

# What **Really** Drives Coca-Cola's **Revenue**— It's Not **Soda**!

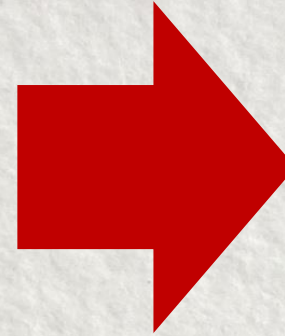


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VALUATION MASTER CLASS

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**Welcome to this...**



**Click the link in the description to get my top 500 global companies cheat sheet**



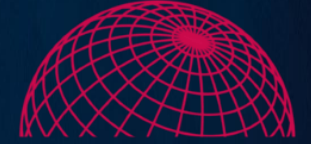
**Valuation Master Class**



# In this video you will learn

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- ★ Coca-Cola's response to the decline in sugary beverage consumption
- ★ That Coca-Cola sells 2.2bn+ products daily, most revenue comes from elsewhere
- ★ The risks Coca-Cola faces as it may have reached peaks in price, margins, and growth
- ★ Coca-Cola's potential based on my cheat sheet for assessing any stock's attractiveness



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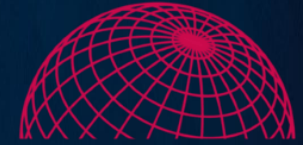
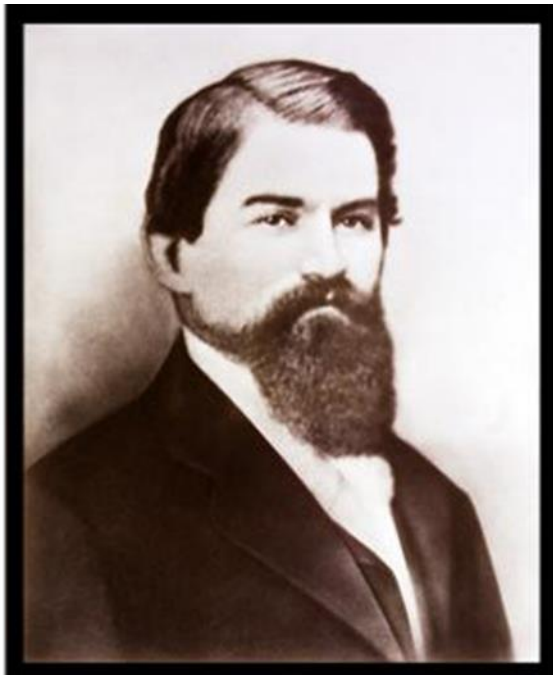
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- 🌐 What is the company's background?
- 🌐 What is its competitive strategy?
- 🌐 Does that strategy lead to a competitive advantage?
- 🌐 What does the valuation look like?

# Coca-Cola revolutionized beverages

- ★ Founded in 1886 by Dr. John Pemberton in Atlanta, Coca-Cola is one of the most iconic beverage companies globally



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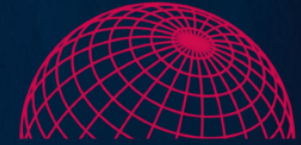
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# Known for its flagship product - Coca-Cola

- ★ The company now offers a diverse range of 3,600+ beverages under 500+ brands in 200+ countries



THE *Coca-Cola* COMPANY



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# Ranked the world's most valuable non-alcoholic drinks brand in 2023 by Brand Finance

Position	Logo	Brand	Brand Value (US\$bn)
1		Coca-Cola	35.0
2		Pepsi	20.2
3		Red Bull	8.3
4		Nongfu Spring	8.3
5		Monster	7.4
6		Gatorade	5.4
7		Dr Pepper	4.7
8		Sprite	4.5
9		Nescafé	4.4
10		Nespresso	2.5

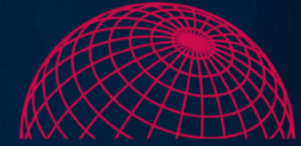


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# Coca-Cola timeline

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- ★ 1916 – Iconic contour bottle
  - The uniquely shaped Coca-Cola bottle is introduced and becomes a design icon
- ★ 1941 – “Coke” trademark
  - The term “Coke” debuts in advertising and becomes a registered trademark in 1945
- ★ 1955 – Partnership with McDonald’s
  - To sell branded soft drinks, marking a historic collaboration



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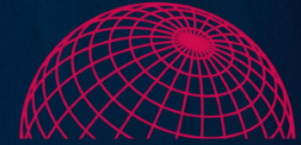




# Coca-Cola timeline

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- ★ 1960 – Minute Maid acquisition
  - Enters the citrus juice market by acquiring Minute Maid
- ★ 1961 – Launch of Sprite
- ★ 1978 – Entry into China
  - Becomes the only company allowed to sell cold packaged beverages in China experiencing significant growth in sales
- ★ 1982 – Diet Coke debut
  - Launches a groundbreaking low-calorie soda



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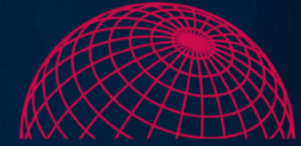
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# Coca-Cola timeline

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- ★ 1985 – New Coke was introduced
  - The company received consumer backlash and requests to bring back Coca-Cola Classic
- ★ 2005 – Coca-Cola Zero
  - Introduced a zero-calorie alternative with the taste of regular Coca-Cola
- ★ 2019 – Costa Coffee acquisition
  - Enters the coffee market by acquiring Costa Coffee



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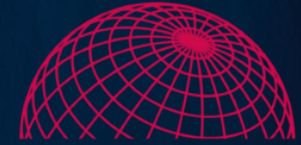
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# In this video you will learn

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- ★ Coca-Cola's response to the decline in sugary beverage consumption
- ★ That Coca-Cola sells 2.2bn+ products daily, most revenue comes from elsewhere
- ★ Identify the risks Coca-Cola faces as it may have reached peaks in price, margins, and growth
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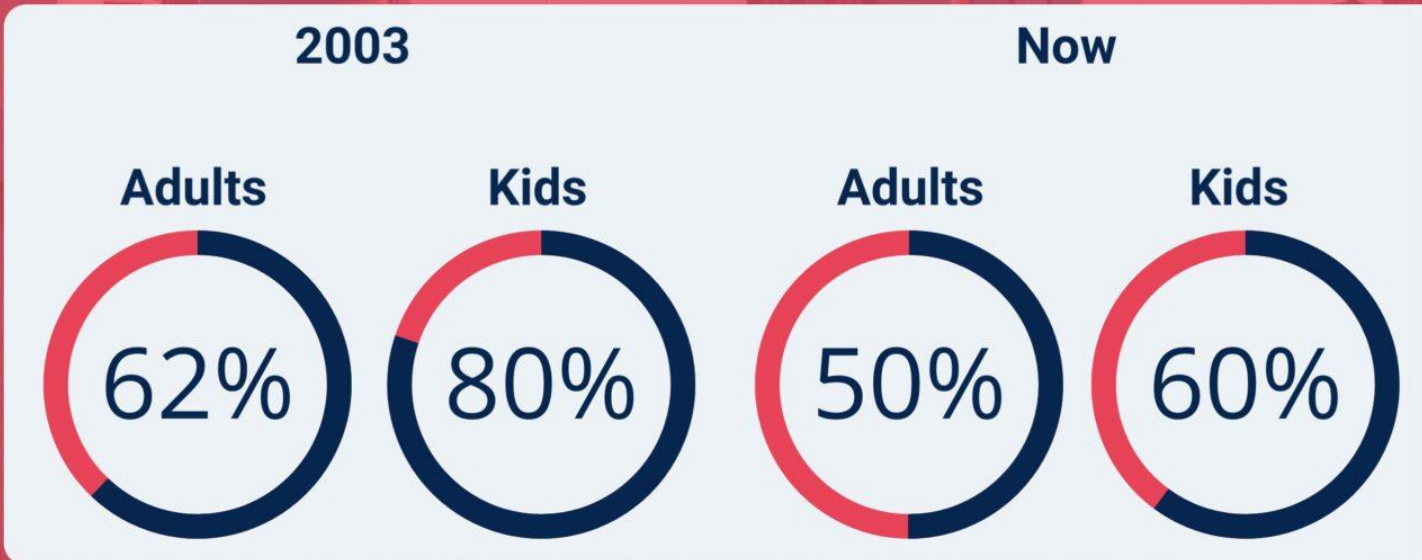
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# Decline in sugary beverage consumption

## Sugary Beverages are on a Decline



scottmax.com



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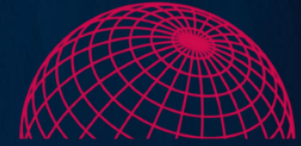
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- 🌐 In 2003, a staggering 62% of American adults and 80% of American children consumed sugary beverages daily
- 🌐 Fast forward to 2024, those numbers have dropped to 50% of adults and 60% of children

# Decline in sugary beverage consumption

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- ★ Coca-Cola recognizes that relying solely on sugary drinks is unsustainable due to the global obesity crisis, increasing demand for healthier alternatives, and shifting consumer preferences influenced by social media
- ★ Higher taxes on sugary drinks further discourage soft drink consumption



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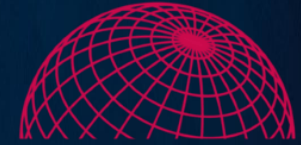
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# Coca-Cola's strategic response

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- ★ Coca-Cola acquired Topo Chico, a premium sparkling water brand, in 2017 under its Venturing & Emerging Brands unit
- ★ This venture aims to identify and grow emerging brands with billion-dollar potential
- ★ Bottled water consumption is rising as customers shift away from calorie-dense beverages



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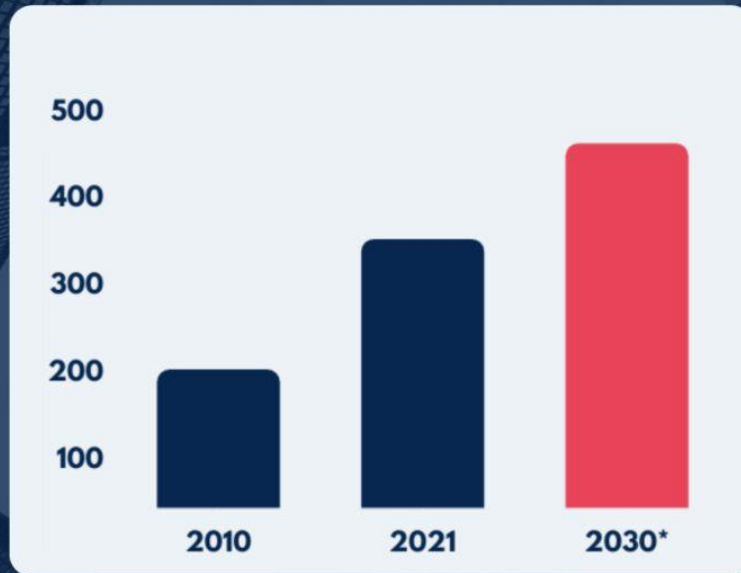
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# Coca-Cola's strategic response

## Water Market is Expected to Grow up to 460 Billion by 2030



scottmax.com



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- 🌐 The move into sparkling water and bottled water aligns with global health trends and positions Coca-Cola for future growth

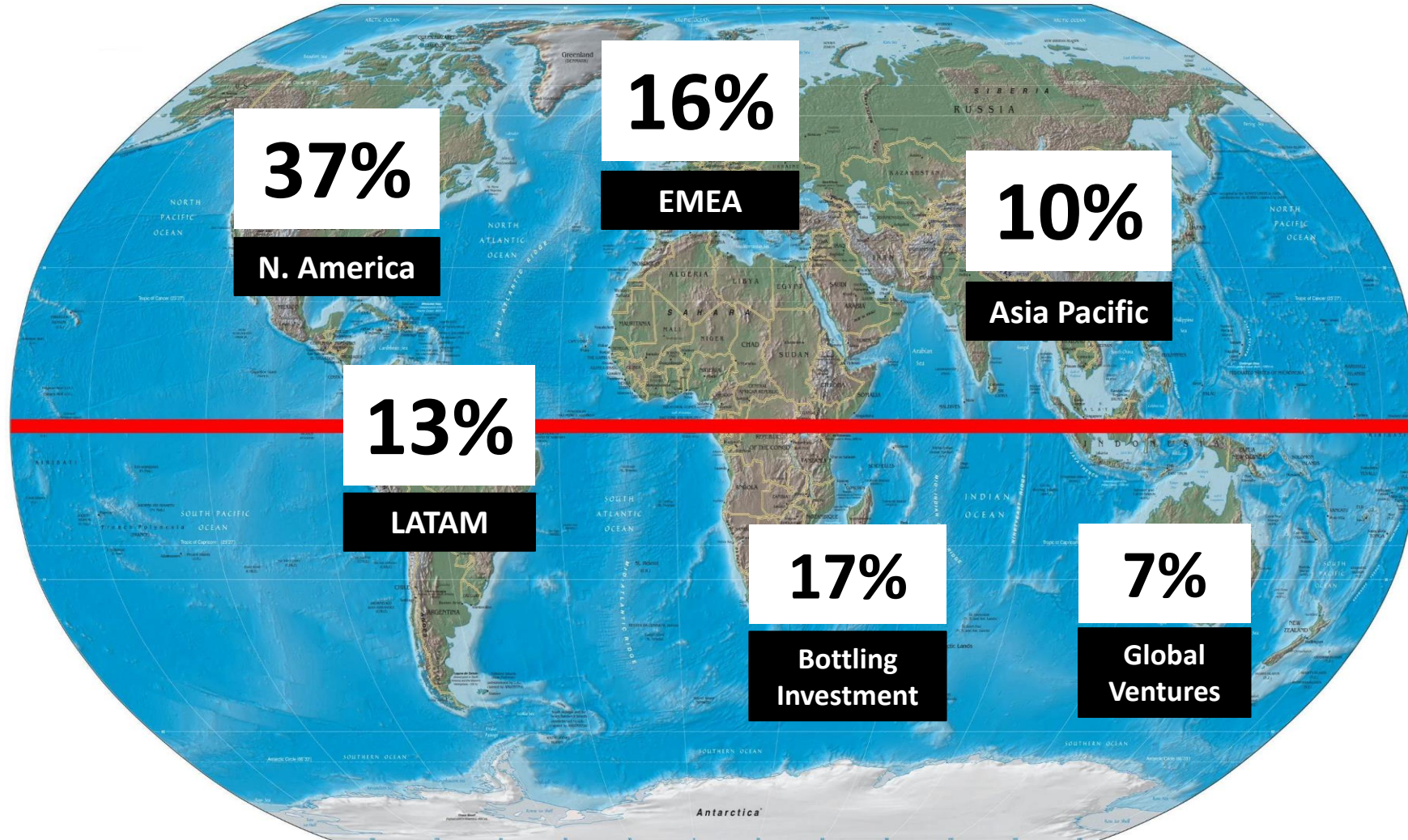
# Coca-Cola's strategic response

- ★ Coca-Cola has also expanded into new beverage categories by acquiring brands such as Fairlife (dairy drinks), Costa Coffee (café), BodyArmor (sports drinks), Mojo (kombucha), Tropicana (fruit juice) and Made Group (smoothies)
- ★ By expanding into healthier and innovative beverage options, Coca-Cola aims to adapt to evolving consumer demands while maintaining profitability





# North America is the largest segment according to contribution to total revenue



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- Per capita soft drink consumption in countries like China, India, and Brazil is still significantly lower than in developed nations, offering considerable growth potential for Coca-Cola



# To recap

- Coca-Cola is diversifying into various segments to cope with declining demand for sugary beverages
- There is room to grow in countries like China, India, and Brazil



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# Coca-Cola - US - Founded 1892

Cons. Staples sector, 86,200 employees, US\$46bn revenue

## Main segments/products

- Sparkling soft drink brands
- Water, sports, coffee and tea brands
- Juice, dairy, and plant-based beverage brands

## 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 and brand management, selling concentrates and syrups, investing in bottling partners and continuous product innovation and diversification*



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# The largest advertising budget of any beverage company



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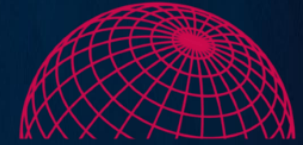
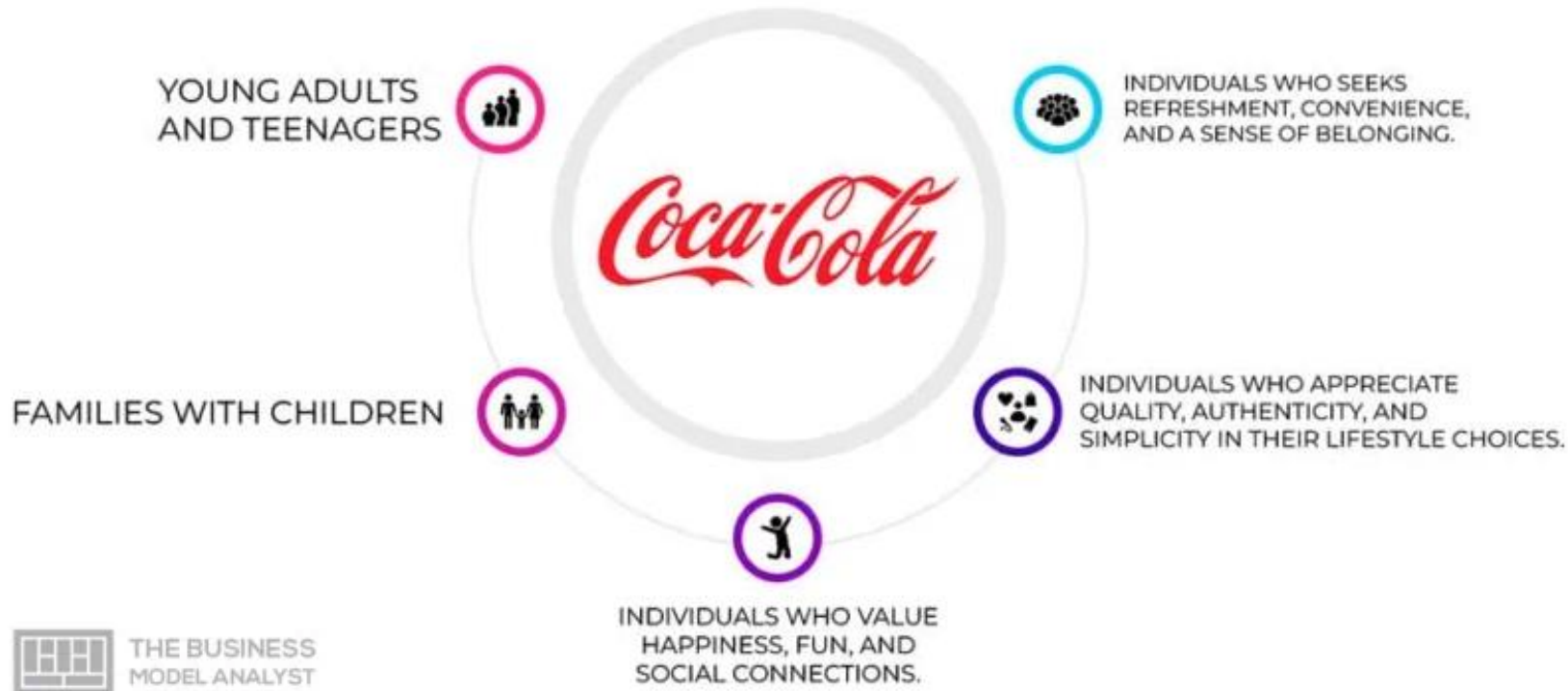
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- Its ad campaigns emphasize happiness, togetherness, and nostalgia, focusing on creating memorable connections with consumers

# Large target audience

## WHO IS COCA COLA TARGET AUDIENCE?



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- 🌐 Coca-Cola's marketing strategy centers around creating a robust and enduring brand image that resonates with people of all ages, cultures, and backgrounds

# Coca-Cola partners with Jack Daniel's to tap into the emerging ready-to-drink alcohol business

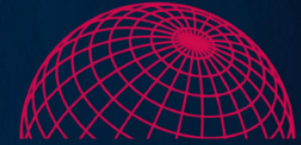


  
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# Strategic partnerships with the FIFA World Cup and the Olympics boost brand visibility



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- ★ Coca-Cola's response to the decline in sugary beverage consumption
- ★ That Coca-Cola sells 2.2bn+ products daily, most revenue comes from elsewhere
- ★ Identify the risks Coca-Cola faces as it may have reached peaks in price, margins, and growth
- ★ Evaluate Coca-Cola's potential using my cheat sheet for assessing any stock's attractiveness



# This franchise model has been central to Coca-Cola's business for over 125 years

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- ★ Coca-Cola began selling concentrate instead of the finished drink in 1899
- ★ It signs bottling agreements and produces and sells the concentrate to bottlers
- ★ Bottlers handle the production, packaging, and distribution of the final product
- ★ Coca-Cola retains control over consumer brand marketing, ensuring consistent brand messaging and leveraging economies of scale



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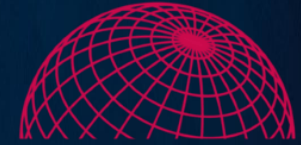
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# Coca-Cola generated US\$46bn in revenue in 2023

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- ★ Only 42% of sales came from finished products
- ★ The majority—58% of sales—comes from selling concentrates, a core aspect of its business model
- ★ Coca-Cola's concentrate and syrup segment involves selling pre-flavored mixtures that can produce hundreds of servings when combined with water and carbonation at any time



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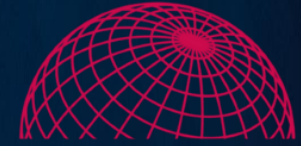
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# Brilliant idea

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- ★ This method saves the cost of shipping water (which makes up 80% of most beverages)
- ★ The gross margins on concentrates are typically 60%-80% compared to 30%-40% on finished beverages
- ★ Coca-Cola only provides the essential flavorings and intellectual property while leaving the expensive bottling and distribution processes to franchisees



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# I worked as a supervisor at Pepsi from 1989 to 1992



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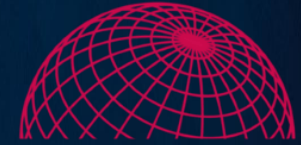
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# Bottling partners

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- ★ Bottling businesses generate 4-5x more revenue per drink sold, but they come with significantly higher costs due to the need for manufacturing, packaging, and distribution of finished products
- ★ Coca-Cola is undergoing a strategic restructuring to enhance profitability by shifting its focus away from the capital-intensive bottling business



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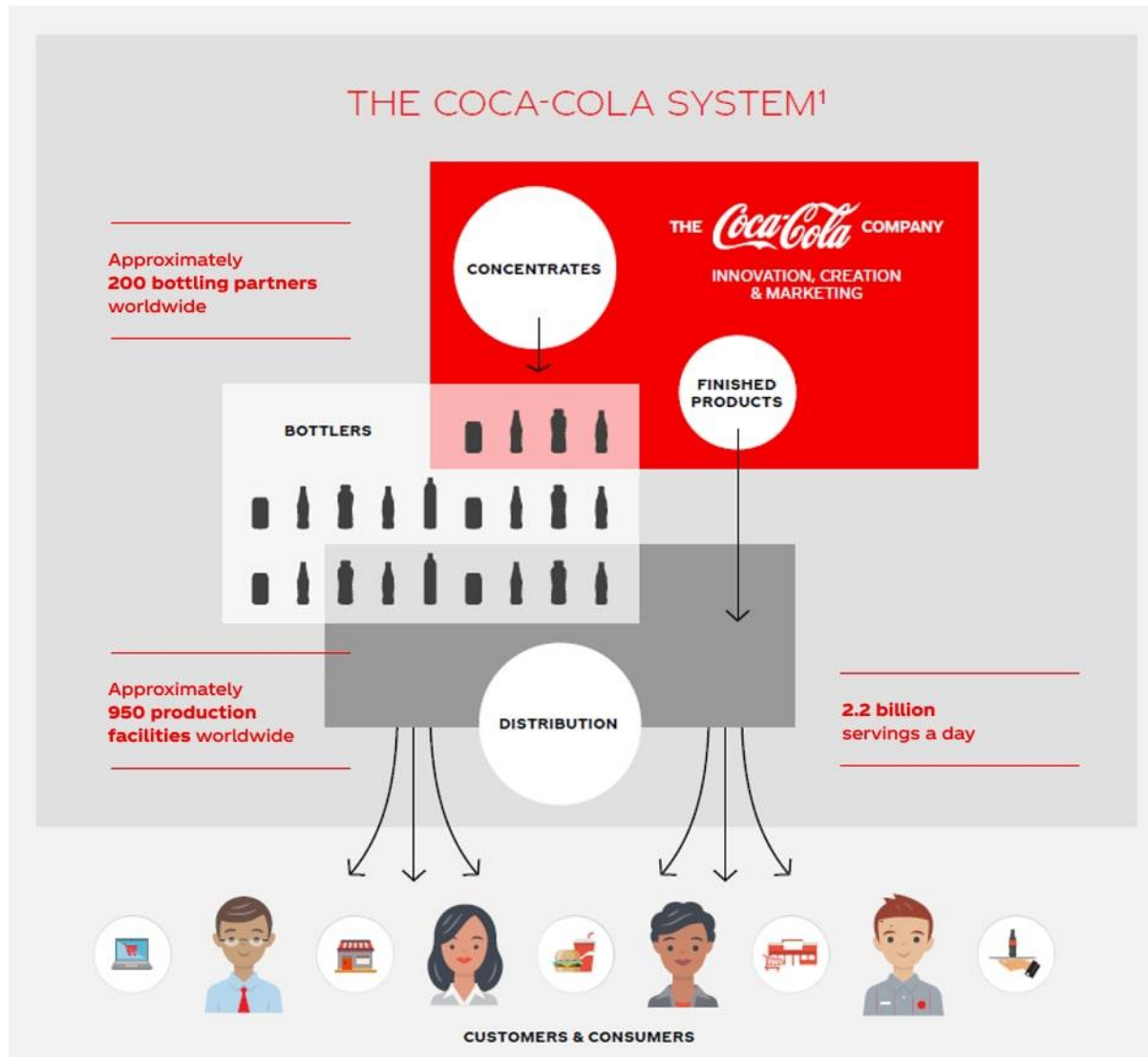
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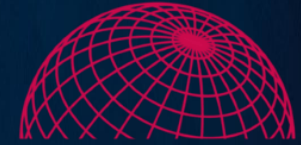


# Bottling partners



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Sources: trefis.com, finance.Yahoo.com



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- By shifting this responsibility to independent bottlers, Coca-Cola minimizes its overhead while still earning high-margin revenue from selling concentrates, which bottlers use to produce the final beverages



# To recap

- Coca-Cola has a large target audience
- High margins from selling concentrates and syrups
- Outsourcing bottling business to franchisees to save costs



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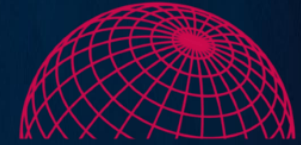
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**Is the company  
financially world class?**



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# I use my **World Class Benchmarking** scorecard to measure if a company has a **competitive advantage**



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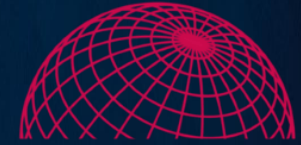
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# I developed this scorecard ten years ago; here's how we construct it

---

- ★ My team gathers 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



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# I developed this scorecard ten years ago; here's how we construct it

---

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

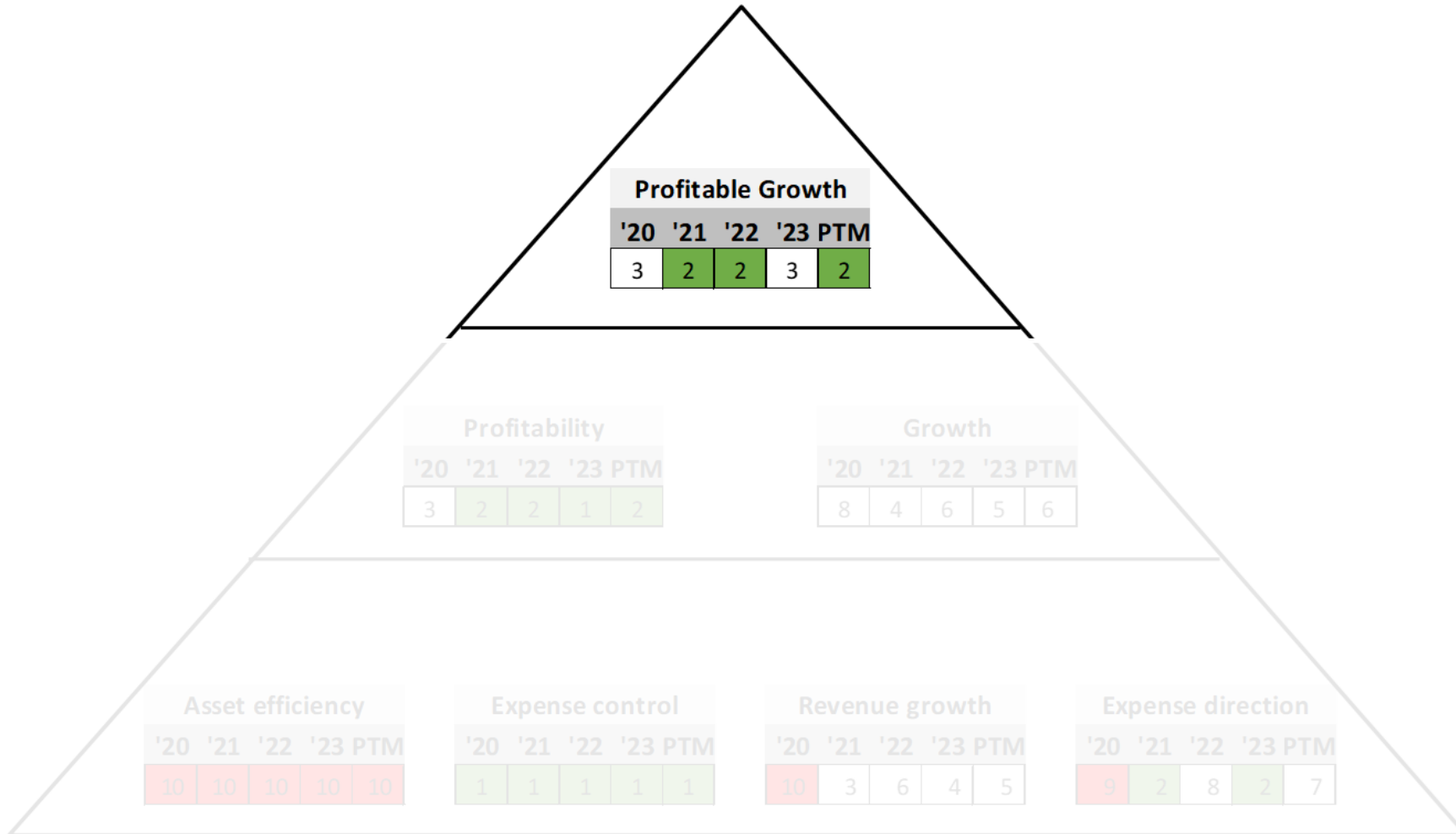


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**Is the company  
financially  
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# Coca Cola: A. Stotz Profitable Growth



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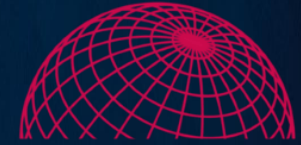
Benchmarked against 550 large Cons. Staples companies worldwide.

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Sources: 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

	Coca-Cola	
	US\$bn	
	2022	2023
Revenue	43.0	46.0
Net Profit	9.5	10.7
<b>NPM (%)</b>	<b>22.2</b>	<b>23.3</b>



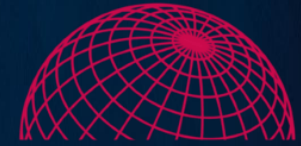
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# Compare net margins

	Coca-Cola		PepsiCo	
	US\$bn		US\$bn	
	2022	2023	2022	2023
Revenue	43.0	46.0	86.4	92.0
Net Profit	9.5	10.7	8.9	9.1
<b>NPM (%)</b>	<b>22.2</b>	<b>23.3</b>	<b>10.3</b>	<b>9.9</b>



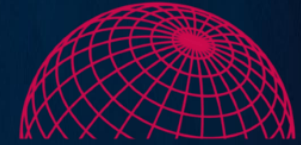
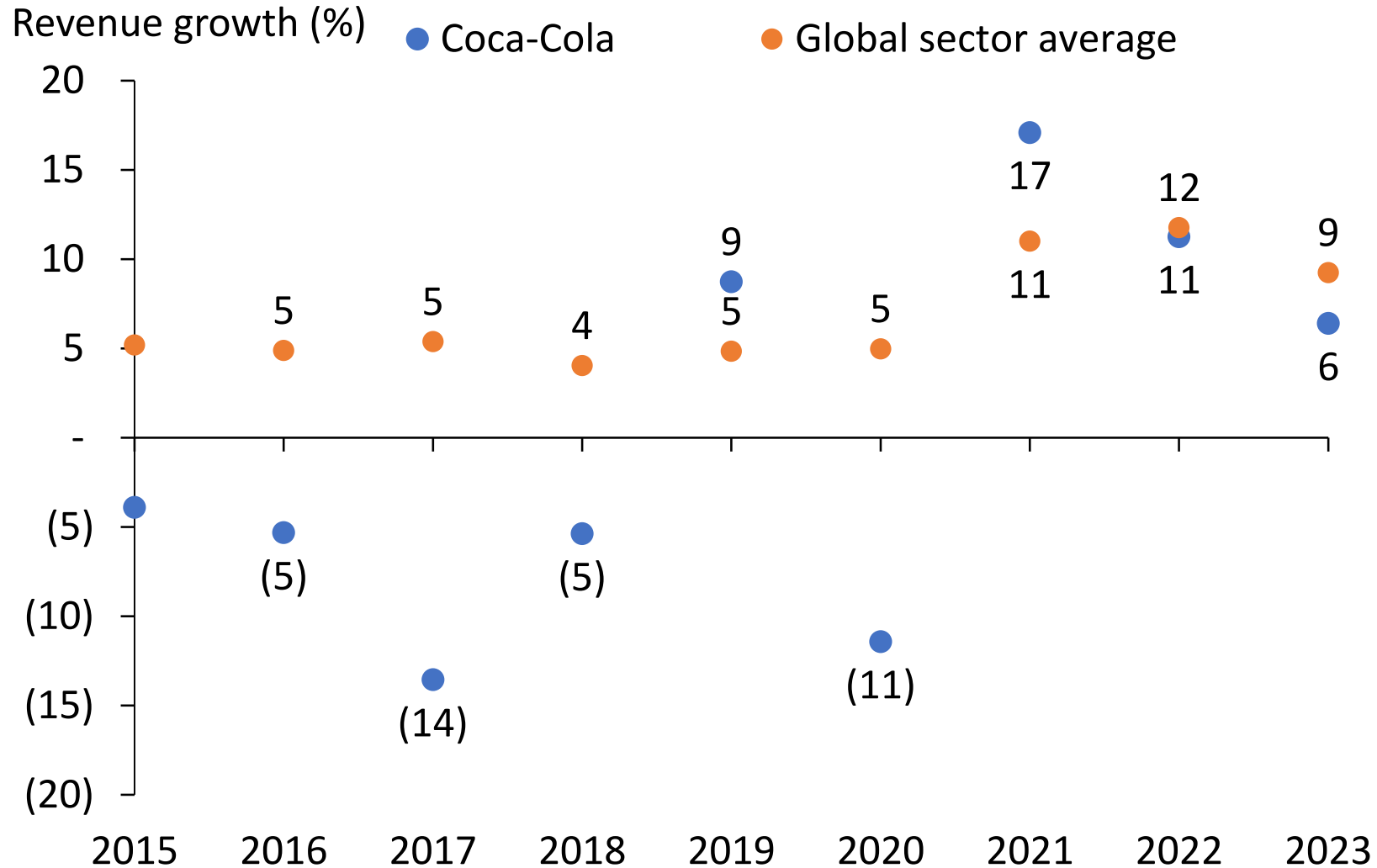
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# Revenue CAGR of (0.1)% from 2015 to 2023, 7 percentage points below global sector average



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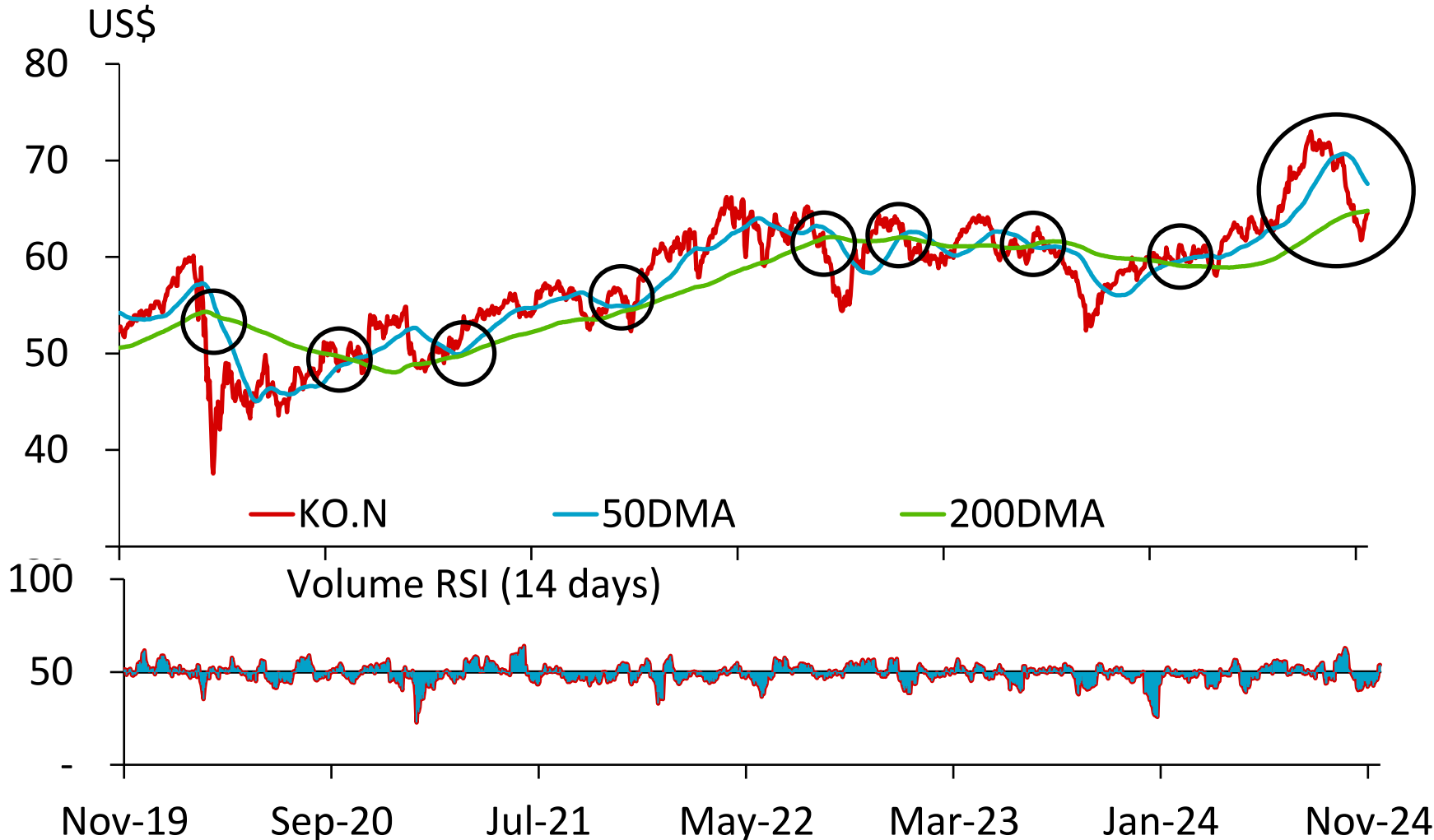
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# Coca-Cola's recent positive momentum could be peaking



Andrew Stotz, PhD, CFA

- There are multiple crossings between 50DMA and 200DMA reflecting shifts between bullish and bearish sentiment
- Slight dip after November peak shows short-term resistance
- Volume RSI hovers around 50



# In this video you will learn

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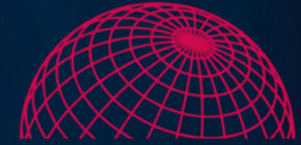
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I use my **FVMR** methodology  
to determine the  
**attractiveness** of the  
company

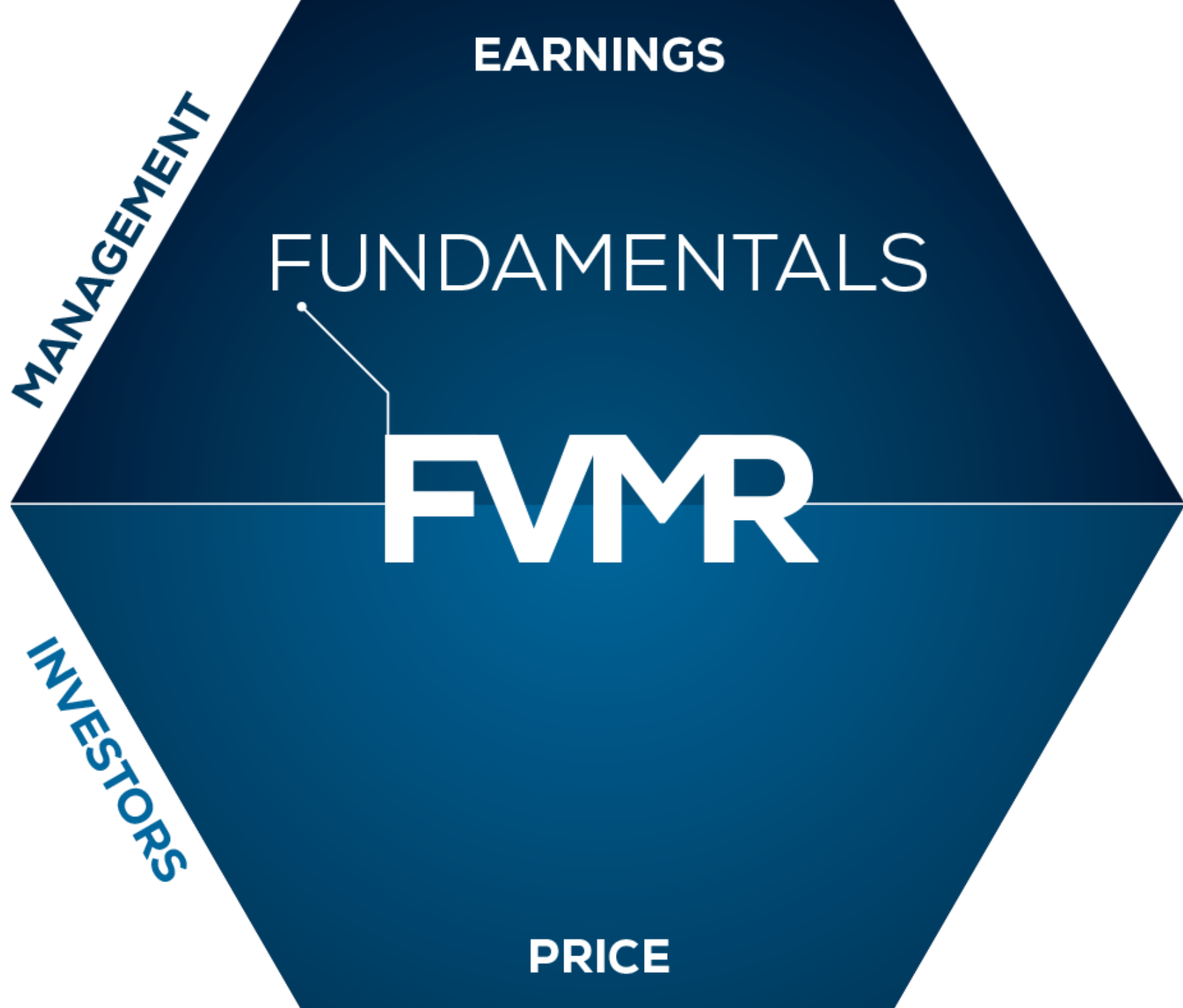


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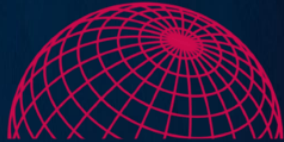
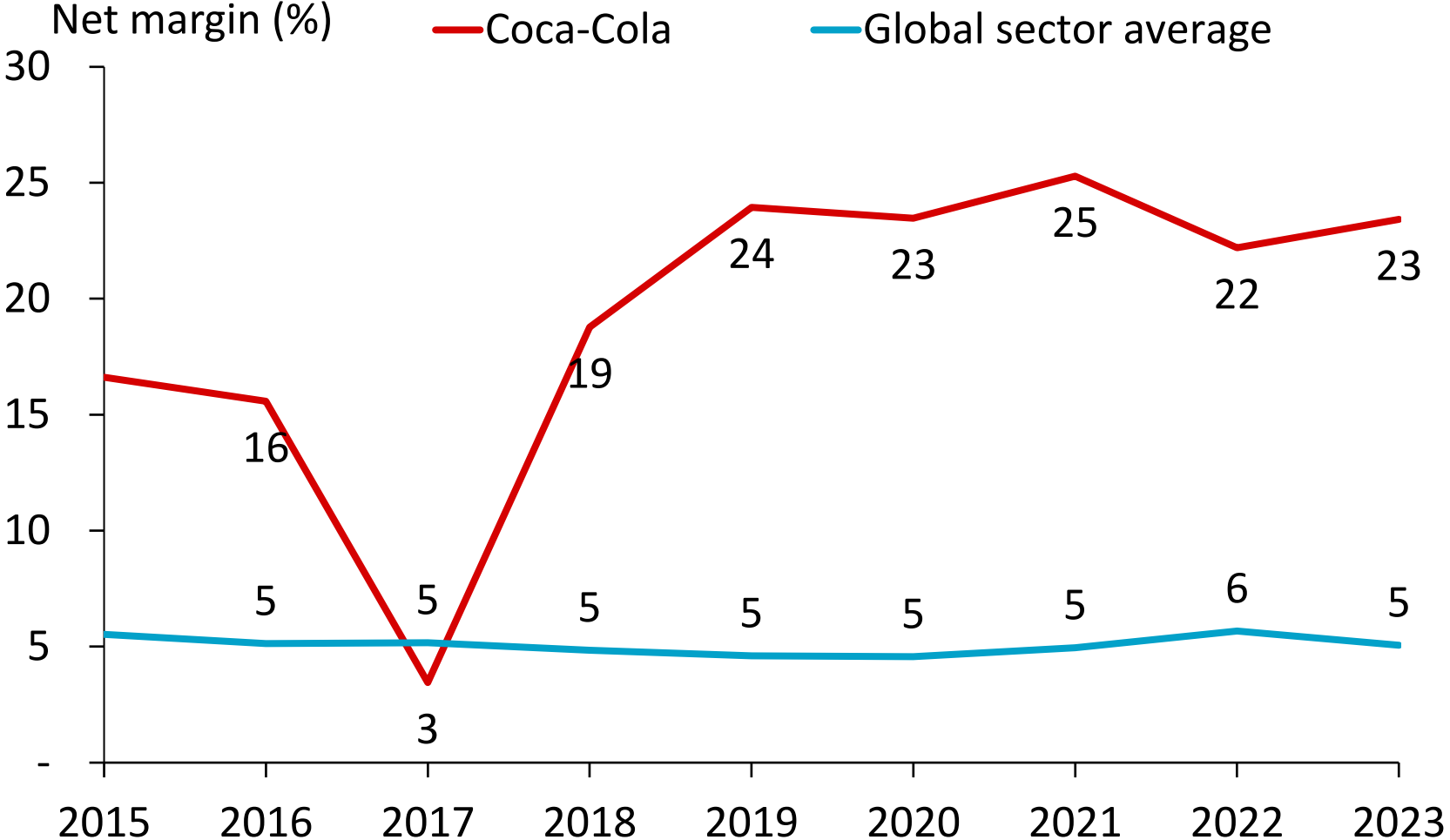
**Net profit margin (NPM)**

**Return on assets (ROA)**





# Net margin is 4-5x global sector average



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**MANAGEMENT**

**EARNINGS**

**FVMR**

**VALUATION**

**INVESTORS**

**PRICE**

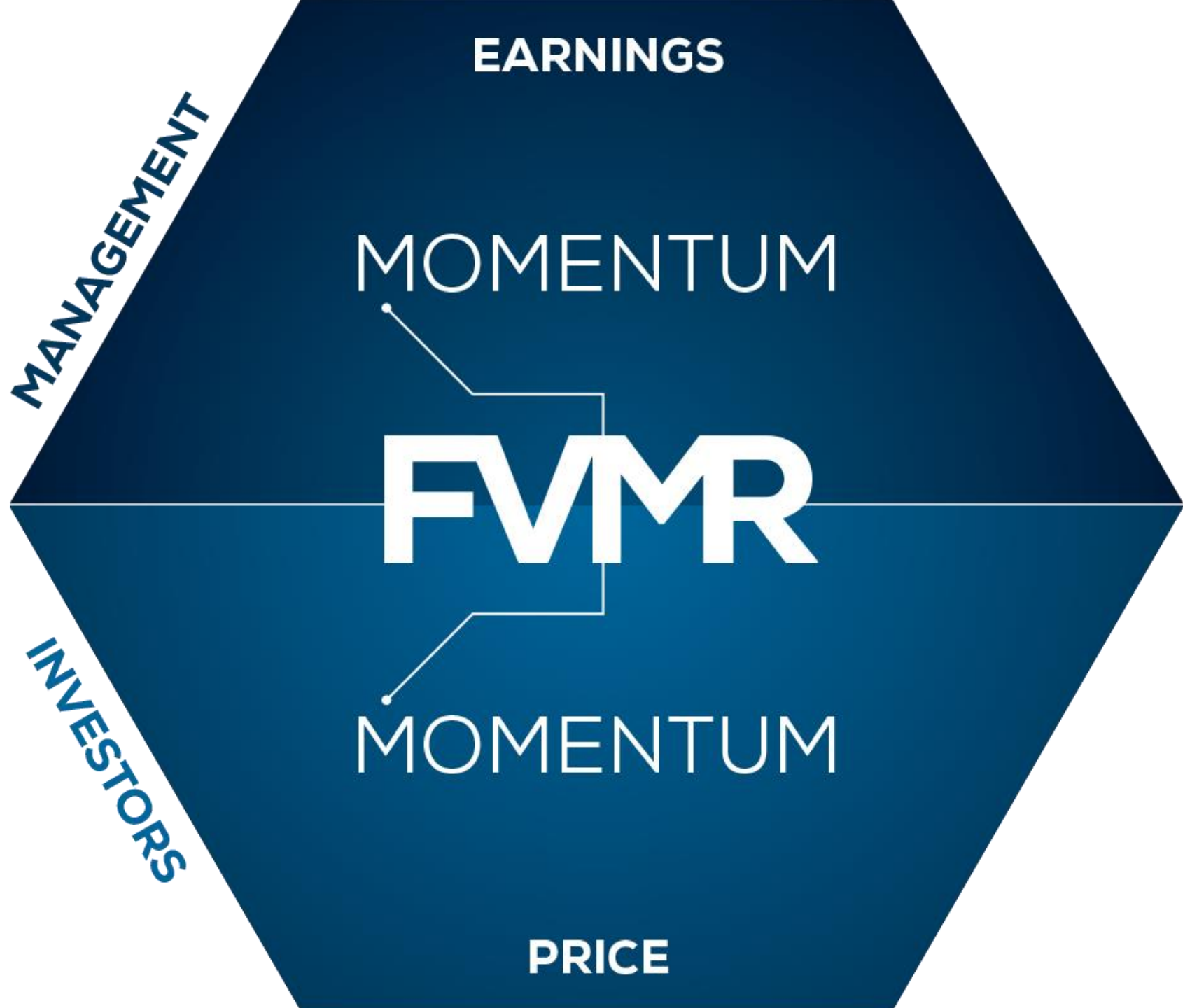
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**Price-to-earnings (PE)**

**Price-to-book value (PB)**

EPS growth (EPS)

% Price change (Price\*)



EARNINGS

MOMENTUM

FVMR

MOMENTUM

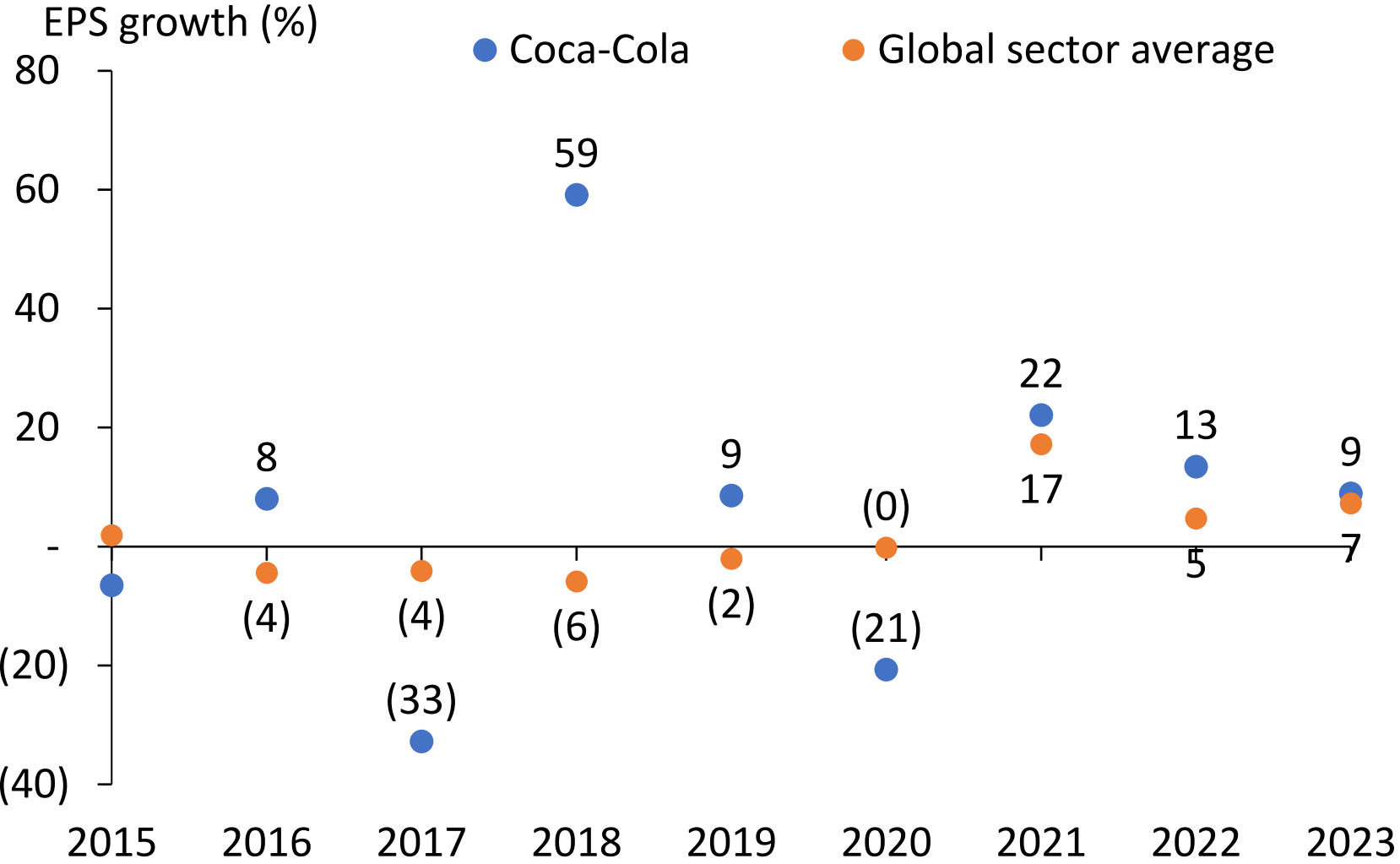

PRICE

MANAGEMENT

INVESTORS



# EPS CAGR of 4% from 2015 to 2023, 2 percentage points above the global sector average

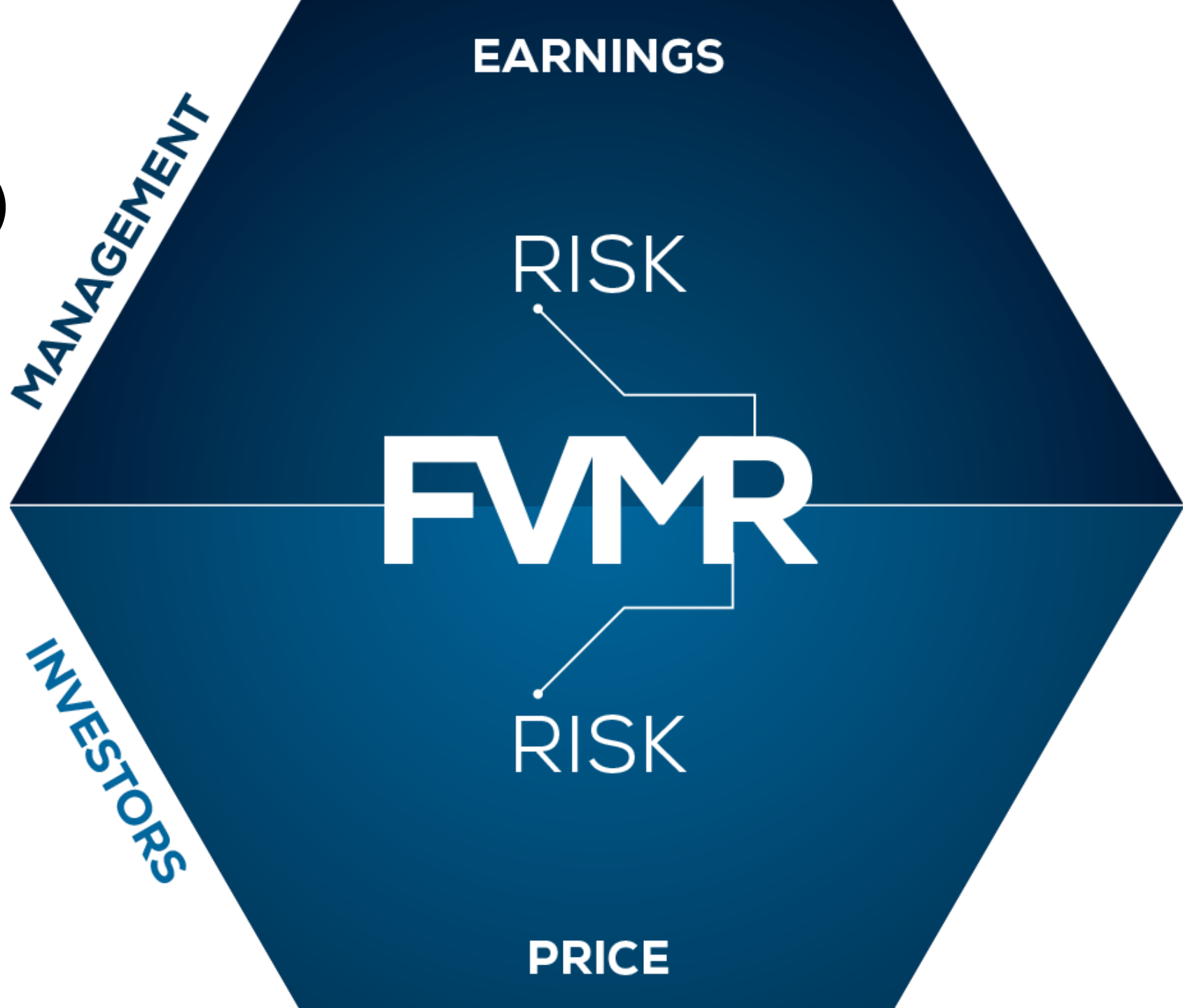



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**Andrew Stotz, PhD, CFA**

This is not a recommendation or investment advice.

Sources: A. Stotz Investment Research, Refinitiv



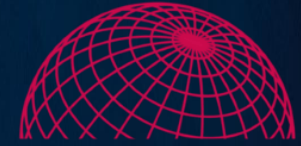
**Net debt-to-equity (NDE)**

**Beta (Beta\*)**

# In this video you will learn

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- ★ Coca-Cola's response to the decline in sugary beverage consumption
- ★ That Coca-Cola sells 2.2bn+ products daily, most revenue comes from elsewhere
- ★ Identify the risks Coca-Cola faces as it may have reached peaks in price, margins, and growth
- ★ Evaluate Coca-Cola's potential using my cheat sheet for assessing any stock's attractiveness



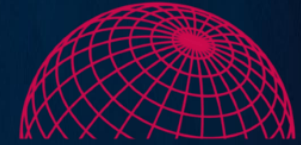
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# Let's take a look at the abbreviated **FVMR** **Scorecard** of the Coca-Cola



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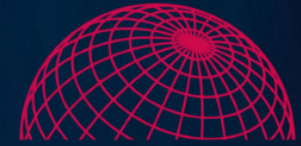
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# Coca-Cola's high valuation and recent values indicate underperformance relative to peers

## A. Stotz FVMR Methodology - Cons. Staples: Food, Bev. & Tob.

Company	Mcap US\$bn	Fund. (%)		Valuation (x)		Momo (% chg)		Risk (x)	
		NPM	ROA	PE	PB	EPS	Price*	NDE	Beta*
<b>Cons. Staples: Food, Bev. &amp; Tob.</b>	<b>2,364</b>	<b>18.9</b>	<b>12.7</b>	<b>23.3</b>	<b>5.9</b>	<b>(4.1)</b>	<b>0.4</b>	<b>(0.0)</b>	<b>0.2</b>
Coca-Cola Co	274.7	22.4	10.5	26.4	10.4	(2.9)	(8.4)	1.1	0.2
Kweichow Moutai Co Ltd	267.9	49.1	30.9	23.2	8.9	16.1	9.0	(0.2)	0.5
Nestle SA	225.2	12.2	8.5	17.5	6.0	17.9	(15.1)	1.4	0.2
PepsiCo Inc	220.0	10.2	9.6	23.5	11.3	13.2	(8.5)	1.9	0.1
Philip Morris International Inc	204.0	26.3	15.3	20.8	nm	22.5	9.3	(4.8)	(0.6)
Altria Group Inc	95.0	42.7	28.2	9.3	nm	20.8	8.1	(6.9)	(0.5)
Mondelez International Inc	86.6	10.6	5.3	22.7	3.1	(15.8)	(8.9)	0.7	(0.0)
British American Tobacco plc	81.8	(52.8)	(10.3)	nm	1.2	(258.8)	5.5	0.5	(0.5)
Wuliangye Yibin Co Ltd	80.1	36.8	21.3	16.3	4.5	19.0	22.3	(0.8)	1.1
Diageo PLC	66.2	19.1	8.4	17.1	6.5	(11.7)	(5.6)	2.0	0.8
Monster Beverage Corp	52.5	21.7	17.9	32.7	9.1	5.3	14.8	(0.4)	0.5
Danone SA	46.2	3.7	2.2	43.3	2.5	(23.2)	6.9	0.6	(0.1)
Nongfu Spring Co Ltd	44.4	28.3	25.9	25.4	12.2	29.8	8.7	(0.7)	1.9
Keurig Dr Pepper Inc	43.7	15.0	4.4	19.2	1.8	20.4	(9.1)	0.5	0.3
Kraft Heinz Co	37.6	5.2	1.5	27.4	0.8	(54.0)	(12.3)	0.4	0.3
Hershey Co	35.4	16.2	15.0	20.0	8.4	(17.7)	(11.4)	1.1	0.0

Sector data is market cap weighted. \*Price change and beta over the past three months as of 21 November 2024



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- Click the link in the description to get the Abbreviated FVMR Scorecard for the world's top 500 companies
- Drop your email and you will receive the updated FVMR scorecard in your inbox every week

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**The scorecard ranking should not be seen as investment advice, do your own research.**

# What **Really** Drives Coca-Cola's **Revenue**— It's Not **Soda** Water!



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