Beverage Industry Investment Report

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Executive Summary with recommendations:

- ❖ According to our research, the beverage industry is growing steadily. The global non-alcoholic beverage revenue surpassed $1.35 trillion in 2022 and we are expecting higher numbers going into the future. The market trend demonstrates that consumers are favoring healthier/zero-sugar products, which opens up to more portfolio diversification within the industry. Furthermore, the industry's structure is oligopolistic with several big firms dominating the market. The industry also faces inflation and supply chain issues that investors need to be aware of. Overall, the beverage industry is worth a look as it has a stable growth rate with the ability to perform during economic downturns.

In this report, we analyzed three top performers within the industry: Keurig Dr. Pepper, PepsiCo, and Coca-Cola. Below is a table that contains quick summaries of each company's information and our stock recommendations.

Company Name	Strengths	Risks	Buy?Hold?Sell?
Keurig Dr. Pepper(KDP) Stock Price(03/18/25): $33.59	- Diversified portfolio - Omnichannel Distribution - Strong Coffee Business - Strategic Mergers and Acquisitions	- Market Competition - Consumer preference shifts - Inflation and cost pressures - Regulatory and ESG risks	Hold
PepsiCo(PEP) Stock Price(03/18/25): $148.99	- High ROE - Increased investment in AI and global markets - Strong Mergers and Acquisitions	- Weaker global presence compared to competitors - Increased investments in product innovation and global markets - Recently acquired Poppi for $2 billion	Buy/Hold
Coca-Cola(KO) Stock Price(03/18/25): $69.38	- High and Consistent ROE - High market cap compared to competitors -Stacked management team -Lower PE ratio than the sector average -Strong brand awareness and customer loyalty	- Weak liquidity and debt usage - Facing intense competition -Overvalued from the DCF model	Hold

Beverage Industry Overview (2019-2024) and Future Trends:

- **Industry Structure & Key Players**

  The non-alcoholic beverage industry is dominated by a few global giants, with **Coca-Cola** and **PepsiCo** leading in carbonated soft drinks (CSDs). Since 2004, Coca-Cola has been the market leader, holding the most valuable soft drink brand (Statista, 2023). PepsiCo is a close second, bolstered by its broader portfolio that includes snacks (e.g., Frito-Lay), which complement its beverage segment (PepsiCo Annual Report, 2023). **Keurig Dr Pepper (KDP)** emerged in 2018 from a merger, becoming the third-largest U.S. beverage company (KDP Investor Relations, 2023).

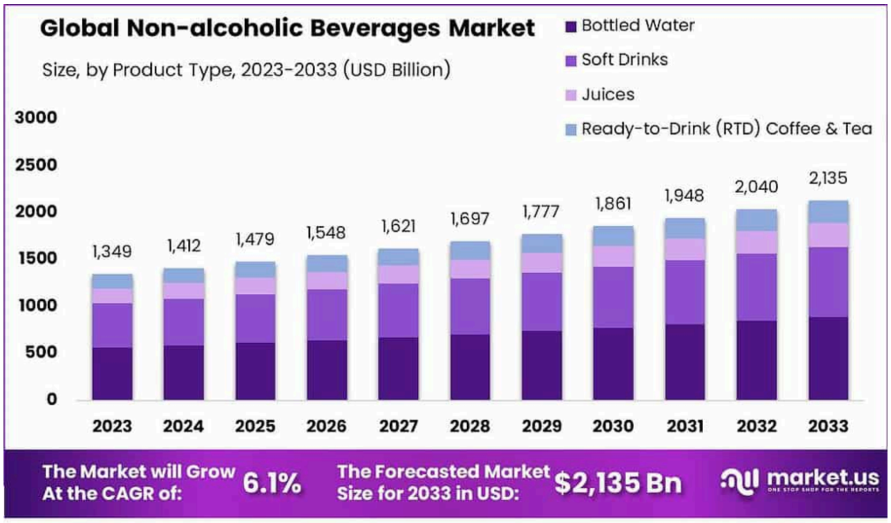
  These three companies control a substantial share of the market: in the U.S., Coca-Cola brands accounted for ~69% of CSD sales in 2023, versus 27% for Pepsi brands (IBISWorld, 2023). Globally, **PepsiCo (18%)**, **Unilever (15%)**, and **Coca-Cola (14%)** hold the largest market shares in the wider non-alcoholic beverages market by revenue (Euromonitor, 2023). Other key players include **Nestlé**, **Danone**, and **Red Bull**, each focusing on categories like bottled water, dairy, or energy drinks (Bloomberg Intelligence, 2023). This industry's structure is oligopolistic—dominated by a few firms with economies of scale in distribution and marketing. Despite fierce competition, the sector's top players benefit from stable demand, strong **brand loyalty**, and pricing power.

  Source: Euromonitor, 2023

- **Product Segments & Diversification**

  Non-alcoholic beverages span **carbonated sodas**, **bottled water**, **juices**, **sports and energy drinks**, and **ready-to-drink (RTD) coffee/tea**. Over the last five years, **consumer preferences have shifted toward healthier options**, reshaping segment dynamics. Bottled water has surpassed soda as Americans' favorite drink by volume since 2016 (Beverage Digest, 2023). Americans consumed *15.7 billion gallons* of bottled water in 2021 (up from 13.7B in 2017), consistently outselling soft drinks (Statista, 2023).

  Coffee and tea have also gained traction, with Coca-Cola (acquiring Costa Coffee) and PepsiCo (via Starbucks RTD partnership) expanding into caffeinated beverages. **Energy drinks** and **sports drinks** outpace traditional soda in growth as well: Coca-Cola took a 16.7% stake in Monster Beverage to cement its energy drink presence (Financial Times, 2023), and in 2021, it acquired full control of BodyArmor sports drink for $5.6B to challenge Gatorade (Forbes, 2023). PepsiCo responded by acquiring Rockstar Energy for $3.85B in 2020 and launching new innovations under its Mountain Dew brand (PepsiCo Investor Report, 2023).



Source: Beverage Digest, 2023

- **Market Trends & Consumer Preferences**

  Consumer tastes have evolved significantly in the past 3-5 years. **Health and wellness** trends are reshaping the industry: shoppers are moving *away from sugary sodas toward lower-calorie or functional drinks*. Both Coca-Cola and PepsiCo have faced consistent volume declines in their flagship cola products in North America, prompting them to innovate with **zero-sugar variants**, smaller package sizes, and acquisitions of healthier brands.

  The **COVID-19 pandemic (2020-2021)** accelerated certain shifts—many consumers focused on immunity and health, leading to resilient demand for bottled water and functional beverages (Nielsen Data, 2022). Even as on-premise sales (restaurants, bars) were disrupted, at-home consumption of soft drinks and juices rebounded quickly after the initial lockdown shock. By 2022, global non-alcoholic beverage revenues had recovered above pre-pandemic levels, reaching *$1.35 trillion* and are on track for steady growth (Statista, 2023).

- **Competition & Innovation**

  The rivalry between Coca-Cola and PepsiCo remains intense but has evolved beyond the traditional "Cola Wars." Both companies have hundreds of brands and are constantly innovating to protect market share. **Key areas of innovation include:**

  - **Product Formulation:** Reducing sugar, adding new flavors, and leveraging natural sweeteners.
  - **Packaging:** More sustainable packaging and diverse package sizes.

- **Digital Marketing & Direct-to-Consumer (D2C):** Expansion of direct-to-consumer sales and digital campaigns.

Keurig Dr Pepper (KDP), as a newer contender, has pursued a strategy of aggressive innovation and acquisition. Between 2018 and 2022, KDP's net sales grew at ~14.6% CAGR—far outpacing the industry's 3–6% average (KDP Annual Report, 2023). KDP's portfolio is a mix of CSD classics (Dr Pepper, 7UP, Canada Dry), successful new brands (**Snapple**, **Bai**, **Core Hydration**), and the Keurig single-serve coffee systems in home kitchens.

- **Investment Perspective & Outlook**

From an investment standpoint, the beverage industry is often considered part of the **defensive consumer staples** sector. Demand for drinks remains stable even in economic downturns, and giants like Coca-Cola and PepsiCo boast **strong margins and cash flows** (Morningstar, 2023). Beverage stocks tend to perform as *low-beta* equities, providing steady returns and income. However, growth is slower in the core soda business, so valuation requires weighing stability against expansion potential.

- **Future growth drivers include:**
  - Emerging markets (where per-capita beverage consumption is rising).
  - New product categories (energy drinks, functional beverages, premium alcohol mixers).
  - Continued mergers and acquisitions to maintain market dominance.

References

1. Statista, "Global Beverage Market Report 2023"
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5. KDP Annual Report, 2023
6. Euromonitor, "Non-Alcoholic Beverage Industry Overview 2023"
7. Nielsen Data, "Consumer Trends Post-COVID" 2022
8. Beverage Digest, "U.S. Beverage Trends Report 2023"
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Keurig Dr. Pepper

Company Overview

Keurig Dr Pepper Inc. (KDP) is a leading North American beverage company that manufactures, markets, and distributes hot and cold beverages, including carbonated soft drinks (CSDs), ready-to-drink coffee and tea, bottled water, juice, and single-serve brewing systems. The company was formed in 2018 through the merger of Keurig Green Mountain and Dr Pepper Snapple Group, creating a diversified beverage portfolio spanning multiple categories.

KDP operates across three key segments:

1. U.S. Refreshment Beverages – Includes CSDs, water, juice, tea, energy drinks, and other ready-to-drink beverages.
2. U.S. Coffee – Primarily consists of the Keurig single-serve brewing system and K-Cup pods, as well as traditional coffee.
3. International – Sales in Canada, Mexico, and the Caribbean, including soft drinks, coffee, and partnerships with third-party brands.

Brand Portfolio

KDP owns and distributes over 125 beverage brands, including:

- Carbonated Soft Drinks (CSDs): Dr Pepper, Canada Dry, A&W, 7UP, Sunkist, Squirt.
- Coffee and Tea: Keurig, Green Mountain Coffee Roasters, The Original Donut Shop, Snapple, La Colombe.
- Water and Hydration: Core Hydration, Bai, Evian, Electrolit.
- Energy and Functional Drinks: C4 Energy, Revive, Accelerate.

Additionally, KDP has strategic partnerships with Starbucks, Dunkin', Peet's Coffee, and La Colombe for K-Cup pods and ready-to-drink (RTD) coffee.

Place in the Market

KDP is the third-largest non-alcoholic beverage company in North America, competing with The Coca-Cola Company and PepsiCo. While those companies dominate the global beverage market, KDP has a strong presence in specific niches, including:

- Carbonated Soft Drinks (CSDs): KDP is the #3 player behind Coca-Cola and PepsiCo, with Dr Pepper being the #2 CSD brand in the U.S. after Coca-Cola.
- Single-Serve Coffee: KDP is the market leader in single-serve coffee brewing systems, with over 40 million Keurig brewers in households across North America. The company controls about 80% of the U.S. K-Cup pod market.
- RTD Coffee and Functional Beverages: KDP is expanding in the fast-growing energy and hydration segments, with investments in brands like La Colombe (RTD coffee), Electrolit (hydration), and C4 Energy (performance energy drink).

Market Position and Competitive Edge

- ➔ Diversified Beverage Portfolio: Unlike Coca-Cola and PepsiCo, which focus primarily on CSDs and sports drinks, KDP has a strong mix of coffee, soft drinks, water, and functional beverages.
- ➔ Omnichannel Distribution: KDP leverages multiple sales channels, including retail, direct-store-delivery (DSD), e-commerce, and foodservice partnerships, allowing it to reach consumers across different purchasing points.
- ➔ Strong Coffee Business: KDP's leadership in single-serve brewing gives it a recurring revenue model through K-Cup pod sales, providing a competitive advantage over competitors that rely only on bottled and canned beverages.
- ➔ Strategic Mergers and Acquisitions: The 2018 merger and recent investments in La Colombe and Electrolit highlight KDP's ability to expand its product mix and market reach.

Management

KDP is led by an experienced executive team. Bob Gamgort serves as Executive Chairman, and Tim Cofer, who joined as Chief Operating Officer in November 2023, is set to transition to CEO in Q2 2024. The leadership team focuses on operational efficiency, brand expansion, and strategic partnerships. The 2018 merger of Keurig Green Mountain and Dr Pepper Snapple Group solidified KDP's position in the beverage market.

KDP also emphasizes ESG (Environmental, Social, and Governance) initiatives, including sustainable packaging, responsible sourcing, and carbon reduction efforts.

Industry and Strategy

KDP operates in the highly competitive non-alcoholic beverage industry against Coca-Cola, PepsiCo, and Nestlé. The company differentiates itself through:

- A strong portfolio in Carbonated Soft Drinks (CSDs) (Dr Pepper, Canada Dry, A&W, etc.).
- Leadership in single-serve coffee systems (Keurig brewers and K-Cup pods).
- A broad omnichannel distribution network, including retail, direct-store-delivery (DSD), and e-commerce.
- Commitment to sustainability and recycling initiatives.

Recent market trends have impacted KDP's business:

- Inflation and rising costs have led to price increases across the industry.
- Declining Keurig sales, though at-home coffee consumption is expected to grow as consumers look to save money.
- Supply chain challenges, particularly in procurement and transportation.

In response, KDP has optimized its supply chain, improved distribution efficiencies, and expanded partnerships, including a deal with Grupo PiSA to distribute Electrolit hydration beverages in the U.S..

Compensation and Governance

KDP's executive compensation includes:

- Base salary
- Performance-based bonuses

- Stock incentives (aligning management's interests with shareholders)

The board consists of independent and affiliated directors, with JAB Holding Company as a major stakeholder influencing strategic decisions.

The company also emphasizes strong governance, internal controls, and ESG compliance, balancing financial performance with long-term sustainability goals.

Financial Results

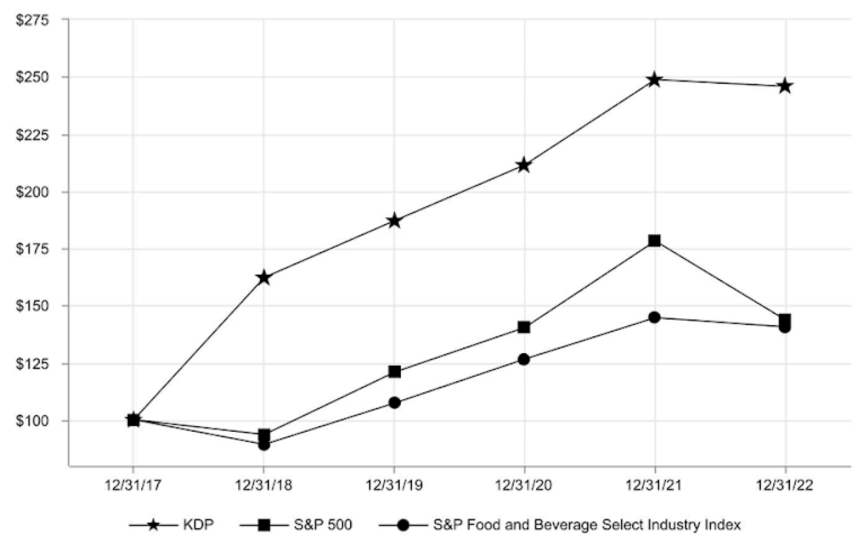
KDP has shown consistent financial growth despite economic challenges:

- Revenue: $14.81 billion (5.4% increase from 2022).
- Operating Margin: Improved to 21.5% (up from 18.5%).
- Net Income: Increased 52% to $2.18 billion.
- Debt Management: Stable debt levels, continued deleveraging while investing in growth.

COMPARISON OF TOTAL STOCKHOLDER RETURN

The following performance graph compares the cumulative total returns of DPS through July 9, 2018 and KDP from July 10, 2018 through December 31, 2022 with the cumulative total returns of the S&P 500 Index and the S&P Food and Beverage Select Industry Index. We believe that these indices convey an accurate assessment of our performance as compared to the industry.

The graph assumes that $100 was invested on December 31, 2017, with dividends reinvested quarterly. The graph additionally assumes that a special cash dividend of $103.75 which was declared and paid as a result of the DPS Merger was reinvested in KDP once shares resumed trading on July 10, 2018.



Risks and Challenges

Despite its strengths, KDP faces several risks:

Market Competition: Competing with Coca-Cola, PepsiCo, and Nestlé requires continuous innovation and marketing investment.

Consumer Preference Shifts: The decline in soda consumption and stagnation in Keurig sales pose risks, though growth in functional beverages and at-home coffee could mitigate this.While KDP remains a leader in single-serve coffee, U.S. Coffee segment sales declined 2.6% in 2024, with operating margin dropping from 28.4% to 27.2%. K-Cup pod volume remained flat, and while Keurig appliance sales grew 7.3%, pricing pressures impacted revenue. This stagnation highlights a shift in consumer preferences and potential challenges in maintaining growth. As Keurig remains number one for at home coffee, it does not have an optimistic future

Inflation and Cost Pressures: Rising raw material costs (aluminum, sugar, packaging) and supply chain disruptions may impact margins.

Regulatory and ESG Risks: Increasing regulations on sugar content, plastic usage, and environmental impact could lead to compliance costs and potential legal challenges.

Debt and Interest Rates: While KDP maintains a stable leverage ratio, rising interest rates could increase borrowing costs and limit financial flexibility.

ROE Breakdown

Year	2021	2022	2023	2024
ROCE	8.83%	5.74%	8.59%	5.77%
ROIC	4.82%	4.52%	5.83%	4.39%
Profit Margin	16.84%	14.07%	17.37%	12.99%
NAO Turnover	28.75%	32.21%	33.57%	33.76%
Financial Leverage	80.82%	74.23%	73.74%	82.20%
Spread	4.92%	1.63%	3.74%	1.69%
NBC	-0.09%	2.89%	2.09%	2.70%

KDP's Return on Common Equity (ROCE) fluctuated as follows:

- We see financial leverage being maintained as Keurig Dr. Pepper acquires more company and takes on debt
- Profit Margin dips in 2022 and 2024
- NAO is steadily improving, one of the main drivers of ROCE

We can attribute the fluctuations in profitability to changes in profit margins, particularly in 2022 and 2024. As outlined in the 10-K, inflationary pressures and increased raw material costs significantly impacted costs, particularly due to severe drought conditions in Africa, which led to a 18.4% increase in COGS in 2022, before stabilizing with only ~1% increases in 2023 and 2024.

Additionally, KDP made heavy marketing investments in Keurig partnerships with Starbucks and Dunkin', contributing to cost fluctuations. The 2024 acquisition of GHOST also played a key role, as KDP repurchased approximately $1.1 billion in shares and paid $1.19 billion in dividends, further impacting cash reserves. This was compounded by a $225 million termination fee related to the GHOST acquisition, classified under Other Operating Expenses in the income statement.

Despite these financial commitments, KDP has continued to improve operational efficiency with each acquisition, maintaining a steady profit margin while increasing asset turnover. Though KDP assumes debt with each acquisition, it has actively managed debt repayment, including $1.15 billion repaid in 2024 to strengthen financial positioning. Furthermore, key working capital improvements include a 60%

reduction in Days Payable Outstanding (DPO) and nearly halved Days Sales Outstanding (DSO) since the merger, reflecting improved cash cycle management.

DCF Valuation

When forecasting revenue growth, I incorporated KDP's steady acquisition strategy, including GHOST, as well as its strong marketing partnerships with Keurig, Starbucks, Dunkin', C4, and other health-focused brands. Given KDP's North American market focus, its revenue expansion is driven more by incremental acquisitions and strategic marketing investments rather than the rapid, unpredictable growth seen in tech companies. I then looked at each segment to see the growth rate from 2023:

	For the Year Ended December 31,	
(in millions)	2024	2023
Net sales		
U.S. Refreshment Beverages	**$ 9,331**	$ 8,821
U.S. Coffee	**3,967**	4,071
International	**2,053**	1,922
Total net sales	**$ 15,351**	$ 14,814

	For the Year Ended December 31,	
(in millions)	2024	2023
Income from Operations		
U.S. Refreshment Beverages	**$ 1,878**	$ 2,483
U.S. Coffee	**1,079**	1,158
International	**545**	475
Unallocated corporate costs	**(911)**	(924)
Total income from operations	**$ 2,591**	$ 3,192

- **Coffee Systems:** Projected low-single-digit growth (1-2%), driven continuing lead in at-home coffee maker but still low/
- **Refreshment Beverages:** Expected mid-single-digit growth (4-6%), supported by brand strength and pricing power. Further expansion into restaurants.
- **International Beverages:** Forecasted higher growth potential (3-5%), fueled by expansion into emerging markets and increasing consumer demand(bottled water in Latin America is a huge market KDP is dominating in).

For cost projections, I assumed a 1% annual increase in COGS, reflecting the expected impact of climate change on raw material costs, even though KDP has successfully stabilized expenses in recent years. To ensure a realistic expense forecast, I based my expense projections on 2023 data, avoiding anomalies from 2024's acquisition-related costs.

Using these assumptions, I project KDP's valuation at $40.15 per share over the next five years, reflecting its stable revenue growth model, strategic acquisitions, and disciplined cost management. When forecasting revenue growth, I incorporated KDP's steady acquisition strategy, including GHOST, as well as its strong marketing partnerships with Keurig, Starbucks, Dunkin', C4, and other health-focused brands. Given KDP's North American market focus, its revenue expansion is driven more by incremental acquisitions and strategic marketing investments rather than the rapid, unpredictable growth seen in tech companies.

Conclusion & Recommendation

Given KDP's steady revenue growth, strong cash flow, and robust market positioning, it remains an attractive investment in the beverage sector. However, valuation appears fairly priced, suggesting limited upside potential at current levels.

Investment Recommendation: HOLD

- Bull Case: If KDP sustains 4% revenue growth and continues improving operations and acquiring complementary brands, the stock price could rise above $40 per share.
- Bear Case: Slowing consumer demand and rising cost inflation could limit stock appreciation, potentially capping it below $35.

Investors should focus on analyzing the cost of goods, particularly aluminum and key crops (coffee, fruit extracts, corn, etc.), as raw material costs and climate-related risks pose long-term challenges. The non-alcoholic beverage industry has historically remained resilient during economic downturns, given consistent consumer demand, and in the long run will consistently give returns.

While Keurig sales may stagnate post-pandemic due to higher pod costs compared to other at-home brewing options, KDP's diverse brand portfolio and successful consumer adaptation strategies indicate long-term stability. Overall, I recommend a HOLD, with long-term growth potential supported by strategic acquisitions and market adaptation.

PepsiCo

Four Box Framework Analysis of PepsiCo

1. **Management**

PepsiCo is currently being led by CEO Ramon Laguarta who has been CEO since 2018. Previously he held other leadership positions in the company since 1996. CEO Ramon Laguarta prioritizes the “Winning with Purpose” strategy as he calls it which focuses on digital transformation, sustainability, and healthier product innovations. Beside CEO Laguarta is the Vice Chairman and CFO Hugh Johnson who is responsible for the financial stability and growth of the company. Some other key executives are the CEO of North America Foods Steven Williams, who focuses on snack growth, innovation and supply chain management for foods. PepsiCo also has the CEO of North America Beverages, Ram Krishnan who focuses on beverage strategy. PepsiCo is currently the second largest food and beverage business following multiple acquisitions such as SodaStream (2018), BFY Brands (2020), Pioneer Foods (2020), and Vital Pharmaceuticals (2023).

2. **Industry and Strategy**

PepsiCo operates as the 2nd largest food and beverage business in the world. They have two main revenue streams splitting between food/snacks and beverages. PepsiCo keeps a competitive price point between its competitors and offers direct store delivery which helps improve inventory turnover and their retail presence. PepsiCo’s business strategy under CEO Laguarta has focused on product innovation and health. For example PepsiCo has released healthier options in their beverage sector with Pepsi Zero Sugar, Gatorade Fast Twitch, and Bubly Sparkling Water. Recently PepsiCo has invested in advancement with their technology including AI which PepsiCo is using to improve efficiency, reduce costs, and customer engagement. PepsiCo has also recently increased their investment globally in Asia, Latin America, and Africa.

3. **Compensation and Governance**

PepsiCo’s compensation structure starts with the base salaries with performance based incentives. In 2023 CEO Romon Laguarta earned $28.4 million most of it being performance based compensation. PepsiCo has 15 members on the board with diverse backgrounds in multiple industries. PepsiCo also pays its shareholders dividends with a current yield of 3.52%.

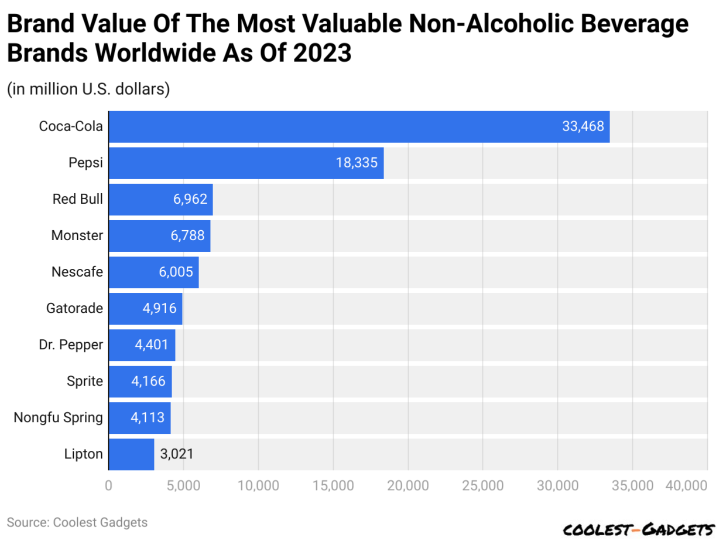
4. **Financial Results**

PepsiCo has a steady and increasing annual revenue growth. In 2023 they recorded $91.5 billion in revenue and $9.3 billion in net income. They also recorded a 50% return on equity and

$8 billion in free cash flows which contributes to their strong dividend yield rate and share buybacks. Their biggest revenue contribution comes from the Beverage North America sector but the biggest operating profit contribution is the Snacks North America sector. PepsiCo's earnings per share has also seen a steady increase.

Key Risks

- Global expansion (increased investment in other countries)
- New product categories/innovations
- Inflation, supply chain issues, and tariffs war
- Decline in soda consumption in certain markets
- Weaker global presence compared to competitors
- Increase in mergers and acquisitions from its competitors



Stock Analysis

Hold/Buy

Doing the ROE evaluation for a 5 year time period, PepsiCo recorded a stable ROE of between 48-52% which is not only stable but more than its competitors. Following the ROE evaluation we also did the Dupont Analysis for the 5 year time period and had an average ROE of 50%, net profit margin of 9.5%-10.5%. We also get an upward trend in asset turnover which shows that PepsiCo is able to effectively generate revenue from its assets. Investor analysis has a high of $185, low of $124, and average of $163. Since PepsiCo price is lower than the average I would suggest buying or if you have already, holding. PepsiCo is the second largest consumer beverage brand and shows steady growth despite recent economic trends. They have recently been in a deal to acquire popular healthy soda brand Poppi for $2 billion. Using the DCF model, I used a WACC of 6% and a terminal growth rate of 3% to test extreme sensitivity to PepsiCo stock price. I got a price of 138.08 which is close to the current price but still below. Therefore this is more of a hold but you can still buy. Even with the higher WACC and smaller growth because of future economic conditions PepsiCo stock price still remains stable. The DCF model was based on 2024 financials before PepsiCo is set to close a $2 billion deal with Poppi. After this deal is completed I predict stronger stock performance due to Poppi's growth in recent years.

Evaluations

PepsiCo has shown a consistent ROE which compared to its competitors is actually higher despite recently increasing their investments in the global market. We see a big bounce back in 2024 and that trend is predicted to continue in 2025 due to recent mergers and acquisitions and new product innovations. In my DCF model I used a WACC at 6% and terminal growth at 3%. The current stock price is still a little higher than what the model predicted which is why I am staying with hold/buy. This is before the big acquisition of Poppi on Monday 3/17 that cost $2 billion. If this acquisition works out for PepsiCo and their increasement in the global market. PepsiCo's growth could be more than the 3% I projected. This is also before recent weeks where PepsiCo stock continues to fall due to the current economic situation. Despite this the strong ROE and steady growth and investments shows PepsiCo stock is still considered valuable.

ROE Evaluations

Fiscal Year Ending	Net Income (millions)	Shareholder's Equity (millions)	ROE
2020	$7,120	$13,454	52.92%
2021	$7,618	$16,043	47.48%
2022	$8,910	$17,149	51.96%
2023	$9,074	$18,503	49.04%
2024	$9,578	$18,041	53.09%

Dupont Analysis

Dupont Analysis (Millions)								
Fiscal Year Ending	**Net Income**	**Revenue**	**Total Assets**	**Shareholder's Equity**	**Net Profit Margin**	**Asset Turnover**	**Equity Multiplier**	**ROE %**
2020	$7,120	$70,372	$92,918	$13,454	10.12%	0.757	6.91	53%
2021	$7,618	$79,474	$92,377	$16,043	9.59%	0.860	5.76	47%
2022	$8,910	$82,619	$88,038	$17,149	10.78%	0.938	5.13	52%
2023	$9,074	$83,064	$89,996	$18,503	10.92%	0.923	4.86	49%
2024	$9,578	$86,392	$92,377	$18,041	11.09%	0.935	5.12	53%

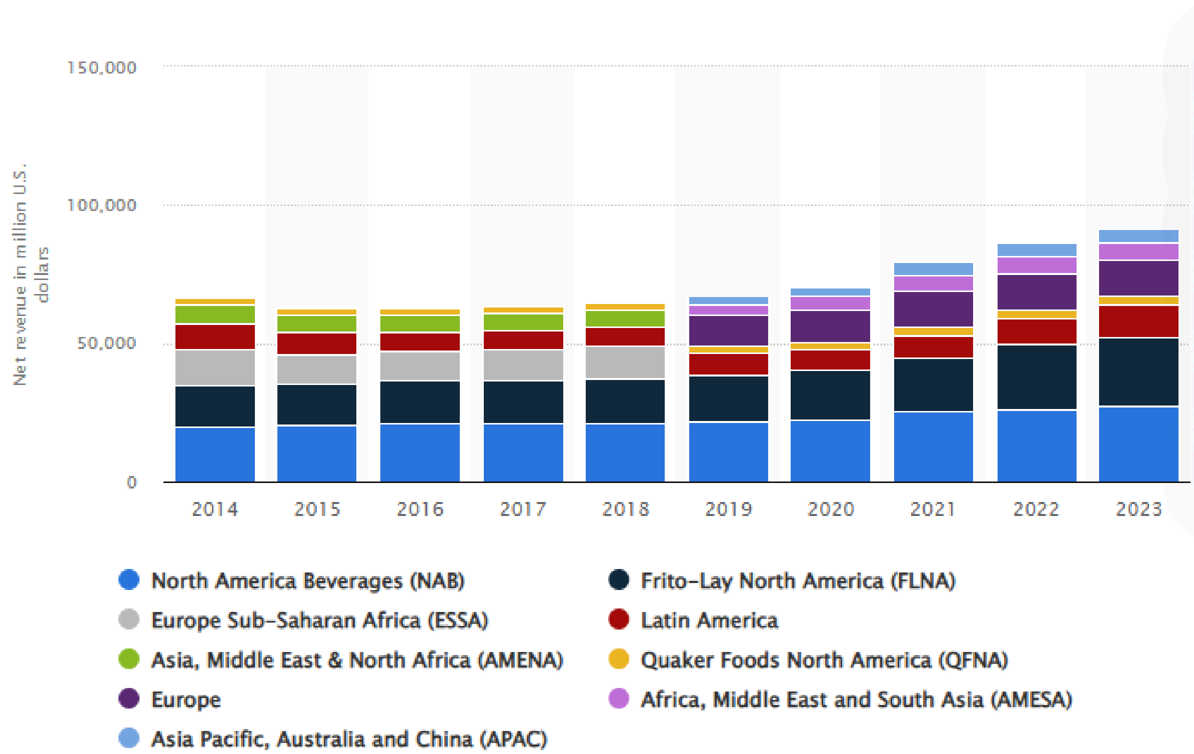
DCF Analysis

DCF Method II	(In Millions)	2022	2023	2024	2025	2026	2027	2028	2029
NOPAT		7,566	9,695	9,934	9,383	9,477	9,572	9,669	9,766
(-Net change in NOA)		625	625	682	744	812	884	958	1041
Free cash flow		6,941	9,070	9,252	8,639	8,665	8,688	8,711	8,725
DCF Valuation									
Free Cash Flow		6,941	9,070	9,252	8,639	8,665	8,688	8,711	8,725
Discount Factor		0.95	0.91	0.86	0.82	0.78	0.75	0.71	0.68
PV of FCF_t		6,610.48	8,226.76	7,992.23	7,107.33	6,789.25	6,483.12	6,190.75	5,905.42

WACC = 6%	
Sum of PV of FCF over forecast horizon (2022 - 2028)	49,399.90
$[FCF_{2029} / (WACC-g)] / [1+WACC]^{T}$	165789.24
Terminal growth rate	3%
Terminal value year	7
OPERATING VALUE: PV of all future Free Cash Flows	215,189.14
Add financial assets:	
(+) Value of Cash and ST $Investments_{2024}$	9266
(+) Value of LT $Investments_{2024}$	3331
(+) Other	0
ENTERPRISE VALUE:	227,786.14
Subtract other financial claims:	
(-) Notes $Payable_{2024}$	37224
(-) Value of stock comp $outstanding_{2024}$* (1-tax rate)	291.7
Equity Value	190,270.44
# shares outstanding	1378
Value per share = Value of Equity / # of shares	138.08
Value per share at 3/19/2025	148.99

Future Outlook for PepsiCo

- As of Monday 3/17 PepsiCo has acquired Poppi
    - Poppi specializes in healthy soda alternative
    - aligns with PepsiCo strategy of investing in healthier products
    - helps with the decrease of soda consumption in certain markets
- Consumers are worried that quality of Poppi will decrease
- Current tariffs causes worrying economic outlook for PepsiCo
- Increased investments in other countries



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Coca Cola

Four Box Framework Analysis of Coca-Cola

1. Management

Coca-Cola is currently led by a diversified superteam filled with many talents and big names. James Quincey, the chairman and CEO of Coca-Cola, had many leadership roles in the prior years and is currently also a director of Pfizer and a founding member of the New York Stock Exchange Board Advisory Council. Other key leaders, including CFO John Murphy and COO Henrique Braun, all have rich backgrounds and experiences in business management and consumer goods. The management team prioritizes “building this business for the next century”. They want to make Coca-Cola a growth company that would bring joy to people’s everyday lives while meeting the new requirements and expectations of the future at the same time.

Reference

“Home.” *Our Executive Leadership Team | The Coca-Cola Company*, www.coca-colacompany.com/about-us/leadership. Accessed 18 Mar. 2025.

2. Industry and Strategy

Coca-Cola is a total beverage company that sells in more than 200 countries. Their diversified business includes sparkling soft drinks such as Sprite, Fanta, and Coca-Cola. In addition, the Coca-Cola company also sells water, sports, and tea-related products such as Dasani, Smartwater, Vitaminwater, Costa, Gold Peak, Powerade, etc. Moreover, they also serve juice, dairy, and plant-based beverages, which include Minute Maid, Simply, innocent, AdeS, Del Valle, and Fairlife. The rich diversity of products made Coca-Cola a global leader in the beverage industry. The top competitors Coca-Cola faces are PepsiCo, Nestlé, and Keurig Dr. Pepper.

Coca-Cola upholds a growth strategy and is determined to make changes to its portfolio that fit the market trend. During recent years, Coca-Cola has followed the reducing sugar trend and brought out hot-selling products such as Coke-Zero and Diet Coke. In addition, Coca-Cola pays attention to the planet and they designed sustainable practices that would help save the planet. Moreover, Coca-Cola also boosts the economy by providing job opportunities to local communities globally.

Reference

“About.” *The Coca-Cola Company*, investors.coca-colacompany.com/about. Accessed 18 Mar. 2025.

3. Compensation and Governance

Coca-Cola makes sure that all employees are paid fairly and equally. The company works with externals to ensure the fairness of the compensation structures every year. The compensation structures contain base salaries, stock compensation, and other forms of benefits.

Coca-Cola follows a consistent governance structure. The board of directors is fairly elected by the shareholders and they have the ultimate decision-making power. Coca-Cola ensures that the board members are all independent and are responsible for serving the interests of the company and its shareholders to the best of their ability. All of the rules and requirements within the governance structures are transparent and listed on Coca-Cola’s official website.

Reference

Company, The Coca-Cola. “Pay Equity at The Coca-Cola Company.” *Pay Equity at The Coca-Cola Company*, www.coca-colacompany.com/social/diversity-and-inclusion/pay-equity. Accessed 19 Mar. 2025.

“Home.” *The Coca-Cola Company: Refresh the World. Make a Difference*, www.coca-colacompany.com/policies-and-practices/corporate-governance-guidelines. Accessed 19 Mar. 2025.

4. Financial Results

Over the last five years, Coca-Cola’s stock price demonstrated an upward trend. Its stock price hit an all-time high of $73.53 on September 3rd, 2024. From the 2022-2024 Form 10-Ks, Coca-Cola’s revenue illustrated an upward trend from $43,004 in 2022 to $47,061 in 2024. Its consolidated net income increased from 2022 to 2024 as well, demonstrating a growth in profit for Coca-Cola during the last few years.

Reference

"The Coca-Cola Company (KO) Stock Price, News, Quote & History." *Yahoo! Finance*, Yahoo!, 16 Mar. 2025, finance.yahoo.com/quote/KO/.

Coca-Colacompany, investors.coca-colacompany.com/filings-reports/all-sec-filings/content/0000021344-23-000011/0000021344-23-000011.pdf. Accessed 19 Mar. 2025.

Valuation:

Earnings Multiple(PE Ratio):

The Diluted EPS from the 2024 form 10-K is $2.46, and the stock price of Coca-Cola is $71.43. Using the PE ratio formula, the PE ratio for Coca-Cola from the calculation is 71.43/2.46=29.037.

According to NYU Stern's research on PE ratio by Sector(within the US), the Non-Alcoholic Beverage sector has a PE ratio of 34.72. Coca-Cola's 29.037 is lower than the sector average of 34.72, which means that Coca-Cola is not very overvalued within the industry. However, its PE ratio is still pretty high compared to its competitors such as Pepsi Co(18.85) and Dr. Pepper(18.05).

Reference

"PE Ratio by Sector (US)." *Price Earnings Ratios*, pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/pedata.html. Accessed 19 Mar. 2025.

Market Cap:

Market Cap is another way to gain a quick understanding of a company's value and size. Coca-Cola's current stock price is $71.43 and its total outstanding shares are 4.302 billion. After calculation, Coca-Cola's market cap is 71.43 x 4.302 =307.292 Billion.

Coca-Cola's market cap is much higher than its competitors: Dr Pepper(45.23 Billion), and Pepsi Co(211.81 Billion). This indicates that Coca-Cola takes a major part of the beverage market and is less risky to invest in compared to its competitors.

ROE:

	Coca-Cola			
	2024	2023	2022	3-Year Ave
Return on equity	42%	43%	41%	**42%**
Current ratio	1.03	1.13	1.15	**1.10**
Debt-to-equity ratio	1.73	1.45	1.53	**1.57**

Return on equity ratios (millions)

	Coca-Cola		
	2024	2023	2022
Income from continuing operations	10,631	10,714	9,542
Beginning shareholders' equity (controlling interest)	25,941	24,105	22,999
Ending shareholders' equity (controlling interest)	24,856	25,941	24,105
Average shareholders' equity (controlling interest)	25,399	25,023	23,552
Return on equity	42%	43%	41%

Using information from Coca-Cola's three most recent form 10-Ks, we could see that Coca-Cola had a very stable ROE over the last three years, with an average of 42%. The ability to yield a constant positive 40% ROE demonstrates that Coca-Cola is a very mature company that can perform with consistency. This aspect should attract many risk-averse investors.

Current Ratio & Debt-to-equity Ratio:

Current ratio (millions)

	Coca-Cola		
	2024	2023	2022
Current assets	25,997	26,732	22,591
Current liabilities	25,249	23,571	19,724
Current ratio	1.03	1.13	1.15

Debt-to-equity ratio (millions)

	Coca-Cola		
	2024	2023	2022
Long-term debt	42,375	35,547	36,377
Current portion of long-term debt	648	1,960	399
Short-term debt	-	-	-
Total shareholders' equity (controlling interest)	24,856	25,941	24,105
Debt-to-equity ratio	1.73	1.45	1.53

Using information from Coca-Cola's three most recent form 10-Ks, its current ratio went from 1.15 in 2022 to 1.03 in 2024. This isn't a good sign for Coca-Cola as a low current ratio indicates that Coca-Cola is experiencing liquidity problems. Investors should pay attention to this ratio in the future as it could mean that Coca-Cola is having trouble meeting its short-term obligations

Coca-Cola's Debt-to-equity ratio has been trending upward during the last three years. Investors need to pay attention to Coca-Cola's debt usage as higher debt-to-equity ratios indicate higher risks.

DCF

Method II	2023	2024	2025	2026	2027	2028	2029	2030
NOPAT	8,935.7	7,893.7	8,716.2	9,569.2	10,453.8	11,370.8	12,321.4	13,306.6
(-) Net change in NOA	2,538.0	2,946.0	2,380.1	2,457.7	2,537.7	2,620.2	2,705.3	2,792.9
Free cash flow	11,473.7	10,839.7	11,096.3	12,026.9	12,991.5	13,991.0	15,026.7	16,099.5
DCF Valuation								
Free Cash Flows (2023-2030)	11,473.7	10,839.7	11,096.3	12,026.9	12,991.5	13,991.0	15,026.7	16,099.5
Discount Factor = $1/(1+WACC)^t$	0.92	0.85	0.78	0.72	0.67	0.61	0.56	0.52
PV of FCF_t	10,555.8	9,213.7	8,655.1	8,659.4	8,704.3	8,534.5	8,414.9	8,371.7
Sum of PV of FCF over forecast horizon (2023 - 2029)	**62,737.8**							
Free Cash Flows Beyond 2029(i.e., Continuing or Terminal Value) =								
$[FCF_{2029} / (WACC-g)] / [1+WACC]^T$	179,366.40385984							
Terminal growth rate, g =	3.0%							
Terminal value year (i.e., # of years forecast), T =	6							
OPERATING VALUE: PV of all future Free Cash Flows	**242,104.2**							
Add financial assets:								
(+) Value of Cash and ST $Investments_{2022}$	10562							
(+) Value of LT $Investments_{2022}$	-							
(+) Other	1,069.0							
ENTERPRISE VALUE:	**253,735.2**							
Subtract other financial claims:								
(-) Notes Payable2022	(36,776.0)							
(-) Value of stock comp outstanding2022* (1-tax rate)	-							
EQUITY VALUE:	**216,959.2**							
# shares outstanding (millions)	4301							
Value per share = Value of Equity / # of shares	**50.4**							

Due to Coca-Cola's stable performance in the industry, I assumed a 3% growth rate for its revenue when calculating the NOPAT. I predict that Coca-Cola's operating assets and liabilities will also increase at a steady rate in the future due to higher demand and business growth. For COGS, I assumed a 1% growth rate and the same for operating expenses.

After going through the DCF model, Coca-Cola's value is projected at $50.4 per share over the next few years which is lower than its current stock price around the 70 dollar mark. However, given that the DCF model is only one way to value a business, this number is not disastrous for Coca-Cola as I still believe that its stable performance, consistent ROE, and high market cap are worth a look.

Conclusion & Recommendation:

I recommend holding Coca-Cola if you own some shares due to its excellent market cap, consistent positive ROE over the years, and good P/E ratio compared to the industry average. However, investors also need to pay attention to Coca-Cola's liquidity problem and debt usage as they have a weak current ratio and an increasing debt-to-equity ratio. The DCF model also suggests that Coca-Cola is overvalued right now and the target stock price is around the 50 dollar mark. If one wants to invest in Coca-Cola, it is very crucial to pay attention to the beverage industry overall as Coca-Cola faces huge pressure and competition from other big names within the industry.

Overall, I recommend holding Coca-Cola since it is a mature company with stable performance. If you don't own any Coca-Cola stocks right now, it is probably not a good time to buy at this moment.