Document: Project Report

Company: The Coca-Cola Company

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Course Name: Financial Decision Making

Introduction

The Coca-Cola Company is the leading giant of the global beverages industry. It has a history of 137 years of "Refresh the World. Make a Difference". The company operates in more than 200 countries, having more than 200 master brands. Additionally, it has more than 200 bottling partners and 950 production facilities around the globe. The 5 beverages categories which the company has are: Trademark Coca-Cola; Sparkling Flavors; Water, Sports, Coffees, and Tea; Juice and Value-Added Diary; and Emerging. The financial statements like common size balance sheet, the common size income statement, and various ratios like liquidity ratios, profitability ratios, solvency ratios, market ratios and efficiency ratios indicate that the company is well positioned in the current global economic uncertain environment. In addition to financial analysis, Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis also signals that the Coca-Cola Company is well placed to overcome the weaknesses and threats which the company is facing in the present as well as it will face in the future. Based on the financial and SWOT analyses, coupled with the Capital Asset Pricing Model, the Coca-Cola Company is a good option for investors to buy stocks in.

The remaining of the report is structured into 5 sections:

1. Financial Analysis
2. Ratio Analysis
3. SWOT Analysis
4. The Capital Asset Pricing Model (CAPM)
5. Investment Decision

1. Financial Analysis

The Common Size Balance Sheet and Income Statement (attached in excel) were formulated using 10K (Year 2021-2022). The Vertical Analysis of the two financial statements of the Coca-Cola Company gives us some interesting insights into the company's financial performance in Fiscal Year 2021-2022.

1. Inventory to total asset percentage increased from 3.6% in 2021 to 4.6% in 2022. This is a bad sign with regards to inventory management.

2. Current Assets to total asset percentage increased from 23.9 % in 2021 to 24.4% in 2022. This suggests a slightly higher proportion of assets in more liquid forms.
3. Accounts Payable and accrued expenses as a percentage of total assets increased from 15.5% in 2021 to 17% in 2022. This suggests an increased reliance on accrued liabilities for financing.
4. Total liabilities as a percentage of total assets decreased from 73.7% in 2021 to 72.2% in 2022. This suggests that the company has a slightly lower proportion of debt. Hence, an indication of more financial stability.
5. Shareholders equity as a percentage of asset increased from 24.4% in 2021 to 26% in 2022. This indicates that a higher proportion of the company's total assets is now funded by shareholders' equity. Shows strong equity position.
6. Cost of goods sold as a percentage of net operating revenues increased from 39.7% in 2021 to 41.9% in 2022. This suggests increased production costs in the year 2022.
7. Gross profit as a percentage of net operating revenues decreased from 60.3% in 2021 to 58.1% to 2022. Indicating reduction in gross profit in the year 2022.
8. Operating income as a percentage of net operating revenues decreased from 26.7% in 2021 to 25.4% in 2022. This indicates a decrease in the profitability of the company's major operations.
9. Net income as a percentage of net operating revenues decreased from 25.3% in 2021 to 22.2% in 2022. This indicates a lower proportion of revenue translating into profit. Hence indication of lower profitability.

The reduction in gross profit, operating income and net income is mainly due to the increase in the cost of goods sold. Deeper analysis into the financial statements shows that the driver behind the increase in the cost of goods sold is the increase in inventory in the year 2022. Digging deeper into 10 K the cause of increase in inventory is identified and given below (the footnote 2 of the photo)

NOTE 20: NET CHANGE IN OPERATING ASSETS AND LIABILITIES

Net cash provided by (used in) operating activities attributable to the net change in operating assets and liabilities was composed of the following (in millions):

Year Ended December 31,		2022	2021	2020
(Increase) decrease in trade accounts receivable[1]	$	**(69)** $	(225) $	882
(Increase) decrease in inventories[2]		**(960)**	(135)	99
(Increase) decrease in prepaid expenses and other current assets		**225**	(241)	78
Increase (decrease) in accounts payable and accrued expenses[3]		**759**	2,843	(860)
Increase (decrease) in accrued income taxes		**(360)**	(566)	(16)
Increase (decrease) in other noncurrent liabilities[4]		**(200)**	(351)	507
Net change in operating assets and liabilities	$	**(605)** $	1,325 $	690

[1] The increase in trade accounts receivable in 2021 was primarily due to improved business performance. The decrease in trade accounts receivable in 2020 was primarily due to the impact of the COVID-19 pandemic and the start of our trade accounts receivable factoring program. Refer to Note 1 for additional information on our factoring program.

[2] The increase in inventories in 2022 was primarily due to improved business performance, higher costs and the buildup of inventory to manage potential supply chain disruptions.

[3] The increase in accounts payable and accrued expenses in 2021 was primarily due to an increase in trade accounts payable, higher marketing accruals, BodyArmor acquisition-related accruals and higher annual incentive accruals. The decrease in accounts payable and accrued expenses in 2020 was primarily due to the impact of the COVID-19 pandemic and lower annual incentive accruals. Refer to Note 2 for additional information regarding the BodyArmor acquisition.

[4] The increase in other noncurrent liabilities in 2020 was primarily due to the increase in income tax reserves related to the litigation with the IRS. Refer to Note 11.

2. Ratio Analysis

Ratio Analysis is done to evaluate the performance, profitability, and financial health of the Coca-Cola Company by examining the relationships between different financial variables. Ratios calculation is done using Excel (Consult attached Excel File) and the following insights are taken from the calculation of these ratios.

1. Insight from Liquidity Ratios

The Quick Ratio deteriorated from 0.81 in 2021 to 0.77 in 2022. The Cash Ratio deteriorated from 0.63 in 2021 to 0.59 in 2022 while Current Ratio slightly improved from 1.13 in 2021 to 1.15 in 2022. The Current Ratio of 1.15 (Value greater than 1) indicates that the Coca-Cola Company has the potential to cover their short-term obligations. This company's potential has improved from 2021 to 2022. Hence, overall Liquidity Analysis indicates that Coca-Cola's liquidity position weakened in 2022, as evidenced by the decline in both the Quick Ratio and Cash Ratio. However, a modest improvement in the Current Ratio suggests a slight enhancement in short-term liquidity.

2. Insights from Solvency Ratios

Debt to Equity ratio: The debt-to-equity ratio for Coca-Cola decreased from 1.86 in 2021 to 1.62 in 2022. It is a positive sign for Coca-Cola as the decrease shows an improved solvency position.

Debt to Assets ratio: The debt to Asset ratio for Coca-Cola decreased from 1.74 in 2021 to 1.72 in 2022. The decrease is not significantly large. However, the decrease in the ratio indicates a slight reduction in the proportion of the company's assets financed by debt.

Interest Coverage Ratio: The ratio for Coca-Cola increased from 8.78 in 2021 to 14.25 in 2022. This increase is a positive sign for Coca-Cola. A higher ratio indicates an improved ability to cover interest payments on its debt obligations. Deeper analysis shows that this significant change is largely due to the decrease in interest payments from 2021 to 2022, followed by reduction in income tax expenses.

Hence, **Overall Solvency in 2022** indicates that Coca-Cola's solvency position strengthened in 2022, evident in the decreased debt to equity and debt to asset ratios. The notable improvement in the interest coverage ratio, driven by reduced interest payments and income tax expenses, further signals enhanced capacity to meet debt obligations, reflecting a positive trend in overall solvency.

3. Insights from Profitability Ratios

Gross Profit Margin: The gross profit margin for Coca-Cola decreased from 60% in 2021 to 58% in 2022. This suggests a slight reduction in the profitability of Coca-Cola core business operations. While looking at the income statement it is found that this reduction is due to an increase in the Cost of Goods Sold (COGS) despite an increase in net operating revenues.

Net Profit Margin: The net profit margin for Coca-Cola decreased from 25% in 2021 to 22% in 2022. This suggests a slight reduction in the percentage of revenues that translates into net profit.

Return on Equity: The return on Equity for Coca-Cola declined from 42% in 2021 to 40% in 2022. This indicates a slight reduction in the company's ability to generate returns for its shareholders on their equity investment.

Return on Assets: The return on Asset for Coca-Cola slightly declined from 10.4% in 2021 to 10.3% 2022.

Hence, **Overall Analysis** indicates that Coca-Cola has performed badly on profitability in 2022 as compared to its performance in 2021.

4. Insights from Efficiency Ratios

Inventory Turnover Ratio: The inventory turnover ratio for Coca-Cola Company decreased from 4.50 in 2021 to 4.25 in 2022. This suggests a potential slowdown in the efficiency of selling and managing its inventory. in other words, Coca-Cola took longer to sell its inventory in 2022 as compared to that of 2021.

Asset Turnover Ratio: The asset turnover ratio for Coca-Cola increased from 0.41 in 2021 to 0.46. This increase suggests an increase in efficiency in utilizing its assets to generate revenue in 2022 as compared to that of 2021.

Hence, **Overall Efficiency of Coca-Cola** demonstrated enhanced efficiency in asset utilization with an improved asset turnover ratio, indicating increased revenue generation from its asset base. However, a decline in inventory turnover suggests a potential slowdown in inventory management.

5. Insights from Market Ratios

Earning Per Share increased from 1.80 in 2021 to 2.25 in 2022. This indicates improved profitability on a per-share basis. This value is greater than the industry average of 1.89.

Price Earning Ratio decreased from 27.87% in 2021 to 27.68% in 2022. This tells that market is valuing the stock slightly lower in 2022 compared to 2021. However, this value is greater than the industry average of 25.2%.

Based on the performance as compared to industry averages it can be concluded that Coca-Cola is performing better than in competitors in the market.

3. The SWOT Analysis

Like all other corporations, the Coca-Cola Company too has its strengths, weaknesses, opportunities, and threats. These factors are multiple but for the purposes of this report, the most important ones are identified.

Major Strengths of Coca-Cola Company

- Strong Brand Recognition
- Higher Brand Evaluation: Ranked 6th best global brand in 2021.
- Extended global reach – spans over more than 200 countries with 2.2 bn serving per day.
- Diversified product portfolio- operate in 5 categories of foods and beverages.
- Innovation Leadership – the leader in zero sugar beverages.

Major Weaknesses

- Intense Competition- major competitor is Pepsi.
- Low product diversification in food sector – lays and Kurkure snacks by Pepsi
- Health Concerns – carbonated soft drinks contribute significantly to diabetes and obesity.
- Environmentally Destructive Packaging- named in 4 world largest consumer brands which contribute to Carbon emissions.

Major Opportunities

- Emerging and developing economies with high population growth rates
- Greater space for penetration and expansion in the food sector. Pepsi is doing it. Hence, opportunity exists for Coca-Cola.
- Era of social media and digital marketing. This has changed the landscape of advertising and marketing with an opportunity to reach greater numbers of consumers.

Major Threats

- Rising awareness regarding environmental concerns
- Increasing health consciousness among consumers
- Global economic and political uncertainty due to conflicts and wars- disruption of major supply chains

Coca-Cola Company preparedness for risks and threats

According to the Management, Discussion and Analysis portion of 10K report for the Financial Year 2022, the Coca-Cola company is committed to catering to the evolving consumer product and shopping patterns. The risks which are associated with health are addressed by expanding the portfolio of beverage choices, including reduced, low, and no-calories products. Additionally, they are focusing on transparency in disseminating the right information to their consumers about the product. They have also introduced a wide range of packaging sizes. To cater to the consumers who are considerate about environment, society and sustainability, Coca-Cola Company has introduced various innovative and sustainable packages, and the company is committed to do so in the future. To cater to the evolving shopping preferences due to evolving marketplace landscape, the company is increasing its investments in e-commerce to support retail and meal delivery services, offering more package sizes for online sales, and shifting more consumer and trade promotions to digital platforms with aim to maintaining brand loyalty and market share. From the management, discussion, and analysis portion of the report, it seems that the Coca-Cola Company is well placed to address the risk factors.

4. The Capital Asset Pricing Model for Coca-Cola Company

The Capital Asset Pricing Model (CAPM) is done to calculate the expected rate of return of holding stocks of Coca-Cola while taking risk profile of the company into consideration. The expected rate of return is 11.704%. This value is considered a moderate return in the current economic uncertain environment.

5. Investment Decision

The company's Common size balance sheet and income statement shows a robust financial position. Additionally, Ratio Analysis portrays a strong position (except for profitability ratios). The rate of return on investments using CAPM looks good too for the Coca-Cola Company. Moreover, Company is positioned well to address the major risks and threats and its Strengths and opportunities outweigh weaknesses and threats. Based on the extensive financial statements analysis, ratio analysis, SWOT analysis, the CAPM, and the company's profile to address the future threats, I propose investing in the Coca-Cola stocks.