Operator

At this time, I would like to welcome everyone to The Coca-Cola Company's Second Quarter 2014 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 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 the 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 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'm joined by Muhtar Kent, our Chairman and Chief Executive Officer and Kathy Waller, our Chief Financial Officer.

Following prepared remarks by Muhtar and Kathy this morning, we will turn the call over for your questions. Ahmet Bozer, Executive Vice President and President of Coca-Cola International; Sandy Douglas, Senior Vice President, Global Chief Customer Officer and President, Coca-Cola America; and Irial Finan, Executive Vice President and President of Bottling Investments 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 statement 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 reconcile certain non-GAAP financial measures, which may be referred to by our senior executives during this morning's discussion to our results as reported under Generally Accepted Accounting Principles. Please look on our website for this information.

Now, I'll turn the call over to Muhtar.

Muhtar Kent

Thank you, Jackson and good morning, everyone.

Earlier this year we established five global strategic priorities to restore our global growth momentum. Halfway through the year, I am pleased to report that we've delivered another quarter of sequentially improving performance results.

While I am pleased with this year-to-date progress, we're conscious of the fact that we still have more work to do. In spite of continued sluggish global economic growth, the beverage industry remains vibrant.

Consumers today have a wide array of beverages to choose from than ever before and our system is responding by evolving the way we operate leveraging our strength to create new competitive advantages.

Our second quarter and year-to-date performance results reflect the steady progress that we are making and that we expect to continue as we further solidify the foundation for long term sustainable growth.

We closed out the second quarter with 3% global volume growth, including global sparkling growth of 2% and importantly price mix increased 2% on a consolidated basis as we strive to deliver balanced volume and revenue growth.

We're seeing a number of encouraging signs across our global operating system. In the second quarter, brand Coca-Cola grew 1% in North America along with solid 3% sparkling price mix.

We saw improving volume growth across several key markets in Europe. Eurasia and Africa continue to deliver balanced volume growth. Key markets in our Asia Pacific operations delivered strong performance including 9% growth in China, double-digit growth in India and 1% growth in Japan and we saw steady execution in the face of a challenging macro environment in Latin America.

As mentioned, this progress is built on the implementation and execution of our five global strategic priorities, priorities that emerged from a disciplined fact based look at what drives results and long term sustainable growth.

We know for example that great marketing, combined with great in-market execution are fundamental building blocks of our formula for long-term sustainable growth. When we conducted a comprehensive review of our business last year, we identified areas where we could improve and put a focused plan in place to address them.

With that in mind, I will now provide an update on our progress against each of our five strategic priorities. Our first strategic priority is to accelerate global sparkling growth led by brand Coca-Cola. We grew global brand Coca-Cola 1%, a sequential improvement from the first quarter of 2014.

As noted earlier, our global sparkling brands grew 2% in the second quarter, thanks to solid performance across our portfolio of billion dollar sparkling brands including Sprite, Fanta, Coca-Cola Zero and Schweppes. This led our 19th consecutive quarter of core sparkling value share gains.

Diet Coke and Coca-Cola Light declined mid-single digits, while this was a sequential improvement from the first quarter, we do recognize that we have more work to do here. Progress in growing our global sparkling beverages is built on proven strategies that include delivering best-in-class marketing, driving immediate consumption transactions and leading industry innovation.

While I could point to multiple examples of each, I would particularly like to highlight our Share a Coke Campaign as it successfully combines all three strategies and it is being rolled out in more than 80 markets this year. The viral impact of this campaign and the engagement among teens has been more than encouraging.

We're excited about the campaign's expansion, not only to new markets, but also its return for an encore in many markets. For example, this year in our Northwest Europe and Nordics business units, we're extending the program to include all Coca-Cola trademark immediate consumption and future consumption packs and increasing the number of names from 250 to 1,000 per market.

This is a tremendous logistical feat and marketing achievement befitting the world's most loved beverage brand. The growth of brand Coca-Cola in North America in the second quarter gives us confidence that our focus on driving incidence, delivering best-in-class marketing and evolving our price pack architecture is setting the foundation for well balanced growth in our flagship markets.

Through these efforts we are reviving the romance of brand Coca-Cola driving household penetration and increasing consumption frequency, all of which contributed to growth in the second quarter.

Our smaller size packs contributed significantly to brand Coca-Cola growth in the second quarter and year-to-date. Over 60% of the volume growth in brand Coca-Cola in the second quarter was driven by double-digit growth in our mini can and 16 ounce immediate consumption packages reflecting strong consumer demand for smaller packages of ice cold Coca-Cola.

So we remain optimistic about our sparkling business in North America and around the world and we're committed to supporting our brands, committed to driving execution and staying at the forefront of evolving consumer needs.

Our second global priority is to strategically expand our profitable still beverage portfolio. We've delivered 5% still beverage volume growth in the second quarter and 6% growth year-to-date. Sports drinks, tea, energy, coffee and water, all contributed to global growth and enabled us to gain volume and value share in still beverages year-to-date.

Juice and juice drinks growth slowed year-to-date due to price adjustments primarily to offset cost of goods increases in North America. However, we gained volume and value share in North America and also on a global basis.

Overall, the global juice growth story remains very robust. We are strengthening our leading brands as demonstrated by the double-digit growth of Maaza and Rani year-to-date along with high single-digit growth for Simply and mid-single digit growth for Del Valle.

Our tea volume increased 4% in the quarter growing volume and value share in the second quarter and year-to-date. Importantly our key brands within the U.S. and Japan, our two largest tea markets performed very well. Tea volume grew 6% in North America driven by double-digit Gold Peak and Honest Tea growth while in Japan tea volume grew 5% less by 8% growth of Ayataka the 21st consecutive quarter of strong growth for this dynamic brand.

As a system we are enhancing our premium water brands to drive revenue while investing in our value chains to improve profitability.

Examples of premium water brands growing double-digits in both the quarter and year-to-date include Smartwater in North America, I Lohas in Japan and Vio in Germany.

As we focus on building great brands, we are pleased to share that Smartwater will soon be available in Great Britain and that addition of Dasani Sparkling and Dasani Drops is enhancing our brand margins in North America. Our water portfolio grew 7% in the second quarter and 10% year-to-date.

In the sports drinks category we grew volume 6% in the quarter filled by our FIFA World Cup POWERADE activation. As the global value leader is still beverages and with $11 billion brands and many more in the pipeline, we are diligently working to enhance the value of our still portfolio.

And as exemplified by our recent partnership with Keurig Green Mountain, we will continue to strategically target opportunities to strengthen our position and build our breadth across new categories while building category beverage debt.

Moving now on to our third strategic priority which is to increase brand investments by maximizing productivity, our productivity initiatives are on track as is our commitment to increase media investments in tea markets.

We are delivering more and better quality marketing by focusing on increased efficiency and effectiveness. Our global marketing campaign charters are fueling in productivity and efficiency while at the same time driving media effectiveness through higher quality communication.

The example of the power of this approach is the full scale activation of our FIFA world cup campaign where single creative idea, this is the world's cup was executed across more than 170 markets in the second quarter.

The success of our Coca-Cola music anthem for the 2014 FIFA World Cup reinforces the engaging nature of this campaign as the anthem reached over two billion impressions charting in the top 10 songs in 40 countries and was ranked as the number one song in Brazil at the start of the World Cup. The full impact of our enhanced marketing and productivity initiatives will clearly build over time.

Our fourth priority is to win at that point of sales by unlocking the power of our system. Our global system is committed to investing in new plans, investing in new distribution capabilities, investing in coolers and marketing.

Enhancing our immediate consumption capabilities, while optimizing in store activations and advancing our customers business strategies and finally putting more feed on the street to service these accounts.

To that end, you may have read last week that together with our bottling partners we will be investing an additional 8.2 billion by 2020 to support our long-term business plan and vision in Mexico. Since 2010, our total system investments globally have exceeded $60 billion.

Our fifth priority is to invest in our next generation of leaders. We’re doing this by inspiring our people to live our values of focusing on the market, working smart, acting like owners and being passionate ambassadors for our company and for our brands.

We are harnessing the potential of our millennial associates, their optimism, their global mindedness, entrepreneurialism and social awareness drive them to build sustainable practices into every aspect of what they do including right here at the Coca-Cola company.

We therefore established an internal group of millennial voices and we're working with the world economic forums global shapers to provide our leaders with insights on how to continue to evolve to meet the needs of this and also future generations.

We continue to focus on strengthening the core front facing capabilities of franchise leadership, commercial leadership and marketing leadership while also embracing emerging capabilities in the digital mobile and social media arena.

We’re working with our global bottling partners to encourage more cross system experience having company associates drawing bottlers and bottling associates join the company to instill a one-team mentality across our global system ranks.

Another terrific example of how we’re leaving our fifth priority is Woodruff Cup, our most prestigious internal award named after our legendary Chairman, Robert Woodruff who's tenure with the company stand from 1923 to 1985.

Each year our business units President select one of their peers as winner of this award and people leadership is the key criteria.

Our most recent winner at the South Latin business unit exemplifies what it means to inspire our next generation of leaders as demonstrated by the fact that women make up more than half of their workforce and that they've consistently been ranked among the top three best places to work in that whole geography.

Our focus on our five strategic priorities enables us to execute the fundamentals while simultaneously transforming an advancing our business.

An important example of this is our North American re-franchising effort to build the 21st century beverage partnership model.

Our ongoing work is underpinned by our full commitment to create a modern, agile, consumer and customer focused operating model and system which balances national scale and local capability.

As we continue to roll out and evolve business model in North America, we expect to franchise the large portion of North America territories into a handful of regional bottlers, proven regional bottlers that can best serve every local community within their contiguous operating territories.

These larger bottling partners will be complemented by a select group of local bottling partners enabling us to benefit from the passion and local touch of a franchise model and to grow our business faster and more profitably over time.

We’re making progress and we’re implementing this work by executing smaller scale transitions today so that we can seamlessly transfer larger portions of territory in the future.

It is important for us to follow this deliberate process as we establish a structure to maximize long term value for our share owners while ensuring that there’s no business disruption to our customers and consumers.

We will provide you with additional details regarding this transformational initiative before the end of the year.

In summary, and as mentioned at the beginning of the year we’re committed to executing strategies that will deliver stronger growth. Notwithstanding the volatile environment in which we're operating, we’re making steady and sequential progress as we invest in our brands together with our bottling partners and we expect to fall within the corridors of our long term growth algorithm in the second half of the year.

Indeed, our second quarter and year-to-date performance results reflect the steady progress that we're making to restore our global growth momentum and I look forward to providing you with further updates later in the year.

Now, I’m happy to hand the call over to our new Chief Financial Officer, Kathy Waller, who will provide with an update on our financial performance as well as an outlook on our business for the balance of the year.

Following Kathy's prepared remarks, Irial Finan, Sandy Douglas, Ahmet Bozer and I will participate in our Q&A session to address any market specific questions that you may have today. Kathy?

Kathy Waller

Thank you Muhtar, and good morning everyone. I would like to start by saying that it’s an honor to serve as the CFO of The Coca-Cola Company.

In my more than 25 years with the company, I’ve seen our business evolve and grow over time while remaining strategically focused on doing the right things to drive long term sustainable growth, that's why I am confident about our business and I’m looking forward to working with each of you.

As Muhtar mentioned, we continue to execute the five strategic priorities we laid-out at the beginning of the year. We achieved 3% volume growth in the quarter and delivered sound financial results over the first half of 2014. Let's start by reviewing a few key drivers of our financial performance.

Unit case growth was ahead of concentrate sales growth in the quarter, primarily due to timing of shipments. Importantly, after considering the impact of one less selling day, unit cases and concentrate sales were in line year-to-date and we expect them to be in line for the full year.

Comparable currency neutral -- net revenue growth was 3% for both the quarter and year-to-date after excluding the impact of structural items. Our topline growth includes two points of positive price mix in both the quarter and year-to-date.

Comparable currency neutral operating income was up 5% in the quarter and 6% year-to-date after excluding the impact of structural items. Operating leverage was even in the quarter as we continue to make the necessary investments behind our brands to accelerate growth, including a mid-single digit increase in [DME] [ph] as we invest in the growth of our brands together with our global system partners.

On a comparable basis, currency unfavorably impacted this quarter's operating income by 4%, which was three points better than the outlook we provided during our last earnings call. The difference between the outlook we provided and the actual currency impact was primarily due to a new provision in Venezuela that imposed a maximum threshold for profit margins and decreased our Bolivar denominated revenue and profit.

The new provision resulted in an approximate one penny drag on comparable EPS in the second quarter, which was partially offset by the impact of slight improvements in other currencies, compared to our previous expectation.

Despite a difficult operating environment in Venezuela, the Coca-Cola system remains committed to the market and will continue producing and selling our products that Venezuelan consumers enjoy on a daily basis.

We also benefitted in the quarter from lowering our underlying effective tax rate from 23% to 22.5% for the full year. Cash generated from operating activities was a strong $4.5 billion in the first half of the year and we continue to make capital deployment decisions based on a consistent and disciplined framework as we had outlined before.

First, we reinvest in the business, which includes making the necessary investments to strengthen our brand and it includes capital investments, which we expect to be roughly $2.5 billion for the year. Second, we reward our shareowners by paying a healthy dividend, which we have increased annually for more than half essentially.

Next, we evaluate opportunities to grow through acquisitions, partnerships and joint ventures. We view these as enablers to help accelerate growth and create value and in a capital efficient manner.

And lastly we repurchase shares. Year-to-date, our net share repurchases totaled $1.3 billion and we are on a track for net share repurchases in the $2.5 billion to $3 billion range for the full year. As we look ahead for the second half of 2014, let me take a minute to update you on a few outlook items as we model our business.

We previously communicated that we expect the structural items to unfavorably impact the first half of the year as we cycle the deconsolidation of certain bottling operations in 2013. However, we now expect structural items, including Venezuela to be a one to two point drag on net revenue growth and an approximate three point drag on operating income growth during the second half of 2014.

The refranchise territories in North America had a nominal impact on our comparable results in the second quarter and are not expected to have a meaningful impact over the balance of the year.

After considering our hedge position, current spot rates and the cycling of our prior year rates, we expect a three point currency headwind and operating income during the second half of 2014 with a relatively similar impact on both third and fourth quarters and we now expect a currency headwind in the five to six point range at operating income for the full year.

This is an improvement compared to the previous outlook we provided, primarily due to the decrease in Boulevard denominated revenue and profit.

After taking into consideration all these factors, we expect the impact of structural items net of the benefit from the change in our underlying effective tax rate to be a $0.02 drag on comparable EPS during the second half of the year.

Finally, we continue to expect operating leverage on a currency neutral basis to be even to slightly positive for the full year.

In closing, we delivered sound financial performance in the first half of 2014 and we expect to continue our sound financial performance over the remainder of the year and I believe our company and our global system are well positioned to capitalize on the opportunities within our great industry.

Operator, we are now ready for questions.

Question-and-Answer Session

Operator

(Operator Instructions) Our first question is from Judy Hong from Goldman Sachs.

Judy Hong - Goldman Sachs

Thank you. Good morning, everyone.

Muhtar Kent

Good morning.

Kathy Waller

Good morning.

Judy Hong - Goldman Sachs

Muhtar, if I look at your second quarter performance, volume growth of 3% sequential improvement versus Q1, global price mix held steady at 2%, I guess second quarter also though benefitted in part because of easy comp and you have the Easter benefit.

So can you maybe talk about your ability to sustain the topline momentum as you look out in the back half of the year and be mindful of some of the macro economic conditions that you see in the marketplace?

Muhtar Kent

Thanks Judy. Well again just to quickly go through the quarter, as you said, volume was up 3%, sparkling volume really importantly was up 2% and brand Coca-Cola up globally and in North America. Those are really three important points.

Also another quarter of value market share gains. I think more than 25 consecutive -- 28 to be exact in the second quarter of gaining value share. You see us having a very -- with our system, very clear focus on priorities. We had our entire global bottling system get together with us a couple -- few months ago and again, there a recommitment to the focus on our priorities.

Sequential improvement in a lot of large markets, particularly Europe, France, Germany, Great Britain, Italy, Spain and again good results, very strong results out of Eurasia and Africa, improving in Nigeria, South Africa, Turkey; improvements again if you take Asia Pacific again very strong quarter in China as well as in India. Double-digit growth in India, Thailand, saw again -- so if you take all of those margins that are improving, gross margins has improved in the quarter compared to the prior year.

Clear path on North America franchising, strong belief that what we are doing is working in our system is really important. Good bottler alignment, yes, there are a couple few exceptions, but there always have been and will be and more work to be done.

So on the purchase, we operate in a very volatile global environment, both politically and economically. China slowing down is impacting many commodity exporting countries and from Africa to Latin America, but overall, what we're doing is working more marketing through productivity gains, better marketing.

We mentioned Share a Coke program in over 80 markets. Tremendous leverage on our World Cup program in more than 170 markets with probably the biggest activation that we've ever had and all these -- all this will not generally have an impact on the quarter that you spend in.

It comes in after with better incidence, better brand loyalty, better purchase intent that we're all seeing and what is happening in North America in terms of spot -- in price mix also, you can see that we have a very disciplined approach, both in the United States and globally where we've been able to achieve a 2% price mix on a global basis and yes, there was an Easter shift, but at the same time, our gallon shipments were below our unit case volume for the quarter.

So that -- if you say that that would sort of neutralize the benefit that we may have got from Easter, I think overall, we feel pretty confident with again the caveat that we need to do a lot more work -- continue to do a lot more work, more focus, better execution, but the five priorities are working and early shoots, green shoots, and we expect that the balance of the year as I mentioned in my script that we should be able to fall within the corridor of the long term growth targets and again there may be issues along the way, bumps along the way, but the most important thing is that we're resolutely focused on continuing to build momentum here.

Judy Hong - Goldman Sachs

Okay. That's helpful. If I can just quickly follow-up on North American pricing particularly in the sparkling side where you got the 3% in the quarter, maybe a little bit more details around the drivers of that weather it was how much was mix versus rate and sort of your views on whether you can sustain that kind of pricing and maybe even fee acceleration if you look at the next…

Muhtar Kent

Sure, I'll say a few things and pass it over to Sandy, but all I would say is take note of the fact that a very big portion, percentage 60% to be exact of the growth came from smaller packages that's obviously an enhancement of the mix driving revenue, but also rate.

So I'll ask Sandy and then may be Irial, if he has any commentary on North America, but we are operating with tremendous diligence and discipline in the marketplace and success for us is a combination of both the growth that we have on the volume, but importantly also growth in transaction, which is a really good litmus test of the success of the business that is coming more into play each day as we progress. Sandy?

Sandy Douglas

Thanks Muhtar. Hi Judy. We said at the beginning of the year that our focus in North America was going to be a disciplined combination of volume and price and that we would see that as a strategic priority and the second quarter really reflects that 3% price mix on sparkling while achieving volume growth on Coke and Muhtar mentioned the importance of smaller packages in driving that outcome.

It's also important in driving growth because consumers want smaller packages and we've been working on developing that as a part of our overall strategy, so lots of discipline. As we ahead, we're lapping some very promotional activity in the third quarter of last year and our discipline will remain and the bottlers and the company around the country are focused on marketing and selling our way through and maintaining an extraordinary amount of discipline on pricing and we're optimistic that we'll be able to hold that strategy.

Irial Finan

Hi, it's Irial. I guess all I can add is really repeat what Sandy said and I've said in the last three calls now which is we really are focused on building a long term sustainable business and that's mixing pricing and volume and transactions in a very balanced way and coming up with a great result for our company and we will do that and we will continue to do it.

Muhtar Kent

Yes, one thing -- the only thing I would add here also Judy is that I think there is -- we see a path forward to being able to build more romance with the brand through smaller packages and that's really an important element in what is also being discussed.

Judy Hong - Goldman Sachs

Okay. Great. Thank you.

Operator

Thank you. Our next question is from John Faucher from JPMorgan.

John Faucher - JPMorgan

Thank you. Good morning. Just wanted to get a clarification if I could. When you talk about the $0.02 impact, you mentioned it was comparable EPS, but it sounds like that's sort of reported EPS as well, is that correct?

Muhtar Kent

Yes Kathy.

Kathy Waller

Sure. Hi John. Thanks for the question. So Venezuela impact, yes. That is a $0.02 drag on comparable EPS as well as reported EPS. So as you look at Venezuela, you take it in two pieces. The currency impact as well as the impact of the provision. The provision is less Boulevard denominated revenue.

It can't move because of capped margins and it has gone straight to the bottom line and then the FX is -- the impact is because as well we don't have as much Boulevard denominated revenue and income. So you could split those two pieces and yes, it is comparable as well as, as reported.

John Faucher - JPMorgan

Okay. Great. Thank you. And then Kathy if I could just sort of follow-up, we're continuing to see sort of weaker volumes in some of the higher margin regions like Latin America or Europe what have you, so can you talk a little bit in terms of how you are going to look at -- how should we think about margins going forward, if these types of -- if this type of relative weakness in some of these higher margin markets continues to particularly Latin America, which is your highest margin region and it's been a little bit softer over the last couple of quarters, thanks.

Kathy Waller

So, I would split them -- the question is two and actually Ahmet, help me answer with it, but the margins in Latin America are impacted this quarter by the Venezuela provision and then when you look at ongoing volume growth and contribution to the company, I'll let Ahmet…

Ahmet Bozer

John hey, just couple of points. Rest of Latin America the margin and the growth and profitability overall is in a good direction. No important issues there. Also keep in mind that we've been able to realize positive price mix and high margin in places like Europe. We've been able to grow in Japan. So we are able to balance across the international territory to have positive price mix and margins.

John Faucher - JPMorgan

Okay. Great.

Muhtar Kent

Just to add I think yes, you are right in saying that Latin America has slowed down to where it traditionally has been and we've seen this kind of cyclical slowdowns in Latin America and as some parts will get better, I think starting with towards the end of the year.

We also see some other volatility -- continued volatility in like Argentina and other markets, but overall I think we from also what we're cycling as well we expect Latin America -- major markets in Latin America to have some sequential improvement in the second half of this year. And then overall longer term we feel very confident about also what is lying ahead in Latin America.

John Faucher - JPMorgan

Okay. Great. Thank you.

Operator

Thank you. Our next question is from Bryan Spillane from Bank of America.

Bryan Spillane - Bank of America Merrill Lynch

Hey, good morning.

Muhtar Kent

Good morning, Bryan.

Bryan Spillane - Bank of America Merrill Lynch

Kathy, I wanted to follow-up on John's question just relative to leverage and I guess there are two parts to it, one just I think I caught in the prepared comments that you mentioned that on a comparable currency neutral basis you would expect -- you would expect some leverage in the second half. So I am just trying to make sure I heard that correctly and that we should be thinking about ex-Venezuela impact and ex the structural change in currencies that would be currency neutral operating profit growth.

And then second question is if I am done the calculations correctly, it looks like on a comparable basis, currency neutral gross margins in the quarter were up. So if you could just talk a little bit, A, is that true and; B, if you could talk a little bit about how you would expect gross margins to evolve going forward. Kind of what type of inflation you are seeing and just sort of how -- what factors you might see driving gross margins in the second half?

Kathy Waller

Okay. Hi Bryan. Thanks for your question. So our outlook for leverage on a currency neutral basis remains flat to slightly positive and we've said -- when you think about gross margins, so gross margins have improved for the second quarter and year-to-date and I think when we look at -- I guess when we look at our margins for the back half of the year, we have we delivered sound financial results and we anticipate that we will continue to deliver sound financial results for the quarter -- for the back half of the year.

So we do anticipate that margins will continue to be -- will continue in the same way that they’ve been in the first half of the year.

Bryan Spillane - Bank of America Merrill Lynch

So there's nothing unusual about the gross margins in the first half we could potentially see more progress on gross margins and we're just spending more back, which is what's getting the leverage to slightly flat is that what you think about it?

Kathy Waller

Yes, we can say we invest behind our brands and we -- so yes, that is part of the leverage story, but that's causing like in North America some negative -- slight negative leverage and North America because we are spending behind our brand.

So we are getting pricing and we are committed to rational pricing. So we're getting pricing, which is helping us with the margins -- the gross margins, but we are continuing to invest behind our brands.

Bryan Spillane - Bank of America Merrill Lynch

Excellent. Thank you.

Muhtar Kent

Just to add to that Bryan, if you look at the second quarter compared to the first quarter, marketing is substantially higher in the second quarter than it is in the first quarter and particularly towards the back end of the second quarter, substantially higher.

So that explains and some of the things again what Kathy was saying, but also our productivity is on target for -- it has been on target for the first half of the year and will be on target for the second half.

Operator

Thank you. Our next question is from Michael Steib from Credit Suisse.

Michael Steib - Credit Suisse

Good morning. Can I ask a couple of questions -- could of specific questions on Latin America, first on Brazil given all the investments you made in the market and the World Cup, I was just wondering why volume performance wasn’t stronger in the quarter. You mentioned in the release a tough macro environment and some competitive activity, but I was hoping you could give us bit more detail.

And then second with regards to Mexico, I know you’ve taken all the pricing related to the tax increase early in the year, but have you also passed on pricing now for general inflation in the country. Thanks.

Muhtar Kent

Michael, its Muhtar here and I'll Ahmet to provide additional commentary, but think of Brazil as having a very tough macro environment in the first half, so if you look at the entire consumer disposable and non-disposable consumer durable, consumer goods sectors, we're under tremendous duress in the first half of the year, particularly leading up to the -- particularly it's more so even in the second quarter.

So think of it this way. Had it not been, the result would have been perhaps not what it was -- it would have been had we knocked on all that activity. So from that perspective I think we see brand as getting stronger, incidence and purchase intent getting stronger in Brazil as a result of all the activity and I think that should benefit us going forward in Brazil.

So certainly the macro environment in Brazil as you can read, as we can all see, has been very challenging and so given that backdrop, I think our results were content with where we are and we believe that what we've done will benefit us in the second half and going forward.

In terms of Mexico, I think both times prices were adjusted. They include a certain portion for also inflation, so take it as that, but again, I'll ask Ahmet to provide any further commentary for both Brazil and Mexico.

Ahmet Bozer

Thanks Muhtar. On Brazil, the only thing I would add Michael is that we have a pricing packaging architecture which allows us to have different tax, both for immediate and future consumption at different price points and we are executing those with great discipline and that in fact is helping us navigate this challenging external environment and we expect that to continue bear fruit in the third and fourth quarter along with the strong marketing programs we have.

With respect to Mexico, the only other thing I would add is that we do have a not just passing the tax and the inflation, but a consumer-driven pricing approach, which has been very carefully calculated and the elasticity that we have calculated in reality are happening better than that we've expected. So in another words our Mexican business is showing more resilience in this area.

Operator

Thank you. Our next question is from Mark Swartzberg from Stifel Nicolaus.

Mark Swartzberg - Stifel Nicolaus

Thanks. Good morning, gentlemen. Hi Kathy. I guess Muhtar as you think about the sparkling global outlook and your efforts to build on where you are here in the second quarter, is it fair to think your emphasis will continue to be on volume share gains, more so than dollar share gains or do you think there is potential for more dollar share growth in spite of the volumes being a little below what you are hoping for?

Muhtar Kent

I think success for us is certainly continuing our value share gains. You can -- obviously you can't -- only value share gains without volume is not sustainable over the long term, but we have a very disciplined approach just like in North America also for our international business related to more smaller packs. So benefitting the mix will benefit us, but also very importantly it's critical for us to achieve price mix on a global scale.

Different geographies will again play differently into the picture, such disparate pricing per case depending on which geography we're talking about. So geographic mix is an important piece of this as is package mix and as is rate.

Mark Swartzberg - Stifel Nicolaus

And could you -- obviously a lot of markets to talk about on this call and though for going into many of them, but when you look at North America specifically and you see that the 3% price mix on the carbonated and a bit of growth there on the stills, but you also have the flat volumes and then data we look at is CPI for the larger carbonated space, which continues to be down. So retailers continue to promote the carbonated component of your business.

How are you thinking about the opportunity for better value share performance in North America given the volume share situation you're facing?

Muhtar Kent

I'll just say that once again smaller size packs contributed significantly to say brand Coca-Cola volume and revenue growth in Q2 and year-to-date as a matter of fact. So if you take over 60% of the growth in brand Coca-Cola in Q2 was driven by double-digit in our mini can and 16 ounce immediate consumption packages, I think that is -- that is how I would like to leave you with. That is what I would like to leave you with as an opportunity.

Mark Swartzberg - Stifel Nicolaus

Got it. Okay. Great. Thank you.

Operator

Thank you. Our next question is from Ali Dibadj from Bernstein.

Ali Dibadj - Sanford Bernstein

Hi guys. So if you would have predicted back in December that price mix in North America was going to be up as much and your volumes would have remained flat and Latin America you indicated volume would have been flat even with all the Mexico tax issues, I think I would have said you are being optimistic, but that is what you are delivering, which is good, but it does raise two questions for me.

One is it has concentrated your volume growth in only two of your six reporting segments, so want to get a better sense of how comfortable you are with those two currently and your expansion of volume growth in the other segments like what gives you confidence that the other ones can grow as well?

And then secondly, a question about the mix between volume and price mix, which if you look over the past 10 years, it's been mainly driven by volume, obviously pricing now much more balanced, now I am trying to understand how much of that is actually a change in strategic intent that you described versus just FX driving you to raise more pricing. So if you can help with those two that would be great in a smarter volume context.

Muhtar Kent

Ali, I'll take the last first. The strategy is driven by what consumers want and that is not just phenomenal for the United States, but smaller packages are a key focus. So that helps the mix. That helps the revenue. That helps also the price mix.

Then again couple that with a very disciplined approach towards also having the right balance between value and volume share gains. And so it's really important. In terms of concentration of volume growth, I think the important thing is for you to focus on the improvements from quarter to quarter.

If we take key geographies like Europe, France had an improvement, Germany had an improvement, Great Britain had a significant improvement, Italy had a significant improvement, Spain had a significant improvement, Europe overall had a huge improvement when you look at total and just again this is pure simply from volume and then if you look at our pricing and other thing you will get also a similar picture.

So I think focus on the sequential improvements, focus on us delivering on our focused priorities and so what I see there is that we will strive and diligently strive to continue with sequential improvement, building momentum as we go forward and I also mentioned as an answer to a previous question that I thought Latin America we would see some also some sequential improvement.

Ali Dibadj - Sanford Bernstein

Okay. Thanks and one of the things you've announced a bunch on this conference call is about margin and margin mix and one of the things obviously that can offset margin pressures is incremental cost cutting, can you talk a little bit more about how you view incremental cost cutting versus what you've announced so far, what you think the potential is and when you think we might hear more about more cost cutting at the company?

Muhtar Kent

Well, we announced significant cost cuts over the last four, five years, different programs and as I mentioned earlier again we're on target with our productivity and that productivity is being reinvested to drive growth.

Ali Dibadj - Sanford Bernstein

Okay. Thanks.

Operator

Thank you. Our next question is from Steve Powers from UBS.

Steve Powers - UBS

Great. Thanks. Maybe building on that and focusing back on North America, as you talked about, you had good price mix realization at sparkling of 3% and you did see margin grow in the quarter, which is great. But overall, we only saw 1% price mix and year-to-date margins remain slightly below last year's level in the U.S. based on my math.

So as I think about the path towards refranchise and smoothing that path, it seems to me greater profitability is a great enabler of that, is there -- what needs to be done? Is there a way to get even more aggressive on price mix realization or to Ali's point, pushing on productivity more to get the North American profit pool to expand to facilitate entry of new partners, thanks.

Ahmet Bozer

I'll talk about a couple of levers and then ask Irial to join me, but the growth in profitability in North America, the major opportunities exist in pricing and the overall effectiveness and efficiency in the system.

We talked about price as a lever and a area of discipline and focus and price is achieved through rate as you know and also mix and a whole lot of innovation is going on inside of packaging to give consumers what they want and to earn a return as a result of that.

Couple that with our overall system architecture work which Muhtar described earlier, which is on track as we overhaul IT product supply, as we overhaul customer management and shared services and the refranchising progress, which is on track with our bottlers, we'll create a system that is on one hand more effective and grows faster and on another level is more efficient generating better margins.

But at the end of the day, that combination needs to be built on accelerating growth and a focus of the near term has been to reinvest the proceeds into marketing to rebuild brand momentum and brand momentum at price point and we're optimistic about the progress, but we have a whole lot more work to do.

Irial Finan

The only add I would give is delivering to the packing houses is we remain absolutely committed to deliver one of our core priorities, which is excellence and execution in the marketplace and as every day goes by, I get more comfortable that we're starting to do things better every day, every time we go an outlet and fundamentally that's the other piece that actually gives us the capability to get extra price or mix in the marketplace and we will continue to do that and it's a journey.

It's not turning the light switch on is happens day by day, week by week, month by month and I feel pretty good that over the next number of years, our capability in the marketplace admires the great marketing is going to deliver the kind of price mix we all desire and that's why the discipline in remaining focused on price mix married with transaction growth and married with volume is why we feel confident about our North America business over the long term.

Steve Powers - UBS

Okay. Great. Thanks.

Operator

Thank you. Our next question is from Bill Schmidt from Deutsche Bank.

Bill Schmidt - Deutsche Bank

Hi. Good morning.

Muhtar Kent

Good morning.

Bill Schmidt - Deutsche Bank

Can you just comment about some of the market share losses in Mexico, Brazil and then on most about the U.K., so what do you think is driving that and then when do you think some of those trends are going to reverse because some of these losses are fairly substantial I think it was like a little over a point of value share and scan channel loss in Brazil about a point in Mexico and then similar trends in the U.K.

Muhtar Kent

Bill, I think in the U.K. most of that loss was in Q1. If you look at Q2, we've had sequential improvement in the U.K. and we expect that going forward in both Mexico and in Brazil that more minor losses to brands and local players will reverse themselves in the course of the year and we always see that happening in both markets.

So I think that was the difficult operating environment in Brazil in terms of also us having discipline in our pricing and the same goes for also Mexico.

Bill Schmidt - Deutsche Bank

Got you. So you think that your losses are really a function of may be the more aggressive pricing you took and maybe as that stabilizes this year.

Muhtar Kent

And very transitory.

Bill Schmidt - Deutsche Bank

Okay. Great. I appreciate that. Thanks so much.

Operator

Thank you. Our next question is from Nik Modi from RBC Capital Markets.

Nik Modi - RBC Capital Markets

Yes. Good morning, everyone. A quick question I had is just if you think about the quarter and how trends moved through the quarter, I am just curious if you actually saw correlation with the higher level of spending as the quarter progressed and your volume growth, just again just trying to understand if the spending is actually working and when you think about the ROI on that spend, what discrete things and specific things is Coke doing to make sure that there is a glad path of getting better return out of that spend. Thanks.

Muhtar Kent

Yes, I think two things, spending increased as we moved through the quarter. So there was much more spending in let's say the end of the quarter than there was in the beginning of the quarter and therefore you would expect that not all that benefit is going to flow obviously into the quarter and this is again about generating long term sustainable momentum, which we believe is happening.

Again I want to remind everyone that I am pleased with these results in a difficult operating environment and to get growth back into sparkling is a significant achievement to get growth back into Coca-Cola and the world globally and in the United States is a significant achievement and we will continue to focus on where we need to be quarter after quarter, one quarter at a time. I just want to say that I believe our approach is working.

Operator

Thank you. Our next question is from Kevin Grundy from Jefferies.

Kevin Grundy - Jefferies

Good morning and thanks for the question. So first Muhtar you talked about increasing or broadening your product portfolio, so may be without tipping your hand too much, what would be the top of your wish list by product and geography and do you still feel comfortable with your energy drink strategy?

And then separately, Kathy now that you kind of bring a fresh look here, do you plan on doing anything differently from a capital structure perspective and I guess say that within the context if there is an argument to make that Coke is under-levered income and can potentially add leverage by adding leverage could add value to shareholders and we've seen a number of companies in the CPG space that have been rewarded by the market for such actions. So any thoughts there would be appreciated. Thank you.

Muhtar Kent

Yes Kevin obviously I can't walk you through our wish list. That would be too much information to the whole market and everyone that plays in the market, but I would say our portfolio is really very rich as you saw from -- as we know from our $17 billion brands and so many more in the pipeline and again our sparkling brands that really performed well on a global basis, Sprit and Fanta and Schweppes in addition to Coca-Cola.

So all of that tells me that what we're doing in different brands and creating more incidents, more transactions is working and you heard the numbers that I mentioned in tea, both in the U.S. and globally in premium waters, in juice and juice drinks, in sports drinks all of that we're pleased with a much richer portfolio than we had say three years ago and that portfolio is again yielding very good results, particularly also simply in the juice category, simply [Innocent] (ph) all those different brands that are across the world yielding very good results and again both also in China too and Southeast Asia with new innovations that are really working well for us in both the fusion of dairy and juice as well as pulpy drinks and also juice and juice drinks. And Kathy, yes.

Kathy Waller

On the second part of your question, I believe the company has always been very focused on driving long term sustainable growth and we've done that in a very consistent and disciplined way and we've clearly focused on reinvesting in the business and to accelerate growth and create value.

So I believe we -- obviously we focus on making sure we have share repurchase and we do give a healthy dividend back, but we will continue basically what we've been doing focusing on driving long-term growth.

Kevin Grundy - Jefferies

So no real change on that front? Okay. Very good. Thank you.

Muhtar Kent

Okay. Thank you, Kathy, Ahmet, Sandy, Irial and Jackson. Our performance year-to-date progressed against each of our strategic priorities and the positive signs that we're seeing in many global markets all illustrate our view that the 20-20 vision and strategic plans are solid proof points are out there, 3% growth in the quarter, global price mix of 2%, increased global media spending reflecting our confidence and building on the strength of our brand and also in our ability to engage our consumers and customers effectively and global year-to-date value share growth in our categories and so we're winning in the vibrant beverage industry and also coupled with sound financial performance during the first half of the year.

So we're making steady progress and we're where we are expected to be at this stage in the year. I look forward to providing you with all of you with additional updates as we continue to restore our global momentum in the months ahead. Thank you for your time this morning and your continued interest and trust in the Coca-Cola company.