Equity Research

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Company Update — October 21, 2022

Beverages

The Coca-Cola Company (KO)

KO: Global System Roll-Up—Bottler Price/Mix Accelerated in Q222

Our Call

Ahead of KO's Q322 earnings (on 10/25), and in conjunction with a *separately published* global pricing deep-dive on KO today, we update our Coca-Cola Global Bottling System Roll-Up for Q222. This establishes a baseline for what bottlers did in Q2, and what they intend to do (from a pricing standpoint) going forward. This is a highly correlated analysis to KO's actual price/mix, with 92.2% correlation over the past 10 quarters.

Global System Roll-Up. We take the pulse of the global Coca-Cola bottling system, focusing on price/mix, relevant to KO in this inflationary backdrop. Key takeaway: price/mix *again* accelerated in Q222, +230bps Q/Q, and intentions of many are to continue to price ahead (see quotes from management teams across various key bottlers herein).

New bottler pricing actions: Arca is taking off-cycle price increase in the U.S. in Q3 (August), and a 2nd price increase in Mexico (July); Coke Consolidated is taking additional pricing in 2H; CCEP took pricing in July, and additional headline price increases are being discussed across all markets in 2H; Coca-Cola Bottlers Japan is implementing price increase for small packages in October (first time in 30 years).

Why track bottler pricing? Under KO's incidence-based pricing model (See a breakdown of the history of incidence-based pricing for an explainer), KO is aligned with its bottlers to grow revenue, with bottler price/mix a direct feed to the price/mix KO reports. There are important caveats: this is not a read-through to KO's North America juice, fountain, or BODYARMOR businesses, nor the Global Ventures and Bottling Investments segments. So, that means variability does exist. That in mind, it's proven a sound indicator for KO price/mix (***92.2% correlation past 10 quarters***).

What do we do? We looked at price/mix results for 7 of KO's top 8 publicly traded bottlers (>45% of global case volume). Historical price/mix trends and price commentary from Q222 earnings for said bottlers are included herein.

Bottler price/mix has accelerated. Weighted average bottler group price/mix accelerated sequentially in Q222 to +12.5% vs Q122 +10.2% and Q421 +8.6%. KO's price/mix of +12.0% in Q2 tracked 50bps below the bottler roll-up.

Bottler costs are not easing. CCEP and Coca-Cola HBC again raised FY22 COGS/unit case guidance (Exhibit 5).

Q2 commentary suggests price/mix still a lever ahead. Bottlers are taking balanced approaches, as the global Coke System leverages the many tools at its disposal to confront inflation (not just price increases, but mix/RGM too). But, as with recent quarters, it seems obvious to us that the price trend is higher, namely with elasticity holding up. We lay out bottler quotes in Exhibit 6 from Arca Continental, Coca-Cola FEMSA, Coca-Cola Consolidated, CCEP, Coca-Cola Icecek, and Coca-Cola HBC.

Organic sales look on track. We estimate Q322 KO organic sales +8.9% (volume flat, price/mix +8.9%) vs Street +9.3% (volume +2.4%, price/mix +6.9%). Global scanner trends are +11.2% for Q3, so estimates seem reasonable, with upside. For 2022, we model organic sales +12.9% (volume +3.7%, price/mix +9.2%) vs Street +13.2% (volume +5.3%, price/mix +7.9%). We continue to think Street models have lagged the price/mix glide path. This is especially acute in 2023 where we model price/mix +7.2% vs Street +3.5%.

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Rating	Overweight
Ticker	**KO**
Price Target/Prior:	**$66.00/NC**
Upside/(Downside) to Target	**19.8%**
Price (10/20/2022)	**$55.08**
52 Week Range	$52.28 - 67.20
Shares Outstanding	4,324,629,174
Market Cap (MM)	$238,201
Enterprise Value (MM)	$268,483
Average Daily Volume	13,747,175
Average Daily Value (MM)	$757
Dividend (NTM)	$1.76
Dividend Yield	3.2%
Net Debt (MM) - last reported	$30,282
ROIC - Current year est.	18%
3 Yr EPS CAGR from current year (unless otherwise noted)	6%

$ EPS	2021A	2022E Curr.	2022E Prior	2023E Curr.	2023E Prior
Q1 (Mar)	0.55 A	0.64 A	NC	0.63 E	NC
Q2 (Jun)	0.68 A	0.70 A	NC	0.71 E	NC
Q3 (Sep)	0.65 A	0.62 E	NC	0.65 E	NC
Q4 (Dec)	0.45 A	0.49 E	NC	0.56 E	NC
FY	2.32 A	2.45 E	NC	2.55 E	NC
P/E	23.7x	22.5x		21.6x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

Bottler price/mix bodes well for KO in FY22 and into FY23

Over the last decade KO has implemented incidence-based pricing agreements with its bottlers, with KO and its bottlers now aligned behind growing the top line. As such, KO's sales growth is now directly related to its bottler's sales growth. Pricing is one tool bottlers use to grow sales, but is playing a bigger part in FY22 as bottlers raise prices to offset inflation.

Who are KO's largest bottlers? As shown below, KO's top 5 bottlers represent ~41% of KO's global unit case volume, per disclosures in recent annual filings. When including KO's remaining publicly traded bottlers, the total rises to just over 51% of KO's global unit case volume.

Exhibit 1 - KO's top bottlers

KO Top Bottling Partners	% of KO Global Case Volume	Geography
Coca-Cola FEMSA	11.0%	Latin America
Coca-Cola Europacific Partners	9.6%	Western Europe, Australia, Pacific, Indonesia
Coca-Cola Hellenic	8.0%	Eastern Europe
Arca Continental	6.6%	Latin America, parts of North America
Swire Beverages	6.0%	Asia, parts of North America
Top-5 Bottlers	**41.2%**	
Other Publically Traded Bottlers		
Coca-Cola Icecek	4.0%	Central Asia, Middle East
Coca-Cola Consolidated	3.3%	U.S.
Coca-Cola Bottlers Japan	3.0%	Japan
Total Key Bottlers	**51.5%**	

Source: Company reports and Wells Fargo Securities, LLC

Recent price/mix trends for KO's largest bottlers. We compiled price/mix data for each of KO's top bottlers (except for Swire), and weighted the data by case volume and geographic footprint in the table below. Price/mix reported by bottlers was tracking roughly flat through the pandemic (-2% to +2%), then accelerated to an average of 5.3% in 2021, before jumping to +10.2% in Q122 and +12.5% in Q222.

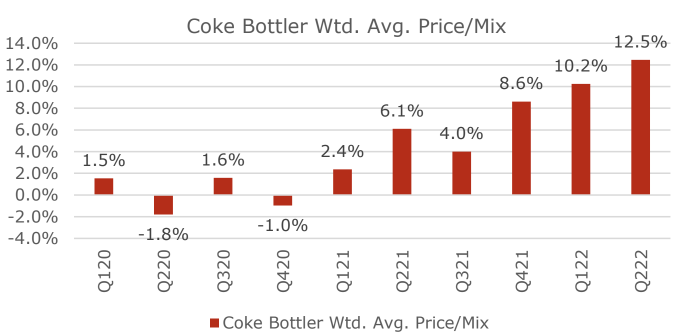
On average, bottler price/mix has more or less tracked price/mix trends reported by KO, but we note KO's price/mix lagged bottler price/mix from Q120-Q121, came in ahead in Q2-Q421 (likely helped by channel mix shift; i.e., recovery of the away-from-home channel), and again lagged bottler price/mix in Q122. KO's Q222 price/mix of +12.0%, was only slightly below our bottler price/mix roll-up of +12.5%.

Exhibit 2 - Price/mix for KO's largest bottlers weighted by case volume and geography

Price/Mix	% of Global Case Volume	Q120	Q220	Q320	Q420	Q121	Q221	Q321	Q421	Q122	Q222
Key Bottlers											
Coca-Cola FEMSA	11.0%	-1.3%	-4.3%	-1.8%	-5.2%	-2.0%	2.4%	3.5%	9.0%	11.2%	16.0%
Coca-Cola Europacific Partners	9.6%	1.5%	-5.0%	1.0%	-3.5%	0.0%	6.0%	2.0%	5.5%	3.5%	5.0%
Coca-Cola Hellenic	8.0%	-4.1%	-7.9%	-1.2%	-3.1%	1.3%	11.1%	3.5%	7.4%	11.6%	16.1%
Arca Continental	6.6%	5.0%	1.8%	3.7%	1.5%	4.8%	6.9%	7.3%	9.6%	9.6%	10.6%
Coca-Cola Icecek	4.0%	12.0%	7.5%	15.7%	14.1%	15.3%	25.3%	14.0%	24.8%	43.4%	38.1%
Coca-Cola Consolidated	3.3%	0.3%	-4.2%	0.6%	0.4%	3.5%	10.9%	10.3%	11.4%	11.2%	10.3%
Coca-Cola Bottlers Japan	3.0%	2.1%	-2.0%	-1.9%	-3.8%	-2.6%	-4.7%	-4.0%	-1.1%	-3.8%	-0.2%
Weighted Average	**45.5%**	**1.2%**	**-3.0%**	**1.4%**	**-1.3%**	**1.9%**	**7.5%**	**4.6%**	**9.0%**	**11.2%**	**13.4%**
Key Bottlers Weighted by Region											
Europe, Middle East & Africa	29.0%	3.0%	-1.9%	5.1%	2.4%	5.0%	14.3%	6.5%	12.9%	19.9%	19.6%
Latin America	27.0%	0.6%	-1.3%	1.0%	-3.3%	-0.6%	1.1%	2.7%	8.1%	9.5%	13.8%
North America	18.0%	-0.2%	-2.1%	1.2%	0.7%	5.5%	9.5%	9.4%	12.9%	12.0%	11.1%
Asia Pacific	23.0%	2.1%	-2.0%	-1.9%	-3.8%	0.1%	-1.0%	-1.8%	0.5%	-2.5%	3.1%
Global Ventures	3.0%										
Weighted Average	**100.0%**	**1.5%**	**-1.8%**	**1.6%**	**-1.0%**	**2.4%**	**6.1%**	**4.0%**	**8.6%**	**10.2%**	**12.5%**
KO Price/Mix		**0.0%**	**-4.0%**	**-3.0%**	**-3.0%**	**1.0%**	**11.0%**	**6.0%**	**10.0%**	**7.0%**	**12.0%**
Difference (KO vs Bottlers)		-1.5%	-2.2%	-4.6%	-2.0%	-1.4%	4.9%	2.0%	1.4%	-3.2%	-0.5%
2-Year Stack											
Key Bottlers Weighted Average						3.9%	4.3%	5.6%	7.6%	12.6%	18.6%
KO						1.0%	7.0%	3.0%	7.0%	8.0%	23.0%
3-Year Stack											
Key Bottlers Weighted Average										14.1%	16.8%
KO										8.0%	19.0%

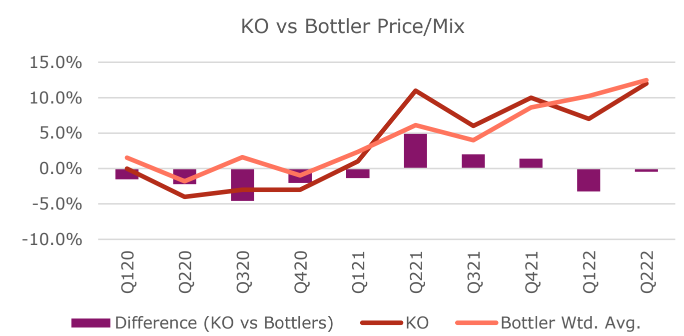
Source: Company reports and Wells Fargo Securities, LLC

Exhibit 3 - Bottler price/mix has accelerated...



Source: Company reports and Wells Fargo Securities, LLC

Exhibit 4 - ... and KO's price/mix tracks its bottler's



Source: Company reports and Wells Fargo Securities, LLC

Cost pressures continue to rise. Both CCEP and Coca-Cola HBC raised their FY22 guidance for COGS per unit case. To date there is no indication that cost pressure on bottlers is easing.

Exhibit 5 - Bottler COGS per unit case guidance

COGS per Unit Case	FY22 Guidance Current	FY22 Guidance Prior	Comments
CCEP	~+7.5%	~+7%	Higher concentrate costs reflecting increased revenue per unit case High teen commodity inflation (unchanged), weighted to the second-half FY23 high single-digit commodity inflation expected
Coca-Cola HBC	+Mid-Teens	+LDD	Higher in part from energy inflation

Source: Company reports and Wells Fargo Securities, LLC

What are bottlers saying on pricing? Similar to KO, its bottlers take a balanced approach to offsetting inflation. Pricing is a component of the strategy in addition to productivity, promotion optimization and other revenue growth management tools like mix and packaging. Strong marketing support from KO provides a tailwind behind the brands, making it easier for bottlers to take pricing.

In 2021 and into 2022, there has been little negative impact from pricing, with volume elasticity tracking much lower than historical levels and competitors also pricing as well. Several bottlers are implementing incremental price increases in 2H22, including Arca Continental (U.S., Mexico), Coca-Cola Consolidated (U.S.), CCEP (all markets), and Coca-Cola Bottlers Japan.

We compiled quotes from the Q222 earnings calls for key bottlers below. Commentary indicates that strong price/mix for bottlers is likely to continue through 2022 and into 2023 (a carry-over from recently enacted pricing actions, plus incremental pricing in 2H), which should also be a tailwind for KO.

Exhibit 6 - KO bottler commentary on pricing from Q222 earnings calls (we've highlighted key comments in blue)

Arca Continental CEO Hernández on 7/22: *"Looking ahead, due to the volatility in commodities, we are working towards implementing an off-cycle price increase [in the U.S.] during the third quarter that will help us alleviate pressure on our margins."*

In regard to pricing in Mexico to mitigate cost pressures: *"But the most important way to mitigate that is precisely with our revenue management strategy or price increase at the end of March helped, then we had a second price increase that has been applied at the beginning of the month of July, that's actually not reflected in the numbers that we have reported. So we're looking forward to continuing to protect the margins as much as we can for the second half of the year. So we're going to continue to assess additional price increases and also optimize our discounts in the market."*

In regard to revenue management: *"Well, as you know, this is very important considering also the raw material environment. We've been using pricing as a key top line driver, and we're leveraging these capabilities that we're building over time of segmentation, of brand price back architecture, and very importantly of management of discounts. So our strategy continues to be increased prices in line or above inflation.*

Raw material inflation can be higher at some point, but again, we believe that raw materials in the second half of the year will have a more favorable impact. So, we've had some carryover in price from last year, especially in Mexico and the US. So in those two markets, which are main markets, we're growing our price at or above inflation, and we plan to continue to do that as the balance from true rate increases, a positive mix. We have a positive change in mix in both countries, as single-serve is growing. And then we also have, in the case of the US, a shift in volume to high profit per case packages as a strategy. And we have also the price increases. We have an off-cycle price increase planned in the US for August and as I mentioned, an additional price increase in Mexico that was implemented this month."

Arca Continental CFO Charur on 7/22: *"As part of our ongoing business relationship with the Coca-Cola Company, we're committed on enhancing the value we create for our customers in Mexico and will jointly align on investments that will strengthen the system. In line with this commitment, we have reached an agreement for an increase in concentrate price for sparkling beverages in Mexico, which came in effect July 1 of the year."*

In regard to the concentrate price increase: *"I think it's important to mention that part of this agreement, as you said, is that, we're going to invest together in Mexico to strengthen and improve the way that we serve to our customers. That's one of the comments. The other one is that the increase is similar to last year's increase. And we've been able, as we've done in the past, to offset that increase through pricing and some other initiatives like promotion optimization. So, we don't expect an impact on our contribution margin.*

And the last thing that I would like to mention is that we don't expect any incidence adjustments in the near term. So, that's also important to consider."

Arca Continental Chief Commercial & Digital Officer Noriega on 7/22: *"...if the competitive environment is that we need to reduce some prices, we will do it. We won't have any problem with that. Obviously, the easiest way to manage that causing less disturbance in the channel is to increase promotional activity that, at the end, is what generates the whole price. But – so we would first increase promotional activity and if we have to adjust prices down, we will do it. And as Arturo said, it will depend on a balanced equation between market share, between growth, between opportunities and volume."*

Coca-Cola FEMSA CFO Montesinos on 7/26: *"Now, I also want to take a moment and emphasize the importance of implementing the right strategies across our markets in order to ensure we maintain our positive momentum as we continue navigating a very dynamic consumer and raw material environment. First of all, recognizing inflation is not new to Latin America. We will continue to leverage our playbook that is familiar to us and has allowed us to develop industry-leading revenue management capabilities. We will continue implementing portfolio initiatives across our territories to ensure we have accessible price points. Affordability has been and will continue to be key in our markets. For this reason, we're expanding our returnable capacity and the coverage of our returnable universal bottle."*

In regard to Mexico: *"What do we expect for 2022? We don't provide guidance for the future in the way we see the business. And volatility is definitely here. I think that we can say that we continue to see, as of today, positive momentum. We believe that affordability and returnability will continue to allow us to sustain our consumer base. And we are focusing on implementing operating and portfolio measures to continue growing. Maybe the growth that we saw in this quarter might taper down a little bit. That would be something that we could foresee. But as of today, we continue to be positive on the consumer environment in Mexico and the category."*

Exhibit 6 (con't)

Coca-Cola Consolidated President and COO Katz on 8/2: *"Consumer demand for our products has remained strong, despite price increases to overcome high commodity and operating cost inflation. We will continue to expand the number of affordable packaging solutions across our brand portfolio as we believe these offerings are a key factor in the continued steady consumer demand for our products. As we take additional pricing in the second half of this year, we will carefully monitor consumer response and remain agile in this evolving operating environment."*

CCEP CEO Gammell on 8/5: *"We've step changed our recommended price pack architecture to continue to address different consumers and now constantly play across the spectrum of recommended price points and elasticities. We also continue to actively manage our headline pricing and optimize our promotions through smart, digitally led revenue growth management. So we do feel good about our categories. And although we're not seeing signs of a shift in consumption, we're well placed as we moved into more uncertain times."*

In regard to promotions: *"We're actually investing more in promo if you look at our numbers. So, clearly, we've come back with a strong retail business. We've got a strong Away From Home business. So our promo is growing because our volume is growing. So we've redeployed our promo funds into smarter promotions, but we've continued to invest in promotional pricing because we believe it's good for the category, it's good for our customers, and it gives us a tool to manage some of that potential consumer headwind if it comes. So we've been quite protective of that investment. We've tried to continue to spend it smarter, and you're seeing that in our net unit case revenue growth. But clearly, that is a large – Nik continues to remind our commercial people, it is a large amount of funding which drives our business but also gives us flexibility to look at in 2023 how do we want to deploy that, and that's something we'll continue to look at."*

CCEP CFO Jhangiani on 8/5: *"The second half has started well, helped by the continued great weather, as well as the continued recovery of the Away From Home business and tourism. But we do remain very mindful of the more uncertain outlook for the consumer as we move into the post summer period, but I do caveat that with points that we are not yet seeing any signs of a shift in consumer behavior and their buying patterns.*

From a modeling perspective, volume growth will be lower in the second half, reflecting a tougher comparison as the Away From Home channel began to recover last year. And in terms of shape, we expect our full-year revenue growth to be more weighted towards volume as evidenced by our first half. Additional headline price increases and promo efficiencies are currently being discussed and in progress across all markets in the second half to help offset some of the unprecedented inflationary pressures we're seeing across the industry, particularly aluminium and gas and power and other key commodities, including conversion costs.

Some markets are more exposed to these trends, such as Great Britain, which over indexes to cans, which clearly had an impact on their costs for the second half of this year. These pressures more broadly will be much higher in the second half across all our markets. And as always, we are very surgical in how we look at these increases across our various brands, packs and channels that can remain relatively inelastic using strong RGM capabilities that we have developed over the years. And we are not looking to fully pass on these cost increases to our customers to ensure that we continue to manage affordability and relevance to our shoppers and consumers, which is even more heightened in key markets like France and Germany, given higher exposure to the home channel where we need to be conscious of that dynamic of relevance and affordability.

As always, we will continue to work with our customers to optimize our recommended price, range and pack architecture so that we can expand our categories and importantly focus on joint value creation. And of course, we will continue to focus on our own efforts to manage our cost base as well, to ensure continued profit and free cash flow growth going forward."

In regard to 2H pricing: *"So I think, obviously, the good news is, as we're looking at some of the markets in Northern Europe, as well as Spain and Portugal, we've kind of already been able to land our pricing in July and that is now in the market. So that's great news. The markets now ahead of us are really France, which is live as we speak and should be concluded during this month. And then you've got Germany and GB coming right on the back of that. I would say, the price increase is going to range across our markets, depending on obviously the channel mix, the brand mix and it will vary like I said and Damian said, we're not really taking just a fixed price increase across channels and across all brands and packs. We're being very surgical in terms of how we're looking at it based on brand packs, in-channel and elasticities..."*

Coca-Cola Icecek CFO Avramenko on 8/11 regarding EBITDA margin: *"I think again, with the commodities inflation and the pricing adjustment that we have taken, I think we guided at the beginning of the year that it's around 0% to 1% EBITDA margin contraction on the full-year basis, right. So, what we see is, I do believe that we mentioned in our press release, in earnings release, is that what we will see is that there will be – there may be a relative, sort of high-end performance or some outperformance in the top line, while there may be on EBITDA margin itself, leaving alone the absolute numbers, we may be at the lower end of this guidance or slightly around that number, at the bottom of the guidance. So that's what we can communicate for this year, at this moment. So... a reiteration of the guidance during his closing remarks, that's as much as we can say on this.*

For the next year, it's a little premature, but overall sort of controlling, protecting and expanding the margins is something that we as management are focused on. And so, as you can see, we take active steps this year to mitigate to the extent possible, in terms of margin – margin interest of the commodity prices, with the price increases and other actions and so, on a, sort of a, three-year basis, we normally target to fully cycle out of any of those pressures and continue to improve our business and focus on the margin improvements. It's a not a one-year exercise in the current environment, but it's more of a three-year exercise from our perspective."

Exhibit 6 (con't)

Coca-Cola HBC CFO Almanzar on 8/11: *"…we're actively driving volume growth in our strategic priorities. When it comes to revenue per case, pricing was the largest contributor, accounting for approximately two-thirds of the improvement in the period. The other third came mainly from package, category and channel mix. On package mix, we have certainly benefited from the reopening of the out-of-home channel. More importantly, we're actively evolving the portfolio and successfully meeting an increasing number of consumer occasions with single serves."*

"Revenue per case delivery has been strong in half one and we expect to continue to benefit from actions taken on pricing and continued focus on mix. That said, pricing was weighted to half one and our comparative is more challenging in half two."

In regard to EBITDA gudidance: *"…we're also prudently assuming a degree of consumption slowdown in Q4."*

Source: FactSet and Wells Fargo Securities, LLC

Japan a case study on price elasticity

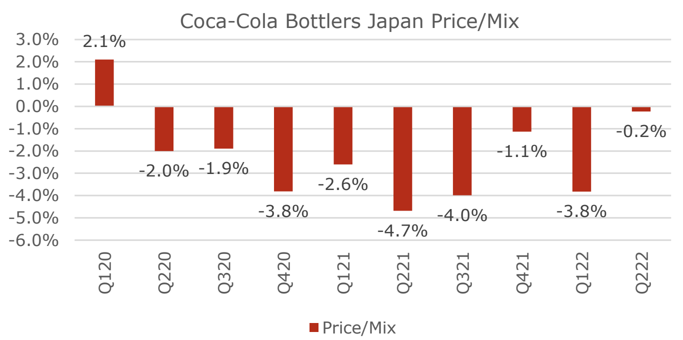
On 2/8, Coca-Cola Bottlers Japan announced it was raising prices on large PET products (1.5L & 2L) by +5-8%, which was effective on 5/1 as scheduled. On its Q222 call management confirmed it was also raising prices on small PET products in October, a much larger part of its portfolio (almost 2/3 of sales).

This is notable as Japan is historically a deflationary market. The large PET pricing recently enacted is only the second price increase in the last 30 years, and it will be the first time in 30 years that CCBJ will be raising pricing on small PET products in October. Coca-Cola products in Japan already sell at a premium and the bottler is leading the industry with price increases.

This will be a key market to watch in the coming quarters for indications of consumer price elasticity sensitivity. So far large PET volumes have recovered at a faster pace than the 2019 price increases. Competitors appear to have followed with pricing, but management also noted some competitors had increased promotions post-pricing.

See quotes below.

Exhibit 7 - Japan is historically deflationary, but price/mix bounced to ~flat in Q2 after pricing in May on large PET products



Source: Company reports and Wells Fargo Securities, LLC

Exhibit 8 - Coca-Cola Bottlers Japan Q222 commentary on pricing (we've highlighted key comments in blue)

Coca-Cola Bottlers Japan CEO Calin Dragan on 8/12: "To improve profitability, we have already implemented price revisions for large PET, as planned, and they are preparing for the price revisions for small packages in October."

In regard to price increases: "So I will share with you what was the direction to my team for the price increase in May. It was very simple: raise the price and keep the price. Do not discount after that, and this was made loud and clear throughout the entire organization, which means after we increase the price, yes, we expect to see the transactions going down but do not run price promotions, redeploy... toward consumers, toward national promotions, and toward new development because we want to make sure this new raised price it's kept, it's maintained in the market.

And this was pretty difficult for the team to do but stay disciplined and execute and it was difficult because what they saw in the market, they saw other players doing exactly the opposite, reducing the price significantly, running promotions or even upsizing at the same price. Why this is important as we move into October? This will be a massive change affecting more than 50% of our volume in the market, the price increase for small PET.

And it is for the first time in 30 years that we increased the small PET. So the key word here is to be disciplined, to work with our customers, to make sure we increase the price, and to keep the price at that level."

Coca-Cola Bottlers Japan CFO Bjorn Ivar Ulgenes on 8/12: "Large PET price revisions implemented in May to improve earning space is progressing as planned... While large PET volume declined significantly following the price revisions, volume is recovering ahead of the peak summer season.

The rate of recovery is at a faster pace than the 2019 price revisions. Retail prices are increasing alongside shipment price. Our retail prices were at the premium to the industry average even before the price revisions. And our retail prices have increased while maintaining the premium, allowing us to confirm the effectiveness...

Our large PET price revisions ahead of the industry was carried out with determination to build a revenue base. We will continue efforts to maintain the shipment price of large PET and are determined to carry out the price revisions for small packages scheduled in October...

We feel that the strong market share foundation we have built to date has made a significant contribution. In this difficult business environment, we believe that efforts to improve our earnings base are important, urgent, and we'll continue implementing our profitability-focused pricing strategy."

Source: FactSet and Wells Fargo Securities, LLC

Exhibit 9 - KO - WFS vs Street for Q222e, 2022e, 2023e

Total KO 2Q22E	WF	Street	WF vs Street	Total KO FY22E	WF	Street	WF vs Street	WF vs guidance*	FY22 guidance	Total KO FY23E	WF	Street	WF vs Street
Unit Case Volume	1.9%	2.1%	-0.2%	Unit Case Volume	2.4%	3.3%	-0.9%			Unit Case Volume	3.0%	3.2%	-0.2%
Concentrate Sales Volume	0.4%	(0.5%)	0.9%	Concentrate Sales Volun	2.5%	3.6%	-1.1%			Concentrate Sales Volun	3.1%	3.1%	0.0%
Price Mix	4.5%	4.6%	-0.1%	Price Mix	6.0%	5.1%	0.9%			Price Mix	2.2%	2.5%	-0.3%
Organic Sales	**4.9%**	**4.2%**	**0.7%**	**Organic Sales**	**8.5%**	**8.7%**	**-0.2%**	**1.0%**	**+7%-8%**	**Organic Sales**	**5.3%**	**5.6%**	**-0.3%**
FX	(3.4%)	(3.8%)	0.4%	FX	(3.3%)	(3.0%)	-0.3%	(0.8%)	-2% to -3%	FX	(0.6%)	(0.2%)	-0.4%
Other	3.2%	2.6%	0.6%	Other	2.8%	2.4%	0.4%			Other	0.4%	(0.1%)	0.5%
Total Net Revenue	**4.7%**	**3.0%**	**1.7%**	**Total Net Revenue**	**8.0%**	**8.1%**	**-0.1%**			**Total Net Revenue**	**5.0%**	**5.3%**	**-0.2%**
Gross Margin	**60.4%**	**60.1%**	**0.3%**	**Gross Margin**	**59.4%**	**59.5%**	**0.0%**			**Gross Margin**	**59.6%**	**59.7%**	**-0.2%**
Y/Y bps	(100)	(130)		Y/Y bps	(72)	(68)				Y/Y bps	17	29	
Operating Margin	**30.9%**	**30.7%**		**Operating Margin**	**29.1%**	**29.0%**				**Operating Margin**	**29.8%**	**29.6%**	
Y/Y bps	(84)	(103)	19	Y/Y bps	37	22	15			Y/Y bps	66	62	4
EPS	**$0.66**	**$0.66**	**-0.4%**	**EPS**	**$2.45**	**$2.47**	**-0.7%**	**0.1%**	**+5%-6%**	**EPS**	**$2.63**	**$2.65**	**-0.7%**

North America Segment 2Q22E	WF	Street	WF vs Street	North America Segment FY22E	WF	Street	WF vs Street	North America Segment FY23E	WF	Street	WF vs Street
Concentrate Sales Volume	4.0%	0.4%	3.6%	Concentrate Sales Volun	3.9%	2.0%	1.9%	Concentrate Sales Volun	3.0%	2.0%	1.0%
Price Mix	3.0%	4.9%	-1.9%	Price Mix	5.3%	6.0%	-0.7%	Price Mix	1.7%	2.6%	-0.9%
Organic Sales	**7.0%**	**5.3%**	**1.7%**	**Organic Sales**	**9.3%**	**8.0%**	**1.2%**	**Organic Sales**	**4.7%**	**4.7%**	**0.1%**
Unit Case Volume	4.0%	2.1%	1.9%	Unit Case Volume	4.1%	2.8%	1.3%	Unit Case Volume	3.0%	2.2%	0.8%
Operating Margin	24.9%	24.3%		Operating Margin	25.7%	24.9%		Operating Margin	26.6%	25.3%	
Y/Y bps	(50)	(106)	**56**	Y/Y bps	49	(36)	**85**	Y/Y bps	85	40	**46**

Latin America Segment 2Q22E	WF	Street	WF vs Street	Latin America Segment FY22E	WF	Street	WF vs Street	Latin America Segment FY23E	WF	Street	WF vs Street
Concentrate Sales Volume	(5.0%)	(4.1%)	-0.9%	Concentrate Sales Volun	4.4%	5.3%	-0.9%	Concentrate Sales Volun	2.5%	2.4%	0.1%
Price Mix	9.5%	10.1%	-0.6%	Price Mix	10.3%	9.4%	0.9%	Price Mix	4.8%	4.8%	0.0%
Organic Sales	**4.5%**	**6.9%**	**-2.4%**	**Organic Sales**	**14.7%**	**14.9%**	**-0.2%**	**Organic Sales**	**7.3%**	**7.3%**	**0.0%**
Unit Case Volume	6.0%	3.7%	2.3%	Unit Case Volume	4.5%	4.0%	0.5%	Unit Case Volume	2.5%	2.2%	0.3%
Operating Margin	66.0%	65.0%		Operating Margin	62.8%	62.2%		Operating Margin	63.6%	62.8%	
Y/Y bps	250	144	**106**	Y/Y bps	134	76	**58**	Y/Y bps	84	61	**23**

Europe,ME & Africa Segment 2Q22E	WF	Street	WF vs Street	Europe,ME & Africa Segment FY22E	WF	Street	WF vs Street	Europe,ME & Africa Segment FY23E	WF	Street	WF vs Street
Concentrate Sales Volume	(6.0%)	(4.1%)	-1.9%	Concentrate Sales Volun	(1.8%)	2.3%	-4.1%	Concentrate Sales Volun	2.7%	2.4%	0.4%
Price Mix	4.0%	4.6%	-0.6%	Price Mix	4.7%	4.6%	0.1%	Price Mix	1.6%	2.7%	-1.1%
Organic Sales	**(2.0%)**	**0.8%**	**-2.8%**	**Organic Sales**	**2.9%**	**7.0%**	**-4.1%**	**Organic Sales**	**4.4%**	**5.1%**	**-0.7%**
Unit Case Volume	(2.0%)	(0.4%)	-1.6%	Unit Case Volume	(1.8%)	1.9%	-3.7%	Unit Case Volume	2.7%	2.6%	0.1%
Operating Margin	57.7%	56.9%		Operating Margin	54.7%	53.8%		Operating Margin	55.6%	54.7%	
Y/Y bps	50	(33)	**83**	Y/Y bps	77	(13)	**90**	Y/Y bps	87	91	**(3)**

Asia Pacific Segment 2Q22E	WF	Street	WF vs Street	Asia Pacific Segment FY22E	WF	Street	WF vs Street	Asia Pacific Segment FY23E	WF	Street	WF vs Street
Concentrate Sales Volume	2.0%	1.1%	0.9%	Concentrate Sales Volun	1.9%	2.3%	-0.3%	Concentrate Sales Volun	3.5%	4.6%	-1.1%
Price Mix	2.5%	1.1%	1.4%	Price Mix	4.5%	3.6%	0.9%	Price Mix	0.8%	1.0%	-0.2%
Organic Sales	**4.5%**	**1.9%**	**2.6%**	**Organic Sales**	**6.5%**	**5.7%**	**0.7%**	**Organic Sales**	**4.3%**	**5.6%**	**-1.3%**
Unit Case Volume	0.0%	1.2%	-1.2%	Unit Case Volume	2.2%	3.2%	-0.9%	Unit Case Volume	3.5%	5.0%	-1.5%
Operating Margin	48.8%	50.5%		Operating Margin	43.2%	43.6%		Operating Margin	43.8%	44.3%	
Y/Y bps	(200)	(30)	**(170)**	Y/Y bps	(89)	(56)	**(33)**	Y/Y bps	53	72	**(19)**

Global Ventures 2Q22E	WF	Street	WF vs Street	Global Ventures FY22E	WF	Street	WF vs Street	Global Ventures FY23E	WF	Street	WF vs Street
Concentrate Sales Volume	1.0%	(0.2%)	1.2%	Concentrate Sales Volun	6.7%	6.7%	0.0%	Concentrate Sales Volun	4.0%	5.3%	-1.3%
Price Mix	2.5%	2.4%	0.2%	Price Mix	3.9%	4.6%	-0.7%	Price Mix	1.5%	1.4%	0.1%
Organic Sales	**3.5%**	**2.5%**	**1.0%**	**Organic Sales**	**10.6%**	**11.4%**	**-0.8%**	**Organic Sales**	**5.5%**	**6.4%**	**-0.9%**
Unit Case Volume	1.0%	3.2%	-2.2%	Unit Case Volume	6.6%	7.6%	-1.0%	Unit Case Volume	4.0%	5.4%	-1.4%
Operating Margin	11.9%	11.3%		Operating Margin	12.4%	11.1%		Operating Margin	13.0%	11.5%	
Y/Y bps	172	116	**56**	Y/Y bps	204	77	**127**	Y/Y bps	59	43	**16**

Bottling Investments 2Q22E	WF	Street	WF vs Street	Bottling Investments FY22E	WF	Street	WF vs Street	Bottling Investments FY23E	WF	Street	WF vs Street
Concentrate Sales Volume	6.0%	2.9%	3.1%	Concentrate Sales Volun	4.3%	4.7%	-0.4%	Concentrate Sales Volun	5.0%	4.6%	0.4%
Price Mix	4.0%	3.9%	0.1%	Price Mix	4.6%	4.0%	0.6%	Price Mix	1.5%	2.0%	-0.5%
Organic Sales	**10.0%**	**6.9%**	**3.1%**	**Organic Sales**	**8.8%**	**8.7%**	**0.1%**	**Organic Sales**	**6.5%**	**6.8%**	**-0.3%**
Unit Case Volume	6.0%	4.9%	1.1%	Unit Case Volume	4.2%	5.0%	-0.7%	Unit Case Volume	5.0%	4.9%	0.1%
Operating Margin	6.4%	4.7%		Operating Margin	8.2%	7.3%		Operating Margin	8.8%	7.6%	
Y/Y bps	200	29	**171**	Y/Y bps	183	87	**96**	Y/Y bps	59	33	**27**

Source: Company reports, Visible Alpha, Wells Fargo Securities, LLC estimates

Investment Thesis, Valuation and Risks

The Coca-Cola Company (KO)

Investment Thesis

We see upside potential to sales as the recovery takes shape with newfound flexibility around earnings delivery. We view the dividend as manageable with additional capital deployment potential ahead. Buy the recovery, in our view. Overweight KO.

Target Price Valuation for KO: $66.00 from NC

Our $66 price target is based on a 26x P/E multiple to our CY23E EPS estimate—the higher end of KO's historical P/E range, reflecting defensive qualities in a volatile macro backdrop, underlying momentum in the business, and a favorable cost structure (asset-light) amid inflation.

Risks to Our Price Target and Rating for KO

Risks include (1) the global recovery may be slower than we expect; (2) margin improvement could stall; and (3) the dividend could suffer.

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I, Chris Carey, certify that:
1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and

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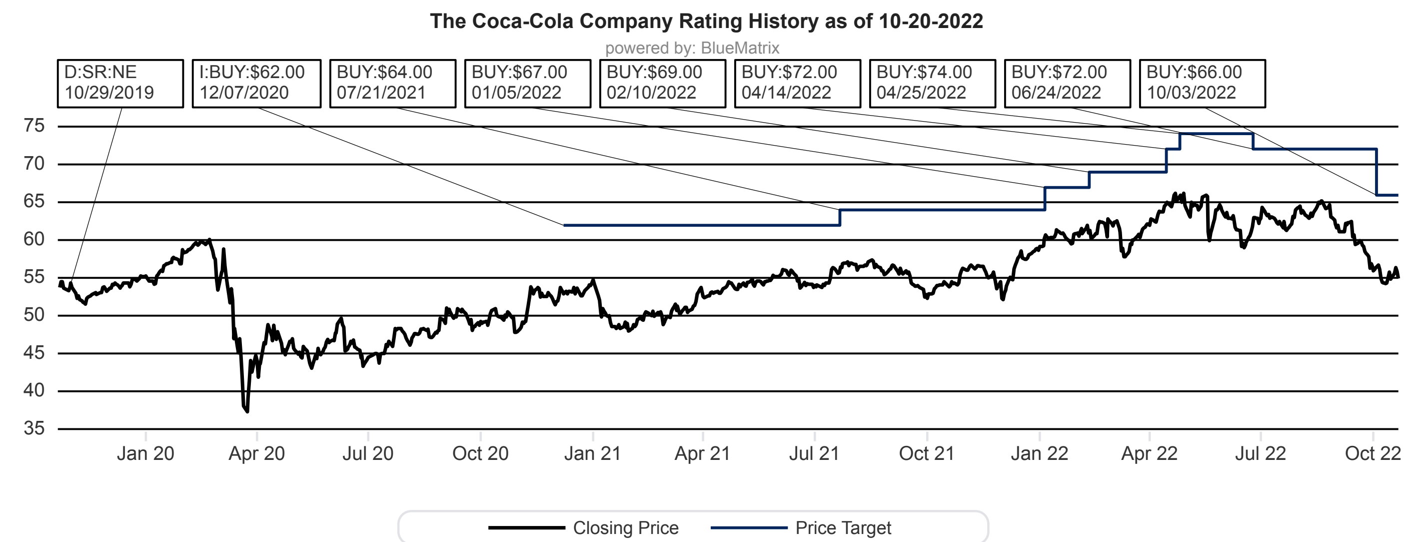

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2=Equal Weight: Total return on stock expected to be -10% to +10% over the next 12 months. HOLD

3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

As of October 20, 2022
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