

<b>Company: Coca-Cola Co Ticker: KO</b> Current price: \$60.76 Industry: Consumer Staples Sub-industry: Beverage, Non-Alcoholic			
Target Price: \$123	TTM P/E: 27.06	Beta: 0.55	Market Cap: \$257.45 B
Stop Loss: \$46.4	Forward P/E: 22.87	Credit Rating: BB+ (S&P)	Avg Vol: 13.30M
52 Week High/Low: \$67.2/\$52.28	EPS: \$0.64	Rating Outlook: Positive	Dividend Yield: 2.9%

**Company Background:**

The Coca-Cola Company is the world's largest nonalcoholic beverage company. Finished soft drink products bearing the company's trademarks have been sold in the U.S. since 1886 and are now sold in more than 200 countries. It owns or licenses more than 500 brands. The company employed approximately 79,000 people worldwide at year-end 2021, of whom 9,400 (~12%) were located in the U.S. and 700 were covered by collective bargaining agreements. KO's employee count was down from 80,300 at year-end 2020.

**Industry Outlook:**

In 2021, the industry posted its strongest sales growth in years, which was supported by unusually robust domestic Carbonated Soft Drink volumes (+3.1%), a category which has been in secular decline for several years. Soft drink companies have successfully passed through price increases to consumers (U.S. price realizations rose 8.0% in 2021), which we think reflects their strong brand values. Additionally, we view their generous dividends and more defensive characteristics positively in the current environment. On the negative side, we think rising input costs and the recent appreciation of the U.S. dollar relative to many other currencies could present a headwind, as beverage giants such as Coca-Cola and PepsiCo both generate a significant portion of total revenue outside the U.S. (66% for Coca-Cola and 44% for PepsiCo in 2021).

**Investment Thesis:**

We see revenue increases of roughly 12% in 2022, 2% in 2023, and 4% in 2024, following a 17.1% increase in 2021. The primary driver of the expected improvement in 2022 and 2023 are improvement in price/mix and to a lesser extent, volume, as on-premise sales continue to recover (e.g., restaurants, movie theaters, and event venues). We see stronger sales in emerging markets and newer products such as Coke Energy and AHA flavored sparkling water helping support sales.

We expect KO's adjusted operating margin to contract by 40 bps in 2022 from the 28.7% margin it posted in 2021, as inflationary pressures are partially offset by price increases, productivity improvements, and cost cuts. Over the last couple of years, one of KO's greatest headwinds has been unfavorable currency movement, but currency turned into a 2% earnings tailwind in 2021 and is expected to be a 9% headwind in 2022 due to a stronger U.S. dollar relative to other currencies.

We forecast adjusted EPS of \$2.50 in 2022, \$2.70 in 2023, and \$2.80 in 2024, up from \$2.32 in 2021 and \$1.95 in 2020. A recent dividend yield of roughly 3% augments KO's total return potential. KO is an S&P Dividend Aristocrat.

**3-5 take away from last quarter investor call transcript:**

- Coca-Cola has deep experience in markets, such as Latin America, that have experienced inflation for long periods. He said Coke's approach is 'keeping up to pace.' Whether the company sees an opportunity to reset relative pricing is much more of a long-term decision that is not particularly linked to the cost structure.
- Mr. Quincey (CEO) made the interesting observation that the company's ability to grow U.S. dollar EPS where foreign exchange pressure is in the high-single digits is a demonstration of the strength of the business.
- Mr. Quincey (CEO) later added that what might happen with foreign exchange next year is anyone's guess, but the company is very focused on continuing to grow EPS in U.S. dollars.

<b>Financial performance:</b>							<b>Discounted Cash Flow:</b>		
	2017	2018	2019	2020	2021	2022		2018-2022	2023-2031
Revenue	36,212	34,300	37,266	33,014	38,655	42,343	Avg Revenue Growth	9%	6%
Operating Profit	9,340	10,203	10,625	9,990	11,321	12,120	Avg Gross Margin	60.9%	58.5%
Net Income	1,248	6,476	8,985	7,768	9,804	9,965	Avg EBITDA Margin	32.2%	31.7%
Revenue Growth (%)	-	-2.4	9.17	-11.39	17.25	-	Avg NOPLAT Margin	-	-
EBITDA%	29.3	32.9	32.2	34.9	33.0	31.7	Avg FCF/Margin	24%	23.4%
Operating Profit %	-4.9%	-0.1%	3.0%	2.3%	3.5%	6.2%	Tax Rate	-	25%
Net Income Margin	3.4%	18.8%	23.9%	23.5%	25.3%	23.4%	WACC	-	3.6%
D/E	251.5%	232.2%	209.4%	208.7%	178.0%	168.6%	Perpetuity Growth Rate	-	3%
EPS	0.29	1.5	2.07	1.79	-	-	<b>Analyst Opinion</b>		
PE Ratio	21.4	24.12	22.65	25.92	26.19	24.40	Buy: _____	Hold: _____	Sell: _____
Current Ratio	1.3	0.9	0.8	1.3	1.1	1.1		Rating	Target
ROE	6.1%	34.1%	44.8%	36.7%	42.5%	41.0%	S&P Net Advantage	Buy	68
ROA	6.7%	7.5%	7.8%	7.2%	7.8%	8.3%	Bloomberg	Buy	68
Dividend/share	\$ 1.48	\$ 1.56	\$ 1.60	\$ 1.64	\$ 1.68	\$ 1.74	Yahoo Finance	Buy	67
FCF	1,689.5	12,447.9	7,242.6	7,789.8	9,293.6	9,916.0			

Relative Valuation												
Company Information		Financial Metrics			Valuation Metrics				Operational Metrics			
Ticker	Firm	Market Cap	BV of Equity	Total Assets	P/Sales	P/B	P/E	P/FCF	Gross Margin	EBIT Margin	ROE	ROA
KO	Coke	\$262,757.4 M	\$22,805.0 M	\$24,139.0 M	60.76	10.53	24	60.76	58.5%	28.6%	41%	8.3%
PEP	Pepsi	\$251,059.9 M	\$18,977.0 M	\$94,461.0 M	182.23	12.88	26.9	182.23	53.2%	15.1%	55.7%	8.4%
MNST	Monster Energy	\$49,284.9 M	\$6,809.2 M	\$8,175.0 M	93.54	7.10	40.06	93.54	51.8%	27.2%	19.3%	13.4%
KDP	Keurig Dr Pepper	\$56,080.4 M	\$25,102.0 M	\$4,325.0 M	39.55	2.15	23.38	39.55	52.1%	21.2%	7.4%	3.4%
Mean		\$154,795.65 M	\$18,423.30 M	\$32,775.00 M	94.02	8.165	28.585	94.02	53.90%	23.03%	30.85%	8.38%
Median		\$153,570.15 M	\$20,891.00 M	\$16,157.00 M	\$77.15	\$8.82	\$25.45	\$77.15	\$0.53	\$0.24	\$0.30	\$0.08

\*Industry Avg. includes companies listed

#### Total Return %

	KO	Industry Sec	S&P 500
YTD	4.85%	-3.36%	-17.15%
2021	11.53%	5.2%	-13.83%
Last 3 years	7.09%	9.11%	10.43%
Last 5 years	8.39%	9.54%	10.48%

#### CSR Characteristics

	KO	Industry
ESG Disclosure	22.79	23.88
Governance Disclosure Score	4.9	5.74
Social Disclosure Score	9.7	9.68
Environmental Disclosure Score	7.9	7.32

-Prepared by MSFRM Fund 2 10/29 /2023 using Bloomberg, S&P Net Advantage, Morningstar, Yahoo Finance