

**What's interesting about Coca-Cola is that for every dollar paid, nearly a quarter goes to profit**

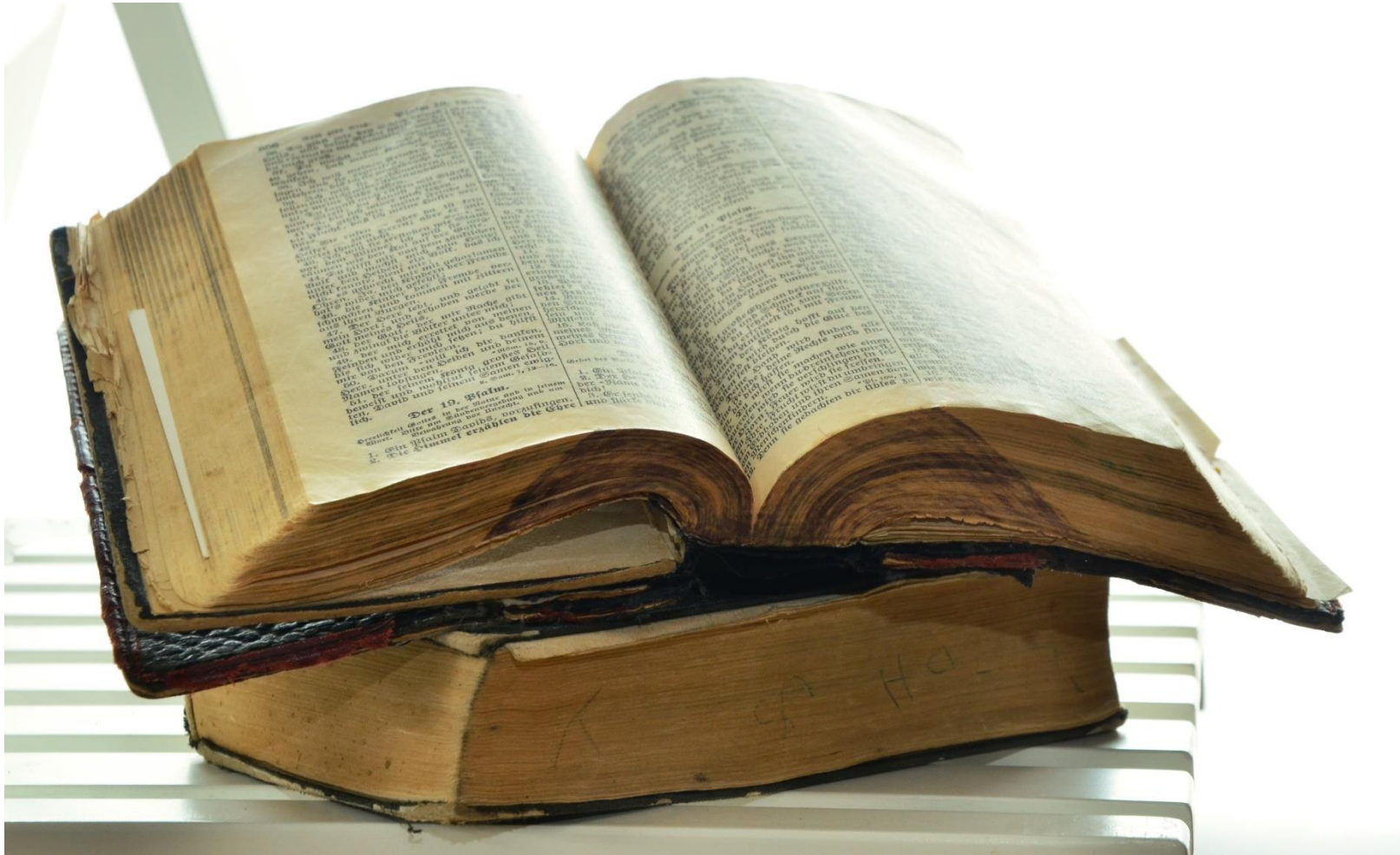


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**Andrew Stotz, PhD, CFA**

- 🌐 My name is Andrew Stotz, let's get into this case study!

# Company Background



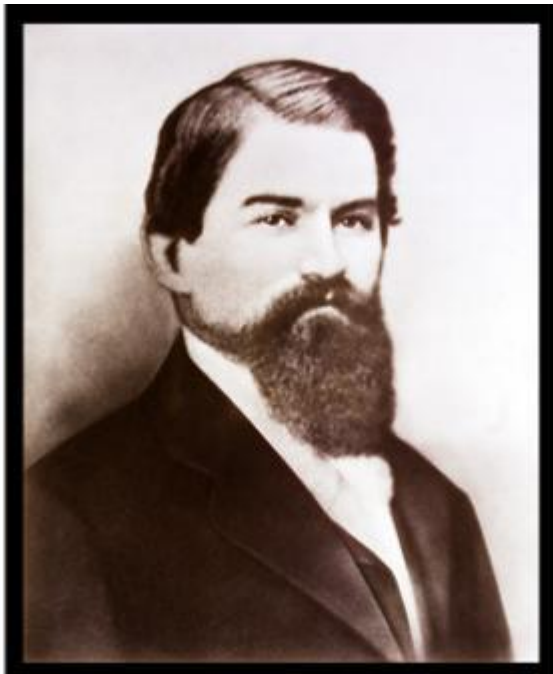
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# The Origin of Coca-Cola

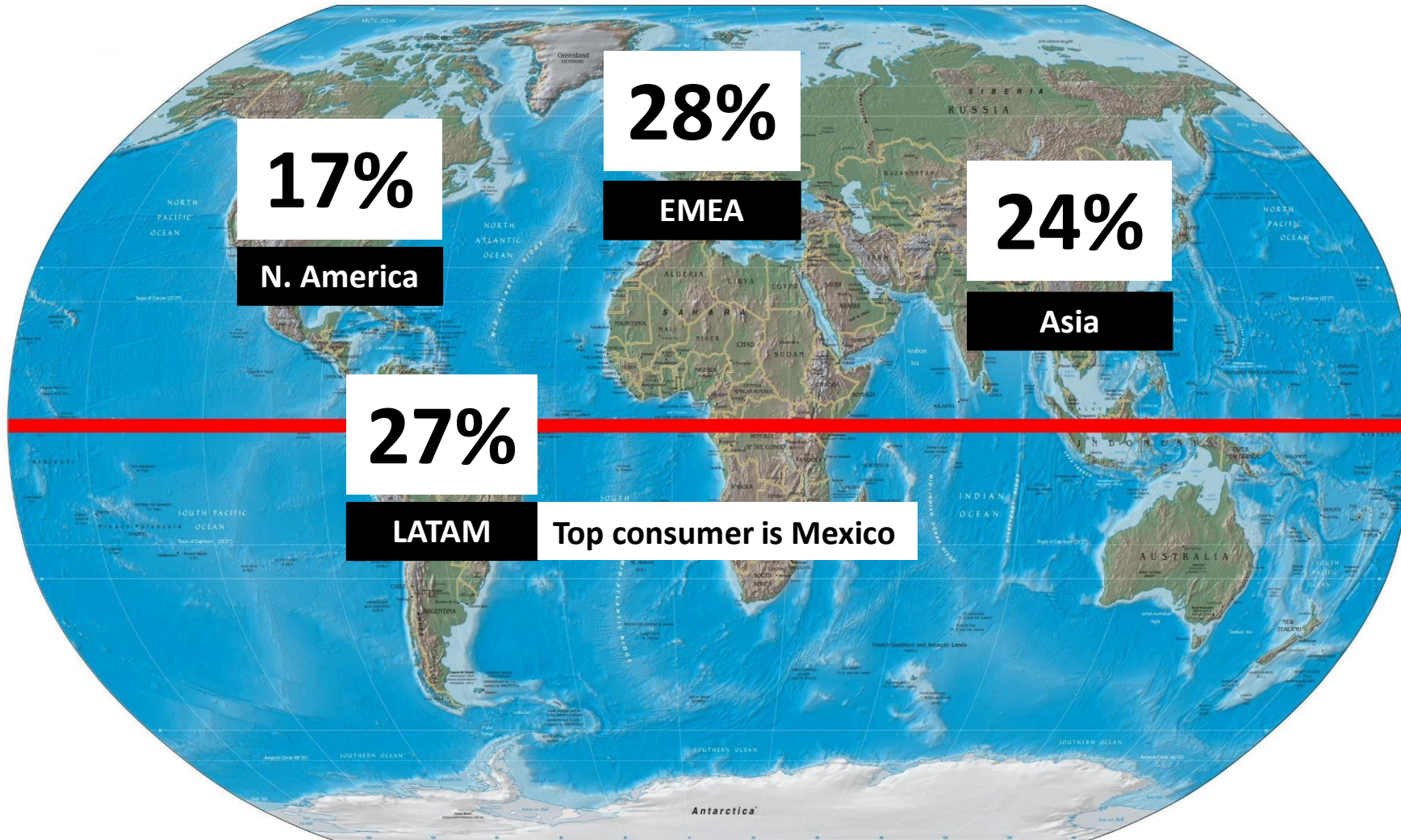
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- ★ Originated in Atlanta, USA
- ★ May 8, 1886
- ★ Dr. John Stith Pemberton – pharmacist



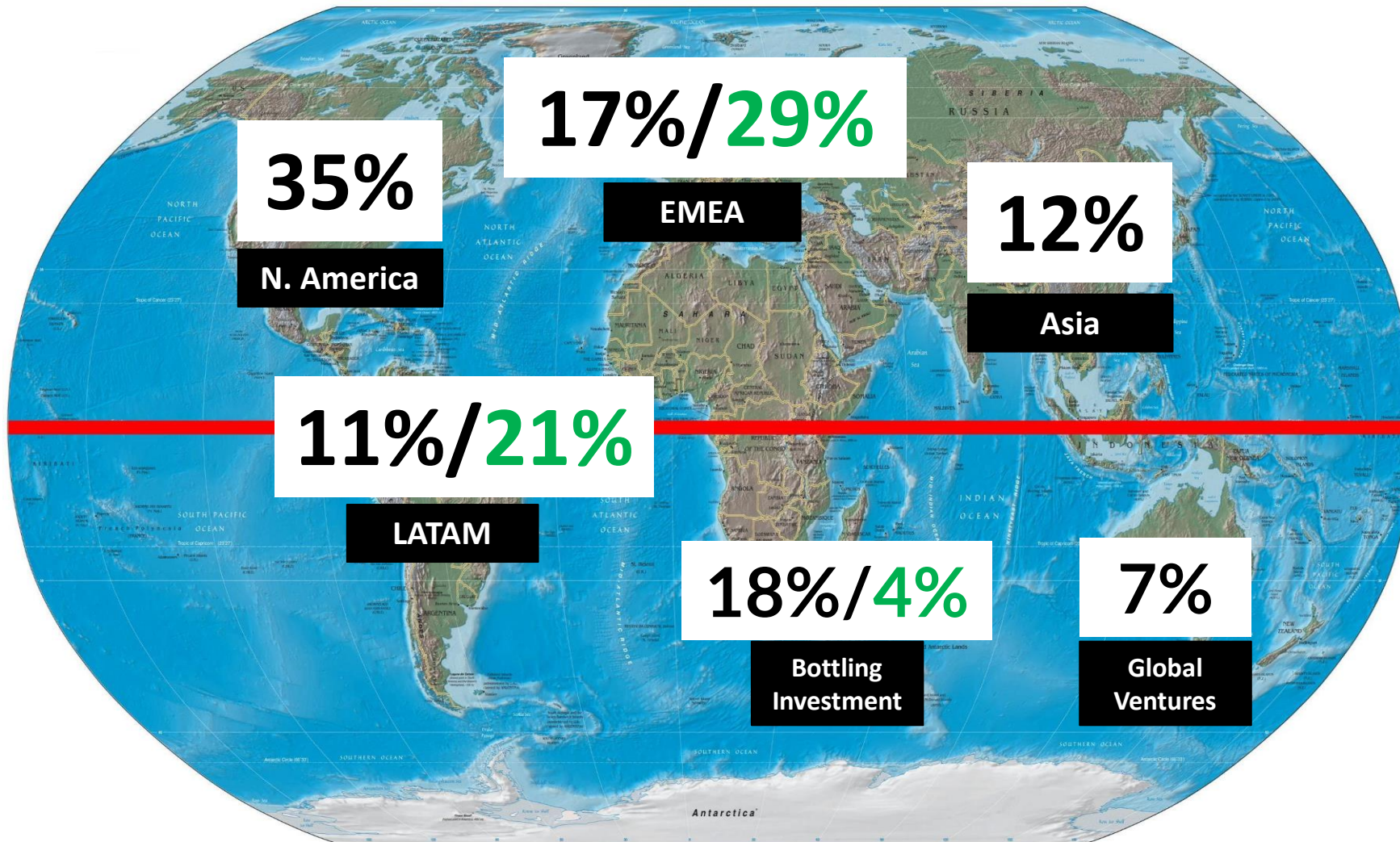


# Unit Case Volume 2022





# 2022 % of revenue (green color is % of profit)



# 2,800+ products available in 200+ countries

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THE *Coca-Cola* COMPANY

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# Costa Coffee

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- ★ A British multinational coffeehouse chain founded by Italian brothers Sergio and Bruno Costa in London in 1971
  - **They moved to England from Italy to bring high-quality coffee to the British public**
- ★ In 1978, they opened their first store to showcase their coffee to the public
- ★ In 1995, Costa was acquired by Whitbread, a British hospitality company that helped Cost expand in the UK and internationally



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# The old factory was in South London

Former Costa Roastery, 30-34 Old Paradise Street, London SE11 6AX

Park Side South London Development Opportunity

savills



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# The old factory was in South London

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# In January 2019, Whitbread sold Costa Coffee to The Coca-Cola Company

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- ★ The company now has nearly 4,000 Costa coffee shops and over 14,000 Costa Express self-serve coffee bars worldwide
- ★ Costa's portfolio also includes ready-to-drink and at-home coffee solutions



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## Costa Coffee Smart Café

Launched in the United States in 2022, the Costa Coffee Smart Café delivers a range of more than 200 drink options, from espresso to hot chocolate. These innovative touch-screen machines always use fresh milk and freshly ground Signature Blend beans.

# COMPETITIVE STRATEGY



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# Coca-Cola - US - Founded 1892

Cons. Staples sector, 86,200 employees, US\$33bn revenue

## Main segments/products

- Coca-Cola carbonated beverages
- Sprite lemon-lime soda
- Fanta fruit-flavored soft drinks

## Its competitive advantage

*Competitive advantage through **iconic brand recognition**, extensive global distribution network, and diverse portfolio of beverages.*

## How it achieved its competitive advantage

*Achieved by strategic marketing, brand management, **investing in bottling partners**, and continuous product innovation to meet evolving consumer preferences.*



# Why Coca-Cola is successful

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## ★ Sponsorship

- The Olympics' longest-running sponsors since 1928





# Why Coca-Cola is successful

## ★ Advertising campaigns

- The largest advertising budget of any beverage company

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## RAISING THE BAR IN MARKETING



# Why Coca-Cola is successful

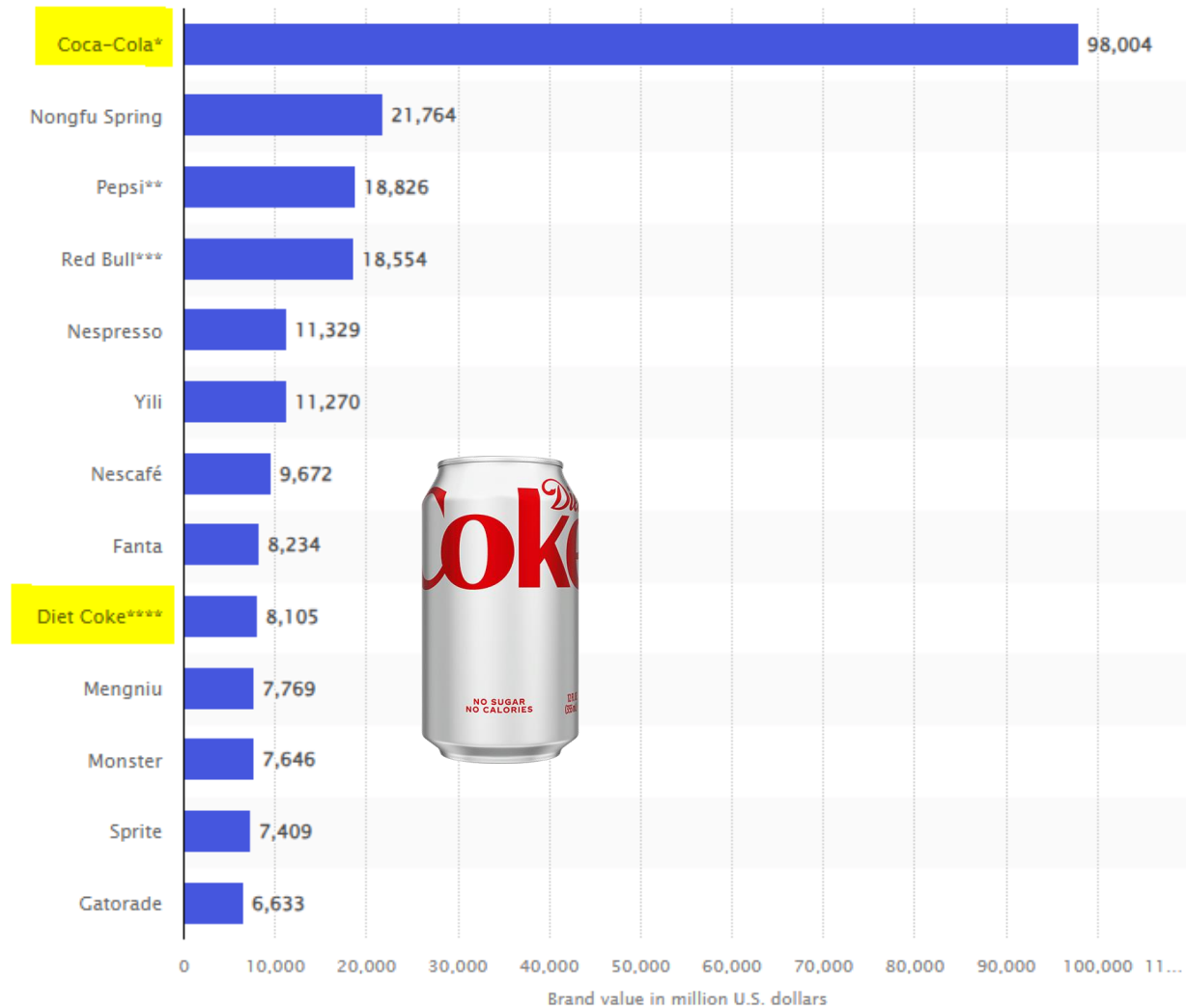
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- ★ Dominating in non-alcoholic beverages
  - Tops soft drink ranking
  - Most consumed soda in the world
  - **44%** market share of global sales in the non-alcoholic beverage industry





# The most valuable soft drink brand in the world by far, Diet Coke ranks 9<sup>th</sup>



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- 🌐 The Coca-Cola brand value is estimated to be US\$98bn in 2023
- 🌐 Including Diet Coke, it's US\$106bn
- 🌐 No.3 Pepsi (including Diets) is estimated to be worth US\$19bn



# Quarterly results



(US\$ m)	3Q22	4Q22	1Q23	2Q23	3Q23	YoY (%)	9M23	23E	% of 23E
Revenue	11,063	10,125	10,980	11,972	11,953	8.0	34,905	46,874	74.5
Cost of sales	(4,566)	(4,513)	(4,321)	(4,915)	(4,661)	2.1	(13,897)	(18,750)	74.1
<b>Gross profit</b>	<b>6,497</b>	<b>5,612</b>	<b>6,659</b>	<b>7,057</b>	<b>7,292</b>	<b>12.2</b>	<b>21,008</b>	<b>28,125</b>	<b>74.7</b>
SG&A	(3,279)	(3,431)	(3,185)	(3,321)	(3,667)	11.8	(10,173)	(14,062)	72.3
Other (exp)/inc	1	5	-	-	-	nm	-	2	-
<b>EBIT</b>	<b>3,219</b>	<b>2,186</b>	<b>3,474</b>	<b>3,736</b>	<b>3,625</b>	<b>12.6</b>	<b>10,835</b>	<b>14,064</b>	<b>77.0</b>
Finance cost	(198)	(304)	(372)	(374)	(368)	85.9	(1,114)	(845)	131.8
Other inc/(exp)	189	218	255	284	289	52.9	828	824	100.5
<b>Earnings before taxes</b>	<b>3,210</b>	<b>2,100</b>	<b>3,357</b>	<b>3,646</b>	<b>3,546</b>	<b>10.5</b>	<b>10,549</b>	<b>14,043</b>	<b>75.1</b>
Income tax	(622)	(444)	(940)	(359)	(454)	(27.0)	(1,753)	(2,495)	70.3
<b>Earnings after taxes</b>	<b>2,588</b>	<b>1,656</b>	<b>2,417</b>	<b>3,287</b>	<b>3,092</b>	<b>19.5</b>	<b>8,796</b>	<b>11,548</b>	<b>76.2</b>
Equity income	479	339	275	538	517	7.9	1,330	1,461	91.0
Minority interest	3	(25)	(6)	26	4	nm	24	(34)	(69.9)
<b>Earnings from cont. operations</b>	<b>3,070</b>	<b>1,970</b>	<b>2,686</b>	<b>3,851</b>	<b>3,613</b>	<b>17.7</b>	<b>10,150</b>	<b>12,975</b>	<b>78.2</b>
Forex gain/(loss) & unusual items	(245)	61	421	(1,304)	(526)	nm	(1,409)	(1,568)	89.9
<b>Net profit</b>	<b>2,825</b>	<b>2,031</b>	<b>3,107</b>	<b>2,547</b>	<b>3,087</b>	<b>9.3</b>	<b>8,741</b>	<b>11,407</b>	<b>76.6</b>
Recurring profit	3,019	1,983	2,791	3,651	3,534	17.1	9,976	12,661	78.8
EBITDA	4,005	2,832	4,035	4,555	4,432	10.7	13,022	16,955	76.8
Recurring EPS (US\$)	0.695	0.456	0.642	0.841	0.814	17.3	2.298	2.909	79.0
Reported EPS (US\$)	0.653	0.470	0.718	0.589	0.714	9.3	2.021	2.635	76.7
<b>Profits (%)</b>	<b>3Q22</b>	<b>4Q22</b>	<b>1Q23</b>	<b>2Q23</b>	<b>3Q23</b>	<b>Diff (%)</b>	<b>9M23</b>	<b>23E</b>	<b>Diff (%)</b>
Gross margin	58.7	55.4	60.6	58.9	61.0	2.3	60.2	60.0	(0.2)
Operating margin	29.1	21.6	31.6	31.2	30.3	1.2	31.0	30.0	(1.0)
Net margin	25.5	20.1	28.3	21.3	25.8	0.3	25.0	24.3	(0.7)

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- 🌐 KO reported 3Q23 recurring EPS of US\$0.81, which was +17.3% YoY and -3.2% QoQ
- 🌐 The 9M23 result was 79.0% of our full-year forecast





## Coca-Cola plans more price increases in 2023, leans on marketing to offset impact

15-Feb-2023 By Elizabeth Crawford

The Coca-Cola Co. plans to raise prices again in 2023 against some retailers' calls to roll back increases, arguing it has "earned the right to price with the consumers" through enhanced marketing and an agile packaging approach that balances premium and small entry-level, pack-sizes for broader consumer appeal.

[HTTPS://WWW.FOODNAVIGATOR-USA.COM/ARTICLE/2023/02/15/COCA-COLA-PLANS-MORE-PRICE-INCREASES-IN-2023-LEANS-ON-MARKETING-TO-OFFSET-IMPACT](https://www.foodnavigator-usa.com/Article/2023/02/15/coca-cola-plans-more-price-increases-in-2023-leans-on-marketing-to-offset-impact)

# COMPETITIVE ADVANTAGE



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**Is the company  
financially world class?**





Here's the method I use as  
an **investor** and **business**  
**owner** to measure whether  
a company has a  
**competitive advantage**

# The **World Class** **Benchmarking** score card we developed 10 years ago



# Here's how I construct the scorecard for any company

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- ★ We gather the yearly and quarterly financial data of 26,000 companies worldwide
- ★ We then calculate each company's **Profitable Growth** score
  - Which is a composite measure of both profitability and growth



# Here's how we construct the scorecard for any company

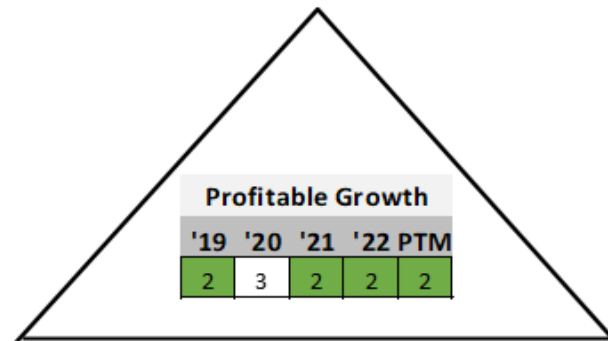
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- ★ After that, we rank the subject company relative to sector peers of similar size
  - Decile ranking is from **1 (best)** to **10 (worst)**
  - A score of **1 or 2** is financially world class
- ★ We assess the company's performance over the prior four years and the past 12 months (PTM)

**Is the company  
financially  
world class?**



**Andrew Stotz, PhD, CFA**



Benchmarked against 560 large Cons. Staples companies worldwide.



Source: A. Stotz Investment Research. Notes: 1 = top ranking and 10 = worst. Most recent year's data is based on the past 12 months (PTM) of published data.

# Compare net margins

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	Pepsi	
	US\$bn	
US\$bn	2021	2022
Revenue	79.5	86.4
Profit	7.6	8.9
<b>NPM (%)</b>	<b>9.6</b>	<b>10.3</b>



# Compare net margins

	Coca Cola		Pepsi	
	US\$bn		US\$bn	
US\$bn	2021	2022	2021	2022
Revenue	38.7	43.0	79.5	86.4
Profit	9.8	9.5	7.6	8.9
<b>NPM (%)</b>	<b>25.3</b>	<b>22.2</b>	<b>9.6</b>	<b>10.3</b>

**Is your company financially  
world class?**

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**Just message me, and I'll  
score your company**



# VALUATION



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# Free cash flow



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(YE Dec, US\$ m)	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
EBIT	9,824	11,154	12,127	14,064	15,047	15,027	15,628	16,253
<i>Est tax rate (%)</i>	23	24	21	20	20	20	18	18
<b>NOPAT</b>	<b>7,605</b>	<b>8,493</b>	<b>9,622</b>	<b>11,251</b>	<b>12,038</b>	<b>12,022</b>	<b>12,815</b>	<b>13,327</b>
Add: Depre & amort	1,536	1,452	1,260	1,430	1,495	1,554	1,608	1,656
<b>Cash NOPAT</b>	<b>9,141</b>	<b>9,945</b>	<b>10,882</b>	<b>12,682</b>	<b>13,532</b>	<b>13,576</b>	<b>14,423</b>	<b>14,983</b>
Chg in A/R	827	(368)	25	(419)	(273)	(293)	(179)	(186)
Chg in inventory	113	(148)	(819)	(194)	(310)	(272)	(200)	(208)
Chg in oth curr asst	(30)	(1,078)	(246)	428	(197)	(211)	150	(123)
Chg in A/P	(1,253)	3,505	1,123	582	1,043	1,968	716	745
Chg in oth curr liabs	1,460	(133)	524	174	197	211	129	134
<b>Less: Chg in work cap</b>	<b>1,117</b>	<b>1,778</b>	<b>607</b>	<b>570</b>	<b>459</b>	<b>1,404</b>	<b>616</b>	<b>362</b>
Less: CAPEX	(988)	(1,259)	(1,409)	(2,718)	(2,322)	(2,420)	(2,121)	(2,203)
Less: Chg in invest cap								
<b>Free cash flow to firm</b>	<b>9,270</b>	<b>10,464</b>	<b>10,080</b>	<b>10,534</b>	<b>11,670</b>	<b>12,560</b>	<b>12,918</b>	<b>13,142</b>
<i>FCF per share (US\$)</i>	2.1	2.4	2.3	2.4	2.7	2.9	3.0	3.0
<i>NOPAT growth (%)</i>	(11.2)	11.7	13.3	16.9	7.0	(0.1)	6.6	4.0
<i>FCF growth (%)</i>	(9.3)	12.9	(3.7)	4.5	10.8	7.6	2.8	1.7

# Discounted cash flow analysis

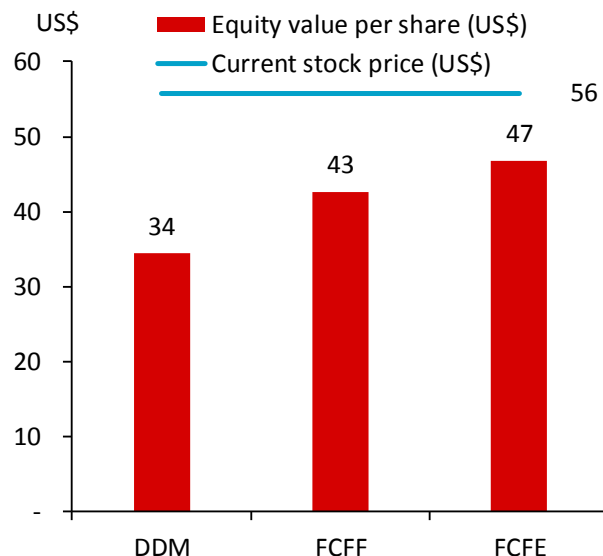
## Calculation of cost of equity (COE, %) Estimate

<b>Market: United States of America</b>	
Market risk-free rate	3.5
Market equity risk premium	8.0
<b>Market return</b>	<b>11.5</b>
Company beta (x)	0.8
<b>COE</b>	<b>9.5</b>

## Calculation of WACC Average

Cost of debt	2.7
Average tax rate	19.2
<b>After tax cost of debt</b>	<b>2.2</b>
<b>Cost of preferred stock</b>	<b>-</b>
Debt as a % of total capital	18.0
Preferred stock as a % of total capital	-
Equity market value as a % of total capital	82.0
<b>Weighted average cost of capital</b>	<b>8.2</b>

<b>KO: Valuation (US\$ m)</b>	<b>DDM</b>	<b>%</b>	<b>FCFF</b>	<b>%</b>	<b>FCFE</b>	<b>%</b>
PV of cash flow in years 2023-27	36,021	24	47,623	26	44,264	22
PV of fade period	50,704	34	61,888	33	56,271	28
PV of terminal value	63,358	42	87,140	47	73,299	36
<b>Present value of future cash flows</b>	<b>150,084</b>	<b>100</b>	<b>196,652</b>	<b>106</b>	<b>173,834</b>	<b>85</b>
Add: Cash & ST investments	na*	-	11,631	6	11,631	6
Add: Long-term investments	na	-	18,264	10	18,264	9
<b>Corporate value</b>	<b>150,084</b>	<b>100</b>	<b>226,547</b>	<b>122</b>	<b>203,729</b>	<b>100</b>
Less: Total debt, preferred stock & minorities	na	-	(40,870)	(22)	na	-
<b>Shareholder value</b>	<b>150,084</b>	<b>100</b>	<b>185,677</b>	<b>100</b>	<b>203,729</b>	<b>100</b>
Number of shares (m)	4,353		4,353		4,353	
<b>Equity value per share (US\$)</b>	<b>34</b>		<b>43</b>		<b>47</b>	



# Multiple valuation



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PE ratio (x)	2021A	2022A	2023E	2024E
KO	27.9	23.4	19.2	18.0
USA	22.3	19.2	18.9	17.7
Asia ex Japan	25.6	25.0	24.8	20.4
World	21.9	19.2	18.8	17.4

## EPS growth (%)

KO	22.1	13.3	15.6	6.3
USA	11.8	6.4	1.7	6.9
Asia ex Japan	0.0	(8.1)	0.6	21.5
World	10.2	7.2	2.1	8.3

PB ratio (x)	2021A	2022A	2023E	2024E
KO	11.7	10.6	9.3	8.6
USA	6.4	5.6	5.2	4.8
Asia ex Japan	3.7	3.3	3.2	2.9
World	4.2	3.9	3.8	3.5

## ROE (%)

KO	46.2	40.5	45.6	45.7
USA	28.9	29.0	27.6	27.0
Asia ex Japan	14.4	13.4	12.8	14.4
World	19.3	20.6	20.1	20.3

# What is your company worth?

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Message me, and let's discuss  
the value of your company

