of health and we will continue again to evolve and bring out the best modes of communications with our consumers as well.

Operator

Thank you. Your next question is from Mark Swartzberg with Stifel Nicolaus.

Mark Swartzberg - Stifel Nicolaus

Yes. Thanks, good morning, everyone. Also a question on the U.S. refranchising, Muhtar or Gary, you talk about this new beverage agreement being ultimately what's at Play here. Could you speak a little bit to how you are thinking about that and the role of incidence-based pricing in that?

Is it right to think that continues to have prominence in this new agreement? Any distinction you might draw between how stills and carbonates are treated as you move production more squarely to staying, if you will, at least for a little while inside Coca-Cola?

Muhtar Kent

Yes, I think Mark, we can't comment on the detail. What we can say is that it will be a model that will align us fully with our bottling partners to do what is right in the marketplace and to focus on what is right in the marketplace, a full alignment model and I think I can't just comment any further than that but you will see us executing better, serving the customers better with a better production template, as well as a customer service template.

Mark Swartzberg - Stifel Nicolaus

Is it fair to think that other markets, there is a fact pattern and experience set to draw in as you implement this newer form of agreement here in the U.S.?

Muhtar Kent

I think all of that will come into play, best practices, everywhere around the world. I am certain that in four or five years' time, many people will come into the United States to see the best practices as it used to be back in the 1980s when I used to bring new bottlers from Eastern Europe to see best practices in the United States at that time.

Mark Swartzberg - Stifel Nicolaus

Fair enough. Thanks, Muhtar.

Muhtar Kent

In closing, I would like to thank Gary, Ahmet, Steve, Irial and Jackson and to again say that we are pleased with our solid first quarter. We are working as a system to unlock real value, further strengthen execution and to win at the point-of-sale. We are confident that a relentless focus on growth will enable us to build capable, resilient optimized advantage and sustainable systems that are well-positioned to deliver results in 2013 and achieve our 2020 Vision. As always, we thank you for your interest and your investment in our company and for joining us this morning.