

FINAL TRANSCRIPT

Thomson StreetEventsSM

KO - Q3 2011 Coca Cola Co Earnings Conference Call

Event Date/Time: Oct. 18. 2011 / 1:30PM GMT



Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

CORPORATE PARTICIPANTS

Jackson Kelly

Coca Cola Co - VP and Investor Relations Officer

Muhtar Kent

Coca Cola Co - Chairman/CEO

Gary Fayard

Coca Cola Co - EVP and CFO

CONFERENCE CALL PARTICIPANTS

Bill Pecoriello

Consumer Edge Research - Analyst

Kaumil Gajrawala

UBS - Analyst

Judy Hong

Goldman Sachs - Analyst

Carlos Laboy

Credit Suisse - Analyst

Caroline Levy

CLSA - Analyst

Mark Swartzberg

Stifel Nicolaus - Analyst

Dara Mohsenian

Morgan Stanley - Analyst

John Faucher

JPMorgan Chase & Co. - Analyst

Alice Longley

Buckingham Research - Analyst

PRESENTATION

Operator

At this time I would like to welcome everyone to the Coca-Cola Company's third-quarter 2011 earnings results conference call. Today's call is being recorded. If you have any objection, you may disconnect at this time. All participants will be in a listen-only mode until the formal question-and-answer portion of the call. (Operator Instructions) I would like to remind everyone that the purpose of this conference is to talk with investors, and therefore, questions from the media will not be addressed. Media participants should contact Coca-Cola's media relations department if they have questions. I would now like to introduce Jackson Kelly, Vice President and Investor Relations Officer. Mr. Kelly, you may begin.

Jackson Kelly - *Coca Cola Co - VP and Investor Relations Officer*

Good morning and thank you for being with us today. I'm joined by Muhtar Kent, our Chairman and Chief Executive Officer and Gary Fayard, our Chief Financial Officer. Following prepared remarks this morning, we will turn the call over for your questions.

Before we begin, I would like to remind that you this conference call may contain forward-looking statements, including statements concerning long-term earnings objectives and should be considered in conjunction with cautionary statements

Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

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 on our company website at www.thecocacola.com under the Reports and Financial Information tab in the Investor section, which reconciles certain non-GAAP financial measures that may be referred to by our senior executives in our discussions this morning, and from time to time in discussing our financial performance to our results as reported under generally accepted accounting principles. Please look on our website for this information.

Now, I will turn the call over to Muhtar.

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Thanks, Jackson, and good morning, everyone. On behalf of our 140,000 associates at the Coca-Cola Company, I'm pleased to share our earnings report for the third quarter. Once again, we delivered performance results in line with or ahead of our long-term growth targets, making this the sixth consecutive quarter we have either met or exceeded our long-term growth targets. We continue to advance our global momentum from a position of real strength, realizing growth across every one of our 5 geographic operating groups.

For both the quarter and year-to-date, we once more gained global volume and value share in non-alcoholic ready-to-drink beverages. Our global sparkling beverage portfolio keeps growing, up 4% for the quarter and 5% year-to-date. This growth was driven by brand Coca-Cola, which was up 3% in both the quarter and year-to-date. And earlier this month, Interbrand ranked Coca-Cola as the world's most valuable brand for the 12th consecutive year.

Our global still beverage portfolio is also performing well, up 9% for both the quarter and year-to-date. Importantly, we achieved these balanced quality results together with our system bottling partners during a time of ongoing global market volatility, which is a testament to our clear and focused vision, our strong brands, and our solid execution.

Over the past few months, we have all seen a downturn in global consumer confidence. At the same time, the last few months have reinforced our belief in the resilience of the global consumer. In our business, we constantly track a number of key metrics. We look at total retail sales by country, we look at sales shifts across retail channels, we look at out-of-home dining, and how many people are on the go. What we've seen this past quarter is that across the world, non-alcoholic beverages continue to generate increasing demand. The key success factor in this current challenging environment is for businesses -- small, medium, or large -- to be able to generate sustainable growth. And I'm happy that we're able to continue to crack this much-needed algorithm of growth.

In Q3 of 2011, we generated almost 250 million unit cases of incremental growth, excluding cross-license and acquired brands, with nearly 50% of this growth coming from sparkling beverages. Just to give you a perspective, this 0.25 billion unit cases of organic volume growth translates into over \$1.7 billion of retail value growth -- all in 90 days. For the first 9 months of this year, our organic volume growth was over 820 million unit cases, equivalent to creating another India and Russia combined.

This achievement of growth is the combined result of precise and focused execution by our inspired system in each quarter, combined with the targeted investments made by our system a year, or in some cases, 2 years prior to the quarter which is being reported. So while we all see volatility in the external environment, and have every reason to believe that this volatility will remain through the near term, the assumptions that guided the development of our 2020 vision still ring true.

As we complete the seventh quarter in our 2020 vision, we see a world where population keeps growing at a very rapid rate, up 200 million since just 2008. At the same time, the world's largest cities are growing. They've grown by almost 100 million people in the same period since 2008. And the global middle class is also growing. In fact, since 2008 almost 200 million people have newly entered the middle class.

Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

We said it when we began our 2020 vision journey, and we say it again right now in 2011, our business was built for times like these. Our business is strong across channels and across consumer age groups. We're well positioned to connect with global consumers who have a greater disposition to shop across multiple retail channels in search of real value. So simply said, we provide consumers with an affordable luxury as they enjoy moments of pleasure for pennies at a time, billions of times every day.

In February of this year, during our presentation at CAGNY, the Consumer Analyst Group of New York conference, we told you that when you have a consistent vision, a consistent belief in your brands, a consistent ethic of execution, the result is consistent quality performance. And while we may see an occasional bump along the road in a given quarter, every year since 2006 we've delivered volume and operating income growth in line with or ahead of our long-term growth targets. We said this again at CAGNY back in February, that this trend remains true today. All of our attributes, a well-aligned bottling franchise system, healthy brands, strong financial performance, and a clear 2020 vision have put us in a position of real strength as we push ahead towards 2020. That's why even during times of ongoing global market uncertainty, the Coca-Cola Company keeps delivering consistent top-line and bottom-line results. So let's review this quarter's results.

We grew worldwide volume 5% this quarter, and 6% year to date, including the benefit of our new cross-license brands, primarily Dr Pepper brands in North America. Excluding these brands, we delivered strong volume growth of 4% for the quarter, and 5% year-to-date, ahead of our long-term growth target. As for our profit results, we grew comparable earnings per share by 12% this quarter, bringing our year-to-date comparable earnings per share growth to 10%, also above our long-term growth targets.

Now, let's briefly review performance results across our operating groups, beginning first with North America, our flagship market. Many of you on today's call listened in or joined us last month in Houston for our investor event and market tour. You heard and saw firsthand how we are building our capabilities to drive our performance in North America. This quarter's results underscored the good progress we are making on this journey.

North America reported volume up 5% for the quarter and year-to-date, making this North America's sixth consecutive quarter of growth. Our organic volume growth in North America was up 1% in both the quarter and year-to-date. In this past quarter, our North America business gained total market volume and value share in sparkling, still and non-alcoholic beverages, reaffirming our commitment to drive balanced growth across our portfolio.

Our sparkling beverages in North America were down only slightly in the quarter, with brand Coca-Cola volume even for the quarter. We clearly outperformed the rest of the industry, gaining both volume and value share in the sparkling beverage category. We did so while earning 3% pricing in sparkling beverages this quarter through the effective execution of our occasion-based brand, package, price, and channel strategies.

We are driving profitable growth in North America through our 1.25-liter package, which expanded nationally in August, and is now available in over 80% of the US supermarkets. In those markets where the 1.25-liter package was first launched in May of this year, we saw the combination of our 1.25-liter and 2-liter package transactions increase this quarter. We're also expanding the availability of our immediate consumption offerings with a new 12.5-ounce hand-held PT package and the more affordable 7.5-ounce mini-can 8-pack. As for Coke Zero, it was up 12% in North America this past quarter, making this its 22nd consecutive quarter of double-digit growth.

Our still beverages in North America delivered mid-single digit growth and gained share for the sixth consecutive quarter. The leading driver of this growth was Powerade, which delivered 9% growth in the quarter and is now up 12% on a year-to-date basis. Powerade once again captured both volume and value share in the sports drink category this past quarter. And since July of 2010, Powerade has added over 5 million new households, demonstrating how this innovative brand keeps resonating with sports drink consumers. Our tea brands delivered mid-single-digit growth, led by yet another quarter of double-digit growth for Gold Peak tea. Finally, as many of you heard during our Houston event last month, our CCR Coca-Cola Refreshments integration is proceeding as planned.



Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

We remain confident that we have the right brands, right strategies, and right capabilities in place for North America as we continue to be excited about the long-term outlook for our business in this key market.

Now, let me turn to our Pacific group, where we are delivering growth across a diverse set of markets. Overall, our Pacific group volume was up 5% in the quarter, and up 6% year-to-date. This quarter's results were led by double-digit growth in China, up 11%. Sparkling beverages grew mid-single digits in China this past quarter, led by brand Coca-Cola, up 7%, supported by our strategy to introduce a wider variety of single-serve packages to our sparkling beverage portfolio.

Last quarter, we said this emphasis on single-serve packages would increase transactions and build brand equity. In fact, we observed 12% growth in sparkling beverage transactions in China this past quarter, well ahead of sparkling beverage volume growth. This is in line with our efforts to enhance the consumer experience with our brands while better positioning our China sparkling business for long-term sustainable growth. At the same time, our still beverage portfolio in China keeps building momentum, up 24% this quarter, and 19% year-to-date, led by Minute Maid Pulpy. We are confident we are executing the right strategies and have the right capabilities in place in China to deliver sustainable double-digit growth over the long term.

Japan's third-quarter results were down 3%. We always expected seeing our volumes soften in Japan this quarter as we cycled 11% growth from last year's record hot summer conditions, while also working through the after-effect of the tragic national disaster in March. That said, Japan's volume results this past quarter were better than we had originally thought, underscoring once again the strength, as well as the resilience, of our Japanese bottling system. We remain confident in the long term health of our business in Japan.

Moving now to Latin America. We continue to expand our volume and value share leadership across the region, with volume up 7% for both the quarter and year-to-date. Latin America's broad-based growth was once again led by Mexico, up a strong 8% for the quarter and 10% on a year-to-date basis. Importantly, brand Coca-Cola keeps playing a significant role in driving growth for us in Mexico, up 6% for the quarter and 8% year-to-date. We gained both volume and value share in Mexico, despite new pricing above the current rate of inflation. Our results in Mexico are a great testament to our team's capability to execute occasion-based brand, package, price, and channel strategies that reinforce recruitment, as well as affordability, with consumers in this key marketplace.

We're also seeing further momentum in our Argentina business, which delivered double-digit quarterly and year-to-date growth, while capturing volume and value share in both sparkling and still beverages for the 11th consecutive quarter there.

Finally, Brazil's volume was up 1%, cycling 13% growth in last year's comparable period. Having said that, our growth in Brazil is ahead of the industry, with our business in Brazil gaining share across both sparkling as well as still beverages. This reinforces our confidence that we have the right strategies in place in Brazil to build on our leadership position, and keep expanding our share of industry growth in the years ahead.

Brazil also offers a great example of how we partner with local communities during challenging economic times. We recently established a social business program in Brazil called Coletivo that aims to create shared value with communities through our core business activities. In partnership with local NGOs, we teach entrepreneurship and retailing skills to young adults living in low-income areas, supporting their entry into the formal job market. Coletivo prepares students through 2 months of training to deliver customized business opportunities to small outlets inside their communities. And we're providing a positive economic impact in these areas, while also helping us drive solid business results. We're in the process of expanding this program across Brazil, for we strongly believe we have a role to play in helping consumers through tough economic times. Through this program we're creating unique value for our brands, our system, as well as local communities.

Turning now to Eurasia and Africa, we are strategically investing for tomorrow across a diverse array of markets, while gaining both volume and value share today. Volume in this region grew 6% in the quarter, and 7% year-to-date, led by strong results in India, Turkey, the Middle East, and North Africa.

Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

India delivered 19% growth in the quarter, making this its 21st consecutive quarter of growth, and bringing our year-to-date volume growth to double digits. This quality growth was well balanced across the entire portfolio. Sparkling beverages in India were up 19% this quarter, led by brand Coca-Cola's strong double-digit growth, up 17%. Still beverages in India were up 17% again in the quarter, benefiting from healthy growth across our juice portfolio, including brand Maaza, up 19%.

Turkey was up double digits in both the quarter and year-to-date, gaining volume and value share this quarter in both sparkling and still beverages. Turkey is benefiting from our investments in cold drink equipment, which is increasing cold beverage availability for us in this key market.

Russia was down mid-single digits this past quarter, cycling very strong 30% growth from the same period last year. At the same time, our business in Russia outperformed the rest of the industry, gaining both sparkling and still beverage volume and value share in the process. As you may have heard, we recently announced together with our bottling partners Coca-Cola Hellenic, a new Russian investment program of \$3 billion over the next 5 years starting in 2012, underscoring our commitment to invest in Russia for the long-term growth.

Finally, our Middle East and North Africa business delivered 9% growth in the quarter, as we strengthened our position in this key region.

Let me now move to Europe, a part of the world that faced an increasingly volatile economic environment, as well as unseasonably cold weather this past quarter. Despite these challenges, we gained volume and value share in the non-alcoholic ready-to-drink beverages and volume also grew slightly in the quarter rounding to even, making this Europe's fifth consecutive quarter of volume growth. Our year-to-date results in Europe are up 2%.

Our growth in Europe continues to be led by Germany, up 4% for the quarter, and 5% year-to-date. Our business in Germany gained volume and value share in sparkling and in the total non-alcoholic ready-to-drink beverage segment. Our sparkling beverage growth in Germany was led by Coca-Cola, up 5% for the quarter as a result of our strategic focus on recruiting both lapsed consumers and a whole new generation of new consumers.

Before concluding our operating results review, I would like to update you on our progress around winning at the point of sale by driving immediate consumption growth. Year-to-date, we are sustaining our strong momentum against this priority with immediate consumption beverages up 5% globally. Last quarter we shared that each of our geographic operating groups was growing our immediate consumption beverage business. Today, we can further confirm that 17 of our top 22 markets are also growing our immediate consumption beverage business on a year-to-date basis. In fact, 9 of these markets are growing immediate consumption ahead of future consumption.

This is quite an accomplishment in an economic environment which favors faster growth in at-home consumption. As the world's population and demographics keep growing and evolving, our system is focused on capturing more than our fair share of this highly profitable immediate consumption growth.

In closing, I would like to say that we're advancing our momentum during a time of mixed economic recovery. Back in 2008 and 2009, when the world's financial markets were unraveling, our system committed to doing 3 things. First, we made a commitment to invest through the crisis. We did so by establishing a clear and focused 2020 vision that called for investing in consumer marketing and sales and distribution with the mission of becoming the leader in every market and every category of value to us. Second, we made a commitment to focus on the marketplace and to ensure that we have the right packages and price points for every occasion, including affordable entry packs for every consumer. And thirdly we made a commitment to never let short-term considerations cloud our view of the long-term value of our business.

As a result of these commitments, our system has never been stronger. We continue to solidify our leadership within the non-alcoholic ready-to-drink beverage industry, and during 2009 and 2010, the non-alcoholic ready-to-drink beverage industry

Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

grew by \$35 billion in total retail value. We are pleased to say that our Coca-Cola system represented nearly 50% of total industry growth, well above our fair share. So, in short, our 2020 vision is working.

Yet, every one of us here at the Coca-Cola Company and Coca-Cola System knows that we are really just getting started. All of us remain constructively discontent and resolutely focused on our exciting future; a future filled with abundant opportunities. Our job as stewards of this great business and as caretakers of your investment is to ensure that we keep advancing our system's momentum. With our 2020 vision as our road map, we're confident that we can sustainably achieve our long-term growth targets and enhance the value of your investment in the Coca-Cola Company. With that, I will now turn the call over to Gary.

Gary Fayard - Coca Cola Co - EVP and CFO

Thanks, Muhtar, good morning, everyone. We are very pleased with our performance this quarter. We once again delivered results in line with or ahead of our long-term growth targets, and we continued to achieve these high-quality results during a time of mixed economic recovery, which is a real testament to our global system's ability to execute our strategic plans in alignment with our 2020 vision.

So let's review our earnings results in more detail. We reported comparable earnings per share of \$1.03 this quarter, up 12% versus prior year. That brings year-to-date comparable earnings per share growth to 10%, ahead of our long-term growth targets. For the quarter, comparable operating income was up 21%, including a 6% benefit from currencies and higher commodity cost. This increases our year to date comparable operating income growth to 17%, including a 5% currency benefit, offset by commodity head winds.

Our business delivered comparable net revenue growth of 45% this quarter, including a 5% increase in concentrate sales, a 5% currency benefit, positive price mix, and the impact of the CCE transaction. On a year-to-date basis, our comparable net revenue growth remains at 44%, including a 5% increase in concentrate sales, 5% benefit from currency, positive price mix, and the impact of the CCE transaction. Our combined international and bottling investments groups' price mix for the quarter was a positive 2%.

As for North America, we discussed in our last earnings call, our plans to implement incremental pricing programs with many of our customers this quarter. As a result, our pricing to retailers in North America was up 2% in the quarter. And as Muhtar mentioned, this quarter's results was driven by a 3% increase in our pricing to retailers for our North American sparkling beverages.

As such, our 2011 North American pricing strategy remains on track to earn between 2% and 3% for the full year, leveraging both rate and mix levers to earn price at a premium to our industry. As we continue to grow in North America through the effective execution of our occasion-based brand, package, price, and channel strategies, which we shared with many of you last month during our investor event and market tour in Houston. If you were not in Houston with us last month or were unable to view the live webcast of our event, we encourage you to visit our website for all the videos and presentations from Houston, detailing our North American road map for growth, have been posted.

Turning now to our P&L, our comparable currency-neutral SG&A expenses were up 42% in the quarter and 46% year-to-date. As explained in previous quarterly calls, this increase reflects the impact of acquiring CCE's former North American business, which we will cycle in the fourth quarter of this year. It also reflects our continued investments around the world. Year-to-date direct marketing expenses are growing slightly ahead of unit cases as we continue to invest in the health and strength of our brands.

As we communicated last quarter, we expect our full-year operating expense leverage to be negative for North America and our bottling investments group, and even for the full year for our international operations, as we continue to make strategic investments in key markets around the world.



Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

Our year-to-date cash flow from operations came in at \$6.8 billion. As a reminder, this cash flow result includes a \$769 million contribution made to our pension plans in the first quarter of this year. Net of the additional pension plan contributions, our cash flow from operations are up 5% year-to-date.

Now let me take a moment to update our 2011 outlook for commodities and currencies. First, we've effectively leveraged retail pricing increases and the acceleration of cost-saving initiatives to help offset this year's rise in commodity cost. Having said that, our incremental cost estimate for 2011 now stands at approximately \$800 million, ahead of the \$700 million we indicated in our previous calls.

Second, since our last earnings call in July this year, currencies have continued to fluctuate, with the dollar strengthening against many key currencies. We have hedge positions in place on most key currencies for the remainder of this year. We now expect currencies to adversely impact our fourth quarter operating income by low- to mid-single digits, while still providing a low- to mid-single digit positive impact for the full year.

As we plan for 2012, we are looking at our combined exposure across both currencies and commodities. We anticipate that both items will keep moving in opposite directions next year, much like they have this year. And while we expect this movement to help partially offset each other's impact over the course of 2012, the timing of their respective impact on our results will likely vary from quarter to quarter. As per our normal practice, we will provide a broader outlook on their expected impact on our 2012 full-year results during our next earnings call in February.

Now, let me take a moment to update you on several other programs and line items. Our Company-wide productivity initiatives launched at the start of 2008 remain on track to exceed the upper end of our original target of \$400 million to \$500 million in annualized savings by the end of this year. As for synergies related to our CCE transaction, we still expect to deliver between \$140 million and \$150 million of net cost synergies in 2011. With regards to our share repurchase program, on a year-to-date basis, our net share repurchases stand at \$2.2 billion. As such, we're now increasing our share repurchase program with a plan to purchase at least \$2.5 to \$3 billion in net shares this year.

As for net interest income, our current forecast for the full year is at the high end of our previously communicated range of \$30 million to \$40 million. This implies a slight net interest expense in the fourth quarter of this year. Our underlying effective tax rate stands at 24%.

Finally, we want to remind you that this is the last quarter in which we're cycling the acquisition of CCE's former North American business. That said, there were several one-time items that occurred in the fourth quarter of 2010 related to this acquisition that will continue to impact the comparability of both our as-reported and ongoing recurring results next quarter. We refer you to our previous comments regarding those one-time items, specifically to our modeling call, held last year on December 14. The transcript and webcast of that call can be found on our Investor website, and of course Jackson and our Investor Relations team will be happy to follow up with you separately if you have any further questions.

In closing, we're greatly encouraged to see our business deliver yet another quarter of solid volume revenue profit and earnings results. In the face of today's volatile market conditions, our system is healthy and financially strong. We continue to generate cash, invest in our brands, execute our flexible and nimble growth strategies, and pay a healthy dividend. In fact, the Coca-Cola Company has a long history of distributing dividends, having paid them consecutively every year since 1920, and increasing dividends for 49 consecutive years.

With our seasoned management team and our highly capable global bottling partners, we're confident that we will keep taking the right actions and executing the right strategies to build on our strengths, advance our global momentum, and drive our 2020 vision.

Operator, we're now ready for questions.

Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

QUESTIONS AND ANSWERS

Operator

Thank you, sir.

(Operator Instructions)

Our first question comes from Bill Pecoriello from Consumer Edge Research.

Bill Pecoriello - *Consumer Edge Research - Analyst*

Good morning.

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Good morning.

Gary Fayard - *Coca Cola Co - EVP and CFO*

Hi, Bill.

Bill Pecoriello - *Consumer Edge Research - Analyst*

Muhtar Kent, Coke's been delivering top tier global CBT company performance this year, but can you give us your outlook -- you look to the balance of the year and heading into 2012, considering global macros are slowing in certain regions, how is Coke going to sustain this momentum, and what kind of investment is required to keep this going against this slowing backdrop? Thanks.

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Well, firstly, I don't think you can say that there's market deterioration. I think the whole year has been one of mixed consumer sentiment across the world in general, Bill. But what I would like to say is that still I believe the challenging areas are going to be certainly -- the western markets primarily, I believe, the US environment, as well as the European environment, western European environment, is still going to be challenging, as challenging as the one -- as the past 9 months, and the full year, this year, probably. In that environment, we're delivering positive results, because our strategies are working, because of our past investments, in how we execute against our vision, our strength of our brands. We're gaining market share.

I think when you look at our broad-based investment programs that we have announced, multi-year investment programs, that we have announced, whether they're in the Pacific, in places like Malaysia, Philippines, China, Vietnam, whether they're in Eurasia and Africa, like India, and Pakistan, and Africa, and the recent Russia investment that I announced when I was there 2 weeks ago, inaugurating a plant in Rostov, in the southern part of Russia, with our Hellenic bottling partners, or whether investments, multi-year investments in Mexico, Brazil -- these total over \$25 billion. And you have these investments that are working for us, despite the challenging environment, despite the confused consumer and despite the fact that the general environment is certainly much worse than ideal.

Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

However, I think that there will still be areas of growth in the world that we are going to materially benefit from -- in Africa, where our system is very strong; in Asia, and Middle East and Eurasia, where our system is very strong, and in Latin America. We will continue to re-architect our brand price pack channel offering, both here in the United States as well as across the world, just like we did in China, just like we did across many other parts of the world, to ensure that we can still crack that code for growth, so -- on a sustainable basis.

We believe that we can continue to deliver growth in line with our long-term strategies, and yes, there may be a bump along the way, in a quarter, sometime. But over the longer period, and over the medium and longer period, we believe despite the economic conditions in the world that are much less than ideal, we believe we can continue to crack that algorithm for growth as we move forward.

Bill Pecoriello - *Consumer Edge Research - Analyst*

Great, thank you.

Operator

Thank you. Our next question comes from Kaumil Gajrawala with UBS. Sir, your line is open.

Kaumil Gajrawala - *UBS - Analyst*

Good morning, everyone.

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Good morning.

Kaumil Gajrawala - *UBS - Analyst*

Could we talk a little bit more about Europe, and I guess the slowdown this quarter, particularly versus last quarter? It looks like your comp was also quite a bit easier. You mentioned weather, but could you give us some more context on what was behind the trend there?

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Well, I think we have -- volume in the quarter was slightly positive, as I said rounding to even, despite very unseasonably cold and rainy summer selling season, and also the moderating consumer confidence. But I think we realized non-alcoholic ready-to-drink volume and value share gains across the whole of Europe, France, including France, Germany, Great Britain. We also grew sparkling volume and value share and maintained still volume share for the overall group, the European group.

Again, reported net revenue for the quarter and I think that was a performance that we were pleased with, given the conditions in Europe, and over central and southern Europe, volume declined. I think the east and central European area was still challenging, and southeast Europe particularly also in Italy and Greece. But I believe overall the portfolio worked for us, like it did in the previous quarters, in this year, and I believe that's what is going to continue to work for us, as we move into the fourth quarter and the final quarter of this year, as well as into next year.



Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

Brands are stronger than ever before. We're gaining market share, and we have many innovations that are working for us, in both packaging as well as in the still beverage portfolio area. Our marketing is working for us, and next year, we've got the European championships which is a Coca-Cola property, as you know, and we're going to leverage that in a very significant manner, and of course, the Olympics. Those 2 properties are going to be very strong for us.

Kaumil Gajrawala - UBS - Analyst

Okay, thank you.

Operator

Thank you. Our next question comes from Judy Hong from Goldman Sachs. Ma'am, your line is open.

Judy Hong - Goldman Sachs - Analyst

Thanks, good morning. Gary, just on commodities, the \$100 million step-up this year, can you talk about what is driving that, and then just any color as it relates to 2012 outlook? Is it going to be worse than what you see this year? How much are you hedged at this point?

Gary Fayard - Coca Cola Co - EVP and CFO

Yes, Judy, thanks. Relative to the \$100 million increase, it is really kind of across the board. A lot of PET corn versus where we've been buying corn and all, although this is kind of -- how do I answer this? Because we had some hedged positions -- and we're buying some more now, at higher prices, even though prices have come off a little bit, so it is -- the \$100 million, by the way, was not a big surprise to us. We, over the last couple of months, we saw it coming.

Relative to 2012, really, we'll go through all of that in February on the year-end call, on everything around 2012 because I think one of the important things is to put everything in perspective. Number one, was the volatility. I'm not sure I can give you our prediction on 2012 and it really mean anything. But the other, and I said a little bit about it in the prepared remarks, what we're seeing is not a direct correlation, but a lot of correlation between currencies and commodities. And so every time you see a big spike in the strength of the dollar, you see commodities come off strongly, and vice-versa. So we're starting to see a natural hedge in offsets in the portfolio of currencies and commodities, and we're looking at those together, and then looking at how we hedge them for the best results. But we will go through that in February.

Judy Hong - Goldman Sachs - Analyst

Okay. Just following up, Gary, not getting into the 2012, but as we think about the price minus cost delta then, now that you have put in additional pricing in the third quarter, is the gap between pricing and cost now starting to narrow going forward? Have we sort of peaked in terms of that gap?

Gary Fayard - Coca Cola Co - EVP and CFO

I think for this year, yes. But we've done a couple of things. We've got very good pricing into the market in North America. We knew kind of what the commodities were going to be. We've done very well with mix as well, and so that has helped us. And we've done very well with accelerating the capture of synergies, as well. And then those synergies are ongoing every year, also. So we've done a good job.



Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

In fact, what I'd say on pricing in North America, we pointed out that pricing was plus 2 in North America, but plus 3 on sparkling. In fact, we're cycling. This is a good news/bad news thing. So let me kind of go through it so you understand it. What we've got is very good positive mix, particularly around packaging, and you saw a lot of packaging initiatives in Houston.

We've also got a negative mix in North America related to Dasani. And this is actually good news, but at first blush, you would think, well, negative price mix on Dasani. What it is, it is really where the plant bottle has come through with our customers really identifying it, with it, and our consumers, and Dasani being re-listed in quite a few national retailers. So it's really been a huge positive for us, even though it put a little pressure on the price mix in the quarter. So it's a real positive.

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

And Judy, just one other point about -- on a more global basis, you heard in my comments about how immediate consumption is such a big focus of ours around the world and how we're gaining traction. I think that has also helped us realize mix to our benefit and our bottlers, particularly around the world, as also where commodities have also been a challenge in many parts of the world. So that's worked in our favor, also, in the first 9 months of this year, as we have had that very major focus on immediate consumption drive.

Judy Hong - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Thank you. Our next question comes from Carlos Laboy from Credit Suisse.

Carlos Laboy - *Credit Suisse - Analyst*

Good morning, everyone.

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Good morning, Carlos.

Carlos Laboy - *Credit Suisse - Analyst*

Muhtar, when you look at the performance of Latin America beyond the execution model, which you're replicating in many of your markets, what do you think moves these family-owned bottlers to make these extraordinary efforts? In other words, what insights does Latin America hold for you on what the ultimate architecture of North America might look like in terms of roles, responsibilities, partnership principles, and the intangible things that stand behind these execution models?

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Well, certainly the philosophy of execution is something that is coming into our North American business rapidly. I hope you were able to see first-hand some of that when were you in Houston. Just go anywhere and you will see differences. You will see -- your eye will pick up differences across the country. The philosophy -- the belief in the business, the belief in the ability that we can grow this business, that these per capitas are nowhere near to the ceiling, and the belief that the inspiration is resonating; the marketing combined with the execution will resonate and translate into a growth algorithm that -- it starts with that.



Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

I think there is great learnings not just from Latin American execution and family-owned bottling business, or even larger bottling businesses in Latin America, but across many parts of the world, whether it is European, Coca-Cola Hellenic territories, whether it is in Turkey and CCI territories, whether it's in some other territories in south Europe, Iberian peninsula. There is that philosophy of execution that was lost to many, to a great deal, extent in the United States, and it is coming back. It is coming back rapidly, and I think that's what gives us excitement about the future of our business here.

Now, in terms of your question related to Latin America per se, and yes, we're very happy with our performance in Latin America, both this past quarter, as well as on a year-to-date basis. Again, it is a great portfolio of countries. You've seen Brazil slow down a little bit, naturally, because we were cycling at a very high number from prior year, at 13%. But I think also at the same time other countries are coming back to generate a very healthy result overall in our Latin American business. I have also said this before, and I want to reiterate, we're just starting with our still beverage business in Latin America. It is just the beginning of the journey.

It's still at very low per caps, and very low beginnings, and there is a great future. As we continue to maintain the momentum in our sparkling beverage business in Latin America, the still beverage business, that growth is just going to come on top of that. And that's, I think, what we're building rapidly in Latin America, both in our juice and juice drinks business, but also in our teas and Leaos and other such still beverages.

Carlos Laboy - *Credit Suisse - Analyst*

Thank you.

Operator

Thank you. Our next question comes from Caroline Levy from CLSA.

Caroline Levy - *CLSA - Analyst*

Good morning, everybody. I would like to just ask about your opinion of the growth in the North American market over the next several years. Do we have to throw up our hands and say that, as a market, the industry can't grow, even though you can maybe get some brands growing within it? Or do you see hope for sparkling growth?

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Well, good morning, Caroline. Well, firstly, I think if you look at what we've been able to achieve here in our US market, it's been growing since the second quarter of 2010, and it's really important to underscore that point, that we are growing, and so we have no reason to put our hands up, as you suggest. We totally respectfully disagree; that's very far from where our mind is about the United States. And there's a number of reasons why we believe that.

First the demographics in North America are in our favor. They're the best demographics of any western nation in the world. We're going to be adding between now and the end of our vision term, 30 million people to the population of the United States. It will have the third-highest teen population. Everyone that has bet against the United States in the past have lost, and I respectfully believe very much so that we will get it right also from a macro perspective here, for the diversity of our population, the entrepreneurial spirit, the amount of university graduates that we attract from all around the world -- the best. We have every reason to believe that this business -- that if we can't grow, it's our fault. Simple as that. And we won't accept that.

Therefore, we are growing, and we will continue to grow. We never said that we're going to grow at rates of China or India. We said that we will generate moderate growth rates in America and that we will continue to improve our business and generate

Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

higher revenue than our volume, and generate higher income than our revenue. So volume, moderate volume, and better than the volume revenues, and better than revenue income. That's our model and we believe that that model will work.

Caroline Levy - CLSA - Analyst

I appreciate the enthusiasm and the belief behind that. I'm just wondering are there any specific brands in sparkling that you think have much more potential in North America?

Muhtar Kent - Coca Cola Co - Chairman/CEO

Sparkling, firstly, brand Coke was even in North America, in the last quarter. That's, I think, a huge achievement from where we were. Coke Zero continues to have double-digit growth. That's a huge benefit that we have and a great point of leverage. Our brands are stronger than ever before, metrics for our brands, and we believe that we can continue to accelerate both sparkling as well as still beverages. And Powerade, as you know, as you've heard, is continuing to do very well, our other still beverages are doing very well. So we believe that -- and, we have the best brand metrics coming out of our still and sparkling beverage portfolio as a result of not just the investments we've made, but also as a result of the execution.

Caroline Levy - CLSA - Analyst

Thank you so much.

Operator

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

Mark Swartzberg - Stifel Nicolaus - Analyst

Muhtar, as you head into this current quarter, you're seeing your FX benefit turn to being a negative, and I suspect that's before you get any commodity benefit. So in light of that dynamic, how are you thinking about how you maintain support for your brands, now that you're losing this FX benefit? And how does that affect your confidence in achieving your 6% to 8% operating income targets over the next year or so, now that -- and of course, now we'll be looking at KO without the noise, if you will, of the CCE North America acquisition?

Muhtar Kent - Coca Cola Co - Chairman/CEO

Well, I will let Gary also comment on the FX, but let me just say that we weren't dependent on it -- no, you can't depend on FX. Depending on FX to support your brands is like taking off in a plane without the fuel gauge on. You can't do that. So you've got to make absolutely sure that you have a sustainable base that you can depend on to fuel your brands, and our transformation program, which is ahead of schedule. And the last year that we've generated north of \$500 million of savings, we've obviously channeled some of that into our brands, to continue to fuel our brands. We've also are very ahead of our targets and scheduled in our North American integration.

So the volatility of currency is something that changes faster than if -- the rate of change of currencies is something that we haven't seen for a long time. You cannot depend on that for ensuring that you have enough fuel for your brands. So we have other means to ensure that we have -- that we can continue to support our brands. And by the way, the cash position of our bottlers is better than ever before.

Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

We continue to upgrade and increase and enhance our long-term investment programs that we've announced across the world. I was in China recently again where we announced a new investment program. Actually, when we concluded the 3-year investment program, we ended up spending more than we originally estimated in China for the 3 years gone back -- the last 3 years. And that's because of our bottlers' belief in the future of the business, and that's happening across the world.

So we have our bottlers' financial and balance sheets are better than we've seen them for a long, long time. That fuels more investment in both plant equipment, machinery, cold drink, and infrastructure, and we are certainly re-allocating money from our P&L into brand building in a very successful and meaningful and sustainable way.

Gary Fayard - *Coca Cola Co - EVP and CFO*

Mark, this is Gary. Let me just -- a couple of comments on currency. Number one, what I was telling you was really just kind of based on where rates are today, and our current hedge positions, et cetera, for the fourth quarter. I have probably 3 to 5 different scenarios on what could happen next year, both on currencies and on commodities.

Number one, I would tell that you fundamentally, we believe that on the fundamentals, the dollar is actually probably over-valued and would give us a benefit. I'm not projecting that right now because of the crisis going on in Europe, and if they could just get their communications consistent, it would probably help some of the volatility over there. But the dollar's over-valued but it is over-valued because of fear right now in the financial markets.

With that said, long term, I think we probably benefit. Short term, it probably hurts us a little bit, but I also said I think we're seeing offsets across commodities as well. So we will just have to kind of wait and see how it goes. But the important thing to remember, I think, is that we run our business across the world in local currency. There are local businesses and they generate local currencies, and we run them in local currency, and we do that because we are running this business for the long-term and not what happens in an FX market today or tomorrow.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

That's great, and thank you for that. Muhtar, as you think about the targets, if we go back to the period before the purchase of CCE North America, we used to hear you comment, we think the targets are reasonable for the coming year. What is your view of achieving the targets in 2012 or over the near to intermediate term, now that we no longer have the noise of CCE North America in the reported results?

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Well, we've consistently met or exceeded our long-term growth targets, Mark. I think that basically, and you need to understand that we also strive for our 2020 vision targets, which is doubling our system revenue, by 2020, from a base of 2010. Coupled with those, as I said before, as I mentioned before, we have -- we will continue to strive to ensure that we meet or exceed our long-term growth targets, in every quarter, as we operate through this difficult environment.

And as I said, also, that there may be bumps, 1 or 2 bumps along the way, and that is what we said, also, in the past. But over time, and over the medium and long term, we have every reason to believe that we can continue to achieve our long-term growth targets, and also meet our 2020 vision targets.

Mark Swartzberg - *Stifel Nicolaus - Analyst*

Great. Thank you.

Oct. 18. 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

Operator

Thank you. Our next question comes from Dara Mohsenian, with Morgan Stanley. Your line is open.

Dara Mohsenian - *Morgan Stanley - Analyst*

Good morning.

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Good morning.

Dara Mohsenian - *Morgan Stanley - Analyst*

Muhtar, you detailed the strong immediate consumption trends in the quarter. Can you review the key drivers behind that growth and also going forward, the level of risk that you think potentially slowing macros here could have on immediate consumption threats?

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Well, they've had an impact. Mobility has gone down. More people are moving towards in-house entertainment. But we saw those trends, and we invested against those to ensure that we would actually continue to drive our immediate consumption business, whether it is on the streets of Italy, or whether it is on the streets of Shanghai, or in Africa.

So what does that entail? That entails more cold drink equipment, targeted cold drink equipment. That included a new architecture of packaging, and pricing, that would make it more attractive for on-the-go consumers to find packages that were affordable for them, whether -- and we did that in China, and successfully in parts of Asia, successfully in many parts of Eurasia, as we did here in America, and I think it has worked, and you heard me just announce also that we will be launching even more new on-the-go packages here in the United States.

So this strategy of investment -- investment ahead of the curve, in infrastructure, particularly in cold drink infrastructure, coupled with the intelligent packaging moves, progressive packaging moves -- have helped us in this area, and will continue to help us. Then lay on top of that also some innovative moves like the Freestyle, expansion of Freestyle across -- and Freestyle is now in 2 markets around the world as we speak, in the United States and Japan, and continuing to create a lot of excitement. And then also overlay on top of that other innovations like the plant bottle, and I LOHAS in Japan driving results for us in the immediate consumption and the convenient store channel, and so you get the picture, I hope.

Dara Mohsenian - *Morgan Stanley - Analyst*

Okay, that's helpful. Thanks.

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Thanks.

Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

Operator

Thank you. Our next question comes from John Faucher with JPMC.

John Faucher - *JPMorgan Chase & Co. - Analyst*

Thank you very much. Good morning, everyone. I just wanted to ask a question on Europe. It looks as though sort of parsing through the different commentary, it looks as though sparkling volume growth was great, but non-carbs weaker. Is there a greater weather impact on the non-carb side? Do you think that's an economic issue, or in terms of maybe juices being more expensive, was it just you don't have a big commodity bottled water business? Can you talk a little bit about the differentiation in growth between the non-carbs and the sparkling side in Europe? Thanks.

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Well, there wasn't a big differentiation to the extent that you mentioned, but there was a small differentiation and I would attribute that to the very cold weather, particularly in ready-to-drink teas and sports drinks do get impacted more so by the climactic conditions. They were very severe compared to the year before. But I would look at the year-to-date, and in the year-to-date, there is absolutely no anomaly in that, so I wouldn't put too much into that.

John Faucher - *JPMorgan Chase & Co. - Analyst*

Okay, thanks. Then a quick question to Gary. Gary, you talked about sort of terming out some of your debt going a little bit longer duration. Can you talk, as you talk about the interest expense and interest income numbers, can you give us an update there and should we expect you to continue to term out some of this CP, et cetera? Thanks.

Gary Fayard - *Coca Cola Co - EVP and CFO*

John, we're still actually looking at that, and have not made a decision whether we will term out any more of the debt or not at this point in time. What we're looking at on the interest income, interest expense, by the way, is really just a translation impact of the exchange rates of how much the interest income translates into in dollars, and that's the only impact we had actually hedged quite a bit of it in terms economically in terms of the actual cash itself, to protect the dollar amount of the cash, if you will. But it does translate into fewer dollars of interest income. But on the terming out commercial paper, we're still looking at it, and we will let you know as we go forward on that.

John Faucher - *JPMorgan Chase & Co. - Analyst*

Okay, and then I apologize. One other quick question which is you talked about having translation -- I think operating income hedges in place for most important currencies. Traditionally, you've had a fairly narrow basket on the operating income line. Has that changed, or are you now potentially hedging in some other currencies?

Gary Fayard - *Coca Cola Co - EVP and CFO*

We're actually hedging in some other currencies. It hasn't changed, and let me explain that. When we're looking at like 1 year or 2 years out, or that kind of thing, it's basically we only hedge in the hard currencies, euro, sterling, et cetera. Because to try to hedge a lot of those emerging market currencies, is just prohibitively expensive. However, when you get into 3, 4, 5 months, kind of out, you can actually then start putting hedges in place, to lock in, so we do, on a shorter term basis, actually hedge a lot of the other currencies as well.



Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

John Faucher - *JPMorgan Chase & Co. - Analyst*

Okay, great. Thank you.

Gary Fayard - *Coca Cola Co - EVP and CFO*

Thanks, John.

Operator

Thank you. And our final question today comes from Alice Longley with Buckingham Research.

Alice Longley - *Buckingham Research - Analyst*

Hi, my question is a follow-up to currency combined with commodity trends. We can't know the magnitude or the timing of your hedging programs. Could you just give us some order of magnitude of the offset? In other words, can we assume that net of all of your hedging, that commodity trends offset 30% of the currency hits next year, or 50%, or 80%? And is there a timing lag?

Gary Fayard - *Coca Cola Co - EVP and CFO*

Yes, what I can do is I will try to give you an update on that in February of when we do the year-end call. Just to put some context around that, let me give you an example. If you look at the GAAP/non-GAAP schedules that we have, that were released this morning with our earnings release, you will see that where we take, we have some hedges, commodity hedges that are economic hedges, but are not accounting hedges. We put them in there, and actually take the impact gain or loss out. If you look this quarter, there's actually \$113 million of hedge losses, which means we have committed to buy some commodities, if you will, which at a price, which on the last day of the quarter, was more expensive than spot. As of today, versus 2 weeks ago, 50% of that \$113 million is gone, and we're actually -- it's swung back the other way. And that's what the volatility is doing.

So I think that's why we're saying we will wait. February, we will give you a good, hopefully better outlook. Because as I said in one of the previous comments, we've got probably 5 different scenarios on what could happen on currencies and commodities going -- and all of them pretty much going in different directions. So we will give you a much better look then, because today I just can't do it. Thanks.

Muhtar Kent - *Coca Cola Co - Chairman/CEO*

Thanks, Gary and Jackson. In closing, let me just reiterate that along with our bottling partners around the world, we're successfully advancing our global momentum, during a time of ongoing global market volatility. Our system is financially strong. We continue to generate cash. We continue to invest for growth and pay a healthy dividend as well as retain financial flexibility. While we are delivering quality results today, we also remain clearly focused on driving long-term sustainable growth in order to realize our 2020 vision. Thanks for joining us this morning.

Operator

This concludes today's conference. Thank you so much for your participation. You may disconnect at this time.

Oct. 18, 2011 / 1:30PM, KO - Q3 2011 Coca Cola Co Earnings Conference Call

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2011, Thomson Reuters. All Rights Reserved.