

The Coca-Cola Company

1Q20 First Impressions

Stock Rating/Industry View: Overweight/Neutral

Price Target: USD 56.00

Price (20-Apr-2020): USD 46.53

Potential Upside/Downside: 20%

Tickers: KO

Our Thoughts

KO posted a very strong set of results this morning, albeit against the backdrop of warnings of a very weak 2Q given the 25% volume decline since the start of April and very little visibility as to how trends develop from here. Still, the standout thing to us for 1Q is the operating profit performance as margins were up +250 bps versus our forecast for a -270 bps decline. Net sales did benefit by a point each from bottler concentrate inventory build and FX, but this doesn't account for the more than 20% profit beat. We have surely expected to see KO cut variable expenses to manage through this demand pressured environment, but we are very surprised to see this sharp a change in such a short period of time. Specifically, with the company citing that volumes were tracking +3% through the end of February excluding China, the implied pull back in "discretionary" spending within one month is remarkable. In supplemental slides provided with the release, the company did mention "timing of corporate expenses" as a benefit to operating margins but we wonder if this timing factor will prove dependent on how sales trends develop through the year.

Results

KO just reported 1Q20 Comparable EPS of **\$0.51**, which compares to Consensus \$0.44 and Barclays Research \$0.41.

Highlights

- Total company organic down just -1% (vs. -3% in our model) on stronger than expected growth in EMEA, North America and Asia-Pacific and 1 point of bottler inventory build
 - § North America organic up +4% (vs. -2% in our model) with unit case volumes up +3% (vs. our -3%) on strength across water, sports drinks and Coca-Cola Zero Sugar
 - § Asia-Pacific organic down -7% (vs. -10% in our model) with unit case volumes down -7% (vs. our -18%) with 4 points of bottler inventory build
 - § EMEA organic down just -1% (vs. -12% in our model) with unit case volume flat (vs. our -4%) including 1 point of bottler inventory build
- Gross margins up +80 bps (vs. our -100 bps) even with price/mix flat
- Operating income up +7% (vs. our -13.5%)

Lowlights

- Global Ventures organic down -2% (vs. our +0.5%) driven by COVID-19 related Costa store closures in China and the UK with operating margins down -800 bps
- BIG organic down -6% (vs. our +5%) driven by the impact of COVID-19 on India but with operating margins up +350 bps.

Guidance

- Unable to provide full guidance for 2020 or 2Q20 due to uncertainty related to COVID-19
- 2020:
 - § Currency expected to be a mid-single digit headwind to net revenues (vs. 0-1% prior) and high-single digit headwind to operating income (vs. 2-3% prior)
 - § Maintained tax rate at 19.5%

2Q20:

§ Currency expected to be a 4-5% headwind to net revenues and 5-6% headwind to operating income

KO 1Q20 Earnings Call Details

Today @ 7:30 a.m. ET – U.S. Dial: 1-877-886-7523; International: 1-262-558-4760; Passcode: COKE IR

As always, please feel free to call with any questions or comments.

Best,

Lauren

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The Coca-Cola Company (KO, 20-Apr-2020, USD 46.53), Overweight/Neutral, CD/CE/D/J/K/L/M/N

Valuation Methodology: Our price target of \$56 is based on a 25x P/E reflecting a +25% premium to Large-Cap Staples peers on our CY21 EPS estimate of \$2.24.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: 1) FX headwinds force downward revision of estimates, 2) Slowdown in CSD category growth, 3) More sugar taxes cloud the dialogue, 4) Deterioration in North American pricing environment would hurt results

Ratings and Price Target History:

The Coca-Cola Company
Currency=USD



Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
16-Apr-2020	47.10		56.00
27-Mar-2020	42.81		48.00
31-Jan-2020	58.40		63.00
24-Jul-2019	53.78		58.00
16-May-2019	49.58		54.00
24-Apr-2019	47.98		53.00
31-Oct-2018	47.88		51.00
26-Jul-2018	46.24		50.00
17-May-2018	42.30	Overweight	48.00
15-Mar-2018	43.67		45.00
27-Jul-2017	46.12		46.00
25-Apr-2017	43.11		45.00

On 21-Apr-2017, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 43.00.

Source: Bloomberg, Barclays Research

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