Operator

At this time, I would like to welcome everyone to The Coca-Cola Company Second Quarter 2017 Earnings Results Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time. All participants will be in a listen-only mode until the formal question-and-answer portion of the call.

I would like to remind everyone that the purpose of this conference is to talk with investors, and therefore, questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations department if they have questions.

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

Timothy K. Leveridge - The Coca-Cola Co.

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

Before we begin, I would like to remind you that this conference call may contain forward-looking statements, including statements concerning long-term earnings objectives and should be considered in conjunction with cautionary statements contained in our earnings release and in the company's most recent periodic SEC report. Following prepared remarks this morning, we will turn the call over for your questions. And we have kept our prepared remarks brief this morning and intend to end the call at approximately 9:45 AM. In order to allow as many people to ask questions as possible, we ask that you limit yourself to one question. If you have multiple questions, please ask your most pressing one first and then re-enter to the queue in order to ask any follow-ups.

Now let me turn the call over to James.

James Quincey - The Coca-Cola Co.

Thanks, Tim, and good morning, everyone. As we pass the midpoint of the year, I'm pleased to say that we are where we expected to be and remain on track to deliver our full year guidance. Importantly, we continue to accelerate the transformation of our business into a total beverage company by driving against the strategic priorities we laid out at CAGNY: mainly, expanding our portfolio with new products, marketing platforms and a consistent strategy to offer our customers the best consumer-centric beverage portfolio; second, driving revenue growth through enhanced revenue growth management strategies and a strengthened system; third, digitizing our enterprise; and fourth and very importantly, unlocking the power of our people as we instill a growth culture and establish a new, leaner operating model.

With this as the backdrop, I'd like to talk about our performance in the quarter and then drill down into actions that we are taking to drive top line growth and finally update you on refranchising and our new operating model. So firstly, starting with the quarter, ultimately amidst a weak consumer retail environment in emerging markets, particularly Latin America, and some softness in North America, our actions are enabling us to win in the market. Globally, we gained value share in total non-alcoholic beverages and in most of our category clusters.

As expected, organic revenue grew 3% in the quarter. Not only did we see a strong performance in rapidly expanding areas of our business, such as Innocent in Europe, but our revenue growth was also largely driven by innovation in sparkling soft drinks where we have continued to roll out Coca-Cola Zero Sugar around the world. Price mix continues to benefit from a focus on smaller pack sizes. Globally, our immediate consumption packs which are typically sold at a higher retail price per ounce grew unit case volume 3% in the quarter. Taken together with the effective management of our portfolio and cost structure, solid pricing enabled us to deliver another quarter of strong underlying operating margin expansion.

Now turning to look around the world, many of our developed markets, particularly North America and Europe, continued to perform well. In North America, improving performance in our refranchised territories with a disciplined approach to volume, price and mix management and some favorable timing of shipments in our foodservice business led to an organic revenue growth of 5%. In our Europe, Middle East and Africa group, solid marketing and innovation along with improved alignment with our bottling partners resulted in strong 6% organic revenue growth.

Importantly, though, some of our larger markets like China and Nigeria are also accelerating top line revenue growth this year as we accelerate the revenue management strategies. However, as I noted earlier, there are still regions around the world experiencing political instability and some challenging economic conditions. Most of Latin America, including Brazil, Argentina and Venezuela, remain difficult operating environments for consumer products companies. Additionally, while we believe India has taken the right steps towards modernizing its monetary and tax system, new policies have resulted in near term uncertainty for retailers and consumers that impacted the beverage industry in the first half.

In all of these instances, we are responding quickly to the volatile external environment and building strategies that will allow us to deliver value to our customers by responding to these new challenges faster than the competition.

Now, let me turn and take a deeper look at some specific actions we're taking to drive revenue growth. These efforts are the result of a keen focus on innovation, small pack sizes and more robust segmentation strategies. For example, in China, we launched new innovative versions of Minute Maid Pulpy brand to serve the premium consumer segment at retail prices above the original version. In Europe, innocent, our premium juice and smoothie brand, continued to outperform with double-digit revenue growth as a result of expanded distribution and product innovations, such as pack improvements and the launch of new, higher-value-added smoothies.

Within our sparkling soft drinks, revenue growth was driven by our no-sugar options, where we are perfecting recipes, expanding availability and supporting enhanced execution with the right level of marketing support. Specifically, we continue to see excellent results from Coca-Cola Zero Sugar. This product has demonstrated strong consumer appeal in Europe, Mexico and other markets, resulting in double digit global volume growth for the brand year-to-date. So, we will continue to roll this new and improved product out across key markets, including the U.S., supported by substantial marketing and media support. And with its even more Coke-like taste, we expect it to continue to be a growing and important part of our portfolio.

You all know that small packs are an important part of our business. They enable us to provide price mix-accretive offerings at affordable consumer price points as well as high-value products in developed markets like the U.S. This year's success of the small pack initiatives in China, South Africa and Central and Eastern Europe is helping to deliver growth in these markets.

Finally, we are looking to grow through more robust segmentation of our existing portfolio. In West Africa, for example, we are tailing (8:01) our package offerings and trade incentives for rural and urban markets even further and, as a result, we are delivering stronger top line results.

Now, to support all of these initiatives, we have been taking significant action to strengthen our system. In May, we held our annual Global System Meeting, and the level of engagement among our bottling partners was very high. They are encouraged by the innovation we are bringing to the market and are committed to support our investments with enhanced focus on local execution. And over the past year, we started to see tangible results, starting, let's say, in North America. We've seen continued strong performance from our bottlers as we complete refranchising and are confident in the actions we have taken to complete the changes this year while also improving execution in the marketplace.

For example, we are seeing improved execution from Coca-Cola UNITED and Coca-Cola Beverages Florida across the state of Florida. In territories it acquired, UNITED is increasing outlet penetration in eat and drink channels whilst also improving same-store sales with local convenience stores and workplaces. These are the types of account where at the local touch from our network of independent bottlers provides a significant strategic advantage and is one of the reasons why our overall performance in North America has consistently outshined our performance in measured channels.

And I'm pleased to say that we are getting close to finishing our planned refranchising activities. With the latest letters of intent to divest both West and the Tri-State Metro Operating Units, we now have 100% of the U.S. territories of Coca-Cola Refreshments under agreement or letter of intent.

Turning to Europe, we are already seeing better results than we have seen in several years from this important profit center as our new pan-regional bottler, Coca-Cola European Partners, leverages best practices from its three predecessors and we work together to bring new products to the market at a faster pace.

Turning to Asia, Coca-Cola Bottlers Japan completed its first quarter as an integrated company, and earlier this month, we completed refranchising of all our company-owned bottling operations in China with the sale of the Shanghai bottler.

Finally, turning to Africa, we reached agreement with the South African government on conditions addressing public interest considerations in connection with our planned acquisition of ABI's stake in Coca-Cola Beverages Africa. Over the coming months, we will continue to work with the various regulatory approval processes and expect to close these transactions around the end of the year. As a reminder, we plan to account for these bottling territories as discontinued operations until they can be refranchised to other partners.

As I laid out earlier this year, we are also embracing a new operating model and changing our culture to smart risks and be more growth orientated. As we expand our portfolio, we are taking a test and learn mentality which means some things will work right off the bat, some will need tweaking and that's all okay. For instance, we launched Honest Tea in Europe earlier this year and learned that the brand resonates better with consumers in certain channels, so we've immediately begun to evolve the packaging format and go-to-market channel strategy. We are seeing what consumers want and making adjustments immediately. At the end of the day, speed and agility are critical in this rapidly changing consumer landscape.

Now turning to our Lean center initiatives, we are on track. Much of the organizational design work we outlined earlier this year is now complete and we are rapidly implementing our new corporate structure to support faster growth. While these large-scale changes are never easy, our associates understand the need for our company to adapt and I am very encouraged by how well the organization is embracing the transformation. Our system has proven that it is taking the right actions to be successful in the market and going forward, we will remain relentless in becoming a more efficient, leaner, more agile while continuing to expand our portfolio, therefore building a strong position for future growth.

Looking at the back half of the year, we will continue to face many of the macro headwinds we have seen year-to-date and over the past few years. However, we are building on a solid marketing calendar, an innovation pipeline, and strong execution. And I am confident we will achieve our full-year outlook.

So with that, I will turn the call over to Kathy to take you through our numbers.

Kathy N. Waller - The Coca-Cola Co.

Thank you, and good morning, everyone. We delivered good financial results in line with our expectations with price mix and operating expense leverage driving 6% growth in underlying profit before tax. As James mentioned, we continue to refranchise our company-owned bottling operations which, together with a slight currency headwind, resulted in a 16% decline in comparable net revenues. However, adjusting for the impact of currency and those divestitures, our revenue management initiatives led to 3% organic revenue growth in the quarter with strong performance in North America, Europe and Mexico.

Comparable gross margin increased over 200 basis points, reflecting the benefit from refranchising lower margin bottling businesses and strong price mix, partially offset by increased commodity costs and about a 40-basis-point currency impact. Comparable operating margin grew over 375 basis points, driven by the divestitures, the timing of SG&A expenses, and continued productivity.

Moving to cash flow, we generated $2.6 billion in free cash flow year-to-date and have returned to our shareowners $1.6 billion in the form of dividends, reflecting a 6% increase in our annual dividend and $1.3 billion in net share purchases.

Turning to our comparable outlook, for the full year, we expect to deliver 3% organic revenue growth and 7% to 8% growth in underlying profit before tax. In addition, we expect divestitures of company-owned bottlers to result in a five- to six-point structural headwind to profit before tax. However, due to the strengthening of several currencies, we now expect a currency headwind to profit before tax of two points, slightly better than our previous guidance of a three-point headwind. This will result in approximately a $0.02 benefit to full-year EPS. So, we now expect comparable EPS to be flat to down 2% this year as we complete the bottler refranchising process and return to a higher margin capital-light business model.

As we model the third quarter, there are a few items to consider. First, we expect the net impact of acquisitions, divestitures and other structural items to be a 19- to 20-point headwind on net revenue and a nine- to ten-point headwind on profit before tax. Therefore, we also expect this to result in greater comparable growth in operating margin expansions than we saw in the first half. Second, we expect that currency will be a one- to two-point headwind on net revenues and a two- to three-point headwind on profit before tax. And then finally, as a reminder, our calendar fourth quarter will benefit from one extra day versus the prior-year period.

So in summary, our performance during the first half of the year was in line with our expectations. And given that many markets remain volatile, we're maintaining our currency neutral estimate. However, with a slightly better currency environment in the back half of the year, we now expect full year comparable EPS to come in $0.02 higher than our previous guidance.

Operator, we are now ready for questions.

Question-and-Answer Session

Operator

Thank you. We have Bryan Spillane of Bank of America Merrill Lynch. Bryan, your line's open.

Bryan D. Spillane - Bank of America Merrill Lynch

I guess, my question is related to the flexibility to spend more. I guess, as we're kind of watching the year evolve and watching the performance, it seems like you're having good traction with a lot of the revenue initiatives, packaging product. So James, could you just talk to us about maybe sort of the flexibility you have within your plans to maybe increase some of the marketing investment, or some of that investment to drive revenue growth, given that it seems like you've got pretty good response to kind of what you're doing now?

James Quincey - The Coca-Cola Co.

Good morning. Yes. Yeah, I think we've said that we're going to manage the year, and we're going to try and put into that balance the obvious building of the business over the long term. We have stated that we'd like to get out of the trend of declining EPS, which we've seen in the last few years, and that we are going to invest where it makes sense.

So, we are constantly looking at where that places our momentum and should we invest more, and we have done so. And we have increased our plans in the downhill in a couple of places where we see really good momentum and the good reasons to invest for better results. But the world remains volatile, and there are places where the environment is better suited to affordability, to returnables, to adjustments and where markets are just frankly under a lot of macro pressure. Extra investment is not going to drive us very far. So, we will continue to manage it with flexibility. We know that going forward, we'll have some of the money we're going to generate out of Lean Enterprise, to look across the portfolio, but we're going to decide that on an ongoing basis.

Operator

Thank you. We have Judy Hong from Goldman Sachs. Judy, your line's open.

Judy E. Hong - Goldman Sachs & Co.

Great. Thank you. Good morning.

James Quincey - The Coca-Cola Co.

Hey, Judy.

Judy E. Hong - Goldman Sachs & Co.

Hi. I guess my one question is just around your organic revenue growth guidance for the full year, and just kind of how you're thinking about the puts and takes around it in the back half. So obviously, you're doing 3% year-to-date. The full year guidance implies a continuation of the similar growth rate. I think a lot of your peers are actually guiding to acceleration in the back half. And there may be some unique timing situations for you guys, but just kind of the puts and takes as you think about the back half from an organic sales growth perspective? Thanks.

James Quincey - The Coca-Cola Co.

Yeah. Sure. Good morning, Judy. I think a couple of things. On an as-reported basis, you will indeed see an acceleration in the back half, principally because we have an extra day in the fourth quarter and we had the less days in the first quarter. So, I think as you look at the reported numbers, there will be some acceleration.

Now, underlying that and seen in its most simple sense of taking unit cases and price mix, as you say, we did roughly 3% in the first quarter and roughly 3% this quarter. We're guiding to 3% for the rest of the year because, frankly, the world has not changed. We're doing a lot of the right things in the places that are going well, and frankly, some of the ones that need to be fixed. But we don't see the world is improving rapidly, and therefore we're not banking on that happening and so we're more focused on doing what we know needs to be done and having a moderate view of how that's going to play out in the rest of the year. And I think the expectation for the downhill should be more of the same of what we've had so far this year, hopefully with some of those macro situations improving as we get towards the end.

Operator

Thank you. Our next question is from Bill Chappell of SunTrust. Bill, your line's open.

William B. Chappell - SunTrust Robinson Humphrey, Inc.

Thanks. Good morning.

Kathy N. Waller - The Coca-Cola Co.

Good morning.

Timothy K. Leveridge - The Coca-Cola Co.

Good morning, Bill.

James Quincey - The Coca-Cola Co.

Good morning.

William B. Chappell - SunTrust Robinson Humphrey, Inc.

James, one of the things we've heard with regards to U.S. refranchising is that as they've taken over the territories, that are actually performing maybe better than Coke was when they were doing it. And you've seen an acceleration in some markets. They've been a little more aggressive. So, I guess, this is really one question. Is that the case? Why is that happening? And do you expect that to be a tailwind for the business in the U.S. over the foreseeable future?

James Quincey - The Coca-Cola Co.

Yes. I think the headline answer is yes, it's happening. And I think it was part of the design and the strategy. To be fair to the team running CCR, they have been improving the operations of Coca-Cola Refreshments over the years and have been getting increasingly better results over time and doing a lot of the things that set the platform for better local operations and better coordinated national operations.

But there's no question that as the bottlers have taken over these new territories, they have been very energetic in trying to improve them. They have made good progress particularly in some of the non-directly measured channels, the up and down the street, the smaller stores where they build on their local expertise. So, I think, it is in aggregate a tail-wind. It was part of the strategy that it should be that way, and I think, it's a compliment to the local bottlers that they are driving that forward.

Operator

Thank you. Our next question is from Ali Dibadj of Bernstein. Sir, your line is open.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Hey, guys.

James Quincey - The Coca-Cola Co.

Good morning.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

Wanted to talk a little bit more about the margin expansion that we saw, so 375 basis points on a non-GAAP basis. Can you quantify the disaggregation that you lay out in words? So quantify how much is coming from bottling divestitures, how much from expense management, how much from timing of expenses, which I assume that means is coming back at some point. So really want to disaggregate that and quantify that. And think about how we should think about the sustainability of each of those going forward to really draw the path on operating margin expansion going forward. Thanks.

Kathy N. Waller - The Coca-Cola Co.

So morning, Ali. So the operating margin expansion, the 375 basis points, I mean, clearly we see that operating margins are expanding, when you see that we're at 6% in (22:40) profit before tax and on organic revenues of 3%. The upside is driven by that price mix and so you know exactly where the price mix came from in terms of a lot of it being driven by North America and EMEA in this quarter. And then the timing of SG&A expenses. Yes, part of that is – yeah, it will moderate over the balance of the year. But that wasn't really the bulk of what was driving that. It's more about the productivity and cost management that we have in the year. So we have more plans over the next couple of years for additional – for the rest of the productivity and that will continue to drive operating margin expansion.

Plus just the refranchising itself has driven a lot of that 375 basis points. As we have gotten out of the capital-intensive businesses, the more people-intensive businesses, that specifically drove that 375 basis points. So we had guided to the fact that our operating margins were going to go up after the refranchising. We plan to be in that range and continue to look for obviously other opportunities to increase operating margins as we go forward. So basically think about it as the refranchising driving most of that, good price mix and the cost management and the other productivity that we will continue to get over the next couple of years.

Operator

Thank you. Our next question is from Bonnie Herzog of Wells Fargo. Bonnie, your line is open.

Bonnie L. Herzog - Wells Fargo Securities LLC

All right. Thank you. Good morning, James and Kathy.

James Quincey - The Coca-Cola Co.

Good morning.

Kathy N. Waller - The Coca-Cola Co.

Good morning.

Bonnie L. Herzog - Wells Fargo Securities LLC

I was just hoping to get an update on your Gold Peak and Dunkin' Donuts ready-to-drink coffees and whether you think there's an opportunity to expand these brands globally at some point. And then curious to hear how you're managing the launch of these in light of Monster Cafe in terms of, I guess, positioning and then what gives you the confidence that the three new coffee brands will all be incremental. Thanks.

James Quincey - The Coca-Cola Co.

Yeah, sure. Morning. I think, we're very happy that we're doing well in teas and coffees, both globally and in North America. Obviously, the Dunkin' one is early days. Good start. I think, Gold Peak is a good tea brand and again, an early start on the coffee. The basis of our kind of ready-to-drink coffee business and strong global position is actually Asia. So we have some strong brands there. So I don't think you should see it as there's going to be one brand for ready-to-drink coffee and ready-to-drink tea across the world. We're going to see some strong growth coming out of Asia in Asian teas. Yes, we're launching Honest Tea in Europe as the joint venture with Nestle winds down teas in the European space at the end of the year. So you will see us use some of our brands more broadly, but it won't be one brand everywhere.

Net-net, we are positive on the long-term growth opportunity for both ready-to-drink teas and coffees. We will end up with a portfolio of brands, particularly as it relates to different geographies. And each will have its own positioning, but, in the end, the consumer will decide the one it wants. And if all work, great. If two work, then we'll take one out. Maybe we'll bring one more in. But we'll continue to pay attention to what the consumer wants and help customers grow their businesses by selling our brands.

Operator

Thank you. Our next question is from Stephen Powers of UBS. Steve, your line is open.

Stephen R. Powers - UBS Securities LLC

Great. Thank you. James, I wanted to build on the test and learn comments that you made upfront and the quest for speed and agility. There's some great examples that you've highlighted today in terms of portfolio progress, especially in Europe with smartwater and innocent and Zero Sugar and Honest. But what I'm trying to understand is, can you talk more about the specific, any specific steps or tools or incentives that you're putting in place to facilitate that speed and agility? Because in the end, I'm just trying to get a better feel for what that looks like in terms of day-to-day changes and how you push for speed, and, at the same time, efficiently manage risk and portfolio complexity as you accelerate into new SKUs and additional category country combinations. Thanks.

James Quincey - The Coca-Cola Co.

Sure. I mean, I'll give you a couple of ideas. But I think the net of the answer is it's more of a cultural process than a process-process. Having said that, we're clear on when we're talking about test and learn or experiment, that people need to understand the scale and the potential impact of the experiments they're undertaking. In other words, we are starting to use some frameworks to classify how people are going after things.

So said in simple terms, if the test you're undertaking is not life threatening, do lots of them, learn quickly, and move on. I mean, if the experiment is potentially creates a material risk if it goes wrong, then let's look at it more closely. So we're starting to push through some ways of looking at the portfolio in the market so that they can categorize what sort of strategy and what sort of scale of experiment are they undertaking, whether it's a launch of a product or a new marketing program, et cetera, et cetera. And so the risk can be managed appropriately. And it's all about what's the potential downside to the corporation. And that, if it's not big, or said differently, if it's very small, then it's okay to let them go.

But as I said at the beginning of the answer, it's mainly a cultural mindset. It's the essential idea that the world is undergoing some important structural changes, multiple ones at the same time. And that is causing disruptions on many fronts, and we have to continue to do what we've done for 130-plus years, which is stay relevant for the consumer and help our customers grow their businesses. And that's cultural. So we need people to really be focused on where do we stand really, to be curious about what's going on in the world, to kind of not look at things through rose-tinted glasses and come to quick conclusions and move on.

Why? Not because we fancy it and it's a nice thing to have. It's because that's what's needed in the marketplace. And I think the employees understand that. I think that's why the Lean Enterprise is resonating, and I think that's why it will get pushed through. And we'll back that up with some tools and processes to help people. We're making much more embedded into the organization the use of real agile processes and agile teams because that's the way that we're going to get to answers quicker.

Operator

Thank you. Our next question is from Andrea Teixeira of JPMorgan. Andrea, your line is open.

Andrea F. Teixeira - JPMorgan Securities LLC

Good morning, James, Kathy and the team. We have seen continued weakness in sports drinks in the U.S. in the scanner data. And you highlighted also that water, enhanced water and sports drinks were down mid-single digits in the second Q. So could you maybe comment on what you're seeing in the category and do you expect the trends to improve in the back half of the year? Thank you.

James Quincey - The Coca-Cola Co.

Yes. Morning. And yeah. Yes, we saw some weakness in the water and sports drinks categories in the second quarter. Some of that was weather in May. There was a particularly poor period there. I don't like throwing the weather under the bus, but that's the Q2. I think in the longer-term trend, well, I think water will continue to grow, particularly enhanced water, premium waters, I think, you see a lot of activity by ourselves, by competitors in that space. So I think that is going to come back and will continue to be a source of growth for the industry. And we will participate very competitively. And it will be a source of growth for us. So I think it's a moment in time.

Operator

Thank you. Our next question is from Laurent Grandet of Credit Suisse. Sir, your line is open.

Laurent Grandet - Credit Suisse Securities (USA) LLC

Yes. Good morning, James. Good morning, Kathy.

James Quincey - The Coca-Cola Co.

Good morning, Laurent.

Laurent Grandet - Credit Suisse Securities (USA) LLC

Hey. I think you will have surprised many with your 5% organic growth in the U.S., especially after the soft quarter from your major competitor and still potentially with some disruption from transferring to bottlers. So how should we think about the price-mix going forward? Is 4% the new norm in the U.S., and by extension in developed countries? And if you can give some colors about what's coming from price, what's coming from mix, that would be helpful. Thank you.

James Quincey - The Coca-Cola Co.

Sure. Clearly, I'm not going to say that 4% is the projectable price-mix for the U.S. I think that's the top-end of what would happen. I think, it's important as you look at the U.S. result, I mean, clearly it was a good quarter and we're pleased that it comes on top of multiple years of the U.S. business performing at the top-end of large consumer products companies.

A couple of points that are very important to note. Firstly, we benefited in the second quarter from a little bit of extra gallons in the food service business that was kind of inventory call that a point. So, it was really more of a full percent.

Now we're getting a lot of that in the non-measured channels. We're getting it through the small packs. It's about a balance between mix and rate. We've got transaction packs growing mid-single digits in the quarter, high-single digits year-to-date in sparkling. So it really is a bit of a sweet spot between rate and mix.

As I said, it won't stay up at that high level because of the effects of the extra food service gallons. But they are executing strategy, and I think, it's playing out very nicely.

Operator

Thank you. Our next question is from Lauren Lieberman of Barclays. Lauren, your line is open.

Lauren Rae Lieberman - Barclays Capital, Inc.

Thanks. Good morning.

James Quincey - The Coca-Cola Co.

Good morning.

Kathy N. Waller - The Coca-Cola Co.

Good morning.

Timothy K. Leveridge - The Coca-Cola Co.

Good morning.

Lauren Rae Lieberman - Barclays Capital, Inc.

I was wondering if you could talk a little bit about Japan. It wasn't called out much in the release, and Asia, at least for me, was a bit softer than I had modeled. So can you just tell us anything about what's it doing in Japan overall trends across the bigger categories? Thanks.

James Quincey - The Coca-Cola Co.

Yeah, let me start with Asia and then work towards Japan, Lauren. I think, there was some softness in Asia. We would have liked to see Asia come in better. I would call out obviously the slight disruption in India from the general sales tax obviously affected us in the back-end of the quarter. As I said in the opening remarks, we think that's good for the country, but it did obviously make some impact in the second quarter. And we're seeing softness across some of the ASEAN countries. Each has their own reasons, but the ASEAN region has been soft.

China bounced back a little bit. Japan had a solid quarter. It wasn't knocking out of the park like it has on some of the previous ones. There were some kind of cycling things in there. But we've had some good launches with some local products in Japan, Coca-Cola FOSHU, I need more time than I have now to explain it, but a pretty solid result. So, year-to-date, Japan is going reasonably well.

Obviously we've got the new bottler coming into being, which sort of affects the inventories that we sell into them, which kind of makes it look like they're not doing as well as they should. But I think Japan is going to continue to do well. China bounced back. So coming back to the beginning, it's really about India and ASEAN.

Operator

Thank you. Next is Kevin Grundy of Jefferies. Kevin, your line is open.

Kevin Grundy - Jefferies LLC

Thanks. Good morning, everyone.

Kathy N. Waller - The Coca-Cola Co.

Good morning.

James Quincey - The Coca-Cola Co.

Good morning.

Timothy K. Leveridge - The Coca-Cola Co.

Good morning.

Kevin Grundy - Jefferies LLC

So, James, question on the company's ability and then timing around accelerating top-line growth of the company. So to you and your team's credit, there's been universally positive response from the investment community around the changes that you've implemented. But organic sales are now trending around 3% and you're gaining market share, which is great, but the implication is that the NARTD category is broadly growing sub-3%.

So the question is, how quickly can you deliver on that trajectory of about 4%, which is where I think you sort of peg overall NARTD growth, at least something reasonable longer-term? How much can you drive with strategic changes and share gains? How much of this is maybe just cycling Brazil, which is a big market for the company? How much do you need an overall improvement in the macro to sort of take this growth rate from 3% to 4%, and over what time period do you think is sort of reasonable for investors? Thank you.

James Quincey - The Coca-Cola Co.

Yeah. Thanks, Kevin. Look, I think a couple of factors. Just mechanically, if Brazil and Venezuela had been flat in the quarter, we'd have grown 1 point faster. So you could say, okay, well, by next year, Venezuela will have declined so much it won't matter, and Brazil I think there's some belief that it will get better as we come out of the year.

So if you want it on a mechanical basis, yes, mathematically, if everything else stays roughly the same, then we'll get there next year as Brazil and Venezuela stabilize. Now, other countries could fall off the wagon, and so that's always an uncertainty.

Having said that, our underlying core revenue growth, organic growth, in the second quarter was actually 4%. So, if you strip out the bottling operations that we know we're going to sell, we talked about the core growing 4% last year. It grew 4% in this quarter. So I think in there is the seeds of that number as we go into 2018. We're not making a projection on 2018 yet, but I think on the line are the bread crumbs towards that conclusion.

Operator

Thank you. Our next question is from Brett Cooper of Consumer Edge Research. Brett, your line is open.

Brett Cooper - Consumer Edge Research LLC

Good morning. From the outside, it seems bottler alignment's better than it's been in many times in the past. Just curious how dependent that is on you guys delivering better products to the market, whether that's organic, lift and shift M&A or delivering better marketing, investing more in the markets? And then, how long do you think the grace period is for you guys to deliver something better to the bottlers before that alignment begins to break down? Thanks.

James Quincey - The Coca-Cola Co.

Look, I think clearly the company's role is to provide some leadership to the system and obviously the marketing of the brands, the marketing and innovation to create the business in the countries that they operate in. So to the extent the company doesn't do that, it's always going to be a problem on alignment.

Similarly, if the bottler's not taking advantage of when there are all those things and investing in execution, investing in the capabilities that develop the marketplace, to expand the number of outlets, to build a stronger base of cold drink equipment and the sales capability to help the customers develop their businesses, then there will be alignment problems.

So net-net, both sides need to come to the table with that piece of the equation and get it done. And when either side slips, yes, we have more robust conversations, but this is a business that really works well when both are coming to the table.

Operator

Thank you. Next would be Faiza Alwy of Deutsche Bank. Ma'am, your line's open.

Faiza Alwy - Deutsche Bank Securities, Inc.

Yes. Thank you. Good morning.

Timothy K. Leveridge - The Coca-Cola Co.

Hey, Faiza.

Faiza Alwy - Deutsche Bank Securities, Inc.

So I just wanted to talk about Coke Zero No Sugar. How sustainable do you think the growth is of that brand in Europe? And I'd love to hear more about your motivation to bring this to the U.S. Is it really designed to combat sugar taxes that we're seeing in a few of the markets? And how big do you think it can be? Are you going to phase out sort of Coke Zero over time? And is it meant to really target sort of the Coke Zero customer, the Coke Classic customer or more of a Diet Coke customer? Thank you.

James Quincey - The Coca-Cola Co.

Sure. I mean, I think, firstly, it's gone really well. Global volume growth for Coke Zero Sugar has stepped up over the last few years from mid-single digits to high-single digits, and now it's running in the teens. So it's done well in Western Europe, and that's really good. But actually, the global growth continues to accelerate, and we think it has a long way to go.

And in terms of bringing it to the U.S., of course, we're bringing it to the U.S. because we think it will do better and help the U.S. business grow. And you asked the question about, are we phasing out Coke Zero? It is a re-invention of Coke Zero, and it is a slight repositioning and, yes, it is about helping the zero-calorie part of the portfolio grow, which is linked to playing a role in tackling obesity.

And by that I mean, it's part of what we call the one-brand strategy. So Coke Zero Sugar, of course, is an improved version of the Coke Zero Sugar formula but it comes in more of a red visual identity, more of a red can, with more of a red label, and will actually help people stay in the Coca-Cola franchise. And whether they want the original with sugar or they want a Coke Zero Sugar without any, and it's less switching between brands, which will ultimately help us keep and attract more consumers.

Operator

Thank you. Our next would be Carlos Laboy of HSBC. Sir, your line is open.

Carlos Laboy - HSBC Securities USA, Inc.

Yes. Good morning.

James Quincey - The Coca-Cola Co.

Hi, Carlos, good morning.

Carlos Laboy - HSBC Securities USA, Inc.

In order to realize the new strategic priorities, can you expand on the actual behaviors that are necessary for the next generation of leadership to succeed and how these might be different from the past? How do you provoke these behaviors, especially speed?

James Quincey - The Coca-Cola Co.

Yeah. Good question, Carlos. Look, I think the first thing is it's going to be clear to the associates why we want change rather than just asking for it. And so part of the task is helping everyone understand the business necessity of the need for change. As I mentioned earlier, the world is undergoing a lot of structural change and what it's driving towards is a place where the speed at which consumers, customers and the rate at which insights can be generated from data to give competitive advantage is changing such that the cycle of speed, experimentation, and learning will create higher business volume.

And firstly, you have to land the idea that you've got an ultimate competitive and business value underpinning rather than I prefer X versus Y.

How do you drive it forward? Well clearly, in order to get that done, you do need some technical skills. We'll need more consumer digital engagement-type skills, more e-commerce type skills, more artificial intelligence type skills, and more collaboration type skills.

In terms of the behaviors, in order to take advantage of that competitive cycle, you need greater transparency. So we need to push behaviors where the information is made available, more broadly, more transparently, more quickly. We need to keep encouraging a candor of looking at where we really are, opportunities and issues, no rose-tinted glasses because then you get to the insight quicker. That has got to go along with a greater curiosity. We've got to – one of the dangers being 130-plus years successful is you think you've got the answer to some things whereas we really need to have lots of curiosity about how things could be different, could be better, and how we respond to the way things are changing and then, of course, there needs to be some courage to try new things.

I talked earlier about that's got to be managed with risk appetite. All experiments are not born equal and there will be lots of tolerance for doing it in a sensible way and then commitment to making things better. And I think all of that can be created. Of course, the tone needs to be set from the top. We need to put in place the training and the programs and if people understand why, I think you get a much more empowered autonomous organization that is capable of creating a better future.

Operator

Thank you. Our next question is from Pablo Zuanic of SIG. Pablo, your line is open.

Pablo Zuanic - Susquehanna Financial Group LLLP

Good morning, everyone. When I think of refranchising being completed by the end of the year in the U.S., you're going to end up with a very, very fragmented bottling system which is the opposite of what you have in other parts of the world and in turn has been for consolidation (44:09). So why does that make sense? Isn't that a problem or should we assume that five years from now, that system will look a lot more consolidated? And related to that, the fountain business remains in the hands of Coke. I think it's about 35% of volumes. It doesn't make sense for you to over time to gradually convert the fountain business into RTDs, or is that just impossible to do? Thanks.

James Quincey - The Coca-Cola Co.

Yeah. Let me talk about the question around the bottling system and refranchising. Firstly, yes, there are some legacy small bottlers, but principally the U.S. bottling system by the end of this year will be a relatively small number of bottlers distributed in a very logical geographic distribution across the country, which has moved away from the great mosaic of the past of the patchwork quilt. I think what we will have is people who are really strong locally in their marketplaces where they know what to do and the U.S. is not one place, there are lots of local differences, but the important element of the strategy in the U.S. is the putting in place of the structures and mechanisms so the system can act as one; act as one with customers; act as one from a production system; act as one in terms of IT; act as one in terms of really working out what's the strategy. So, it will be a strong combination of local knowledge and the ability to act across the system. It's in place. I think they've done a great job over the last several years in bringing it to life and delivering top-class results in the U.S. environment and I think that's going to continue to be the system of the future.

Operator

Thank you. That will be the final question. And now, I would like to turn the call back to Mr. James Quincey for closing remarks.

James Quincey - The Coca-Cola Co.

Thank you, Kathy and Tim. So midway through the year, we are on track. We will continue to transform our business and culture, and we fully expect to meet our full-year guidance. So, as always, thank you for your interest, your investment in our company, and thank you for joining us this morning.