

Equity Research

WELLS
FARGO

Price Target Change — February 10, 2022

Beverages

The Coca-Cola Company (KO)

KO: KOming for 2022 with Momentum ... and Relative Cost Advantages — Raising Target

Our Call

KO [Q421 results](#) were ahead of expectations and momentum is building into 2022. While true for some others too, KO looks unique: top-line momentum complemented by a relatively advantaged cost structure, while a re-basing of investments in 2021 (ad spend up nearly 50%) means KO has flex to allow costs to track top-line momentum, or if needed dial back spend should the world change. Meanwhile, potential upside to volumes (away-from-home recovery) and price/mix (given inflation at bottlers) seem plausible through the year. Basically, KO is a 'flex to beat' story, *not* a 'stretch to meet'... and we like the setup for 2022. Overweight.

Raising estimates, target to \$69 - a model with flex in 2022. We raise our 2022e EPS to \$2.45 (was \$2.42) with our 2023e EPS to \$2.59 (was \$2.56). We go through the key bridge math below, but the general idea here is that top-line momentum is accelerating into 2022 and despite some inflation on commodities (+MSD impact to COGS), there's still a lot of flex namely on SG&A, i.e. KO seems in a position to maintain high levels of investment while still comfortably delivering the EPS outlook. Our \$69 target (was \$67) is on an unchanged 26.5x CY23e EPS, +40% vs SPX (historical +25% with flex to earnings).

REVENUE - bridge. We model 2022e organic sales +7.7%, with price/mix +4.5% and concentrate volumes +3.2%. Our sense is KO views comps more normal now after several years of volatility, i.e. rate of top-line growth should be fairly even through the year, with potentially some modest tailwind in Q1 from slightly easier underlying comps (albeit 1 less day in Q1 offset by 1 more day in Q4 is a consideration). **Price/mix perspective.** In our [global bottler deep-dive](#), we argued that bottler read-throughs implied pricing of ~5% looked reasonable so while Q421 price/mix was +10% (more about comps), we still think +4-5% is a reasonable starting point (KO noting 2022 sales should be balanced between price/mix and volume, albeit we skew more price/mix in our model).

GROSS MARGIN - bridge - see Chart 1. The net of this is that we model GM down -35bps y/y (was +50bps) as we now fold in BodyArmor (-80bps impact at the mid-point). Our thinking on the bridge, which we lay out in detail in Chart 1, is as follows: price/mix +175bps, channel mix (recovery of away-from-home) +95bps, commodities -200bps, FX -70bps, BodyArmor -80bps, with our model implying ~+50bps from all other (productivity and volume leverage being positives for the story in 2022 - could be higher in our view). This gets us to our 59.8% gross margin vs 60.1% in 2021. **A comment on BodyArmor gross margins.** KO disclosures for the Q4 impact from BA (-70bps to GM) implies that GMs were negative on our math (included one-time items); however, at 70-90bps impact to 2022, this implies BA GMs at roughly 35% for 2022 (note: BA is seen *de minimis* to 2022 EPS).

OPEX - bridge. The idea here is that KO re-based its investment levels in 2021, essentially going into 2022 with a cleaner foundation. Some context: Q4 ad spend was up nearly 50%, putting the FY21 ad spend at just over \$4.0bn, i.e. up nearly 50% y/y and down only modestly from 2019 levels. Selling and distribution expenses grew +LSD in Q4, by our math ending the year at ~\$2.6bn, -2% vs 2020. This implies that other expenses were up about 35% in Q4 with the FY up ~23%. Big picture: KO's 2021 momentum allowed it to return to more normal spending levels. For 2022, we model SG&A +\$900mn, embedding ad spend +9% (+\$380mn y/y to 10.7% vs 10.6% in 2021) with other expenses ex-stock comp +6% (+\$440mn).

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Rating	Overweight
Ticker	KO
Price Target/Prior:	\$69.00/\$67.00
Upside/(Downside) to Target	12.4%
Price (02/10/2022)	\$61.38
52 Week Range	\$48.97 - 62.32
Shares Outstanding	4,319,420,236
Market Cap (MM)	\$265,126
Enterprise Value (MM)	\$294,092
Average Daily Volume	17,549,788
Average Daily Volume (MM)	\$1,077
Dividend (NTM)	\$1.70
Dividend Yield	2.8%
Net Debt (MM) - last reported	\$28,966
ROIC - Current year est.	16%
3 Yr EPS CAGR from current year (unless otherwise noted)	10%

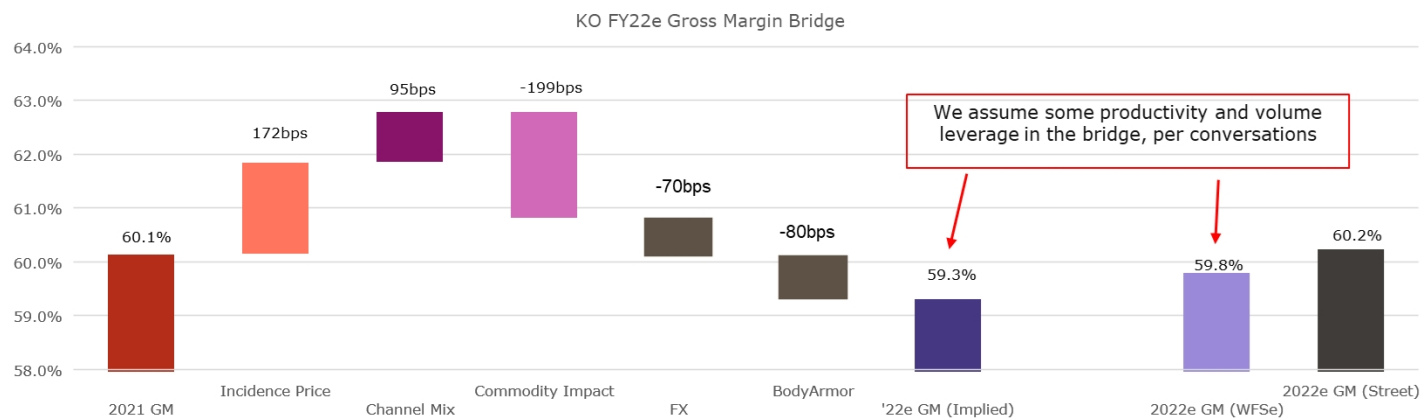
\$	2021A	2022E	2022E	2023E	2023E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar)	0.55 A	0.58 E	0.59 E	0.61 E	NC
Q2 (Jun)	0.68 A	0.68 E	0.67 E	0.72 E	NC
Q3 (Sep)	0.65 A	0.69 E	0.67 E	0.72 E	NC
Q4 (Dec)	0.45 A	0.51 E	0.48 E	0.54 E	NC
FY	2.32 A	2.45 E	2.42 E	2.59 E	2.56 E
P/E	26.4x	25.1x		23.7x	

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

All estimates/forecasts are as of 2/10/2022 unless otherwise stated. 2/10/2022 21:19:40EST. Please see page 5 for rating definitions, important disclosures and required analyst certifications.

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Chart 1 - We model gross margin 59.8%, down 30bps y/y, with price and channel mix positives, offset by commodities, FX, BodyArmor. Our model assumes a roughly +50bps benefit from volume leverage and productivity



Source: Company reports, Wells Fargo Securities LLC estimates

KO FY22 guidance vs WFS

Guidance Provided as of:	FY 2022 Guidance		Our FY22 Estimates	Our FY23 Estimates
	Q321 Earnings Oct 27, 2021	Q421 Earnings Feb 10, 2022		
EPS Growth (Continuing Operations)		+5%-6%	5%	6%
Currency Impact on EPS	-2% to -3%	-3% to -4%		
Organic revenues (Currency Neutral)		+7%-8%	8%	5%
Currency Impact on Net Revenue	-2% to -3%	-2% to -3%	-2%	0%
Acquisitions, Divestitures, and Structural Items Impact on Net Revenue		+3%	3%	0%
Currency Neutral Net Revenues		+10%-11%	11%	5%
Tax Rate		20.0%	20.0%	20.0%
Capital Expenditures		\$1.5bn	\$1.5bn	\$1.7bn
Cash from operations		\$12.0bn	\$12.0bn	\$11.2bn
Adjusted Free Cash Flow (Operating CF less Capex)		\$10.5bn	\$10.5bn	\$9.4bn

Source: Company reports, Wells Fargo Securities, LLC estimates

Financials

KO earnings model (\$mn except per share data)

	FY19	1Q20	2Q20	3Q20	4Q20	FY20	1Q21	2Q21	3Q21	4Q21	FY21	1Q22E	2Q22E	3Q22E	4Q22E	FY22E	1Q23E	2Q23E	3Q23E	4Q23E	FY23E
Net Operating Revenues - GAAP	37,266.0	8,601.0	7,150.0	8,652.0	8,611.0	33,014.0	9,020.0	10,129.0	10,042.0	9,464.0	38,655.0	9,749.6	10,832.1	10,965.4	10,328.5	41,875.7	10,219.6	11,353.0	11,492.0	10,828.6	43,893.1
Net Operating Revenues	37,280.0	8,573.0	7,175.0	8,648.0	8,603.0	32,999.0	9,019.0	10,125.0	10,044.0	9,470.0	38,658.0	9,749.6	10,832.1	10,965.4	10,328.5	41,875.7	10,219.6	11,353.0	11,492.0	10,828.6	43,893.1
Cost of Goods Sold - reported	14,619.0	3,371.0	3,013.0	3,471.0	3,578.0	13,433.0	3,505.0	3,787.0	3,977.0	4,088.0	15,357.0	3,868.4	4,252.5	4,343.3	4,382.6	16,846.8	4,034.5	4,434.2	4,528.8	4,584.0	17,581.5
Cost of Goods Sold	14,659.0	3,291.0	3,038.0	3,508.0	3,661.0	13,498.0	3,556.0	3,904.0	3,908.0	4,042.0	15,410.0	3,868.4	4,252.5	4,343.3	4,382.6	16,846.8	4,034.5	4,434.2	4,528.8	4,584.0	17,581.5
% of Sales	39.3%	38.4%	42.3%	40.6%	42.6%	40.9%	39.4%	38.6%	39.8%	42.7%	39.9%	39.7%	39.3%	39.6%	42.4%	40.2%	39.5%	39.1%	39.4%	42.3%	40.1%
Gross Profit - reported	22,647.0	5,230.0	4,137.0	5,181.0	5,033.0	19,581.0	5,515.0	6,342.0	6,065.0	5,376.0	23,248.0	5,881.2	6,579.7	6,622.1	5,945.9	25,028.9	6,185.1	6,918.7	6,963.1	6,244.6	26,311.6
Gross Profit	22,621.0	5,262.0	4,137.0	5,140.0	4,942.0	19,501.0	5,463.0	6,221.0	6,136.0	5,428.0	23,248.0	5,881.2	6,579.7	6,622.1	5,945.9	25,028.9	6,185.1	6,918.7	6,963.1	6,244.6	26,311.6
% of Sales	60.7%	61.6%	57.7%	59.4%	57.4%	59.1%	60.6%	61.4%	61.1%	57.3%	60.1%	60.3%	60.7%	60.4%	57.6%	59.8%	60.5%	60.9%	60.6%	57.7%	59.9%
Change (bps)	-105	82	-306	-144	-287	-158	-104	378	166	-13	104	-25	-70	-70	25	-37	20	20	20	10	18
Selling, General and Administrative Expenses	12,103.0	2,648.0	1,983.0	2,511.0	2,589.0	9,731.0	2,669.0	3,017.0	3,122.0	3,336.0	12,144.0	2,990.8	3,246.7	3,341.6	3,468.6	13,047.5	3,126.5	3,388.7	3,485.8	3,602.7	13,603.7
Selling, General and Administrative Expense	12,212.0	2,648.0	1,983.0	2,511.0	2,589.0	9,731.0	2,669.0	3,012.0	3,122.0	3,336.0	12,139.0	2,990.8	3,246.7	3,341.6	3,468.6	13,047.5	3,126.5	3,388.7	3,485.8	3,602.7	13,603.7
% of Sales	32.8%	30.9%	27.6%	29.0%	30.1%	29.5%	29.6%	29.7%	31.1%	35.2%	31.4%	30.7%	30.0%	30.5%	33.6%	31.2%	30.6%	29.8%	30.3%	33.3%	31.0%
Change (bps)	-14	-167	-277	-376	-539	-327	-129	211	205	513	191	108	22	-61	-164	-24	-8	-12	-14	-31	-17
Other Operating Charges (non-recurring)	458.0	202.0	173.0	372.0	106.0	853.0	124.0	309.0	45.0	368.0	846.0	368.0	368.0	368.0	368.0	1,472.0	368.0	368.0	368.0	368.0	1,472.0
Operating Income - reported	10,086.0	2,380.0	1,981.0	2,298.0	2,338.0	8,997.0	2,722.0	3,016.0	2,898.0	1,672.0	10,308.0	2,522.4	2,965.0	2,912.5	2,109.4	10,509.3	2,690.7	3,162.0	3,109.3	2,273.9	11,235.9
Operating Income	10,409.0	2,634.0	2,154.0	2,629.0	2,353.0	9,770.0	2,794.0	3,209.0	3,014.0	2,092.0	11,099.0	2,690.4	3,333.0	3,280.5	2,477.4	11,981.3	3,058.7	3,530.0	3,477.3	2,641.9	12,707.9
% of Sales	27.0%	30.7%	30.6%	30.4%	27.4%	29.6%	31.0%	31.7%	30.0%	22.1%	28.7%	29.6%	30.8%	29.9%	24.0%	28.6%	29.9%	31.1%	30.3%	24.4%	29.0%
Change (bps)	-91	240	-29	233	252	169	25	167	-39	-526	-87	-133	-92	-9	189	-12	28	32	34	41	34
Interest Income-GAAP	563.0	112.0	100.0	82.0	76.0	370.0	66.0	71.0	68.0	71.0	276.0	59.7	63.6	72.4	69.6	265.3	63.2	63.2	63.2	63.2	252.9
Interest Expense-GAAP	946.0	193.0	274.0	690.0	310.0	1,437.0	442.0	780.0	210.0	165.0	1,597.0	190.7	187.9	185.7	183.4	747.8	200.7	196.9	193.2	189.4	780.2
Interest Expense, net-GAAP	383.0	81.0	174.0	578.0	234.0	1,067.0	376.0	709.0	142.0	94.0	1,321.0	131.0	124.3	113.3	113.8	482.4	137.4	133.7	129.9	126.2	527.3
Interest Income	563.0	112.0	100.0	82.0	76.0	370.0	66.0	71.0	68.0	71.0	276.0	59.7	63.6	72.4	69.6	265.3	63.2	63.2	63.2	63.2	252.9
Interest Expense	946.0	193.0	274.0	690.0	310.0	1,437.0	442.0	780.0	210.0	165.0	1,597.0	190.7	187.9	185.7	183.4	747.8	200.7	196.9	193.2	189.4	780.2
Interest Expense, net	383.0	81.0	174.0	578.0	234.0	1,067.0	376.0	709.0	142.0	94.0	1,321.0	131.0	124.3	113.3	113.8	482.4	137.4	133.7	129.9	126.2	527.3
Equity Income (loss) - net (reported)	1,049.0	167.0	176.0	431.0	204.0	978.0	279.0	402.0	455.0	302.0	1,438.0	301.2	425.8	451.7	336.0	1,514.6	324.3	460.5	462.4	349.0	1,596.1
Equity Income (loss) - net	1,149.0	205.0	239.0	458.0	292.0	1,194.0	242.0	462.0	437.0	310.0	1,451.0	301.2	425.8	451.7	336.0	1,514.6	324.3	460.5	462.4	349.0	1,596.1
Other Income (loss) - net (reported)	34.0	544.0	214.0	30.0	53.0	841.0	138.0	909.0	(127.0)	1,080.0	2,000.0	73.5	60.9	108.9	68.9	312.2	77.2	63.9	114.3	72.3	327.8
Other Income (loss) - net	135.0	15.0	14.0	50.0	38.0	117.0	70.0	58.0	121.0	118.0	367.0	73.5	60.9	108.9	68.9	312.2	77.2	63.9	114.3	72.3	327.8
Income Before Income Taxes - reported	10,786.0	3,010.0	2,197.0	2,181.0	2,361.0	9,749.0	2,763.0	3,618.0	3,084.0	2,960.0	12,425.0	2,766.0	3,327.4	3,359.9	2,400.4	11,853.7	2,954.7	3,552.7	3,556.1	2,569.0	12,632.6
Income Before Income Taxes	11,310.0	2,773.0	2,233.0	2,964.0	2,528.0	10,498.0	2,977.0	3,606.0	3,424.0	2,420.0	12,427.0	3,134.0	3,695.4	3,727.9	2,768.4	13,325.7	3,322.7	3,920.7	3,924.1	2,937.0	14,104.6
% of Sales	30.3%	32.3%	31.1%	34.3%	29.4%	31.8%	33.0%	35.6%	34.1%	25.6%	32.1%	32.1%	34.1%	34.0%	26.8%	31.8%	32.5%	34.5%	34.1%	27.1%	32.1%
Income Taxes - GAAP	1,801.0	215.0	438.0	441.0	887.0	1,981.0	508.0	994.0	609.0	510.0	2,621.0	626.8	739.1	745.6	553.7	2,665.1	664.5	784.1	784.8	587.4	2,820.9
Income Taxes	2,195.0	540.0	436.0	578.0	488.0	2,042.0	569.0	689.0	603.0	447.0	2,308.0	626.8	739.1	745.6	553.7	2,665.1	664.5	784.1	784.8	587.4	2,820.9
Tax rate - normalized	19.4%	19.5%	19.5%	19.5%	19.3%	19.5%	19.1%	19.1%	17.6%	18.5%	18.6%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Consolidated Net Income - reported	8,985.0	2,795.0	1,759.0	1,740.0	1,474.0	7,768.0	2,255.0	2,624.0	2,475.0	2,450.0	9,804.0	2,139.2	2,588.3	2,614.3	1,846.7	9,188.6	2,290.1	2,768.6	2,771.3	1,981.6	9,811.6
Consolidated Net Income	9,115.0	2,233.0	1,797.0	2,386.0	2,040.0	8,456.0	2,408.0	2,917.0	2,821.0	1,973.0	10,119.0	2,507.2	2,956.3	2,982.3	2,214.7	10,660.6	2,658.1	3,136.6	3,139.3	2,349.6	11,283.6
Less: Net Inc Attributable to Noncontrolling Int	65.0	20.0	(20.0)	3.0	18.0	21.0	10.0	(17.0)	4.0	36.0	33.0	2.5	3.0	3.0	2.2	10.7	2.7	3.1	3.1	2.3	11.3
Less: Net Inc Attributable to Noncontrolling Int	11.0	20.0	(20.0)	3.0	18.0	21.0	10.0	(17.0)	4.0	36.0	33.0	2.5	3.0	3.0	2.2	10.7	2.7	3.1	3.1	2.3	11.3
% of Consolidated Net Income	0.1%	0.9%	-1.1%	0.1%	0.1%	0.2%	0.4%	-0.6%	0.1%	0.1%	0.3%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Net Income Attributable to Coca-Cola Share	8,920.0	2,775.0	1,779.0	1,737.0	1,456.0	7,747.0	2,245.0	2,641.0	2,471.0	2,414.0	9,771.0	2,136.7	2,585.3	2,611.3	1,844.5	9,177.9	2,287.5	2,765.4	2,768.1	1,979.3	9,800.4
Net Income Attributable to Coca-Cola Share	9,104.0	2,213.0	1,817.0	2,383.0	2,022.0	8,435.0	2,398.0	2,934.0	2,817.0	1,937.0	10,086.0	2,504.7	2,953.3	2,979.3	2,212.5	10,649.9	2,655.5	3,133.4	3,136.1	2,347.3	11,272.4
Earnings per Share - reported	\$2.07	\$0.64	\$0.41	\$0.40	\$0.34	\$1.79	\$0.52	\$0.61	\$0.57	\$0.56	\$2.25	\$0.49	\$0.59	\$0.60	\$0.42	\$2.11	\$0.53	\$0.64	\$0.64	\$0.45	\$2.25
Earnings per Share	\$2.11	\$0.51	\$0.42	\$0.55	\$0.47	\$1.95	\$0.55	\$0.68	\$0.65	\$0.45	\$2.32	\$0.58	\$0.68	\$0.69	\$0.51	\$2.45	\$0.61	\$0.72	\$0.72	\$0.54	\$2.59
Basic Shares Outstanding	4,276.0	4,299.0	4,295.0	4,296.0	4,300.0	4,295.0	4,289.0	4,313.0	4,318.0	4,321.0	4,315.0	4,321.3	4,321.7	4,322.2	4,322.9	4,322.0	4,323.6	4,324.5	4,325.5	4,326.7	4,325.1
Diluted Shares Outstanding	4,314.0	4,325.0	4,316.0	4,321.0	4,329.0	4,323.0	4,325.0	4,338.0	4,344.0	4,347.0	4,340.0	4,347.3	4,347.7	4,348.2	4,348.9	4,348.0	4,349.6	4,350.5	4,351.5	4,352.7	4,351.1
Dividends per share	\$1.59	\$0.40	\$0.41	\$0.41	\$0.41	\$1.63	\$0.41	\$0.42	\$0.42	\$0.42	\$1.67	\$0.42	\$0.44	\$0.44	\$0.44	\$1.74	\$0.44	\$0.46	\$0.46	\$0.46	\$1.83
Dividend Growth	3.2%	2.6%	2.5%	2.5%	2.5%	2.5%	2.5%	2.4%	2.4%	2.4%	2.5%	2.4%	5.0%	5.0%	5.0%	4.4%	5.0%	5.0%	5.0%	5.0%	5.0%
Depreciation & Amortization Expense	1,365.0	367.0	381.0	358.0	430.0	1,536.0	366.0	383.0	362.0	341.0	1,452.0	377.8	382.2	350.9	369.2	1,480.1	374.7	416.2	421.3	397.0	1,609.1
EBITDA (adjusted)	11,774.0	3,001.0	2,535.0	2,987.0	2,783.0	11,306.0	3,160.0	3,592.0	3,376.0	2,433.0	12,561.0	3,268.2	3,715.2	3,631.4	2,846.6	13,461.4	3,433.3	3,946.2	3,898.6	3,038.9	14,317.0
EBITDA per Share	\$2.73	\$0.69	\$0.59	\$0.69	\$0.64	\$2.62	\$0.73	\$0.83	\$0.78	\$0.56	\$2.89	\$0.75	\$0.85	\$0.84	\$0.65	\$3.10	\$0.79	\$0.91	\$0.90	\$0.70	\$3.29

Source: Company reports, 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: \$69.00 from \$67.00

Our \$69 price target is based on a 26.5x P/E multiple to our CY23E EPS estimate.

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; (3) The dividend could suffer.

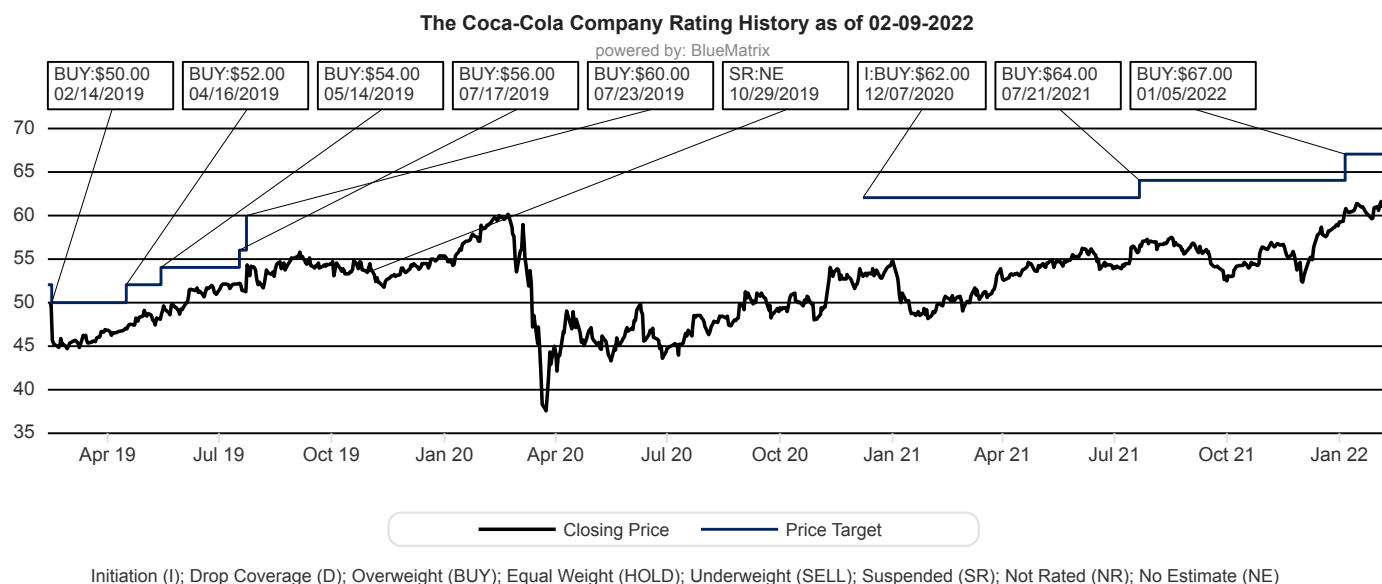
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1=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY

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 February 9, 2022

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