

Financial Analysis Report of Coca-Cola (2013-2023) with Recommendations for Another Beverage Company

Introduction

Financial statements are the bedrock of every company, showcasing strengths, profitability, liquidity, and solvency. As a consultant to another beverage company, my interest is in Coca-Cola plc to discover patterns that can be replicated for success. Coca-Cola has evolved significantly over the years, mirroring the transformation of its iconic bottle.

Key Insights and Analysis

Income Statement Metrics:

1. Revenue:

- **Trends:** Coca-Cola's revenue shows fluctuations with notable drops in 2017 and 2020. The decline in 2020 can be attributed to the COVID-19 global pandemic. However, the company exhibited a steady recovery from 2021 to 2023.
- **Insight:** Revenue trends indicate sales volume, pricing power, and demand for Coca-Cola's products. The growth in revenue directly impacts the company's ability to generate profits and provide shareholder returns.

2. Gross Profit Margin (GPM):

- **Trends:** GPM remained relatively stable, ranging from 60% to 65%. In 2013, it was 60.7%, with minor fluctuations in the following years.
- **Insight:** A stable or increasing GPM suggests effective production cost management. Coca-Cola's ability to maintain a consistent GPM indicates efficiency in managing production costs.

3. Net Profit Margin (NPM):

- **Trends:** NPM fluctuated between 15% and 25%, with a significant drop in 2017 to 3.52%, possibly due to increased expenses or lower revenues.
- **Insight:** NPM reflects overall profitability. The recovery in later years demonstrates improved cost management and profitability.

4. Cost of Revenue Ratio (CRTR):

- **Trends:** CRTR was around 38% to 40% of revenues, with 39.3% in 2013, showing consistency over the years.
- **Insight:** A lower CRTR indicates better cost management. Coca-Cola's stable CRTR suggests efficient control over the cost of goods sold.

5. Earnings Per Share (EPS):

- **Trends:** EPS followed a similar pattern to NPM, reflecting the company's profitability on a per-share basis.

- **Insight:** EPS is crucial for investors to gauge per-share profitability. Coca-Cola's stable EPS indicates consistent profitability.

Balance Sheet Metrics:

1. Cash and Equivalents:

- **Trends:** Coca-Cola maintained a healthy level of cash and equivalents, ranging from \$6.4 million to \$9.6 million throughout the period.
- **Insight:** This indicates good short-term financial flexibility, ensuring the company can cover immediate expenses and investments.

2. Inventory Levels:

- **Trends:** Inventory levels were relatively stable, ranging from \$2.6 million to \$4.4 million.
- **Insight:** Stable inventory levels suggest efficient inventory management. Further analysis on inventory turnover could provide more insights into operational efficiency.

3. Total Assets:

- **Trends:** Total assets showed fluctuations but generally followed an upward trend.
- **Insight:** The upward trend in total assets reflects Coca-Cola's overall growth and investment in assets over time.

4. Accounts Payable:

- **Trends:** Accounts payable and accrued expenses fluctuated over the years, with a general upward trend, peaking at \$15.4 million in 2023.
- **Insight:** The upward trend in accounts payable could indicate increasing purchases or extended payment terms, which may impact cash flow.

5. Debt-to-Equity Ratio:

- **Trends:** The ratio ranged from 2.69 to 4.63, with a peak in 2017.
- **Insight:** A higher ratio suggests more reliance on debt, which can be risky if not managed effectively. The increasing trend should be monitored to ensure financial stability.

6. Current Ratio:

- **Trends:** The ratio was consistently above 1, ranging from 1.12 to 1.34.
- **Insight:** A ratio above 1 indicates strong short-term liquidity, meaning Coca-Cola can cover its short-term obligations with its current assets.

7. Equity Ratio:

- **Trends:** The ratio remained stable, ranging from 0.21 to 0.28.
- **Insight:** A higher equity ratio indicates a greater reliance on equity financing, which is generally more stable than debt financing. Coca-Cola's stable equity ratio indicates a balanced approach.

8. Working Capital Ratio:

- **Trends:** The ratio was consistently above 1, ranging from 1.01 to 1.34.

- **Insight:** A ratio above 1 indicates good short-term liquidity, suggesting Coca-Cola's ability to cover current liabilities with current assets.

Patterns to Replicate

1. **Maintain Revenue Growth:** Ensure consistent revenue growth through innovation, market expansion, and adapting to market conditions.
2. **Efficient Cost Management:** Focus on maintaining stable gross profit margins by managing production costs effectively.
3. **Profitability Focus:** Aim for stable net profit margins and EPS by controlling expenses and improving operational efficiency.
4. **Liquidity Management:** Keep a healthy level of cash and equivalents to ensure short-term financial flexibility and meet immediate obligations.
5. **Inventory Control:** Manage inventory levels effectively to ensure smooth operations without overstocking or stockouts.
6. **Asset Growth:** Invest in assets that support long-term growth and operational efficiency.
7. **Debt Management:** Monitor and manage debt levels to avoid excessive reliance on debt financing, ensuring financial stability.
8. **Short-term Liquidity:** Maintain a current ratio above 1 to ensure the company can cover short-term liabilities with its current assets.
9. **Balanced Financing:** Maintain a stable equity ratio, balancing between debt and equity financing for financial stability.
10. **Working Capital Efficiency:** Ensure a working capital ratio above 1 to cover current liabilities with current assets, ensuring smooth operations.

Patterns and Strategies Observed:

1. **Diversified Product Portfolio:** Coca-Cola expanded its range to include water, sports drinks, teas, coffees, and plant-based beverages.
2. **Strong Branding and Marketing:** Robust marketing campaigns and global brand recognition.
3. **Strategic Acquisitions:** Acquisitions like Costa Coffee to enter new segments.
4. **Operational Efficiency:** Optimizing supply chain and reducing operational costs.
5. **Sustainability Initiatives:** Emphasis on water stewardship, packaging recycling, and reducing carbon emissions.
6. **Digital Transformation:** Implementing digital technologies for enhanced efficiency and customer engagement.

Recommendations:

1. **Expand Product Offerings:** Introduce health-conscious product lines.

2. **Strengthen Brand Presence:** Invest in robust marketing campaigns.
3. **Pursue Strategic Acquisitions:** Identify potential acquisition targets aligned with strategic goals.
4. **Enhance Operational Efficiency:** Streamline supply chain processes and invest in technology.
5. **Commit to Sustainability:** Develop and implement sustainability initiatives.

Conclusion

Analyzing Coca-Cola's financial performance from 2013 to 2023 provides valuable insights into their profitability, liquidity, and solvency. By replicating these patterns, another beverage company can enhance its financial performance and achieve sustainable growth. Effective cost management, maintaining liquidity, and balancing financing approaches are key strategies for success in the beverage industry.

Check my GitHub for Python Code: <https://github.com/Mayreecobi/Financial-Statement-Analysis/edit/main/README.md>

Appendix: Methodology

Data Extraction Process:

1. **Web Scraping:** Using Python's BeautifulSoup and Requests libraries, I accessed Coca-Cola's financial statements from their investor relations website.
 - o **Identifying Data Sources:** Located URLs containing annual financial reports from 2013 to 2023.
 - o **Extracting Data:** Parsed HTML content to extract relevant financial metrics such as revenue, gross profit margin, net profit margin, cost of revenue, and key balance sheet ratios.
2. **Data Cleaning:**
 - o **Structured Data:** Organized raw data into a structured format suitable for analysis.
 - o **Handled Missing Values:** Addressed any missing or inconsistent data points to ensure accuracy.

Tools Used:

- **BeautifulSoup:** For parsing HTML and extracting data.
- **Requests:** For making HTTP requests to fetch web pages.

- **Pandas:** For data cleaning and analysis.
- **Matplotlib:** For data visualization.