

## The Coca Cola Company

## Solid 4Q23 and FY24 guide despite the FX

Reiterate Rating: BUY | PO: 68.00 USD | Price: 59.70 USD

## Adj. EPS beat on organic sales +12% YoY vs +10% BofAe

KO reported 4Q23 in line sales of \$10.95Bn vs BofAe \$10.93Bn and delivered adj EPS of \$0.49 vs BofAe & Consensus of \$0.48/\$0.49, including -13% of FX drag to operating profit. Adj. EPS included about -1c of combined below the line drag vs our model as KO benefitted from +1c of lower interest expense more than offset by -2c of other expense drag vs what we had modeled. Volume growth of +2% was in line with BofAe and Consensus led by strength in Latam and outperformance in Global Ventures and Bottling. Gross margin of 57.8% was +90bps ahead of our estimate helped by +9pts of price/mix vs +6% BofAe/Street, though mostly offset by FX drag on SG&A which came in +120bps above our estimates and drove a slight operating margin miss.

## Key 4Q23 takeaways

1) Organic sales of +12% was ahead of BofAe and Street estimates of +10/+9%. Pricing contributed +9pts to growth with concentrate volume contributing +2pts vs our forecast for +6.1% and +2.3%e growth, respectively. 2) Unit case volume growth of +2% was in line with BofAe. 3) Adj. Operating profit of \$2.53Bn was -1.1% shy of BofAe, with operating margin of 23.1% below BofAe by -30bps given the -13% of FX drag to operating profit. KO outperformed vs BofA on an organic basis across all segments except Global Ventures, led by Asiapac (+10bps ahead), EMEA (+4pts ahead), and in Latam (+3pts ahead).

## FY24 guide in line with ests. despite high FX

KO initiated its FY24 outlook calling for: 1) organic sales growth of +6-7% vs BofAe/Street at +6%; 2) Adj. EPS growth of +4-5% including 4-5pts of FX drag and -2pts of drag from M&A related largely to bottler refranchising across Asia. Guidance implies comparable EPS of \$2.80-2.82 vs BofAe and VisibleAlpha going-in consensus of \$2.80/\$2.81. KO expects a full-year tax rate of 19.2% ex-litigation impacts and provided no further updates on the case. We view initial FY24 guidance as positive given expected profitability in light of more severe FX headwinds which implies better flexibility to take price and drive gross margin, in our view. On the call we look for insight behind volume resiliency, ongoing pricing against hyperinflationary FX, as well as line of sight to those gross margin expansion drivers.

## Maintain Buy rating and \$68 PO

We maintain our Buy rating and \$68 PO that is based on 22x our FY25 EPS estimate, an 11% premium to non-alcoholic beverage peers. In our view, a premium multiple is warranted as KO topline management continues to fuel outperformance.

13 February 2024

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## Stock Data

Price	59.70 USD
Price Objective	68.00 USD
Date Established	15-Dec-2023
Investment Opinion	A-1-7
52-Week Range	51.55 USD - 64.99 USD
Mrkt Val (mn) / Shares Out (mn)	257,068 USD / 4,306.0
Free Float	89.8%
Average Daily Value (mn)	813.63 USD
BofA Ticker / Exchange	KO / NYS
Bloomberg / Reuters	KO US / KO.N
ROE (2023E)	46.2%
Net Dbt to Eqty (Dec-2022A)	114.7%
ESGMeter™	High

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# KO 4Q23 earnings summary

## Exhibit 1: KO 4Q23 income statement and ratios vs BofAe and Consensus

EPS of \$0.49 was 1c ahead BofAe, with net drag below the line of about -1c vs our model

### KO Adjusted (Non-GAAP) Earnings Summary

	4Q23	BofA	% Diff.	\$ Diff	4Q22	% Diff.	\$ Diff	Consensus	% Diff.	\$ Diff
<b>Net sales (non GAAP)</b>	\$10,948	\$10,926	0.2%	\$22	\$10,195	7.4%	\$753	\$10,671	2.6%	\$277
Cost of product sold	4,617	4,704	-1.8%	(87)	4,440	4.0%	177	4,552	1.4%	65
<b>Gross Profit</b>	6,331	6,222	1.7%	109	5,755	10.0%	576	6,119	3.5%	212
Selling general & administrative	3,799	3,662	3.7%	137	3,435	10.6%	364	3,640	4.4%	159
<b>Operating Profit</b>	2,532	2,560	-1.1%	(28)	2,320	9.1%	212	2,479	2.1%	53
Net Interest expense/(interest income)	152	223	-31.8%	(71)	167	-9.0%	(15)	158	-3.6%	(6)
Equity Income	388	362	7.2%	26	329	17.9%	59	358	8.3%	30
Other Income (Expense)	(119)	(80)	48.8%	(39)	(55)	116.4%	(64)	(25)	382.3%	(94)
<b>Income Before Taxes</b>	2,649	2,619	1.2%	30	2,427	9.1%	222	2,655	-0.2%	(6)
Income taxes	506	498	1.7%	8	465	8.8%	41	511	-1.0%	(5)
Net income to other interests	(13)	(25)	-48.0%	12	(25)	-48.0%	12	(19)	-29.9%	6
<b>Net Income - Comparable</b>	2,130	2,096	1.6%	34	1,937	10.0%	193	2,126	0.2%	4
<b>EPS - Comparable</b>	<b>\$0.49</b>	<b>\$0.48</b>	<b>1.8%</b>	<b>\$0.01</b>	<b>\$0.45</b>	<b>10.4%</b>	<b>\$0.04</b>	<b>\$0.49</b>	<b>-0.1%</b>	<b>\$0.00</b>
Diluted Shares Outstanding	4,330	4,339	-0.2%	(9)	4,347	-0.4%	(17)	4,338	-0.2%	(8)

### KO Income Statement Ratios

	4Q23	BofA	Bps. Diff.	4Q22	Bps. Diff.	Consensus	Bps. Diff.
Gross Margin	57.8%	56.9%	90 bps.	56.4%	140 bps.	57.3%	50 bps.
SG&A Ratio	34.7%	33.5%	120 bps.	33.7%	100 bps.	34.1%	60 bps.
EBIT Margin	23.1%	23.4%	-30 bps.	22.8%	40 bps.	23.2%	-10 bps.
Tax Rate	19.1%	19.0%	10 bps.	19.2%	-10 bps.	19.2%	-10 bps.
Net Margin	3.5%	3.3%	20 bps.	3.2%	30 bps.	3.4%	20 bps.

Source: Company reports, BofA Global Research, VisibleAlpha

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## Price objective basis & risk

### The Coca Cola Company (KO)

Our \$68 PO is now based on a target CY25e P/E multiple of 22.4x. Our target multiple implies a 11% premium to non-alcoholic beverage peers, warranted in our view by balanced and resilient organic sales growth supported by their scale and incidence pricing model which has proven to be a tested topline growth lever.

Upside risks to our PO: 1) Strong growth in developed and emerging markets. 2) Weaker US dollar vs. other currencies. 3) Improvement in free cash flow conversion.

Downside risks to our PO: 1) Volatility in developed and emerging markets. 2) EPS headwinds from a stronger dollar. 3) Consumer concerns about sugar and calories.

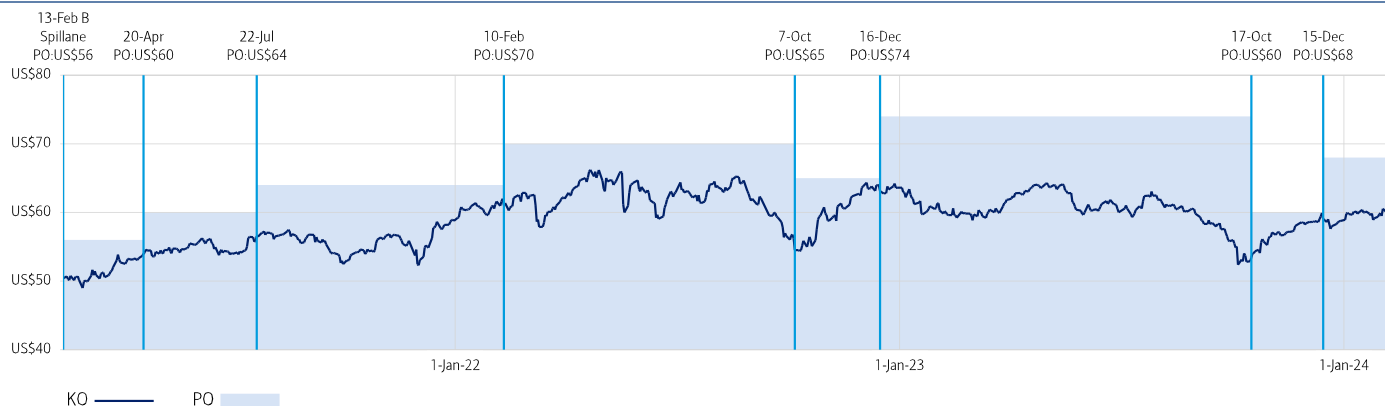
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### Coca Cola (KO) Price Chart



KO — PO —  
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### Equity Investment Rating Distribution: Beverages - Soft Drinks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	11	78.57%	Buy	6	54.55%
Hold	0	0.00%	Hold	0	0.00%
Sell	3	21.43%	Sell	1	33.33%

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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