22-Jul-2025

The Coca-Cola Co. (KO)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: At this time, I would like to welcome everyone to The Coca-Cola Company's Second Quarter 2025 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 a 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 Ms. Robin Halpern, Vice President and Head of Investor Relations. Ms. Halpern, you may now begin.

Robin Halpern

Vice President & 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 gross 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. Throughout the first half of 2025, the external environment has continued to evolve. To adapt, we stayed close to the consumer, managed our growth portfolio of brands and doubled down on our all-weather strategy. After the first half of this year, we're on track to deliver on both our top line and updated bottom line guidance. We're confident we can navigate varying local market dynamics during the remainder of 2025 to deliver on our updated guidance.

This morning, I'll provide details on the operating environment and our second quarter business performance. Then, I'll explain how we're pivoting our plans and building new capabilities to deliver amidst the current realities. John will end by discussing our financial results and providing further commentary on the outlook for the rest of the year.

Coming into the quarter, we expected the operating landscape to be choppy. Volume declined 1% during the quarter, as we cycled the difficult comparison versus the prior year. Two-year volume trends were on track in April and May, but decelerated in June in the face of adverse weather in several key markets and pockets of consumer pressure.

Several markets that were weaker in the first quarter improved volumes sequentially, including the US and Europe. In these markets, the plans we've implemented are working, providing further confidence we can influence the trajectory of our results. We also delivered 5% organic revenue growth and robust margin expansion, which led to 4% comparable earnings per share growth despite currency headwinds and the higher effective tax rate.

More broadly, our industry remains resilient. During the quarter, we gained value share, which represented our 17th consecutive quarter of value share gains. Across the world, we're navigating complex dynamics across many markets by leveraging our global scale while stepping up local execution.

Starting in North America. While volume improved sequentially, it declined due to the continued uncertainty and pressure on some socioeconomic segments of consumers. We continued to invest behind our brands, which led to value share gains and revenue and profit growth. Our price/mix decelerated as growth in some of our premium stills brands moderated during the quarter.

Our granular action plans to win back consumers with contextually relevant advertising, more focused value and affordability initiatives, and close customer partnerships are working. Several bright spots in our total beverage portfolio include Coca-Cola Zero Sugar, Diet Coke, Fanta, fairlife, BODYARMOR and Powerade, which each grew volume. We're continuing to get good traction with our foodservice customers on both renewals and category expansion, and our system is stepping up execution and earning increased share of visible inventory.

In Latin America, volume declined, but we grew organic revenue and profit. We benefited from the improving economy in Argentina, and Coca-Cola Zero Sugar had strong volume growth in Brazil and Mexico. In Mexico, despite cycling a difficult comparison versus the prior year and navigating a more difficult start to the year, two-year volume trends improved during the quarter until uncharacteristically cold weather and a major hurricane impacted the trajectory in June. To drive transactions, we're reprioritizing investments, driving affordability with refillables and premiumization with single-serve offerings, and scaling connected packaging and our system's digital customer platforms.

In EMEA, all three of our operating units grew volume, and we also had revenue and profit growth. In Europe, volume growth was driven by both Eastern and Western markets and was partially helped by cycling an easier comparison versus the prior year. Coca-Cola Zero Sugar, Sprite and Fuze Tea each grew volume. We activated our Share a Coke campaign across 38 markets in Europe and included prominent musicians and influencers. The campaign leveraged our Memory Maker digital tool, which allowed drinkers in some markets to share personalized memes and videos with friends and family. We also tapped into Sprite Spicy Meals and Wanta Fanta campaigns.

In Eurasia and Middle East, despite multiple conflicts in the region during the quarter, we grew volume and won value share. We're leveraging our learnings to emphasize the localness of our system, which includes local sourcing, production, employment and distribution. We're focusing on locally relevant sparkling flavors innovations and affordability with attractive absolute price points, value packages and tailored promotions.

In Africa, despite a worsening macroeconomic growth outlook, we grew volume. Egypt, Morocco and Nigeria, each continued their strong momentum. Our system's actions are working. We've refined our pack price architecture, executed fewer but bolder integrated marketing campaigns and accelerated cold drink equipment placement.

Lastly, in Asia Pacific, after a strong first quarter, we had mixed performance across the region. Volume declined, but we grew both revenue and comparable currency neutral operating income. In ASEAN and South Pacific, volume declined as growth in Australia and the Philippines was more than offset by declines in Thailand, Indonesia and Vietnam. However, we won value share, and our system is taking action by scaling refillable offerings, increasing outlet coverage and accelerating cooler placement.

In China, we grew volume despite a cautious consumer environment, thanks to stronger performance from Trademark Coca-Cola and in the eating and drinking channel. Our system is developing more granular channel and customer-specific execution strategies, driving more tailored promotional campaigns and accelerating cooler placement.

In India, after a strong start to the year, volume declined, as our business was impacted by early monsoons and geopolitical conflict early in the important summer season. In response, we're engaging consumers with integrated marketing campaigns like Coca-Cola and Meals supported by execution in the QSR channel, Thums Up with Biryani, Sprite with Spicy Meals and Maaza with Festivals, and tailoring these activations to regional and local needs. Also, our system is adding customer outlets and recently surpassed 1 million customers on its digital ordering platforms.

In Japan and South Korea, industry volume declined amid a challenging macro environment. Our volume was also down, reflecting industry dynamics and a strong prior year comparison. Nevertheless, two-year volume trends remained positive during the quarter. In response to the external environment, our system is refining channel and investment strategies to capture emerging growth opportunities.

To sum everything up, while the external environment continues to evolve, we remain steadfastly focused on maintaining agility, and we're taking the appropriate actions to deliver on our updated 2025 guidance. Critically, to deliver amidst the current realities, we're enhancing capabilities along each facet of our strategic growth flywheel by investing to drive transactions in the back half of the year.

Our marketing transformation allows us to more quickly test ideas, share learnings and scale successful campaigns. For example, to mitigate consumer pressure in Mexico stemming from geopolitical tensions, our teams implemented tactics similar to those developed last year in Turkey tailored to local needs. During the quarter, we launched the [ph] Juntos por Cien Años (00:09:21) campaign, which highlights our long-standing contribution to the Mexican economy.

At the same time, we leaned further into consumer passion points and pulled forward our World Cup activation by giving away 1,000 tickets to next year's event. As a result of these initiatives, combined with strong local execution, monthly value share trends and consumer perception scores improved significantly in Mexico during the quarter.

While we're lifting and shifting learnings across markets, we're also revamping and creating new campaigns and leveraging passion points. In April, we launched the return of the iconic Share a Coke campaign across more than 120 countries with over 30,000 names on approximately 10 billion bottles and cans tailored to local markets.

Also, in North America, we launched the Bring the Juice campaign during the quarter, which featured a collaboration between Minute Maid and World Wrestling Entertainment that includes digital experiences, limited-time-only packaging and in-store activations. Our innovation agenda supports our overall growth strategy by focusing on understanding and anticipating consumer needs. To make a greater impact and improved return on investment, we're leveraging our portfolio of 30 billion-dollar brands.

For example, during the quarter, we launched Sprite + Tea in North America, which contributed to increased share of visible inventory. This limited-time-only innovation blends the refreshment of Sprite with the flavor of tea and adds to the recent hits under the Sprite trademark, including Sprite Chill, Sprite Winter Spiced Cranberry and Sprite Lymonade. Sprite + Tea started as an experimental project. We scaled the launch after seeing strong consumer demand and positive social media reaction. As a result of on-brand innovation, Sprite became the number three sparkling soft drink brand in the US, as Beverage Digest announced in April.

We're always exploring ways to meet evolving consumer preferences for great-tasting refreshment, including with our iconic Coca-Cola brand. As you may have seen last week, we appreciate the President's enthusiasm for our Coca-Cola brand. And as part of our ongoing innovation agenda, this fall in the United States, we plan to expand our Trademark Coca-Cola product range with US cane sugar to reflect consumer interest in differentiated experiences. This addition is designed to complement our strong core portfolio and offer more choice across occasions and preferences.

Revenue growth management is a critical tool to segment our consumers and channels, and we're increasingly integrating the capability with our marketing expertise to drive transaction growth. To step up our capabilities, we are leveraging learnings across our markets and marrying digital investments with clear compelling points of sale messaging in stores and on packs. While it takes patience and discipline to build our refillables franchise, we're tapping into learnings from our strong capabilities in Latin America to grow refillables over the long-term in Africa, the Philippines, Thailand and parts of Eurasia and the Middle East.

On the premiumization side, we're leveraging our experience in North America to grow mini cans in Europe. And finally, last year, we piloted an AI-based pack price channel optimization tool in Mexico. Results so far have shown this tool improves our offerings and speed to market. So far, we scaled this platform to eight markets across four operating units. Lastly, robust local execution is key to ensuring the success of our top line initiatives. Our system is stronger than ever, which ultimately leads to commitments to further invest to drive growth. We've collectively ushered in a culture of learning from one another, and we aspire to improve every aspect of how we do business.

To summarize, while the external environment continues to be dynamic, and there is no doubt that much uncertainty remains in the downhill, we remain growth-orientated. We're continuing to pivot our plans as needed, and we are harnessing our all-weather strategy to deliver on our growth ambitions. Before I conclude, I'd like to recognize the efforts and unwavering dedication of our system employees around the world.

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 first half of 2025, we delivered positive volume, organic revenue growth at the high-end of our long-term algorithm, robust margin expansion and continued earnings per share growth in a very dynamic operating landscape. During the second quarter, we invested with discipline to achieve our objectives.

We grew organic revenues 5%. Unit cases declined 1%, largely due to a weaker-than-expected June. Concentrate sales were even with unit cases. Our price/mix growth of 6% was primarily driven by approximately 5 points of pricing actions and 1 point of favorable mix. Pricing from intense inflationary markets contributed to approximately 1 point of price/mix growth, down from approximately 5 points in full year 2024.

Comparable gross margin increased approximately 80 basis points and comparable operating margin increased approximately 190 basis points. Both were driven by underlying expansion, partially offset by currency headwinds. Approximately one-third of our underlying expansion was driven by faster realization of our productivity initiatives, while the rest was driven by timing of investments and favorable cycling versus the prior year.

Putting it all together, second quarter comparable EPS of $0.87 increased 4% year-over-year despite 5% currency headwinds, elevated net interest expense and an approximate 2-point increase in our effective tax rate. Free cash flow excluding the fairlife contingent consideration payment was $3.9 billion, which is an increase of approximately $600 million versus the prior year. Growth was driven by underlying business performance and lower tax payments, partially offset by cycling working capital benefits in the prior year.

During the quarter, we made our final $1.2 billion transition tax payment related to the 2017 Tax Cuts and Jobs Act. Our balance sheet remains strong with our net debt leverage of 2 times EBITDA, which is at the low-end of our target range of 2 to 2.5 times. We're confident in our long-term free cash flow generation and have ample balance sheet capacity to pursue our capital allocation agenda, which prioritizes continuing to invest in our business and returning capital to our shareowners.

Enabled by our all-weather strategy, we're updating our 2025 guidance, which takes into consideration our actions to drive growth in a dynamic context and what we know today about our external environment. We continue to expect organic revenue growth of 5% to 6%, but now expect comparable currency neutral earnings per share growth of approximately 8%, both of which reflect delivery in line with our long-term growth algorithm.

Based on current rates and our hedge positions, we now anticipate an approximate 1 to 2-point currency headwind to comparable net revenues and an approximate 5-point currency headwind to comparable earnings per share for full year 2025. While we recognize there's recently been some favorable currency movements, we hedge much of our developed market and some of our developing market exposure, and it will take time to see the full benefits.

We will continue to utilize the disciplined hedging strategy that provides greater certainty for decision-making. Our underlying effective tax rate for 2025 is still expected to be 20.8%, which is more than a 2-point increase versus the prior year. All-in, based on what we know today, we now expect 2025 comparable earnings per share growth of approximately 3% versus $2.88 in 2024.

There are some considerations to keep in mind for the remainder of 2025. We continue to expect our external landscape to be dynamic, and we expect recovery in some markets to take time. We are expecting concentrate sales to run slightly behind unit cases during the third quarter. Based on what we know today, we continue to believe the impact of global trade dynamics on our cost structure will be manageable. Given the strong margin expansion that came through earlier in the year, we no longer expect margins to be back half weighted in 2025. Last, due to our reporting calendar, there will be one additional day in the fourth quarter.

So, in summary, while the external environment continues to evolve, we're successfully pivoting to continue to deliver top line growth, margin expansion and earnings per share growth. In the first half of the year, we've effectively tackled many challenges not anticipated at the outset, and we will continue to adapt to whatever lies ahead. Thanks to the proven strength of our system, we have great confidence we will deliver on our updated 2025 guidance and create enduring value for our stakeholders.

And with that, operator, we are ready to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] 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. I was struck by the use of the phrase – the word pivot, pivoting our plans, adjusting our plans, a couple times in both of your prepared remarks. And yet, you had very solid, good, strong organic sales growth this quarter. Profitability was really striking. And the outlook for the second half feels comparably strong frankly, with just a just a little bit less margin expansion. So, maybe I can just really focus on that pivot plans piece to understand maybe more concisely what it is. As you're thinking about the back half of the year, does the environment feel that it's tougher? Does it mean that the sort of puts and takes of which markets you thought would go one way versus another is the key to what that pivot commentary means? But I could use a little clarification on all of that. Thanks.

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

Sure. I think – and thank you for noticing that we had a strong first half and guidance implies a strong second half, and we certainly are aiming to deliver that. I think how you should interpret the pivot comment is really in the context of us pursuing growth under the all-weather strategy. This year has been, I think, characterized by rapid turns of events and twists and turns, which has required us to respond with greater agility and speed.

So, if you just want to compare and contrast Q1 to Q2, in Q1, the US and Europe were slightly weaker, but we pivoted – or we adapted with some agility and we got much better coming into Q2 in those developed markets. And yet, in Q2, in couple of our big emerging markets, Mexico and India, for example, partly they had strong comparisons to prior year, but we got hit by some early monsoon in India, which is the important selling season, plus the India-Pakistan conflict, brief as it was, plus weather in Mexico, which required us to pivot to bring back growth in those parts of the world coming into the second half. So, it's really, if you like, about the need for the all-weather strategy to be taken up another notch in terms of how fast you can pivot and execute to still deliver the results that we're delivering.

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
Q

Hey. Good morning.

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

A

Good morning.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

So, protein's a space that's on trend with the consumer. It's growing at very strong rates. You obviously have a clear competitive advantage with the fairlife brand. But given all those factors, you are running into capacity constraints. So, just with that as a backdrop, I was hoping you could give us a sense of how much of an unlock the planned US capacity additions are starting in early 2026 for fairlife, both the total volume, but also how that will enable you to manage each of the three fairlife product areas differently. And then also, can you discuss if there's any international fairlife plans on the horizon outside of North America over the next few years? I know replicating the North America dairy manufacturing footprint will be difficult. So, just how realistic is international expansion at some point and then what timeframe? Thanks.

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

A

Sure. Firstly, fairlife continued to have strong growth, double-digit volume growth in the second quarter. Clearly, that's moderating slightly from Q1 and prior year. But we still expect to get volume growth in the second half, again, although moderating as we wait for the capacity to come online. I think the team has done a great job of creating some space this year to keep growing. As you point out, the New York facility will come online at the beginning of 2026.

Obviously, that doesn't all turn on with a flick of the switch on day one, as much as one would wish it to be so, and that will ramp up over 2026. But it will steadily debottleneck our constraints on capacity across all the different fairlife variants and package sizes. So, we have that coming online in 2026. We also have, over the timeframe – or going into the future, options to expand capacity on some of the existing facilities. So, I think the narrowing of the corridor is really the second half, maybe the first few months of next year, but we're basically going to get through that and doing really well with fairlife so far.

Secondly, as it relates to international, having made some investments in dairy, which we're unhappy in small countries and with small investments, it is worth pointing out that Santa Clara in Mexico also had a strong performance. It's now the number one value-added dairy business in Mexico. So, not under the fairlife brand, but actually a big market with a good position in value-added dairy there. And we continue to look at other international opportunities.

As you rightly point out, the structure of the dairy industry in the US is differential relative to other parts of the world. But protein is very on-trend. We know that fairlife and Core Power are strongly differentiated and preferred as products and brands. And we are, of course, looking to see if we can deliver those sorts of consumer benefits in other parts of the world in ways that we feel would give us a competitive advantage versus whatever is in the marketplace at the time. More to come.

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.

Q

Thank you very much, and good morning, everybody. James, just going back to Mexico and India, just given some of the pivots that you've made in those markets going into the back half, I guess the question is, how quickly do you expect a rebound in those markets and if there are any other markets as you go into the back half that you would flag as kind of known kind of watch points going into 3Q? I'd also like to – just because of the strong profit improvement or profit performance in the first half and in the quarter we just saw, it seems to imply maybe a little bit more reinvestment in the back half. And if that's the case, just any color on where that incremental investment may be targeted would be helpful. Thank you.

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

A

Sure. Firstly, whilst being known to be calm, I'm not wildly known to be patient. So, the sooner the volume bounces back, the better. I think in the case of Mexico, clearly, the Q2 last year was the strongest quarter. It's worth being upfront in saying Q3 was the weaker quarter. So, I think we're going into a cycling that should help us. We've got some strong plans, to take Mexico for one example, on affordability, doubling down on refillables and some of the value offerings.

We're also celebrating our 100th anniversary in Mexico with [ph] Juntos por Cien Años (00:27:44), which is really about emphasizing the long-standing economic impact, which is going back to some of the Hispanic issues that bled across the border in the first half, and we're pulling together some of the marketing activation and execution activation with our bottling partners. So, we're confident not just in the long-term, but also in our ability to get back to growth as we come into Q2 and get out of some of the colder weather and the hurricane that was true in June.

In the case of India, India, as we've talked – or both John and I have said in previous calls, is never going to be a straight line, and indeed, Q2 was not. But we're very bullish on India overall. The Q2 did decline. There was, as I said, the conflict and the monsoon. But we have a lot of marketing campaigns focused on India. We have also just set up the first kind of refranchising piece with the Jubilant Group for the company-owned bottler that we're having, which is basically at the bottom half of India, and that's up and running with a new CEO.

So, we think that will bring some new energy and dynamism and focus and proactivity to the execution in the marketplace. So, we think we've got a strong plan from a marketing and innovation point of view. The local franchise bottlers were doing better than the CBO in the first half, and with some reenergized focus on this transition bottler, we're pretty confident on where we'll go in India.

And then, as it relates to the unauthorized second question, profit improvement, yes, it does imply a little bit of reinvestment in the second half. There's a piece of timing in there. We had expected more of the productivity in the second half, and we got some of it in the first half, which of course moves the money around. And so, that's a piece of it. But we also are – as we've said in previous years, we continue to lean into growth. We've got a growth strategy. We're delivering growth, and we're going to continue to invest into that to drive momentum and assure momentum in the second half, but also set ourselves up for a good 2026.

Operator: Our next question comes from Filippo Falorni from Citi. Please go ahead. Your line is open.

Filippo Falorni
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning, everyone. I wanted to ask about the North America market. We've seen a little bit of an improvement in the volume – in the unit case volume, still negative. But just any thoughts on the outlook as you move forward into back half, especially on two points? The QSR and the away-from-home channel more broadly, how are you seeing the trends evolving there, and then also the trend among the Hispanic consumer, which was a pressure in Q1, and it seems to have gotten better throughout Q2? Thank you.

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

Sure. Firstly, overall, the US business did a very strong job in coming back from a slower start in Q1 and getting sequentially better in Q2, getting some good revenue growth, share was good and profit was good. So, really getting better. And I think that's in the context of a pretty resilient overall consumer. The aggregate spend is holding up. Yes, there's some pressure in those with lower incomes, where we're targeting some affordability and some special focus on marketing and occasions. So, I think the overall outlook continues to be resilient, and we're investing for growth in that.

Just on the Hispanic consumer, yes, we had a problem in the first half. If you take the end of June, by the end of June, we had basically got back to the share we started the year with. We got back to the brand equity scores we were looking back and we got back to the household penetration. But obviously, as that went down into the valley from January to March, it had to climb out of the valley from April to June. So, it was still a headwind in the second quarter, but the issue is now largely resolved. We're back to where we were. And there was a lot of good stuff on some very targeted contextual advertising against the – basically the false video and a lot of focus on how local the Coke business is. It's made in the US. It's made by US employees. It's distributed by US employees and US retailers. So, I think we've kind of put that one behind us for now.

And then, the away-from-home channel, obviously, depending on where you are on the away-from-home channel, you get slightly better or slightly worse footfall and traffic. But I think this is really not a different reflection of the overall economy, where you see some of the bits of the channels where you've got the lower income consumers, a little more focused on affordability offers. So, you definitely see that coming up. But the team has done a good job on customer renewals and bringing in new accounts like Costco and Carnival. So, we're seeing some pretty good reaction there. But I don't think one should think about it as that different a representation than the overall market.

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
Q

All right. Thank you. Good morning. James, I wanted to drill down something. You've mentioned that productivity came in better than expected in the first half. So, just hoping you could just provide a little bit more color on sort of what drove that upside, and then how we should think about that in the back half in some of your – the rest of your productivity initiatives planned for this year. Thank you.

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

Sure. Two basic sources of the productivity. One was the benefit of the marketing transformation. We've been on a journey for the last few years on the marketing transformation, which is not just about the effectiveness and the digitization of the advertising and the segmenting of the advertising, but also about the efficiency, both the producing it and buying the media where we use the advertising. And we were able to capture some of those savings.

And then, just from a timing perspective, there was just a little more of them in the first half than the second half, but those were always on the way and it's a product of the work we've been doing over the last couple of years to really reform how we do the marketing to be not just more effective, but to also bring some efficiency to bear.

And then, the other piece of the productivity, we're setting out to be as disciplined as possible on the operating expenses and to be a little more frugal and to invest our money a little wiser as we went in. And we were able to just capture some of those benefits as we came into Q2, ahead of the second half. So, mainly just getting things done a little quicker than anticipated, which is good news.

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, everyone. This will be slightly connected, but a bit more specific. North America margins were incredibly strong in Q2, even with higher marketing on a year-on-year basis. I understand there are so many puts and takes. But I would love to get your take on how these margins have been evolving, some of the key drivers between perhaps pricing or cost savings, product mix, channel mix. Again, I fully appreciate there are so many drivers every quarter, but the evolution here has been sequentially and directionally positive and moving in the right direction. So, I'd love to get your broader thoughts on what you think is driving this and the durability. Thanks so much.

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

A

Sure. Firstly – I mean, I'll give you some factors relative to Q2. But as I've done – normally, the question comes on Asia Pacific on margins being strange movements intra-quarter. I would encourage you to take a multi-quarter view of any bits of the business rather than one. Having said that, clearly, the margins got better in Q2 in North America. Clearly, part of that was coming from the productivity initiatives, as I just described them.

Some of it comes a little bit from – with the deceleration of some of the vertically integrated businesses, they're mixing in less operating expense, so that that kind of makes a difference, the vertically integrated businesses tending to have a slightly lower percent margin than the concentrate businesses. So, that's another driver of what's going on. I think what's also important to understand is none of this is happening in the absence of continuing to invest behind our brands.

We were still very strongly investing not just in innovation, but actually in absolute marketing terms in the US market to continue to drive growth. So, it's not a – whilst the margin has been improving in the US marketplace over time – I mean, if you go back four years, it was not in a great place. So, I think it's kind of more normalized. And what is the feature of is that normalization in productivity, but the most important story is continuing to invest heavily behind our portfolio, our innovation and our execution to drive growth and gain share.

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

Kaumil Gajrawala
Analyst, Jefferies LLC

Q

Hey, guys. Good morning. I guess three questions in a row on margins, but this will be a bit different. Obviously, productivity coming in a little bit better, the margins look great. At the same time, the impact from foreign currency seems to be abating, and if it continues in this way, might even – moves in a positive direction as we get into next year. Can you maybe just talk about the operating leverage across the P&L, given how much has changed so far and these really two factors sort of very much moving in your favor? Thanks.

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

A

Let me take that one, James.

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

A

Yes.

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

A

So, yes, you've got two distinctive factors. I think James covered well the drivers of operating leverage on both the gross and operating margin lines, which we continue to expect to deliver in the second half of the year, albeit at a slightly lower rate than we had previously flagged. And then, on the currency front, as you all know, we hedge to – as a risk management tool to help us smooth fluctuations and provide greater certainty at the local market level. And in the year-to-date, the main – the main influence of the year-to-date has been the performance of the G10 currencies, which we hedge on a consistent basis.

And there, those hedges are somewhat offsetting the actual dollar weakness that we have seen in those – against those currencies. Emerging – on the emerging markets front, not as much. And so, as we look to the second half of the year, and we'll provide more color in October on our outlook for 2026, the updated guidance reflects a softening of the negative impact that we had been experiencing on the overall currency front. So, net-net, slightly better environment. We continue to hedge to – as I said, to smooth the fluctuations that we typically experience. We'll provide an update for 2026 on the October call.

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

Robert Ottenstein
Analyst, Evercore ISI

Q

Great. Thank you very much. James, can you talk a little bit about globally, what you're seeing in terms of consumer strength? The sense I got – and maybe I misheard. But the sense I got was that you were a little bit surprised by some pockets of consumer weakness globally apart from the weather, apart from geopolitical issues. So, is that right? What are you seeing from the consumer globally? And if things did weaken a bit in June, how has that progressed into July? Thank you.

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

A

Yeah. Thanks, Robert. Yeah, I mean, let me just stand back again on the volume around the world. The second quarter, so we had good performances and improving sequentially. So, North America improved sequentially, Europe was up, Middle East was up, Africa was up, China was up. And apart from the two that I mentioned in terms of the weaker performance, India and Mexico, there was a little bit of weakness in Japan, but there was also some – I think the one that's kind of was the most – I don't know if I'd go as far as surprising. But let's go with surprising just for the sake of the argument. It was more Thailand, Indonesia, Vietnam, the ASEAN markets, we saw some weakness in Q2, which was perhaps a little more than we've been expecting.

So, I would say overall that the global economy and the global consumer remains resilient. There have been some swings in countries, a bit like I said at the beginning and answered one of the questions, things have come in and out at greater speed than perhaps historically. And so, something can get worse and then better again at a faster velocity than perhaps in the past. And there have obviously been some geopolitical events that happened in Q2, and they've come in and out quickly too, some of them.

So, the rate of surprise has kind of speeded up. But I think you've got to stand back and see how actually overall, there was a pretty resilient consumer environment, pluses and minuses by the countries. If I had to say one that was a little surprising, it would be ASEAN, leaving aside weather and things like that. But we're confident we're investing in the right programs for the second half, marketing, innovation, RGM, execution to make sure that as we drive our top line algorithm for the second half, that will come with a better volume component.

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

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Good morning. I wanted to ask on the potential innovation into pure sugarcane, and then if you can talk about it like in the context of consumer preference and appetite to expand into more fiber. You see like a competitor launch into prebiotic under their main trademark, and how is Simply Pop performing or thoughts on participating more in that segment? Thank you.

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

A

Yeah. Thanks. Look, we're always – I don't think just us, but I think the industry, given its size, its attractiveness and its growth potential, we're always looking for opportunities to innovate and see whether there's an intersection of new ideas and where consumer preferences are evolving towards, remembering that actually most innovations don't work in the long-run. But I think it's a good sign that the industry, including ourselves, are trying lots of different things.

As it relates to the cane sugar, yes, we're going to be bringing a Coke sweetened with US cane sugar into the market this fall, and I think that will be an enduring option for consumers. Actually, we use cane sugar in a number of our other brands in the US portfolio from lemonades to teas, some of the coffee stuff, some of the Vitamin Water drinks. So, it's blended into some of our other products. And so, we are definitely looking to use the whole toolbox, the whole toolkit of available sweetening options to some extent where there are consumer preferences.

So, we will continue to do that. And as we experiment, yes, with fiber – I think you're referring to the Coke with fiber in Japan. And so, that's been an interesting option, and we collected some valuable learnings for it. So, we just continue to focus on trying things, understanding it takes a long time to build a new franchise with consumers. But you got to try things, and we know our success rate is substantially above the industry. But it's still a question of it takes time and commitment to build something new.

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

Peter Grom
Analyst, UBS Securities LLC

Q

Thanks, operator, and good morning, everyone. James, I wanted to ask a follow-up question on fairlife. And just in your response to Dara's question, you talked about fairlife growth has kind of moderated sequentially and you expect it to moderate further in the back half of the year. I'm assuming that's simply related to the capacity constraints you mentioned and that your outlook or expectations for category growth or the competitive environment haven't shifted. So, maybe just confirming that. And then, just on that last point, I think it will be helpful to get some perspective on the competitive environment and then how you see that evolving in the back half of the year and into 2026. Thanks.

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

A

So, yes, I can confirm the moderation we're expecting is the law of big numbers and the capacity constraint rather than a weakening of the proposition relative to the competition. Now, we're still very excited about the opportunity for fairlife and Core Power and the fairlife Nutrition Plan. I have no doubt in my mind that if we had more capacity, we could sell more product today, tomorrow and going into the rest of the year. So, it really is a capacity – a narrowing of the bottleneck that we're experiencing.

Of course, as it gets bigger and bigger and bigger, the percentages will come down even if the absolutes continue to be big in growth terms. And yes, it's not surprising that when our competitors and other people see the standout growth and success of a product like fairlife or Core Power, they will naturally seek to see if they can launch. And that's the nature of the industry, and it keeps us all on our toes to know the competition is always trying to catch us up. And so, we'll be very focused on doing the best of fairlife, not just on the marketing, but on the execution, and then of course, increasingly, as we have new capacity with new innovations and new thinking on where we can take the fairlife brand and the Core Power brand. But exciting times ahead.

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

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Hey, guys. Good morning. Thanks for taking the question. It seems like we've gone the whole call without actually talking about Europe. So, wanted to ask there. James, it seems like as we get into the back half, EMEA is probably going to be driving the bus a bit from a unit case perspective. So, just wanted to get your perspectives on how the consumer there is going to be held up better relative to other developed markets and how you see the second half playing out across EMEA. Thanks very much.

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

A

Yeah. So, you interchanged Europe and EMEA. So, I'll kind of break that down. Europe certainly did better in the second quarter. It had positive volume growth and had price/mix, a pretty balanced growth across the different aspects, and both East and West contributing to the growth. And so, I think it's still worth saying that Europe is a bit like the US in the sense that there's a pretty resilient consumer overall in aggregate. But at the lower end of the income spectrum, we do see a lot of value-seeking and affordability behavior. So, we're having to double down on that. We had – and within that, we had a great quarter in terms of Coke Zero Sugar and Sprite and Fuze Tea. And I think there were some really good programs on Fanta as well. So, Europe overall, a great start.

As it relates to other bits of EMEA, overall, we gained value in EMEA. Africa grew volumes despite cycling some pretty tough comps, and obviously, the macros can be pretty dynamic in Africa. But good, strong performance across Africa. And then, in Eurasia, we've been leaning into the localness of the business, and that part of the world was also able to grow volume. So, actually, a good performance across the main components of the EMEA group, and I think in Africa and EMEA, it was driven by Coke and flavors and some great execution by the system.

Operator: Our next question comes from Michael Lavery from Piper Sandler. Please go ahead. Your line is open.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Thank you. Good morning. Just wanted to switch maybe a little bit longer term question on coffee. You've obviously got brands like Georgia and Costa that are strong in certain markets. But globally, it's a big attractive category. I guess maybe just would love to hear some of what you're learning as you reflect on your strategy there and what it might take to win and how does your participation in the category might evolve over time.

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

A

Yeah. Thanks, Michael. Yeah, Costa, I think that counts as – if we're going to count Georgia as one attempt, Costa would count as our fourth attempt in coffee, because we've got Georgia, Costa, we tried with an investment in Keurig, and there was something in the 1960s called Duncan coffee. So, we totally recognize what you're pointing out, which is that coffee is a large, fragmented, growing category in the total beverage industry. So, it's clearly attractive if we and the bottling system can find ways to participate more deeply in that category.

Now, having said that, our investment in Costa is not where we wanted it to be from an investment hypothesis point of view. I mean, the business is still a good business. But it's not quite delivered on the different verticals of growth that we were hoping to accelerate much quicker, the ready-to-drink coffee, the Express machines at home, and therefore, the business remains more weighted towards stores. And in the stores, we've been driving the affordability and actually doing a good job on refreshing the stores and driving the speed of service.

But still, the investment hypothesis as originally intended has not played out despite the improvement in the store business. So, I think I would say we're in the mode of reflecting on what we've learnt, thinking about how we might want to find new avenues to grow in the coffee category, while continuing to run the Costa business successfully, because it's still a lot of money we put down and we want that money to work as hard as possible.

Operator: Our next question comes from Carlos Laboy from HSBC. Please go ahead. Your line is open.

Carlos Laboy
Analyst, HSBC Securities (USA), Inc.

Q

Yes. Good morning. This question may be perhaps for John. John, for years, we've heard you talk about wanting to refranchise for the purpose of focusing more on creating demand. With most of this refranchising done now, how is the focus and capability of creating demand, of recruiting the consumers intensifying?

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

A

Thanks, Carlos. First, maybe just a comment on the refranchising. So, we still got a couple of big chunks to go. And yet, we are – as we've discussed in the past, we're very focused on getting those over the line as quickly as is feasible. And adjacent to that and it's – I think it's been a feature of the last few years, is this underlying emphasis on driving top line growth through a increasingly strong – stronger growth portfolio of brands.

We have 30 billion-dollar brands in our portfolio today, about half of them organic, the other half inorganic. There's a lot of runway left on those brands. And the marketing and innovation transformation that we have also discussed in prior meetings is still – there's still a tremendous amount to do there. So, we expect to double down even more on both the existing portfolio that we have, and then through the innovation lens to either continue to develop either organically or stay opportunistic on the inorganic front. That's part one.

Part two is, I think, the relationship that we have with our bottling partners around the world has evolved significantly in the past few years with even greater clarity on what we expect from each other, and as a result, stronger partnerships that leads to overall better execution. With a scaled business, the daily execution piece requires both of us to be at our best, and a sort of a net-net outcome of the refranchising that you just asked about is that it allows us to do so and it allows us to have the franchises in the hands of partners who are equally committed to raising the bar.

Operator: Our last question today will come from Robert Moskow from TD Cowen. Please go ahead. Your line is open.

Robert Moskow
Analyst, TD Cowen

Q

Hi. Thank you for the question. John, I just wanted to get a sense of your level of conviction that concentrate volume returns to positive territory in the back half of the year. There appear to have been some transitory elements negatively impacting 2Q and also a tough comp. And then secondly, just in terms of phasing, it would appear that fourth quarter has a tough comp in terms of concentrate volume. Am I looking at that correctly and is there anything that you can add to that? Thanks.

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

A

Sure. So, yeah, so we – our guidance for the full year reflects a confidence that we will have positive volume growth in the second half of the year. I think, of the two quarters, Q3, we're certainly cycling a more modest prior year. I think rather than be overly focused on the prior year, I think our ability to influence the next six months is what's most important.

And if you look at Q2 and you take away a couple of the – I would call them anomalies in some of the key markets, there's still pretty good underlying momentum in the business. We have the opportunity, on the back of a stronger-than-expected first half on the profit front, to have more optionality on how we continue to invest some of the – some of our efficiencies, which we plan to do so. So, we've got a robust second half on the investment front. Underlying trends in general are good, and a couple of the outliers that have been a headwind in recent months, we are comfortable that they can get back on track. Okay.

Operator: Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the call back over to James Quincey for any closing remarks.

James Quincey

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

Thank you, operator. So, to summarize, we believe we're well-positioned to deliver on our updated 2025 ambitions and guidance. We're continuing to build our systems to drive long-term growth, and we're confident we will continue to create enduring value for our stakeholders. Thank you for your interest, your investment in our company, and for joining us this morning. Thank you.

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