Financial Analysis Project – Final Paper

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**Purpose of Analysis**

All managers need to understand where value comes from in their firm. The purpose of this analysis is to identify the financial strategy and performance of this particular publically traded company. The process of understanding the risk and profitability of a company by analyzing reported financial info, especially annual and quarterly reports are vital to identifying the company’s overall financial performance. I wanted to analyze Coca Cola because the company has so much history and is one of the most recognizable brands in the world. I have always enjoyed researching food and beverage companies because of my background in the food service industry. I have always been fascinated by brand power of food and beverages and the corporations that are behind particular brands and products.

**Company Background and History**

The Coca-Cola Company is an American [multinational](http://en.wikipedia.org/wiki/Multinational_corporation) beverage corporation and manufacturer, retailer, and marketer of nonalcoholic beverage concentrates and [syrups](http://en.wikipedia.org/wiki/Syrup). Headquartered in [Atlanta](http://en.wikipedia.org/wiki/Atlanta), [Georgia](http://en.wikipedia.org/wiki/Georgia_%28U.S._state%29), the company is best known for its flagship product, [Coca-Cola](http://en.wikipedia.org/wiki/Coca-Cola), invented in 1886 by pharmacist [John Stith Pemberton](http://en.wikipedia.org/wiki/John_Stith_Pemberton) in [Columbus](http://en.wikipedia.org/wiki/Columbus%2C_Georgia), [Georgia](http://en.wikipedia.org/wiki/Georgia_%28U.S._state%29). The Coca-Cola formula and brand was bought in 1889 by [Asa Griggs Candler](http://en.wikipedia.org/wiki/Asa_Candler%22%20%5Co%20%22Asa%20Candler) (December 30, 1851 - March 12, 1929), who incorporated The Coca-Cola Company in 1892 (Wikipedia, 1). The company operates a [franchised](http://en.wikipedia.org/wiki/Franchising) distribution system dating from 1889 where The Coca-Cola Company only produces syrup concentrate which is then sold to various [bottlers](http://en.wikipedia.org/wiki/Bottler_%28company%29) throughout the world who hold an exclusive territory (Wikipedia, 2). The Coca-Cola Company owns its [anchor bottler](http://en.wikipedia.org/wiki/Anchor_bottler) in North America, Coca-Cola Refreshments. Muhtar A. Kent is a Turkish-American [business executive](http://en.wikipedia.org/wiki/Business_executive). He is currently the Chairman and [Chief Executive Officer](http://en.wikipedia.org/wiki/Chief_Executive_Officer) ([CEO](http://en.wikipedia.org/wiki/CEO)) of [The Coca-Cola Company](http://en.wikipedia.org/wiki/The_Coca-Cola_Company). He was appointed to the position of [Chief Executive Officer](http://en.wikipedia.org/wiki/Chief_Executive_Officer) of the Company in 2008 and became Chairman of the Board in 2009 (Wikipedia, 1).

**Major Operations**

The Coca-Cola system is not a single entity from a legal or managerial perspective, and the company does not own or control all of their bottling partners. While many view the company as simply "Coca-Cola," their system operates through multiple local channels. The Company manufactures and sells concentrates, beverage bases and syrups to bottling operations, owns the brands and is responsible for consumer brand marketing initiatives. Coca Cola’s bottling partners manufacture, package, merchandise and distribute the final branded beverages to Coca Cola customers and vending partners, who then sell their products to consumers (Wikipedia, 2).

All bottling partners work closely with customers (grocery stores, restaurants, street vendors, convenience stores, movie theaters and amusement parks, etc.) to execute localized strategies developed in partnership with Coca Cola. Customers then sell their products to consumers at a rate of more than 1.9 billion servings a day.

 In January 2006, company-owned bottling operations were brought together to form the Bottling Investments operating group, now the second-largest bottling partner in the Coca-Cola system in terms of unit case volume.

**Distribution**

Coca-Cola’s portfolio features 17 billion-dollar brands including Diet Coke, Fanta, Sprite, Coca-Cola Zero, Vitaminwater, Powerade, Minute Maid, Simply, Georgia and Del Valle. Globally, Coca Cola is the number one provider of sparkling beverages, ready-to-drink coffees, and juices. Through the world’s largest beverage distribution system, consumers in more than 200 countries enjoy Coca Cola beverages at a rate of 1.9 billion servings a day (Profile, 2).

 Beverages bearing the trademark "[Coca-Cola](http://en.wikipedia.org/wiki/Coca-Cola)" or "Coke" accounted for approximately 78% of the company's total gallon sales. According to the 2007 Annual Report, Coca-Cola had gallon sales distributed as follows:

* 43% in the United States
* 37% in Mexico, India, Brazil, Japan and the People's Republic of China
* 20% spread throughout the rest of the world

In 2010, it was announced that Coca-Cola had become the first brand to top £1 billion in annual UK grocery sales. Coca-Cola is the best-selling soft drink in most countries, and was recognized as the number one global brand in 2010. While the Middle East is one of the only regions in the world where Coca-Cola is not the number one soda drink, Coca-Cola nonetheless holds almost 25% market share (to Pepsi's 75%) and had double-digit growth in 2003 (Profile,1).Similarly, in Scotland, where the locally produced [Irn-Bru](http://en.wikipedia.org/wiki/Irn-Bru%22%20%5Co%20%22Irn-Bru) was once more popular, 2005 figures show that both Coca-Cola and Diet Coke now outsell Irn-Bru.In [Peru](http://en.wikipedia.org/wiki/Peru), the native [Inca Kola](http://en.wikipedia.org/wiki/Inca_Kola) has been more popular than Coca-Cola, which prompted Coca-Cola to enter in negotiations with the soft drink's company and buy 50% of its stakes. In Japan, the bestselling soft drink is not cola, as (canned) [tea](http://en.wikipedia.org/wiki/Canned_tea) and [coffee](http://en.wikipedia.org/wiki/Japanese_canned_coffee) are more popular.As such, The Coca-Cola Company's bestselling brand there is not Coca-Cola, but [Georgia](http://en.wikipedia.org/wiki/Georgia_%28drink%29).
 Since 1919, Coca-Cola has been a publicly traded company. One share of stock purchased in 1919 for $40, with all dividends reinvested, would be worth $9.8 million in 2012, a 10.7% annual increase, adjusted for inflation (Wikipedia, 1). In 1987, Coca-Cola once again became one of the 30 stocks which makes up the Dow, the [Dow Jones Industrial Average](http://en.wikipedia.org/wiki/Dow_Jones_Industrial_Average), which is commonly referenced as the performance of the stock market. It had previously been a Dow stock from 1932 to 1935.Coca-Cola has paid a dividend, increasing each year for 49 years (Company Records, 2). Stock is available from a [direct purchase program](http://en.wikipedia.org/wiki/Dividend_reinvestment_plan), through Computershare Trust Company, but unlike many programs, has investment fees.

**Competition**

Coca-Cola competes in the nonalcoholic beverages segment of the commercial beverages industry. The nonalcoholic beverages segment of the commercial beverages industry is highly competitive, consisting of numerous firms. These include firms that, like Coca-Cola, compete in multiple geographic areas, as well as firms that are primarily regional or local in operation. Competitive products include numerous nonalcoholic sparkling beverages; various water products, including packaged, flavored and enhanced waters; juices and nectars; fruit drinks and dilutables (including syrups and powdered drinks); coffees and teas; energy and sports and other performance-enhancing drinks; dairy-based drinks; functional beverages; and various other nonalcoholic beverages (Profile, 2). These competitive beverages are sold to consumers in both ready-to-drink and other than ready-to-drink form. In many of the countries in which Coca-Cola does business, including the United States, PepsiCo, Inc., is one of their primary competitors. Other significant competitors include, but are not limited to, Nestlé, Dr Pepper Snapple Group, Inc., Groupe Danone, Kraft Foods Inc. and Unilever. In certain markets, Coca-Cola’s competition includes beer companies. The company also competes against numerous regional and local firms and, in some markets, against retailers that have developed their own store or private label beverage brands (Profile, 3).

Competitive factors impacting Coca-Cola’s business include, but are not limited to, pricing, advertising, sales promotion programs, product innovation, increased efficiency in production techniques, the introduction of new packaging, new vending and dispensing equipment, and brand and trademark development and protection (Company Records, 1). Coca-Cola’s competitive strengths include leading brands with a high level of consumer acceptance; a worldwide network of bottlers and distributors of Company products; sophisticated marketing capabilities; and a talented group of dedicated associates. Coca-Cola’s competitive challenges include strong competition in all geographic regions and, in many countries, a concentrated retail sector with powerful buyers able to freely choose among Company products, products of competitive beverage suppliers and individual retailers' own store or private label beverage brands (Company records, 2).

* **Working capital**

A measure of both a company's efficiency and its short-term financial health. Working capital (abbreviated WC) is a financial metric which represents [operating liquidity](http://en.wikipedia.org/wiki/Accounting_liquidity) available to a business, organization or other entity, including governmental entity. Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital.

Working capital = current assets – current liabilities

Although working capital is improving year over year, the company is still underperforming compared to industry average.

* **Current ratio**

A liquidity ratio that measures a company's ability to pay short-term obligations

Current ratio=Current Assets/Current Liabilities

Coca-Cola’s current ratio is increasing year after year. The company is over performing in its industry.

* **Quick ratio**

An indicator of a company’s short-term liquidity. The quick ratio measures a company’s ability to meet its short-term obligations with its most liquid assets. For this reason, the ratio excludes inventories from current assets, and is calculated as follows: The quick ratio measures the dollar amount of liquid assets available for each dollar of current liabilities. Thus, a quick ratio of 1.5 means that a company has $1.50 of liquid assets available to cover each $1 of current liabilities. The higher the quick ratio, the better the company's liquidity position.

 Quick ratio = (current assets – inventories) / current liabilities, or

 = (cash and equivalents + marketable securities + AR) / current liabilities

 Coca-Cola’s quick ratio is improving year after year. The company is over performing in its

 industry.

* **Accounts receivable turnover**

Accounts receivable turnover is the ratio of net credit sales of a business to its average accounts receivable during a given period, usually a year. It is an activity ratio which estimates the number of times a business collects its average accounts receivable balance during a period.

Accounts receivable turnover = Net Credit Sales / Average Accounts Receivable

Coca-Cola’s accounts receivable turnover has been slightly increasing. The company has been over performing in its industry.

* **Average collection period (number of days’ sales in receivables)**

The approximate amount of time that it takes for a business to receive payments owed, in terms of receivables, from its customers and clients.

Calculated as: Average Collection Period = (Days x AR) / Credit Sales

Where:

Days = Total amount of days in period

AR = Average amount of accounts receivables

Credit Sales = Total amount of net credit sales during period

The average collection period has been slightly improving over the last 3 years. The company is underperforming in its industry however, Coca-Cola’s operation runs much differently than industry competitors due to its emphasis in syrup distribution, directly affecting this ratio.

* **Inventory turnover**

A ratio showing how many times a company's inventory is sold and replaced over a period. The days in the period can then be divided by the inventory turnover formula to calculate the days it takes to sell the inventory on hand or "inventory turnover days."

Inventory Turnover = Sales / Inventory OR

Inventory Turnover = COGS / Average Inventory

Coca-Cola’s inventory turnover has been decreasing year over year. The company has been underperforming in its industry.

* **Ratio of liabilities to stockholder’s equity**

A measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets.

Debt/Equity Ratio = total liabilities / stockholder’s equity

If the debt/equity ratio for Coca-Cola = 1.5 it means that for every dollar that shareholders

own, Coca-Cola owes $1.50 to creditors.

This ratio has been worsening year over year and the company is also underperforming in its

 industry.

* **Ratio of fixed assets to long-term liabilities**

The fixed-assets- to long-term-liabilities ratio is a way of measuring the solvency of a company. A company's long-term debts are often secured with fixed assets, which is why creditors are interested in this ratio. This ratio is calculated by dividing the value of fixed assets by the amount of long-term debt.

Ratio = Fixed assets / long-term liabilities

This ratio has been improving for Coca-Cola. The company is also over performing in its industry.

* **Net profit margin**

Net profit margin is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends (but not common stock dividends) have been deducted from a company's total revenue.

Net profit = (Total Revenue – Total Expenses)/Total Revenue

Net profit margin = Net profit / Total revenue

By dividing net profit by total revenue, we can see what percentage of revenue made it all the way to the bottom line, which is good for investors.

The net profit margin for Coca-Cola had seen no significant change in the last 3 years. The company is over performing in its industry.

* **Gross profit margin**

A financial metric used to assess a firm's financial health by revealing the proportion of money left over from revenues after accounting for the cost of goods sold. Gross profit margin serves as the source for paying additional expenses and future savings.

Gross Profit Margin = (Revenues-COGS)/Revenue

The gross profit margin for Coca-Cola had seen no significant change in the last 3 years. The company is over performing in its industry.

* **Times interest earned**

A metric used to measure a company's ability to meet its debt obligations. It is usually quoted as a ratio and indicates how many times a company can cover its interest charges on a pretax basis. Failing to meet these obligations could force a company into bankruptcy. Also referred to as "interest coverage ratio" and "fixed-charged coverage."

Times Interest Earned (TIE) =

Earnings before interest and taxes (EBIT) / Total interest payable contractual debt

Times interest earned has been improving for the company. Coca-Cola is also over performing in its industry.

* **Total asset turnover (ratio of nets sales to assets)**

The total asset turnover ratio measures the ability of a company to use its assets to efficiently generate sales. This ratio considers all assets, current and fixed. Those assets include fixed assets, like plant and equipment, as well as inventory, accounts receivable, as well as any other current assets. The lower the total asset turnover ratio (the lower the # Times), as compared to historical data for the firm and industry data, the more sluggish the firm's sales.

Total asset turnover = Net Sales/Total Assets = # Times

The lower the total asset turnover ratio (the lower the # Times), as compared to historical data for the firm and industry data, the more sluggish the firm's sales. This may indicate a problem with one or more of the asset categories composing total assets - inventory, receivables, or fixed assets.

Total asset turnover has been on the decline for Coca-Cola for the last 3 years. The company is underperforming in its industry.

* **Rate earned on total assets (return on assets)**

An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment".

Return on assets = Net Income / Total Assets

Coca-Cola’s ROA has been decreasing slightly over the last 3 years. The company is underperforming in its industry.

* **Rate earned on total stockholder’s equity (return on equity)**

The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

ROE is expressed as a percentage and calculated as:

Return on Equity = Net Income/Shareholder's Equity

Coca-Cola has been on a slight decline the past 3 years. The company has been

underperforming in its industry.

* **Rate earned on common stockholder’s equity**

Ratio indicating the earnings on the common stockholders' investment. Rate earned on common stockholder’s equity is calculated as a percentage and calculated as:

Rate earned on common stockholder’s equity =

(Net income - preferred dividends) / average common stockholders' equity.

There has been no change with this metric the last 3 years, however the company is underperforming in its industry.

* **Earnings per share on common stock**

The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

Calculated as:

(Net income – Dividends on preferred stock) / Average outstanding shares

Earnings per share on common stock has been increasing for Coca-Cola. The company is also over performing in it industry.

**Beverage Industry Defined**

The beverage industry refers to the industry that produces drinks. Beverage production can vary greatly depending on which beverage is being made. The website ManufacturingDrinks.com explains that, "bottling facilities differ in the types of bottling lines they operate and the types of products they can run" (Sharma, 1) Other bits of required information include the knowledge of if said beverage is canned or bottled, hot-fill or cold-fill, and natural or conventional. Innovations in the beverage industry, catalyzed by requests for non-alcoholic beverages, include beverage plants, beverage processing, and beverage packing (Sharma, 1).

**Coca-Cola Financials 2011-2013**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2011 | 2012 | 2013 | Status | Industry average |
| Working capital | 25,497 | 30,328 | 31,304 | Improving | 23,500 |
| Ratio of fixed assets to L.T. liabilities | 2.86 | 2.76 | 2.60 | Improving | 2.2 |
| Ratio of liabilities to S.E. | 1.36 | 1.45 | 1.51 | Decreasing | 1.22 |
| Total asset turnover | 1.58 | 1.56 | 1.52 | Decreasing | 2.3 |
| Current ratio | 1.05 | 1.09 | 1.13 | Increasing | 1 |
| Quick ratio | .92 | .97 | 1.0 | Increasing | .59 |
| Rate earned on total assets | 11% | 11% | 10% | Decreasing | 11.8% |
|  Earnings per share on common stock | 1.90 | 2.01 | 1.95 | Increasing  | 1.52 |
| Accounts receivable turnover | 9.46 | 10.09 | 9.62 | Improving | 9.32 |
| Average collection period | 38.58 | 36.18 | 37.96 | Improving | 31.2 |
| Times interest earned | 19 | 19.2 | 19.5 | Improving | 15.4 |
| Inventory turnover | 15.05 | 14.71 | 14.30 | Decreasing | 15.5 |
| Net profit margin | 25.3% | 26.9% | 28.4% | n/a | 18% |
| Gross profit margin | 61.2% | 60.9% | 61.2% | n/a | 43% |
| Rate earned on common S.E. | .42 | .42 | .42 | n/a | .63 |
| Rate earned on total S.E. | .27 | .27 | .26 | decreasing | .36 |

**Coca-Cola Common Size Income Statement**

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2013 | 2012 | 2011 |
| Net Operating Revenues | 100.00 | 100.00 | 100.00 |
| Cost of Goods Sold | -39.32 | 39.68 | -39.14 |
| **Gross Profit** | **60.68%** | **60.32%** | **60.86%** |
| Selling, general and Admin. Expenses | -36.94 | 36.94 | -37.47 |
| Other operating charges | -1.91 | -.93 | -1.57 |
| **Operating Income** | **21.83%** | **22.45%** | **21.82%** |
| Interest income | 1.14 | .98 | 1.04 |
| Interest expense | -.99 | -.83 | -.90 |
| Equity income, net | 1.28 | 1.71 | 1.48 |
| Other income (loss), net | 1.23 | .29 | 1.14 |
| **Income before income taxes** | **24.50%** | **24.59%** | **24.58%** |
| Income taxes | -6.08 | -5.67 | -6.03 |
| **Consolidated net income** | **18.41%** | **18.92%** | **18.55%** |
| Net income attributable to non controlling interests | -.09 | -.14 | -.13 |
| Net income attributable to shareowners | 18.32% | 18.78% | 18.42% |

The in-depth analysis of key financial ratios in this project helps in measuring the financial strength, liquidity conditions and operating efficiency of the company. It also provides valuable interpretation separately for each ratio that helps organization implementing the findings that would help the organization to increase its efficiency (Sharma, 1).

 Ratios are only post mortem analysis of what has happened between two balance sheet dates. For one thing, they gain no clue about the future. Ratio analysis in view of its several limitations should be considered only as atoll for analysis rather than as an end itself (Sharma, 1).

From the analysis it is evident that the gross profit ratio is good, where as operating ratio is around optimum level to the industry standards. As a whole, the liquidity position of the company is good. Thus finally the company must try to improve its profit margins as they are below industry levels. This improvement may also bring up its return on investment and overall efficiency to the company. The business environment of the company is reasonably good. The company’s track record is always oriented towards profitable growth and with strong fundamentals.

Demand for carbonated soft drinks has been negatively affected from the concerns of the growing health, nutrition and obesity concerns of today’s population. Carbonated soft drinks have dropped from 60% to 35% of the total US beverage volume (Seghetti, 1). Carbonated soft drink companies such as Coca-Cola have also been under a lot of heat because of public policy challenges regarding the sales of soft drinks in grade schools. Recent trends have led to a change from carbonated soft drinks to diet beverages, sports drinks, and flavored water.

Coca-Cola faces a risk from increasing price movements for commodities that are required in for its operations (Seghetti, 2). Changes in the prices of these raw materials will pass onto the customers if the company wishes to remain profitable. This change and potential increase in price of products could potentially result in a loss of customers, as they may choose to switch to more inexpensive alternatives. Coca-Cola faces price risk on commodities such as aluminum, corn and resin which affects the cost of raw materials used in the production of finished products. In addition, Coca-Cola is exposed to commodity price fluctuations on crude oil. This is important because this affects the company's cost of fuel used in the movement and delivery of its products (Seghetti, 2).

In the fiscal year 2010, Coca-Cola reported very strong financial performance with a reported net income of $36.1 million, or $3.93 net income per share. Throughout the year, Coca-Cola saw an improvement across many channels of their business that helped drive an increase in case volume of 4.4% (Seghetti, 3). This was the highest volume growth the company has seen in over five years. Coca-Cola is also focusing its efforts to improve the balance sheet in order to better position the company to react to opportunities when they are available. This dedication is shown through the decrease of long-term debt by over $450 million in past 10 years. Coca-Cola plans to continue to use its available annual cash flows to reduce long-term debt. Coca-Cola is on the smaller end when compared in market capitalization to its competitors and the industry. This is because the company strictly focuses on bottling distribution aspects, whereas its competitors develop, market, sell, and distribute their products.

Based on its positive operating, gross, and net margins, we can see that Coca-Cola operates under profitable conditions. Although the company converts an above median percentage of its revenues to gross profits, it fails to do the same for operating and net profits (Seghetti, 4). The company’s 6.36% operating margin and 2.61% net profit margin is far lower than the competitors listed and the overall industry average. In addition, Coca-Cola saw its earnings drop despite of positive revenue growth during the past fiscal year. When compared to the industry average, Coca-Cola is heavily lagging behind in both these metrics.



In the last 7 years, the company has been averaging a compound annual growth rate of just under 5%. In addition to the higher revenues, profit margin is slightly improving year over year. The Company has a debt to total capital ratio of 75.44% which is relatively high when compared with the non-acoholic beverages industry's norm. Coca-Cola is moving in the right direction as it is decreasing its debt-to-total capital ratio year over year; on the other hand, the industry is actually moving the opposite direction as its debt-to-total capital ratio is increasing (Seghetti, 4). When compared with competitors that are similar in market capitalization, the company’s quick ratio is high. With a quick ratio of 1.13 and an interest coverage ratio of 1.75, the company should be able to comfortably repay its debt. Looking at Coca-Cola’s cash conversion cycle, we see that it is almost twice as large as the industry average. This is a bad sign as this shows that the company takes a longer time than its competitors to convert resource inputs into cash flows.



In the 7 year time span, Coca-Cola is showing steps in both reducing its dependence on debt and also increasing its liquidity. Its LT Debt/Equity ratio has decreased substantially from 765.15 to 315.76. This is the same case for LT Debt/ Total Capital ratio, which decreased from 87.34 to 75.44. Looking at the liquidity metrics, we see that all three ratios have increased during the timeline. This is a positive sign as the company is better positioning itself to handle any unanticipated conditions.



From the above timeline, I can see that while ROA, ROC, and revenue per employee are on an upward trend, ROE has been very volatile. ROA has almost doubled from 1.64% in 2004 to 3.05% in 2010. ROC has increased from 5.87% to 8.10% in these same 7 years. Revenue per employee has been on a constant rise and increased almost by $93,000 within this time span. However, we cannot really deduce anything from ROE since there doesn’t seem to be a noticeable trend. ROE hit its high in 2004 at 37.38% and had its low in 2008 at 9.24%. Since then, ROE has recovered and continued to hover around its usual range of 30%.

**Cash flows from operations, investments and other financial activities:**

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2013 | 2012 | 2011 |
| Net Income | 8626.00 | 9086.00 | 8634.00 |
| Depreciation/Amortization and depletion | 1977.00 | 1982.00 | 1954.00 |
| Net Change from Assets/Liabilities | -932.00 | 1080.00 | -1893.00 |
| Net cash from Discontinued Operations | 0.00 | 0.00 | 0.00 |
| Other operation activities | 871.00 | 657.00 | 779.00 |
| Net case from operating activities | 10542.00 | 10645.00 | 9474.00 |
| Property and equipment | 2439.00 | 2637.00 | -2819.00 |
| Acquisition/disposition of subsidiaries | 519.00 | 654.00 | -415.00 |
| Investments | -1991.00 | -9234.00 | 803.00 |
| Other investing activities | -303.00 | -187.00 | -93.00 |
| Net cash from investing activities | -4214.00 | -11404.00 | -2524.00 |

**Uses of funds:**

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2013 | 2012 | 2011 |
| Issuance (repurchase) of capital stock | -3054.00 | -3070.00 | -2944.00 |
| Issuance (repayment) of debt | 4711.00 | 4218.00 | 4965.00 |
| Increase (decrease) short-term debt | 0.00 | 0.00 | 0.00 |
| Payment of dividends and other distributions | -4969.00 | -4595.00 | -4300.00 |
| Other financing activities | 17.00 | 100.00 | 45.00 |
| Net cash from financing activities | -3745.00 | -3347.00 | -2234.00 |
| Effect of exchange rate changes | -611.00 | -255.00 | -430.00 |
| Net change in cash and equivalents | 1972.00 | -4361.00 | 4286.00 |
| Cash at beginning of period | 8442.00 | 12803.00 | 8517.00 |
| Cash at end of period | 10414.00 | 8442.00 | 12803.00 |
| Diluted net EPS | 1.90 | 1.97 | 1.85 |

Coca Cola’s financing activities include net borrowings, dividend payments, share issuances and share repurchases. The current yield on Coca-Cola bonds is 3.03%; Coca Colas current stock price is $40.88 (Quicktake, 1). Coca Cola maintains debt levels considered prudent based on the company’s cash flows, interest coverage ratio and percentage of debt to capital. Coca Cola uses debt financing to lower their overall cost of capital, which increases their return on shareowners' equity. This exposes them to adverse changes in interest rates. Coca Cola’s interest expense may also be affected by their credit ratings. Coca Cola’s capital structure consists of 54.2% debt and 45.8% equity (Quicktake, 2). The company monitors their interest coverage ratio and the rating agencies consider the ratio in assessing credit ratings. However, the rating agencies aggregate financial data for certain bottlers along with the company when assessing their debt rating. As such, the key measure to rating agencies is the aggregate interest coverage ratio of the Coca Cola and certain bottlers. Coca Cola’s global presence and strong capital position give them access to key financial markets around the world, enabling them to raise funds at a low effective cost. This position, coupled with active management of Coca Cola’s mix of short-term and long-term debt and their mix of fixed-rate and variable-rate debt, results in a lower overall cost of borrowing. Coca Cola’s debt management policies, in conjunction with their share repurchase programs and investment activity, can result in current liabilities exceeding current assets.

The graph illustrated below compares Coca Cola’s stock price trends with the major competitors in the beverage industry, Pepsi and Dr. Pepper Snapple group. This graph shows the trends between 2011 and 2013 Yahoo Finance, 1).



Coca Cola Strengths (WSJ, 3)

1. The best global brand in the world in terms of value: The Coca Cola Company is the most valued ($77,839 billion) brand in the world.
2. World’s largest market share in beverage: Coca Cola holds the largest beverage market share in the world (about 40%).
3. Strong marketing and advertising: Coca Cola’ advertising expenses accounted for more than $3 billion in 2012 and increased firm’s sales and brand recognition.
4. Most extensive beverage distribution channel: Coca Cola serves more than 200 countries and more than 1.7 billion servings a day.
5. Customer loyalty: The firm enjoys having one of the most loyal consumer groups.
6. Bargaining power over suppliers: The Coca Cola Company is the largest beverage producer in the world and exerts significant power over its suppliers to receive the lowest price available from them.
7. Corporate Social Responsibility. Coca Cola is increasingly focusing on customer social responsibility programs, such as recycling/packaging, energy conservation/climate change, active healthy living, water stewardship and many others, which boosts company’s social image and result in competitive advantage over competitors.

Coca Cola Weaknesses (WSJ, 4)

1. Significant focus on carbonated drinks: The business is still focusing on selling Coke, Fanta, Sprite and other carbonated drinks. This strategy works in short term as consumption of carbonated drinks will grow in emerging economies but it will prove weak as the world is fighting obesity and is moving towards consuming healthier food and drinks.
2. Undiversified product portfolio: Unlike most company’s competitors, Coca Cola is still focusing only on selling beverage, which puts the firm at disadvantage. The overall consumption of soft drinks is stagnating and Coca Cola Company will find it hard to penetrate to other markets (selling food or snacks) when it will have to sustain current level of growth.
3. High debt level due to acquisitions: Nearly $8 billion of debt acquired from CCE’s acquisition significantly increased Coca Cola's debt level, interest rates and borrowing costs.
4. Negative publicity: The firm is often criticized for high water consumption in water scarce regions and using harmful ingredients to produce its drinks.
5. Brand failures or many brands with insignificant amount of revenues: Coca Cola currently sells more than 500 brands but only few of the brands result in more than $1 billion sales. Plus, the firm’s success of introducing new drinks is weak. Many of its introduction result in failures, for example, C2 drink.

Coca Cola Opportunities (WSJ, 4)

1. Bottled water consumption growth: Consumption of bottled water is expected to grow both in US and the rest of the world.
2. Increasing demand for healthy food and beverages: Due to many programs to fight obesity, demand for healthy food and beverages has increased drastically. The Coca Cola Company has an opportunity to further expand its product range with drinks that have low amount of sugar and calories.
3. Growing beverages consumption in emerging markets: Consumption of soft drinks is still significantly growing in emerging markets, especially BRIC countries, where Coca Cola could increase and maintain its beverages market share.
4. Growth through acquisitions: Coca Cola will find it hard to keep current growth levels and will find it hard to penetrate new markets with its existing product portfolio. All this can be done more easily through acquiring other companies.

Coca Cola Threats (WSJ, 5)

1. Changes in consumer tastes: Consumers around the world become more health conscious and reduce their consumption of carbonated drinks, drinks that have large amounts of sugar, calories and fat. This is the most serious threat as Coca Cola is mainly serving carbonated drinks.
2. Water scarcity: Water is becoming scarcer around the world and increases both in cost and criticism for Coca Cola over the large amounts of water used in production.
3. Strong dollar: More than 60% of The Coca Cola Company income is from outside US. Due to strong dollar performance against other currencies firm’s overall income may fall.
4. Legal requirements to disclose negative information on product labels: Some Coca Cola’s carbonated drinks have adverse health consequences. For this reason, many governments consider to pass legislation that requires disclosing such information on product labels. Products containing such information may be perceived negatively and lose its customers.
5. Decreasing gross profit and net profit margins: Coca Cola’s gross profit and net profit margin was decreasing over the past few years and may continue to decrease due to higher water and other raw material costs.
6. Competition from PepsiCo: PepsiCo is fiercely competing with Coca Cola over market share in BRIC countries, especially India.
7. Saturated carbonated drinks market: The business significantly relies on the carbonated drinks sales, which is a threat for the Coca Cola as the market of carbonated drinks is not growing or even declining in the world.

Summary of a Recent Press Release (Coca Cola Company, 1)

The Coca-Cola Company and Monster Beverage Corporation announced today that they have entered into definitive agreements for a long-term strategic partnership that is expected to accelerate growth for both companies in the fast-growing, global energy drink category. The new, innovative partnership leverages the respective strengths of The Coca-Cola Company and Monster to create compelling value for both companies and their shareowners. Importantly, the partnership strategically aligns both companies for the long-term by combining the strength of The Coca-Cola Company's worldwide bottling system with Monster's dedicated focus and expertise as a leading energy player globally.

Details of the Transactions:

Equity Investment: In an effort to align long-term interests, The Coca-Cola Company will acquire an approximately 16.7% ownership interest in Monster (post issuance) and will have two directors on Monster's Board of Directors. The Coca-Cola Company expects to account for its investment in Monster under the equity accounting method.

Business Transfers: To optimally align product portfolios and enable those portfolios to benefit from each company's respective brand marketing, production and distribution strengths and optimize the parties' capital and resource allocation, The Coca-Cola Company will transfer ownership of its worldwide energy business, including NOS, Full Throttle, Burn, Mother, Play and Power Play, and Relentless, to Monster; and Monster will transfer its non-energy business, including Hansen's Natural Sodas, Peace Tea, Hubert's Lemonade and Hansen's Juice Products, to The Coca-Cola Company.

Distribution: The Coca-Cola Company and Monster will amend their current distribution agreement in the U.S. and Canada by expanding into additional territories and entering into long-term agreements. The Coca-Cola Company will become Monster's preferred distribution partner globally and Monster will become The Coca-Cola Company's exclusive energy play. These agreements will deliver sustainable value to The Coca-Cola Company's global system and accelerate Monster's opportunity to grow internationally.

Pursuant to the terms of the transaction agreements, at the closing, The Coca-Cola Company will make a net cash payment of $2.15 billion and transfer its worldwide energy business to Monster. In exchange, Monster will issue to The Coca-Cola Company the shares of Monster common stock, transfer its non-energy business to The Coca-Cola Company, and enter into expanded distribution arrangements. The transaction, which is expected to close late in 2014 or early in 2015, is subject to customary closing conditions, including receipt of regulatory approvals.

Muhtar Kent, Chairman and CEO if Coca-Cola stated the following:

"The Coca-Cola Company continues to identify innovative approaches to partnerships that enable us to stay at the forefront of consumer trends in the beverage industry. Our equity investment in Monster is a capital efficient way to bolster our participation in the fast-growing and attractive global energy drinks category. This long-term partnership aligns us with a leading energy player globally, brings financial benefit to our Company and our bottling partners, and supports broader commercial strategies with our customers to bring total beverage growth opportunities that will also benefit our core business. We are excited to evolve our long-time partnership. Monster has been an important part of our global system since 2008, so we have experienced first-hand Monster's performance-driven and entrepreneurial culture, proven success in building and extending the Monster brand and their strong product innovation pipeline. We believe this partnership will create compelling and sustainable value for our system and our shareowners."

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Changes Made:

Added section on the major operations of coca cols and why I picked this company for my analysis.

Added references to paper, mostly in part3.

Added commentary regarding the overall beverage industry, insight in the company’s financial ratios compared to the industry averages and what they mean to Coca Cola.