BofA SECURITIES

Consumer Staples

Refreshing Beverages

Initial Opinion - Credit

11 March 2024

High Grade Credit
United States
Consumer Staples

Spreads lack carbonation – Marketweight

While we continue to prefer Beverages relative to Packaged Food within Consumer Staples due to the sector's competitive scale and defensive brand portfolios, medium-term growth opportunities paired with higher margins, and less M&A re-leveraging risk, we reiterate our Marketweight on PepsiCo and Coca-Cola and initiate coverage of Molson Coors at Marketweight. Our outlook reflects strong execution, balance sheet management, and stable cash generation offset by limited relative valuation upside (peers have stronger credit improvement paths ahead with flat to wider spreads). In this report, we include updated credit overviews, key charts, our recommendation, relative value and issuance outlook(s), and financial model with forecasts.

Recommendation summaries

PepsiCo (PEP): A top-tier credit profile, conservative (<3x leverage) capital allocator with diversified exposure and consistent productivity-led savings driving mid-single-digit % EBITDA growth in FY24-25. Tight spreads reflect PEP's execution abilities and fair valuation; avg. +5bps vs. peer KO (intermediates) and flat to +5bps (long-end) given PEP's heavier duration mix. Limiting upside are globally diversified peers with minimal incremental operating and credit risk trading +15-35bps cheaper and PEP already valued between AA and A indices. To outperform, Frito-Lay will need to sustain strong growth, NA Beverages accelerate toward 15% margins, and FCF conversion return >90% to fund high shareholder returns and strategic M&A.

The Coca-Cola Co (KO): Strong performance, LT international growth prospects, and low execution risk but spread tightening is curtailed by fair relative valuation vs. PEP (KO deserves to trade slightly rich vs. PEP, in our view, given better margins and credit metrics, more defensive portfolio) and single-A peers along with limited visibility into the IRS tax liability and anticipated debt supply ($6bn est. in 3Q). A negative resolution (beyond '07-'09) could add a $10bn liability while at the CAGNY conference KO seemed to display renewed inorganic growth ambitions adding modest downside risk to spreads.

Molson Coors Beverage Co (TAP): Notable strides have been made to reposition the core, premiumize and add non-beer brands, improve efficiency, and recover margins. An unwavering financial policy, FCF generation, and limited shareholder returns have also stabilized the balance sheet and improved leverage (to 2.7x from >5x) leaving its credit profile firmly within BBB. Offsetting this is inferior scale, geographic diversification (consistent Int'l growth elusive), and margins vs. peers and an unproven turnaround relative to competitor missteps. We expect -LSD% volume contraction, slower credit metric progress, and an ambitious LT growth algorithm if competition resumes and margins decelerate (already nearing '17 highs) in FY24-25E. Trading flat to slightly wider, we believe Keurig Dr. Pepper and Constellation Brands offer better value with stronger growth tailwinds, more visible execution and deleveraging opportunity, and better margin support vs. TAP near-term.

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Timestamp: 11 March 2024 07:11PM EDT

Beverages sector update

Following an array of recent management meetings, strategic updates at the CAGNY (Consumer Analyst Group of New York) conference, FY24 outlooks, and forecasted issuance, we refresh our views on PepsiCo and Coca-Cola Co, and add coverage of Molson Coors Beverage Co. We are Marketweight each capital structure, reflecting strong execution and balance sheet management, dependable brand portfolios, and stable cash generation offset by limited relative valuation upside (including peers with stronger credit improvement paths ahead vs. spreads). Below we include company descriptions and key charts, an overview of FY24 and LT growth algorithms, our recommendations and relative value, a summary of credit highlights and issuance outlook, and our financial model.

PepsiCo (PEP)

Company Description

PepsiCo, Inc. (PEP) is a global food and beverage company generating $91.5bn of revenue and $16.8bn of EBITDA for 18.4% margin (FY23). The company was formed through a merger between Pepsi-Cola and Frito-Lay and has since engaged in other notable M&A including buying Seven-Up International and Kentucky Fried Chicken (1986), Aquafina (1992), Tropicana Products (1998), Quaker Oats (2001) and numerous other smaller (but multi-billion $) transactions through its history. Leveraging its own operations, authorized bottlers, contract manufacturers and other third parties, PEP manufactures, markets, distributes and sells a wide variety of category-leading salty, savory and convenient snacks, foods, carbonated and non-carbonated beverages. The company has a large, complementary portfolio of brands that includes Lay's, Doritos, Cheetos, Gatorade, Pepsi-Cola, Aquafina, Quaker, and SodaStream. PEP currently operates and serves consumers in over 200 countries and territories. By category, Convenient Foods makes up 59% of net sales and Beverages the remaining 41%, with both categories expected to grow +MSD% over the long term.

FY24 Outlook and Long-term Growth Algorithm

Exhibit 1: FY24E and long-term growth algorithms

PEP recalibrated FY24 expectations to be at least at the low-end of its LT algorithm

	FY24E	Long-term
Org. revenue growth	At least +4% y/y	+4-6% y/y
Core operating margin	--	+20-30bps y/y
Core EPS (ex-FX)	+7% y/y or $8.15	+HSD% y/y
Cash returns to shareholders	$1bn share repurchase	~3% dividend yield

Source: Company filings

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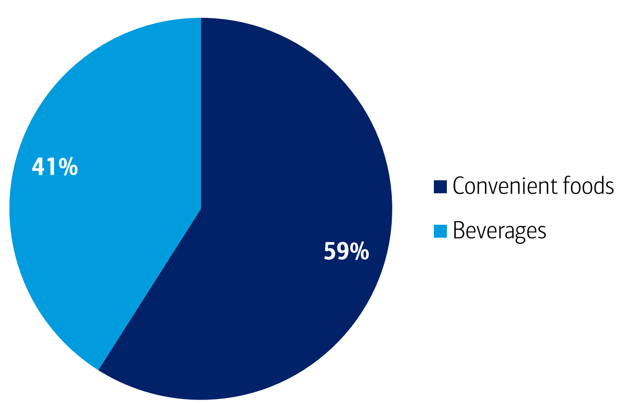
Recommendation: Marketweight Cash

We believe PEP's credit profile is top-tier within Consumer Staples and commensurate with its high-A rating. The business offers diversified exposure across solid growth salty snacks and cash generative beverages with brand and marketing reinvestment funded by consistent productivity-led savings. Consistent execution is delivered while managing to a conservative A-rated balance sheet (<3x leverage w/ Tier-1 ST rating commitment). PEP is well positioned to grow EBITDA at a mid-single-digit % FY24-25, near the high-end of its LT algorithm, backed by its core portfolio, advantaged go-to-market distribution, and innovation-led expansion into new consumption occasions. The portfolio is highly complementary to other consumables and its products have high velocities, making them strong cash flow contributors supporting elevated shareholder payouts and capital projects near term. On occasion, management will address strategic gaps in the portfolio via M&A funded with debt.

Our Marketweight is based on already tight spreads reflecting PEP's execution abilities and track record and fair valuation, trading an avg. +5bps vs. peer KO (intermediates) and flat to +5bps wider in the long-end given PEP's heavier duration mix. This is consistent with a +/- 5bps historical valuation gap between the non-alcoholic beverage leaders. Valuation vs. other high-quality comps has become a bit more balanced vs. 6-9mo. ago (including 10s30s steepening to +26 vs +20 prior), but investors can still buy a AA- global diversified conglomerate like Nestle at relatively even spread, Unilever +15-25bps back (undergoing strategic restructuring) or leading consumer healthcare (Kenvue) or spirits (Diageo) issuers +20-35bps cheaper. Kenvue has similar growth prospects, lower leverage and stronger margins and Diageo is more globally diversified with premium brands and margins and comparable leverage but A3/A- rated. Overall, each have only minimally incremental operating and credit risk. Relative to the indices, PEP is split between the ICE BofA AA and A indices, which also looks sensible. For PEP spreads to outperform or compress to AA comps like P&G (-20-30bps inside PEP), we think Frito-Lay NA (mid-40% of profit) would need to sustain its record of strong execution and maintain to slightly improve margins. NA Beverages (PBNA) will also need to accelerate progress toward ~15% margins (500bps upside) by strengthening brands and velocities (including Dew and the Energy portfolio), driving price/mix, while reducing costs (distribution, administrative and supply chain). Lastly, FCF conversion must improve back >90% (vs 75% in FY24E) to provide PEP with ample flexibility to fund high shareholder returns and make opportunistic acquisitions (when available).

Key Charts

Exhibit 2: PepsiCo: Mix by category (FY23 revenue)
PEP revenue split is skewed towards foods



Source: Company filings

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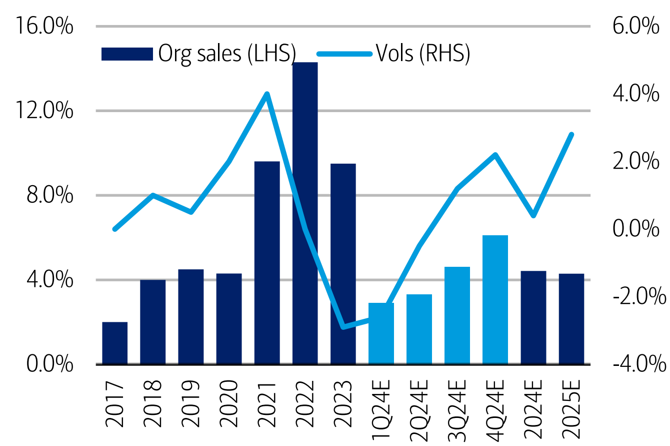
Exhibit 3: Organic sales vs volume trends
We see org sales returning to pre-COVID levels in '24-'25



Source: BofA Global Research estimates, Company filings

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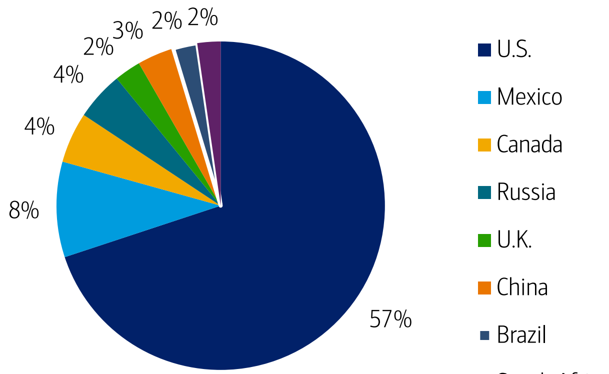
Exhibit 4: Revenue split by country (FY23 net revenue)
PEP is 61% North America and 39% International



Source: Company filings

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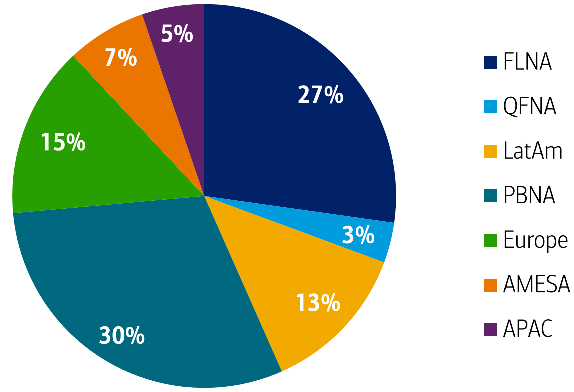
Exhibit 5: Revenue split by segment (FY23 net revenue)
PBNA is PEP's largest segment by sales



Source: Company filings

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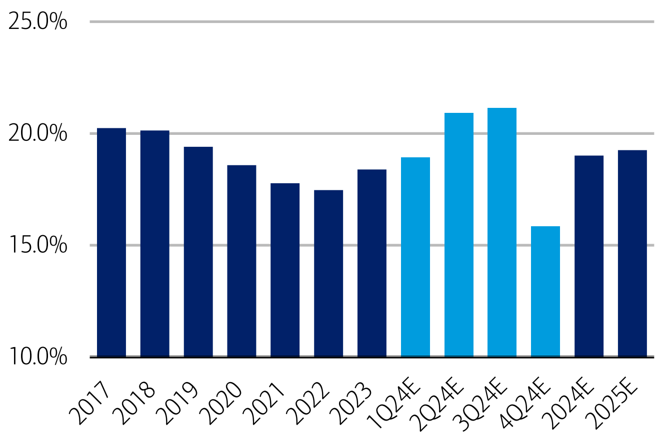
Exhibit 6: Adj EBITDA margin
We forecast EBITDA margins above 20% in '24



Source: BofA Global Research, Company filings

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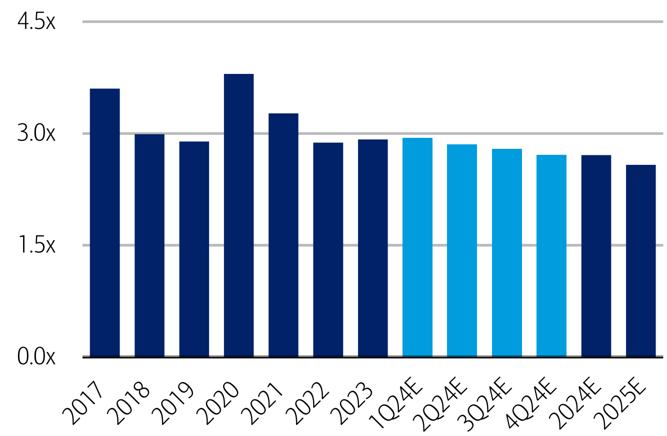
Exhibit 7: Adj leverage
Adj gross leverage hovers below 3.0x as of FY23 end



Source: BofA Global Research, Company filings

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Credit Highlights and CAGNY 2024 Takeaways

We recently met with Chairman and CEO Ramon Laguarta and EVP/CFO Jamie Caulfield (following 4Q23 results) and heard a strategic update at CAGNY 2024 in late-Feb. The company's message focused on the benefits of investing behind their brands (A&P), their infrastructure and supply chain modernization, and innovation to drive category growth and share gains in all channels. Key opportunities ahead will be flavor and functionality innovation and new occasions to address changing consumer trends and tap into low per capita consumption globally. Gatorade was highlighted as the brand expands usage occasions (not just sport recovery) and pack formats (i.e., powder). International (39% of sales) is also a major driver as PEP looks to integrate its products into local consumption rituals and leverage local bottling partners for distribution. PEP has increased capex spending over the last couple of years to enhance productivity, digitalization, and AI capabilities. Levels are expected to remain elevated near-term before moderating in FY25-26. Management reaffirmed the LT algorithm and capital allocation priorities as expected and in FY24 top-line expectations were softened to ≥ +4% but this has been offset by EBITDA and margin upside of late.

Strategy highlights – Innovation and International

- Snacking category growth slowed in 4Q (volumes missed est.) and is expected to linger into 1H24. PEP expects less pricing contribution as inflation moderates. Out-of-home consumption mix also hurts volumes given smaller portion and pack sizes.

- Consumer-centric innovation across food and beverages looks toward 'positive choices' by offering reduced salt/sugar, canisters and multi-pack offerings, bolder flavors, and using healthier ingredients like whole grains or lentils.

- Entering new occasions through packaging innovation (minis, portable powders and tablets) and personalization options. Plan to enter more of the food-away-from-home space and extend brands into meal occasions (sides and ingredients) or other categories (i.e., alcohol with Hard Mtn Dew).

- Seek to sharpen holistic cost management efforts while leaning into convenience trends, value offerings, various flavor and packaging combinations, and PEP's strong go-to-market capabilities.

- **PepsiCo Foods North America:** Broaden portfolio to capture new needs and occasions via innovation (new flavors, packaging optionality). The permissible snacking category is growing 2.5x the category rate (i.e., PopCorners, Sun Chips or Simply variety).

- **PepsiCo Beverages North America:** Expanding liquid refreshment beverage (LRB) offerings to address new consumer trends (zero sugar, energy, flavor extensions) while repositioning Mtn Dew. Pepsi remains solid and new Starry is expanding in the lemon-lime category. We expect price/mix to remain positive in '24. Gatorade's transition to direct store delivery (DSD) allows for better execution around seasonality and weather and improves route efficiency and positioning/frequency in retail channels. We do not expect large scale bottler refranchising to drive margins given PEP's preference to control the execution and speed of engagement with retailers and direct-to-consumer.

- **International:** Focus on gaining value share and investing behind per capita consumption of their categories while building scale in both LRB and savory snacks. Affordability, availability (distribution), and engagement with local rituals is critical to expanding consumption aside from macroeconomic growth tailwinds. Countries such as China, Turkiye, Saudi Arabia, Thailand, India, Poland and Romania have the biggest growth opportunities medium-term.

Financials and LT algorithm

- This was EVP/CFO Jamie Caulfield's first public investor presentation since former Vice Chairman/CFO Hugh Johnston left for Disney – his message and tone was consistent with prior language and our expectations.

- Capital allocation priorities: (1) invest in business for capacity, digitization, optimization; (2) pay and grow dividend; (3) selectively consider acquisitions, divestitures, and partnerships under strict strategic and financial lenses; and (4) share repurchases.

- Capital spending peaked in 2019 (6.0% of sales) and has slowed gradually. Expected to moderate more so into '25 and '26. Capital investment in the US will mostly be focused on technology and productivity vs. growth initiatives international (innovation, capacity, distribution, etc.).

- **LT growth algorithm**: (1) org sales +4-6%; (2) core operating margin expansion +20-30bps annually; (3) core EPS (ex-FX) growth +HSD%; and (4) ~3% dividend yield.
- **Issuance outlook**: PEP issued $2.5bn short duration notes in November 2023 and $1.75bn across 3Y (fixed and floating), 5Y, 10Y in February 2024 under a new entity (Singapore Financing I Pte Ltd). We believe new issuance from this Singapore subsidiary is tied to tax advantages and cash efficiency for PEP internally as the interest expense can be deducted both domestically and in Singapore against local income, effectively lowering the borrowing cost. For the balance of FY24, we est. PEP issuance of $1.5bn.

Financial Model

Exhibit 8: PEP financial model

FY17-FY25E financials

($ Millions)	2017	2018	2019	2020	2021	2022	2023	1Q24E	2Q24E	3Q24E	
Income Statement											
Net Sales	$ 63,525	$ 64,661	$ 67,161	$ 70,372	$ 79,474	$ 86,392	$ 91,471	$ 18,167	$ 22,746	$ 24,203	$
Change YoY	*1.2%*	*1.8%*	*3.9%*	*4.8%*	*12.9%*	*8.7%*	*5.9%*	*1.8%*	*1.9%*	*3.2%*	
EBIT	10,490	10,620	10,602	10,531	11,414	12,325	13,875	2,816	4,046	4,376	
Operating Margin	*16.5%*	*16.4%*	*15.8%*	*15.0%*	*14.4%*	*14.3%*	*15.2%*	*15.5%*	*17.8%*	*18.1%*	
EBITDA	$ 12,859	$ 13,019	$ 13,034	$ 13,079	$ 14,124	$ 15,088	$ 16,823	$ 3,436	$ 4,759	$ 5,116	$ 4,636
EBITDA Margin	*20.2%*	*20.1%*	*19.4%*	*18.6%*	*17.8%*	*17.5%*	*18.4%*	*18.9%*	*20.9%*	*21.1%*	
bps change	29	(11)	(73)	(82)	(81)	(31)	93	(9)	60	95	
Net Interest Expense	(907)	(966)	(935)	(1,128)	(1,021)	(939)	(819)	(235)	(240)	(235)	
Net Income (cont ops)	7,524	8,065	7,775	7,688	8,688	9,421	10,533	2,095	3,074	3,343	
Adjusted EPS	$ 5.23	$ 5.66	$ 5.53	$ 5.53	$ 6.26	$6.79	$7.62	$1.52	$2.23	$2.43	
growth YoY	*8.0%*	*8.2%*	*(2.3)%*	*(0.0)%*	*13.2%*	*8.5%*	*12.2%*	*1.5%*	*6.7%*	*8.0%*	
Cash Flow											
Net Income	4,908	12,559	7,353	7,175	7,679	8,978	9,155	2,095	3,074	3,343	
D&A	2369	2399	2432	2548	2710	2763	2948	620	713	740	
Change in Working Capital	(792)	541	(216)	339	1,093	(1,247)	(148)	(2,575)	(200)	1,465	
Cash Flow from Operations	$10,030	$9,415	$9,649	$10,613	$11,616	$10,811	$13,442	($0)	$3,581	$5,423	
Capital Expenditures	(2,969)	(3,282)	(4,232)	(4,240)	(4,625)	(5,207)	(5,518)	(1,388)	(1,388)	(1,388)	
Free Cash Flow	$7,061	$6,133	$5,417	$6,373	$6,991	$5,604	$7,924	($1,388)	$2,194	$4,035	
Share Buyback, net	(1,543)	(1,721)	(2,671)	(1,821)	79	(1,362)	(884)	(215)	(215)	(215)	
Dividends	(4,472)	(4,930)	(5,304)	(5,509)	(5,815)	(6,172)	(6,682)	(1,745)	(1,865)	(1,862)	
Debt issued/ (repaid) inc ST											
Cash Balance EOP	$ 19,510	$ 8,993	$ 5,738	$ 9,551	$ 5,988	$ 5,348	$ 10,003	$ 6,891	$ 6,144	$ 8,112	$
Metrics											
LTM Sales	$ 63,525	$ 64,661	$ 67,161	$ 70,372	$ 79,474	$ 86,392	$ 91,471	91,792	92,216	92,967	
LTM EBIT	10,490	10,620	10,602	10,531	11,414	12,325	13,875	13,889	14,076	14,423	
Adj. EBITDA LTM	**13,389**	**13,504**	**13,622**	**13,527**	**14,190**	**15,576**	**17,249**	**17,293**	**17,515**	**17,897**	
Margin (%)	21.1%	20.9%	20.3%	19.2%	17.9%	18.0%	18.9%	*18.8%*	*19.0%*	19.3%	
Total Debt	$ 39,281	$ 32,321	$ 33,691	$ 44,150	$ 42,378	$ 41,487	$ 44,105	$ 44,583	$ 43,717	$ 43,717	$
Adj Debt/ Adj EBITDA	3.6x	3.0x	2.9x	3.8x	3.3x	2.9x	2.9x	2.9x	2.9x	2.8x	
Total Debt/ Equity	357.7%	221.3%	226.6%	325.8%	262.4%	240.2%	236.7%	-105.4%	-105.3%	-112.3%	-
Net Debt/ LTM EBITDA	2.8x	2.3x	2.5x	3.2x	2.9x	2.6x	2.4x	2.5x	2.5x	2.3x	
FCF/ Total Debt	18%	19%	16%	14%	16%	14%	18%	-3%	5%	9%	

Source: BofA Global Research, Company filings

The Coca Cola Co (KO)

Company Description

The Coca-Cola Company (KO) is a globally leading non-alcoholic beverage company, generating sales of $45.8bn and EBITDA of $16.3bn (FY23) across more than 200 countries and territories. The company manufactures, markets, distributes and sells a diverse mix of category-leading sparkling flavors, water, sports, coffee and tea, juice, valued-added dairy and plant-based beverages, and emerging beverages. KO has also recently entered the alcohol ready-to-drink beverage space via hard seltzers, hard alternatives, and pre-mixed cocktails. The product mix is sold either as concentrate operations (58% of net sales, 83% of unit case volume) or finished product operations (42% of net sales, 17% of unit case volume). KO utilizes independent bottling partners, distributors, wholesalers, retailers, and its own consolidated bottling and distribution partners. It's five largest independent bottling partners represented 42% of total company global volumes in 2023. Unit case volume outside the U.S. represented 84% of KO's worldwide unit case volume (61% sparkling soft drinks, including 42% trademark Coca-Cola).

FY24 Outlook and Long-term Growth Algorithm

Exhibit 9: FY24 and long-term growth algorithm

KO sees +4-6% top-line CAGR and 2.0-2.5x net leverage in long-term

	FY24	Long-term
Organic revenue	+6-7% y/y	+4-6% y/y
Operating income	--	+6-8% y/y
EPS	+4-5% y/y	+7-9% y/y
FCF	~$9.2bn	90-95% conversion
CapEx	~$2.2bn	--
Net leverage	--	2.0-2.5x

Source: Company filings

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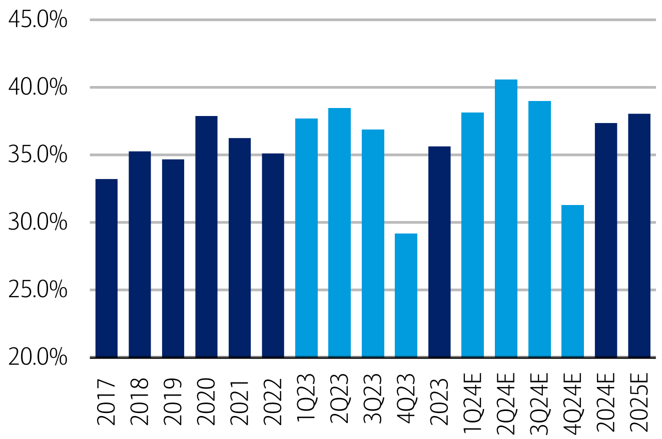
Recommendation: Marketweight Cash

We maintain a Marketweight rating on KO given limited relative value upside vs. single-A Staples peers even despite solid performance, LT international growth prospects, and low execution risk. Additionally, we believe spread tightening is curtailed by limited visibility into the IRS tax liability and anticipated debt supply ($6bn est. in 3Q). Relative to its closest comp PepsiCo (PEP), KO has significantly stronger margins and credit metrics and a more defensive portfolio (albeit more concentrated) vs. snacking experiencing soft category growth impacting volumes. This, in our view, justifies KO trading slightly rich to PEP (vs. historically +/- 5bps differential on avg.). We believe valuation is fair, trading wide to strong operator AA's like P&G and Walmart, flat to AA-global diversified conglomerate Nestle (historically was +15bps), but +20-30bps inside A rated Kenvue or Diageo. Downside risks that could weigh on credit metrics medium-term include a negative resolution of the company's tax case vs. the IRS (beyond just the 2007-2009 period) leading to an added $10bn liability and/or renewed inorganic growth ambitions we heard at CAGNY.

Key Charts

Exhibit 10: EBITDA margin forecast
We est. EBITDA margins can reach 38% in '25



Source: BofA Global Research estimates, Company filings

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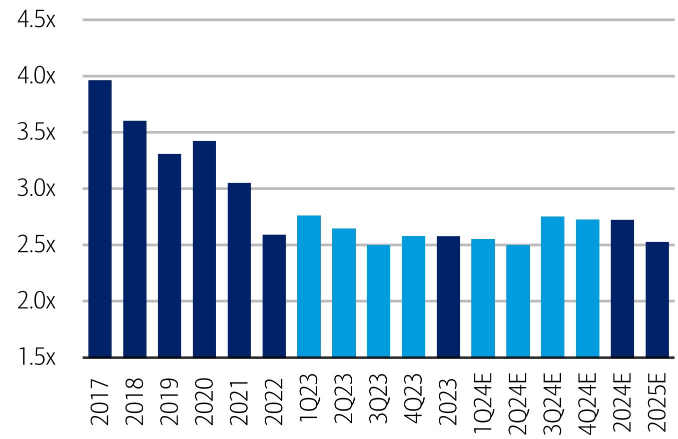
Exhibit 11: Adj leverage forecast
Adj leverage declined steadily from '17-'22



Source: BofA Global Research estimates, Company filings

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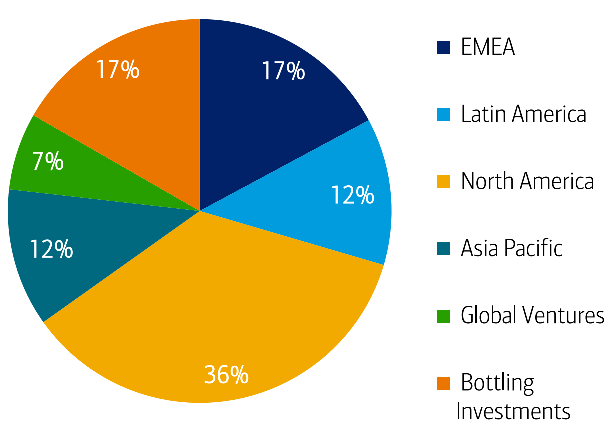
Exhibit 12: Revenue mix by geography and segment (FY23)
KO's geographic exposure is well diversified



Source: Company filings

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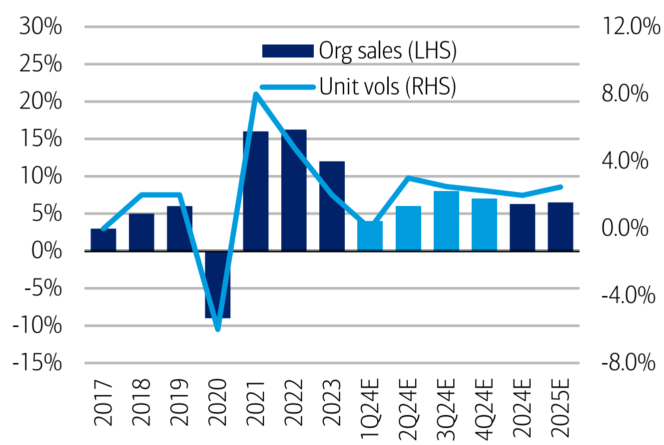
Exhibit 13: Org sales vs volumes
We forecast steadily volumes into '24



Source: BofA Global Research estimates, Company filings

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Credit highlights and CAGNY 2024 takeaways

KO executed well in 2023, generating +12% organic sales on +2% unit case volumes against challenging '22 comparisons and a volatile global operating landscape where KO is more exposed. EBITDA grew +8% y/y, margins expanded +53bps, led by gross margin recovery (>+100bps), and gross/net leverage fell slightly to 2.6x and 1.7x, respectively. This is below KO's net leverage target of 2.0-2.5x, which means the balance sheet and KO's ratings are highly capable of handling an expected escrow payment (est. $6bn in early 3Q24) once the tax court finalizes its opinion in favor of the IRS in the matter of back tax payments.

At CAGNY, KO management reviewed its strong performance and outlook via its "all-weather" portfolio and operating strategy. Over the medium term, KO sees additional opportunity for share gains, particularly in developing markets (international) where it can use tools like digitalization and a consumer-centric playbook to meet evolving needs.

Apart from its leadership in the sparkling soft drinks categories (core Coke, Zero Sugar and Sprite and Fanta), KO is focused on selectively pursuing innovation in energy, value-added dairy, and ready-to-drink beverages by leveraging brand building, marketing, and product reinvestment. Once past the initial IRS liability, we believe KO could look to explore inorganic growth either through brands or capabilities. As expected, the company reaffirmed its LT growth algorithm.

Strategic highlights – Multi-category execution and International opportunity

- Expected category growth (2024-2027 CAGRs): Coca-Cola Trademark (+4-5%), Sprite, Fanta and other sparkling soft drinks (+4-5%), Juice, Value-added Dairy and Plant-based Beverages (+3-5%), Water, Sports, Coffee and Tea (+5-6%), Coffee (+5-6%), Energy (+8-9%), Emerging categories (+6-8%).

- Expanding in emerging categories: eight different ventures in ready-to-drink alcohol, which sum to over $1bn in retail sales.

- Utilizing digitization to drive scale and capacity expansion. Given over 50% of sales are via mom-and-pop stores internationally, KO is integrating technology to optimize marketing and packaging for those channels/formats.

- KO's bottling system is a key advantage in their eyes internationally that enables potential for fast expansion and global scale.

Financials and LT algorithm – FX and refranchising noise

- **FY24 outlook:** a) +6-7% org sales, b) comparable EPS +4-5% (assumes -400-500bps FX headwind and -200bps headwind from refranchising), c) ~$9.2bn FCF including $2.2bn capex for capacity and India expansion

- **LT growth algorithm:** a) +4-6% org sales, b) +6-8% operating income (ex-FX), c) +7-9% comp adj EPS (ex-FX), d) 90-95% adj FCF conversion.

- Capital allocation priorities: 1) reinvest in the business, 1/3 of reinvestment will be to support franchise in Africa and Asia ($2.2bn capex), 2) continue to grow dividend, 3) opportunistic, dynamic M&A and share repurchases. Net leverage target reaffirmed at 2.0-2.5x vs. 1.7x at YE23.

- **Issuance outlook:** KO has not issued since 2021 as we await the IRS tax case ruling. In FY24, we est. $6bn of issuance to cover the liability from the pending 2007-2009 ruling that will be put into escrow. Aside from the IRS case, debt maturities (<$2bn cross-currency) can be repaid with cash in our forecast.

Financial Model

Exhibit 14: KO financial model
FY17-FY25E financials

($ Millions)	2017	2018	2019	2020	2021E	2022	2023	1Q24E	2Q24E	3Q24
Income Statement										
Net Sales	**36,218**	**34,291**	**37,280**	**32,999**	**38,658**	**43,046**	**45,784**	**10,740**	**11,846**	**12,03**
Change YoY	*-16.0%*	*-5.3%*	*8.7%*	*-11.5%*	*17.1%*	*11.4%*	*6.4%*	*-2.0%*	*-1.0%*	*1.0*
EBIT	9,606	9,886	10,409	9,770	11,109	12,345	13,336	3,391	3,896	3,74
Operating Margin	*26.5%*	*28.8%*	*27.9%*	*29.6%*	*28.7%*	*28.7%*	*29.1%*	*31.6%*	*32.9%*	*31.1*
EBITDA	**12,030**	**12,091**	**12,923**	**12,500**	**14,012**	**15,111**	**16,314**	**4,094**	**4,805**	**4,68**
EBITDA Margin	*33.2%*	*35.3%*	*34.7%*	*37.9%*	*36.2%*	*35.1%*	*35.6%*	*38.1%*	*40.6%*	*39.0*
bps change	282	204	(60)	322	(163)	(114)	53	43	211	2
Net Interest Expense	(136)	(288)	(383)	(583)	(500)	(457)	(645)	(165)	(165)	(21
Net Income (cont ops)	8,301	9,021	9,104	8,435	10,086	10,803	11,677	2,929	3,515	3,36
Adjusted EPS	**$1.92**	**$2.10**	**$2.11**	**$1.95**	**$2.32**	**$2.48**	**$2.69**	**$0.68**	**$0.81**	**$0.7**
growth YoY	*-6%*	*9%*	*1%*	*-8%*	*19%*	*7%*	*8%*	*(0)%*	*4%*	*6*
Cash Flow										
Net Income	1,248	6,451	9,485	7,747	9,771	9,537	10,714	2,929	3,515	3,36
DandA	1,260	1,086	1,365	1,536	1,452	1,260	1,128	310	315	32
Change in Working Capital	3,442	(1,240)	366	690	1,325	(605)	(846)	(2,650)	900	60
Cash Flow from Operations	**7,041**	**7,627**	**10,471**	**9,844**	**12,625**	**11,018**	**11,599**	**469**	**4,444**	**4,09**
Capital Expenditures	(1,750)	(1,548)	(2,054)	(1,177)	(1,367)	(1,484)	(1,852)	(550)	(550)	(55
Free Cash Flow	**5,291**	**6,079**	**8,417**	**8,667**	**11,258**	**9,534**	**9,747**	**(81)**	**3,894**	**3,54**
Share Buyback, net	(2,087)	(436)	(91)	529	591	(581)	(1,750)	(300)	(250)	(20
Dividends	(6,320)	(6,644)	(6,845)	(7,047)	(7,252)	(7,616)	(7,952)	(105)	(2,068)	(2,06
Debt issued/ (repaid) inc ST	1,055	(2,995)	(1,841)	(1,862)	228	1,902	1,450	(535)	(359)	5,00
Cash Balance EOP	6,006	8,926	6,480	6,795	9,684	9,519	9,366	8,345	9,561	9,83
Metrics										
LTM Sales	36,218	34,291	37,280	32,999	38,658	43,046	45,784	45,565	45,445	45,564
LTM EBIT	9,606	9,886	10,409	9,770	11,109	12,345	13,336	13,239	13,356	13,56
Adj. EBITDA LTM	**12,030**	**12,091**	**12,923**	**12,500**	**14,012**	**15,111**	**16,314**	**16,277**	**16,481**	**16,77**
Margin (%)	33.2%	35.3%	34.7%	37.9%	36.2%	35.1%	35.6%	35.7%	36.3%	36.8
Total Debt	**47,685**	**43,555**	**42,763**	**42,793**	**42,761**	**39,149**	**42,064**	**41,529**	**41,169**	**46,16**
Adj Debt/ LTM adj. EBITDA	**4.0x**	**3.6x**	**3.3x**	**3.4x**	**3.1x**	**2.6x**	**2.6x**	**2.6x**	**2.5x**	**2.8**
Net Debt/ LTM adj. EBITDA	2.2x	2.3x	2.4x	2.6x	2.2x	1.8x	1.7x	1.8x	1.7x	1.

Source: BofA Global Research estimates, Company filings

Molson Coors Beverage Co (TAP)

Company Description

Molson Coors Beverage Company (TAP) is the 4th largest global beer company formed via a series of acquisitions dating back to Molson's founding in 1786 and later Coors in 1873. Molson and Coors merged to form Molson Coors Brewing Co in 2005 and with the purchase of the remaining 58% JV stake in MillerCoors in 2016 from SABMiller (for $12bn or 11.5x EBITDA) the company has evolved into a total beverage portfolio. TAP now generates net sales of $11.7bn and EBITDA of $2.4bn (FY23). The portfolio houses iconic core beer brands but is also investing behind its above premium portfolio and expanding in non-beer categories (flavored malt beverages, imports, hard seltzer). Core brands include *Coors Light, Miller Lite, Coors Banquet, Carling*, *Blue Moon, Staropramen,* and *Madri*. The company categorizes its brands into the following price classifications: above premium (28% of sales on brand volume basis); premium (i.e., majority of brand volume including Coors properties and Miller Lite); and economy (i.e., Miller High Life, Keystone, Milwaukee's Best). TAP also houses partner brands licensed through agreements with third parties: *Arnold Palmer Spiked, Simply Spiked, Topo Chico Hard Seltzer,* and *Zoa* are examples. As of FY23, TAP generated 69% of net sales in the US, 11% in Canada, 11% in the UK, and 9% across EMEA and APAC. TAP's primary segments are the Americas (73% of brand volumes) and EMEA and APAC (27% of volumes). In the US and Canada, TAP competes most directly with Anheuser-Busch InBev and Constellation Brands while in Europe and Asia the biggest competitors are Anheuser-Busch InBev, Asahi, Carlsberg, and Heineken. In the US, TAP uses a network of ~330 independent distributors and one company owned distributor (Coors Distribution Company) to purchase products and distribute them to both on and off premise retail accounts. A normalized level of volume from the on-premise channel is ~16% in the US and Canada and ~61% in the UK.

Family ownership

As of the 2023 proxy statement (FY22), Pentland Securities (a company controlled by the Molson family and related parties) and Adolph Coors Co LLC and Adolph Coors, Jr Trust (entities controlled by the Coors family and related parties) control 95.5% of Class A shares and 14.6% of Class B shares. While there is no super-voting control of Class A, this class votes exclusively on change-of-control matters and must vote as a block. This means if the Coors and Molson families don't agree on a transaction, it will fail to proceed.

FY24 Outlook and Long-term Growth Algorithm

Exhibit 15: FY24E and long-term growth algorithms

TAP expects +LSD% sales growth annually

	FY24E	Long-term
Net sales growth (ex-FX)	+LSD% y/y	+LSD% y/y
Underlying EBT (ex-FX)	+MSD% y/y	+MSD% y/y
Adj underlying EPS	+MSD% y/y	+HSD% y/y
Underlying free cash flow	$1.2bn +/- 10%	--
Net leverage	~2.25x	< 2.5x

Source: Company filings

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Recommendation: Marketweight Cash

We initiate coverage of TAP bonds with a Marketweight rating. Following lengthy revitalization efforts (dating back to '18-'19) paired with a volatile consumption environment, we believe the company has made notable strides to reposition its core, improve efficiency and recover margins through better market execution. The portfolio has premiumized via stronger innovation and refreshed marketing, added compelling partnerships and new brands outside beer, while the more streamlined organization allowed cost savings to be directed toward necessary brand and capability reinvestment. Most crucially, TAP has been resolute in its IG financial policy and FCF generation (5-yr avg. $1.2bn/yr) leading to today's stabilized balance sheet (Baa2/Pos and BBB/Sta from Baa3/Sta and BBB-/Neg) and improved leverage profile (2.7x from 5.3x post-MillerCoors M&A). Our reservations are: (1) the turnaround is unproven under "normal" operating conditions (how much is internal reform and revamped execution vs. ST category favorability and a competitor's major U.S. misstep); (2) we expect beer volumes to resume -LSD% contraction in FY24-25; (3) the integration and control of Miller brands since '16 has never realized material international or emerging market growth; (4) TAP has already achieved its <2.5x net leverage target meaning slower credit metric progress, rising shareholder returns, and likely debt refinancing ahead; and (5) the new LT growth algorithm appears ambitious if competition resumes and margins decelerate near '17 highs (our model assumes at best the low-end of LT growth for EBT and EPS).

We believe TAP's rebound is fully captured in current spread levels and will perform in line with BBB Beverage and Food peers until it proves recent share gains, further EBITDA expansion and conservative capital allocation can be sustained medium-term.

Relative value is satisfactory

Looking at relative value (see comps in Exhibit 16), TAP's rating, interest coverage and leverage profile is near the high-end of BBB peers, but this is offset by inferior scale, geographic diversification, and margins vs. peers. We credit TAP for consistently adhering to a conservative financial policy and having a strong track record vs. peers; management used equity in the MillerCoors acquisition (partly out of balance sheet necessity), cut its dividend during COVID, didn't repurchase stock for ~8 years and has not engaged in any sizeable M&A. This is most similar to SYY (Sysco, trading flat) and AB InBev (-30bps tighter having recovered to A3/A-). Regarding risk of change of control or a pivot to more aggressive capital decisions, we think TAP benefits from dual-family ownership and its Class A shares (although we note the pressure STZ (Constellation Brands) faced in '22, eventually converting to a single-class structure). Trading flat to slightly wider, we believe KDP (Keurig Dr Pepper) and STZ offer better value with stronger growth tailwinds, more visible execution and deleveraging opportunity, and better margin support vs. TAP in FY24. Alternatively, we prefer holding TAP vs. packaged food (like UW-rated General Mills or Kellanova '46's) where M&A, private label competition or category consumption may erode credit metrics and spread valuations faster (see link to Packaged Food - Reference Guide, 16 February 2024 for more perspective).

Exhibit 16: Relative Value Table

TAP trades flat to similarly rated Consumer Staples peers

	Molson Coors (TAP)	Constellation Brands (STZ)	Kraft Heinz (KHC)	Keurig Dr Pepper (KDP)	Sysco (SYY)
Info	4.20% 7/15/2046	4.50% 5/9/2047	4.375% 6/1/2046	4.42% 12/15/2046	4.50% 4/1/2046
Rating	Baa2/BBB/--	Baa3/BBB/--	Baa2/BBB/BBB	Baa1/BBB/--	Baa1/BBB/BBB
Outlook	P / S / --	S / S / --	S / S / S	S / S / --	S / S / S
Market Cap ($B)	$13.2	$45.7	$42.5	$40.5	$39.5
Adj. Debt/EBITDA	2.7x	3.2x	3.2x	3.1x	2.9x
Net Debt/EBITDA	2.3x	3.2x	3.0x	3.1x	2.7x
Sales	$11,702	$9,820	$26,640	$14,814	$76,325
EBITDA	$2,423	$3,574	$6,307	$4,244	$3,846
EBITDA Margin	20.70%	36.39%	23.67%	28.65%	5.04%
Amt. Outstanding	$1,800	$500	$2,786	$400	$500
T-Spread	T+113	T+120	T+121	T+110	T+112
G-Spread	G+114	G+117	G+119	G+107	G+111
Dollar Price	$82	$86	$85	$87	$87
YTW	5.62%	5.58%	5.59%	5.50%	5.55%

Source: BofA Global Research, Company filings, Bloomberg

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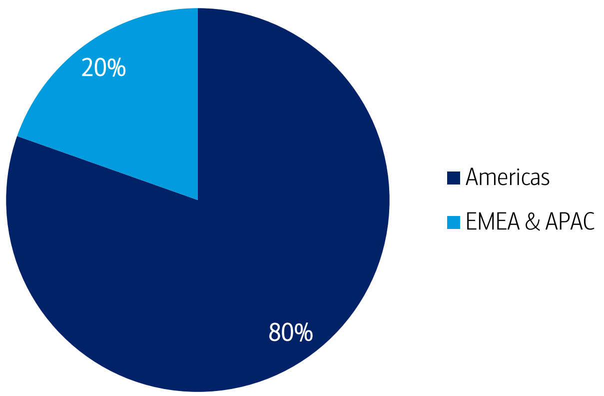
Key Charts

Exhibit 17: Net sales by geographic segment, FY23
80% of sales generated from the Americas



Source: Company filings

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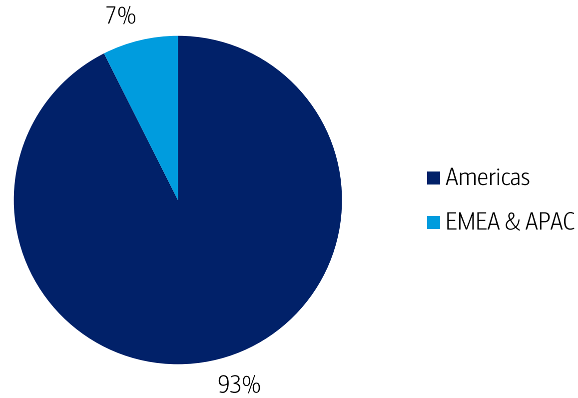
Exhibit 18: Underlying EBT by geographic segment, FY23
EMEA and APAC comprise only 7% of total profit



Source: Company filings

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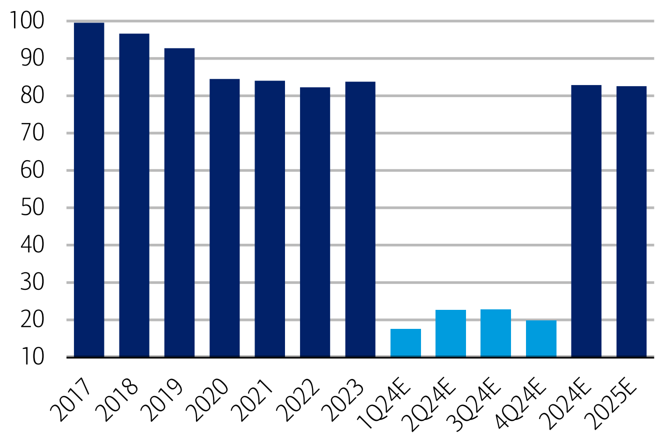
Exhibit 19: Financial volumes (mns, hL)
Financial volumes have declined since '17 levels



Source: BofA Global Research estimates, Company filings

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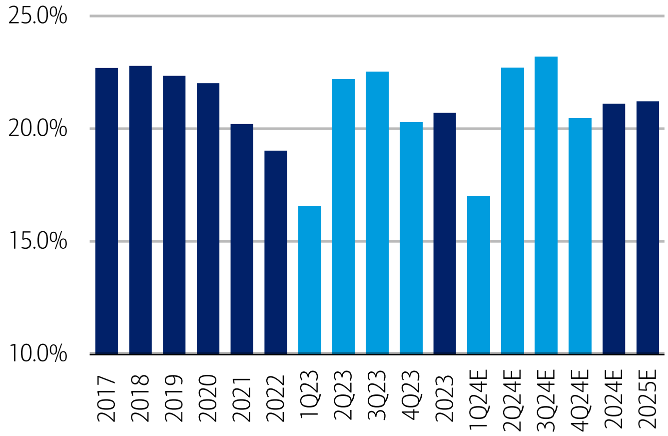
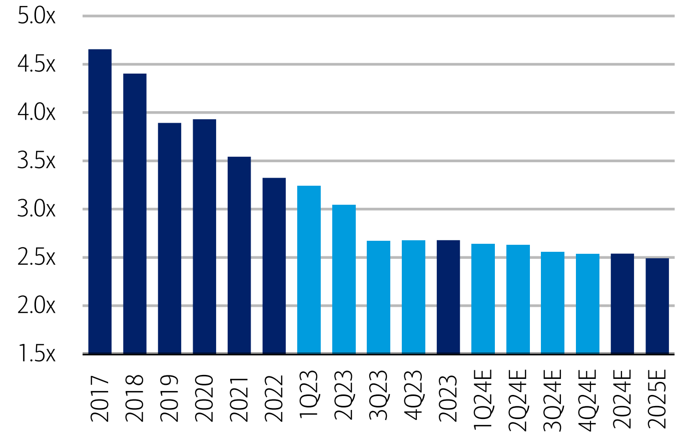
Exhibit 20: EBITDA margin forecast
Margins recovered in '23 on share gains, but remain below pre-COVID



Source: BofA Global Research estimates, Company filings
BofA GLOBAL RESEARCH

Exhibit 21: Adj leverage forecast
TAP stayed disciplined cutting debt post MillerCoors, reaching est. 2.5x in '25



Source: BofA Global Research estimates, Company filings
BofA GLOBAL RESEARCH

Credit highlights and CAGNY 2024 Takeaways

At TAP's recent investor day (Oct 2023) and again at CAGNY (Feb 2024), management has emphasized their strategic shift from a turnaround (the old "Revitalization plan") into an outlook for accelerating growth. It has not required a major change in current business strategy, but rather further enhancing it in FY24 and working to maintain FY23's market share momentum. This includes a focus on core brand investment (digital marketing, shelf and sales execution), premiumization, expansion in beyond beer (non-alcohol, spirits and other beverages), and building out additional infrastructure capabilities. Together, these are the key pillars behind TAP's confidence that recent US improvement will become structural and share gains will continue in both on- and off-premise into FY24.

Our FY24 view: TAP's revived execution abilities will be put to the test in 2Q-4Q24 as (1) the domestic beer industry laps the Bud Light brand disruption in April; and (2) TAP cycles inventory stock-up activity. We expect performance to be bumpy including negative financial volumes and revenue mid-year and overall FY24 net revenue only +1.1% y/y (vs. org. sales guidance of +LSD (low-single-digit) % on top of '23's elevated base). Spring shelf resets will be key where TAP expects avg. space up >10% for its core Miller and Coors brands. Given spread valuation, we think risk/reward skews wider if top-line turns negative or pricing cannot offset volume (hL) contraction. This may be mitigated by improving efficiencies and mix, driving margins +40-50bps (est.) in FY24 led by gross margins.

Having maintained a very disciplined financial policy since acquiring MillerCoors JV, focused on continuous debt repayment ($5.1bn since FY17, reaching 2.2x net leverage) and rating improvement (from Baa3/BBB- to mid-BBB), TAP may now pivot to more "dynamic capital allocation" decisions in FY24+. We assume this includes sustainable dividend growth (+M-HSD% y/y), share buybacks ($450-600mn over FY24-25), while maintaining LT net leverage <2.5x.

Debt and issuance outlook: TAP repaid C$ 500mn in July (3Q23) and has a €800mn maturity in July 2024 (3Q24). Based on their comfortable balance sheet position (<2.5x) and our FCF est. of $1.2bn less $825mn shareholder returns, we assume at least $650mn of debt issuance in 1H24. The partial or full refinancing could come in USD and/or EUR given the latter's natural hedging benefit and lower coupon vs. USD issuance. This would be TAP's first time in the bond market since 2017.

Operating strategy pivots to growth

TAP seeks to grow its core beer 'power brand' sales (60% of total sales in US + Canada) via distinct/differentiated brand positioning, enhanced marketing platforms to retain and attract new drinkers, and driving sales execution and returns through share of displays (seeing display lifts of +26-27% for Coors/Miller vs. Bud Light flat and Michelob Ultra +17%).

- Coors Light, Miller Lite and Blue Moon account for 73% of global brand volume vs. Carling, Staropramen and Madri accounting for 27%,
- Coors Light and Miller Lite shifted from -MSD (mid-single-digit) % and share losses in 2018 to notable improvement across markets and on-premise. At this stage, we think investors can afford to wait to see if these trends are sustained before adding more exposure.
- Focused on creating fewer but stronger brands: TAP has reduced its innovation pipeline by 50% but still increased revenue generation from new products by 50% (notably in high flavor and non-alcoholic segments, see below).
- Dialing up media and marketing spending behind Coors Banquet given less brand awareness and distribution (50%) vs. Coors Light.
- Molson Canadian has turned around from declining -HSD (high-single-digit) % to gaining sales and volume.

They will aggressively "premiumize" the portfolio across beer and flavors with a goal for the above premium segment to reach 33% of total sales in the medium-term (vs. 23% in '19 and 28% in '22). The 'Beyond beer' category is expected to fuel 50% of the above premium growth. Blue Moon will get a packaging refresh and 'Light Sky' will be rebranded to Light. We also expect core brands (i.e., Coors or Peroni) will be pushed into non-core markets, leveraging brand equity, at higher price points, although the track record of executing this internationally as been mixed, in our view.

Another area of focus is scaling and growing 'Beyond beer' via a more diversified portfolio, expanding in non-alcohol (currently <1% beer sales but growing +DD%), and driving margins with an expanding business in full-strength spirits.

- FABs (flavored alcohol beverages), hard seltzers, and RTDs (ready to drink) have grown from 5% to 13% of total alcohol beverage sales in three years with flavor driving the most consumer experimentation.
- Non-alcohol: Core beer brand replacements and adjacencies to compete with alcohol occasions + pure-play innovation (ZOA energy and signaled entry into an additional drink category next year).

- Spirits: Whiskey and high-end whiskey is in focus as demonstrated by the recent Blue Run acquisition.

Marketing enhancement: Capabilities investment (i.e., analytics capabilities to target specific consumers on specific channels) by gaining share in e-commerce and growing digital spending (>60% media spending in the US).

- Strong credibility with distributors on approach to category management and retailers who are re-drawing plan-o-grams adding shelf space (cu ft) and units in fall '23. TAP believes this will occur again in spring '24 (sourcing from Bud Light).

- Media investment +15% in the US and indicated it will remain strong in '24 including a Super Bowl 2024 spot (Coors Light). TAP does not see a need for further step-up from current levels. We est. marketing, general and administrative expenses (MG&A) as % of sales will remain stable at 23.5-24% in FY24-25.

- TAP historically under-indexed in the convenience store channel (which controls 33% of beer industry volumes) but they expect to gain momentum in FY24.

Supply chain and brewing enhancement: They are investing in in-house capacity for flavor production and co-packing. They are also working to achieve cost savings by reducing third-party contract manufacturing, freight costs, and simplifying overall logistics.

Dynamic capital allocation

Having reached 2.5x net leverage, TAP sees more optionality ahead. Priorities are:

- Reinvesting (capex $600-700mn area with no material step-up required, will look toward infrastructure investment for Beyond Beer);

- Reducing net debt, <2.5x, with desire to maintain mid-BBB rating; and

- return cash to shareholders (new share buyback and intent to sustainably increase dividend over time).

Bolt-on M&A focus (cited ~$100mn type level or "string of pearls"), expected to be funded using cash from operations. The intent is to fill white space(s) and build scale, though geographic consolidation in beer is unlikely due to antitrust (in our view).

- Indicated desire to fully scale up Spirits as another pillar of total beverage alcohol growth

Announced $2bn share repurchase authorization over the next five years ($400mn annually, but we are modeling $450mn in FY24 and $600mn in FY25 given cash generation and balance sheet capacity) – this bridges the incremental +3% between underlying income growth and EPS growth in the growth algorithm (below).

The LT net leverage ratio target was lowered slightly from 2.5x to now below 2.5x – TAP expects modest further absolute debt reduction (repaid C$ 500mn in July and EUR 800mn maturity in '24), but we think there is flexibility for partial or full refinancing in 1H24.

LT Financial algorithm (new) and FY24 guidance

- **Long-term**: (1) Net sales +LSD%; (2) Underlying income before income taxes +MSD%; and (3) Underlying EPS +HSD% (all ex-FX), which was in line with expectations late last year.

- **FY24's outlook** is consistent with the LT algorithm excluding a heavier tax drag on EPS: (1) net sales +LSD% (ex-FX) vs. our +1.1% est.; (2) underlying EBT +MSD% (ex-FX) vs. our +3.6% est.; (3) adj EPS +MSD% vs our +4.7% est.; (4) D&A ~$700mn +/-

5%; (5) net interest expense $210mn +/- 5%; (6) capex $750mn +/- 5%; (7) underlying free cash flow unchanged at $1.2bn +/- 10% vs. our $1.17bn est.; and (8) underlying tax rate 23-25%.

- Sales drivers will be via core beer brands (see share gains despite ongoing assumption of underlying beer volume contraction), beyond beer, mix and pricing that reverts back to historical trend (+1-2% in US) and trend near inflation in EMEA/APAC.

- Margin levers include global pricing, above-premium mix benefits from premiumization, productivity and cost savings (i.e., capacity and co-packing, brewery enhancement, procurement, Golden, CO brewery modernization) and better marketing effectiveness (lower % of spending on non-working media $).

- TAP hedges commodities over the longer-term relative to peers (typically one to three years). We expect some lagging benefit of hedges rolling off will support margins in FY24 and potentially into FY25.

Credit Strengths

- Stable core beer brands and U.S. market share position over time. Benefitted in 2023 from significant disruption at key competitor (AB InBev's Bud Light and associated halo).

- Conservative financial policy as evidenced by a long-term reduction in balance sheet debt, and lack of material shareholder returns even when equity returns were under pressure. In late 2023, management took additional steps lowering its net leverage target to <2.5x and announcing a modest share buyback program ($2bn over 5-yrs).

- Actively defended IG ratings, and publicly committed to and later achieved mid-BBB ratings. We think TAP has a decent cushion within current Baa2/BBB ratings and upside to Baa1 at Moody's based on FY24 performance (we think this is unwarranted relative to STZ at Baa3/Stable).

- Consistent free cash flow generation of $1.2-1.3bn annually including $500-750mn of capex. We forecast $1.2bn in FY24E and FY25E despite elevated capex. Payouts as a % of FCF have been minimal, avg. 26% since 2017. We est. that steps up to 71-83% in FY24-25E.

- Management making investments in diversification to move into "beyond beer" categories such as Zoa energy distribution and Topo Chico Hard Seltzer partnership with Coca Cola. TAP's efforts around premiumization and partnerships have been working.

- Experiencing on-premise share gains (gaining tap handles), off-premise gains (shelf space allocations) and success with the 2020 launch of Madri Excepcional (UK, Canada, Ireland, Spain).

- TAP's 'premium' portfolio is well positioned for trade down activity or tightening consumer budgets (spirits and wine into beer or super premium beer into premium and economy beer).

Credit Concerns

- Consumption headwinds from declining beer category growth (-LSD% volumes), particularly in developed markets. Spirits and wine are also taking value share while premium, craft and import beers remain competitive alternatives. Mexican lagers are growing +L-MSD% y/y.

- Scale and diversification is below avg. vs. food and beverages peers.

- Supply chain disruption (including brewery and distribution interruption) and elevated COGS/hL inflation has shaved 200-250bps off EBITDA margins, in our view.

- Exposure to FX and commodity volatility paired with a lengthy hedging program can mean elongated periods of favorability or cost headwind vs. peers.

- While brand awareness and importance to retailers is high due to volume, we think TAP's Coors and Miller franchises have limited pricing power when not justified by inflation and during periods of economic stress.

- Limited market size or penetration for no alcohol or low alcohol beer relative to water, energy, seltzer or other hydration alternatives.

- We believe there is limited evidence to-date of TAP's ability to sustain recent share gains. Bud Light brand fallout could ease, resulting in a tide reversal in summer '24.

- Teamsters strike at Forth Worth, TX brewery (approaching one-month in duration) is 12% of TAP's total production capacity. Contingency plans are in place and the brewery remains operational with five other breweries it can shift volume to and use co-manufacturers for flavors, if needed, but this adds cost and reduces efficiency.

- Seasonality of cash flow; 1Q typically an outflow period due to working capital required for spring and summer inventory build vs. 2H much stronger after summer beer sales.

- Legacy media reports that TAP engaged in a strategic review of its portfolio with the intent of potentially selling its European business unit, including the Carling and Staropramen brands (*Dealreporter*, June 2020). We expect a similar action today would both reduce diversification and see cash distributed toward shareholders.

Financial Model

Exhibit 22: TAP Financial Model

FY17-FY25E financials

($ Millions)	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**1Q24E**	**2Q24E**	**3Q24E**	**4Q24**
Income Statement											
Net Sales	$ 11,003	$ 10,770	$ 10,579	$ 9,684	$ 10,282	$ 10,701	$ 11,702	$ 2,487	$ 3,234	$ 3,256	$ 2,85
Change YoY	*0.2%*	*-2.1%*	*-1.8%*	*-8.5%*	*6.2%*	*4.1%*	*9.4%*	*6.0%*	*-1.0%*	*-1.3%*	*2.2*
EBIT	1,683	1,592	1,502	1,284	1,266	1,319	1,717	248	561	581	40
Operating Margin	*15.3%*	*14.8%*	*14.2%*	*13.3%*	*12.3%*	*12.3%*	*14.7%*	*10.0%*	*17.4%*	*17.9%*	*14.3*
EBITDA	$ 2,497	$ 2,454	$ 2,364	$ 2,132	$ 2,078	$ 2,036	$ 2,423	$ 423	$ 734	$ 755	$ 584
EBITDA Margin	*22.7%*	*22.8%*	*22.3%*	*22.0%*	*20.2%*	*19.0%*	*20.7%*	*17.0%*	*22.7%*	*23.2%*	*20.5*
bps change	99	9	(44)	(33)	(181)	(118)	168	45	51	68	1
Net Interest Expense	343	298	273	271	258	246	209	49	52	54	5
Net Income (cont ops)	978	1,091	985	852	902	893	1,179	151	387	401	26
Adjusted EPS	$4.52	$5.04	$4.54	$3.92	$4.15	$4.11	$5.43	$0.70	$1.82	$1.90	$1.2
growth YoY	*4.3%*	*11.5%*	*(9.8)%*	*(13.7)%*	*5.7%*	*(0.9)%*	*32.2%*	*31.5%*	*2%*	*-1%*	*7*
Cash Flow											
Net Income	1,588	1,135	246	(946)	1,009	(187)	956	151	387.2	400.7	266
DandA	813	858	859	922	786	685	683	175	173	174	17
Change in Working Capital	17	(88)	(13)	76	(36)	(183)	80	(320)	295	85	(5
Cash Flow from Operations	$1,866	$2,331	$1,897	$1,696	$1,574	$1,502	$2,079	$6	$855	$660	$39
Capital Expenditures	322	(652)	(594)	(575)	(523)	(661)	(672)	(188)	(188)	(188)	(18
Free Cash Flow	$1,327	$1,712	$1,419	$1,280	$1,077	$873	$1,418	($181)	$668	$472	$20
Share Buyback, net	*4*	*16*	*2*	*4*	*5*	*(48)*	*(198)*	*(113)*	*(113)*	*(113)*	*(11*
Dividends	(353)	(354)	(424)	(125)	(148)	(329)	(355)	(94)	(94)	(93)	(9
Debt issued/ (repaid) inc ST	(1,090)	(694)	(1,588)	(917)	(1,005)	(506)	(398)	0	0	(150)	
Cash Balance EOP	$419	$1,058	$523	$770	$637	$ 600.00	$ 868.90	$482	$ 944.27	$ 1,062.02	$ 989.6
Metrics											
LTM Sales	11,003	10,770	10,579	9,684	10,282	10,701	11,702	11,843	11,810	11,767	11,82
LTM EBIT	1,683	1,592	1,502	1,284	1,266	1,319	1,717	1,751	1,763	1,770	1,79
Adj. EBITDA LTM	2,497	2,454	2,364	2,132	2,078	2,036	2,423	$ 2,457	2,466	2,479	2,49
Margin (%)	*22.7%*	*22.8%*	*22.3%*	*22.0%*	*20.2%*	*19.0%*	*20.7%*	*20.7%*	20.9%	21.1%	21.1
Total Debt	$ 11,314	$ 10,488	$ 9,204	$ 8,382	$ 7,363	$ 6,562	$ 6,224	$ 6,224	$ 6,224	$ 6,074	$ 6,07
Adj Debt/ Adj EBITDA	4.7x	4.4x	3.9x	3.9x	3.5x	3.3x	2.7x	2.6x	2.6x	2.6x	2.5
Net Debt/ LTM EBITDA	4.5x	4.0x	3.7x	3.6x	3.2x	3.0x	2.3x	2.4x	2.2x	2.1x	2.

Source: BofA Global Research estimates, Company filings

Valuation & risk

Coca-Cola Co (KO)

The Coca-Cola Co., the world's largest non-alcoholic beverage company, is well supported by an immense global scale & distribution system, geographic diversification, high brand awareness, LT market share opportunity within a growing total beverage industry, strong cash conversion and top-tier EBITDA margins supported by internal initiatives. This is offset by CSD category pressure, unwavering commitment to an aggressive dividend payout using nearly all FCF generation, uncertain emerging markets recovery along with USD exposure, M&A ambitions to reshape its portfolio, and a pending tax liability that could require significant issuance.

KO bonds valuation reflect the relatively low business & execution risk and improved credit metrics, but provides little to no spread pickup vs. single-A peers (such as PEP, HSY, EL) driving our Marketweight rating. Upside risk would result from continued on-premise recovery and EBITDA growth driving improved cash flow prospects for debt reduction or the reversal of KO's pending tax liability. Downside risk would result from slower international consumer recovery, faster negative resolution regarding the tax case increasing the scope of debt issuance, balance-sheet financed M&A, or management favoring a payout-based financial policy.

Molson Coors (TAP)

Molson Coors Beverage Co (TAP), a leading global beer company, benefits from stable core beer brands albeit mainstream & N. America-centric, improved operational efficiency, and ongoing portfolio premiumization while expanding into non-beer categories. TAP has successfully funded brand reinvestment while expanding margins & maintaining FCF near $1.2bn annually. Backed by a historically conservative financial policy, this allowed for substantial balance sheet improvement (<2.5x net leverage), achievement of desired mid-BBB ratings, and capital allocation flex. We rate TAP bonds Marketweight given the execution improvement offset by limited spread tightening opportunity vs. BBB beverage & food peers trading at flat to slightly wider spreads. The portfolio turnaround is unproven and TAP's scale, margins and geographic diversification lag vs to peers meaning credit profile improvement should slow in FY24-25 even if cash usage remains disciplined.

Upside risks are TAP's ability to retain/expand share gains from its portfolio repositioning, positive rating trajectory momentum, a small remaining debt capital structure, and further margin expansion from cost savings & efficiency efforts. Downside risks are structural headwinds from declining beer category growth in developed markets, exposure to supply chain & commodity disruption, accelerated M&A or share buybacks funded with debt in excess of refinancing needs, or an inability to maintain growth consistent with its new LT algo.

PepsiCo (PEP)

PepsiCo, a global leader in snacking & beverages, benefits from a defensive branded consumables portfolio that we believe can consistently grow EBITDA at mid-to-high single digits (%) over time backed by distribution, marketing, and innovation investment funded via productivity. Elevated payouts, opportunistic M&A and depressed cash conversion are offset by a disciplined financial policy that focuses on protecting mid-A ratings. We rate PEP Marketweight as we believe spreads fully reflect the company's high-quality performance & track record and that tightening is constrained by single-A peers with only marginally greater risk(s) trading +15-35bps wider on avg. We do not see PEP spreads compressing to AA comps (P&G) without further acceleration in margins & cash flow alongside leverage being closer to 2x.

Upside risks are a faster ramp in productivity & digitization initiatives allowing for progressive margin expansion, notably in PBNA and Internationally, and snacking share gains. An easing of capital investment without a reacceleration of shareholder returns or M&A would be well received as PEP might be less reliant on debt-financing to fund working capital, payouts & refinancing. Downside risks are the inability to recover margins to pre-COVID levels due to costs or competition, historically aggressive debt-financed M&A, or a lagging turnaround at PBNA which might create strategic risk with bottling assets.

Analyst Certification

I, Brian Callen, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Security/Loan pricing

Coca-Cola Co / KO

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
1.5, Senior, USD, 2028:B	750	05-MAR-2028	A1/A+/WD	89.65	08-Mar-2024	4.35	18
2.125, Senior, USD, 2029:B	1,000	06-SEP-2029	A1/A+/WD	89.13	08-Mar-2024	4.37	29
1.75, Senior, USD, 2024:B	1,000	06-SEP-2024	A1/A+/WD	98.30	08-Mar-2024	5.31	4
4.2, Senior, USD, 2050:B	541	25-MAR-2050	A1/A+/WD	89.72	08-Mar-2024	4.90	53
3.45, Senior, USD, 2030:B	1,250	25-MAR-2030	A1/A+/WD	94.44	08-Mar-2024	4.51	44
3, Senior, USD, 2051:B	1,700	05-MAR-2051	A1/A+/WD	71.65	08-Mar-2024	4.91	56
1.65, Senior, USD, 2030:B	1,500	01-JUN-2030	A1/A+/WD	84.60	08-Mar-2024	4.51	45
1.375, Senior, USD, 2031:B	1,300	15-MAR-2031	A1/A+/WD	80.99	08-Mar-2024	4.57	52
2.9, Senior, USD, 2027:B	500	25-MAY-2027	A1/A+/WD	95.44	08-Mar-2024	4.44	17
3.375, Senior, USD, 2027:B	1,000	25-MAR-2027	A1/A+/WD	97.02	08-Mar-2024	4.43	14
1.45, Senior, USD, 2027:B	1,500	01-JUN-2027	A1/A+/WD	91.07	08-Mar-2024	4.45	19
2.5, Senior, USD, 2040:B	1,000	01-JUN-2040	A1/A+/WD	72.79	08-Mar-2024	4.96	69
2.6, Senior, USD, 2050:B	1,500	01-JUN-2050	A1/A+/WD	65.67	08-Mar-2024	4.95	58
2.75, Senior, USD, 2060:B	1,000	01-JUN-2060	A1/A+/WD	65.53	08-Mar-2024	4.75	53
2.5, Senior, USD, 2051:B	1,500	15-MAR-2051	A1/A+/WD	63.94	08-Mar-2024	4.93	58
1, Senior, USD, 2028:B	1,300	15-MAR-2028	A1/A+/WD	87.94	08-Mar-2024	4.30	13
2, Senior, USD, 2031:B	750	05-MAR-2031	A1/A+/WD	84.71	08-Mar-2024	4.58	53
2.25, Senior, USD, 2032:B	2,000	05-JAN-2032	A1/A+/WD	85.60	08-Mar-2024	4.45	40
2.875, Senior, USD, 2041:B	750	05-MAY-2041	A1/A+/WD	76.14	08-Mar-2024	4.96	66

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Molson Coors Beverage Co / TAP

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3, Senior, USD, 2026:B	2,000	15-JUL-2026	Baa2/BBB/WD	95.62	08-Mar-2024	5.00	57
4.2, Senior, USD, 2046:B	1,800	15-JUL-2046	Baa2/BBB/WD	83.31	08-Mar-2024	5.51	110

For pricing information refer to "Other Important Disclosures" below.
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PepsiCo / PEP

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
2.75, Senior, USD, 2030:B	1,500	19-MAR-2030	A1/A+/WD	90.52	08-Mar-2024	4.57	50
3.875, Senior, USD, 2060:B	510	19-MAR-2060	A1/A+/WD	82.08	08-Mar-2024	4.95	73
2.75, Senior, USD, 2051:B	1,000	21-OCT-2051	A1/A+/NR	67.01	08-Mar-2024	4.96	63
3.9, Senior, USD, 2032:B	1,250	18-JUL-2032	A1/A+/NR	95.08	08-Mar-2024	4.62	56
4.2, Senior, USD, 2052:B	500	18-JUL-2052	A1/A+/NR	88.00	08-Mar-2024	5.00	70
4.45, Senior, USD, 2028:B	650	15-MAY-2028	A1/A+/NR	100.64	08-Mar-2024	4.28	12
4.45, Senior, USD, 2033:B	1,000	15-FEB-2033	A1/A+/NR	100.47	08-Mar-2024	4.38	33
4.65, Senior, USD, 2053:B	500	15-FEB-2053	A1/A+/NR	94.62	08-Mar-2024	5.00	73

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

Coca-Cola Co / KO

Company	Date[R1]	Action	Recommendation	
Coca-Cola Co / KO	10-May-2021	Initial	Marketweight	
	01-Nov-2021	Restricted	NA	
	01-Nov-2021	Coverage Resumed	Marketweight	
Security	**Date[R1]**	**Action**	**Recommendation**	**Price**
1.5, Senior, USD, 2028:B	28-Feb-2023		Marketweight	
2.125, Senior, USD, 2029:B	28-Feb-2023		Marketweight	
1.75, Senior, USD, 2024:B	28-Feb-2023		Marketweight	
4.2, Senior, USD, 2050:B	28-Feb-2023		Marketweight	
3.45, Senior, USD, 2030:B	28-Feb-2023		Marketweight	
3, Senior, USD, 2051:B	28-Feb-2023		Marketweight	
1.65, Senior, USD, 2030:B	28-Feb-2023		Marketweight	
1.375, Senior, USD, 2031:B	28-Feb-2023		Marketweight	
2.9, Senior, USD, 2027:B	28-Feb-2023		Marketweight	
3.375, Senior, USD, 2027:B	28-Feb-2023		Marketweight	
1.45, Senior, USD, 2027:B	28-Feb-2023		Marketweight	
2.5, Senior, USD, 2040:B	28-Feb-2023		Marketweight	
2.6, Senior, USD, 2050:B	28-Feb-2023		Marketweight	
2.75, Senior, USD, 2060:B	28-Feb-2023		Marketweight	
2.5, Senior, USD, 2051:B	28-Feb-2023		Marketweight	
1, Senior, USD, 2028:B	28-Feb-2023		Marketweight	
2, Senior, USD, 2031:B	28-Feb-2023		Marketweight	
2.25, Senior, USD, 2032:B	28-Feb-2023		Marketweight	
2.875, Senior, USD, 2041:B	28-Feb-2023		Marketweight	

Table reflects credit opinion history as of previous business day's close.[R1]First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security or loan. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."
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PepsiCo / PEP

Company	Date[R2]	Action	Recommendation	
PepsiCo / PEP	27-Jul-2023	Initial	Marketweight	
Security	**Date[R2]**	**Action**	**Recommendation**	**Price**
2.75, Senior, USD, 2030:B	27-Jul-2023	Initial	Marketweight	90.04
3.875, Senior, USD, 2060:B	27-Jul-2023	Initial	Marketweight	85.66
2.75, Senior, USD, 2051:B	27-Jul-2023	Initial	Marketweight	71.03
3.9, Senior, USD, 2032:B	27-Jul-2023	Initial	Marketweight	96.58
4.2, Senior, USD, 2052:B	27-Jul-2023	Initial	Marketweight	92.88
4.45, Senior, USD, 2028:B	27-Jul-2023	Initial	Marketweight	100.38
4.45, Senior, USD, 2033:B	27-Jul-2023	Initial	Marketweight	100.76
4.65, Senior, USD, 2053:B	27-Jul-2023	Initial	Marketweight	99.92

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Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R3	Count	Percent
Buy	144	37.21%	Buy	119	82.64%
Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

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