Coca-Cola Financial and Market Analysis

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Executive Summary

Coca-Cola is a well-established company that has been a dominant force in the non-alcoholic ready- to-drink (NARTD) beverage industry for 132 years. This does not mean that the company is without fault, however; the large NARTD global market poses many challenges for Coca-Cola, many financially.

The purpose of this report is to analyze Coca-Cola economically and provide recommendations to shareholders, the company's management, and potential lenders. This is done through a financial SWOT analysis, which provides insight to areas in which the company is succeeding or that require attention; examination of the impact of current events related to production and market value on the company's finances; evaluation and comparison of several financial ratios over the past five years, which will identify if areas need improvement or are successful; and an analysis of Coca-Cola in the stock market through stock prices, dividends, and the price per earnings ratio. The data discussed will highlight how the company is doing internally, as well as comparing them to their main competitors in the market.

Our recommendations to the shareholders, management, and lenders of Coca-Cola include:

- Shareholders can consider Coca-Cola as a good investment, but should be cautious of potential future market value drops or potential over-value.
- Management should continue to increase dividend payout to shareholders to ensure market value stays competitive in the industry and lower cost of revenue to increase profit margins.
- Lenders should be cautious of Coca-Cola's rapidly decreasing times interest earned ratio when considering a loan.

Company Background

Coca-Cola is an internationally known household name (Maverick, 2018). Currently, Coca-Cola controls 40% of the global non-alcoholic beverage industry, owning approximately 500 different brands (Maverick, 2018). Coca-Cola was founded in Atlanta, Georgia in 1886 by Dr. John S Pemberton (*Coca-Cola History, 2018).* The original recipe was created by Dr. Pemberton himself, and was then named by his partner Frank M. Robinson (*Coca-Cola History, 2018).* Originally Coca-Cola was sold exclusively in soda fountains for only 5 cents a serving, with an average of about 9 servings sold a day for the first year (*Coca-Cola History, 2018).* In contrast, Coca-Cola now sells about 1.9 billion beverage servings globally daily (*Coca-Cola History, 2018).*

After 2 years, Coca-Cola became available in soda fountains beyond Atlanta and into other states. In 1894, Coca-Cola became available to purchase in a bottle on a small scale, and then transitioned into large scale bottling 5 years later (*Coca-Cola History, 2018).* The first marketing efforts were made in 1887 using an innovative coupon and free sample promotional tactic (*Coca-Cola History, 2018).* Soon after, newspaper and other promotional items began to be distributed (*Coca-Cola History, 2018).* By the 1970's, Coca-Cola's advertising campaigns reflected a brand connected to "fun, friends and good times" (*Coca-Cola History, 2018).*

In 1990, Coca-Cola opened the "World of Coca-Cola" in Atlanta, a public attraction dedicated to the history of Coca-Cola (*World of Coca-Cola, Our Story*, n.d.). The attraction was revamped by 2007 to include a greenspace, aquarium and other tourist attractions at "Pemberton Place" in Atlanta (*World of Coca-Cola, Our Story,* n.d.). Since the original opening in 1990, Coca-Cola is proud to have welcomed over 24 million guests to World of Coca-Cola (*World of Coca-Cola, Our Story,* n.d.).

Currently, Coca-Cola has a leading beverage presence in over 200 countries around the world, competing with biggest rival *PepsiCo* (Maverick, 2018). Coca-Cola and PepsiCo are constantly competing with each other to dominate the global beverage market, currently controlling 60%. Coca-Cola is currently winning that battle with 40% of the market controlled by Coca-Cola and 20% by PepsiCo (Maverick, 2018). However; each company is constantly looking for ways to improve and expand (Maverick, 2018).

Coca-Cola is currently led by Chief Executive Officer James Quincey at headquarters in Atlanta, Georgia (*Coca-Coca Leaders*, 2018). Because of the large global presence Coca-Cola has around the world, there are many presidents managing different headquarters around the world including:

- John Murphy, president of Asia Pacific Group
- Brian J. Smith, president of Europe, Middle East and Africa Group
- Alfredo Rivera, president of Latin America Group
- James L. Dinkins, president of North America Group.

  (*Coca-Coca Leaders*, 2018).

SWOT Analysis

Strengths	Weaknesses
• Increasing dividend payout to stakeholders each year, increasing 1.29% from 2013-2017 (see Appendix A). • Controls 40% of the global beverage market. (Maverick, 2018). • Valued at 79.2 billion dollars in 2018, based on brand equity, profit and assets. ("Coca-Cola: Brand," 2018).	• Long term debt has increased by 1.6% from 2013 to 2017 (see Appendix B). • Increasing Price/Earnings Ratio resulting shareholders have to invest more to receive the same amount. The Price/Earnings Ratio increased by a staggering 6.35% from 2016 to 2017, as can be seen in the financial ratios. • Lower stock price at $49.60 USD in November 2018 than PepsiCo at $117.91 USD in November 2018 results in lower appeal to investors. (*MarketWatch*, 2018).
Opportunities	**Threats**
• Healthy amount of Total Assets at $87,896 million in 2018 results in opportunity to invest in the company in increase in areas that need improvement such as sustainability (see Appendix B). • A decrease of 0.72% for Cost of Revenue from 2013 to 2017 provides Coca-Cola with the opportunity to invest that money into increasing brand equity and value in other areas (see Appendix C). • Decreasing amount of debt issued by 0.92% from 2016 to 2017 will provide Coca-Cola the opportunity to finance investments through assets rather than liabilities and become more appealing to investors (see Appendix A).	• A decreasing Profit Margin Ratio implies the company has an increasing risk for lower sales, resulting in future net loss. The Profit Margin Ratio decreased by 0.2% between 2013-2018, as shown in the financial ratios. • Decrease in Earnings Per Share (0.19% from 2016 to 2017) ratio poses as a threat to potential investors interest in the company. • A much higher Price Per Earnings Ratio of 166.93 than the leading competitor PepsiCo at 21.29 in 2018 will result in decreased interest by investors for Coca-Cola, and a higher competitive force coming from rivals. (*MacroTrends*, 2018).

The SWOT analysis has evaluated Coca-Cola's internal strengths and weaknesses, as well as external opportunities and threats. To summarize, Coca-Cola's strongest strengths are undoubtedly it's high brand equity and large control of the global beverage industry. (Basin, 2018). Financially, the increasing dividend payout is a strength for Coca-Cola to increase shareholder value. (*Why Dividends Matter To Investors,* 2018). The shareholder value increases as dividend payout increases by communicating financial well-being through the willingness and ability to pay dividends to shareholders. (*Why Dividends Matter To Investors,* 2018). As outlined on the SWOT, Coca-Cola has a significantly lower current stock price than main rival, PepsiCo. This poses as a weakness for company value to stakeholders and investors, who may not be looking at other factors of the company other than face value. (*Murphy,* 2018). The increase in Price/Earnings Ratio as outlined in the SWOT increases the loss of value and interest from stakeholders and investors, poses another weakness for Coca-Cola. (*Investment Valuation Ratios: Price/Earnings Ratio*, n.d.). As outlined in the SWOT, the external financial opportunities for Coca-Cola include the chance to invest money saved on COGS, company assets and decreasing debt issued. Perhaps the most pressing external threat for Coca-Cola is the decreasing profit margin and earnings per share, lowering their market value and interest from investors. (*Murphy,* 2018).

Current Events

US tariffs on Steel and Aluminum

Coca-Cola CEO James Quincey has said that the company has been seeing new cost pressures based on the increase in prices of steel and aluminum from new tariffs imposed by the Trump administration. These higher prices of steel and aluminum have forced the production costs of cans upward, which in turn has resulted in Coca-Cola raising their prices of soft drinks during the second quarter. Quincey had said in a statement, "We had to take with our bottling partners an increase [in prices] in our sparkling beverage industry in the middle of the year, which is relatively uncommon". Regardless of the increase in soft drink prices from Coca-Cola, the company had better than expected earnings in the second quarter, while still dropping slightly compared to first quarter earnings (Lovelace, 2018). On such a large-scale manufacturing basis, a slight change in the price of steel and aluminum could have a very serious impact in the future of Coca-Cola's revenues. To put things into perspective, Coca-Cola sells an average of 1.9 billion soft drinks each day (Coca-Cola, 2018). If only a tenth of these soft drinks were packaged in cans opposed to bottles, it would be 190 million cans each day. If each can were to cost an extra $0.10 because of steel and aluminum tariffs, it would cost Coca-Cola an extra 19 million dollars per day. Although second quarter earnings were not as low as expected, the new tariffs imposed by the US will have a dramatic effect on Coca-Cola's income statement.

Coca-Cola Expanding into Energy Drinks

Coca-Cola has recently shown interest in expanding their product line into the energy drink sector. CEO James Quincey has made it apparent that Coca-Cola wants to be a "total beverage company" and that a new line of energy drinks will help it get there (Wiener-Bronner, 2018). Laurent Grandet, a consumer analyst with Guggenheim Securities says that the energy drink sector is one of the fastest growing segments of the beverage industry. He also claimed that it is highly profitable because consumers are used to paying more for energy drinks compared to a traditional soft drink. As with any global company, a new product entering the market has a very large possibility for increased sales and revenues. Coca-Cola would undoubtedly make a profit if they entered the energy drink market purely based on a wider consumer base. One problem they would face is the fact that Coca-Cola made a deal with Monster Energy in 2014, which would mean that if they were to introduce a new line of energy drinks, they would be directly competing with one of their biggest business partners. Coca-Cola even owns nearly 18.5% of Monster Energy, which could provide a barrier to entering the sector (Wiener-Bronner, 2018). If Coca-Cola where to enter this new market, earning potential for the company would dramatically increase. Consumers willing to pay a higher price for beverages along with providing to a broader range of consumers would likely have a positive impact on Coca-Cola's income statement, and the company in general.

Financial Ratios

Below is a glance at the liquidity, financial leverage, turnover, profitability, and market ratios for Coca-Cola compared to PepsiCo from 2013 to 2017.

Liquidity Ratios

	Current Ratio		Quick Ratio	
Year	Coca Cola	PepsiCo	Coca Cola	PepsiCo
2013	1.13	1.24	1.01	0.93
2014	1.02	1.14	0.92	0.85
2015	1.24	1.31	1.13	1.05
2016	1.28	1.28	1.18	1.08
2017	1.34	1.51	1.25	1.29

Liquidity ratios are devised to estimate how well a company can pay off its liabilities with its assets. The key difference between the current and quick ratios is that the former includes inventory, which can be difficult to convert to cash to pay things off in the short term, while the latter subtracts it out.

Current Ratio. From 2013 to 2017, Coca-Cola saw an increase in current ratio from 1.13 to 1.34 compared to PepsiCo's increase from 1.24 to 1.51 in the same amount of time. With a ratio above 1, both companies are able to pay back their liabilities with their assets; however, Coca-Cola's lower ratios puts it at a higher risk of distress or defaulting. Despite its lower number, at 1.34 Coca-Cola is unlikely to have any issues with payments and is stable.

Quick Ratio. Coca-Cola's quick ratio increased from 1.01 to 1.25 in the five years, while PepsiCo's increased from 0.93 to 1.29. Both companies are currently capable of paying all current liabilities within the next few months if necessary and are well above the industry average of 0.71 at the end of 2017 ("Nonalcoholic Beverage Industry," n.d.).

Coca-Cola has been decreasing its inventory at year end consistently every year since 2013, dropping from $3,277 million to $2,655 million; it has remained as 3% of total assets, indicating a decreasing value of assets (see Appendix B). The greatest increase in current assets has been the other current assets, increasing by 170% from $2,797 million to $7,548 million between 2016 and 2017 according to the horizontal analysis in Appendix B. This is not the ideal account to be raising the total current assets, as their origin is unclear and they may not be from everyday operations. A decrease in this account could affect Coca-Cola's ability to pay short-term liabilities in the coming years; however, the increase in the liquidity ratios has been steady since 2014, so there is minimal worry at this point.

Financial Leverage Ratios

	Total Debt Ratio		Times Interest Earned	
Year	Coca Cola	PepsiCo	Coca Cola	PepsiCo
2013	0.63	0.69	22.09	9.76
2014	0.67	0.75	20.10	9.63
2015	0.72	0.83	10.20	7.98
2016	0.74	0.85	11.77	6.37
2017	0.81	0.86	11.21	8.34

Total Debt Ratio. The total debt ratio for Coca-Cola increased from 0.63 to 0.81 with PepsiCo's similarly increasing from 0.69 to 0.86 over the five years. This means that as of 2017 81% of Coca-Cola's, and 86% of PepsiCo's, assets are funded through debt or liabilities.

Coca-Cola's total debt ratio increased at a relatively constant rate, with a slightly larger jump from 2016 to 2017. This is likely due to the sudden decrease in retained earnings and increase in other liabilities in 2017. These numbers are not amazing, but with both companies in a similar range it is not a major concern. The industry's ratio may simply be higher than others, and having a higher total debt ratio may hint toward expected future expansion and opportunities as well.

Times Interest Earned. Times interest earned for Coca-Cola decreased from 22.09 to 11.21 and PepsiCo's decreased 9.76 to 8.34. As this ratio shows how many times the company can pay its interest before taxes, these numbers decreasing so dramatically is not good. There was a sharp decrease from 2014 to 2015 due to interest increasing by 77% (see Appendix C). Since then, interest has not changed dramatically and the ratio began rising again. The same year, PepsiCo saw a sharp decline, although not as significantly, in their times interest earned ratio, before recovering in the following years. Both companies suffered a drop at the same time, likely due to similar circumstances, but PepsiCo has recovered much faster than Coca-Cola.

Turnover Ratios

	Inventory Turnover		Receivable Turnover		Payable Turnover		Fixed Asset Turnover	
Year	Coca Cola	PepsiCo	Coca Cola	PepsiCo	Coca Cola	PepsiCo	Coca Cola	PepsiCo
2013	5.62	8.94	9.62	10.72	N/A	N/A	3.13	3.52
2014	5.77	9.43	10.30	11.12	8.81	6.12	3.14	3.72
2015	6.02	9.68	11.24	11.15	7.08	5.44	3.52	3.76
2016	6.16	10.37	10.86	11.21	5.93	4.99	3.94	3.82
2017	4.99	10.15	9.66	10.89	5.33	4.50	4.32	3.76

Inventory Turnover. Inventory Turnover is an important ratio for any company; the longer its stock sits on the shelves, the more the stock costs ("4 ways to assess your business," n.d.). In 2017, Coca-Cola's inventory turnover held at 4.99, a decrease from their 5.62 in 2013. PepsiCo fared better with an increase over five years from 8.94 to 10.15. This means that Coca-Cola may have excess inventory which could be caused by weaker sales than PepsiCo

Coca-Cola's inventory turnover was increasing until 2016, where it suddenly dropped; as can be seen on the statement of comprehensive income in Appendix C, Coca-Cola's cost of revenue decreased significantly between 2016 and 2017 as well, possibly due to their efforts to reduce costs as of 2012 (The Coca-Cola Company, 2018). Inventory has also decreased over the five years, as stated previously, and would have an effect on the ratio as well; it does not influence it enough to be an issue, however. The concern in this area is how much lower Coca-Cola's numbers are compared to PepsiCo's, suggesting one of the two is straying from the norm. With Coca-Cola's decreasing ratio, it is very possible it is falling behind.

Receivable Turnover. Over the same amount of time, Coca-Cola saw a small increase from 9.61 to 9.65 in their receivable turnover, which shows us how frequently Coca-Cola has been collecting their credit sales. PepsiCo had an increase from 10.72 to 10.89 in the same time period. This shows that it is collecting its accounts receivable more frequently than Coca-Cola, although not significantly enough to be a concern. Coca-Cola's ratio did increase from 2013 to 2015 before decreasing again until 2017, getting to a high of 11.24. As the two companies' ratios are increasing and decreasing at similar rates, there is not a cause of worry at this time.

Payable Turnover. From 2014 to 2017, Coca-Cola's payable turnover decreased from 8.81 to 5.33. In those same four years, PepsiCo's decreased from 6.12 to 4.50. This ratio indicates how long it takes for companies to pay off their suppliers; if the ratio increases, investors will get the impression that companies aren't organized enough to pay their bills efficiently (Average days payable ratio, n.d.). Coca-Cola's ratio has decreased over the last four years, which looks good to potential investors and also saves cash for investment purposes. When compared with PepsiCo's similar decrease this seems to be the case. If the ratio decreases too much, however, it could also mean financial trouble. There was a sudden drop in 2016, one year after the significant decrease in total debt ratio. This could be a sign that the company is not doing as well handling its payments.

Fixed Asset Turnover. Both companies are doing well in using their fixed assets, with Coca-Cola's turnover increasing from 3.13 to 4.32 and PepsiCo with a relatively smaller increase from 3.52 to 3.76. The fixed asset turnover shows us if a company is using their assets to their advantage to increase sales, and Coca-Cola's rising steadily over the five years signals well-managed fixed assets.

Profitability Ratios

	Profit Margin		Gross Profit Margin		Return on Assets		Return on Equity	
Year	Coca Cola	PepsiCo	Coca Cola	PepsiCo	Coca Cola	PepsiCo	Coca Cola	PepsiCo
2013	0.50	0.24	0.61	0.53	0.10	0.09	0.26	0.29
2014	0.41	0.25	0.61	0.54	0.08	0.09	0.23	0.31
2015	0.45	0.22	0.61	0.55	0.08	0.08	0.29	0.37
2016	0.43	0.26	0.61	0.55	0.07	0.09	0.28	0.55
2017	0.10	0.20	0.63	0.55	0.01	0.06	0.07	0.44

Profit Margin. The profit margin for Coca-Cola went from 0.5 to 0.1 in the five years. There was a sudden decrease in 2017 due to the exceptionally high income taxes the company paid due to the Tax Reform Act in a one-off payment of taxes on offshore earnings ("The Coca-Cola Company Reports," 2018). In 2016, its profit margin remained up at 0.43, a significantly smaller drop. PepsiCo went from 0.24 to 0.20 in the five years, a decline similar to Coca-Cola's in its first four years.

Gross Profit Margin. The gross profit margin for Coca-Cola increased from 0.61 to 0.63, while PepsiCo's increased from 0.53 to 0.55. Queensland Government defines the gross profit margin as "the percentage of sales dollars remaining to pay your overhead expenses and provide you with a profit." (2016). In 2017, Coca-Cola remained able to save more profit after paying expenses than PepsiCo

Return on Asset Ratio. Over the five years, Coca-Cola suffered a major drop in its return on asset ratio from 0.095 to 0.014, again with a large drop in 2017 that was likely due to the low net income. Since return on assets is a comparison between how much is spent on assets in a business and how much is made back, Coca-Cola's ratio shows that the company has not been utilizing its assets as effectively as it was in 2013; this means it is not making money back from the money it has invested. PepsiCo had a less detrimental decrease from 0.09 to 0.06; with PepsiCo's gradual decrease and Coca-Cola's ratio being incredibly low overall, this may be an important ratio to watch.

Return on Equity. Coca-Cola's return on equity decreased from 0.26 to 0.073, while PepsiCo had an increase from 0.29 to 0.44. This is an indicator that for every dollar received from shareholders, PepsiCo has been making more profit than Coca-Cola; therefore, PepsiCo has been working more productively than Coca-Cola, making more money with each dollar they invested in the company. Coca-Cola's return on equity also suffered a large drop in 2017, another area suffering from the low net income.

Market Ratios

	Basic Earnings Per Share		Price Per Earnings	
Year	Coca Cola	PepsiCo	Coca Cola	PepsiCo
2013	1.94	4.37	18.81	16.86
2014	1.62	4.31	23.66	20.00
2015	1.69	3.71	23.68	25.30
2016	1.51	4.39	26.27	22.96
2017	0.29	3.40	166.93	35.00

Basic Earnings Per Share. Earnings per share (EPS) is a way for investors to look at a company's profitability and analyze stock prices, done by looking at past, current, and projected earnings (Islam, Khan, Choudhury, Adnan, 2014). In 2013, Coca-Cola's basic earnings per share sat at 1.94 and suffered a decrease to 0.29 by 2017. PepsiCo's basic EPS decreased from 4.37 to 3.4, showing potential investors that it's a more profitable company.

Price Per Earnings. In that same amount of time, Coca-Cola's price per earnings jumped from 18.81 to 166.93 while PepsiCo's climbed from 16.86 to 35.00. When price per earnings are relatively low, this shows that the stock could be undervalued and a risky investment (Peavler, 2018). Alternatively, a high price per earnings could point toward either expected company growth or an overpriced stock. An increase in this is not an immediate turn-away; however, Coca-Cola's increase from 26.27 in 2016 to 166.93 in 2017 is a very dramatically leap that may not be beneficial for investors.

Stock Market Analysis

Over the past five years there has been constant growth throughout the beverage industry and Coca-Cola has followed the trend, albeit less than other relevant companies. Its stocks have not increased dramatically in that time, only up 29.62%. National Beverage Corporation has been the leader at 465.45%, with PepsiCo and Cott Corporation both in the middle leaning toward the lower end. National Beverage Corporation appears to be an exception in the industry, but Coca-Cola is still significantly lower than its competitors, with the next lowest-growing company being PepsiCo with a growth rate 19.89% higher. In the last year Coca-Cola's growth leads at 8.47% however, with National Beverage Corporation falling to the bottom at a decrease of 13.51%. PepsiCo is consistently closest to Coca-Cola, with a five-year growth of 42.51% compared to Coca-Cola's 22.86%, and a growth of 1.48% to Coca-Cola's 8.47% in the last year.

Coca-Cola's shares are trading for $49.37 at close on November 28, 2018, significantly below PepsiCo at $118.50 and National Beverage Corp. at $91.15, but well above Cott Corporation at $19.58. The company appears to keep their stock lower intentionally, having implemented a 2-for-1 split in 2012 when their stocks were priced at approximately $74.12. Keeping prices lower can attract investors, as stocks are often purchased in round lots of 100 and spending $5,000 on stocks seems more reasonable than spending $11,000 (Pinsent, 2018).

Coca-Cola and PepsiCo are both mega-cap companies, with market capitalizations of $211.591 billion and $167.271 billion respectively ("Market Capitalization," 2018). Mega-cap companies are known to be reliable investments with consistent dividends, but will have slower growth than lower investments ("Market Capitalization," 2018). This is accurate for both companies, as they have the highest market capitalizations of the four and the lowest growth rates. Both Cott Corporation and National Beverage Corporation have a market capitalization between $2 billion and $5 billion, making them mid-cap companies ("Market Capitalization," 2018). Mid-cap companies are known to have potential for more growth than large- or mega-caps, but they are higher risk investments ("Market Capitalization," 2018).

Price per earnings (P/E) ratios vary significantly throughout the industry, with Coca-Cola at the top as of November 28, 2018 at 75.55 (a decrease from December 31, 2017 at 166.93) and PepsiCo following at 34.19. A higher P/E ratio typically means growth is expected in the company, but it can also hint at a stock being overvalued. With the lack of growth through the years for Coca-Cola, it is very possible that the latter is true and the stock will decrease in the future. With National Beverage Corporation at 26.60 and Cott Corporation at the bottom with 6.86, Coca-Cola does appear to be significantly over the industry average, pointing at this situation. Alternatively, Coca-Cola's stocks are currently leading in growth in the past year, and it may continue to steadily rise.

Coca-Cola has been declaring dividends for many years and is doing well in dividend yield with a steady growth in dividend rates. Its trailing annual dividend rate is 1.54 with a forward annual dividend rate of 1.56. Over the past five years dividends have increased from $0.305 per share to $0.39 per share quarterly, or $1.22 per share to $1.56 per share yearly. This is a strength to the company and will increase shareholder value, as shown in the SWOT analysis. PepsiCo also has a high dividend rate, with a trailing annual dividend rate of 3.46 and a forward annual dividend rate of 3.71. Its dividends are quite a bit higher, increasing from $0.5675 per share to $0.9275 per share quarterly, or $2.27 per share to $3.71 per share yearly. Coca-Cola's trailing annual dividend yield of 3.12% and a forward annual dividend of 3.18%, as opposed to PepsiCo's trailing annual dividend yield of 2.98% and forward annual dividend yield of 3.21%. Coca-Cola is doing well with its dividend yields, growing over time and giving a good return on shareholders' investments. High dividend yield rates can attract investors and Coca-Cola is giving a good return within the industry. It will need to continue to increase with PepsiCo, perhaps quicker, to keep this appeal.

Overall, Coca-Cola's stock appears to be a good investment; it will not be the highest-growing in a portfolio, but it will supply a dividend quarterly and is a relatively low-risk investment. Watching the company would be important, as there is a chance that it is overvalued and will drop quickly in the future, but its steady growth and overall company size give confidence to it. It is not an expensive stock to purchase, and it yields a good dividend at 3.12%, giving investors a good return for their investment. It is not volatile, so it will be a steady investment.

Recommendations and Conclusions

Shareholder Recommendations

While Coca-Cola has good branding, the company is not performing as well it appears to be. With decreasing earnings per share (EPS) and rapidly increasing price per earnings (P/E) ratios, it may be becoming an overvalued company that will fall quickly in the future. That does not mean it is a poor investment, however; it is simply important to watch the company for potential future value drops.

Overall, Coca-Cola's stock is a good investment for shareholders for a couple of reasons, one of which being its steadily-rising quarterly dividends, currently at 3.12%. Despite its low growth rate, the company has steady growth over time, and is relatively low risk due to its mega-cap status.

As mentioned in the stock market analysis, dividends have increased over the past 5 years from $0.305 per share to $0.39 per share quarterly, or $1.22 per share to $1.56 per share yearly. However, the lack of growth for the P/E ratio over the years for Coca-Cola implies that it is very possible that the value of the stock will decrease in the future, as a company of its size is unlikely to grow that significantly. An investment in this stock would be best for someone looking for a long-term investment with a constantly growing dividend, but less increase in stock value. Its P/E and EPS ratios should be watched in the coming years, as they may indicate that the stock is losing its value.

Management Recommendations

Coca-Cola is beginning to fall behind the industry in several areas and an improvement will be necessary to retain shareholders and go forward with a promising company. To maintain shareholders and equity, Coca-Cola management should continue to increase dividend payout to ensure happy shareholders. Additionally, this will ensure they do not fall behind main competitors market values such as PepsiCo's. Although Coca-Cola has had a steadily increasing dividend payout, it would be beneficial for the company to continue to increase dividends at a higher yield to ensure value continues to grow and to stay in competition with PepsiCo.

Currently, PepsiCo has a dividend payout of $0.93 per quarter as of September 2018 (CSIMarket, 2018). Coca-Cola is currently paying dividends of $0.39 per share quarterly. PepsiCo's shares are valued higher than Coca-Cola's, so this in itself is not an issue; however, Coca-Cola's dividend yields are beginning to fall behind, despite growing over time. It provides a good return on shareholders investments, considering its forward annual dividend yield of 3.18% increasing from its trailing yield of 3.12%, but PepsiCo recently made a jump from 2.98% to 3.21%. These growing dividend yield rates will attract investors, as it implies Coca-Cola is giving a good return within the industry. However, it will need to continue to increase dividend yield at the same rate as PepsiCo's forward annual dividend yield of 3.21% to keep the appeal and maintain dividends as a strength for the company.

Coca-Cola managers should also continue to reduce costs of revenue through utilization of supply chains, leveraging, and automation, where applicable, to offset the coming increases due to the rising tariffs on aluminum and steel. With a declining revenue, down 15% in 2017, this would continue the increase of its gross profit margin and allow the company to continue rebranding, refranchising, and investing (see Appendix C; "The Coca-Cola Company Reports," 2018).

The decline in revenue has been ongoing since 2013; this is therefore not a surprise in either the industry or Coca-Cola's own books. While the company is doing what it can to increase sales in the coming years, lowering the cost of revenue in other areas to balance with the tariffs would allow Coca-Cola to continue raising its gross profit margin as it did in 2017 ("The Coca-Cola Company Reports," 2018). This would also increase net income again since the company's income taxes were only high for 2017 and will be reducing again in the coming years. This will improve all profitability ratios as well as EPS, increasing appeal to investors.

Lender Recommendations

Lenders, such as bankers, should be cautious of loaning money to Coca-Cola at this time because of their rapidly declining times interest earned ratio, which is an indicator of a company's ability to honor the payment of interest before taxes to lenders. Coca-Cola's significantly decreasing times interest earned ratio implies that the company is taking longer to pay off debts and/or increasingly neglecting payments. This is a reason for lenders to be cautious, as it could result in missed interest payments from Coca-Cola in the future. The company's times interest earned ratio decreased from 22.09% to 11.21% from 2013 to 2018. It suffered a drop of approximately 50% in 2015, falling to 10.20 from 2014's 20.10. This is an alarming rate that implies Coca-Cola is beginning to struggle with re-paying interest before taxes to lenders.

Over the past five years, the company's interest has been increasing as well, indicating a need to get additional external financing. This could be due to Coca-Cola's focus on rebranding, which has been reducing revenue since 2012, or could be used to finance its launches of smartwater, ZICO coconut water, and Appletiser ("The Coca-Cola Company Reports," 2018). It is not necessary to abstain from lending to Coca-Cola at this point, as it is a well-established company that is unlikely to be bankrupt in the near future; however, watching the company for a few quarters before making a final judgement may be in a lender's best interest.

Conclusion

Coca-Cola is a large, well-established company with many financial successes and struggles. Despite its lower earnings per share and price per earnings ratios, it is a relatively safe investment for shareholders. The company's struggles in the market value ratios in 2017 are due to an exceptional year of income taxes that will not occur again in the following years. To maintain Coca-Cola's status, management should increase dividend yield to stay competitive in the market, as well as focus on decreasing cost of revenue to improve profitability with decreasing revenue. These will attract new investors to the company and supply extra cash to be spent on both new investments and rebranding/refranchising. Potential lenders should be wary of Coca-Cola's decreasing times interest ratio, which hints at possible financial difficulty in the future, but should not withhold any investment at this point.

Coca-Cola is doing well in its branding, but is beginning to fall behind financially. Other companies in the industry, such as PepsiCo, are beginning to surpass Coca-Cola financially in areas that they were previously doing better in, such as dividends and return on assets. Many financial ratios were affected by the increased income tax, giving unusually low ratios that will likely be improving again in the coming year. At this point in time, there is no concern for Coca-Cola's operations; consistently lower ratios in the future, however, could begin to hint at trouble.

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Appendix A

Statement of Cash Flows

COCA COLA CO (KO)						
Statement of Cash Flows						
For the years ended December 1						
Fiscal year ends in December. USD in millions exc	TTM	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13
Cash Flows From Operating Activities						
Net income	$ 2,242	$ 1,182	$ 6,550	$ 7,366	$ 7,124	$ 8,626
Depreciation & amortization	1,184	1,260	1,787	1,970	1,976	1,977
Deferred income taxes	(1,871)	(1,256)	(856)	73	(40)	648
Stock based compensation	226	219	258	236	209	227
Change in working capital	2,836	3,529	(221)	(157)	(439)	(932)
Accounts receivable		(141)	(28)	(212)	(253)	28
Inventory		(355)	(142)	(250)	35	(105)
Prepaid expenses		571	283	123	194	(163)
Accounts payable		(445)	(540)	1,004	(250)	(158)
Income taxes payable		(153)	750	(306)	151	22
Other working capital	2,836	4,052	(544)	(516)	(316)	(556)
Other non-cash items	1,833	2,172	1,278	1,040	1,785	(4)
Net cash provided by operating activities	6,450	7,106	8,796	10,528	10,615	10,542
Cash Flows From Investing Activities						
Investments in property, plant, and equipment	(1,455)	(1,675)	(2,262)	(2,553)	(2,406)	(2,550)
Property, plant, and equipment reductions	124	104	150	85	223	111
Acquisitions, net	(1,528)	(79)	197	(1,926)	(241)	519
Purchases of investments	(10,918)	(16,520)	(15,499)	(15,831)	(17,800)	(14,782)
Sales/Maturities of investments	14,803	15,911	16,624	14,079	12,986	12,791
Other investing activities	(21)	(191)	(209)	(40)	(268)	(303)
Net cash used for investing activities	1,005	(2,450)	(999)	(6,186)	(7,506)	(4,214)
Cash Flows From Financing Activities						
Debt issued	27,461	29,857	27,281	40,434	41,674	43,425
Debt repayment	(30,501)	(28,768)	(25,615)	(37,738)	(36,962)	(38,714)
Common stock issued	1,278	1,595	1,434	1,245	1,532	1,328
Common stock repurchased	(2,802)	(3,682)	(3,681)	(3,564)	(4,162)	(4,832)
Dividend paid	(6,398)	(6,320)	(6,043)	(5,741)	(5,350)	(4,969)
Other financing activities	(117)	(129)	79	251	(363)	17
Net cash provided by (used for) financing activit	(11,079)	(7,447)	(6,545)	(5,113)	(3,631)	(3,745)
Effect of exchange rate changes	(66)	242	(6)	(878)	(934)	(611)
Net change in cash	(3,690)	(2,549)	1,246	(1,649)	(1,456)	1,972
Cash at beginning of period	11,987	8,555	7,309	8,958	10,414	8,442
Cash at end of period	$ 8,297	$ 6,006	$ 8,555	$ 7,309	$ 8,958	$ 10,414
Free Cash Flow						
Operating cash flow	6,450	7,106	8,796	10,528	10,615	10,542
Capital expenditure	(1,455)	(1,675)	(2,262)	(2,553)	(2,406)	(2,550)
Free cash flow	4,995	5,431	6,534	7,975	8,209	7,992

Appendix B

Statement of Financial Position and Vertical/Horizontal Analyses

COCA COLA CO (KO)															
Statement of Financial Position															
For the years ended December 1															
								Vertical Analysis					**Horizontal Analysis**		
Fiscal year ends in December. USD in millions except per share da	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13		Dec-17	Dec-16	Dec-15	Dec-14		Dec-17	Dec-16	Dec-15	Dec-14
Assets															
Current assets															
Cash															
Cash and cash equivalents	$ 6,006	$ 8,555	$ 7,309	$ 8,958	$ 10,414		7%	10%	8%	10%		-30%	17%	-18%	-14%
Short-term investments	14,669	13,646	12,591	12,717	9,854		17%	16%	14%	14%		7%	8%	-1%	29%
Total cash	20,675	22,201	19,900	21,675	20,268		24%	25%	22%	24%		-7%	12%	-8%	7%
Receivables	3,667	3,856	3,941	4,466	4,873		4%	4%	4%	5%		-5%	-2%	-12%	-8%
Inventories	2,655	2,675	2,902	3,100	3,277		3%	3%	3%	3%		-1%	-8%	-6%	-5%
Prepaid expenses	2,000	2,481	2,752	3,066	2,886		2%	3%	3%	3%		-19%	-10%	-10%	6%
Other current assets	7,548	2,797	3,900	679			9%	3%	4%	1%		170%	-28%	474%	
Total current assets	36,545	34,010	33,395	32,986	31,304		42%	39%	37%	36%		7%	2%	1%	5%
Non-current assets															
Property, plant and equipment															
Gross property, plant and equipment	16,449	21,256	22,354	25,258	25,032		19%	24%	25%	27%		-23%	-5%	-11%	1%
Accumulated Depreciation	(8,246)	(10,621)	(9,783)	(10,625)	(10,065)		-9%	-12%	-11%	-12%		-22%	9%	-8%	6%
Net property, plant and equipment	8,203	10,635	12,571	14,633	14,967		9%	12%	14%	16%		-23%	-15%	-14%	-2%
Equity and other investments	21,952	17,249	15,788	13,625	11,512		25%	20%	18%	15%		27%	9%	16%	18%
Goodwill	9,401	10,629	11,289	12,100	12,312		11%	12%	13%	13%		-12%	-6%	-7%	-2%
Intangible assets	7,235	10,499	12,843	14,272	15,299		8%	12%	14%	16%		-31%	-18%	-10%	-7%
Other long-term assets	4,560	4,248	4,207	4,407	4,661		5%	5%	5%	5%		7%	1%	-5%	-5%
Total non-current assets	51,351	53,260	56,698	59,037	58,751		58%	61%	63%	64%		-4%	-6%	-4%	0%
Total assets	$ 87,896	$ 87,270	$ 90,093	$ 92,023	$ 90,055		100%	100%	100%	100%		1%	-3%	-2%	2%
Liabilities and stockholders' equity															
Liabilities															
Current liabilities															
Short-term debt	$ 16,503	$ 16,025	$ 15,806	$ 22,682	$ 17,925		19%	18%	18%	25%		3%	1%	-30%	27%
Accounts payable	2,288	2,682	2,795	2,089	1,933		3%	3%	3%	2%		-15%	-4%	34%	8%
Deferred income taxes		692						1%				-100%			
Taxes payable	757	679	775	911	759		1%	1%	1%	1%		11%	-12%	-15%	20%
Accrued liabilities	5,259	4,887	5,485	5,637	6,261		6%	6%	6%	6%		8%	-11%	-3%	-10%
Other current liabilities	2,387	1,567	2,069	1,055	933		3%	2%	2%	1%		52%	-24%	96%	13%
Total current liabilities	27,194	26,532	26,930	32,374	27,811		31%	30%	30%	35%		2%	-1%	-17%	16%
Non-current liabilities															
Long-term debt	31,182	29,684	28,407	19,063	19,154		35%	34%	32%	21%		5%	4%	49%	0%
Deferred taxes liabilities	2,522	3,753	4,691	5,636	6,152		3%	4%	5%	6%		-33%	-20%	-17%	-8%
Minority interest	1,905	158	210	241	267		2%	0%	0%	0%		1106%	-25%	-13%	-10%
Other long-term liabilities	8,021	4,081	4,301	4,389	3,498		9%	5%	5%	5%		97%	-5%	-2%	25%
Total non-current liabilities	43,630	37,676	37,609	29,329	29,071		50%	43%	42%	32%		16%	0%	28%	1%
Total liabilities	70,824	64,208	64,539	61,703	56,882		81%	74%	72%	67%		10%	-1%	5%	8%
Stockholders' equity															
Common stock	1,760	1,760	1,760	1,760	1,760		2%	2%	2%	2%		0%	0%	0%	0%
Additional paid-in capital	15,864	14,993	14,016	13,154	12,276		18%	17%	16%	14%		6%	7%	7%	7%
Retained earnings	60,430	65,502	65,018	63,408	61,660		69%	75%	72%	69%		-8%	1%	3%	3%
Treasury stock	(50,677)	(47,988)	(45,066)	(42,225)	(39,091)		-58%	-55%	-50%	-46%		6%	6%	7%	8%
Accumulated other comprehensive income	(10,305)	(11,205)	(10,174)	(5,777)	(3,432)		-12%	-13%	-11%	-6%		-8%	10%	76%	68%
Total stockholders' equity	17,072	23,062	25,554	30,320	33,173		19%	26%	28%	33%		-26%	-10%	-16%	-9%
Total liabilities and stockholders' equity	$ 87,896	$ 87,270	$ 90,093	$ 92,023	$ 90,055		100%	100%	100%	100%		1%	-3%	-2%	2%

Appendix C

Statement of Comprehensive Income and Vertical/Horizontal Analyses

COCA COLA CO (KO)													
Statement of Comprehensive Income													
For the years ended December 1													
							Vertical Analysis				**Horizontal Analysis**		
USD in millions except per share data.	Dec-17	Dec-16	Dec-15	Dec-14	Dec-13	Dec-17	Dec-16	Dec-15	Dec-14	Dec-17	Dec-16	Dec-15	Dec-14
Revenue	$ 35,410	$ 41,863	$ 44,294	$ 45,998	$ 46,854	100%	100%	100%	100%	-15%	-5%	-4%	-2%
Cost of revenue	13,256	16,465	17,482	17,889	18,421	37%	39%	39%	39%	-19%	-6%	-2%	-3%
Gross profit	22,154	25,398	26,812	28,109	28,433	63%	61%	61%	61%	-13%	-5%	-5%	-1%
Operating expenses									0%				
Sales, General and administrative	12,496	15,262	16,427	17,218	17,310	35%	36%	37%	37%	-18%	-7%	-5%	-1%
Restructuring, merger and acquisition	1,088					3%	0%	0%	0%				
Other operating expenses	(857)	1,510	1,657	1,183	895	-2%	4%	4%	3%	-157%	-9%	40%	32%
Total operating expenses	12,727	16,772	18,084	18,401	18,205	36%	40%	41%	40%	-24%	-7%	-2%	1%
Operating income	9,427	8,626	8,728	9,708	10,228	27%	21%	20%	21%	9%	-1%	-10%	-5%
Interest Expense	841	733	856	483	463	2%	2%	2%	1%	15%	-14%	77%	4%
Other income (expense)	(1,844)	243	1,733	100	1,712	-5%	1%	4%	0%	-859%	-86%	1633%	-94%
Income before taxes	6,742	8,136	9,605	9,325	11,477	19%	19%	22%	20%	-17%	-15%	3%	-19%
Provision for income taxes	5,560	1,586	2,239	2,201	2,851	16%	4%	5%	5%	251%	-29%	2%	-23%
Net income from continuing operations	$ 1,182	$ 6,550	$ 7,366	$ 7,124	$ 8,626	3%	16%	17%	15%	-82%	-11%	3%	-17%
Net income from discontinuing ops	101												
Other	(35)	(23)	(15)	(26)	(42)								
Net income	1,248	6,527	7,351	7,098	8,584	4%	16%	17%	15%	-81%	-11%	4%	-17%
Net income available to common shareholders	1,248	6,527	7,351	7,098	8,584								
Earnings per share													
Basic	$ 0.29	$ 1.51	$ 1.69	$ 1.62	$ 1.94								
Diluted	$ 0.29	$ 1.49	$ 1.67	$ 1.60	$ 1.90								
Weighted average shares outstanding													
Basic	4,272	4,317	4,352	4,387	4,434								
Diluted	4,324	4,367	4,405	4,450	4,509								
EBITDA	8,843	10,656	12,431	11,784	13,917								

Appendix D

Stock Market Comparison