

FINAL TRANSCRIPT

Thomson StreetEventsSM

KO - Coca Cola Co at Sanford C. Bernstein & Co. Strategic Decisions Conference

Event Date/Time: Jun. 02. 2011 / 1:00PM GMT



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CORPORATE PARTICIPANTS

Muhtar Kent

The Coca-Cola Company - Chairman & CEO

CONFERENCE CALL PARTICIPANTS

Steve Powers

Sanford Bernstein - Analyst

Ali Dibadj

Sanford Bernstein - Analyst

PRESENTATION

Steve Powers - *Sanford Bernstein - Analyst*

Good morning. I'm Steve Powers, Bernstein's US beverage and stocks analysts. With me today is Ali Dibadj, my co-analyst in the space, and also our lead analyst of US household and personal products. And together we are pleased to be joined here today by Muhtar Kent, the Chairman and Chief Executive Officer of The Coca-Cola Company.

For those of you who have not heard Muhtar speak in the past, he is an engaging and tireless ambassador for The Coca-Cola Company, for brand Coke and The Coca-Cola system globally, as well as really for the entire non-alcoholic ready-to-drink beverages industry.

And we believe we have got Muhtar here with us today at an exceptionally interesting time in his Company's 125-year history. On the one hand, Coke's market share trends have been soundly positive, volume growth has been strong, and Coke's relationships with its global bottling partners are arguably as solid as they have been in over a decade.

On the other hand, questions do persist around Coke's pricing strategies here in the US, as well as the Company's ultimate intent surrounding the purchase last year of North American bottling assets from CCE, and finally a growing competitive environment in certain key emerging markets.

The format for today's session will be highly interactive with Ali and I engaging in kind of a fireside chat format for the balance of the hour. Should you have questions, please write them down on the cards around you, pass them to the aisles. They will be brought up and we will work them in as we get them.

With that, welcome, Muhtar. Thanks for joining us.

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Thank you. Great being here with you, all of you.

Steve Powers - *Sanford Bernstein - Analyst*

So perhaps we start with just a quick statement of The Coca-Cola Company from your perspective; maybe starting here in North America and then working our way around the world. What are you seeing in terms of consumer trends, demands for your company's products, the competitive environment, etc.?



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Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Well, firstly, just at a higher altitude, I have said before and I will say it again, I am pleased but certainly remain discontent, but pleased with where The Coca-Cola Company is in terms of our global interaction with consumers, health of our brands.

I've said it before also that when I look back over the last sort of 8, 10-year period, our brands have never been healthier; brand metrics have never been stronger. You mentioned relationship with our bottling partners. We are very aligned, working very closely, very collaboratively and in a great mode of cooperation with our bottling partners.

Always the consumer and the customer comes first, and that state continues, and I am pleased with that, also. And we have got a great portfolio, great portfolio of countries, great portfolio of brands. And if you take the Western markets, we are growing. If you take the emerging markets, we are growing. And if you take the very developing markets, we are growing.

So I think -- and then we are growing also in sparkling as well as in still beverages, albeit the rates are not the same in all of those areas of growth that I've just mentioned, but we are growing. So overall, a pleasing state of affairs, but certainly a lot of challenges, a lot of opportunities out there. But we are built for times like these and we have a great business.

Every morning I get up, I thank -- we've got lots to be thankful for, I say every morning, because I'm not selling refrigerators or cars or real estate or anything like that. We are selling moments of pleasure at sensitive time, at billions of times a day; 1.7 billion times that we interact with our consumers now per day.

In the United States, I think it's work in progress. We said two, three years ago we believe that we can generate growth in the United States. People at that time thought that was something that we were very far away from.

We were able to put proof points in the ground before the transaction that you referenced, us acquiring the assets of CCE in the United States and selling to CCE our assets in Norway and Sweden, that transaction.

And I think, again, I am generally pleased with the timing and effectiveness of our integration efforts. And the proof is really in what customers will tell you, how we are interacting with them versus three years ago and how our brands are doing in terms of their metrics and our brand price pack channel architecture, which is in a much, much better place, much closer to our international markets than it used to be three years ago.

I think those are important proof points that you can look at and say there is progress. Are we there? Absolutely not. It's work in progress and we need to be faster, lower cost, more nimble, more flexible, and we are working hard to get there.

So I think that probably paints a picture. And share gains across the world, consistent share gains across the world are again another good proof point just like brand metrics, just like our speed to market, route to market. And some of the areas of priority that we have laid out for ourselves like saying in addition to sparkling, juices and active lifestyle portfolio sports beverages and so on.

I think, again, look back, generally pleased with the progress that we are making in those areas in addition to, of course, generating consistent healthy growth in sparkling and trademark Coca-Cola. If you look at the last -- consistent to the last four or five quarters how we are performing, not just in sparkling but trademark Coca-Cola, generally pleasing.

But every time I travel, I go into the market every week, everywhere that I am, I see so much opportunity. And that is why we remain constructively discontent. We can never -- because of the fact that there is so much opportunity. That's why if you ask me is Coca-Cola ever interested in another area of business other than non-alcoholic beverages, ready-to-drink beverages, I say no because I see so much opportunity in what we are doing.



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Ali Dibadj - Sanford Bernstein - Analyst

You paint a very compelling picture about growth. How do you just aggregate that a little bit in terms of sales growth between pricing and volume? How do you think about that?

Muhtar Kent - The Coca-Cola Company - Chairman & CEO

Well, I think we -- the best way to answer that question is the first thing we look at is value share, not volume share. We have two metrics for share of market -- value and volume. The first thing that I look at and the first thing that my operating committee looks at when we review our business periodically every week, every month, we look at value share.

That tells you how we look at our business. And I think it is very important to look at that, value share being the dollar pie and how much of that are we getting as opposed to the liter pie and how much of that are we getting.

Ali Dibadj - Sanford Bernstein - Analyst

How does that manifest itself in North America specifically? Do you get value share by being a little bit more aggressive on pricing, given the elasticity on promotion, at least of the category of your brand you get a little bit more lift out of that?

So how does that price versus volume manifest itself in North America, given some of the actions you have taken so far?

Muhtar Kent - The Coca-Cola Company - Chairman & CEO

The question you are really asking me is -- you've talked about pricing in North America, what is the current state of affairs. And I will say it this way. We have signaled -- when we talked at the end of our first quarter, we said probably our best estimate would be the 1% to 2% price realization in our business in North America.

That is a combination of rate and mix, but that is what we sort of said. And generally speaking, that should continue through the year, is what we sort of signaled but then -- for the first quarter. We also signaled that based on also some commodity pressures that we would be looking at a higher number into the year, and we signaled 3% to 4%, probably averaging for the total year of 2% to 3%.

So back half of the year higher than the first half of the year, and I think that's where we probably will be. That is again a combination of rate and mix, probably skewed in favor of rate.

Steve Powers - Sanford Bernstein - Analyst

Can you give us some -- (multiple speakers). Maybe can you -- diving into that a little bit, can you give us some specifics about what price increases you have announced and taken in the marketplace today by category? I think CSD is about 1% to 2%. What about juices and some of your other brands?

Muhtar Kent - The Coca-Cola Company - Chairman & CEO

We have to be -- we are not going to give you our whole pricing strategy for competitive reasons right here, Steve. But I can overall tell you that our price increases in juices or still beverages were slightly north of the number for sparkling.

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That is again in the first quarter, average 1% to 2%. And I think going forward, as I said, we will look at 3% to 4%. And the distance again in the non-alcoholic ready-to-drink business is that we operate in more channels than any other consumer business in the world, from travel to convenience to supermarket, hypermarkets, education. It's multiple channels.

And when you operate in multiple channels and multiple categories and multiple packages, you just have such an incredible matrix that you can manage with in terms of generating a final aggregate weighted average number.

But it's not like businesses that sell in a single category, in a single channel. It's very different. So that's why we are more flexible in our approach vis-a-vis the consumer. Ultimately, ultimately it's all about generating value for the consumer.

You can't -- you've got to price and insure that you can continue to generate value for the consumer, and do whatever you need to do in the backend of your business to make sure that you can still deliver returns to your shareholders. That is how we operate our business.

Steve Powers - *Sanford Bernstein - Analyst*

Taking the 2% to 3% full-year portfolio average, just knowing that your fresh juice business is up much higher than that, high single digits probably over the course of the year, basically is implying at most 1% to 2% of CSD pricing, 1 point of rate maybe, a little bit north of that.

And I guess the question that people are asking is just why not more, given where inputs are and the pressure you are facing in your business from that perspective? Why not take more?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Well, firstly, I think those averages that you just mentioned are yours. I wouldn't necessarily say that those -- we will have to see how -- when we look back at end of Q3, which is -- Q2 and Q3 being the important seasons, important quarters in terms of seasonality, I think probably the numbers will fall slightly different than you've just mentioned.

And this is North America, that is a certain part of our business. Globally, we have managed -- we have proven over periods of inflation that we have been able to, again, manage our business because of the multiple channels, because of the multiple packages, multiple SKUs, in a very efficient, effective way.

And as we see an arena and theater that is of higher inflation in the world due to fruit prices, due to energy, you will see us doing the same globally, I think. I don't want to sort of get bogged down in only a North America pricing discussion because of the fact that we do have a major global business. And we see again an arena, a theater, compared to 12, 24, 36 months ago, one that is going to be higher inflation.

And with that, whether it's in China or India or Latin America, we will be managing based on this opportunity that we have in our industry, in our business, and particularly in the Coca-Cola business of, A, having a very powerful distribution system, the most powerful in the consumer goods area in the world, and multiple packages and SKUs and categories.

Ali Dibadj - *Sanford Bernstein - Analyst*

The reason I guess we are pushing on this and pushing on North America in particular is because people I think believe what you are saying; they believe the channel strength; they believe the brand strength. But it's not just saying manifested, at least so far in price, at least on a rate price, especially relative to what some of your competitors are saying they would like to take pricing.



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And I think the fear in broader staples is that -- and don't take this the wrong way, but Coke becomes somewhat of a spoiler, ala Procter & Gamble and HBC, very strong but deciding to go for volume a little bit more than perhaps it should.

It's literally 100% of the number one question we get from investors is around North America pricing, and why don't you take more? Why are you reticent to, on the rate in particular?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Well, firstly, at the end of Q1 we came out of the box and signaled that there will be more pricing. We are the first, we came out and we signaled. So that, I think to the spoiler strategy, I don't think that meets that criteria.

And secondly, I think you've got to at the end look back in September, October, and see what has happened, and then I think we can talk. I think we do not want to lay out our pricing strategy in greater detail than that for competitive reasons.

Ali Dibadj But you're not -- we should not be surprised if we see even more pricing throughout this summer period.

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

I think you have to go by what I have said, 3% to 4%, averaging around 2% to 3%.

Ali Dibadj - *Sanford Bernstein - Analyst*

Okay.

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

As opposed to 1% to 2% for the full year.

Steve Powers - *Sanford Bernstein - Analyst*

Okay. Now aside from rate, you have also done some things with mix recently. You are introducing the 1.25 liter bottle from the back of the introduction of a 16-ounce bottle in convenience last year.

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

16, 14.

Steve Powers - *Sanford Bernstein - Analyst*

Yes, yes. Again, North America this is. Can you talk a little bit about the logic there and how that plays into the net price realization beyond rate?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Again, it plays into revenue management and revenue growth, revenue management, and it has worked. Those price points have worked very well for us. Having specifically targeted package sizes with specifically targeted price points have worked

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very well for us in single-serve, and we believe that the same will be true in future consumption. And kind of 125 milliliters or 1.25 liters plays well into the 125th anniversary.

Steve Powers - *Sanford Bernstein - Analyst*

And perhaps the last question on North American pricing, but two parts of this we really didn't touch upon directly, functional waters and sports, POWERADE and glaceau for you. As we look at kind of your big SKUs, at least in tracked channels on those brands, that seems to be where we are seeing the most negative pricing.

Is there something there that we are missing, just in terms of the tracked versus untracked? Is there a strategy there from a pricing perspective that is different? Why are we seeing more pricing pressure in those businesses than even CSDs?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Well, I think generally on sports, that strategy, the strategy that we have employed in North America over the past year and a half, two years, has worked very well for us overall, in terms of the sports and active lifestyle category. And we believe that that strategy will place well into our portfolio.

And that generally produce beneficial results for us, the strategy of how we price sports category and how we also flank the sports and play the categories of sports and active lifestyle one up against each other. Active lifestyle pricing higher, sports category pricing slightly lower, slightly below.

Ali Dibadj - *Sanford Bernstein - Analyst*

So pricing is clearly a real concern folks have. And if you think about how it may be manifested, let's think about your incentives here, if you look at the proxy. It feels like, and this may be a wrong interpretation in terms of how it's actually run, but to the letter of the law so to speak, it sounds like there is more of an incentive on volume than there is on anything else in terms of how your management although, either as compensated or thinks at least. Can you either dispel that myth or talk a little bit more about that logic?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Well, I think overall if you look at our compensation, it is tied very strongly to return to shareholders. Our general intent (indiscernible) policies, and that is how I would leave it. I would say we benefit when our market cap goes up and the value of the Company goes up, and we lose if it is down. That is, I think, probably the best correlation.

Ali Dibadj - *Sanford Bernstein - Analyst*

And you are very aligned obviously with --.

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

So I would say if you consistently -- if you make employee mistakes in your pricing strategy, you can't generate sustainable value to shareholders. And I think -- and again, I have said to you before, when we look at share gains across the world, the more important one for us is value share gain; revenue growth and value share gains.

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Ali Dibadj - Sanford Bernstein - Analyst

Look, I think in the end your intentions are very much aligned with most people in this room and on this stage, but it is a big concern. We hear it, you have heard it. The pricing situation in the marketplace right now is definitely top of mind for folks, and hopefully you will (multiple speakers).

Muhtar Kent - The Coca-Cola Company - Chairman & CEO

I hope that was somewhat hopefully dispelled by when we did talk about higher pricing. In fact, that was not even prompted. We talked about it going out of the gate, and we feel that there is an opportunity. And if you look at overall across the world, continent by continent, look at our performance in volume, look at our performance of our bottlers in revenue, you will see that it is a very consistent story in terms of how we are generating growth in volume translated into slightly higher growth in revenue, translated also into very strong results in operating income.

I think that is the picture of success. Volume, slightly higher revenue, continuing to generate synergies and productivity and higher, and also due to the scale of the business generating healthy operating income, sustainable operating income growth, which will generate value.

And if you look at around over the last three years, consistently three to four years, you will see a picture of that and us returning north of our long-term growth model projections, both at volume, revenue and income.

Steve Powers - Sanford Bernstein - Analyst

So a lot of this --.

Muhtar Kent - The Coca-Cola Company - Chairman & CEO

And so you will say the scenario is changing. We are entering into a period of inflation. Every time there has been inflation, we have come out of it stronger. Every time, just like we have come out of the crisis stronger; stronger brands, stronger bottling relationships, stronger business results, stronger foundation, and a stronger growth forward.

That's how we've come out of the recession and that's how we will come out of the inflationary environment. And inflationary environment, obviously, is different from country to country. But overall, the net-net is compared to two years ago, is there going to be more inflation in the marketplace for consumer goods, driven mainly by cost, energy costs and other commodities? The answer is yes.

Steve Powers - Sanford Bernstein - Analyst

Now a lot of the focus on North American pricing is because this is the first time we have seen Coke and Pepsi act as integrated supply-chain entities in the US, both owning their bottling assets. I guess longer term you have talked about the importance of partners, is the language you've used I think longer-term, signaling an intent to rebrand in some form what you purchased a year ago.

How should -- what does that actually mean? What options are you thinking about? What options are off the table? When --?

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Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

I think it means exactly how you've heard me say it before, Steve. I am an ardent believer in the franchise system. Being a bottler, I have been in the franchise system on both ends. And I believe that it's a beautiful model that works, that works well, and it delivers results.

Whether you are in North Africa or the United States or Canada or Japan, it delivers results -- tangible, strong, good results. What I've said about North America is when we feel the time is right, and there has been some speculation about that being sort of a four or five-year period from the time that we close the transaction, there would be again a meaningful role -- exactly those words I've used -- a meaningful role for partners, for bringing partners back into the business in the United States. And that's, again, work in progress, and how that -- the how is to be seen, to be continued.

Steve Powers - *Sanford Bernstein - Analyst*

The question here is, what year would you be disappointed if you owned your US bottler?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

I think that's a projection made by others. When I said when the time is right, it has been written up as being sort of the four to five-year period since the transaction closed, is probably good to stay with.

Steve Powers - *Sanford Bernstein - Analyst*

Okay. I guess just diving into that, the meaningful relationship, meaningful role for partners, does that open the doors to new relationships, partially company-owned, partially franchised; maybe outsourcing some of the distribution but maintaining some of the manufacturing? Is there anything off the table, I guess?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

No, I think it is really important that there be a very efficient, effective production and logistical system in place, so that the customer comes first. The customer -- that our reaction time to be ahead of customer expectations is there all the time as being the best in practice, best there is in the consumer products world.

And as long as we can create an environment, an operating theater that allows that to happen and that delivers those results for the customer, and that we can deliver the best value for our consumers in the best way. Because at the end of the day, the consumer is going to dictate what he or she wants, what price where, in what condition, in what package and how.

As long as we can be fast, flexible, the best to deliver that to the consumer, I believe that will also come with a package where we can provide a meaningful role -- there will be a meaningful role provided for our partners.

Steve Powers - *Sanford Bernstein - Analyst*

Near term -- and just last point on this, I guess -- near term, in order to kind of realize your end state goals, how important is it for perhaps for you to own more of your North American bottling assets, the long tail of smaller bottlers who you don't currently have direct control over?

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Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

No, I won't comment on any speculation about what more we need to own. All I can tell you is we are working on a plan to get to where we need to get to, to deliver what I said to the customer and to the consumer. And when we get there, I believe that there will be a role, a meaningful role for partners. And that role will be one where we can have a very close aligned relationship with our partners, where the supply chain will be much more responsive than it is today.

There will be much less duplication than there is today. There will be a much better footprint of our production and logistical system, route to market system, than there is today, and everything will be in that operating theater. That means we won't have juices or food service or bottling, can, sparkling separate; everything just like we have in the rest of the world.

Ali Dibadj - *Sanford Bernstein - Analyst*

Now you used to say you absolutely see no need in getting another 10% say of volume, getting the rest of the volume that you don't own, so the other bottlers are independent in the US. I think that is what you used to say. Is this slightly different than that, or it's the same story; you don't need them?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

I think that as we evolve this, I am very cognizant of the fact that there will be a benefit for all, benefit for everyone that is involved in our system today. Everyone will benefit. Who are those? Us, the current bottlers, independent bottlers, Coca-Cola refreshment, and the new partners that we will bring in. Everyone will have a check next to the word benefit.

Ali Dibadj - *Sanford Bernstein - Analyst*

Okay. Let's take a step back and kind of talk about global now. Your 2020 vision, again, very clear, very understandable. And I think it's let's grow, let's double and let's improve our margins as well. Can you just aggregate that a little bit? How much of that comes from the emerging markets?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Well, I think we have a model that says that based on 2020 doubling our system revenues that are \$200 billion, base being -- including 2010 being the first year. We are in the second year of this period. And that calls for growth in sparkling, growth in stills, different rates of growth; growth in emerging markets, growth in Western markets, different rates of growth.

And the rate of growth from the emerging markets is going to be -- the contribution of growth to \$100 billion will be higher from the emerging markets, simply because that is how the algorithm and the math works. But it can't work -- the 2020 vision calls for growth from all geographies.

Ali Dibadj - *Sanford Bernstein - Analyst*

And one of the things we'd look at --

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

And we are achieving that, and we will continue to strive to achieve that to get there. I've always said it's not for the faint hearted, but we believe it is achievable.

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Ali Dibadj - *Sanford Bernstein - Analyst*

Part of the emerging market that you certainly had a huge personal interest in was in Central and Eastern Europe after the fall of the wall. Now the legend has grown about what the manufacturing blitz was, 100 factories in three days. I think the real numbers are 20 factories -- 30 factories in less than 20 months, right I think, give or take. We will leave the legend to be 100 in three. Do you see other --?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

It was actually about 25 factories in 30 months.

Ali Dibadj - *Sanford Bernstein - Analyst*

25 factories in 30 months. Do you see other places like that for that type of blitz in the emerging markets? And if so, where?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Well, if we look at what -- if you look at our investment program that I have announced -- we have announced jointly with our bottling partners, multi-year investment programs with our bottling partners in various parts of the world, actually what happened in Eastern and Central Europe is very pale compared to -- I can't remember now exact numbers, but it was like a few hundred million dollars, \$400 million or something when we added it all up to get to those numbers of plants and infrastructure in Eastern and Central Europe in those years.

Today, we are in the mode. It is a multiyear, but we are now \$6 billion in five years in Brazil. We announced \$5 billion in five years in Mexico. We announced a \$3 billion -- \$2 billion in three years in China. We are in the third year of that. Every time I go to China, we inaugurate two, three plants.

And then it was, I think, \$200 million in three years in Vietnam. So that is the smaller one. So you have got everywhere we have multiyear investment programs with our bottling partners. The beauty, again, of this business is the cash that it generates every day. And with that cash that is generated, which is roughly north of \$20 billion a year, we put together these investment programs with our aligned partners.

Russia is the same. We are in the mode, in the third year of a three-to-four year investment program, multibillion-dollar investment program. Ukraine, Turkey, Argentina, Chile, everywhere has their own investment program. So I think that was white territory in those years. This is not white territory, but it has tremendous amount of potential to be able to generate those investment programs that deliver the infrastructure that delivers the growth.

Ali Dibadj - *Sanford Bernstein - Analyst*

Let's talk a little bit about the fact that it is not white territory; it is grey territory a little bit. You have competitors there, for example, in Asia one of your competitors is calling for pretty aggressive margin degradation for them.

What are the implications to you of all these investment from a margin perspective? We will get to the CapEx perspective, of course, as well. But it sounds like a lot of your local competitors -- and there are some; obviously, you dominate many of the markets. But there are some who are just willing to fight for their turf and willing to see margins compress for themselves and then hopefully for you.

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How does that work? And maybe in answering that, you could talk a little bit about the split between system concentrate versus bottler.

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Look, I think there is no better thing than competition. Are there competitors, local competitors that we compete with effectively, whether it's in China or India or other parts of Eurasia in multiple categories? The answer is yes.

Is there any other competitor that competes with us on all the categories that we are, in terms of how we operate in multiple categories from sparkling to ready-to-drink teas to coffees to sports to energy? The answer is no. There is always one -- there may be one local competitor that is strong in one category; strong being not number 1 but has some presence in one category, and I think that is fine.

I think that is healthy. That is healthy for the business, whether it is a competitor in juice, competitor in energy, competitor in ready-to-drink teas or coffees. It is healthy, and that makes us a better company, that makes our bottlers better, and that makes the market better. It is better for the consumer.

Margin degradation, I think it is up to us to ensure that we find the formula in each category, in each market that we compete in, to ensure that we can have sustainable return to our shareholders and generate what I just said -- volume growth, slightly higher revenue growth, and a healthy operating income growth sustainably.

In Russia, we have competitors. Eastern Europe, we have competitors. That is fine, but they are mostly -- the local competitors are mostly concentrated to each country and concentrated to a certain category.

Steve Powers - *Sanford Bernstein - Analyst*

Assuming you crack the code and you do find a way to expand margin, part of the, I guess, some confusion around the 2020 vision is that it is a systemwide target. System revenue up to \$200 billion, margins up from where they were.

How much, I guess specifically on the margin side of it, how much of margin enhancement accrues to Coke versus your bottling partners?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

I think it's no different than how we've run the business in the past. Equitable sharing of the value, creating the value together and equitable sharing of the value, and we had different models developed. Not one size --.

Steve Powers - *Sanford Bernstein - Analyst*

(multiple speakers) not 50/50, though, necessarily.

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

I wouldn't say at all in terms of split, define it as a split in numbers, but I would say equitable. And we've got different models operating around the world, Latin America, in different categories; different models and different categories. Latin America is one; Europe is another one; Eurasia and Africa; the continent of Africa; Japan.

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So all of them -- not ones size fits all, but all of them work, work for our bottlers, and generate the cash, spend it together, create the value, share it equitably. And again, it starts with the fact that every day when the sun goes up and every day when the sun comes down, this business generates north of \$60 million of cash per day. And that is why there is no better business in the world.

Steve Powers - *Sanford Bernstein - Analyst*

Do you want to talk about the category portfolio?

Ali Dibadj - *Sanford Bernstein - Analyst*

Sure, yes. One of the questions we have is given your current category portfolio, do you have enough; do you have the right of things to get to your 2020 vision? Are the big adjacencies you have to go after?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

First, I think if you take it country by country specifically. If you pick a country in Africa today and say in country X in the African continent do you have -- are you satisfied with your portfolio? Based on the country, you may say no. There are many countries that will say yes, and there may be some that we will say no.

Ditto for all around the world. The bigger country, we see there are gaps in our portfolio. So we are always looking for appropriate bolt-on acquisitions like similar to the previous years, whether it's like an Innocent or whether it's like an Honest Tea or others. There will be room for those.

Ali Dibadj - *Sanford Bernstein - Analyst*

One category you didn't mention prominently in what you just said was energy. Where do you think energy fits? First off, do you think it's a real category? Do you think it is a fad or not a fad? And what do you think you need to do about it?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Well, I think we have a number of great energy brands. We are competing in those categories across the world, and I can't comment right now whether it is a fad. It has been around now for quite some time, and it's generating value. And as long as a category generates value for us, we will be in it and we will compete in it. And that is how we see the category.

We have a global energy brand with Burn, and we have other energy brands in Latin America and Europe and Gladiator and Relentless and Asia brands here in the United States. We also cooperate with some energy companies in distribution where we are their route to market, and we generate value. Are we generating value? Yes. Therefore, will we continue to compete? Yes.

Ali Dibadj - *Sanford Bernstein - Analyst*

Do you want to generate more, I guess?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Yes.

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Ali Dibadj - Sanford Bernstein - Analyst

(multiple speakers) of being the number one, it's one of the start categories where you are not.

Muhtar Kent - The Coca-Cola Company - Chairman & CEO

Well, look, I mean I would say right now, we are pretty happy the way our energy business is working globally, and our bottlers are happy. And we continue to grow in energy across Europe, across the world, across Australia, across Japan, and other parts of Asia, Latin America. So we will continue to grow.

Is there room to do better? I think there is room for us to do better in sparkling, in juices, in teas. In every single category, there is room for us to do much better. We strive for that every day.

Steve Powers - Sanford Bernstein - Analyst

A couple questions here on that point and around energy, and more from an M&A standpoint. Would you entertain acquisitions in that space? And the names mentioned are Red Bull and Monster.

Muhtar Kent - The Coca-Cola Company - Chairman & CEO

I can't comment here on --

Steve Powers - Sanford Bernstein - Analyst

No, but just in terms of strategically.

Muhtar Kent - The Coca-Cola Company - Chairman & CEO

-- any names or -- I think what we do is we see value in that category as we do in ready-to-drink teas, in coffees. That is why we have joint ventures with people like illy or others where we test try and continue, and that is the way we reapply. That is how we came across -- that is how we essentially through our innovation platform generated Minute Maid Pulpy, which has now become a billion-dollar brand.

The key is it doesn't matter where they originate. Can you reapply across the world, like we've got now more than 20 countries where Minute Maid Pulpy is and glaceau vitaminwater. And we just reapply and some work better than others, but generating value. Same goes for all the categories.

Ali Dibadj - Sanford Bernstein - Analyst

A difference between a, just to use a name to categorize a size, a Red Bull or a Monster versus some of these other ones that you mentioned is size, the size differential. As you look at acquisitions, do you look at -- (multiple speakers)?

Muhtar Kent - The Coca-Cola Company - Chairman & CEO

I am not going to --.

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Ali Dibadj - Sanford Bernstein - Analyst

No, no, no, but I'm not talking about those in particular. I am just saying size-wise, how do you assess acquisitions? How do you think about it? Does size come into the picture at all? Is it all by distribution gain? How do you think about making the acquisitions?

Muhtar Kent - The Coca-Cola Company - Chairman & CEO

Look, we have -- you have seen us do fairly large ones like glaceau. You have seen us do smaller ones that are becoming large, that will get larger in our system. So if you take our acquisition of Fuse, that came with an energy brand called NOS. NOS had a decimal point market share in the United States, and now it's got a much bigger market share.

So it benefited -- when we acquired it, it wasn't even on the radar screen. It was like sampling business and now suddenly, it has become a meaningful size.

Same thing goes for Innocent. Suddenly now, if you walk into the stores in Great Britain, you will see Innocent in carafes for NFC juice doing very well, albeit in early stages.

So we will take an acquisition, make it bigger, and we will also sometimes -- and they will be various sizes. Size like a couple of hundred million dollars like Fuse or even less like Innocent, much less like Innocent, or multibillion-dollar ones like vitaminwater. It depends on whether we see a fit.

Steve Powers - Sanford Bernstein - Analyst

You've also -- over time we've talked about North America and the acquisition of the bottling assets there. You've also made acquisitions on the bottling side in other markets.

Your bottling investment group, which is -- the main markets there are China, India, the Philippines and Germany. Germany is obviously an option for CC to purchase that business over time. If you want to comment on that, that would be great, but I don't expect you to. But the end game for how you think about your assets in China, in India, in the Philippines; what is the endgame there and how should we think about that?

Muhtar Kent - The Coca-Cola Company - Chairman & CEO

I think I'm pleased with the performance in Germany. I think the team there is doing a great job improving the health of our brands, but also from a route to market point of view and logistics and production template point of view. Damian Gammell has done a very good job there over the last three or four years he has been there, so generally getting traction.

Whatever the sentence says in the agreement, that is the mode of operation. So in terms of you mentioned CCE having -- looking at acquiring it. Then we will continue to have those discussions and we will see where that lands.

Steve Powers - Sanford Bernstein - Analyst

Yes, one question on Germany, just because you had talked about it. The recent change in pricing relationships between Coke and CCE AG, which essentially seems to have shifted more price to the bottling assets, to the bottler there. It's a degradation of price to Coke.

Is that -- should that be read as a shift of the profit pool to CCE AG? Is that a shift in --?

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Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

No, it was just essentially putting it exactly the same way as many other operations in Europe are, bringing them in line with Austria or Switzerland in terms of the relationship. So it was something that we didn't pay attention to because it was internal. And then it was time to put it into a mode that is more in line with other Western European operations, in terms of the sort of equitable sharing.

Then we mentioned Philippines, as well as Russia and China -- I'm sorry, India and China. India and China are essentially very strategic for us, because we are at the beginning of a very long journey there, very low per caps, and in a building mode. So very -- our bottling investments in both countries are very, very strategic to us.

And in the Philippines, I think it's much more like a Germany; insure that you put it right and then make sure that you can have the right partner.

Ali Dibadj - *Sanford Bernstein - Analyst*

Just to try and squeeze in just a few more questions. One is around cash.

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Does that answer your question, Steve, okay?

Steve Powers - *Sanford Bernstein - Analyst*

Let's hear you go further on Germany.

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

But it is so clear. There is no ambiguity in the language. It has got great clarity in terms of when it starts, what the window is and who it's signed with. What is it that is ambiguous?

Ali Dibadj - *Sanford Bernstein - Analyst*

Well, there is always more granularity you can offer, right? So look, one of the questions is around cash. You mentioned sunrise to sundown how much cash you generate a day. You have \$9 billion plus of cash on hand. What are you going to do with it? Why not pay more dividend? Why not buy back more stock?

And is there any, I guess, contemplation of waiting to do anything with that cash for the hopes of some sort of tax holiday?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Look, first, I think it's a good problem to have. And secondly, I think our uses for cash have not changed. It is the same as what we have outlined before. Investments come first, dividends, and then we look at other things.

And we announced share buyback numbers, minimum numbers, and I think we will just stay with those. And I think it's a good problem to have. It's a good problem to have in terms of investments, in terms of generating opportunities, in terms of how

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we can generate opportunities. And that's always going to be a priority for us together with our bottling partners, because sitting on the other side with our bottling partners is also cash that is going to be invested. So to continue to grow our business.

Ali Dibadj - *Sanford Bernstein - Analyst*

Versus your peer group, you are giving much less of -- kind of a proportional amount of cash back to shareholders, at least recently. Why? Don't you expect that to hopefully be something that you can increase going forward here?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Well, I think if you have -- if you see less opportunities for your business growing, then I think that's not a bad employment of cash. But if you see the same opportunities that we see for our business to continue to grow, then I think we are doing the right thing long-term.

Ali Dibadj - *Sanford Bernstein - Analyst*

Okay, but you deal still do still have a lot of cash on hand. So anyway, by virtue of time, maybe one last question. And it's around something that folks that we have talked with, both in the retail arm but also investors ask about, is this the silver bullet? Could this be the silver bullet of really getting CSD growth back or much more back, which is natural low calorie or no calorie sweetener? How much R&D are you putting into that? Do you really think it's that big of a deal potentially?

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

I don't think there is a single silver bullet. I think there is multiple, and innovation for us is not only ingredients. Innovation for us is great packaging. In addition to products, great packaging like the plant bottle, where all Dasani single-serves now are converted to the plant bottle, conversion of waste to resource.

Innovation is equipment like freestyle. Innovation is packaging like aluminum bottle. It is multiple faceted way of looking at things. Innovation is everything we are employing with social media. Innovation is why we have more people on our Facebook page than anyone else, etc., etc.

I think there isn't a single silver bullet. There are multiple silver bullets around, and I think you'll see us employing every one of them that will generate growth for us.

Steve Powers - *Sanford Bernstein - Analyst*

Great. I think we are out of time.

Muhtar Kent - *The Coca-Cola Company - Chairman & CEO*

Thank you very much.

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