



The Coca-Cola Company

Equity Research Report

FIN 4327
Student Managed Investment Fund I

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I. Executive Summary

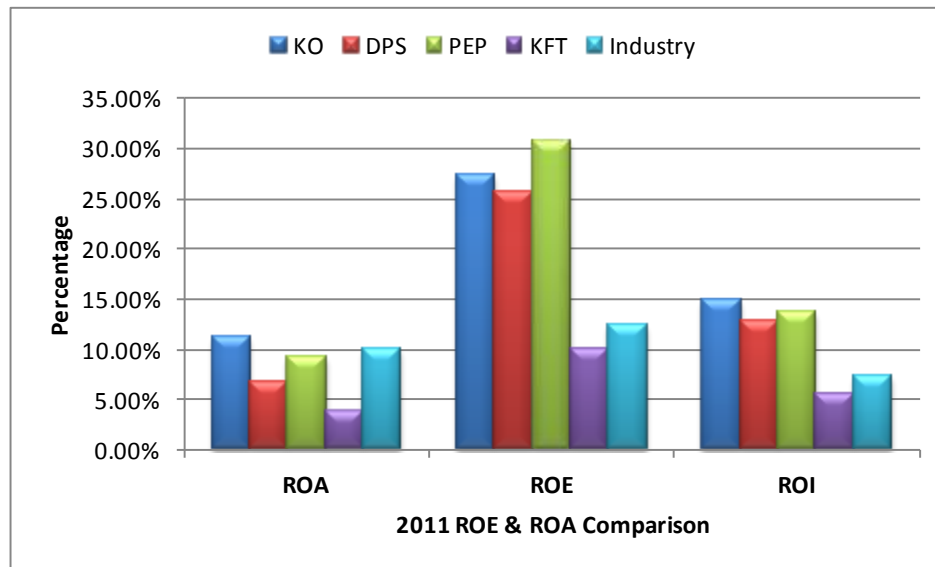
The Coca-Cola Company is the world's leading manufacturer, distributor, and marketer of nonalcoholic beverage concentrates and syrups. With more than 500 brands in its extensive portfolio, which includes carbonated soft drinks, water, juice drinks, tea, and energy drinks, the Company commands more than half of global nonalcoholic beverage consumption, operating in more than 200 countries and employing 139,600 people. The Company earns revenue through selling, producing, licensing, and distributing concentrates and sparkling or still beverages to bottling partners, retailers, wholesalers, and distributors.

Coca-Cola's global footprint is evidenced in growing unit case sales volume in emerging economies and other international markets. In 2011, 80% of worldwide unit case volume accounted for sales in foreign countries, where most of the Company's revenue is generated. 30% of these sales were generated from operations in Mexico, China, India, Brazil, and Japan.

Recently, the Company has acquired Coca-Cola Enterprise, Inc.'s (CCE) North American business as a move to realize operational synergies, improve efficiency, and reduce operating costs. The Company has also formed contractual agreements with Dr Pepper (DPS), allowing Coca-Cola to distribute certain DPS brands previously distributed by CCE before acquisition. Furthermore, Coca-Cola has launched billion-dollar investment programs in high-growth international markets such as India, Russia, China, Mexico, and Thailand. These investments show the Company's commitment to these emerging economies, and also indicate a generally positive outlook in the nonalcoholic beverage industry worldwide.

An in-depth industry analysis reveals that Coca-Cola faces increased competition from established companies such as PepsiCo (PEP) and Dr Pepper Snapple Group (DPS). Although, Coca-Cola holds the number one position in the industry, other threats such as substitute products, growing public concern regarding health issues, and government regulation can impact the Company's long-term performance. Nevertheless, Coca-Cola can still capitalize on its strong brand equity and opportunities in international markets to further grow earnings.

Analysis of Coca-Cola's financial statements reveals strong fundamentals, high margins, and profitability as measured by return on equity (ROE) and return on assets (ROA). In 2011, the Company has outperformed the industry as well as top competitors in these metrics. Coca-Cola has also consistently improved its overall asset efficiency, liquidity, and revenue growth. For instance, total revenue last year increased to 32.53% compared to 13.32% in 2010. The following graph shows Coca-Cola's financial performance for the year 2011:



After examining the Company's fundamentals, KO's intrinsic value has been determined using relative valuation. Due to the low interest rate environment, the Gordon Growth Model is not ideal to calculate the real stock value. Instead, projected share prices using P/E, P/CF, and P/S approaches are averaged to arrive at a conservative estimate of the stock's intrinsic worth.

Estimates	
Sales Growth	10.50%
Cash Flow Growth	9.00%
Earnings Growth	10.00%

Projected Share Prices	
P/E Approach	\$75.81
P/CF Approach	\$74.56
P/S Approach	\$87.19
AVERAGE	\$79.19

Market Price (as of 4/17/12) \$72.40

At KO's current market price, the stock is undervalued compared to its calculated intrinsic value, indicating a good buy opportunity. Meanwhile, technical indicators show an upward trend in price movement in the medium term, while revealing that the stock may be overbought at current conditions.

In conclusion, KO is a good buy at a target price of \$79.19. This stock is a good long-term investment, offering growth opportunities driven by increasing sales in international markets.

II. Company Overview

The Coca-Cola Company is the world's leading manufacturer, distributor and marketer of non-alcoholic beverage concentrates and syrups¹. With more than 500 brands in its extensive portfolio, which includes carbonated soft drinks, water, juice drinks, tea, and energy drinks, the Company commands more than half of global nonalcoholic beverage consumption, operating in more than 200 countries and employing 139,600 people. The Company earns revenue through selling, producing, licensing, and distributing concentrates and sparkling or still beverages to bottling partners, retailers, wholesalers, and distributors.

Coca-Cola's business is mainly divided into two product operating segments: concentrate operations and finished product operations. The concentrate business segment is responsible for selling beverage concentrates and syrups to bottling partners, who then in turn mix these concentrates with still or sparkling water, and sell the finished products to customers. The finished product segment, on the other hand, is responsible for production, sales, and distribution of finished products (still and sparkling beverages) to wholesalers, retailers, and other customers. In this segment, Coca-Cola's company-owned or controlled bottling partners execute these operations². The following diagram explains the relationship of Coca-Cola's business segments and distribution network:

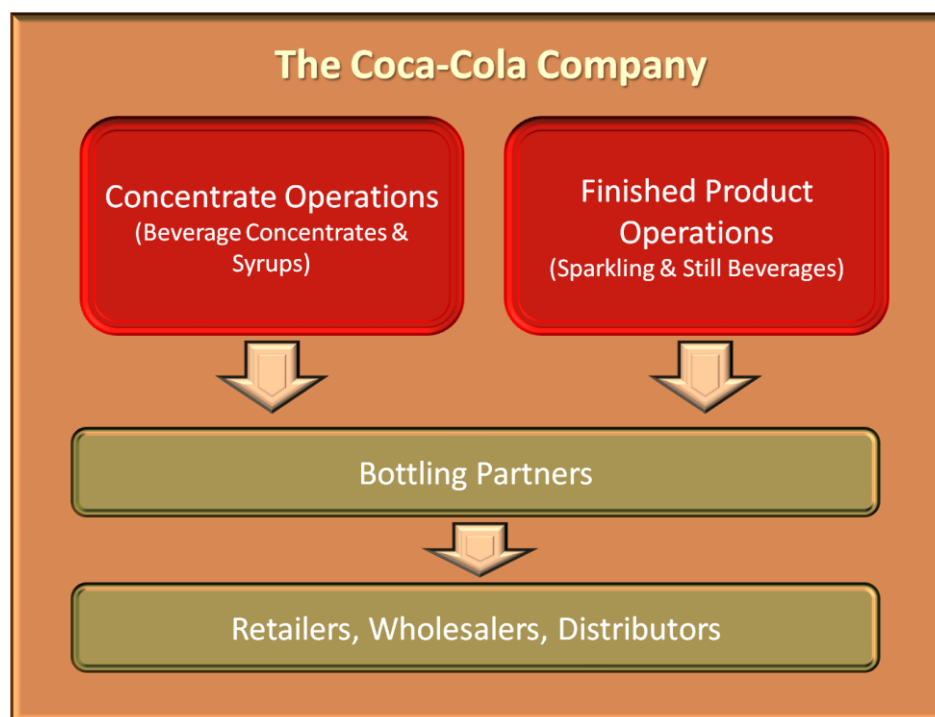


Figure 1: Coca-Cola's Operating Segments

¹ Data Monitor Ebsco Report.

² The Coca-Cola Company 2011 Annual Report.

The Company's extensive product portfolio includes famous brands such as the classic Coca-Cola, Diet Coke, Cherry Coke, Coke Zero, Sprite, Diet Sprite, Fanta, Minute Maid, Powerade, Aquarius, Dasani, Vitaminwater, Glaceau, Nestea, Fuze, Odwalla, Pibb Xtra, Mello Yello, Tab, Fresca



and Barq's sparkling beverages, Sokenbicha, Ciel, Bonaqa/Bonaqua, Georgia Coffee, Lift, Thums Up, Kinley, Eight O'Clock, Qoo, Mother, Vault, NOS, Full Throttle and other country-specific products. In other countries, Coca-Cola's products also include Schweppes, Canada Dry, Dr Pepper and Crush.

It is estimated that the Company sells 1.7 billion servings of finished product beverages worldwide on any given day³. In 2011, Coca-Cola sold 26.7 billion unit cases of finished products, up from 25.5 billion in 2010. The following graphs show contribution of concentrate and finished product segments to the Company's total operating revenue and worldwide unit case volume:

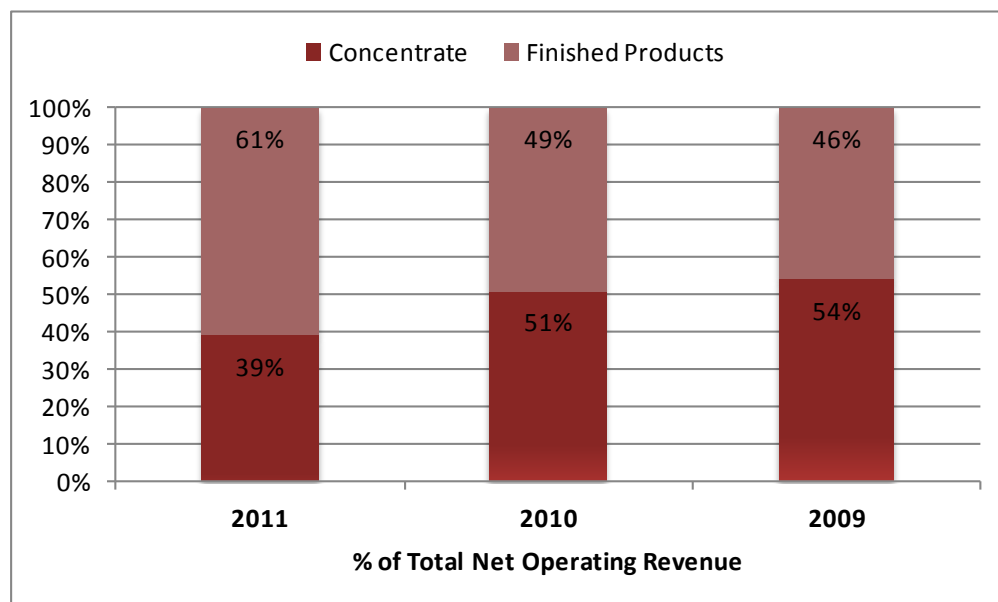


Figure 2: Business Segment Contribution as a Percentage of Total Net Operating Revenue

³ The Coca-Cola Company 2011 Annual Report.

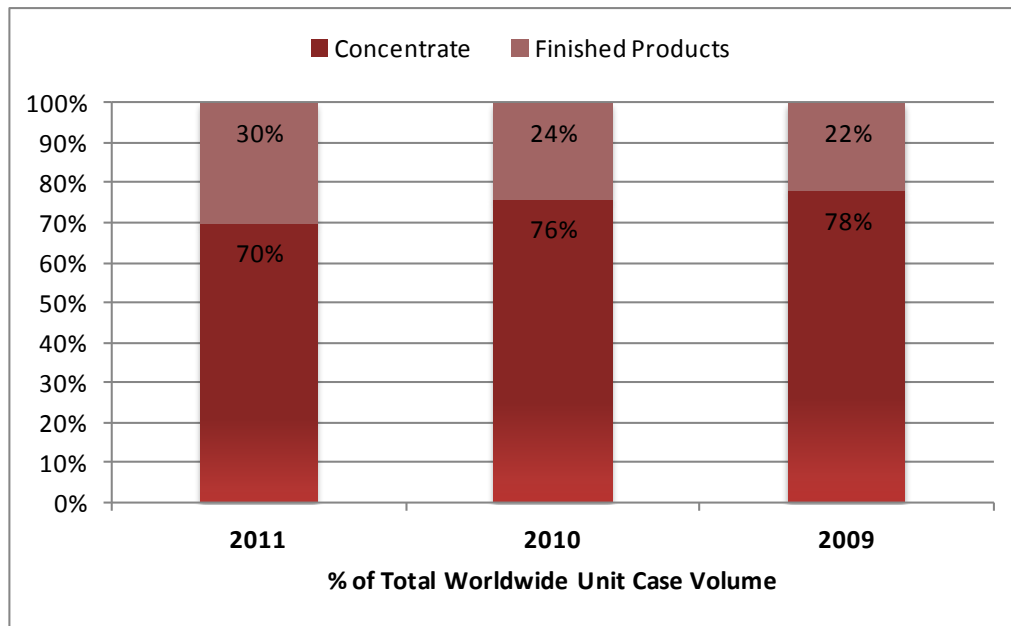


Figure 3: Business Segment Contribution as a Percentage of Total Worldwide Unit Case Volume

The following table shows a snapshot of the Company's key financial data:

2011 Company Details	
Market Cap (Million)	\$167,360.00
52 Wk. Price Range	\$63.34-\$74.48
Outstanding Shares (Million)	2,323
EPS	\$3.69
P/E Ratio	18.8
Beta	0.54
No. of Full Time Employees	139,600

Table 1: 2011 Financial Snapshot of Coca-Cola

The next graph illustrates Coca-Cola's net profit margin and earnings per share over a five-year period. Earnings have been steadily increasing since 2008, also showing that the Company was not significantly affected by the economic recession. Revenue growth has also been impressive, especially last year, when sales grew 32.53%. This percentage was mainly driven by growing per capita consumption of nonalcoholic beverage in foreign markets.

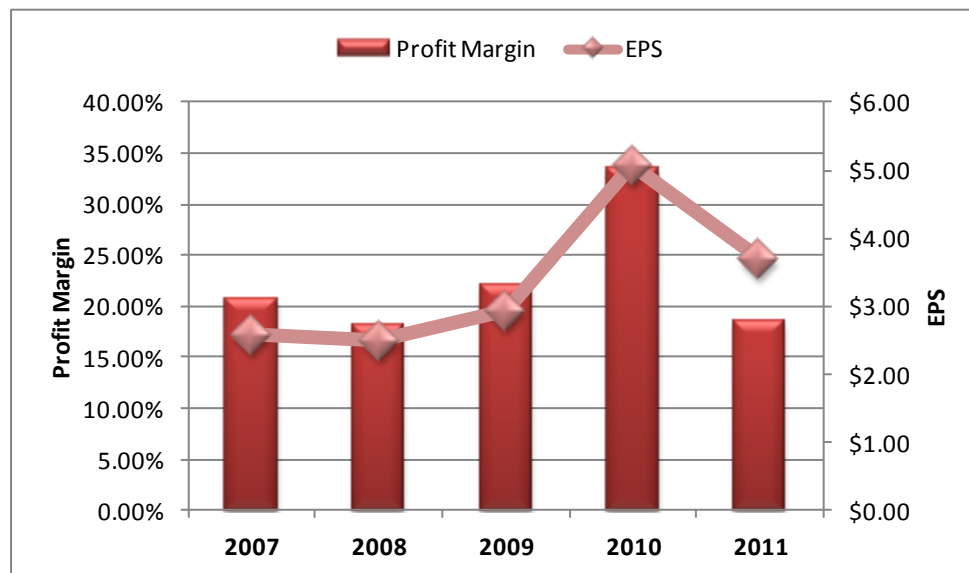


Figure 4: Coca-Cola's Five-Year Profit Margin and EPS

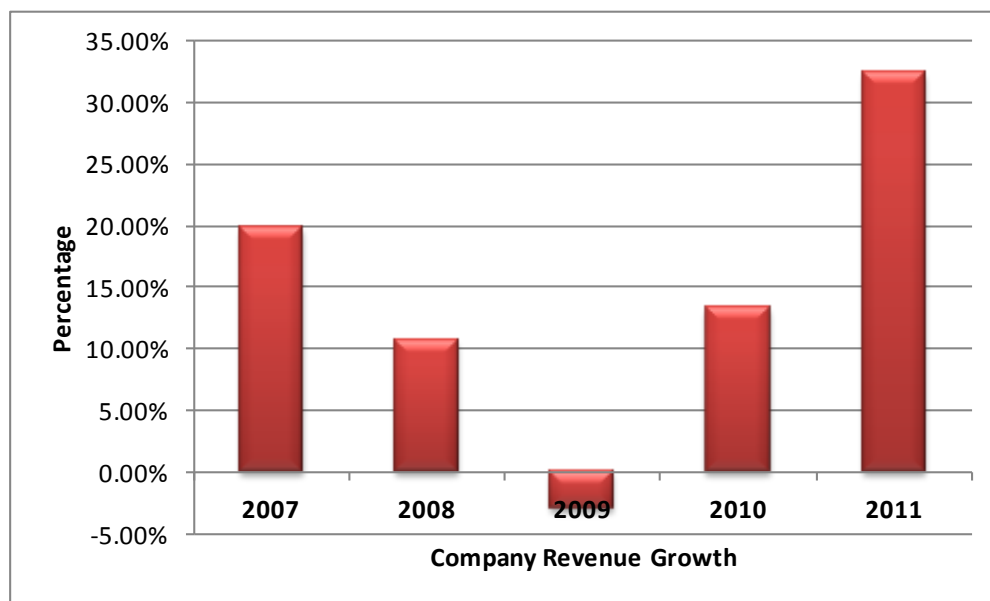


Figure 5: Coca-Cola's Five-Year Revenue Growth

Recent News on The Coca-Cola Company

Coca-Cola Profit Tops Analysts' Estimates as U.S. Gains. April 17, 2012. "Coca-Cola Co. (KO), the world's largest soft-drink maker, reported first-quarter profit that topped analysts' estimates, helped by pricing increases and demand in North America. Net income rose 7.9

percent to \$2.05 billion, or 89 cents a share, from \$1.9 billion, or 82 cents, a year earlier, Atlanta-based Coca-Cola said today in a statement. Analysts projected 87 cents, the average of 14 estimates compiled by Bloomberg. Chief Executive Officer Muhtar Kent has introduced smaller package sizes to attract price-conscious consumers as part of an effort to spur sales in North America, where the soft drink industry is in a seven-year decline. Beverage sales volume for the unit climbed 2 percent in the quarter, driven by demand for Powerade energy drinks and Dasani water, contributing to a 5 percent gain globally.”⁴

Coca-Cola Climbs to #4 on FORTUNE's 'Most Admired Companies' List. March 1, 2012. “The Coca-Cola Company continues to climb *FORTUNE's* annual ranking of the World's 50 Most Admired Companies, advancing two spots to No. 4 on the overall 2012 list and topping the magazine's beverage industry ranking for the third straight year. The company has gradually moved up in what is widely considered to be the definitive report card on corporate reputations, climbing 20 slots in the last five years. For the 50 Most Admired Companies overall, *FORTUNE's* survey asked businesspeople to vote for the companies they admired most, from any industry. Companies were rated in several key areas, including: innovation, people management, use of corporate assets, social responsibility, quality of management, financial soundness, long-term investment, quality of products/services, and global competitiveness.”⁵

Coca-Cola Continues Strong Investment in China with Opening of 42nd Bottling Facility. March 29, 2012. “Muhtar Kent, Chairman and CEO of The Coca-Cola Company, today inaugurated the opening of Coca-Cola China's 42nd bottling plant located in Yingkou, Liaoning, the largest Coca-Cola production facility in China. Spanning an area of more than 170,000 square meters (42 acres), the plant represents a US\$160 million (RMB 1 billion) investment in China and is part of a three-year, US \$4 billion investment plan announced last year that underscores the Coca-Cola system's confidence in China and its fast-growing beverage market. Upon completion, this third bottling plant in Liaoning, operated by Coca-Cola Liaoning (Central) Beverages Co. Ltd., is expected to reach an annual production capacity of more than 5 billion servings of sparkling and still beverages, including Coca-Cola, Sprite, Minute Maid and Ice Dew. Coca-Cola plans to invest in nine production lines at the new facility, with four currently in operation. The plant will directly create 500 jobs and generate an additional 5,000 job opportunities in the supporting industries. Together with two other existing plants in Shenyang and Dalian, this new investment will allow Coca-Cola to provide better services and refreshing products that quench the thirst of 44 million consumers in Liaoning Province and enhance its contribution to local development.”⁶

⁴ <http://www.bloomberg.com/news/2012-04-17/coca-cola-profit-tops-analysts-estimates-as-u-s-gains.html>

⁵ Datamonitor EBSCO Report.

⁶ *Ibid.*

III. Industry Analysis



Market Performance

Coke is the world's #1 nonalcoholic beverage company. The Coca-Cola Company (TCCC) owns four of the top five soft drink brands (Coca-Cola, Diet Coke, Fanta, and Sprite). Its other top brands include Minute Maid, Powerade, and Dasani water.⁷

BRAND	COMPANY	— MARKET SHARE (%) —			— SALES (MIL. CASES) —		
		2009	2010	CHG.	2009	2010	% CHG.
1. Coke	Coke	17.0	17.0	0.0	1,508	1,500	(0.5)
2. Diet Coke	Coke	9.9	9.9	0.0	936	927	(1.0)
3. Pepsi-Cola	Pepsi	9.9	9.5	(0.4)	936	892	(4.8)
4. Mt. Dew	Pepsi	6.7	6.8	0.1	630	633	0.5
5. Dr Pepper	DPS	6.1	6.3	0.2	576	592	2.8
6. Sprite	Coke	5.5	5.6	0.1	515	526	2.0
7. Diet Pepsi	Pepsi	5.6	5.3	(0.3)	526	498	(5.2)
8. Diet Mt. Dew	Pepsi	1.9	2.0	0.1	177	188	5.8
9. Diet Dr Pepper	DPS	1.8	1.9	0.1	165	175	5.8
10. Fanta	Coke	1.8	1.8	0.0	169	171	1.0

Source: Beverage Digest.

Table 2: 2010 Top 10 Carbonated Soft Drink Brands

Source: Hoover's Company Report

The nonalcoholic beverage industry is dominated by a few massive brands (KO, DPS, PEP make up approximately 88% of the US market), and Coca-Cola currently holds the largest market share. Table 3 shows that although TCCC's market share decreased by 0.2% to 34.6%, Coca-Cola holds a still relatively commanding ~2% lead. TCCC has been a market leader for years, which makes it hard for competitors to eat away at its market position. For instance, DPS (Dr. Pepper/Snapple) is not big enough to compete on this scale nor does it have as much brand

⁷ Hoover's Company Report (pg 6).

loyalty. PEP (PepsiCo) had been performing well, but recently, its market share has decreased. PEP's poor performance can be attributed to CEO Nooybi's altered focus and company strategy, which has not really contributed to improved operating and financial performance.

**TAKE-HOME CARBONATED SOFT DRINK
MARKET SHARES—2010**

BRAND	MARKET SHARE (%)	SHARE CHANGE	VOLUME CHANGE (%)
Coca-Cola Co.	34.6	(0.2)	(4.8)
PepsiCo	32.9	(0.6)	(6.0)
Dr. Pepper Snapple	20.0	0.5	(1.9)
Private labels	8.8	0.3	(0.9)
All others	3.7	0.0	NA

NA-Not available.
Source: Beverage Digest.

Table 3: 2010 Carbonated Soft Drink Brands Market Share
Source: Hoover's Company Report

“According to Beverage Marketing Corp., an industry consultant, the US liquid refreshment beverage market rebounded in 2010, rising 1.2% to 29.3 billion gallons, after falling 2.8% and 2.1% in 2009 and 2008, respectively. Only a few key segments comprise the vast majority of the market. Carbonated soft drinks account for close to half the market and bottled water about 30%. Sports drinks advanced 9.4% on a turnaround in the Gatorade brands and continued strong performance from Powerade. Bottled water also recovered, increasing 3.5%, and value-added water rose 0.2%.”⁸ These figures convey a strong recovery for the Soft Drink Industry as well as future growth, while also displaying that Coke is still ahead of its competitors.



Another noteworthy point is the increase of bottled water as well sports drinks sales. This change is quite helpful to TCCC's other products such as Dasani (water) and Powerade (sports drinks).

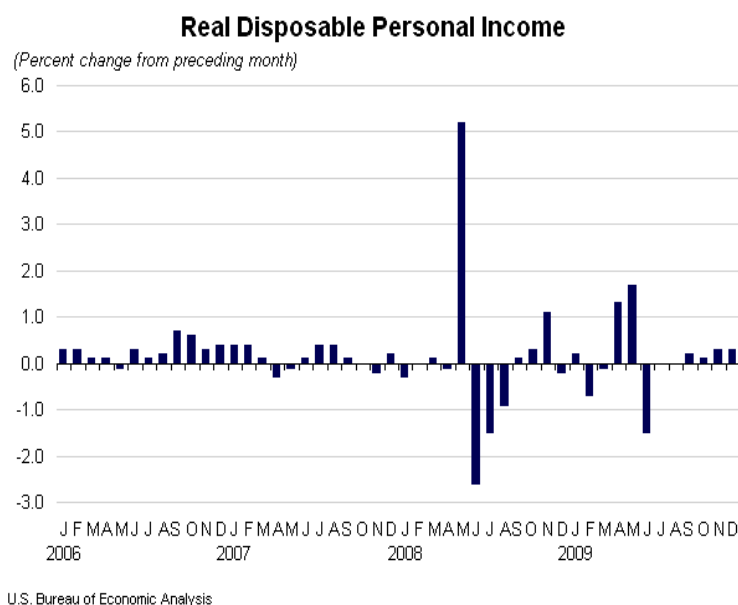
In recent years there has been a trend developing within the food and beverage industry. More healthy substitutes are being offered that promise to deliver supplemental vitamins and nutrients, and contain little to no calories. In response to this trend, we see major food

⁸ Industry Survey, Food & Nonalcoholic Beverages, Dec. 8, 2011.

companies refocusing and developing their best product lines. In some cases, companies resort to acquisition as a strategy to gain foothold in the healthy beverage market. This trend also puts pressure on top nonalcoholic beverage companies, which results to heightened competition. For instance, DPS offers the healthy option of Mott's juices as well as bottled waters. DPS also has the energy drink Venom and diet/low calorie sodas. PEP also has many different options such as AMP (an energy drink), a plethora of diet sodas, low calorie teas, flavored waters, and juices. KO has followed the same trend, and is now offering an array of different teas, waters, diet sodas, energy drinks in order to satisfy consumer needs. In 2007, KO acquired Glacéau as part of its corporate strategy, and added Smart Water and Vitaminwater to their portfolio.

Economic Factors

According to the Industry Survey, food and beverage companies are likely to face some pressure from higher commodity costs in 2012, but less than what was anticipated in 2011. "When faced with higher commodity costs, manufacturers have a variety of choices. For example, they can try to pass on the costs by raising the prices they charge for their finished products."⁹ Coke and Pepsi both bypassed this process by going out and purchasing their respective bottling and manufacturing companies, a very efficient move considering the economic landscape.



TCCC is generally accepted as a mature company, which has a wide array of products that dominates the US market. The Company's market position allows Coca-Cola to leverage its resources to grow organically. However, the US nonalcoholic beverage market is reaching saturation, with gloomier prospects in the future due to an aging population and unemployment which is predicted to hover around 8.3% at least through the end of April. Another issue facing not just the industry but the economy as a whole would be

disposable income, which as can be seen inset to the left (pulled from the US Bureau of Economic Analysis). Removing the clear and apparent outliers, this graph shows that RDPI rarely changes above or below 1%. In real world terms this translates into less money available to spend on goods and services, i.e. brand name soda.

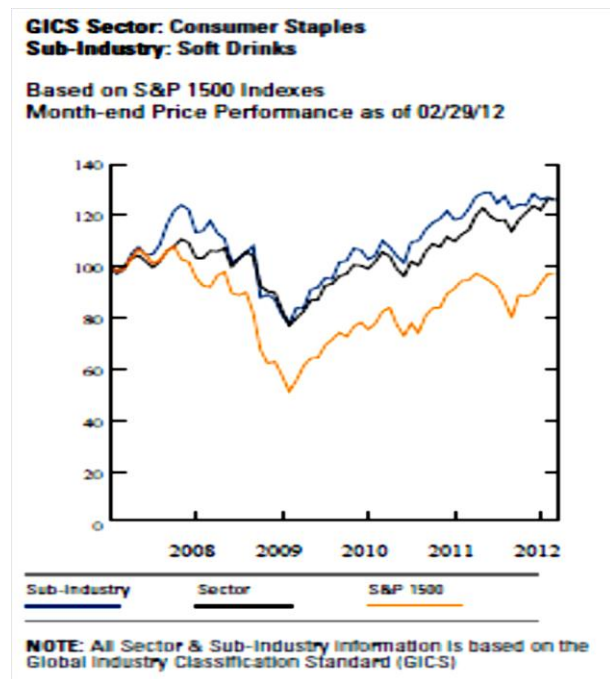
⁹ Industry Survey, Food & Nonalcoholic Beverages/ Dec. 8, 2011

Future Growth

So, where will future sales growth come from? The answer is international markets, particularly emerging economies. The BRIC countries (Brazil, Russia, India, China) offer good long-term opportunities for higher sales and profits. “Besides merger and acquisition deals (ex: Pepsi acquiring Russian company Wimm-Bill-Dann Foods), bigger players are also planning large investments in emerging markets such as India and China. Coca-Cola, for instance, has plans to invest over \$4 billion in China over the next three years. The company aims at doubling its revenues by 2020 and the Chinese market will play a major role in this expansion. The total investment of Coca-Cola will reach around \$7 billion for the period from 2009 to 2014, including the investments made in China. The company has been able to double its sales in China in the five years from 2006 to 2011. At the present time, Coca-Cola and its bottlers operate 41 plants in China. Similarly, in 2009, PepsiCo announced a \$200 million three-year investment plan for India. The company finds great potential in the Indian market, as demonstrated in its third-quarter results, which showed, in India, 19% volume growth in beverages and 26% volume growth in snacks.”¹⁰

Sub-Industry: Soft Drinks

Since the heart and soul of TCCC is soft drinks, it is imperative to examine the soft drink sub-industry. According to S & P, the outlook for this sub industry is neutral.



Looking at the inset chart, however, shows a different trend. For the past four years, the soft drink industry has outperformed not just the sector but also the S&P 500. This sub-industry will likely continue to outperform the market.

“Overall, we think domestic non-alcoholic unit sales volume growth will improve on increased advertising and promotional spending and new product launches... while we think near-term results will be affected by sluggishness in Europe, we believe long-term prospects remain bright for U.S. beverage companies in foreign markets, where we see significant opportunities for consumption growth in developing and emerging regions.”¹¹

¹⁰ Industry Survey, Food & Nonalcoholic Beverages/ Dec. 8, 2011

¹¹ S&P Stock Report

Analysis of Competitive Forces

Rivalry

TCCC (as seen in Table 3) has one major rival PepsiCo and one growing, but still relatively small rival in Dr.Pepper/Snapple (\$8.5B market cap compared to KO's \$166B market cap). Kraft Foods Inc. is also another competitor that manufactures and distributes nonalcoholic beverage in the US and foreign markets. Although TCCC currently faces tough competition in the industry, the Company has still managed to hold its leadership position due to its strong brand equity, consumer loyalty, top products, and exceptional marketing strategies. The Company's economies of scale as well as diversified geographic operations also add to TCCC's "economic moat," a term coined by investor Warren Buffett referring to a company's competitive advantage.



Threat of New Entrants

Although creating soda is not hard science, the soft drink business is still a very difficult industry to enter as it is dominated by established multinational companies that have adequate resources and distribution network, which facilitate the manufacture, production, and sales of beverage products. Brand loyalty among consumers also plays a large role in marketing new and classic drinks. Thus, the threat of new entrants to this industry is minimal and will not have a significant impact on TCCC's market share anytime soon. If there is, however, a fast growing company with a highly profitable and successful product line, TCCC will more than likely acquire this company to eliminate competition similar to the Company's acquisition of Energy Brands, Inc (Glacéau) in May 2007.

Threat of Substitute Products

If TCCC were a much smaller company or did not have such a large array of different products, this could be a potential pitfall; however, that is not the case. TCCC's portfolio includes other drinks aside from traditional carbonated sodas, giving the Company the product diversification it needs to compete with other companies and keep up with developing trends in the nonalcoholic beverage industry.

Bargaining Power of Buyers

Since TCCC has such a loyal following, changes in prices of its products is less likely to affect people's preference and spending habits compared to consumers of other competitors. This characteristic is one of the Company's competitive advantages, which has lent itself useful during times of tough competition and price pressure. Also, because TCCC has a comprehensive

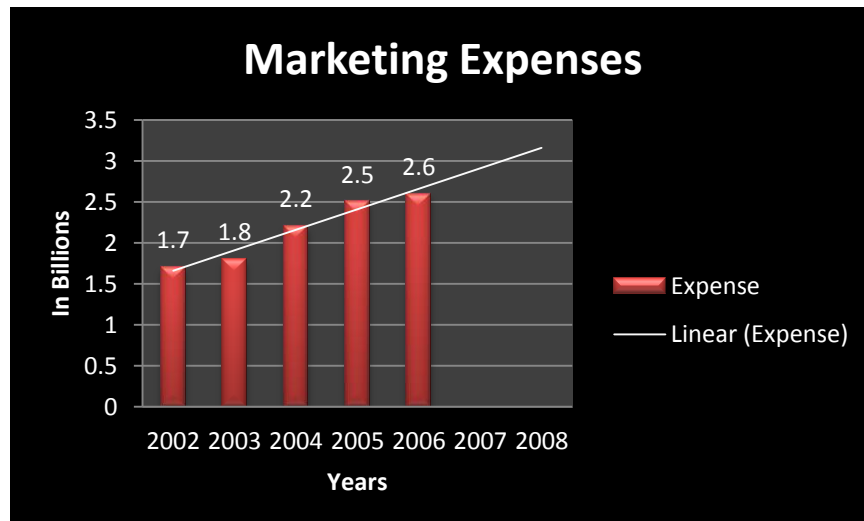
portfolio of brands and products worldwide, it is difficult to discern (from the consumer's point of view) which beverages are actually manufactured, sold, or distributed by TCCC. Should a price increase occur, a complete boycott of TCCC's products would be less likely to happen.

Bargaining Power of Suppliers

In 2007, TCCC had a rough time with union battles as one of its major bottling companies, Coca-Cola Enterprises, had to lay off workers due to rising input costs, and reduce operating and labor expenses. Aside from managing relationships with its bottling partners and labor unions, TCCC also has to deal with suppliers of raw materials such as water, additives, sweeteners, aluminum, and energy. Increase in input prices can significantly affect TCCC's bottom line. However, although suppliers can influence TCCC's prices, the Company can mitigate the impact by employing strategies such as acquisition to improve operating efficiencies and create synergies. For instance, TCCC has acquired Coca-Cola Enterprises, Inc's North American business in 2011 to "provide opportunities to cut costs as well as improve operations."¹² CCE is one of the major bottlers in the Coca-Cola distribution system.

Analysis of Management Strategies

"KO's strategy is to utilize its brands, distribution system and financial strength to achieve long-term sustainable growth."¹³ This, in a nutshell is exactly what KO's current plan is. They are continuing to acquire new brands as they expand and grow larger in order to capitalize on the rapid growth of the still beverage market, marked by the purchase of Energy Brands or



better known as the makers of "Vitamin Waters". In America, TCCC acquired Coca-Cola Enterprises in order to strengthen their distribution system as well as to offset increasing manufacturing costs. The Company also plans to continue spending on marketing programs. The chart on the left displays TCCC's advertising expenses from 2002-2008, which has constantly

increased every single year. This type of marketing campaign combined with top notch products is why Coke has such a loyal brand following, something that is important for the company to follow through.

¹² Industry Survey, Food & Nonalcoholic Beverages/ Dec. 8, 2011

¹³ S&P 500 Stock Report

In his statement to shareholder CEO/Chairman Muhtar Kent touched upon what he felt were important issues: strong partnerships with bottling companies, continued growth and development of brand names, global expansion and restoration of North American growth.



1. Partnerships

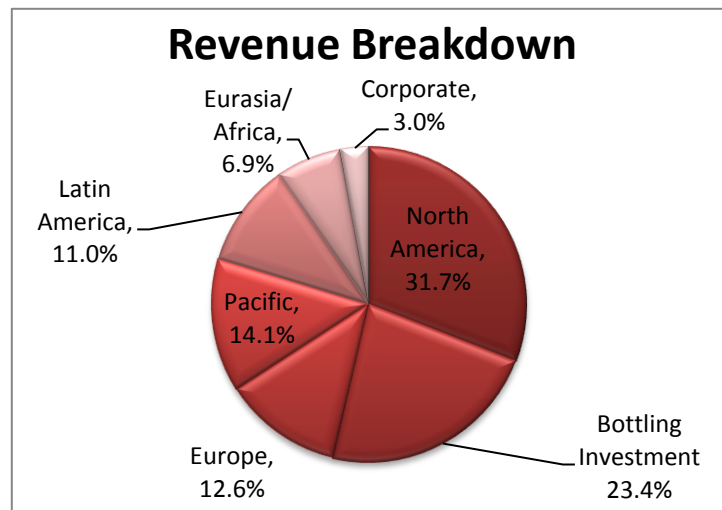
- “Working with our nearly 300 bottling partners, we added more than 1 billion incremental unit cases of volume to our business in 2010. Our unit case volume grew 5 percent, and we exceeded our long-term growth target for unit case volume and operating income.”¹⁴

2. Brand Growth

- “Trademark Coca-Cola, the lifeblood of our business, accounted for nearly 400 million unit cases of incremental volume, the largest incremental growth we have seen since 2007. In addition, Minute Maid Pulpy, a juice drink that was developed just five years ago in China, grew into our 14th brand to achieve annual retail sales of more than \$1 billion.”¹⁵

3. Global Expansion

- “In 2010, we gained volume and value market share globally, as well as in both our North America and International operations.”¹⁶ Statistics show this to be true as growth has taken place in every major region that Coca-Cola has entered. Eurasia & Africa is the fastest growing region yielding “in 2010, Trademark Coca-Cola volume increased 9 percent and Sprite volume increased 14 percent.”¹⁷ Europe also has shown growth for the trademark Coca-Cola and its offshoots despite many believing that the economic downturn would have a negative effect on the company. Latin American growth is increasing as well, mostly through still beverage products through what Kent calls “two of our biggest growth stars” Del Valle and Leão.



¹⁴ Statement to Shareholders from CEO/Chairman Kent

¹⁵ Statement to Shareholders from CEO/Chairman Kent

¹⁶ Statement to Shareholders from CEO/Chairman Kent

¹⁷ Statement to Shareholders from CEO/Chairman Kent

The *Pacific Group* growth is massive due to the sheer size of the region, and as noted above, Minute Maid Pulpy is now a billion dollar brand, so this region is also doing quite well.

4. North American Restoration

- As the previous chart shows, although there has been a ton of global growth, North America is still the #1 component of TCCC revenues. This is why American restoration is a major plan for Kent and TCCC. Acquiring Coca-Cola Enterprises is a huge part of that strategy because “in 2010, we began executing one of the largest vertical integrations in U.S. history when we announced that The Coca-Cola Company would acquire the entire North American business of Coca-Cola Enterprises Inc. (CCE), which accounted for approximately 75 percent of U.S. bottler-delivered volume and almost 100 percent of Canadian bottler-delivered volume.”¹⁸ TCCC also holds the top two carbonated beverages sold in America (Coke and Diet Coke). In addition, Kent cites census statistics that show “over the next 10 years and beyond, the United States will have some of the world’s most attractive demographics for our business. By 2020, the United States will add about 31 million people, and its teen population will also be around 31 million. Only India and China will have larger teen populations.”¹⁹

IV. Fundamental Analysis

Ratio Analysis

Financial ratio analysis provides an assessment of a company’s overall performance in terms of short-term liquidity, asset management and efficiency, long-term solvency, profitability, and market value. These ratios can be compared on a historical basis to evaluate a company’s performance over time, and can also be used to compare a company relative to its industry and direct competitors. All ratios included in this report were obtained from Morningstar.com and FactSet Data Research.

Liquidity Ratios. These ratios measure the short-term solvency of a company, or how readily it can convert short-term assets into cash, and pay off current liabilities.

Liquidity	2007	2008	2009	2010	2011	Industry
Current Ratio	0.92	0.94	1.28	1.17	1.05	1.71
Quick Ratio	0.75	0.77	1.11	1.02	0.92	1.34
Cash Ratio	0.33	0.38	0.67	0.61	0.58	--
Financial Leverage	1.99	1.98	1.96	2.35	2.53	--

Table 4: Coca-Cola’s Liquidity Ratios over a Five-Year Period

¹⁸ Statement to Shareholders from CEO/Chairman Kent

¹⁹ Statement to Shareholders from CEO/Chairman Kent

Liquidity	KO	DPS	PEP	KFT	Industry
Current Ratio	1.05	0.92	0.96	0.88	1.71
Quick Ratio	0.92	0.67	0.62	0.45	1.34
Financial Leverage	2.53	4.1	3.52	2.66	--

Table 5: Comparison of Liquidity Ratios

- Current ratio measures the proportion of a firm's current assets versus its current liabilities. A ratio over one means that the firm is able to meet its short-term debt obligations on time, while a ratio under one means that the firm may not be in sound financial health, and is unable to cover its debt.

Coca-Cola's current ratio has increased from 0.92 in 2007 to 1.28 in 2009, and declined to 1.05 in 2011. This number is also below the industry mean of 1.71. Compared to the Company's top competitors such as PepsiCo, Dr Pepper, and Kraft, Coca-Cola has a higher current ratio.

- Quick ratio (or acid-test) is also a measurement of short-term liquidity. To compute this number, inventory is subtracted from current assets because it is the least liquid current asset. Doing so decreases the quick ratio compared to current ratio but provides a better picture of the firm's ability to pay off debt since inventory cannot easily be converted to cash.

Coca-Cola underperforms the industry in this aspect, although its ratio is considerably higher than its top competitors'. The Company has also managed to improve this ratio since 2007, although it has declined from a high of 1.11 in 2009.

- Cash ratio is another measurement of short-term liquidity that conservatively determines a company's ability to pay off debt and cover other current liabilities. Two current asset items from the balance sheet (cash and cash equivalents) are used to calculate this ratio.

From 2007, Coca-Cola's cash ratio has substantially increased from 0.33 to 0.67 in 2009, albeit declining to 0.58 in 2011.

Efficiency Ratios. These ratios assess a company's ability to efficiently manage its assets and generate sales. The higher the values of turnover ratios, the more efficient the company is in managing its assets. The lower the values of other ratios such as days of sales outstanding and days in inventory, the faster the company is able to sell its finished goods and collect receivables.

Efficiency	2007	2008	2009	2010	2011	Industry
Days Sales Outstanding	37.34	36.6	40.33	42.55	36.66	--
Days Inventory	67.71	70.71	74.74	71.95	57.53	--
Payables Period	40.5	44.12	45.76	47.4	40.67	--
Cash Conversion Cycle	64.56	63.19	69.31	67.09	53.52	--
Receivables Turnover	9.78	9.97	9.05	8.58	9.96	11.7
Inventory Turnover	5.39	5.16	4.88	5.07	6.34	9.12
Fixed Assets Turnover	3.75	3.8	3.47	2.89	3.14	--
Asset Turnover	0.79	0.76	0.69	0.58	0.61	1.36

Table 6: Coca-Cola's Efficiency Ratios over a Five-Year Period

Efficiency	KO	DPS	PEP	KFT	Industry
Days Sales Outstanding	36.66	35.74	36.32	43.3	--
Days Inventory	57.53	33.49	41.59	56.87	--
Payables Period	40.67	19.46	86.68	56.45	--
Cash Conversion Cycle	53.52	49.77	-8.78	43.73	--
Receivables Turnover	9.96	10.21	10.05	8.43	11.7
Inventory Turnover	6.34	10.9	8.78	6.42	9.12
Fixed Assets Turnover	3.14	5.09	3.43	3.94	--
Asset Turnover	0.61	0.65	0.94	0.57	1.36

Table 7: Comparison of Efficiency Ratios

- Days of sales outstanding (DSO) measures the number of days, on average, that a company takes to collect receivables. A low number indicates that the company is able to collect its revenue quickly, while a high number shows that the company takes longer to collect money for its goods and services. Coca-Cola's days of sales outstanding has considerably improved from 42.55 in 2010 to 36.66 in 2011. However, Dr Pepper and PepsiCo marginally outperform Coca-Cola in this metric.
- Days sales of inventory (DSI) measures how long a company can convert its inventory to sales. A low number is favorable to the company, indicating a fast turnover of inventory goods. Coca-Cola has managed to decrease the days sales of inventory from a high of 74.74 in 2009 to 57.53 in 2011; however, the Company currently underperforms in this metric when compared to top competitors.
- Payables period refers to the length of time a company covers its accounts payable. Similar to DSO and DSI, the lower the number for this metric, the more favorable it is to the company. In 2011, Coca-Cola's payables period has improved from the previous year. The Company also outperforms PepsiCo and Kraft (except Dr Pepper) in this measure.

- Cash Conversion Cycle measures how fast a company can convert its inventory into cash by adding DSI and DSO, and subtracting the payables period. This metric is a significant measure of a company's business process efficiency. Coca-Cola has managed to cut down its cash conversion cycle from a high of 69.31 in 2009 to 53.52 in 2011. However, the Company underperforms its top competitors for this metric.
- Receivables turnover measures how fast a company can collect sales from its customers. This ratio is calculated by dividing net sales with accounts receivable. Coca-Cola has significantly improved this metric in 2011, increasing to 9.96 from a low of 8.58 in the previous year. Compared to top competitors, the Company underperforms in this measure, and is also below the industry median of 11.7.
- Inventory turnover refers to how fast a company's inventory is sold and replaced. The higher the ratio, the more efficient the company is. Coca-Cola has consistently improved in this metric for the last five years. But the Company significantly underperforms its top competitors and the industry as show in the table above.
- Fixed asset turnover measures how efficiently a company can generate sales using its fixed assets. The Company has managed to increase its fixed asset turnover from 2.89 in 2010 to 3.14 in 2011. At the same time, however, Coca-Cola scores low in this metric compared to top competitors.
- Asset turnover is also similar to fixed asset turnover except that the former uses total assets as a denominator. Coca-Cola's asset turnover has declined from a high of 0.79 in 2007 to a low of 0.58 in 2010. In 2011, the Company has managed to increase this ratio to 0.61, showing improvement in performance. However, Coca-Cola underperforms its competitors as well as the industry in this metric.

Profitability Ratios. These ratios measure the profitability of the company, and show how the company generates earnings, and manages assets, operating and financing expenses, including taxes.

Profitability	2007	2008	2009	2010	2011	Industry
Gross Margin	63.94%	64.39%	64.22%	63.86%	60.86%	48.93%
Operating Margin	25.13%	26.44%	26.56%	24.06%	21.82%	8.20%
Net Profit Margin	20.73%	18.18%	22.02%	33.63%	18.42%	5.36%
ROA	16.33%	13.86%	15.30%	19.42%	11.21%	5.43%
ROE	30.94%	27.51%	30.15%	42.32%	27.37%	11.62%
ROI	22.75%	19.08%	20.54%	25.93%	14.96%	7.31%

Table 8: Comparison of Profitability Ratios over a Five-Year Period

Profitability	KO	DPS	PEP	KFT	Industry
Gross Margin	60.86%	57.90%	52.49%	34.98%	48.93%
Operating Margin	21.82%	17.35%	14.48%	12.25%	8.20%
Net Profit Margin	18.42%	10.27%	9.69%	6.49%	5.36%
ROA	11.21%	6.68%	9.14%	3.73%	5.43%
ROE	27.37%	25.67%	30.73%	9.93%	11.62%
ROI	14.96%	12.73%	13.77%	5.57%	7.31%

Table 9: Comparison of Profitability Ratios

- Gross margin, operating margin, and net profit margin all measure the amount of dollar earned for every dollar of sales generated by the firm. Although these ratios have different numerators (gross profit, operating profit, and net profit), they basically determine the earnings made by the firm for a given period of time. The higher the ratio's value, the more profitable the company is.

Coca-Cola boasts significantly high margins (gross, operating, and net profit) compared to its top competitors and the overall industry. In 2011, the Company has well-outperformed the nonalcoholic beverage industry, indicating strong market leadership, albeit experiencing a slight decline from the previous year. The graph below shows Coca-Cola's performance for 2011.

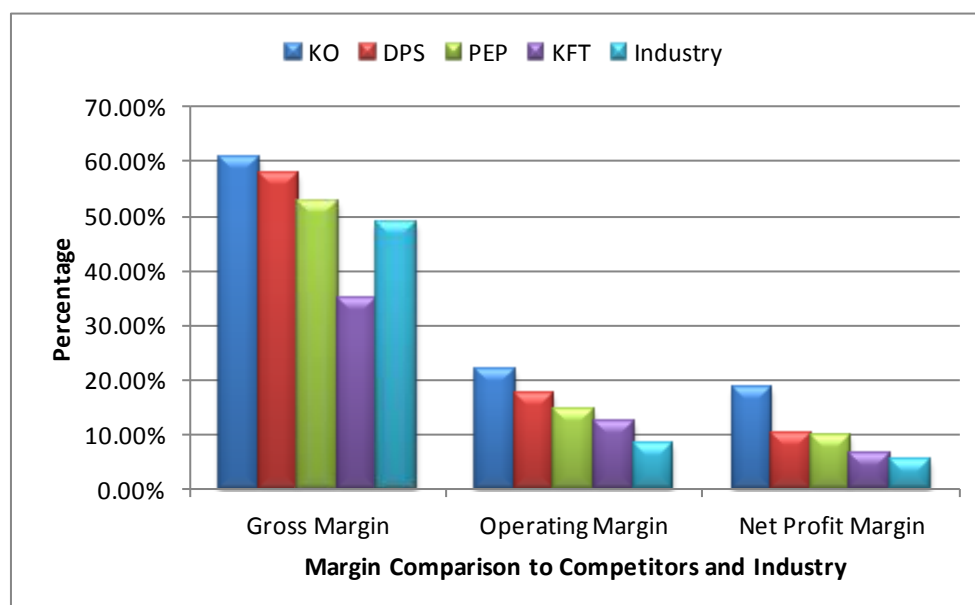


Figure 6: Margin Comparison to Competitors and Industry

- Return on assets (ROA) measures net profits earned as a percentage of the company's total assets. This number indicates how efficiently the company uses its assets to generate sales; thus, a higher ratio shows that more profits are earned using less investment.

Similar to the Company's margin performance, Coca-Cola's ROA is well above the industry median as well as competitors' measures. The following graph compares the Company's performance against competitors and the industry.

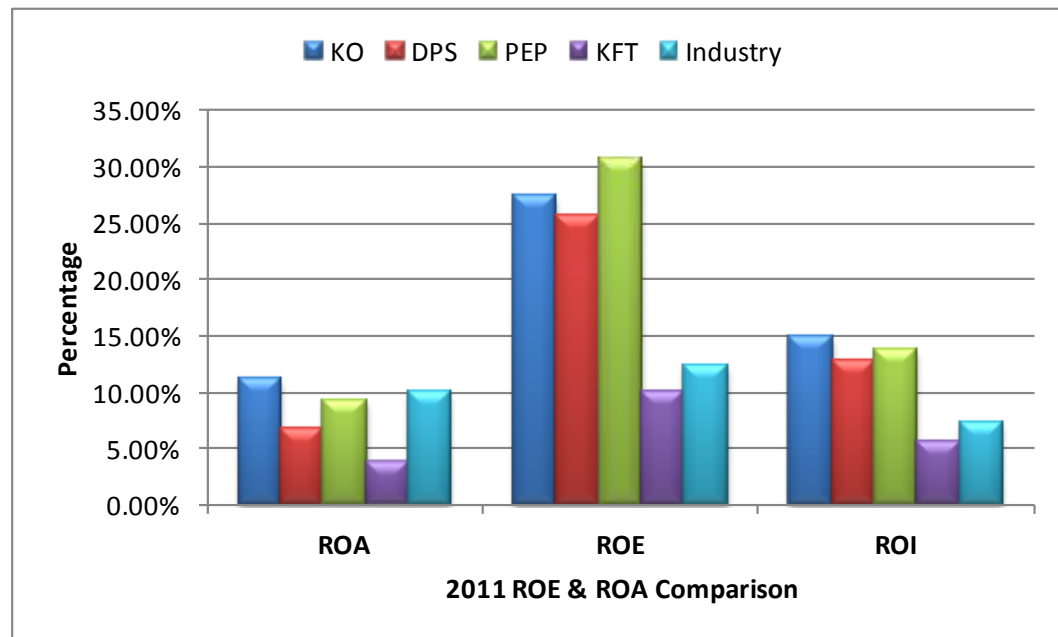


Figure 7: 2011 ROE & ROA Comparison

- Return on equity (ROE) measures the net income earned by the company as a percentage of shareholder's equity. Since this number shows the return to the money invested by shareholders, this ratio is often considered the "true bottom-line measure of performance."

Although Coca-Cola's ROE has decreased from 42.32% in 2010 to 27.37% in 2011, the Company still outperforms the industry by more than 10%. Coca-Cola also beats its competitors (excluding PEP) in this metric as show in the preceding graph.

- Return on investment (ROI) measures the efficiency of an investment, and is obtained by dividing the difference between gain and cost of investment by its cost. The gain is based on the money earned from selling the investment.

In 2011, Coca-Cola's ROI (14.96%) is double the industry median, and is also higher than its competitors' measures.

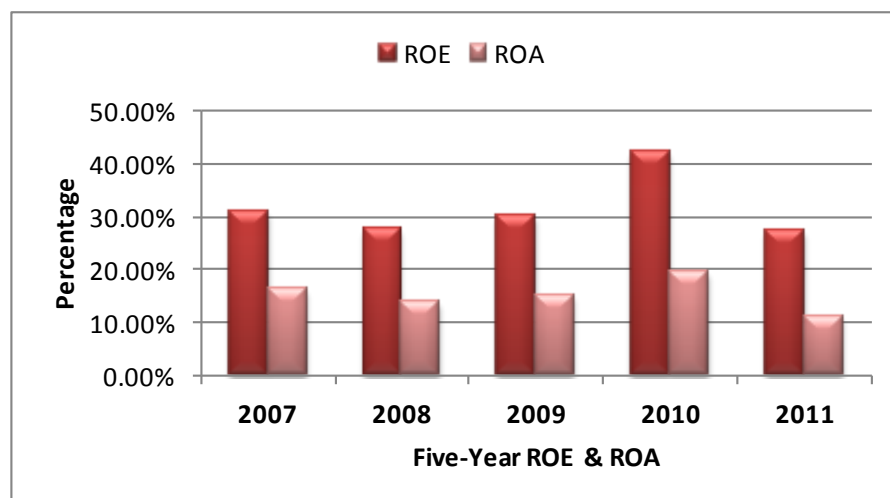


Figure 8: Coca-Cola's Five-Year ROE & ROA

Market Value Ratios. These ratios use information that is not necessarily available in financial statements, such as the current stock price or number of outstanding shares.

Common Stock Ratios	KO	DPS	PEP	KFT	Industry
EPS	\$3.69	\$2.74	\$4.03	\$1.99	\$0.74
P/E	18.8	13.8	15.6	19.0	17.2
P/B	5.0	3.5	4.8	1.9	4.5
P/S	3.5	1.4	1.5	1.2	2.0
P/CF	17.0	11.0	11.2	14.9	13.5

Table 10: Comparison of Market Value Ratios

- Earnings per share (EPS) measures the profitability of a company on a per share basis. This number is highly significant in evaluating the price of a stock. In 2011, Coca-Cola's EPS is \$3.69 compared to \$0.74, which is the industry median. The Company's EPS is also higher compared to DPS and KFT.
- Price to earnings ratio (P/E) is calculated by dividing the current stock price with EPS. A trailing P/E is obtained by using the EPS of the last four quarters as denominator, while a forward P/E uses the estimated EPS of the next four quarters. This number indicates how much investors are willing to pay for the current earnings of the company. Value stocks, which are mostly mature companies, usually have low P/E ratios compared to growth stocks since investors only have modest expectations of earnings growth. A high P/E ratio indicates that an investor is paying a high price for every dollar of company earnings; on the other hand, a low P/E ratio usually indicates that the stock is cheap.

Based on the table above, Coca-Cola's 2011 P/E ratio is over the industry median of 17.2, and is also above DPS's and PEP's ratios. The Company's relatively high P/E ratio may be attributed to high earnings expectations from the beverage company.

- Price to sales ratio is calculated by dividing the stock price with sales per share. A high P/S indicates high sales growth, which is indicative of Coca-Cola's 2011 performance.
- Because book value per share is used to divide the current stock price, price to book ratio is based on historical costs. A number more than one may mean that the company is able to create value for the stockholders, while a number below one could mean otherwise. Coca-Cola's 2011 P/B ratio is 5, which is well above its peer group as well as the industry median.
- Price to cash flow ratio is computed by dividing the stock price with operating cash flow per share. This ratio also measures the profitability of the company similar to price-to-earnings. However, since operating cash flow is used, P/CF presents a better picture of the company's profitability because cash flow does not include non-cash expenses unlike earnings. Again, Coca-Cola outperforms its peer group and the overall industry in this metric as shown in the preceding table.

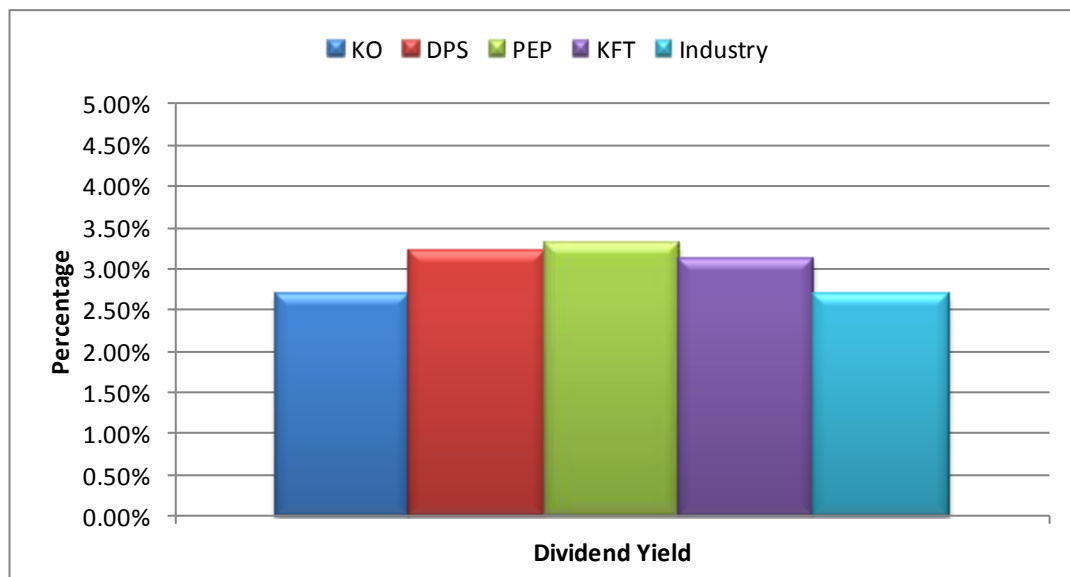


Figure 9: Comparison of Dividend Yield

Dividend Yield. The dividend yield measures the amount of dividends paid out relative to the stock price. Income investors consider this metric highly significant in determining the attractiveness of a stock. In 2011, Coca-Cola's dividend yield amounted to 2.70%, which is similar to the industry median but lower than its top competitors' yield.

Common Size Financial Statements

To evaluate Coca-Cola's performance over a period of time, we use common size financial statements to determine the percentage changes of each item included in the income statement and balance sheet. For each fiscal year, the items are divided by total sales (for the income statement) and total assets (balance sheet) to calculate the percentages. The following tables show the combined common size income statements and balance sheets from 2007 to 2011:

	2007	2008	2009	2010	2011
Sales/Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold (COGS) incl. D&A	36.0%	35.6%	35.6%	36.2%	38.8%
COGS excluding D&A	32.0%	31.8%	31.6%	32.1%	34.7%
Depreciation & Amortization Expense	4.0%	3.8%	4.0%	4.1%	4.2%
Gross Income	64.0%	64.4%	64.4%	63.8%	61.2%
SG&A Expense	37.9%	36.9%	36.6%	20.5%	37.3%
EBIT (Operating Income)	26.1%	27.2%	27.4%	25.5%	23.9%
Nonoperating Income (Expense) - Net	1.4%	1.2%	0.7%	16.7%	2.1%
Interest Expense	1.6%	1.4%	1.1%	1.7%	0.9%
Unusual Expense (Income) - Net	0.9%	1.0%	0.7%	2.9%	2.3%
Pretax Income	25.0%	26.0%	26.3%	37.6%	22.7%
Income Taxes	6.6%	5.1%	6.6%	6.8%	6.0%
Consolidated Net Income	20.7%	18.2%	22.2%	33.8%	18.5%
Minority Interest Expense	0.0%	0.0%	0.3%	0.1%	0.1%
Net Income	20.7%	18.2%	22.0%	33.6%	18.3%
EBITDA	30.1%	31.0%	31.4%	29.6%	28.0%
EBIT	26.1%	27.2%	27.4%	25.5%	23.9%
Depreciation & Amortization Expense	4.0%	3.8%	4.0%	4.1%	4.2%

Table 11: Common Size Income Statements 2007-2011

The common-size income statement reveals several trends regarding Coca-Cola's operating performance. For instance, gross income as a percentage of sales has slightly declined for the last three years as the cost of goods steadily sold crept up to 34.7% in 2011. Operating income has also decreased for the previous two years, while selling, general and administrative expenses significantly increased to 37.3% of sales in 2011. It must be noted, however, that the 2011 income statement has already factored in the impact of Coca-Cola's acquisition of Coca-Cola

Enterprise Inc.'s North American business as well as divestitures of Norwegian and Swedish bottling operations. These recent transactions have added \$84 million in operating costs, and the acquisition of CCE has contributed \$3,637 million in net revenues and \$122 million in net losses²⁰.

Assets	2007	2008	2009	2010	2011
Cash & ST Investments	9.96%	12.29%	18.93%	15.55%	17.55%
Total Accounts Receivable	7.67%	7.63%	7.72%	6.08%	6.15%
Inventories	5.13%	5.40%	4.84%	3.63%	3.87%
Other Current Assets	5.22%	4.74%	4.57%	4.34%	4.31%
Total Current Assets	27.98%	30.05%	36.06%	29.59%	31.88%
Net Property, Plant & Equipment	19.63%	20.55%	19.64%	20.20%	18.68%
Total Investments and Advances	17.97%	14.26%	13.88%	10.40%	10.47%
Intangible Assets	28.24%	30.86%	26.36%	36.90%	34.60%
Deferred Tax Assets	0.15%	0.20%	0.20%	0.13%	0.30%
Other Assets	6.03%	4.07%	3.86%	2.77%	4.07%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%
Liabilities & Shareholders' Equity					
ST Debt & Curr. Portion LT Debt	13.99%	16.12%	13.97%	12.86%	18.65%
Accounts Payable	3.19%	3.38%	2.90%	2.59%	2.72%
Income Tax Payable	0.60%	0.62%	0.61%	0.40%	0.48%
Other Current Liabilities	12.79%	11.93%	10.71%	9.54%	8.53%
Total Current Liabilities	30.56%	32.05%	28.19%	25.38%	30.36%
Long-Term Debt	7.57%	6.86%	10.39%	19.26%	17.08%
Deferred Tax Liabilities	4.37%	2.16%	3.25%	5.84%	5.87%
Other Liabilities	7.24%	8.39%	6.09%	6.57%	6.78%
Total Liabilities	49.75%	49.48%	47.92%	57.05%	60.09%
Common Equity	50.25%	50.52%	50.95%	42.52%	39.56%
Total Shareholders' Equity	50.25%	50.52%	50.95%	42.52%	39.56%
Accumulated Minority Interest	0.00%	0.00%	1.12%	0.43%	0.36%
Total Equity	50.25%	50.52%	52.08%	42.95%	39.91%
Liabilities & Shareholders' Equity	100.00%	100.00%	100.00%	100.00%	100.00%

Table 12: Common Size Balance Sheet 2007-2011

²⁰ The Coca-Cola Company 2011 Annual Report.

The common size balance sheet shows changes in Coca-Cola's total assets, liabilities, and equity over a five-year period. Current assets as a percentage of total assets increased to 31.88% in 2011, while total liabilities increased to 60.09% in the past year. The increase in long-term debt and current liabilities can be attributed to the recent acquisition and divestiture transactions made by the Company in 2011. For instance, Coca-Cola agreed to assume \$8.9 billion of CCE debt post acquisition.²¹

Pro Forma Income Statement

The following projected income statement for Coca-Cola is calculated using an average of the Company's 5-year historical sales growth rate and estimated 2012 sales growth rate derived from Value Line. The average growth rate is used to obtain a less conservative but more realistic revenue projection:

In \$Millions	2012	2013	2014	2015	2016
Sales/Revenue	\$52,681.90	\$59,346.16	\$66,853.45	\$75,310.41	\$84,837.18
Cost of Goods Sold (COGS) incl. D&A	\$19,313.35	\$21,756.49	\$24,508.69	\$27,609.04	\$31,101.58
Gross Income	\$33,368.55	\$37,589.67	\$42,344.76	\$47,701.37	\$53,735.60
SG&A Expense	\$17,806.91	\$20,059.48	\$22,597.00	\$25,455.53	\$28,675.65
Other Operating Expense	\$1,961.20	\$2,209.29	\$2,488.76	\$2,803.59	\$3,158.25
EBIT (Operating Income)	\$13,600.44	\$15,320.90	\$17,258.99	\$19,442.26	\$21,901.70
Nonoperating Income (Expense) - Net	\$2,371.38	\$2,671.36	\$3,009.29	\$3,389.97	\$3,818.80
Interest Expense	\$687.59	\$774.57	\$872.55	\$982.93	\$1,107.27
Unusual Expense (Income) - Net	\$875.25	\$985.97	\$1,110.69	\$1,251.19	\$1,409.47
Pretax Income	\$14,408.99	\$16,231.73	\$18,285.05	\$20,598.10	\$23,203.76
Income Taxes	\$3,259.97	\$3,672.36	\$4,136.91	\$4,660.23	\$5,249.75
Equity in Earnings of Affiliates	\$731.24	\$823.74	\$927.95	\$1,045.33	\$1,177.57
Consolidated Net Income	\$11,880.27	\$13,383.12	\$15,076.08	\$16,983.21	\$19,131.58
Minority Interest Expense	\$58.81	\$66.25	\$74.64	\$84.08	\$94.71
Net Income	\$11,821.45	\$13,316.86	\$15,001.45	\$16,899.13	\$19,036.87
EBITDA	\$15,729.90	\$17,719.73	\$19,961.28	\$22,486.38	\$25,330.91
EBIT	\$13,600.44	\$15,320.90	\$17,258.99	\$19,442.26	\$21,901.70
Depreciation & Amortization Expense	\$2,129.46	\$2,398.83	\$2,702.28	\$3,044.12	\$3,429.20

Table 13: Pro Forma Income Statements for Coca-Cola

²¹ The Coca-Cola Company 2011 Annual Report.

To calculate each item in the pro forma income statement, percentages in the common size income statements were initially averaged. Projected sales for 2012 was then computed by multiplying gross income from previous year by the average estimated sales growth rate (12.65%). Values for each line item were calculated by multiplying the historical percentages with the estimated sales.

Sales Growth	
5-Yr. Average	14.80%
Value Line	10.50%
Average	12.65%

Table 14: Estimated 2012 Sales Growth

Projected earnings per share for 2012 was also calculated using information from the pro forma income statement. The new EPS was calculated by dividing expected net income with Coca-Cola's current outstanding shares, resulting to an estimated EPS of \$5.09.

$$(E)EPS = \frac{\text{Net Income}}{\text{Outstanding Shares}} \quad \$5.09 = \frac{\$11,821.45}{2,323.00}$$

The forward P/E ratio can then be calculated by dividing current market price per share with the estimated EPS.

$$\text{Forward P/E} = \frac{\text{Current Market Price per Share}}{\text{Forecasted EPS}}$$

$$14.22 = \frac{\$72.40}{\$5.09}$$

Stock Valuation

Two valuation models were used to calculate the intrinsic value of Coca-Cola's stock: Gordon Growth Model and relative valuation using average price ratios.

Gordon Growth Model. The Gordon Growth Model assumes that "g" (i.e. dividend growth rate) is constant throughout the company's lifetime.

$$V_0 = \frac{D_0 (1 + g)}{K_e - g}$$

Using historical and projected rates from Value Line, different values for “g” were calculated; the sustainable growth rate was computed using projected 2012 values for earnings per share, dividends per share, and return on equity.

Projected 2012 EPS	\$4.20
Projected 2012 DPS	\$2.04
Projected 2012 ROE	26.50%
Sustainable Growth Rate	13.63%

Table 15: Coca-Cola’s Sustainable Growth Rate

The required return (K_e) was obtained using the Capital Asset Pricing Model:

$$K_e = R_f + \beta_e [E(R_m) - R_f]$$

Rf	β_e	$[E(R_m) - R_f]$	K_e
2.75%	0.54	4.50%	5.1800%

To obtain the risk-free rate (R_f), current 20-year US bond yield was used in the CAPM equation. The equity risk premium $[E(R_m) - R_f]$ was obtained from the historical geometric mean equity risk premium from *Equity Asset Valuation*, 2nd Ed. by Pinto, et al. Beta was calculated by performing a regression analysis of historical returns for Coca-Cola and S&P500 for a 60-month period (from January 2007 to April 2012). See appendix for full analysis.

	g	D ₀ (2011)	Short-term K_e	V ₀	Long-term K_e	V ₀
SGR	13.63%	1.88	3.34080%	-\$20.7646	5.1800%	-\$25.28
Past 10 yrs.	10.00%			-\$31.0548		-\$42.90
Past 5 yrs.	10.50%			-\$29.0172		-\$39.05
Projected	9.50%			-\$33.4232		-\$47.65

Table 16: Coca-Cola’s Projected Stock Price Using Gordon Growth Model

Due to the current low interest rate environment, Gordon Growth Model yields negative values for Coca-Cola’s stock, regardless of the growth rate used in the equation. An alternative model that can be used to evaluate the stock’s intrinsic value is relative valuation, which utilizes price ratios to estimate the stock price.

Valuation	2006	2007	2008	2009	2010	2011	AVG	2012E
EPS	\$2.37	\$2.57	\$3.02	\$2.93	\$3.49	\$3.85	\$3.04	\$4.20
P/E	18.5	21	17.8	16.6	16.2	17.3	17.90	--
CFPS	\$2.81	\$3.08	\$3.58	\$3.50	\$4.18	\$4.55	\$3.62	\$4.80
P/CFPS	15.60	17.52	15.02	13.90	13.53	14.64	15.03	--
SPS	\$10.39	\$12.45	\$13.82	\$13.46	\$15.32	\$20.60	\$14.34	\$21.60
P/SPS	4.22	4.33	3.89	3.61	3.69	3.23	3.83	--

Table 17: Coca-Cola's Five-Year Price Ratios

Historical values for earnings per share, cash flow per share, and sales per share were obtained from Value Line, and used to compute P/E, P/CFPS, and P/SPS ratios. The average values for each item were then calculated and multiplied by the growth estimates to determine the projected share prices for each approach.

Estimates	
Sales Growth	10.50%
Cash Flow Growth	9.00%
Earnings Growth	10.00%

Projected Share Prices	
P/E Approach	\$75.81
P/CF Approach	\$74.56
P/S Approach	\$87.19
AVERAGE	\$79.19

Market Price (as of 4/17/12) \$72.40

Table 18: Coca-Cola's Relative Valuation

With the **current stock price of \$72.40** (as of 4/17/12), Coca-Cola's stock is currently undervalued against its **intrinsic value of \$79.19**.

Risk Factors

Although hailed as the largest and leading nonalcoholic beverage company in the world, Coca-Cola constantly experiences several risks to its short-term performance and long-term growth. Some of these risks are brought about by the Company's nature of business, changing industry and competitive landscape, threat from new government policies and regulations,

shifting consumer demands and preferences, economic challenges and political pressure in international markets, interest rate, currency, and operational risks.

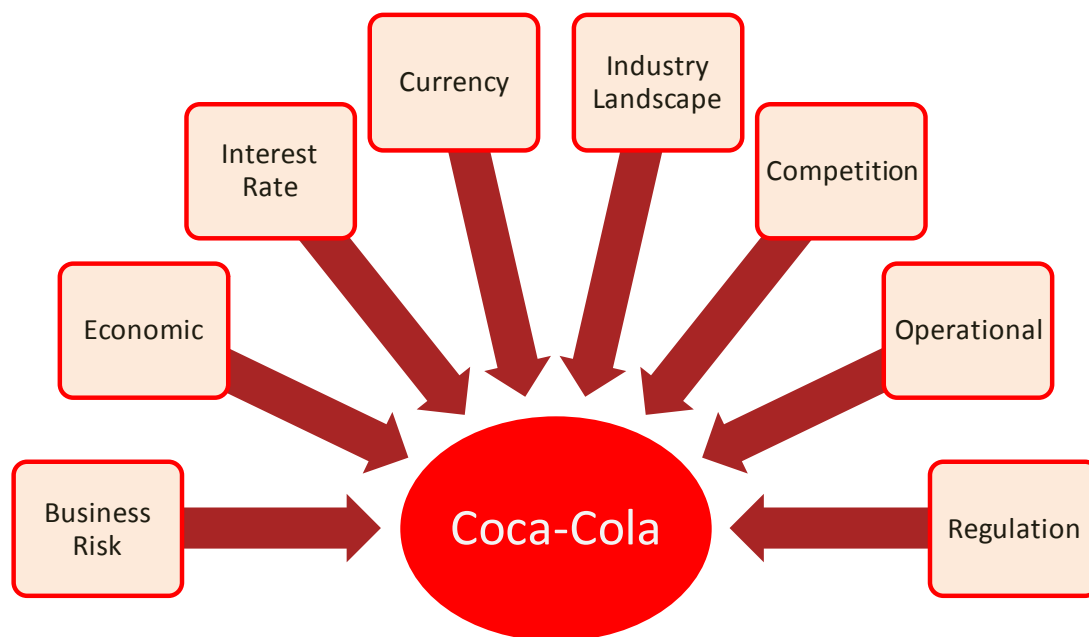


Figure 10: Risk Factors Affecting Coca-Cola's Business

General business risk includes potential reduction in overall profits and sales as a result of higher input costs, operating expenses, or increased competition. The Coca-Cola Company cited in its latest annual report²² that increased pension expense and indebtedness resulting from the CCE acquisition can potentially impact the Company's bottom line in the future. Higher borrowing costs and interest expense are associated with this transaction, and can significantly affect Coca-Cola's net profit if anticipated return (synergies) from the acquisition is not realized.

Changes in the beverage industry as well as shifting consumer demands and preferences can also considerably affect the Company's operating and financial performance. As increasing public concern about obesity and other health issues affect the reputation of sugary drinks, sales of the Company's core products can decline. Stronger competition from both new and established companies in the industry can also eat away at Coca-Cola's sales.

Government regulations, tax laws, and other policies regarding labeling, packaging, and distribution of beverage products in the country pose significant risk to Coca-Cola's performance. Although these laws are designed to protect consumers, these regulations will most likely place added price pressure on the Company's products, thereby negatively affecting the bottom line.

²² The Coca-Cola Company 2011 Annual Report.

Another important risk factor involves the economic and political environment in foreign markets. Since Coca-Cola derives 80% of worldwide unit case volume outside the US²³, stable economies and political structures in these markets (particularly Mexico, China, Brazil, and Japan) are critical in delivering strong financial performance. Unstable governments and weak economic growth can impact consumer demand, and thus, decrease the Company's revenue.

Market risk, which includes interest rate, currency, and commodity price risks, also impacts the Company's bottom line. Interest rate risk, for instance, refers to changes in interest-bearing instruments (debt) that the Company uses to finance daily operations and long-term investments. A sudden spike in interest rates can increase the Company's interest expense, and affect its ability to pay current and long-term debt. Meanwhile, currency risk, or exchange rate risk, refers to fluctuations in foreign exchange. Since Coca-Cola is a global company, the Company initially reports revenues and costs using the specific country's currency, and then translates the values to dollar amounts. Weak currencies can artificially mean that the Company is not performing well, and can also understate overall profits. Lastly, commodity price risk results when fluctuations in prices of commodities such as aluminum, plastic, sweeteners, and energy occur. To manage exposure to this risk, the Company utilizes derivative instruments in hedging.

Operational risk refers to the risks involved in the Company's daily operations. Internal systems, processes, and manpower are elements that affect its operational efficiency; thus, any disruptions (supply chain, etc.) or unexpected events (labor strikes, deterioration of equipment, adverse weather conditions) that might occur could negatively affect the company, and jeopardize its ability to efficiently deliver goods and services to customers.

Investment Drivers

Key investment drivers in the Coca-Cola Company are its brand equity, leading brands with an extensive loyal consumer base, worldwide network of bottling partners and distributors, market leadership, high margins and ROE, strong fundamentals, high potential growth in emerging economies and other international markets, latest acquisition of CCE's North American business, and deal agreements with Dr Pepper Snapple.

The Coca-Cola Company has a wide "economic moat" or distinct competitive advantage over its competitors, which benefits the Company in a myriad of ways: high brand equity with a loyal customer following, pricing power, and market leadership, acting as barriers to the Company's market position²⁴. Warren Buffett, who is credited to coin the term, has famously expressed his admiration of Coca-Cola's performance and strategic position in the beverage industry, and currently holds an 8.84% stake in the Company²⁵.

²³ Ibid.

²⁴ Investopedia.com

²⁵ <http://www.cnbc.com/id/22130601/>

For a prudent long-term investor, Coca-Cola is an attractive buy, given its strong market leadership, stability, and growth opportunities abroad. Coca-Cola is also a defensive stock, whose performance is less likely to be affected by an economic recession. As previously shown in the ratio analysis section of this paper, the Company's profit margins have remained at fairly consistent levels during the period between 2008 and 2010, backed by strong fundamentals.

Coca-Cola's worldwide network of bottling partners and distributors is another key investment driver for this stock as this competitive advantage allows the Company to be more efficient and cost-effective in selling, delivering, and distributing sparkling and still beverages. The Company has also more distribution channels where it can market and sell its products, allowing easy access to new geographic markets. To further enhance operational efficiency, Coca-Cola is also in a great position to acquire one or more of its regional and worldwide suppliers. For instance, the Company's latest acquisition of CCE's North American business is a strategic move to streamline operations, decrease costs, reallocate management resources, and generate synergies that will improve operational and financial performance. Hoover's Company estimates that the acquisition "will generate \$350 million in annual synergies by the end of 2014."²⁶

Coca-Cola's brands are also another investment driver in this company. Currently, the Company has more than 500 nonalcoholic beverage brands in 200 countries²⁷, controls 41.9% of carbonated soft drink market in the US²⁸, and holds over half of the global market share. Further, Coca-Cola has been named as the best global brand in 2010 by Interbrand, boasting a brand value of \$70,452 million²⁹, and beating other household names such as IBM, Microsoft, McDonalds, and General Electric.

Increased beverage consumption and economic growth in international markets are also reasons why Coca-Cola is an attractive long-term investment. Since almost 80% of Coca-Cola's worldwide unit case volume is from foreign markets, growth in these economies will be favorable to the Company's sales and financial performance as more consumers are able to purchase Coca-Cola products. In 2011, some 30% of international sales were generated from operations in Mexico, China, India, and Brazil, countries that currently experience higher GDP growth and per capita consumption³⁰. Additionally, with its strategic partnerships, joint ventures, and direct investments in emerging countries as well as other developed markets, the Company is well-positioned to leverage its resources and economies of scale, and capture a larger portion of the world nonalcoholic beverage market. Coca-Cola plans to invest \$2 billion in India for the next five years³¹, \$3 billion in Russia through 2016³², \$4 billion in China³³, \$7.6 billion in

²⁶ Hoover's Company Report.

²⁷ The Coca-Cola Company 2011 Annual Report.

²⁸ http://www.beverage-digest.com/pdf/top-10_2012.pdf

²⁹ <http://www.interbrand.com/en/best-global-brands/best-global-brands-2008/best-global-brands-2010.aspx>

³⁰ The Coca-Cola Company 2011 Annual Report.

³¹ http://www.thecoca-colacompany.com/dynamic/press_center/2011/11/investing-in-long-term-sustainable-growth-in-india.html

³² <http://seekingalpha.com/article/381621-coca-cola-s-global-expansion-brings-higher-dividend-share-price>

³³ <http://news.yahoo.com/guess-where-coca-cola-investing-4-billion-015616584.html>

Brazil³⁴, and among others. Staggering investments in these countries highlights the Company's positive outlook in worldwide nonalcoholic beverage industry, and will likely deliver strong return on investments in the long term.

V. Technical Analysis

Technical analysis uses stock charts based on historical prices and volume to analyze stock performance.

Basic Stock Chart



Figure 11: One-Year Basic Stock Chart
Source: Yahoo Finance

This basic stock chart compares Coca-Cola's performance against S&P 500 as well as the consumer staples sector (XLP). As shown above, the Company outperforms the market in general and closely follows the sector for the indicated period.

³⁴ <http://www.trefis.com/stock/ko/articles/112833/coca-cola-displays-financial-muscle-dunks-pepsico/2012-04-10>



Figure 12: One-Year Basic Stock Chart Comparison
Source: Yahoo Finance

This stock chart compares Coca-Cola (KO) against its top competitors: PepsiCo, Dr Pepper, and Kraft. These stocks have closely followed each other in late April of last year, until KO underperformed its competitors from June to July. Nevertheless, KO has outperformed DPS and PEP since November, attributed to positive earnings and a favorable consumer beverage industry outlook.



Figure 13: One-Year Candlestick Chart for Coca-Cola
Source: Yahoo Finance

The candlestick chart shows more than just a stock's closing price. This chart includes opening and closing prices, as well as highs and lows. Unshaded bodies indicate that the closing price is higher than the open price, while shaded bodies indicate otherwise. Also, when there are long unshaded bodies, it means that buyers are bullish with the stock, and vice versa.

During this one-year period, KO's lowest price was at \$63.34 while its highest closing was at \$74.39. There is also a rising trend since early December and may indicate that the stock will continue its successful run.



Figure 14: Bollinger Bands for Coca-Cola (1-Yr. Period)
 Source: Stockcharts.com

The chart above uses a few indicators: 50-day moving average, 200-day moving average, and Bollinger bands. The moving averages plot the average stock price for the last X number of days and reduce the price volatility using a trend line. The larger the number of days involved, the smoother the trend line will be; thus, a 200-day MA tends to be smoother than a 50-day MA. In this chart, the 50-day MA is \$70.27, while 200-day MA is \$67.82. Because the short-term average (50-day) has not yet crossed below the long-term average (200-day), this signals that a continued upward is likely to occur.

Meanwhile, the Bollinger bands show price volatility, and are plotted two standard deviations away from a moving average. The wider the gap between the upper and lower bands, the higher the volatility is, and vice versa. Traders usually look for tightening bands because this means that the next movement will probably include high volatility. Also, when the prices move closer to the upper band, this is an indication that the market is overbought. On the other hand, when the prices move closer to the lower band, it means that the market is oversold. In this chart, the gap between the bands has recently widened indicating higher volatility. Prices also moved closer to the upper band, showing an overbought market condition. Recently, however, stock prices have moved to the middle section of the Bollinger bands, indicating perhaps a move towards normal prices.

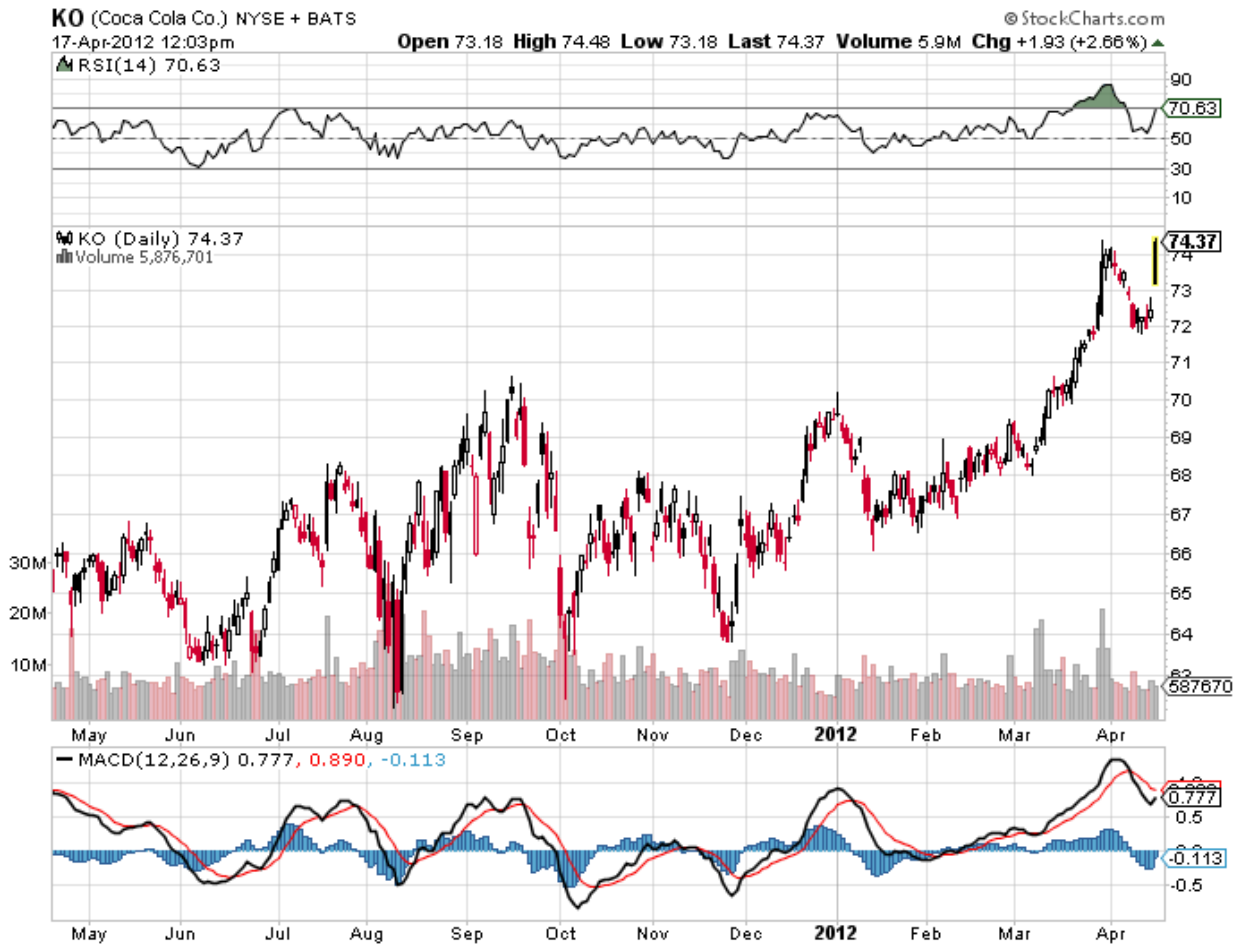
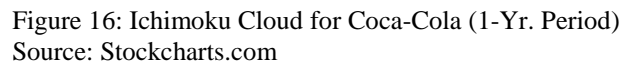


Figure 15: Technical Momentum Indicators for Coca-Cola (1-Yr. Period)
Source: Stockcharts.com

The stock chart above shows two price-based indicators: Relative Strength Index (RSI) and Moving Average Convergence/Divergence (MACD). The former is a momentum indicator, measuring the magnitude of recent gains to losses. An RSI approaching 70 means that the stock is overbought; while, an RSI reaching the 30 level means that the market is oversold. Since the RSI plotted against Coca-Cola's one-year stock performance is hovering close to 70, it means that the stock is currently overbought, and may indicate a future drop in prices.

The MACD is also a technical momentum indicator that plots the relationship between two moving averages. A signal line is plotted on the MACD and gives "buy/sell" signals to traders. When the MACD crosses above the line, this indicates a bullish market. When the MACD rises quickly, this means that the stock is overbought, and is likely to lose momentum. In the chart above, the MACD rises dramatically in February. In late February, the MACD crosses above the signal line, indicating a bullish market. However, the MACD dips below the signal line in late April and may indicate a downward trend in prices.



In this chart, KO has been showing strong bullish signs since late January when the conversion line starts to break through the base line, and prices start moving above the base line. Prices are also above the green clouds, which act as a support level. Since the Ichimoku Cloud also provides an extended 26-day overview of the stock's possible price movement, this chart shows that KO is likely to continue its upward streak for the next month.

VI. Summary and Recommendations

The Coca-Cola Company is a market leader in the nonalcoholic beverage industry, holding powerhouse brands (most notably Trademark Coca-Cola beverages) which attract and retain new and loyal customers worldwide. Along with its extensive distribution network, investment programs in foreign markets, strategic partnerships with other companies, and strong brand equity, the Company is able to operate on economies of scale and deliver efficient business processes to bottling partners and consumers. TCCC's streamlined operations and strong market leadership are reflected on the Company's financial statements and fundamentals, particularly its profit margins, ROE, and ROA.

Although TCCC is a mature company in an almost saturated nonalcoholic beverage industry in the US, the Company still has tremendous growth opportunities in international markets, especially emerging economies such as China, India, Russia, and Brazil. And because 80% of TCCC's worldwide unit case volume comes from foreign countries, an increase in per capita consumption of beverage products will significantly contribute to the Company's bottom line and market share. In the long term, TCCC has great growth potential, making it an attractive "buy" for the Student Managed Investment Fund. Further, because this portfolio utilizes a conservative value investing approach, TCCC will be a good addition to the fund.

After calculating the stock's intrinsic value, we recommend **purchasing 645 shares of KO below or at the target price (\$79.19)**, totaling to an initial cost of **\$51,078 or 3%** of the current portfolio value. Should upward price movements based on medium-term technical indicators hold up, KO's stock price would more than likely increase in the succeeding months.

APPENDIX A

Calculating Beta Using Linear Regression

- Adjusted closing prices over a 60-month period were used to compute for KO's beta (Data Source: Yahoo Finance)

<i>Regression Statistics</i>	
Multiple R	0.572093719
R Square	0.327291224
Adjusted R Square	0.316079411
Standard Error	0.042440644
Observations	62

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.052580225	0.05258	29.19164147	1.18852E-06
Residual	60	0.108072494	0.001801		
Total	61	0.160652718			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.010244885	0.005391192	1.900301	0.06220156	-0.000539104	0.021028874	0.000539104	0.021028874
X Variable 1	0.540487815	0.100036076	5.402929	1.18852E-06	0.340385871	0.740589759	0.340385871	0.740589759