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The Coca-Cola Co. (KO)

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MANAGEMENT DISCUSSION SECTION

Operator: At this time, I'd like to welcome everyone to The Coca-Cola Company's Fourth Quarter 2023 Earnings Results Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time. All participants will be on listen-only mode until the formal question-and-answer portion of the call. I would like to remind everyone that the purpose of this conference is to talk with investors, and therefore, questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations department if they have any questions.

I would now like to introduce Mrs. Robin Halpern, Vice President and Head of Investor Relations. Mrs. Halpern, you may now begin.

Robin Halpern

Vice President & Global Head-Investor Relations, The Coca-Cola Co.

Good morning, and thank you for joining us. I'm here with James Quincey, our Chairman and Chief Executive Officer; and John Murphy, our President and Chief Financial Officer.

We've posted schedules under Financial Information in the Investors section of our company website. These reconcile certain non-GAAP financial measures that may be referred to this morning to results as reported under generally accepted accounting principles. You can also find schedules in the same section of our website that provide an analysis of our growth and operating margins.

This call may contain forward-looking statements, including statements concerning long-term earnings objectives, which should be considered in conjunction with cautionary statements contained in our earnings release and in the company's periodic SEC reports.

Following prepared remarks, we will take your questions. Please limit yourself to one question. Reenter the queue to ask any follow-ups.

Now, I will turn the call over to James.

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

Thanks, Robin, and good morning, everyone. In 2023, we achieved our near-term goals while also positioning our business for the long-term. Our all-weather strategy delivered 8% comparable earnings per share growth despite greater than expected 7% currency headwinds. Today, we are leveraging our scale globally and winning locally, which gives us confidence that we can deliver on our 2024 guidance.

This morning, I'll talk about the global consumer landscape. Then I'll highlight how our strategy and enhanced capabilities are making us a more agile and effective organization, and finally, John will discuss our financial results and our 2024 guidance.

During the quarter, we benefited from strong performance across many of our markets. However, some were impacted by elevated inflation and others by geopolitical tensions and conflict. We delivered 12% organic revenue growth which included 2 points of volume growth, continuing a positive volume trend for the year. Throughout, we

continue to invest in our business to provide the right portfolio of brands and packages to retain and attract more drinkers.

We drove industry growth and delivered value share gains in the quarter and for the full year. We achieved these results by effectively navigating a number of headwinds and capitalizing on tailwinds across our markets.

During the quarter, we saw strong consumer demand across Australia, India, Latin America, Japan, and South Korea. In North America, consumer spending in aggregate is holding up well, and in Europe, consumers remain cost conscious. In Africa and China, the macro environment remains uncertain, and in the Middle East, tensions have resulted in some shifts in consumer behavior that have had an impact on our business.

Another important factor to highlight is the inflationary pressures which are moderating or stabilizing across most of our markets. To keep consumers in our franchise, we are leveraging our revenue growth management capabilities to tailor our offerings and price pack architecture to meet consumers' evolving needs.

In North America and Europe, while inflation is moderating, the cumulative impact of inflation is pressuring certain consumer segments who are seeking value. Throughout 2023, we increased our affordability offerings and won volume and value share in both regions.

In Latin America, despite double-digit inflation during the fourth quarter, we grew volume 4% and increased household penetration and basket incidence. There are a few pockets of the world that are experiencing hyperinflation. John will later speak to how this dynamic is impacting our business. However, I did want to mention that our local franchise operating model allows us to navigate through hyperinflationary environments and then gain an advantage over the long-term.

Across our business, we continue to prioritize agility and focus on improving every aspect of how we operate. An important part of this is our marketing transformation. To recruit the next generation of drinkers, our marketing has shifted from a TV-centric model to a digital-first organization that balances local intimacy, scale, and flexibility. Our digital mix has gone from less than 30% in 2019 to approximately 60% of our total media spend.

In 2023, we stood up StudioX, the digital ecosystem that brings this all together. We created physical hubs in each of our operating units to integrate disciplines, standardize data and technology, and step-change our capabilities. Creative, media, social, and production capabilities are now operating at scale connected by our global network structure.

In our previous model, it took several months to create a TV ad. Now, we're producing thousands of pieces of digital content that are contextually relevant and measuring these results in real time.

StudioX is driving tangible results. For example, Coke Studio, which originated in Pakistan and taps into consumers' passion for music, has been scaled to our top 40 markets. The campaign uses packaging as digital portals to access real magic experiences, which has generated more than 1.2 billion YouTube views and 100 million music streams this year resulting in strong recruitment of Gen Z drinkers.

We're engaging differently with consumers and it's delivering results. In 2023, according to Kantar, Coca-Cola brand value increased \$8 billion. Coke is now the tenth most valuable brand in the world, up seven spots from the prior year. In the US, Sprite was named by Morning Consult as the number one beverage brand for Gen Z drinkers. We were also named one of the top 10 innovative companies in augmented and virtual reality by Fast Company.

Our innovation agenda is increasing our competitive advantage across our products, packaging, and equipment. Taste is the selling point. Simply put, people want drinks that taste great. To drive superiority across our total beverage portfolio, we're continuing to build capabilities to tap into unique insights in taste and aroma science.

We are applying digital tools, ingredient processing technology, and AI to create bolder and more successful innovations.

Coca-Cola Zero Sugar is an ongoing example of how superior taste drives demand with volume that grew 5% in 2023, leading to continued volume and value share gains.

We are applying learnings from this multiyear success and driving taste superiority elsewhere in our Sparkling portfolio. In 2023, we launched Sprite and Fanta reformulations in 25 markets, delivering mid-single-digit volume growth in those markets and driving overall Sparkling Flavors value share gains.

Outside of our Sparkling portfolio, we're dialing up flavor profiles, adding functional benefits and expanding into new categories.

In Japan, we've relaunched Georgia Coffee which generated broader customer interest and led to value share gains. In the US, fairlife's Core Power and nutrition plan offer high-protein dairy without compromising taste. In 2023, fairlife grew volume 15%, its ninth consecutive year of double-digit volume growth.

We're also seeing continued promising results from Fuzetea across Europe, Jack & Coke in the Philippines, Flashlyte in Mexico, among many others. In 2023, innovation contributed to approximately 30% of gross profit growth, and our success rates have nearly tripled compared to 2019 levels.

Our revenue growth management execution capabilities continue to be distinct advantages as demonstrated by our ability to deliver volume and transaction growth despite ongoing inflationary pressures. We're working with our bottling partners to capture every opportunity available to create significant value for consumers and customers.

By offering a total beverage portfolio in the right packages and at the right price points, we're driving category expansion and becoming more relevant to more consumers and customers.

In North America, we're evolving packaging options across more distribution points to drive affordability and premiumization. On the affordability side, our 1.25-liter PET bottles are now available in 80% of supermarkets, and our 16-ounce can distribution increased by 14 points in convenience stores during 2023.

We're also focused on premiumization through the expansion of our mini-can offerings. During the quarter, we launched 15-pack mini cans in grocery and club channels.

In Europe, we're leveraging the same playbook but adapting it to local needs. In Spain, our 1.25-liter PET package is offered at a compelling price point and it drove 16% volume growth and increased household penetration in 2023. In Italy, Great Britain, and Ireland, we drove premium single-serve mini cans and smaller package offerings to generate positive mix and incremental retail sales.

Our franchise system uniquely combines the benefits of scale and knowledge sharing with the know-how needed to execute for customers and win locally in many different operating environments. For example, approximately

70% of purchase decisions are influenced at point of sale. Our system stepped-up in-store displays during the quarter, which drove incremental retail sales and cross-selling opportunities.

Putting it all together, we created \$15 billion in incremental retail sales for our customers in 2023, more than any other beverage company. This was our sixth year in a row as the leader in value creation. While we're pleased with our progress, we recognize there's still much work to be done to capture the vast opportunities available. Our system is galvanized to move further and faster.

Before I hand it over to John, I want to acknowledge that none of this could happen without the unwavering dedication of our employees. And so as we turn to 2024, we expect the year will bring new challenges and opportunities and we remain ready to respond through continuing to improve execution of our strategy across our total beverage portfolio.

I look forward to sharing more next Tuesday at CAGNY, and I encourage everyone to listen in.

With that, I'll turn the call over to John.

John Murphy

President & Chief Financial Officer, The Coca-Cola Co.

Thank you, James, and good morning, everyone. In the fourth quarter and throughout 2023, we delivered strong results. During the quarter, we grew organic revenues 12%, which was in line with our full year organic revenue growth. Unit case growth was 2% and was positive in each quarter of 2023.

Concentrate sales grew 1 point ahead of unit cases driven primarily by one additional day in the quarter. Our price/mix growth of 9% in the quarter was driven by three factors; one, 2023 pricing actions across most of our markets; two, hyperinflationary pricing, that I'll speak to in just a moment; and three, some mix which is mostly timing related.

Comparable gross margin for the quarter was up approximately 140 basis points driven by underlying expansion and a slight benefit from bottler refranchising partially offset by the impact of currency headwinds. Comparable operating margin expanded approximately 40 basis points for the quarter. This was primarily driven by strong top line growth partially offset by currency headwinds and an increase in marketing investments. The positive volume and top-line growth that we're realizing today demonstrates the effectiveness of our marketing spend.

Below the line, comparable other income declined primarily due to the operating environment in Argentina. Putting it all together, fourth quarter comparable EPS of \$0.49 was up 10% year-over-year, despite higher than expected 13% currency headwinds.

Before moving on, I want to discuss the impact of a few hyperinflationary markets on our fourth quarter results. During the quarter, inflation intensified and exceeded 60% across these markets. In aggregate, while they represent less than 5% of our total volume, this degree of inflation creates a cosmetic distortion to our underlying results.

In the fourth quarter, these markets contributed more than 3 points of our price/mix and most of our currency headwinds, including an outsized impact to comparable other income from balance sheet re-measurements in Argentina. They did not, however, have a material impact on our earnings per share results.

In hyperinflationary markets, it's either impractical or impossible to hedge our currency exposure, and to manage it, we use our full suite of revenue growth management tools including pricing actions to keep pace with local market inflation.

We have been operating a long time in these markets, and we expect to be in them for a long time to come. We work hand-in-hand with our local bottling partners and our focus will be to continue to nurture the strong relationships we have with our consumers and customers and to ultimately prevail longer-term.

So while we will continue to experience volatility of this nature in a few markets, it's important to keep in mind they are operated locally. They are typically self-funding, and they have not impeded our overall ability to grow earnings per share.

As we move forward, we are confident our business model and the many levers within it will allow us to deliver on our overall objectives.

In 2023, free cash flow was \$9.7 billion which increased from the prior year. 2023 free cash flow included a transition tax payment of approximately \$720 million which was approximately \$340 million higher than the prior year and included approximately \$230 million in M&A-related payments.

Our underlying free cash flow growth was largely attributable to strong operational performance and working capital benefits. If you exclude the full impact of the transition tax and M&A-related payments, our adjusted free cash flow conversion ratio would be within our target range of 90% to 95%.

Our balance sheet remains strong and our net debt leverage of 1.7 times [ph] EBITDA (00:16:31) is below our targeted range of 2 to 2.5 times. During the fourth quarter, in addition to offsetting dilution from the exercise of stock options by employees, we repurchased additional shares in anticipation of expected proceeds from bottler re-franchising.

As James mentioned, we anticipate 2024 will bring new challenges and opportunities. However, through our all-weather strategy, we've proven we can deliver in many different operating environments.

Our 2024 guidance builds on the underlying momentum of our business. We expect organic revenue growth of 6% to 7% and comparable currency-neutral earnings per share growth of 8% to 10%. We anticipate hyperinflationary pricing will continue to play a role in 2024, but will moderate throughout the year.

We continue to make significant progress towards re-franchising company-owned bottling operations. Bottler re-franchising is expected to be a 4 point to 5 point headwind to comparable net revenues and a 2 point headwind to comparable earnings per share but will have a positive impact on both our margins and the return profile of our business.

Based on current rates and our hedge positions, we anticipate an approximate 2 point to 3 point currency headwind to comparable net revenues and an approximate 4 point to 5 point currency headwind to comparable earnings per share for full year 2024. Notably, much of our anticipated 2024 currency headwinds are attributed to hyperinflationary markets with a meaningful impact in the first quarter.

Our underlying effective tax rate for 2024 is expected to be 19.2%.

All-in, we expect comparable earnings per share growth of 4% to 5% versus \$2.69 in 2023. We expect to generate approximately \$9.2 billion of free cash flow in 2024 through approximately \$11.4 billion in cash from operations less approximately \$2.2 billion in capital investments.

The \$11.4 billion of cash from operations includes two items to highlight. Transition tax payments of approximately \$960 million, an increase of approximately \$240 million versus 2023; payments associated with various M&A transactions of approximately \$560 million, an increase of approximately \$330 million versus 2023. Driven by our underlying cash flow generation and current balance sheet strength, we have ample flexibility to both reinvest in our business to drive growth and return capital to our share owners.

A significant portion of our expected capital investment increase is to build capacity for fairlife and for our India business, both of which experienced robust growth in 2023.

Related to capital return, we have an unwavering priority to grow our dividend as we've done with 61 consecutive years of dividend increases. With respect to share repurchases, we'll be flexible in our approach. Typically, we've repurchased shares to offset any dilution from the exercise of stock options by employees in the given year.

Our capital allocation policy prioritizes agility, and we're committed to taking the right actions needed to drive the long-term health of our business and create value for our stakeholders.

There are some considerations to keep in mind for 2024. The first quarter of 2024 will be impacted by the timing of concentrate shipments in the fourth quarter of 2023 in some markets and cycling our strongest volume growth quarter from the prior year. We estimate the ongoing conflict in the Middle East at approximately 1 point of impact on volume growth during the fourth quarter of 2023. It's unclear how long this impact will last.

In November 2023, the US Tax Court rendered its supplemental opinion related to our ongoing dispute with the Internal Revenue Service. We intend to move forward on appeal and vigorously defend our position. We have ample balance sheet flexibility to fund any payment related to the appeal.

Finally, due to our reporting calendar, there will be one less day in the first quarter and two additional days in the fourth quarter.

So, in summary, we're pleased with what we accomplished in 2023. We're building on our capabilities to continue the underlying momentum across our markets. We're progressing on our re-franchising agenda, and we're reinvesting in our system to drive long-term growth.

We have great confidence we can deliver on our 2024 guidance and long-term commitments.

With that, operator, we're ready to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] In the interest of time, we ask that you please limit yourself to one question. If you have any additional questions, you may rejoin the queue. Our first question comes from Lauren Lieberman from Barclays. Please go ahead. Your line is open.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Good morning, everyone. I know John just went through a lot of details on the guide, but I did just want to step back and maybe go to a higher level conversation on this, because for 2023, you ended up with high-single-digit earnings growth even with that 7 point currency headwind. And the initial guide for 2024 for mid-single-digit earnings growth feels like a reasonable starting point, but can you just contextualize a bit how you're thinking about the impact of hyperinflation? Like, John mentioned the Middle East tensions, the consumer backdrop, et cetera, so you're able to kind of come through with that US dollar-based earnings growth outlook for the year? Thanks.

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.

A

Yeah, morning, Lauren. A couple of things. Firstly, the mid-single-digit growth in 2024 is after the impact of the re-franchising that we called out. So, in other words, pre-structural change, that's really 6% to 7%.

Second, what I think 2024 represents is ultimately a continuation of the underlying strength and momentum in the business that's been created. If you look at 2023 or you look all the way back to 2019, take five years if you like, what is captured within that is the kernel of the core business running at the top-end of the growth algorithm.

Yes, there's been inflation and distractions and up and downs, but in the end, running through that is a continuous amount of volume growth as we focus on our consumer franchise and keeping people in and growing the weekly plus consumers in our franchise; managing the cycle of inflation that is now distinct depending on where you are in the world. But managing that cycle of inflation such that we now have in the majority of the countries, 90-plus percent of the countries, normalized levels of kind of pricing, more or less, coming out of 2023.

And so, what you see in this guidance is really the core business in the 90-plus percent of the countries really taking that combination of headwinds and tailwinds that we've experienced, there will be a different set in 2024, there are bound to be some new surprises.

But we will manage through them with our all-weather strategy and deliver volume growth, growth in the consumer base with weekly plus. We'll earn our right to take an appropriate level of pricing and deliver at the top end of the growth algorithm. And then there's the overlay of the inflationary markets and the selling of the Bottling Investment Groups that we've done. And that hyperinflationary rate is as John said a few points on the top and obviously some on the bottom and largely offset by the devaluation. So those two things go together. But captured within that is a strong core, growing our top and bottom in line with the growth algorithm.

Operator: Our next question comes from Dara Mohsenian from Morgan Stanley. Please go ahead. Your line is open.



Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Hey, good morning. So, maybe just a quick follow-up there. As you think about that 6% to 7% organic sales growth guidance for 2024, can you just give us a bit more detail on volume versus pricing on the underlying business, maybe ex the hyperinflationary markets just as we think about that balance between volume and pricing.

And then, James, just more importantly longer-term, perhaps you can just take a step back and review your confidence in delivering that long-term top-line algorithm and the higher end of that algorithm just as you look out over the next few years. Taking a look back at the last few years, there's obviously been a lot of volatility, hard for us to judge from an external perspective given all the volatility with COVID. But how do you think about sort of the success of the strategic initiatives you put in place the last few years and what level of confidence that gives you in the long-term looking out a few years? Thanks.

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.



Sure. Look, I'll try to adjust this with the various angles there. Let me unpack a little bit 2023 and the end of 2023 as a way of coming into 2024.

In 2023, we had 2% volume growth. That was true in the fourth quarter and it was true through the year and actually if you take a five year CAGR we've been running at 2% volume growth for the last five years.

So to start with the volume, there's been strong underlying volume growth in the last quarter, in the last year, in the last five years. So that's there and we've been – that's true because we focused on building momentum in the system around building the consumer franchise.

When you look at how that's come along with pricing, obviously there's the pandemic, the ups and downs and inflation, but let's just break apart 2023 and how that then flows into 2024.

If you look at the fourth quarter 2023, it says 9%. Yeah, it says 9%. As John pointed out, there's a couple of points there that's related to intra-year quarter-to-quarter deduction timing. So take off the 2% and you get a 7%. Of the remaining 7%, half of it is normal pricing in the 95% of the business that's not hyperinflationary. And the other 3.5% is in the hyperinflationary countries because the inflation is so high.

So really what have you got in the fourth quarter? You've got 2% volume. You've got 3.5%, a bit more than 3.5% price/mix and that's the core. There you've got something that's running bang in the center of the long-term growth algorithm of 5% to 6% in the top-line. It was true in the fourth quarter. It's true as the kernel in the whole 2023. Actually it's really true across the whole of the last five years once you take out some of these inflationary distortions and the selling of the Bottling Company.

But there it is running, the last quarter, the last year, the last five years. Think about 2024, we're going to go as we've always said through a balance of volume and price. In that 95% of the business, we're going to see volume growth and we're going to see normalized pricing growth. Our aim is for the net of the two to be in that top end of the long-term growth algorithm for revenue growth. Yes, there's going to be an overlay of hyperinflation. That's probably more like a couple of points as we think about 2024 on the top line, and that's why you get what we've called out in terms of the top line growth.

So, hopefully that unpacks a bit of how price/mix has got this hyperinflationary distortion. Actually it's also got the selling of the bottlers if you don't do it on comparable, but really embedded in that 6% to 7% is I keep hitting the long-term growth algorithm on revenue for kind of the sixth year and we feel the momentum we've built with our bottling partners investing in the marketing, the innovation, the in-store execution, the execution in the marketplace with the RGM strategies across the global portfolio and geographies gives us strong confidence we will continue with our momentum.

Operator: Our next question comes from Bonnie Herzog from Goldman Sachs. Please go ahead. Your line is open.

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC



All right. Thank you. Good morning. I actually had a question on gross margins. I was hoping for a little bit more color on the drivers of your expansion in Q4 which came in better than expected. And then, could you highlight maybe the key puts and takes on margins this year? Curious how much do you expect COGS inflation maybe to moderate or will higher sugar costs continue to be a big headwind? Thanks.

John Murphy

President & Chief Financial Officer, The Coca-Cola Co.



Thanks, Bonnie. Let me start by just pick up from where James left off and step out of both the quarter and the year. If you look over the last four years, we've been able to sustain a pretty resilient gross margin line, and as we go into 2024, expect to be able to continue to do so. There's some expansion embedded in the long-term growth model and we're confident that we can continue to drive that.

With respect to 2023, the key ingredients, so to speak, were the impact of the various pricing actions we've had around the world, somewhat offset by higher than normal inflation with some of our commodity items and [indiscernible] (00:31:58) our non-commodity costs. But overall for 2023, that's the key story.

In 2024, I think you'll need to take into account the mechanical impact of the re-franchising of those markets that we talked about in the release that will layer in throughout 2024. Keep in mind too, the impact of foreign currency headwinds. I think against that then we will continue to drive the levers that we have. I've talked about this in the past but maybe worth just highlighting.

We start really with that suite of revenue growth management tools and the many actions that we can take with that. We have a very resilient supply chain, tremendous partners across the supply chain. We source mostly locally and we continue to drive through our scale a lot of productivity in almost each line item of what comprises the supply chain.

So, going into 2024, I think it's worth just reiterating we expect to see margin expansion. Some of it driven by that mechanical effect of the bottler re-franchising and with some more normalized cost inflation relative to the last couple of years, plus continuing to deploy those levers I talked about. We see the opportunity to continue to drive per our long-term growth model expansion.

Operator: Our next question comes from Bryan Spillane from Bank of America. Please go ahead. Your line is open.



Bryan D. Spillane

Analyst, BofA Securities

Hey, thanks, operator. Good morning, everyone. I'd like to just drill in a little bit more on North America, and, James, I think on the last earnings call, you talked a little bit about channel shift, right, like on-premise or food service maybe growing faster than some of the take-home channels. There were some commentary I think also about or observations I should say about maybe low income consumers, so maybe just kind of state of things there?

And, John, just if you can also clarify, I think in the press release there was a mention in the description around price/mix some sort of adjustment, so wasn't sure if that's an accrual related to promotions or just – if you could just give us a little bit more color on that as well. And also, it sounds like concentrate shipments might have lagged in the quarter, so do we make that up in the first quarter? I know there's a lot there, but if you guys can just fill in, that would helpful. Thanks.

John Murphy

President & Chief Financial Officer, The Coca-Cola Co.



Yeah, let me take the end, and then I'll pass it over to James for the beginning.

The mix that you refer to is timing related and it's not unusual in the fourth quarter to have timing related items in the deductions area particularly that will flow back through into next year.

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.



Yeah, consumer. Let me go with two things. One, clearly the consumer landscape in North America, one has to not think of it in aggregate. Actually, in aggregate the US consumer spending power has held up pretty strongly compared to some other developed markets.

What has been important is to understand there's a section of the population that has come under pressure from disposable income. The real spending power squeeze from the inflationary effect, and there we're very much focused on affordability and you could perhaps argue that some of them went out less, there was more at home purchases, some of the certain channels and there we really focused with affordability, both from pack size – individual pack size and with multipack.

On the other hand, there's a segment of consumers that still has plenty of money, plenty of purchasing power and we've seen strong growth for some of the higher price point premium segments like fairlife Core Power, Simply, some of those ones, so there's clearly multiple things going on in the landscape in terms of categories and price points and we've been working to address both ends of those.

And as it relates to channels, I think we've seen the kind of renormalization. There has been a historic slight shift in volume consumption from at-home to away over time. Clearly through COVID, there was a big down in the away-from-home and a rebound in 2021, the away-from-home channels. In 2022, they continued to outpace at-home. In 2023, they were slightly ahead of at-home. If you look at the various away-from-home channels, they were slightly ahead of at-home. I would say that that's landing more in what it was previous to COVID, kind of the more normal situation. So that was kind of what I would say is strong need to focus on the different consumer segments and a sort of renormalization of some of the channel dynamics.

Operator: Our next question comes from Steve Powers from Deutsche Bank. Please go ahead. Your line is open.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.



Great. Thank you. Good morning. Two questions, if I could. I know I'm supposed to have one. But one's quick. Just on the – so if you can clarify, maybe this is for John, you called out the 2% to 3% currency headwinds for next year on the revenue, but a 4% to 5% headwind on EPS. Just if you could, how much of that incremental bottom line headwind is going to show up in operating profit versus below the line given monetary asset revaluation, et cetera?

And then, I guess the broader question is just thinking about all the re-franchising activity and the system progress that you made in 2023, we talked about the financial impacts of that in 2024, but I guess I would love your perspective, James, on the importance of the steps you made in 2023 in terms of just betterment of the system overall and priorities going forward from a system evolution perspective. Thank you.

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.



Okay. Shall I start at this time, and you go second, John?

John Murphy

President & Chief Financial Officer, The Coca-Cola Co.



Sure.

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.



Look, we have been focused on our re-franchising effort and as – I like John's phrase, our ambition is to be the world's smallest bottler. It still remains absolutely true, but we're going to do it at the pace [indiscernible] (00:39:01) so to make sure we do the re-franchising in the right way with the right partners.

I think we can categorically say we're very pleased with the re-franchising process that we have undertaken over the last number of years, almost without exception. Every time we've put one of the bottling companies into the hands of the right partner with a joint vision and investment plan to take the business forward, we have stepped up performance, whether it be a straight re-franchising or a combination creating new bottlers or evolved bottlers we have upped the level of performance.

And I think that is a sign of the commitment of the company to invest in what it does best, which is the branding, the marketing, the innovation, working with our bottlers to get the revenue growth management and their unwavering commitment to drive execution and build capabilities and capacities in the marketplace, and that has helped power the overall performance I talked about in the answer to previous questions.

So, I think we're in the penultimate chapter of the re-franchising. There's only really a couple of pieces left. At the right time with the right partners, we would like to finish the play but really we have our eye on the prize on creating a much stronger system together with our bottling partners to continue the top of the algorithm momentum very far into the future.

John Murphy

President & Chief Financial Officer, The Coca-Cola Co.

A

Great. And on currency, Steve, let me just make a couple of comments in case there are other questions out there on currency overall.

First of all, I think it's important to highlight that 2024 guidance that we've given, it would be close to flat if we were to exclude those few hyperinflationary markets and it just reinforces the point that we're making on that sort of distortion that those few markets have.

And then secondly with regard to your specific question, I do not have that breakdown today. There's just too many puts and takes particularly in that below the operating income line. As we go through the year, you've got to do a monthly remeasurement on the balance sheet items, and that's just a calculation that I don't have the ability to predict with great detail.

So I'd just keep in mind that the overall impact I think is the one to focus on. In normal years, the multiplier is 1.5 to 2 times. We would continue to assume that will be the case going forward. But these hyperinflationary markets have a tendency to create that distortion that we've highlighted. We'll continue to provide guidance as we go through the year to make sure that everybody stays abreast of the latest developments.

Operator: Our next question comes from Rob Ottenstein from Evercore ISI. Please go ahead. Your line is open.

Robert Ottenstein

Analyst, Evercore ISI

Q

Great. Thank you very much. So, James, you made a very strong case that really over the last five years if you ex-out the noise you delivered at roughly 5.5% top-line growth, which puts you clearly in the top rankings of your other staples companies, and that's great. In terms of both 2024 and looking forward, assuming a continuation of that, what can you do to both de-risk that in terms of the bottom line and enhance it in terms of the bottom line given the various macro variables?

And then given that you've now delevered to 1.7, you've shown interest in buying back stock, should we think of share buybacks as perhaps a greater part of the overall algorithm and value creation for shareholders going forward? Thank you.

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

A

Okay. So I mean, I think the de-risking I think what I would say is, look, we've faced an extraordinary number of headwinds in the last five years and still delivered at the top end of the algorithm. Things will happen in the coming years. But there will be tailwinds, and I think really the argument about the all-weather is I cannot tell you what the future holds. But, if you look at what we've managed to work through and deliver at the top end on the revenue and the momentum and the capabilities that we've built in the system. And actually if you look at the share and look at our long-term performance of also gaining share within the industry, I think you can see a head of steam builds up our momentum and at the scale that we operate, it's a very compelling way to drive it forward.

And as that feeds down into the bottom line, obviously the mid-single-digits US dollar EPS call for 2024 includes the disposal of 2 points of EPS from the bottling system. So kind of on an ongoing basis that's already 6% to 7%. I think we can continue to drive some leverage from the top line to the bottom line in dollars and that becomes a compelling compounder over time.

As it relates to cash, I think that you will see we've put in a kind of a new non-GAAP metric somewhere in the ecosystem of the website, which just calls out what John was talking about, about the number of discrete items that are coming up over the next couple of years. As it relates to transition tax, actually curiously, tax on the M&A transactions. If you sell a bottler, the money you get disappears into one account but the tax you pay goes into the free cash flow curiously enough. So there's a whole set of discrete items that make the free cash flow look odd for the next few years. But if you strip that out, you see that the earnings are flowing into free cash flow, the cash conversion on that adjusted basis remains very high and is likely to do so.

So on a – in a normal world, clearly as John said we will continue to increase our dividend and we would have substantive additional cash to continue to invest in the business and consider potential share repurchases.

The wrinkle in the cream, if you like, is our considerations of the IRS tax case and the impending appeal. And so as we go forward for the next few years, we like our strong balance sheet. We're mindful of the likelihood of launching the appeal in the second half. We have incoming non-operating cash flows which as John talked about we used to buy some shares in the fourth quarter. We're going to balance all these things particularly in the next couple of years. We'll keep everyone updated. But I think the long-term perspective is that the cash generation will continue to be very strong.

John, yeah, go on.

John Murphy*President & Chief Financial Officer, The Coca-Cola Co.***A**

Just one additional point. Like – in addition to that unwavering commitment we have to the dividend that we talked about in the script, one of the lessons I think over the last couple of years is to be prepared to be more dynamic relative to your kind of normal view of the individual components. So as you know, our debt goal is to be 2 to 2.5 times, and we're at 1.7 times. We think that's right for what we need going into 2024-2025.

We've taken up our CapEx for 2024 because it's the right thing to do to continue to build the growth foundations that we need in those parts of the business that need capacity, just two examples.

And so I think we'll continue to demonstrate that as we go forward. The share repurchases in the back half of the year, again, was not something that we had necessarily considered at the start of the year but we felt there was an opportunity with the bottler proceeds coming in to do so. And we continue to take that approach as we enter this coming year.

Operator: Our next question comes from Chris Carey from Wells Fargo. Please go ahead. Your line is open.

Chris Carey*Analyst, Wells Fargo Securities LLC***Q**

Hi. Good morning. I wanted to see if you could maybe frame the global away-from-home channel. I know you touched on it a little bit in response to Bryan's question. But we've heard about obviously there's a lot of pricing power in that channel, there's been a lot of pricing. You're talking about a normalization from elevated levels back to a more normal channel distribution between at-home and away-from-home. But can you maybe just give us a bit more granular perspective on what you're seeing by region and whether some of the strengths of that and that I think was occurring in Q4 has continued into this year? Thanks.

A

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

Yes, sure, Chris. I'll give it a go. Look, I think the headline is the commentary about North America to some extent applies everywhere else in the sense that clearly in COVID there was the close-downs, the reopening, big swings between away-from-home and at-home. But in 2022 it kind of renormalized. And I think overall in 2023 you see that again. You saw that in the US where the away-from-home channels in aggregate was slightly ahead of the at-home channels. You see that also in Europe or the EMEA segment. You see the at-home slightly ahead, but it's only marginal.

And when you break it down, there's going to be the kind of continuing structural growth of away-from-home, but it's only a small fraction. If that's the sort of lead-in to a question about pricing and is there some ongoing likelihood of a big upside from kind of channel mix, the short answer is no. If I were to take a proxy of immediate consumption packages and future consumption packages because channel mix becomes very different as you get to different parts of the world, particularly the emerging markets, then there became much more – the kind of the immediate consumption came much more into balance versus the future consumption in 2023 relative to 2022. And that's not too surprising as we start to also think about affordability having been a strategy in 2023.

So that's a round-about way of saying we are not expecting big mix effects from channel in 2024.

Operator: Our next question comes from Andrea Teixeira from JPMorgan. Please go ahead. Your line is open.

Q

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Thank you, and good morning, everyone. So, James, can you comment a little about the US. I understand obviously US is not – in terms of the volumes it's about 20%. But within your outlook for 2024, you quoted in the fourth quarter that water, sports, coffee were negative or decelerating. And how about – what is of that is like mostly self-inflicted vis-à-vis what you're actually facing in terms of market share? And how much you expect that to be lingering into the first half of 2024?

And just a clarification to your comment now in terms of like the shift into on-premise, back to your comments on price/mix. Out of the 9% that you got, if my math is correct, you got about 2% or 3% benefit from mix in 2023. Should we expect that to decelerate, or with your efforts to do more Mini Cans and take that more broadly, is that still going to be the projected contribution for 2024? Thank you.

A

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

Sure. Okay. The comments on the 2% in the fourth quarter, that was related not to channel mix but to the rate that – the way that deductions happen. So this is not – this is often just an accounting treatment between the quarters within the year, so it's not mix as you would think about it in terms of package mix or channel mix or category mix. This is related to kind of the big difference between gross and net revenue. And so it's a distraction in the short term. So I would move past that one.

And if you like, to me, ignore that bit. Focus instead on the underlying impact in 2023 of the non-hyperinflationary pricing which was the kind of 3.5% which is very – which ran through 2023 and is inherent in what we're saying roughly speaking for 2024. So we're expecting rate and mix, whether it's channel, category, geography, package, the sort of things we were saying which in 2023 is what we're expecting in 2024. And again, those had all largely

normalized in 2023. So by inference, they're all largely normalized in 2024 as well. So you kind of see a stability across channels, packages, et cetera, et cetera.

As it relates more specifically to the US, yes, we did some deprioritization of some of the bulk water categories. And some of the advanced hydration was the normalization or restabilization of the sports drinks category. I mean I don't think there's an obvious or useful split between self-inflicted or proactive decisions versus things that were competitive. That's hard to tease apart.

Clearly, from a performance point of view, when we think about it in the US, yes, there was a fractional softening of the volume through the year which I think goes back to the comment I made about the different consumer segments. But if you step back and think about what was the overall impact of our marketing, innovation, RGM and execution with the bottlers, the answer is we won volume share in 2023 and we won value share in 2023.

So, yeah, there's work to be done in the water category and advanced hydration and much lesser extent in tea. But the overall picture is strong growth in sparkling, particularly Coke and Sprite, good on Smartwater, good on Vitaminwater, good on Topo Chico, very good on fairlife, good overall win on both dimensions. And that's the platform we'll be looking to drive in 2024.

Andrea Teixeira

Analyst, JPMorgan Securities LLC



Thank you.

Operator: Our next question comes from Bill Chappell from Truist. Please go ahead. Your line is open.

William B. Chappell

Analyst, Truist Securities, Inc.



Yeah, good morning.

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.



Hey, Bill.

William B. Chappell

Analyst, Truist Securities, Inc.



Just a question on kind of the China consumer and both kind of how it's progressed or how he or she has progressed over the past few months versus your expectations or just in general, and kind of what you see kind of spending power and just getting back to normal consumption as we move into 2024.

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.



Sure. Let me put it like this. 2023 started very strongly in China. We had invested very heavily behind Chinese New Year. And we had a – actually, we had a very strong first quarter last year, China. And then – which is kind of still the back end of the reopening. And while we grew volumes for the rest and for the total of the year 2023 and revenues, it did soften for the last three quarters of the year in China.

And I think what we're going to see is kind of a reverse of that in 2024. We've invested strongly again in Chinese New Year this year. We won't know the result for another few weeks net-net. But we're kind of expecting it to be a little slower in the first quarter, especially given what we're cycling from last year, and then for the year to improve. But not too hot and not too cold, if I can use that analogy.

So yes, there's a little weakness in the economic system but we expect things to get – we get – tend directionally to get better through the year. And we're going to keep investing behind not just key moments in the year like Chinese New Year but restoring more momentum to sparkling and really focusing on RGM and execution opportunities.

Operator: Our next question comes from Kaumil Gajrawala from Jefferies. Please go ahead. Your line is open.

Kaumil Gajrawala

Analyst, Jefferies LLC

Hey, everybody. Good morning. When we met in December we talked a little about how 2023 there was a bunch of testing and learning on innovation and 2024 will be about scaling some of them. Both of you mentioned fairlife Core Power, it's a big brand now. Could you maybe just talk about the scaling of that capacity expansion? And then maybe what other brands we should be considering in that same context. Thank you.

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

Yeah, sure. I mean, firstly, we're going to continue to experiment and find lots of new things hopefully in 2024. But it's certainly true as you say that fairlife has been on a roll. And we have been driving that. I think it's [ph] gotten (00:58:02) double-digit volume growth for as many years as I can remember plus faster double-digits in revenue.

Clearly, as we've scaled that, we needed to put down more capacity. We have recently announced and begun the process of building a mega plant up in upstate New York. And so capacity is tied to the fairlife business and Core Power is also firing on all cylinders. We'll certainly talk about some of these at CAGNY when we'll kind of lay out some of the back story, things like fairlife and particularly Core Power and how these brands and products have done a great job in driving from experimentation to scaling to challenging and for example in the case of Core Power to leading.

Operator: Our next question comes from Peter Grom from UBS. Please go ahead. Your line is open.

Peter Grom

Analyst, UBS Securities LLC

Thanks, operator, and good morning, everyone. So, James, I was hoping to pick up on your commentary in response to Bryan and Andrea's question on the US.

Maybe first, did performance in the quarter play out as you expected? You mentioned softening in the market in your response to Andrea. But was that in line with how you thought growth would evolve, or was it a bit weaker than you would have anticipated?

And then looking ahead to 2024, I appreciate the commentary on expecting balanced growth at the total company level, but do you expect that balance to occur in North America as well? Thanks.

A

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

Yeah, look, I mean, I think it was at a macro level foreseeable that the market would get tighter through the course of 2023 as inflation ran ahead of wage growth. And so, therefore, yeah, it wasn't surprising that there was tightness particularly for certain consumer segments. I think all things in due proportion, I mean, the growth in North America in the fourth quarter was basically the same as the growth in the full year, with only very fractional differences.

So, I think these are not big changes in trends, but yeah, I think there was a little softening through 2023. And I think we'll see that kind of a bit in reverse as 2024 starts off as consumers – and you can see it in the confidence indicators for consumers, they're starting to feel like the money coming in is starting to contain and get ahead of the inflation. So I think we'll see that improve through the year. Again, all in due proportion, there are not going to be big shifts in the volume growth rate in the US business.

In aggregate, we would expect to get more from price relative to volume for the US business. So, the balance that I talk about between price and volume applies on a global basis. Clearly, that's been made up of geographic portfolio mix. So places like the US we would expect to see stable or slightly increasing volume with decent pricing, all the way over to places like India where clearly we're getting much more volume than price and having to invest significantly in capacity. And those two – take those two examples, but that's true of the global portfolio. Blend it all together and that's where the balance comes from.

Operator: Our next question comes from Charlie Higgs from Redburn Atlantic. Please go ahead. Your line is open.

Q

Charlie Higgs

Analyst, Redburn (Europe) Ltd.

Yeah, hi, James, John. Hope you're both well. I've got a question on sparkling, please, where I mean 2% volume growth in the quarter and the year, very strong. I think in the 20 quarters since 2019 it's actually averaged 3% in those 20 quarters, so definitely not ex growth. And I was just wondering what your perspective is on the category going forward maybe with the consumer weakening? And if you can just touch on the launch of Coca-Cola Spice, I don't think we've talked about that yet. I mean, what gives you the confidence of launching this just as a permanent launch rather than a limited edition Coke Creations launch. Who is the target consumer? Is it going after Gen Zs. Is it there to help the Coke with meals strategy? Just any color on that would be useful, please.

A

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

Yeah, I mean, Coke Spice, a bit like Coke Creations, not exactly. But is really aimed at increasing connectivity with Gen Z and the broader consumers, driving engagement, driving reconsideration, it's part of a whole overall strategy that as you say we've been deploying for a good number of years. That has really worked to reengage consumers with the Coke trademark, whether it's Coke Original or Coke Zero Sugar or even Diet Coke to some extent.

The overall strategy of an operated approach to marketing the innovation, whether it's Coke Spice or some of the Creations through the RGM and the execution has allowed us to drive our Coke growth across the global business. And actually by also increasing the focus on Fanta and Sprite, even organizationally splitting them out into two sub-teams within the organization has allowed us to bring more clarity and more focus onto Fanta and to Sprite and to drive growth there too, which has worked in Q4 in 2023 and as you say over the last five years.

I know that sometimes people – well, I would say that people think about the sparkling category just through the optic of the US over the last 20 years. And I would invite you to look at the optics or everyone to look at the optics of the sparkling category globally over time. And actually there you see that the category remains robust at a global scale, both in terms of volume and revenue growth. And of course we are not just the leaders but we're the share winners. So, we see if we do the right things for our brands, we will be able to drive the category forward and benefit disproportionately from that growth.

Operator: Our last question today will come from Carlos Laboy from HSBC. Please go ahead. Your line is open.

Carlos Laboy

Analyst, HSBC Securities (USA), Inc.

Yes, good morning, everyone. Thank you. Can you comment for us on the state of global independent bottlers' CapEx or digital capabilities? We've seen a really robust Latin American digital investment over the last four or five years. But where else do you see a step-up in digital market development capabilities like this? And can you comment on the US in this area as well?

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

On US what?

Carlos Laboy

Analyst, HSBC Securities (USA), Inc.

On the US regarding digital bottling system investments.

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

Do you want to address that?

John Murphy

President & Chief Financial Officer, The Coca-Cola Co.

Sure. Carlos, yeah, I think it's fair to say that the overall investment levels that you refer to in LatAm are pretty consistent across the world, like one of the underlying tailwinds I believe we have is the degree to which our system is sharing in us the opportunity that's ahead and willing to increasingly invest ahead of the curve. So, I think that's happening across the global system.

One of the subsets of that, of course, is the degree to which digital in its many forms is playing a pivotal role to sustaining and indeed building advantage wherever we operate.

We have CAGNY next week, and I think you'll hear more of that threaded through the conversation we'll tee up there. But safe to say, I think CapEx levels are at the highest as a percentage of system revenue that I can remember. And within that the appetite and willingness to invest ahead of the curve particularly in digital is also at a very high level.

Carlos Laboy

Analyst, HSBC Securities (USA), Inc.

Thank you.

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

Great. Thanks very much, everyone. Just to summarize, we're proud of what we accomplished in 2023. We are winning in the marketplace. We're going to be maintaining agility and improving every aspect of how we do business across our total beverage portfolio. John and I look forward to discussing more with you all next week at CAGNY. Thank you for your interest, your investment in our company, and joining us this morning. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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