J.P.Morgan

North America Equity Research
04 February 2022

Coca-Cola

Q4 Preview: Tasting the Feeling of Initial '22 Guide High-End of Algo for Sales but Conservative in EPS

Overweight

KO, KO US

Price (03 Feb 22): $61.61

▲ **Price Target (Dec-22): $64.00**
Prior (Dec-22): $63.00

The Coca-Cola Company (KO, Overweight-rated) is scheduled to report 4Q21 earnings on Thursday, February 10th, before the open. We have adjusted our margins assumptions and our 4Q21 EPS estimate of $0.41 moves up a penny and is in-line with the current Bloomberg consensus. We think KO is set up for a strong quarter as our/consensus estimates contemplate only a modest acceleration from 3Q in the two-year CAGR on unit case volume and price/mix despite all indications that the operating environment was likely supportive sequentially (e.g., "October started strong," 3Q Delta variant impact, full benefit of off-cycle price increase, positive US scanner data trends). From a margin perspective, we are more conservative vs. consensus on gross margin as six fewer days in the quarter and convergence of shipments/unit cases drives deleverage in addition to headwind from incorporation of BODYARMOR (closed 11/1, finished product all co-manufactured) and faster finished good sales, although our SG&A estimates are modestly below the Street. Looking ahead to 2022, management tone around the underlying momentum has been positive ("*we're confident that we're going to come out of COVID with a model that can drive the revenue at the top-end of the model*") and our expectation for another above-algorithm year in 2023 (modeling +7.0%) doesn't feel aggressive as it implies a 3-year unit case volume and price/mix CAGR of just +1.1% and +2.4% vs. pre-COVID 2-year CAGR +2.1% and +3.3%, respectively, despite the accelerated pricing/RGM and marketing/innovation efforts bearing fruit. Management may choose to stick with its long-term algorithm when it initially guides 2022 (given the COVID-19 variants), but we think investors appreciate the strong brand equity (ability to take pricing) and favorable set-up and would welcome a raise through the year as visibility increases, which should further help the stock narrative, although FX headwinds could limit USD EPS flow through. Despite KO's recent rally (shares +9.5% vs. XLP +3.6% since December 13; see our note), valuation is still at a >1x P/E discount to OW-rated PEP, which we expect to narrow (we actually like both stocks and believe they are not mutually exclusive). Our Dec-22 target price moves up $1 to $64 based on 24x our 2023 EPS (in-line with 2-year average).

- **Framing Top-Line Expectations for 2022.** Management has sounded confident on the underlying top-line momentum given recent organizational changes, investments behind innovation, and marketing optimization and as noted above management believes it can drive the top-end of +4-6% organic revenue algorithm. We are anticipating another above-algorithm year in 2022 given still-recovering volumes from COVID-impacted 2021 (1H21 volumes remained below 2019 levels) and continuation of stronger-than-historical price/mix given pricing/RGM focus to offset cost pressures. All-in, we are currently modeling +7.0% organic revenue growth with unit case volumes +3.0% and price/mix +4.0%, although we think there could be further upside tension with further normalization of the operating environment.

Beverage, Household & Personal Care Products

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Key Changes (FYE Dec)

	Prev	Cur
Adj. EPS - 21E ($)	2.28	2.29
Adj. EPS - 22E ($)	2.45	2.46
Revenue - 21E ($ mn)	38,246	38,200
Revenue - 22E ($ mn)	40,982	40,968

Quarterly Forecasts (FYE Dec)

Adj. EPS ($)

	2020A	2021E	2022E
Q1	0.51	0.55A	0.60
Q2	0.42	0.68A	0.72
Q3	0.55	0.65A	0.68
Q4	0.47	0.41	0.47
FY	1.95	2.29	2.46

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	81	81	79	82	79
Growth	12	14	57	94	76
Momentum	30	36	87	30	78
Quality	32	38	16	71	16
Low Vol	5	13	15	2	2
ESGQ	36	16	16	31	20

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

See page 12 for analyst certification and important disclosures.

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Price Performance

	YTD	1m	3m	12m
Abs	3.9%	3.9%	9.4%	26.3%
Rel	10.0%	10.5%	13.4%	9.4%

Company Data

Shares O/S (mn)	4,321
52-week range ($)	61.78-48.65
Market cap ($ mn)	266,216.80
Exchange rate	1.00
Free float(%)	89.6%
3M - Avg daily vol (mn)	17.98
3M - Avg daily val ($ mn)	1,040.5
Volatility (90 Day)	16
Index	S&P 500
BBG BUY|HOLD|SELL	20|8|0

Key Metrics (FYE Dec)

$ in millions	FY20A	FY21E	FY22E	FY23E
Financial Estimates				
Revenue	32,999	38,200	40,968	43,167
Adj. EBITDA	11,306	12,573	13,405	14,424
Adj. EBIT	9,770	11,032	11,807	12,694
Adj. net income	8,435	9,924	10,689	11,590
Adj. EPS	1.95	2.29	2.46	2.67
BBG EPS	1.89	2.29	2.43	2.60
Cashflow from operations	9,844	12,145	12,517	13,581
FCFF	8,667	10,831	10,469	11,423
Margins and Growth				
Revenue growth	(11.5%)	15.8%	7.2%	5.4%
Total Organic Sales Growth (%)	-	-	-	-
Gross margin	59.1%	60.2%	59.8%	60.2%
EBITDA margin	34.3%	32.9%	32.7%	33.4%
EBITDA growth	(4.0%)	11.2%	6.6%	7.6%
EBIT margin	29.6%	28.9%	28.8%	29.4%
Net margin	25.6%	26.0%	26.1%	26.8%
Adj. EPS growth	(7.5%)	17.2%	7.6%	8.5%
Ratios				
Net debt/EBITDA	3.0	2.7	2.3	1.8
ROIC	-	-	-	-
ROE	44.1%	47.8%	44.5%	41.7%
Valuation				
FCFF yield	3.3%	4.1%	3.9%	4.3%
Dividend yield	2.6%	2.7%	2.8%	3.0%
EV/Revenue	8.6	7.4	6.8	6.4
EV/EBITDA	25.0	22.5	20.9	19.2
Adj. P/E	31.6	26.9	25.0	23.1

Summary Investment Thesis and Valuation

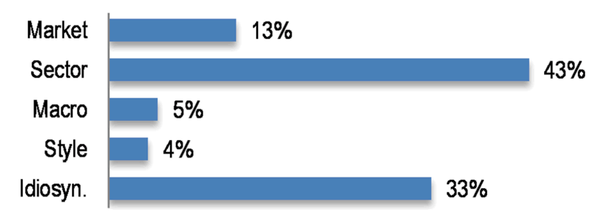
Investment Thesis

We have an Overweight rating on KO shares. We think Coca-Cola will benefit from economies re-opening and is well positioned to reaccelerate organic growth above the top-end of its long-term 4-6% range. KO has undergone a deep positive transformation over the past few years by improving its sales portfolio, refranchising and consolidating bottling assets globally, setting up new systems and procurement in the US, shifting focus from volume to value growth, and transitioning senior management. While the multi-billion dollar dispute with the IRS is an overhang, we think it is already reflected in the share price.

Valuation

Our Dec 2022 price target of $64 is based on 24x P/E (2-year historical average multiple) applied to our 2023 estimates, and roughly one turn discount to closest peer PEP. Our $64 price target implies ~4% upside in the next 11 months plus a ~3% dividend yield. While the IRS tax dispute and FX headwinds are overhangs, we think these are more than reflected in current valuation, creating favorable risk/reward.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.42	0.38
Sect: Cons Staples	0.70	0.71
Ind: Food Bev & Tobacco	0.74	0.78
Macro:		
US 10yr yield	-0.10	-0.19
Non-Energy Commodity	0.11	0.15
Crude Oil	0.09	0.12
Quant Styles:		
LowVol	0.35	0.47
Momentum	-0.45	-0.39
Quality	0.25	0.35

Source: J.P. Morgan Quantitative and Derivatives Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

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- **Margin Expectations for 2022.** Despite its more asset-lite model, KO still faces impacts from the inflationary cost/supply chain environment and FX, and with its 3Q earnings guided to a mid-single-digits headwind to COGS for 2022 (i.e., higher than mid-single digits inflation for commodities) as the company rolls into higher cost hedges in 2022. We think it's possible that the cost environment has gotten incrementally more challenging for at least some of KO's cost exposures, particularly for juice, which is The Coca-Cola Company's largest direct commodity exposure (orange juice concentrate prices have surged ~30% since KO's 3Q21 earnings call). Price increases and accelerating RGM initiatives should help to offset some of the inflationary impacts, although we see other headwinds including acquisition of BODYARMOR and faster growth of finished goods (carries lower gross margin). From a G&A perspective, we expect the company to be able to drive some leverage overall as the company further optimizes marketing spending. Net-net, we are modeling for gross margin compression of -39 bps in 2022 and operating margin contraction of -6 bps.

- **Updated FX Outlook**. During the company's 3Q21 earnings call on October 27, 2021, management reiterates its full-year 2021 currency outlook including a +1-2% benefit to the top-line and +2-3% benefit to EPS and introduced expectations for 4Q21 including flat impact from FX on the top-line and a +2% tailwind to EPS. The company also provided an initial 2022 currency outlook of a -2% to -3% headwind to both the top-line and EPS. Since the 3Q21 earnings call, the USD has further strengthened according to our currency model by an average of about -80 bps between 4Q21-3Q22. For 4Q21, given hedging in place for G10 currencies we think it's likely that KO could remain close to its approximately even impact guidance on the top-line, and while we would assume that the currency impact implied by our model would fall within KO's initial 2022 guidance at this point to the top-line, we do think it could be toward the lower-end, and could be below the low-end on EPS given historical multiplier of 1.2-1.5x currency impact from top-line to bottom-line. For the quarter, we forecasting a -0.5% impact to the top-line (in-line with consensus) and for 2022 we are forecasting an FX headwind of -2.7% (vs. consensus -2.2%).

- **4Q21 Expectations.** We are expecting another quarter of double-digits organic revenue growth (on unit case basis) as we expect a modest acceleration in the two-year volume and price/mix CAGR given further recovery in away-from-home performance through the quarter vs. 3Q and also higher price/mix given additional pricing actions and further progress on RGM initiatives. We are forecasting 4Q21 organic revenue growth of +12.8% (unit case volume +6.2%, price/mix +6.6%) versus the apples-to-apples Consensus Metrix forecast of +13.0% (unit case volumes +6.4% and price/mix +6.6%). Using concentrate shipments consensus is currently modeling for +3.9% organic growth (shipments -2.7%, price/mix +6.6%) and on an apples-to-apples basis our model also calls for organic growth of +3.9% (shipments -2.6%, price/mix +6.6%). On gross margins, we are below the Street as we see tailwinds from pricing and away-from-home recovery being offset by the fewer shipping days in 4Q (six fewer), which drives deleverage, and headwind to gross margins from full acquisition of BODYAMOR, which closed on November 1 (finished product model typically carries lower margins). We are forecasting 4Q21 EPS of $0.41, which is in-line with the current Bloomberg consensus estimate and up a penny from our prior estimate.

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Thoughts on 2022 Outlook

KO provided some broad strokes around its initial outlook for 2022 with its 3Q earnings on October 27th, most directly around the cost/currency environment (anticipating MSD% COGS inflation and -2% to -3% top-line/EPS impact from FX) and more indirectly around the top-line, as we recall below. That said, a lot has obviously changed since then, and we provide our view on where KO will likely land on its initial 2022 guidance below.

Outlook for Revenue Growth

Management has sounded confident on the underlying top-line momentum given recent organizational changes ("emerging stronger"), investments behind innovation, and marketing optimization ("doing more with the same") and CEO Quincey noted at a recent conference that "*we're confident that we're going to come out of COVID with a model that can drive the revenue at the top-end of the model,*" which calls for organic revenue of +4-6%. We (and current consensus per Consensus Metrix) are anticipating another above-algorithm year in 2022 given still-recovering volumes from COVID-impacted 2021 (1H21 volumes remained below 2019 levels) and continuation of stronger-than-historical price/mix given pricing/RGM focus to offset cost pressures (management commentary has been supportive with CEO Quincey noting "**we will be looking at exactly what level our pricing needs to be for 2022…**and **we certainly intend to earn the right to take the pricing for the brands and the packaging and beyond"**) and benefit from further recovery runway for the higher price per ounce away-from-home channel (we believe that KO has likely regained ~70% of lost away-from-home volumes thus far). **From a guidance perspective, KO may take an initially conservative approach and not stray from its +4-6% algorithm (but point to the higher-end), although we see clear upside past the high-end and believe KO would prefer to raise through the year as visibility increases following some potential early year disruption from the Omicron wave**.

All-in, we are currently modeling +7.0% organic revenue growth with unit case volumes +3.0% and price/mix +4.0% vs. current Consensus Metrix of +7.2% (shipment volumes +3.0% and price/mix +4.7%). There could be upside tension to our numbers as our volume estimates contemplate a continuing gradual acceleration in the CAGR with stronger 2H vs. 1H (though on year/year basis we model for a stronger 1H given the compares) but supposes 2022 volumes land about 3.4% above 2019 levels or a 3-year CAGR of about 1.1% (pre-COVID 2018/2019 2-year unit case volume CAGR was +2.1% since CEO Quincey took over) and our price/mix estimates imply a 3-year CAGR of +2.4% (pre-COVID 2018/2019 2-year price/mix CAGR +3.3%), which seems somewhat conservative given the pricing/RGM actions likely higher and more widespread than historical, likely continued lower promotional environment given inflation and supply chain pressures, and FX pressures. Looking beyond organic growth, on FX, as we detail below, KO provided initial guidance for currency to be a -2% to -3% headwind to the top-line based on spot rates in late October and hedged positions and since then the USD has appreciated further, so currency headwinds could be toward the lower-end of the range, and on M&A we are estimating that the acquisition of BODYARMOR will add about 2.5% to the top-line. In the table below, we outline our 2021 forecasts vs. consensus.

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Table 1: 2022 JPM Organic Revenue Estimates vs. Consensus

	2022		JPMe
Revenue Build	**JPMe**	**Consensus**	**vs. cons**
Organic Revenue	**7.0%**	**7.2%**	**(19)**
EMEA	7.5%	7.9%	(41)
Latin America	10.3%	10.0%	32
North America	7.2%	5.9%	129
Asia-Pacific	5.1%	5.8%	(68)
Global Ventures	9.3%	8.2%	109
BIG	6.5%	10.4%	(387)
Unit Case Volume	**3.0%**	**3.1%**	**(13)**
EMEA	3.3%	4.0%	(69)
Latin America	2.2%	2.5%	(31)
North America	2.7%	1.4%	132
Asia-Pacific	3.1%	3.7%	(58)
Global Ventures	5.7%	5.4%	33
BIG	4.5%	6.6%	(207)
Concentrate Sales	**3.0%**	**3.0%**	**(3)**
EMEA	3.3%	3.8%	(49)
Latin America	2.2%	2.5%	(31)
North America	2.7%	1.5%	122
Asia-Pacific	3.1%	3.5%	(38)
Global Ventures	5.7%	4.9%	83
BIG	4.5%	6.9%	(237)
Price/Mix	**4.0%**	**4.7%**	**(65)**
EMEA	4.2%	4.0%	17
Latin America	8.1%	7.5%	64
North America	4.5%	4.4%	7
Asia-Pacific	2.0%	2.3%	(30)
Global Ventures	3.6%	3.3%	27
BIG	2.0%	3.5%	(150)
FX	**-2.7%**	**-2.2%**	**(47)**
M&A/Other	**2.5%**	**1.7%**	**75**

Source: Company reports, Bloomberg Finance L.P. and J.P. Morgan estimates.

Outlook for Margins

Despite its more asset-lite model, KO still faces impacts from the inflationary cost/supply chain environment (commodities, labor, transportation), and FX, and with its 3Q earnings guided to a mid-single-digits headwind to COGS for 2022 (i.e., higher than mid-single digits inflation for commodities, which is a portion of overall COGS) as the company rolls into higher cost hedges in 2022 following favorable hedges in 2021. We think it's possible that the cost environment has gotten incrementally more challenging for at least some of KO's cost exposures, particularly for juice, which is The Coca-Cola Company's largest direct commodity exposure as orange juice concentrate prices have surged nearly 30% since KO's 3Q21 earnings call. As mentioned above, KO has put through off-cycle price increases and is accelerating RGM initiatives to help to offset some of the inflationary impacts and incidence based pricing model means that as bottlers take pricing to offset more direct impacts KO benefits from the flow through. Another headwind will be the incorporation of BODYARMOR which carry lower GM, and to a lesser extent the faster growth of finished goods (especially Costa growing faster with the reopening). On BODYARMOR, we estimate that overall the brand could have a 40-50 bps annualized unfavorable impact on KO's gross margins given that it is a lower margin finished goods model that is outsourced to third-party co-manufacturers. From a G&A perspective, we expect the company to be able to drive some leverage overall as the company further optimizes marketing spending, which should result in leverage on other operating expenses as some spending gets moved to consumer-

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facing advertising expense. Net-net, we are modeling for gross margin compression of -39 bps in 2022 and operating margin contraction of -6 bps.

On the earnings front, we are raising our 2022 EPS forecast by a penny to $2.46 (up +7.6% YOY, in-line with KO's long-term algorithm, although not much leverage from the top-line) compared to the Bloomberg consensus of $2.43. As noted above, the company guided to a -2% to -3% headwind to EPS from unfavorable FX and since the company last reported earnings the USD has appreciated further, which given the historical 1.2-1.5x multiplier from top- to bottom-line could point to an impact more onerous than the low-end of the guidance. That said, we think KO will pull the necessary levers (e.g., pricing, RGM) to drive HSD% EPS growth in 2022.

4Q21 Earnings Outlook

Date: Thursday, February 10th

Estimated Release Time: 6:55 AM

Conference Call Details:

Time: 8:30 AM ET

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The Coca-Cola Company (KO, Neutral-rated) is scheduled to report 4Q21 earnings on Thursday, February 10th, before the market open. We are forecasting 4Q21 EPS of $0.41, which is in-line with the current Bloomberg consensus estimate and up a penny from our prior estimate after adjusting a number of our underlying assumptions (lowered sales slightly due to FX, adjusted gross margins as we were likely being too punitive in the quarter given pricing flow-through, and adjusted SG&A higher closer to 2019 levels). Our top-line estimates are slightly ahead of current consensus, which we believe is partially attributable to higher estimate for M&A contribution, although on organic growth (concentrate shipment basis) we are largely in-line. On gross margins, we are below the Street as we see tailwinds from pricing and away-from-home recovery being offset by the fewer shipping days in 4Q (six fewer), which drives deleverage, and headwind to gross margins from full acquisition of BODYAMOR, which closed on November 1 (finished product model carries lower margins).

Table 2: JPMe 4Q21 and 2021 vs. Bloomberg Consensus

	4Q21		Y/Y		JPMe		2021	
Income Statement	**JPMe**	**Consensus**	**%**	**vs. cons**	**JPMe**	**Consensus**	**%**	**vs. cons**
Net Sales	9,011.6	8,929.1	4.8%	0.9%	38,199.6	38,110.3	15.8%	0.2%
Gross Profit	5,176.7	5,208.9	4.8%	-0.6%	22,996.7	23,040.7	17.9%	-0.2%
Operating Income	2,014.5	2,033.1	-14.4%	-0.9%	11,031.5	11,044.2	12.9%	-0.1%
Interest, Net	131.1				531.1			
Net Income	1,774.6	1,770.9	-12.2%	0.2%	9,923.6	9950.4	17.6%	-0.3%
Shares Outstanding	4,344.0		0.3%		4,339.0		0.4%	
EPS	**$0.41**	**$0.41**	-12.5%	-0.6%	**$2.29**	**$2.29**	17.2%	0.0%
	4Q21		bps		JPMe		2021	
Growth/Margins	**JPMe**	**Consensus**	**bps**	**vs. cons**	**JPMe**	**Consensus**	**bps**	**vs. cons**
Sales Growth	4.8%	3.8%	1,006	96	15.8%	15.5%	2,724	27
Gross Margin	57.4%	58.3%	0	(89)	60.2%	60.5%	111	(26)
SG&A Margin	35.1%	35.6%	500	(48)	31.3%	31.5%	183	(16)
Operating Profit Margin	22.4%	22.8%	(500)	(41)	28.9%	29.0%	(73)	(10)
Tax Rate	19.1%				18.7%			

Source: Company reports, Bloomberg Finance L.P. and J.P. Morgan estimates.

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Organic Revenue Growth

KO is lapping a -6% organic revenue decline in the year-ago period (on unit case volume basis, on concentrate volume basis a more modest -3% decline), the same as in 3Q20, and like 3Q21 we are expecting another quarter of double-digits organic revenue growth (on unit case basis) as we expect a modest acceleration in the two-year volume and price/mix CAGR as we broadly expect further recovery in away-from-home performance through the quarter vs. 3Q (3Q was impacted by Delta variant) and also higher price/mix given additional pricing actions and further progress on RGM initiatives. While Omicron began surging late in 4Q, we think the impact was likely relatively limited in the quarter, although looking ahead to 1Q22 impacts to the supply chain could have been more material (e.g., sick employees, softer on-premise).

3Q21 volumes landed ahead of 2019 levels despite a softer August period impacted by Delta variant as well ongoing lockdowns/state of emergency in several markets in Asia Pacific markets (e.g., China, Japan), and poor weather in Europe. However trends improved sequentially in September and momentum heading into 4Q sounded solid with management describing October results started “strong and in-line with expectations” so we feel comfortable modeling for some modest improvement in the two-year CAGR. From an organic growth perspective, the calendar 4Q has six fewer shipping days relative to the prior year (which had two extra days), which will impact the concentrate shipment volumes and result in a convergence of concentrate shipments to unit case volumes (year-to-3Q21 concentrate shipments +13% vs. unit case volume +8%), which had been running ahead due to five extra calendar days in 1Q21 and inventory build by bottlers to mitigate anticipates supply chain pressures.

From a price/mix perspective, underlying our expectations for a slight acceleration in the two-year trend is further pricing actions, which should be felt more fully in 4Q (e.g., off-cycle price increase of HSD% in US put through in August), as well as further benefits from RGM initiatives to offset supply chain inflationary pressures (incidence pricing from bottlers that are feeling pressures more). Sequentially there should be acceleration in price/mix as well as reopening has positive price/mix implications given higher price per ounce given immediate consumption as well as higher finished good sales (recall, during 4Q20 there were incremental restrictions in the US as well as other International markets).

We are forecasting 4Q21 organic revenue growth of +12.8% (unit case volume +6.2%, price/mix +6.6%) versus the apples-to-apples Consensus Metrix forecast of +13.0% (unit case volumes +6.4% and price/mix +6.6%). Consensus and the company utilize concentrate shipments to derive organic growth and on that basis the consensus is currently modeling for +3.9% organic growth (shipments -2.7%, price/mix +6.6%) and on an apples-to-apples basis our model also calls for organic growth of +3.9% (shipments -2.6%, price/mix +6.6%). On a regional basis, our organic sales forecasts are as follows: +14.0% in EMEA (unit case volume +7.0%, price/mix +7.0%), +26.0% in Latin America (unit case volume +6.0%, price/mix +20.0%), +11.5% in North America (unit case volume +6.0%, price/mix +5.5%), +2.5% in Asia Pacific (unit case volume +4.0%, price/mix -1.5%), +34.0% in Global Ventures (unit case volume +14.0%, price/mix +20.0%), and +2.0% in BIG (unit case volume +2.0%, price/mix flat).

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Table 3: 4Q21 JPM Organic Revenue Estimates vs. Consensus

	4Q21		
Revenue Build	JPMe	Consensus	vs. cons (bps)
Organic Revenue	**12.8%**	**3.9%**	**889**
EMEA	14.0%	2.3%	1170
Latin America	26.0%	8.9%	1710
North America	11.5%	3.3%	820
Asia-Pacific	2.5%	-1.9%	440
Global Ventures	34.0%	24.2%	980
BIG	2.0%	0.6%	140
Unit Case Volume	**6.2%**	**6.4%**	**(18)**
EMEA	7.0%	8.5%	(150)
Latin America	6.0%	5.4%	60
North America	6.0%	6.1%	(10)
Asia-Pacific	4.0%	5.8%	(180)
Global Ventures	14.0%	12.6%	140
BIG	2.0%	3.5%	(150)
Concentrate Sales	**-2.6%**	**-2.7%**	**6**
EMEA	-5.0%	-2.6%	(240)
Latin America	-6.0%	-6.3%	30
North America	-1.0%	-2.4%	140
Asia-Pacific	-2.0%	-3.0%	100
Global Ventures	2.0%	5.9%	(390)
BIG	-5.0%	-2.5%	(250)
Price/Mix	**6.6%**	**6.6%**	**(3)**
EMEA	7.0%	4.9%	210
Latin America	20.0%	15.2%	480
North America	5.5%	5.6%	(10)
Asia-Pacific	-1.5%	1.1%	(260)
Global Ventures	20.0%	18.3%	170
BIG	0.0%	3.1%	(310)
FX	**-0.5%**	**-0.5%**	**(5)**
M&A/Other	**1.7%**	**1.3%**	**44**

Source: Consensus Metrix and J.P. Morgan estimates.

Underlying US Trends Healthy +LDD% in 4Q21 Driven by Pricing, Accelerates Sequentially on Both One-Year and Two-Year; Expect Continued Recovery in Untracked Channels, Albeit Likely Decelerating

Within the tracked channels during the periods corresponding to 4Q21 (i.e., weeks ending 10/9/21 through 1/1/22), overall dollar takeaway trends accelerated strongly sequentially from 3Q21 driven by improvement in both unit volume and price/unit, in addition to modestly easier comparisons. Specifically, dollar takeaway in the 13-weeks ended 1/1/22 for KO was up +12.3% YOY (units -0.1%, price/unit +12.4%) vs. +7.6% (units -3.1%, price/unit +10.7%) in the periods corresponding to 3Q21 with year-ago comparisons easing sequentially by 160 bps (lapping +9.3% dollar growth last year 4Q20 vs. +10.9% in 3Q20) and as such the two-year trend for 4Q21 accelerated an impressive +320 bps sequentially to +21.6%. In CSDs, the improvement in growth rates in the 13-weeks ended 1/1/22 was somewhat stronger with dollar takeaway up +13.4% vs. +7.2% in the 13-week period ending 10/2/21 (+620 bps sequential acceleration vs. overall +470 bps sequential acceleration), partially helped by an easier comparison (year-ago comparisons eased by 370 bps), resulting in a +250 bps sequential acceleration in the two-year stack trend to +22.1%. The improvement in CSD trends is being primarily driven by an acceleration in price/mix to +14.2% in the 13-weeks ended 1/1/22 from +9.5% in the 13-weeks ended 10/2/21 as the company feels the full impact of additional pricing in the US put through in August, although volume performance also improved (-0.7% in 13-weeks ended 1/1/22, a +140 bps sequential improvement) given easier comparisons. It's also possible that the company saw some channel shift back to the off-premise with the surge in Omicron variant at the end of the year, though overall the company

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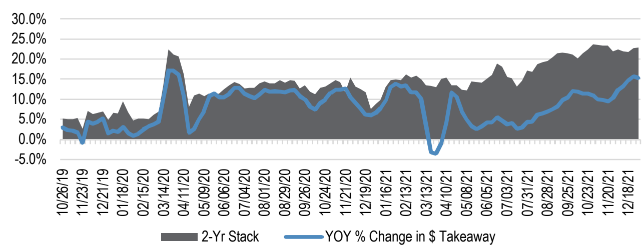
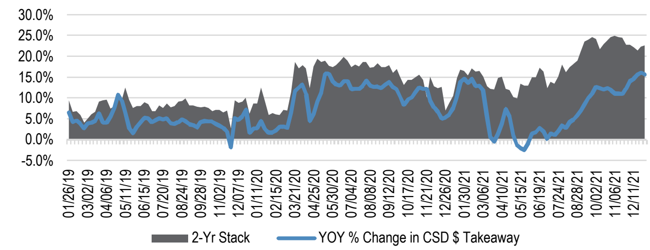
should benefit from recovery in away from home volumes given prior year impact from some states restricting bar/indoor dining during 4Q20.

Figure 1: KO Trends Up +LDD in 4Q, Strong Acceleration From 3Q
YOY % Change in $ Takeaway (4-Weeks) vs. 2-Year Stack



Source: NielsenIQ

Figure 2: KO CSD Trends Up +DD in 4Q Driven by Pricing, Sequential Acceleration Both YOY and 2Y
YOY % Change in $ Takeaway (4-Weeks) vs. 2-Year Stack

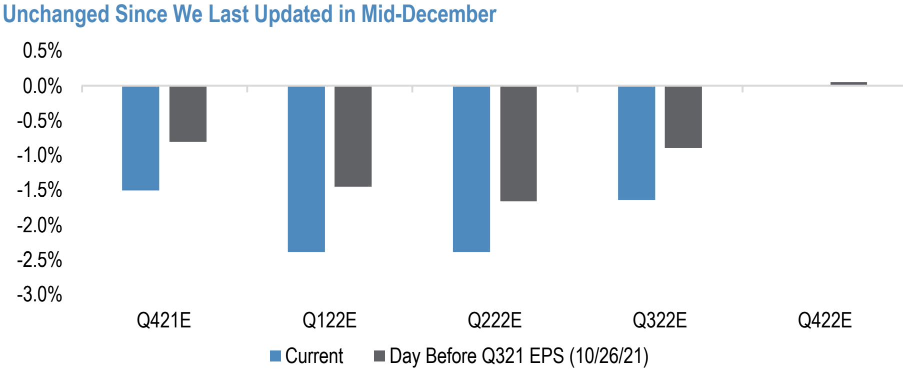


Source: NielsenIQ

Updated FX Outlook

During the company's 3Q21 earnings call on October 27, 2021, management reiterates its full-year 2021 currency outlook including a +1-2% benefit to the top-line and +2-3% benefit to EPS and introduced expectations for 4Q21 including flat impact from FX on the top-line and a +2% tailwind to EPS. The company also provided an initial 2022 currency outlook of a -2% to -3% headwind to both the top-line and EPS. Since the 3Q21 earnings call, the USD has further strengthened according to our currency model by an average of about -80 bps between 4Q21-3Q22. For 4Q21, given hedging in place for G10 currencies we think it's likely that KO could remain close to its approximately even impact guidance on the top-line, and while we would assume that the currency impact implied by our model would fall within KO's initial 2022 guidance at this point to the top-line, we do think it could be toward the lower-end, and could be below the low-end on EPS given historical multiplier of 1.2-1.5x currency impact from top-line to bottom-line. For the quarter, we are now forecasting a -0.5% impact to the top-line (vs. prior flat), in-line with the current Consensus Metrix consensus of -0.5%. Looking ahead to 2022, we are forecasting an FX headwind of -2.7%, which is unchanged from our last published update on December 13, 2021, and is 50 bps below the current Consensus Metrix consensus of -2.2%. Since our last update FX impact has been relatively unchanged overall.

Figure 3: USD Has Strengthened Since KO Last Reported in Late October and Relatively Unchanged Since We Last Updated in Mid-December



Source: Bloomberg Finance L.P. and J.P. Morgan estimates.

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Investment Thesis, Valuation and Risks

The Coca-Cola Company *(Overweight; Price Target: $64.00)*

Investment Thesis

We have an Overweight rating on KO shares. We think Coca-Cola will benefit from economies re-opening and is well positioned to reaccelerate organic growth above the top-end of its long-term 4-6% range. KO has undergone a deep positive transformation over the past few years by improving its sales portfolio, refranchising and consolidating bottling assets globally, setting up new systems and procurement in the US, shifting focus from volume to value growth, and transitioning senior management, all of which give us confidence the underlying fundamentals of the business. While the multi-billion dollar dispute with the IRS is an overhang, we think it is already reflected in the share price.

Valuation

Our Dec 2022 price target of $64 is based on 24x P/E (2-year historical average multiple) applied to our 2023 estimates, and roughly one turn discount to closest peer PEP. Our $64 price target implies ~4% upside in the next 11 months plus a ~3% dividend yield. While the IRS tax dispute and FX headwinds are overhangs, we think these are more than reflected in current valuation, creating favorable risk/reward.

Risks to Rating and Price Target

Downside risks to our Overweight rating and price target include: (1) negative resolution in the tax dispute with the IRS (not contemplated in our model); (2) the uncertainty around when or if the pandemic is contained and its impact on out-of-home consumption; (3) further margin de-leverage because of inflationary headwinds and/or volume losses; and (4) increasing unfavorable FX movements—all of which could drive further negative earnings revisions.

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Coca-Cola: Summary of Financials

Income Statement - Annual	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	**37,280**	**32,999**	**38,200**	**40,968**	**43,167**
COGS	(14,659)	(13,498)	(15,203)	(16,464)	(17,194)
Gross profit	**22,621**	**19,501**	**22,997**	**24,504**	**25,973**
SG&A	(12,212)	(9,731)	(11,965)	(12,697)	(13,279)
Adj. EBITDA	**11,774**	**11,306**	**12,573**	**13,405**	**14,424**
D&A	(1,365)	(1,536)	(1,542)	(1,598)	(1,731)
Adj. EBIT	**10,409**	**9,770**	**11,032**	**11,807**	**12,694**
Net Interest	(383)	(583)	(531)	(510)	(503)
Adj. PBT	**11,310**	**10,498**	**12,219**	**13,186**	**14,274**
Tax	(2,195)	(2,042)	(2,284)	(2,505)	(2,712)
Minority Interest	(11)	(21)	(12)	8	28
Adj. Net Income	**9,104**	**8,435**	**9,924**	**10,689**	**11,590**
Reported EPS	2.11	1.95	2.29	2.46	2.67
Adj. EPS	**2.11**	**1.95**	**2.29**	**2.46**	**2.67**
DPS	**1.59**	**1.63**	**1.67**	**1.75**	**1.85**
Payout ratio	75.2%	83.5%	73.1%	71.0%	69.3%
Shares outstanding	4,314	4,323	4,339	4,342	4,340

Income Statement - Quarterly	1Q21A	2Q21A	3Q21A	4Q21E
Revenue	**9,019A**	**10,125A**	**10,044A**	**9,012**
COGS	(3,556)A	(3,904)A	(3,908)A	(3,835)
Gross profit	**5,463A**	**6,221A**	**6,136A**	**5,177**
SG&A	(2,669)A	(3,012)A	(3,122)A	(3,162)
Adj. EBITDA	**3,160A**	**3,592A**	**3,376A**	**2,445**
D&A	(366)A	(383)A	(362)A	(431)
Adj. EBIT	**2,794A**	**3,209A**	**3,014A**	**2,015**
Net Interest	(129)A	(123)A	(148)A	(131)
Adj. PBT	**2,977A**	**3,606A**	**3,424A**	**2,212**
Tax	(569)A	(689)A	(603)A	(423)
Minority Interest	(10)A	17A	(4)A	(15)
Adj. Net Income	**2,398A**	**2,934A**	**2,817A**	**1,775**
Reported EPS	0.55A	0.68A	0.65A	0.41
Adj. EPS	**0.55A**	**0.68A**	**0.65A**	**0.41**
DPS	**0.42A**	**0.42A**	**0.42A**	**0.42**
Payout ratio	75.5%A	61.8%A	64.4%A	102.2%
Shares outstanding	4,330A	4,338A	4,344A	4,344

Balance Sheet & Cash Flow Statement	FY19A	FY20A	FY21E	FY22E	FY23E
Cash and cash equivalents	6,480	6,795	5,323	4,639	4,456
Accounts receivable	3,971	3,144	2,997	3,167	3,346
Inventories	3,379	3,266	3,001	3,148	3,311
Other current assets	6,581	6,035	5,449	5,541	5,644
Current assets	**20,411**	**19,240**	**16,770**	**16,495**	**16,757**
PP&E	10,838	10,777	10,213	10,664	11,092
LT investments	854	812	897	897	897
Other non current assets	54,278	56,467	61,011	61,011	61,011
Total assets	**86,381**	**87,296**	**88,891**	**89,067**	**89,757**
Short term borrowings	10,994	2,183	1,866	1,866	1,866
Payables	11,312	11,145	11,969	12,557	13,207
Other short term liabilities	4,667	1,273	1,372	1,424	1,480
Current liabilities	**26,973**	**14,601**	**15,207**	**15,847**	**16,553**
Long-term debt	27,516	40,125	38,394	34,394	30,394
Other long term liabilities	10,794	11,286	11,089	11,089	11,089
Total liabilities	**65,283**	**66,012**	**64,690**	**61,330**	**58,036**
Shareholders' equity	18,981	19,299	22,247	25,783	29,767
Minority interests	2,117	1,985	1,954	1,954	1,954
Total liabilities & equity	**86,381**	**87,296**	**88,891**	**89,067**	**89,757**
BVPS	**4.40**	**4.46**	**5.13**	**5.94**	**6.86**
y/y Growth	*11.4%*	*1.5%*	*14.8%*	*15.8%*	*15.5%*
Net debt/(cash)	34,816	34,227	33,541	30,225	26,408
Cash flow from operating activities	**10,471**	**9,844**	**12,145**	**12,517**	**13,581**
o/w Depreciation & amortization	1,365	1,536	1,542	1,598	1,731
o/w Changes in working capital	366	690	799	179	205
Cash flow from investing activities	**(3,976)**	**(1,477)**	**(4,267)**	**(2,048)**	**(2,158)**
o/w Capital expenditure	(2,054)	(1,177)	(1,314)	(2,048)	(2,158)
as % of sales	*5.5%*	*3.6%*	*3.4%*	*5.0%*	*5.0%*
Cash flow from financing activities	**(9,004)**	**(8,070)**	**(9,297)**	**(11,153)**	**(11,606)**
o/w Dividends paid	(6,845)	(7,047)	(7,251)	(7,584)	(8,037)
o/w Net debt issued/(repaid)	(1,841)	(1,862)	(2,189)	(4,000)	(4,000)
Net change in cash	**(2,581)**	**373**	**(1,475)**	**(684)**	**(183)**
Adj. Free cash flow to firm	**8,417**	**8,667**	**10,831**	**10,469**	**11,423**
y/y Growth	*45.8%*	*3.0%*	*25.0%*	*(3.3%)*	*9.1%*

Ratio Analysis	FY19A	FY20A	FY21E	FY22E	FY23E
Gross margin	60.7%	59.1%	60.2%	59.8%	60.2%
EBITDA margin	31.6%	34.3%	32.9%	32.7%	33.4%
EBIT margin	27.9%	29.6%	28.9%	28.8%	29.4%
Net profit margin	24.4%	25.6%	26.0%	26.1%	26.8%
ROE	50.6%	44.1%	47.8%	44.5%	41.7%
ROA	10.7%	9.7%	11.3%	12.0%	13.0%
ROCE	14.8%	13.2%	14.5%	15.4%	16.6%
SG&A/Sales	32.8%	29.5%	31.3%	31.0%	30.8%
Net debt/equity	1.7	1.6	1.4	1.1	0.8
P/E (x)	29.2	31.6	26.9	25.0	23.1
P/BV (x)	14.0	13.8	12.0	10.4	9.0
EV/EBITDA (x)	24.1	25.0	22.5	20.9	19.2
Dividend Yield	2.6%	2.6%	2.7%	2.8%	3.0%
Sales/Assets (x)	0.4	0.4	0.4	0.5	0.5
Interest cover (x)	30.7	19.4	23.7	26.3	28.7
Operating leverage	60.7%	53.5%	81.9%	97.0%	139.9%
Revenue y/y Growth	8.7%	(11.5%)	15.8%	7.2%	5.4%
EBITDA y/y Growth	7.3%	(4.0%)	11.2%	6.6%	7.6%
Tax rate	19.4%	19.5%	18.7%	19.0%	19.0%
Adj. Net Income y/y Growth	1.7%	(7.3%)	17.6%	7.7%	8.4%
EPS y/y Growth	1.3%	(7.5%)	17.2%	7.6%	8.5%
DPS y/y Growth	2.7%	2.7%	2.5%	4.5%	6.0%

Source: Company reports and J.P. Morgan estimates.

Note: $ in millions (except per-share data).Fiscal year ends Dec. o/w - out of which

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Coca-Cola (KO, KO US) Price Chart

Date	Rating	Price ($)	Price Target ($)
14-Feb-19	N	49.79	47
23-Apr-19	N	47.40	50
23-Jul-19	N	51.22	59
30-Jan-20	N	57.01	60
23-Mar-20	OW	38.30	44
15-Apr-20	OW	48.92	50
21-Apr-20	OW	46.53	48
21-Jul-20	OW	46.12	51
12-Oct-20	OW	50.81	55
07-Jan-21	N	50.52	55
01-Feb-21	N	48.15	51
19-Apr-21	N	53.68	56
21-Jul-21	N	55.83	59
12-Oct-21	N	54.23	60
28-Oct-21	N	55.52	59
13-Dec-21	OW	56.28	63

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Oct 03, 2011. All share prices are as of market close on the previous business day.

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IB clients**	53%	46%	34%
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IB clients**	74%	68%	50%

*Please note that the percentages might not add to 100% because of rounding.
**Percentage of subject companies within each of the "buy," "hold" and "sell" categories for which J.P. Morgan has provided investment banking services within the previous 12 months.
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