

The Coca-Cola Company Redburn CEO conference 2023

Transcript

Speaker 1: Good afternoon, everyone, or good morning if you're joining us from the U. S. I'm delighted to welcome today John Murphy, President and CEO of The Coca Cola Company to our 2023 Redburn Atlantic CEO Conference. John, thank you very much for joining us.

Speaker 2: Thanks, Charlie. Pleasure to be with you.

Speaker 1: Some quick housekeeping points first. So the presentation is being broadcast live on investors. Cocacola.com. The format is going to be a 50 minute fireside chat, but only between John and myself. But for those on the webcast, there is a Q and A function.

Speaker 1: So please do submit Some questions, and if we have time, we'll try and fit in a few towards the end. But John, thanks for being here. I'd like to start with the top line growth, if I may, and perhaps with the consumer. And the way that the company is engaged with the consumer has changed dramatically over the past few years, from entering new occasions to executing better around Passion Points. I mean, how has the company's understanding of the consumer evolved?

Speaker 1: And does it give you greater confidence in delivering this all weather growth towards the top end of the company's 4% to 6% organic sales growth range?

Speaker 2: So yes, Charlie, the first of all, maybe I can start by just reinforcing our belief in The growth flywheel that we have talked about for quite some time now and the elements within that flywheel That give us the confidence of being able to sustain growth going forward, starting with a growth portfolio of brands that have got longevity, supported by what we're doing now, a refreshed marketing and innovation model and allowing us then to use our

revenue growth management capabilities to convert that into real value. And a piece that I think can often get overlooked is the ability then to execute on a daily basis in over 200 markets And the partnership we have with our bottler has been an enabler, a key enabler for that to happen. So When that flywheel is spinning, I think it gives us the confidence to be able to deliver on the algorithm. When you get underneath it though, some of the things that have changed to boost that confidence even further, I think of us as being a lot more precise in developing an understanding of consumer segments around the world. So for example, I'm in Atlanta, Georgia today and you have the consumer profiles here versus in rural Georgia, a couple of hours away are very different.

Speaker 2: And so I think we're building more and more of that understanding into the ongoing and local development of the flywheel. The 2nd, in April, I'd highlight is the use of data. I think it's bread and butter for Every company nowadays, but relative to where we were a few years back and how we're able to synthesize The various data inputs that we have from the marketplace, from our own research work, from external sources It allows us, I think, to, again, deepen that understanding and convert that understanding into real actions. And then last but not least, and we can talk about it, I think, further in the course of the conversation is The effectiveness of our investments and becoming a lot more disciplined in the way we're using our marketing dollars to go after in a more surgical way the opportunities that are out there. So it starts with that the flywheel underpinned with that deeper understanding based on some of these insights that we continue to iterate and build over time and using our dollars then to greater effect to spin it.

Speaker 1: Yes. We'll definitely come back some digital and the marketing in a bit. But I just wanted to follow-up quickly. And can I just confirm, are the company sales of alcoholic beverages included in that long term plus 4% to 6% organic sales growth guidance or is it all

incremental? And then perhaps could you just update us on the overall alcoholic beverage strategy and expansion.

Speaker 1: You've seen some quite exciting launches lately. And I thought interestingly they will partner with other big spirits manufacturers, I. E. They have 2 brands in one can. Was that a strategic decision?

Speaker 2: So let me start with The first question on the long term, the algorithm. I would think of The from a portfolio context, like we continuously evolve the portfolio. It's a dynamic process. And the whole objective is to build a portfolio that can that gives us the confidence to sustain growth at the high end of our algorithm. If I go back over the last few years, one of our key objectives is to position ourselves as close as possible to the opportunities that consumers are creating for us with their needs and their habits and the trends that we see.

Speaker 2: So I think of it more in the context of building continuing to iterate a dynamic portfolio, Whether it's with the addition of some of the alcohol beverages and or the various other categories in the non alcohol space we're in, to iterate those so that we build stronger pipeline of solutions to support the algorithm, versus thinking about each of these has been incremental over time. The second point is when it comes to the work we're doing in the ready to drink alcoholic space, it's still early days. We're excited with the long term opportunity that's ahead. But one of the things that certainly I've learned over the years is that It takes a long time to build scale positions in new categories. And you've got to bring a degree of what I call impatient patience to the process.

Speaker 2: And we're in those early stages at the moment and happy with some of the That we're planting. And with regard to the partnerships, It's a feature, I think, of the category to be willing to think a little bit differently about how to create new value. And these partnerships,

We're excited with them. We feel that it is possible to build a portfolio of these partnerships over time as long as they are rooted in what consumers feel are compelling Propositions that can sustain and scale over time.

Speaker 1: Great. And the company's organic sales growth is, I mean, ultimately underpinned by the bottling partners. I mean, how would you assess system alignment today versus, say, 5 or 10 years ago? And what benefits does today's stronger alignment with the bottlers convert to Coke? And could you just maybe elaborate on some of these long term collaboration agreements we've seen that the company signed with the bottlers, which were explicit around aligning around growth.

Speaker 2: So yes, the word alignment, Charlie, is one that has been used for many, many years as a way to describe The health of the relationship with our borrowers. And to be perfectly honest with you, I think it's getting a little outdated because I don't think it's describing in a robust enough way just how we are partnering and working together. I would like to think of it more as a there's a harmonization that's underway over the last few years We're much more synchronized. There's greater cohesion. There's greater congruence towards shared objectives.

Speaker 2: And those shared objectives are really around how do we grow the pie together. I think leadership has a huge role to play. I see The system today being a very positive breeding ground for the kind of behaviors that are necessary to drive growth. And a lot of that is some of the leaders of our system, our bottling partners and the inside our own company. You're walking the talk on what does it take to lead a very vast ecosystem that's spread across so many markets, as you well know.

Speaker 2: So when you have that harmonization, it allows you to Focus on what's really

important, what's happening outside of our 4 walls, if I can use that in a proverbial sense. And it allows us to be in a position to invest ahead of the curve. It allows us to, I think, take risks more comfortably and understand that smart risk taking Over time can confer outsized benefits, but they're not all going to work. They're not all going to work in building a learning mindset. And I think it allows us to have that flywheel that I talked about earlier working in a much more iterative and synced fashion that ultimately confers the ability to create shared value across the system.

Speaker 2: The long term agreements that you referred to For me, our mechanism, a mechanism to provide greater certainty to both the bottling Organizations and ourselves on how the value that we create gets divvied up, so to speak. It allows us to in a world where if you think about the business 10 years ago to where we are today, It's a much more complex portfolio. We have different routes to market. We're exploring and experimenting together in ways that were actually not really imaginable not that long ago. And these arrangements are the underpinning from an economic perspective to give both sides the confidence And indeed, the comfort to continue to take on that, I'd say, that more expansive mindset on going after growth.

Speaker 1: That's fascinating. And I mean growth in the near term has been very, very strong and in particular helped by pricing and mix. Can you maybe just elaborate on what the systems philosophy is regarding pricing and how that's evolved as the revenue growth management RGN tools have become increasingly more powerful? And how do you think about near term pricing in the context of potentially a weaker consumer environment and also some of the large retailers talking about potential disinflation?

Speaker 2: So you started talking about price and mix, and I click it up a notch. I think it's really important to give volume a seat at the table in an equal, if not in some markets, more focused

manner. So for me, when you, again, think about the evolution of our system over the last 10 or 15 years. There was a time when we were very volume centric as a system. That was and that was appropriate in days when the portfolio was simpler and there was not a need for the kind of revenue growth management capabilities that we're building at the moment.

Speaker 2: We moved from being volume centric to revenue centric. And I think we sometimes lose along the way the continued importance of volume in the overall algorithm. And so when I think about our revenue journey going forward, I think about it in the context of A balance, the appropriate balance given the context of a market across the volume, price and mix equation. Clearly, the last couple of years in a lot of markets around the world, given the higher inflation we've seen in just about all of the world, but particularly in developed markets that have not been used to higher levels of inflation. The role of pricing has been outsized.

Speaker 2: And we have learned, I think, from experiences in many parts of the world in which we have had inflation in recent times to deploy the revenue growth management toolbox that we talk about a lot and to understand how to manage effectively through periods of inflation. So when I look back on the last 3 or 4 years, I think some of the lessons that we've learned in the last 15 to 20 years have served us really well in being early to the decision making that you need in order to effectively deal with inflationary pressures. And as we look to the Near term and into next year, I think you're going to see a world continuing to be somewhat asynchronous in how inflation plays out. Yes, I think it's going to normalize in the United States and in parts of Europe. But in other parts of the developing world, I don't see it normalizing as quickly.

Speaker 2: And so for us going forward, it's contextual. You've got to understand your local market and at any given time have a very clear point of view and Dialog relationship with our bottling partners, indeed with our customers, on what is the right growth the equation to drive

taking into account that context and using the volume price and mix levers. So as we provide more guidance in February on how we see that playing out in the course of 2024. I think it's going to continue to be dynamic. We're going to continue to have Different models in different parts of the world.

Speaker 2: And yet, as I say, given the experience that we've had for many years And strengthened over the last 3 or 4 years, I think we're in good position to Build the agility that we need to deal with whatever a local market environment demands us to do. And

Speaker 1: yes, getting through pricing is made a lot easier when you're releasing good innovations. And I mean, John, you used to work in Japan that has a just a frightening amount of innovation there. I mean, can you maybe just talk about the way the system approaches innovation and how that's changed over the past few years in the context of this big master brand trim. And then how do you determine whether an innovation is successful, particularly given now seeing some quite interesting things like the limited edition releases with AI designed Coke 0 as well as these products we spoke about earlier that are partnered with other big spirits companies like the Jack and Coke RTD.

Speaker 2: So first of all, I kind of take a step above when I think about innovation and I don't Apply it to a specific topic like it's not product centric necessarily, package centric, Equipment Centric. Innovation, in my simple language, is anything new that creates value. And so I think when you take on that mindset, you have the opportunity to apply that kind of thinking into all aspects of the business. When it comes to the portfolio itself, it's really important to be clear as to what it is you're trying to accomplish. What is the role that you want innovation to play?

Speaker 2: And in the product world right now, we have different roles. You mentioned Coke Creations. Coke Creations is not designed to be a massive Volume adds to the portfolio. It's

designed to create new news. It's designed to attract and bring in new users into the Coke franchise.

Speaker 2: And we've seen a lot of good results from the various iterations we've had over the last couple of years. When you go to some other categories, innovation has a more central role to play to actually drive the product itself in markets. And we see that in particularly in some of the of some distilled categories. So I think it's really important to have clarity on the role. Secondly, it's incredibly important and it may sound a little bit paradoxical.

Speaker 2: In order to be successful at innovation, you've got to be super disciplined. And I think over the last number of years, We've elevated our own capabilities to drive much greater discipline around what gets into the pipeline in the 1st place and why? And then how do you take it through the pipeline and into the market? We have much more robust metrics to constantly evaluate the performance of the various innovations that we're driving. We look at performance over multiple quarters now.

Speaker 2: We understand that for innovation, typically in innovation to have the probability of survival, It needs to be flourishing through the 1st few quarters. So we have a very clear understanding of what's working well and what's not. It's super important, I think, to as I said, to have clarity on what do you expect innovation to deliver In your revenue algorithm, we have a target that we use to support and drive the kind of throughput that we need in the pipeline that we're looking at, again, in a much more networked and integrated fashion. It's Incredibly important from my perspective for a company like ours to leverage the fact that we are always experimenting in different markets. And one of the benefits of the network design that we have been implementing over the last 2 or 3 years is to be able to share and move what's working in market Does it can you experiment at scale?

Speaker 2: Can you stop things faster that are not working? You don't get it right all the time.

The failure rate in innovation is actually alarmingly high. And I think the name of the game for companies like ours is to have our batting average well ahead of the industry average. And we are making board advancing.

Speaker 2: We've had some really good progress. And yet it's a game that demands constant invention and reinvention, constant understanding of what's happening in the marketplace. I remember when I was working in Asia and we had a view that kombucha was the next great category and made some investments, made some inorganic investments to try and get ahead of the IRVE. And here I am 5 years later. And that trend did not tick off the way We had expected so you don't get it right all the time, but you can't allow those failures to prevent you from continuing to try.

Speaker 2: And I think the spirit that we have across the enterprise and indeed with our bottling partners to innovate intelligently with discipline. Be prepared to take risks. Know you're going to fail some of the time, but build that into your ongoing way of continuing to attack the marketplace. I think when you have that wheel working well, you give yourself a better than Average chance of having it be a significant tailwind.

Speaker 1: Yes. And some of your innovations like the Coke Zero re Formulation have been phenomenal recently. And you've also got a wider portfolio with which to do these innovations under the total beverage company ambition, which naturally involves diversifying into cash fees that perhaps earned a lower gross margin than your concentrate business. I know the company's long term organic 6% to 8% organic operating profit ambition incorporates operating margin expansion, Does it also include expansion at the gross margin level?

Speaker 2: So you mentioned Really a few important words I'd like to double down on. Long

term, what drives margin expansion is your leadership position in a category, not necessarily the category itself. It's a little it takes a while for even for people in our own organization to Believe that that is the case, but it's something that we've demonstrated over many years. You talked about Japan earlier, something a big takeaway from my many years working in Japan. So the idea that you can invest in categories that are in early stages of development or our position is a relatively low position is not inconsistent with the ambition longer term to drive margin expansion because the opportunity that you have in taking those early positions is to build a leadership position over time.

Speaker 2: Obviously, you need to have the confidence and the belief that you can do so. So for me, the two ideas Are not contradictory, but it's something that you need to do over time. In the short term, It's my job, it's management's job to work the portfolio so that you can continue to meet the needs of investors or other stakeholders so that the portfolio itself moves in the right direction. Gross margin is a significant piece of that equation. I would struggle to see a long term model that does not have some degree of gross margin expansion embedded into it.

Speaker 2: And we've talked in the past about some the levers at our disposal to be able to deliver that over time. It's never going to be a straight line. We've seen over the last few years periods in which You have dislocations, but I firmly believe that the path we're on, the ongoing development of This growth portfolio of brands, our ambition and our focus To continue to drive leadership positions in the categories that we choose to be in are all Elements that give me the confidence that we can continue to do so. One of the big lessons of the last few years On the pursuit to being a total beverage company is it does not mean you need to be in every category in every country. In fact, it's actually quite the opposite.

Speaker 2: You need to be able to marry that Deep understanding of the consumer and where they are going, what they want with the profit pools that, that journey consumer journey

creates. And from there become again a lot more disciplined in how we choose to invest our dollars against Those country category sort of cells that over time drive the lion's share of the industry profit pools. And I think a big evolution in the last few years is to get A lot more sort of scientific and surgical on overinvesting our dollars in those areas that we know over time will drive the greatest profit for us.

Speaker 1: That's great. And then maybe shifting from the long term gross margin to the short term gross margin, how should we think about cost of sales inflation or even deflation as we approach 2024. And then just conceptually, how do you think about letting Any potential gross margin upside drop down to the operating margin versus reinvesting behind top line growth?

Speaker 2: So you won't be shocked to hear me say I'll tune back in, in February for more detail update on the short term and the year ahead. However, I will say that on the commodities front, we're seeing actually 2 different groups, I would call The industrial commodities and the agricultural commodities. And industrial commodities are from a Cost management perspective are trending in a better direction for both ourselves and our bottling partners. Some of the agricultural commodities like sugar, corn, etcetera, our coffee, juice are a bit more stubborn. So I think we've got to balance the net of the 2.

Speaker 2: Other cost inputs we're seeing in the developed world consistent with the reports that you've got access to as well as I have, some normalization. But as I said earlier, it's got to be contextual to a given market. And we're building that into our thinking as to how we see 2024 come along. So I'll be delighted to provide you a bit more details in February. On the question on is there an opportunity to drive more, I think what's most important in times like this is to create the flexibility to have options to Take the right decisions to position you best for the long term.

Speaker 2: And I think we've demonstrated during the pandemic that first of all, we can create that flexibility. And then secondly, we're willing to toggle up and down in the course of the year to do the best job that we can for the brands that we're stewarding for the long term.

Speaker 1: And yes, so normally if there is any gross margin pressure, you tend to have many levers that you talk to down the P and L, which maybe we could talk about. Now I mean, what are the most material levers over the long term for driving operating margin expansion. How do you think about the levers that the company possesses to drive expansion versus say those that hold by the bottlers like improving packaging mix. And then maybe just dialing back in on the marketing that we spoke about earlier. Now that you're generating higher returns from each dollar of marketing spent since the 2020 transformation, how should we think about marketing investment as a percentage of sales over the long term.

Speaker 2: So levers, I have talked about that Quite a bit over the last 3 or 4 years. We continue to evolve our own thinking on those levers that are available. I think sometimes It's important to demystify what how a P and L works. Gross margin is a function of the quality of your revenue and the efficiency of your inputs. It's not much more complicated than that.

Speaker 2: I talked earlier on about the shift from volume to revenue. If anything at the moment, I think we're becoming even more focused on moving from a Generic view of revenue to quality revenue. And so the quality of the revenue is a huge piece of the equation going forward. And that is, to a large degree, converted into value through our revenue growth management framework that we have and that we again continue to develop and evolve. So input number 1 for me is continuing to optimize the value creation opportunity With this quality portfolio of brands through a whole series of Capabilities that we're developing in conjunction with our bottling partners.

Speaker 2: I don't think of it as we do this and the bottlers do this. I think of it as it's a shared opportunity and a shared responsibility to work in harmony, as I said earlier, so that we end up with the right end to end equation. So that would be point number 1. Point number 2, it's well known in the CPG space that trade spend is an ongoing, a never ending opportunity to optimize even further. I think the Availability of the of better data analytics, the relationships you build with your customers around the world, The digitization of the traditional channel are opening up more and more opportunities to Again, to improve that quality of revenue by having less reliance on sort of blanket spending that is often captured in that trade spend line.

Speaker 2: That's the 2nd big bucket of opportunity. When I think about our cost inputs, We're blessed to be part of a massive ecosystem. We have an organization that has been At play for many, many years now, the cross enterprise procurement group, who buy a significant percentage of commodities in conjunction with and with the support of our bottling partners. And that's An advantage, I believe, that our system has and will continue to have as we go forward, just given the scale that's available to us. And I think continuing to leverage that capability, broaden it and expanding it to other spend areas is an opportunity going forward.

Speaker 2: We're fortunate to have A tremendous portfolio of supplier partners. And we sometimes, I think, think about partnerships in the context of our bottlers, our customers. But equally, the equation we have with suppliers is super important. And there was a time, I think, Charlie, not that long ago when we would be talking about this in the context of how do we drive more efficiency And yet at the same time, have the appropriate amount of resilience. I think the lesson over the last couple of years, we've kind of flipped it A little bit to say, it's so important nowadays to build really strong resilience, But do it in a very efficient way.

Speaker 2: And for me, the lesson over that period is that building that resilience is a direct function of the quality of those partnerships and relationships that you have. And so I'm really

pleased with some of the progress we're making there and the tremendous partnerships we have. There's lots of other smaller ones. How do you source how do you leverage local players? How do you product specifications?

Speaker 2: We talk about innovation. One of the joys of the job that I'm in at the moment is you get exposure to just about everything. And Sometimes what you see is not that pretty like and some of the and it's a legacy thing. Over time, you build up a way of doing things and then you realize, man, there's a much more Efficient way to do it. So product specs would be one of those candidates.

Speaker 2: And so there's other Sort of I'd say smaller levers like that, that we're continuing to adapt to. You mentioned marketing spend. And it's interesting. The way a P and L is it gets constructed, marketing spend sits below the gross profit line. But I would argue that the quality of your marketing spend and the effectiveness of it actually impacts what happens above the gross profit line.

Speaker 2: And so for me, it's become and with a great partnership with Manolo, our Chief Marketing Officer, Such a hugely important area to elevate in terms of its importance and to raise the bar in terms of effectiveness. We're pleased with the Agenda we're driving at the moment, we've made some significant changes to how we do marketing, how we manage the nuts and bolts of it. And I think there's going to be a lot of opportunity going forward to continue to drive productivity in that space. And that productivity is part of the fuel that gives us the flexibility that I talked about earlier. And so having this ongoing capability to toggle back and forth, up and down to sustain the growth equation It's something I think we're in a much better position to manage and drive than

Speaker 1: we were 3 to 4 years ago. Fascinating. Yes. And I think the key step For me, that

stood out is that 50% of the marketing budget is now on digital spend these days. And maybe just Yes.

Speaker 2: More than 50% actually as we go into next year.

Speaker 1: Just maybe continuing that theme on digital. I know it says elsewhere that the company has spent over \$1,000,000,000 on digital, for example, in 2022. Can you maybe just elaborate on what are the capabilities that Kayo has been building in the digital space and kind of how far along is the company and its digital transformation? And then Just building on that, how is data used today to inform decision making versus, say, in the past? And what benefits do you expect to get from the greater level of data sharing is going to be happening with some of the bottlers under those long term collaboration agreements that we spoke about earlier.

Speaker 2: So forgive me for smiling myself, but the word digital is maybe the most used in the lexicon of business today with so many different ways to interpret and describe it. I think about digital in 3 ways: 1, as a capability number 2, as a medium And then number 3 as a disruptor. So maybe it would help if I could just unpack the 3 of those. The \$1,000,000,000 that you referred to in the I think we use that in our CAGNY presentation this year or last year Really refers to the first piece. It's, I think, incumbent upon companies of our size and scale to have in place foundational capabilities to operate in the 21st century.

Speaker 2: We're just In the final stages of a very, very large upgrade in our ERP system to SAP ForHANA, We have migrated our entire business to the cloud over the last 3 or 4 years. We have standardized our technology platforms. These are all what I would call foundational capabilities that are a must have. Just know there's no alternative but to be effective in today's world than to have those in place, integrated and wired in the right way. On top of that comes what I would call The next phase of more advanced set of capabilities that in the area of

marketing, for example, allows us to have The data sets the tools in place in order to actually leverage Investments that we're making in the foundational level.

Speaker 2: It allow and I put in I put the whole cyber capabilities into that next stack, given the importance for companies like ours to be able to run a business inside a safe environment. I think about the number of Applications that we use as a company. There was a time when the number of applications that we had was close to 2015 to 1800. Over the last 3 or 4 years, we've invested to Not just to reduce them, of which we have down to the 100s, we think we're at 700 or 800 now, which is sort of below what Companies of our scale typically have, but then is to have those integrated and easy to talk to each other. And I think then the third part I think about is leveraging the partnerships that we were privileged to have.

Speaker 2: There was a time when we used to do our own software. I think it's just crazy to think about a beverage company thinking that we could do a software better than the software companies. There was a point in time when that was the thinking. Today, we're blessed, I think, to have tremendous partnerships with some of the well known players and that allows us to leverage what they're doing and through the partnership model, get access to a level of capability that otherwise we would not be able to. And then the 3rd piece that sits on top of all of that is what's coming at us.

Speaker 2: The stuff that the next gen generative AI capabilities, you and I were chatting beforehand about Our Christmas card, it's a really nice example of what some of these new capabilities are allowing us to democratize to and build a different kind of engagement with people of all generations around the world. The reality is that that kind of New stuff is only possible when the other stuff is done well and in place. And so the \$1,000,000,000 you referred to It's the construction of that stack over the last couple of years. The second piece, When I think about digital, I think about you referred to it earlier, I think about it as a medium. The

degree to which we can and should engage with our consumers, with our customers around the world through digital media is exponential today versus not that long ago.

Speaker 2: When I was in Asia in 2016, 2017, I could see that coming given what I saw happening in China, the early stages of the India Digital Revolution. And interestingly, the developed world has been, I think, slower to grasp that And to create it's happening now. So I think of it as a really important medium in which companies like ours have got to be right at the forefront of. And so when we think about moving our spend from X to Y from whatever it was to 55%. It'll be 65%, 75%, I'm sure, over the next 3 or 4 years.

Speaker 2: It's one thing to make the shift. The next part of it then is to make sure that the shift is effective. There's no point in going from one bad medium to another and call it digital. So There's a lot of work required. And part of the stuff that Manolo and his team Would be happy to take you through in some detail is exactly is becoming a much more capable digital company using it as a medium.

Speaker 2: And then the third part that I see digital as it's a disruptor. There's a there's nothing, I think, more disruptive to the effective running of an organization in today's world than the role that technology plays. It's taken, I think, a company like ours From one that was very how to say it was very decentralized to some degree, we had Lots of silos. Technology makes that obsolete very quickly. And so the network model that we talk about a lot was in part driven by a belief that if we don't adapt the way we operate and work to both leverage and take advantage of technology and or not allow it to make us obsolete is where I think the disruption piece comes in.

Speaker 2: And I think for me, it's important to think of digital in those three ways. Apologies for the long answer, but it's one that I think is important because I think it's a very rich topic

And it deserves a more how to say, a more granular understanding as to how one can describe it and talk about it. But more importantly, I think it's a topic that deserves companies like ours time and attention to get it right. Because if we don't, we're going to be left behind.

Speaker 1: That's great, very comprehensive. And yes, we do tend to bucket it all into one big word. But it's also you could see that The brick and mortar is still out there with the big bright red Coke truck is doing its tour of the U. K. As we speak, but they're not publishing the timetable anymore, which adds to the surprise.

Speaker 1: Maybe just pivoting last few minutes into B. I. G. Division and cash allocation. So John, you wear a lot of hats these days.

Speaker 1: And you used to previously sit in Asia Pacific. You and James have been pretty explicit about wanting the company to become the world's smallest bottler. Can you maybe just talk a bit about the attributes that Kayo looks at when deciding the timing, the method of refranchise, I. E, whether to IPO a bottler or to refranchise it to a suitable partner? And then if we just think maybe 5, 10 years down the line, How would the company's capital allocation priorities gained once B.

Speaker 1: I. G. Assets have been refranchised and you're just left with this capital light high cash flow generating core business.

Speaker 2: So let me maybe a little context there. Like we went through a period, as you know, where We acquired a number of bottling businesses around the world that for a whole variety of different reasons We're in need of rejuvenation, refreshment, etcetera. And the path that we decided to take was for Us to be the 1st player in that rejuvenation process, always with the intent to refranchise back up because we believe very strongly in the power of the franchise model. And the role that we play, I think, adds most value when we stay focused on building

brands and helping to orchestrate this incredible ecosystem that we're at the center of, the epicenter of. The Asian piece is the last leg, so to speak.

Speaker 2: Africa is the other one. So Asia and Africa are the two pieces that When you look at what's happened in those parts of the world where the refranchising has taken place, I think it's a good way to answer your question. We've been very thoughtful in how to construct a better model going forward. You don't want to I don't want to sort of hand over a territory to somebody who's just going to operate it the same way. So you're looking for those ingredients that gives us the confidence and You the confidence that it's a good decision, a good decision that somebody else is going to come in and take what they've been given and make it better.

Speaker 2: Look at the North America situation, that's what's exactly what's happened. In Europe, that's what's happened. It's happened in China. So we're and it's happening in Southeast Asia as we speak. So we're very confident in the direction of travel.

Speaker 2: The inputs that we look for are contextual at times. You've got to be very clear on market dynamics. And Sometimes history has a role to play. Sometimes the availability of different partnerships are a role to play. And sometimes the pros and cons of an IPO versus going private are they're all to play.

Speaker 2: But you look at What is the what do we think is over time the best way to drive The long term growth opportunity. We talk a lot with our bottling partners and new partners about moonshots and the idea to sort of think about growth at the most extreme level. We're looking for partners who want to believe before they see, who have that shared ambition to deliver outsized growth, who have the capital to do so and the capital over time, who have the resilience to be able to operate over time Without the guarantee that it's going to be a straight line from where we are today to where that growth will take us, who have The right culture to

develop and grow talent and to partner with us and to operate locally. And so there's lots of those ingredients that we look at, that we evaluate. And we're also looking for a fair return.

Speaker 2: We're looking for a fair return on the investments that we've made and the work that we've done to help get many of these franchises along the way. And our bottling investments team are doing a fantastic job in both operating and managing and improving the business they have and yet knowing that they're preparing them for ultimate refranchising. So that's at play. We continue to make progress, as you've seen with some recent announcements. And I expect that over the next couple of years, we'll Continue to get towards that ultimate ambition that you referred to earlier.

Speaker 2: With regard to how it impacts Our capital allocation priorities, it really doesn't that much. I think it gives us a better balance sheet, stronger balance sheet. It's over time allows us to be even more focused on what we think our role is To invest in our business, we have coming out of the last 3 or 4 years with the growth that we've Experience, we've got a lot of pent up demand for capital that is needed to continue to extend that growth for a number of years. Our concentrate plant business, which gets very little publicity, is at the core of the equation to be able to deliver a portfolio of quality beverages around the world, needs some investment. We're investing in a couple of new facilities around the world as an example.

Speaker 2: The IT work that we just talked about is another example that needs investment. So we're willing we want to invest in those areas that we believe are fundamental to sustain that growth equation. But some of the other priorities we've talked often about supporting the dividend, very important to a large shareholder base. The inorganic equation will always be on our agenda. The degree toggle up and down, the degree to which it plays a role in various chunks of our history.

Speaker 2: And share buybacks, we've talked about, has been an opportunity. We have As you well know, we have over the next year to 2 years, we have the IRS case that continues to Move along. We have a we feel good about the debt leverage that we have in place today to give us Options to manage a range of outcomes that may come at us. But overall, the overall set of priorities Don't change dramatically, and I don't expect them to change. I think the degree to which we toggle inside of them Over time, that's part of part and parcel of, I think, stewarding the business in the right manner going forward.

Speaker 1: Perfect. I'm just looking at the time. I think we're a few minutes over. But John, thank you very much for Sorry. No, no, not at all.

Speaker 1: It's Been a pleasure. I think we've coined system harmonization to take over system alignment. So thank you very much for for your time today. And thank you, everyone, online for listening. Hope you have a great Christmas period.

Speaker 1: And thanks, everyone, for joining.

Speaker 2: Thank you, Charlie. Great to see you.