FINANCIAL ANALYSIS OF COCACOLA COMPANY

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ABSTRACT

In this research paper, we examine the financial performance from the years 2009 to 2019 of one of the biggest companies in the world which is the CocaCola Company. This research focuses on the various ratios used in analyzing the financial situation of business such as Liquidity Ratio, Activity Ratio, Debt Ratio and Profitability Ratio and then apply it to determine if CocaCola Company is performing well, and if yes, suggest it to my current beverage company. A data collection method was used from CocaCola website and Yahoo finance to better understand of the company's financial history.

INTRODUCTION

CocaCola Company was founded in 1886 in Atlanta, Georgia. CocaCola company is one of the biggest companies globally in manufacturing and distributing none acholic beverages from coffees to soft drinks. CocaCola considers one of the most valuable brands worldwide, and it also owns few of the best soft drink brands such as Fanta, Sprite and Diet Coke. the number one competitor of CocaCola is Pepsi, therefore the company developed tactics to increase its competitive advantages by using its vast assets brands and its unmatched distribution technique (Financial Analysis of the CocaCola company, 2018)

CocaCola Company operates around the world in North America, Africa, Asia and the Middle East and more than 200 countries. CocaCola is the biggest beverage company as it holds over 500 sparkling and still brands, and it also owns the largest market share and has market capitalization of 102 billion in US dollars and the industry average is 75 billion in US dollars. (Coca-Cola Company, 2020)

The fundamental element for a successful business is having effective decision-making process based on an effective planning and financial management (Al Muhairi & Al Muhairi, 2019). Financial ratio analysis became extremely dependable by business owners and investors when taking decision or investing. Financial ratio helps to comprehend financial statements in order to take appropriate action to improve it, moreover it also helps investors to compare between financial performances of several other companies before investing (Chnar,2018).

According to Chnar (2018) financial statement demonstrates the financial position for a business during a specific time, it also assists in predicting the future performance. The creditors are interested in knowing the business future ability in covering debt. While investors care about the profitably, the managers care about the efficiency.

Liquidity in finance refers to how quickly and easily assets can be converted to cash to cover the business short- or long-term debt. There are several liquidity ratios used in financial analysis such as Current Ratio, Quick Ratio and Cash Ratio.

Current Ratio is used to measure the business capability to pay it short term debt or the one due within a year. Current ratio focuses in showing that the company is able to pay off its current liabilities by turning assets to cash. Furthermore, having a current ratio of 1 means the business is a good one and it can cover the liabilities due and overcome any argent situations. Moreover, quick ratio also known as acid test is similar to the current ratio except quick ratio focuses more on turning the current assets into cash like inventory. The majority of businesses have a Quick Ratio below 1 as they don't have to settle their liabilities quickly, do this ratio is more beneficial to companies who pays within weeks. in addition, cash ratio concentrates on paying the debt using the cash and marketable securities as they are the most liquid asset. For Cash Ratio is better for companies to have it below 1 as it is better to invest the money rather than having It lay around (Jacobs, 2015). On another hand, Activity Ratio also known as Operation Ratio measures the speed which several accounts are converted into sales or cash. Most companies depend mostly on accounts inventory turnover, receivable turnover, and total asset turnover to measure it. Inventory turnover revels the actual time used to produce, keep and sell inventories. Companies have various inventory turnover as their need to store product produce is different, for example fresh food company where products are consumed faster will have less inventory turnover than electrical company. Moreover, account receivable turnover is a number that show how many times the business collects account receivable from its customers in a year. Account receivable turnover is important as it shows the period needed for the company to collect which effects the cash flow. furthermore, total asset turnover measures the capability of the firm to generate sales from assets, and the higher the turnover the better as it shows the business can produce sales (Sakevych, 2019). Debt Ratio indicates how stable is the company financially as it shows the amount of assets that were financed by debt, thus having a lower debt ratio is better for the business as it will have lower risk. Another ratio is Time Interest Earned Ratio which is used to know if the business is able to pay its interest. Creditors and debtors use it to define the business debt capacity and to identify if the company is facing financial trouble (Wilkinson, 2013). Profitability ratio sheds the light on the ability to generate profit. Return on Total Assets, Return on Equity and Profit Margin are examples of profitability ratios. Return on Total Asset Ratio also known as Return on Investment (ROI) ratio determines the overall effectiveness to generate profits using the available assets. Investors are interested in this ratio as it is a tool that helps them to know how much of their contribution is generating profit for the business. In addition, return on equity helps future investors to see how their money will be uses in the business to generate profit. Lastly Profit Margin ratio shows how much profit is generated from each dollar in sales. Having a high profit margin gives a competitive advantage because the business will be able to make less revenue and still pay off the expenses (Jacobs, 2015).

DATA AND METHODOLOGY

The study is based on data collected from CocaCola Company databse and Yahoo Finance. The financial data collected was from the Income Statement and Balance Sheet for the years 2016, 2017, 2018 and 2019 in order to conduct a financial analysis using the liquidity, activity, debt and profitability ratios.

Table 1: Financial Data of CocaCola Company

S/N	ITEM	2019	2018	2017	2016	2015	2014	2013	2012	2011
0	Revenues	37266	34300	36212	41863	44294	45998	46854	48017	46542
1	Cost of Goods and Services Sold	14619	13067	13721	16465	17482	17889	18421	19053	18215
2	GROSS PROFIT	22647	21233	22491	25398	26812	28109	28433	28964	28327
3	Selling, General and Administrative Expense	12103	11002	12834	15262	16427	17218	17310	17738	17422
4	Other Cost and Expense, Operating	458	1079	1902	1510	1657	1183	895	447	732
5	OPERATING INCOME	10086	9152	7755	8626	8728	9708	10228	10779	10173
6	Interest income	563	689	679	642	613	594	534	471	483
7	Interest expense	946	950	853	733	856	483	463	397	417
8	Equity income (loss) - net	1049	1008	1072	835	489	769	602	819	690
9	Other income (loss) - net	34	-1674	-1763	-1234	631	-1263	576	137	529
10	INCOME BEFORE INCOME TAXES	10786	8225	6890	8136	9605	9325	11477	11809	11458
11	Income taxes	1801	1749	5607	1586	2239	2201	2851	2723	2812
12	CONSOLIDATED NET INCOME	8985	6476	1283	6550	7366	7124	8626	9086	8646
13	Net Income (Loss) Attributable to Noncontrolli...	65	42	35	23	15	26	42	67	62
14	NET INCOME ATTRIBUTABLE TO SHAREOWNERS OF THE ...	8920	6434	1248	6527	7351	7098	8584	9019	8584
15	BASIC NET INCOME PER SHARE (in dollars per share)	2.09	1.51	0.29	1.51	1.69	1.62	1.94	2	1.88
16	DILUTED NET INCOME PER SHARE (in dollars per s...	2.07	1.5	0.29	1.49	1.67	1.6	1.9	1.97	1.85
17	AVERAGE SHARES OUTSTANDING (in shares)	4276	4259	4272	4317	4352	4387	4434	4504	4568
18	Effect of dilutive securities (in shares)	38	40	52	50	53	63	75	80	78
19	AVERAGE SHARES OUTSTANDING ASSUMING DILUTION (...	4314	4299	4324	4367	4405	4450	4509	4584	4646

All numbers are in millions, except Per Share data, Source: CocaCola Website

Table 1: Financial Data of CocaCola Company

Item/Year	2019	2018	2017	2016
Current Assets	20,411,000	30,634,000	36,545,000	34,010,000
Current Liabilities	26,973,000	29,223,000	27,194,000	26,532,000
Inventories	3,379,000	2,766,000	2,655,000	2,675,000
Cash	11,175,000	15,964,000	20,675,000	22,201,000
Receivables	3,971,000	3,396,000	3,667,000	3,856,000
Total Assets	86,381,000	83,216,000	87,896,000	87,270,000
Total Liabilities	65,283,000	64,158,000	68,919,000	64,050,000
Total Equity	18,981,000	16,981,000	17,072,000	23,062,000
Sales	37,266,000	31,856,000	35,410,000	41,863,000
Cost of Goods Sold	14,619,000	11,770,000	13,256,000	16,465,000
EBIT	10,533,000	9,781,000	9,427,000	8,626,000
Interest	946,000	919,000	841,000	733,000
Net Income	8,920,000	6,434,000	1,248,000	6,527,000

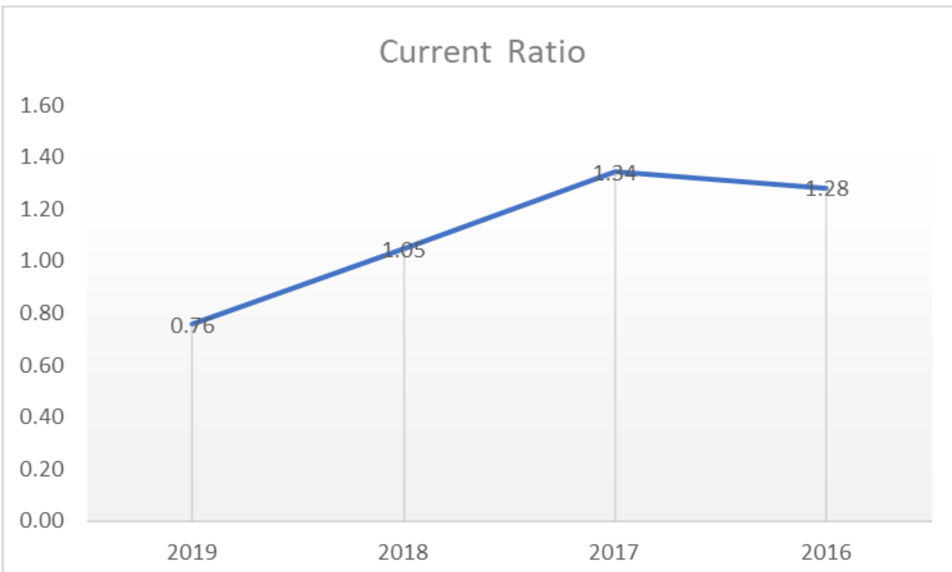
All numbers in thousands, Source: Yahoo Finance

RESULTS AND DISCUSSION

Table 2: Liquidity Ratios of CocaCola Company

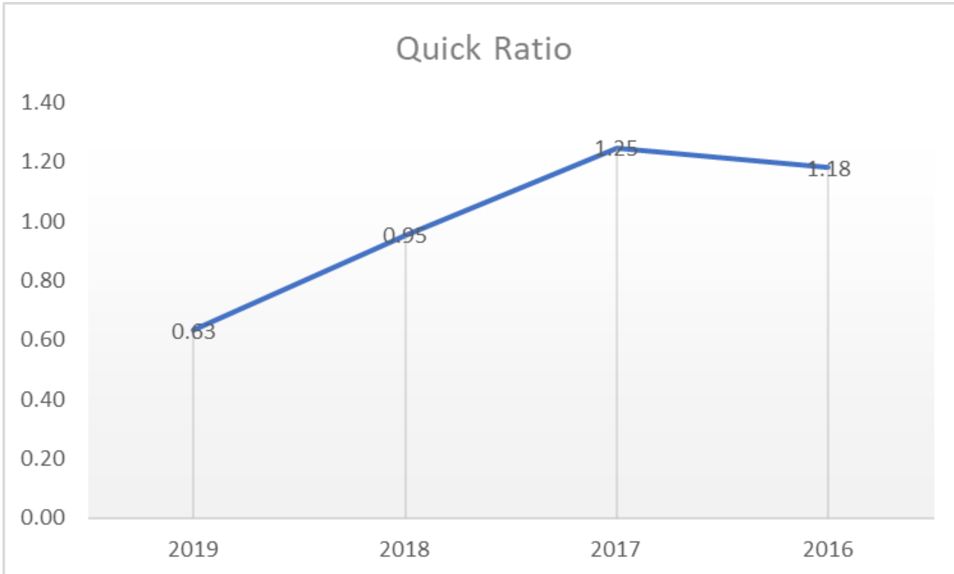
Ratio/Year	2019	2018	2017	2016
Current Ratio	0.76	1.05	1.34	1.28
Quick Ratio	0.63	0.95	1.25	1.18
Cash Ratio	0.41	0.55	0.76	0.84

Figure 1: Current Ratio of CocaCola company



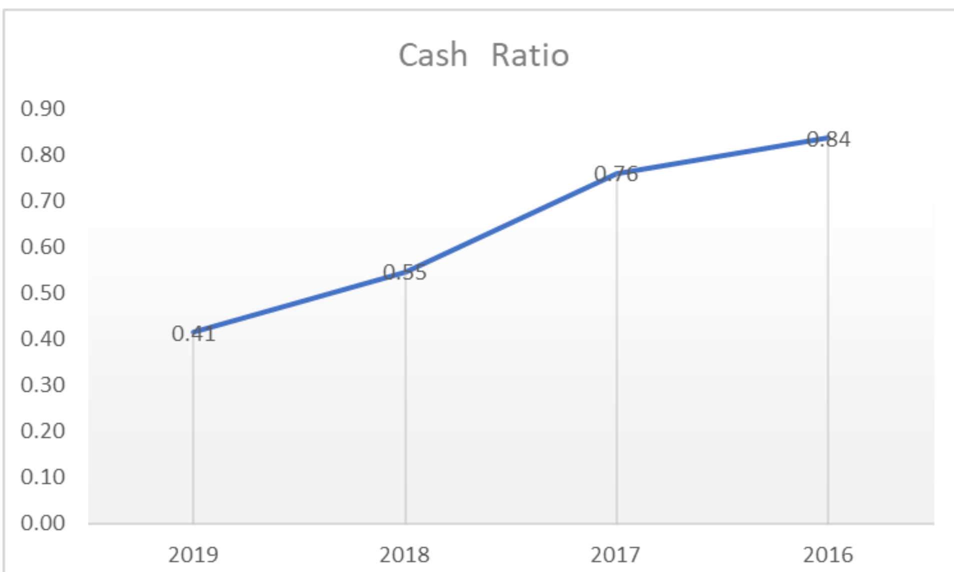
Current ratio shows the business ability to cover the short-term debt. As it shows in the graph, CocaCola company recorded a current ratio of 1.28 in 2016 and having a current ratio above 1 is good for the company which it means CocaCola is able to cover the short-term debt. In 2017 the current ratio increased to 1.34 which is good but kept on drooping for the following two years to 1.05 and 0.76 due to decrease in current assets. This clearly shows that the company is facing liquidity issues.

Figure 2: Quick Ratio of CocaCola Company



Quick ratio focuses on using the current assets to cover the debt. Similar to the current ratio, the quick ratio increased from 1.18 to 1.25 from 2016 to 2017. And then declined to 0.95 in 2018 and 0.63 in 2019 due to decrease in current assets

Figure 3: Cash Ratio of CocaCola Company



Cash ratio means using the most liquid assets to pay current liabilities. the graph reveals that CocaCola cash ratio kept on deteriorating for last 4 years from 0.84 to 0.41. Just as the previous two liquidity ratios the cash ratio is also dropping.

Overall, CocaCola liquidity has been worsening over the past 3 years as all the used liquidity ratio showed it. This can raise a red flag that CocaCola is not managing their working capital effectively.

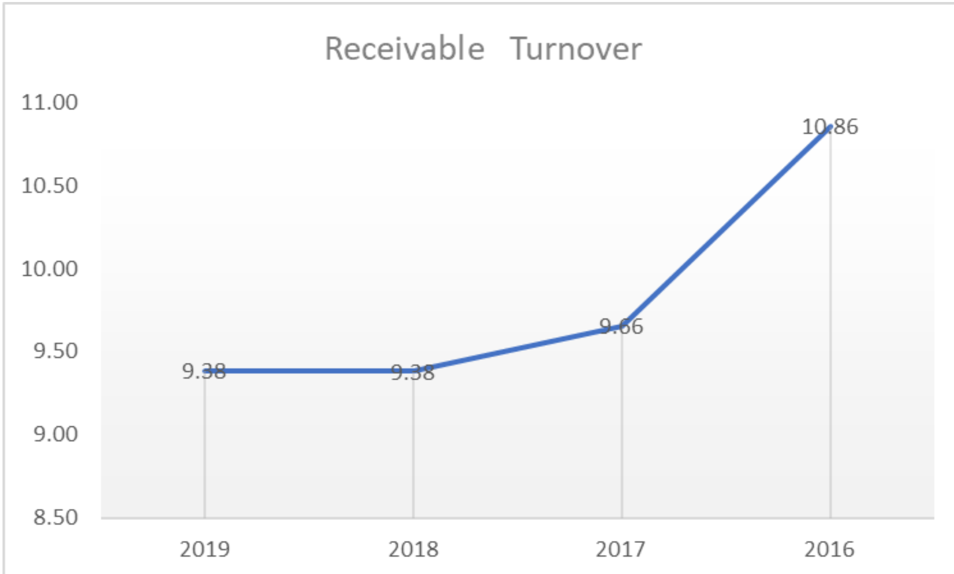
Table 3: Activity Ratios of CocaCola Company

Ratio/Year	2019	2018	2017	2016
Inventory Turnover	4.33	4.26	4.99	6.16
Receivable Turnover	9.38	9.38	9.66	10.86
Total Asset Turnover	0.43	0.38	0.40	0.48

Figure 4: Inventory Turnover of CocaCola Company

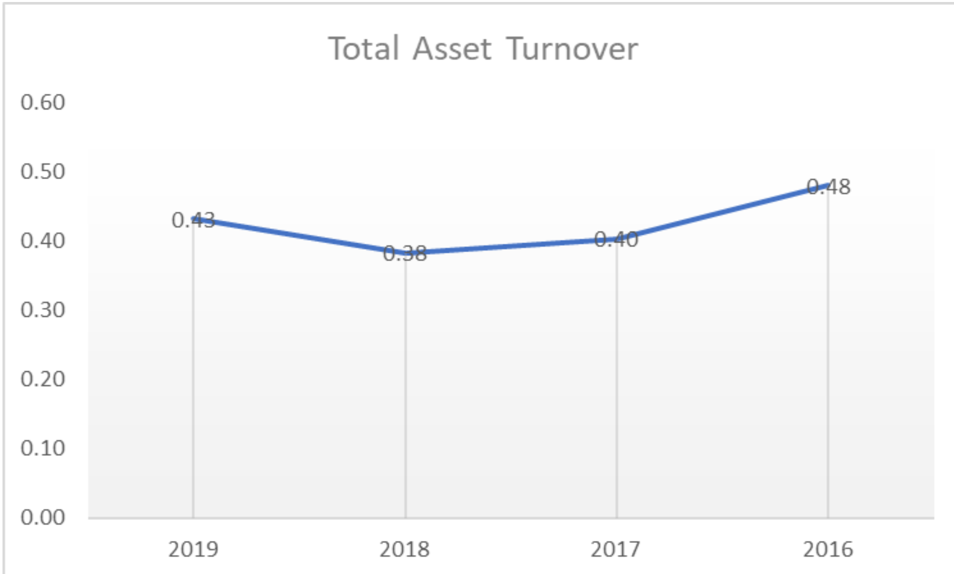
CocaCola inventory turnover in 2016 was 6.16 times then it continued to decrease for the following years to become 4.99 in 2017 and 4.26 in 2018. There was slight increase to 4.33 times in 2019. The decrease in inventory turnover ratio indicates that CocaCola products were sold slower than it used to. The shelf life of CocaCola products is long as the product take years to expire, however, CocaCola faced trouble selling their product faster in the last 3 years compared to the previous years, but it is still a good ratio.

Figure 5: Receivables Turnover of CocaCola Company



Receivable turnover is the period needed to collect receivables from customers. CocaCola receivable turnover was 10.86 in 2016 and 9.38 in 2019, the ratio decreased slightly. A good receivable turn ratio is 10 and we can say CocaCola is performing good which shows a good cash management. Although CocaCola does most of the its business worldwide, they are maintaining a good ratio.

Figure 6: Total Assets Turnover of CocaCola Company



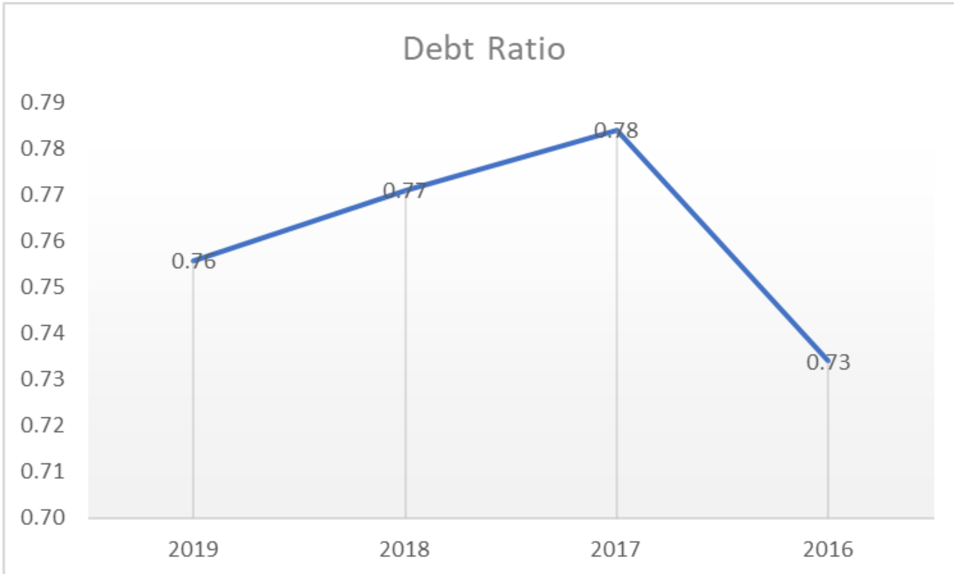
This graph shows the total asset turnover ratio which measures the capability of the firm to generate sales from assets. CocaCola had a ratio of 0.48 in 2016 which then decreased the following year to 0.40 then again to 0.38 in 2018 and this states that the efficiency of Coca-Cola in using its assets to generate sales has worsened. The decrease can also be linked back to the decrease in inventory turnover. However, there were a slight increase in the ratio in 2019 to 0.43.

Activity ratio showed that CocaCola’s ability to sell their product decrease the past three years and their best inventory turnover was in 2016 was 6.16 times. Moreover, the company also experience a slight decrease in the efficiency in collecting the receivables, however their utilization of assets to generate revenue increased the past couple of years.

Table 4: Debt Ratios of CocaCola Company

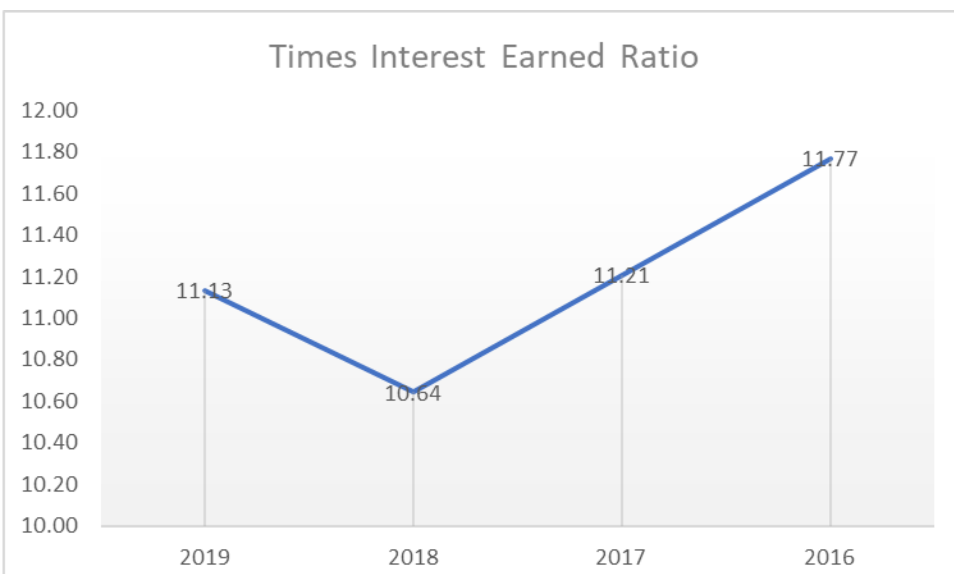
Ratio/Year	2019	2018	2017	2016
Debt Ratio	76%	77%	78%	73%
Times Interest Earned Ratio	11.13	10.64	11.21	11.77

Figure 7: Debt Ratio of CocaCola Company



Debt ratio shows the amount of assets that were financed by debt. The graph points out that CocaCola Debt ratio increased by 5% from 73% in 2016 to 78% in 2017 due to increase in total liabilities and then decreased to 77% in 2018 and 76% in 2019. The drop in the ratio from 2017 to 2019 shows that CocaCola dependence on debt decreased but still high.

Figure 8: Times Interest Earned Ratio of CocaCola Company



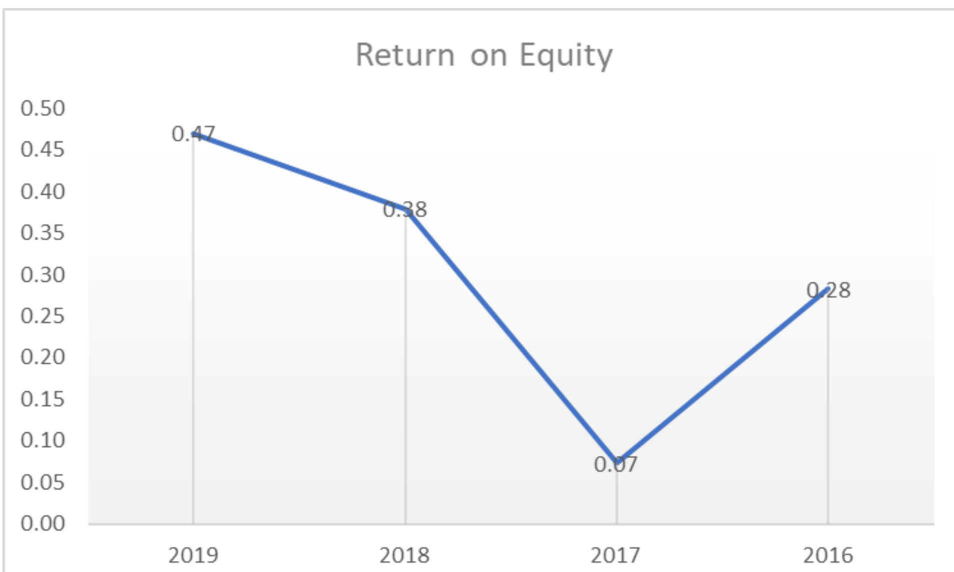
Times interest earned ratio indicates the ability of a business to cover the interest payments using EBIT. CocaCola experienced a decline in times interest earned ratio from 11.7 in 2016 to 10.64 in 2018 which means they faced difficulties in covering interest due to decrease in sales, but in 2019 they were more comfortable as the ratio increased to 11.43.

The debt ratio analysis of CocaCola does not look good as the company relay on debt heavily to finance debt they have shown a progress in reducing it Moreover, CocaCola faced issues with the Time interest earned ratio from 2016 to 2018 but it started to improve in 2019.

Table 5: Profitability Ratios of CocaCola Company

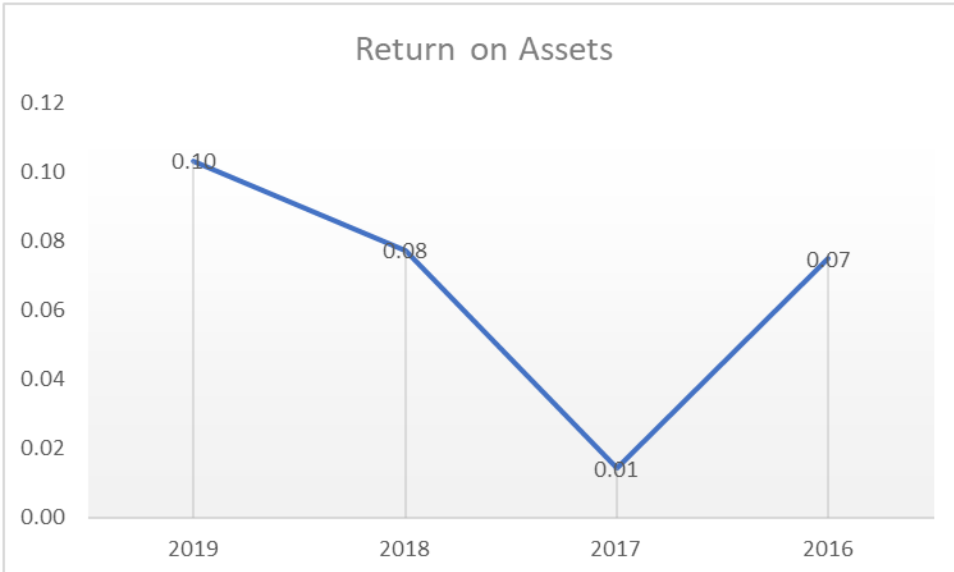
Ratio/Year	2019	2018	2017	2016
Return on Equity	47%	38%	7%	28%
Return on Assets	10%	8%	1%	7%
Profit Margin	24%	20%	4%	16%

Figure 9: Return on Equity of CocaCola Company



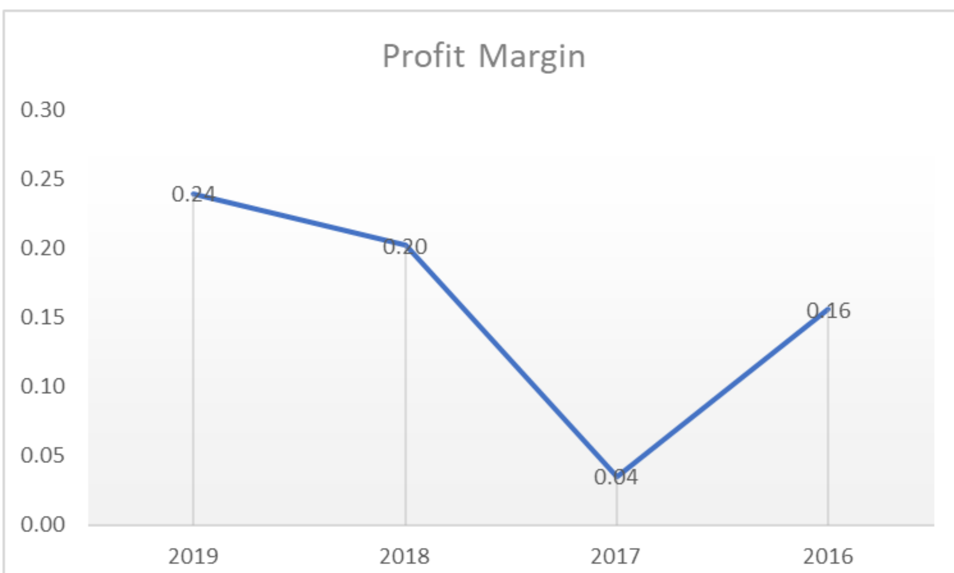
Return on equity measures how much profit were made using the investors contributions. CocaCola return on equity decreased massively in 2017 to 7% when it was 28% in 2016 due to decline in net income. Moreover, as the net income increased the next two years the return on equity ratio also increased to 38% in 2018 and 47% in 2019. The higher the return on equity the better as it measures the efficiency of the company and it also attracts investors to the business (Al Muhairi and Nobanee, 2019).

Figure 10: Return on Total Assets of CocaCola Company



Return on assets is a used to know how much profit a company generate using it assets (profit per dollar). The return in asset ratio declined from 7% in 2016 to 1% in 2017 and it also links back to decrease in net income. However, the ratio boosted in 2018 to 8% and in 2019 to 10% due to increase in net income.

Figure 11: Profit Margin of CocaCola Company



The graph shows that CocaCola had a profit margin of 16% in 2016 and 4% in 2017. According to Ramakrishnan (2017) the decrease was because of demand fall for carbonated beverages in North America and also in the same year carbonated drinks were labeled as unhealthy by the ministry of health. However, the profit margin increased dramatically after that to reach 20% in 2018 and 24% in 2019.

CONCLUSION

The brand of CocaCola company is considered one of the most popular trademarks in the world, the company keeps revolutionizing and innovatively disrupting the beverage industry.

This research shows that CocaCola faced liquidity issues for the past 3 years as the current ratio, quick ratio and cash ratio all kept on decreasing. Moreover, the activity ratios point out that CocaCola is experiencing a slight decrease in the inventory turnover ratio but in general they are performing well. In addition, the company increased their utilization of assets to generate revenue from 2018 and 2019 when compared to previous years. However, they experienced a slight decrease in efficiency when collecting receivables. CocaCola's debt ratio is high but they are clearly working to reduced it as the debt ratio is continuously dropping for the last 3 years. They also struggled to pay interest from 2016 to 2018 but they started to improve it in 2019. The company's profitability increased over the last 3 years as the return on equity, return on assets and profit margin ratios all increased after the setback they experience in 2017 due to a drop in sales as the carbonated beverages were labeled unhealthy by the ministry of health in the USA.

CocaCola is facing liquidity and debt issues and most probably will still be facing the issues within the next several years. Notwithstanding, this conclusion highlights the positive insights I suggest for my firm.

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