A Financial Analysis and Valuation of Coca-Cola Company

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Abstract. The primary objective of this research is to evaluate the business value of a prominent global entity. For this purpose, the Coca-Cola Company is selected as it stands as one of the most renowned and successful global brands, boasting a strong track record in international operations. This paper commences with a succinct overview of the Coca-Cola Company, followed by an in-depth analysis of its current market position. Employing tools such as the SWOT analysis, the study delves into the company's strengths, weaknesses, opportunities, and threats. Furthermore, a Multiples Valuation model is utilized to assess the reasonableness of Coca-Cola's stock price in 2022. The findings reveal Coca-Cola's commendable success in implementing its strategies worldwide. However, it also highlights lingering threats and risks that the company has yet to fully address. This comprehensive examination contributes to a better understanding of Coca-Cola's global business value and sheds light on areas for potential improvement and strategic focus.

Keywords: Coca-Cola Company; Financial Performance; Valuation; Risk Assessment.

1. Introduction

The Coca-Cola firm is a global beverage firm, and its trademarked beverage products, which have been sold in the US since 1886, are currently available in more than 200 nations and territories. It's main product is Coca-Cola. Moreover, the Coca-Cola company also produces and sells some another soft drink like Fanta and Sprite. Despite these soft drink brands, juice and other plant-based beverage brands are also included, like Minute Maid.

The following Figure 1 shows the company's market segments, also known as operating structure which is composed of many parts. The mainly part is based on geographic which includes the following segments: Europe, Middle East & Africa, Latin America, North America and Asia pacific. Additionally, the operating structure also based on non-geographic which refers to corporate with Bottling Investments Group around the world and establishing Global Ventures to invest some other brands like monster beverages and innocent juice [1].

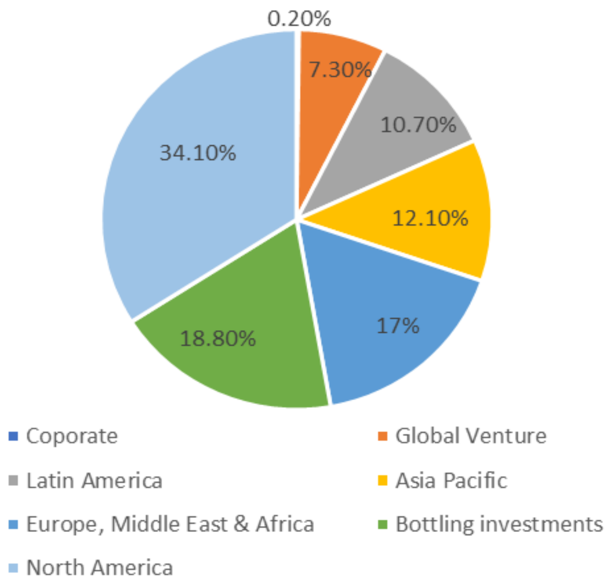

Fig. 1 Coca-Cola Market Segmentation [2]

The company provide the beverage products to customers all around the world through their own network which can be used to connect with all the wholesalers, distributors and retailers to send and receive sufficient information as soon as possible. According to the recent data, there are approximately 64 billion beverages consumed daily, among them, 2.2 billion comes from Coca-Cola. According to the data surveyed from 2018 to 2022 in Table 1, the Coca-Cola Company accomplished a more substantial rise from a total revenue of 34.3 billion in 2018 to 43 billion in 2022.

Table 1. Total revenue (billion)from 2018 to 2022

Year	Total Revenue (billion)
2018	34.3
2019	37.27
2020	33.01
2021	38.66
2022	43

The Coca-Cola firm announced that start to ceasing operations in Russia due to the crisis involving Russia and Ukraine on March 8, 2022. Their business also been disrupted by the conflict in Ukraine. The Company will keep an eye on the situation as it changes. The Coca-Cola company always has a prospective growth vision which is to transform the word to a better direction and make a difference. Their brands are established focused on what people really enjoy and trying to find a more sustainable way to product the productions to make a contribution to global improvement. Although the current situation of world is more and more challenging, the Coca-Cola firm never stops their steps to create more benefits and value for itself and the shareholders and customers all around the world. The following analysis of the Coca-Cola is based on the data which comes from the annual report in 2022.

2. SWOT Analysis

Being a multinational corporation provides the Coca-Cola many special opportunities play a dominant role in the highly competitive beverage industry. However, it also faces some threats and challenges which cannot be overlooked. SWOT analysis model will be conducted to analysis the overall situation which the company is facing.

2.1. Strengths

Diversified market strategies: The first obvious and biggest strengths for Coca-Cola is having a diversified market strategy. It products can be targeted to people from all ages and different preference. Coca-Cola runs a variety of campaigns that target a wide range of individuals worldwide. The timely and appropriate Research and Development and Adverting to its products are make Coca-Cola be a leader in the beverage industry.

Strong brand recognition: One of the Coca-Cola’s greatest, almost unmatched strengths is its strong brand recognition [3]. The Coca-Cola brand is well-known worldwide which gives consumers the impression that they are a part of something fashionable, trendy, and popular in addition to its delicious flavor.

Customer loyalty: Another significant strength is strong customers’ loyalty. As mentioned in the beginning, Coca-Cola has many different market segments all around the world which enables its products to reach a wide range of consumers.

Superb supply chain management: Coca-Cola has launched over 500 new varieties globally and sells 1.9 billion products every day in more than 200 countries. Compared to independent bottlers, wholesalers, and retailers, Coca-Cola has a different power to leverage distributors that it owns and controls [4]. Coke is permitted by the system to tightly control expenses, launch new products into the market fast, and dominate local markets.

Large market share: Figure 2 below shows the share of voice for beverage brands around the world. According to the graph, Coca-Cola had the largest volume of market shares which was 2.5 times greater than the other largest beverage company Pepsi.

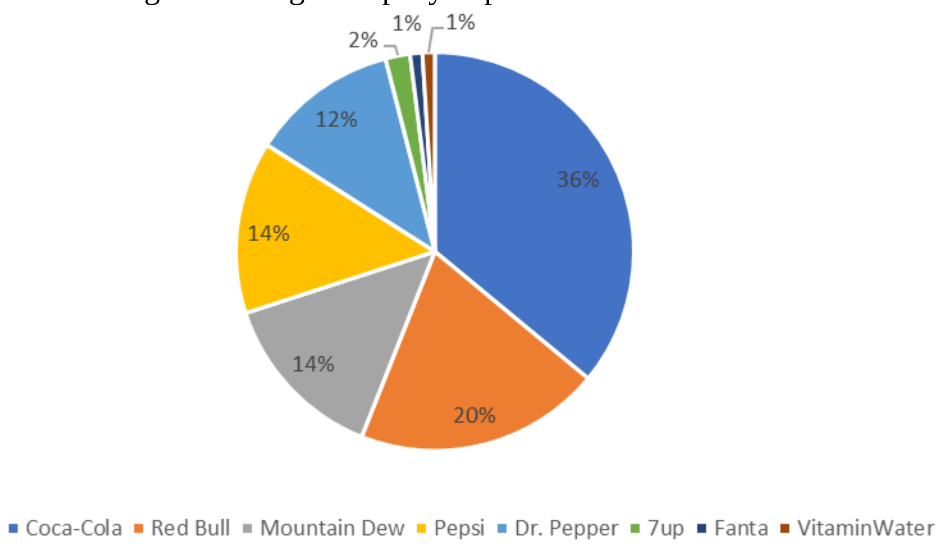

Fig. 2 The total market shares of leading beverage brands [5]

2.2. Weakness

Lack of healthy beverage: Despite the Coca-Cola is a successful company in the world, it still has some weakness which have an effect on its further development. The mainly weakness that the Coca-Cola is facing is it produces little products related to health. It will lead to a result that lacking of the satisfactions of consumers who are concerned about health. In fact, Coca-Cola attempted to introduce a kind of healthy beverage called Dasani, a bottled water in the UK [6]. As a result, due to the detection of excessive quantities of bromate in this product, Coca-Cola had to recall this beverage which makes it find challenging to introduce the healthier beverage.

Low level of product diversification: Compared to its largest competitor Pepsi, its productions are lack of diversification. Pepsi has found another strong market segment of snacks industry like Kurkure and Lays. Product differentiation is important because both rivals are in the same soft drink industry [6]. Thus, the only efficient way they can outperform one another in the market is by providing some unique products. The industry is highly competitive due to a high level of rivalry.

2.3. Opportunities

Growing global expansion: Businesses in the beverage industry have a chance to benefit from developing global expansion markets. The consumption of beverages is rising, particularly in Asian nations like China. There are countries where the average per-capita consumption remains high [3]. This group of countries includes China and India, the two most populous countries in the world. The industry has enormous growth potential in these markets. By sustaining and expanding its product presence in those developing markets, Coca-Cola may gain market share.

A healthier lifestyle trends: Another opportunity which Coca-Cola can catch is there is a growing trend of living healthier all around the world. Customers' health focus can drive Coca-Cola to choose healthier options like producing more healthier water and less sugary drinks in place of traditional types of drinks. If Coca-Cola can take the most advantage of this trend, it can successfully gain more market shares in the beverage industry and increase its revenue and earnings as well.

Wide range of business scope: At present, Coca-Cola has cooperated with McDonald’s to provide the beverage almost all around the world. Nowadays, there are many public welfare activities and Olympic Games. Coca-Cola can sponsor these activities and games to make its brand being exposure to more public views, which is a great chance to promote its products to more kinds of people.

2.4. Threats

Fierce competition: Although the Coca-Cola is a successful company and already have a large proportion of market shares in the beverage industry, it still faces some serious threats from its largest rivals like PepsiCo, Nowadays, Pepsi is expanding rapidly and offers a wide range of products. They focus on some another markets which Coca-Cola does not involve in like snacks which can help Pepsi acquire a sizable customer base.

Changing customers' tastes: Another biggest threats to Coca-Cola are more and more customers' tastes are changing which paying more attention in their physical health. Although some beverage businesses have begun to provide several low-calorie drinks, there is a growing awareness among consumers about obesity, especially with the consumption of non-diet carbonated soft drinks, is anticipated to reduce future youth segment demand for the company's products. To maintain the market shares, Coca-Cola must expand into this new healthy market and diversify the products it offers. However, there is large chance to fail for Coca-Cola to establish itself in this emerging trend due to the company is more adept in introducing more kinds of products in the mature market. If it fails, it is highly possible that the demand for high-calorie drinks will be declined, leading a serious threat to Coca-Cola.

3. Multiples Valuation

Coca-Cola has many advantages and disadvantages along with some threats and opportunities by assessing its internal components according to the SWOT analysis above. Base on this analysis, Coca-Cola can develop a profitable strategy to address its existing issues to help the firm to achieve their goals of expanding internationally.

A more quantitative method of estimating the current performance of Coca-Cola is performing multiples valuation model. The main idea for this method is estimating a company's stock value by comparison, indicating that if the companies are in the similar characteristics or attributes, it means they should have the similar market values as well. There are many kinds of valuation multiples can be chosen, but the most common are price-earnings ratio and the Enterprise Value / EBITEA multiples. The general formula for this method is V Firm = M Peers ∗ X Firm, where X is a certain comparable valuation multiple used, like P/E and Enterprise Value / EBITEA. In order to analyse the situation of Coca-Cola's stock price, P/E ratio will be considered to be used in this model. There are three main steps to get the final results. The first step is to identify the appropriate competitors in the same industry with similar attributes. Next, compute P/E ratios for each of these competitors and find the average amount like mean or media value as well. The final steps is multiplying the average P/E ratio by the Coca-Cola's earnings and find the results. Table 2 to Table 5 show the process of calculating based on these three steps.

Table 2. Financial Data for Coca-Cola and its competitors (Dec. 31, 2022) [7]

	Coca-Cola	PepsiCo Inc	Monster Beverage Corp	Keurig Dr Pepper Inc
Enterprise Value (billion)	301.45	281.4	50.36	62.71
Cash (billion)	10.56	5.35	2.67	0.54
EBITDA (billion)	13.83	14.92	1.65	3.12
Net income (billion)	9.54	8.91	1.19	1.44
Share price (billion)	60.11	169.11	57.96	31.81
Earnings per share (EPS) (billion)	2.19	6.45	1.12	1.01
Price/Earnings	27.9	25.85	44.92	27.86
Enterprise Value/EBIDTA	21.25	16.75	30.31	17.07
Market Beta	0.62	0.71	0.85	0.68

Table 2 shows that taking some relevant factors into consideration, like being in the same industry, producing the similar products and having the similar capital structures and financial risk, three appropriate competitors are selected: PepsiCo Inc, Monster Beverage Corp and Keurig Dr Pepper Inc.

Table 3. Analyst Data for Coca-Cola's Competitors (2022) [7]

	Stock price (2022)	EPS (2022)	EPS (2023 forecast)	EPS (2024 forecast)
Coca-Cola	60.20	2.19	2.45	2.56
PepsiCo Inc	166.92	6.45	6.88	7.43
Monster Beverage Corp	30.45	1.12	6.54	1.82
Keurig Dr Pepper Inc	23.36	1.01	1.78	1.91

Table 4. Forecast P/E ratios for each competitor relate to 2022 P/E ratios [7]

	P/E (2022)	P/E (using EPS 2023 forecast)	P/E (using EPS 2024 forecast)
Monster Beverage Corp	27.2	19.8	16.7
PepsiCo Inc	25.9	24.3	22.5
Keurig Dr Pepper Inc	23.1	13.1	12.2
P/E (median) of the comparable firms:	25.9	19.8	16.7
P/E (average) of the comparable firms:	25.4	19.1	17.1

After finding the appropriate competitors and get their financial data, it then uses the forecast EPS to compute the forecast P/E ratios for each Coca-Cola's competitors, as shown in Table 3 and Table 4. Finally, the media and average amount of P/E ratio of all the comparable firms can easily be carried out as well.

Table 5. Price per share using 2022 EPS and forecast EPS in 2023 and 2024

	Price (using2022 actual EPS)	Price (using 2023 EPS forecast)	Price (using 2024 EPS forecast)
Median of the comparable firms	56.68	48.44	42.83
Average of the comparable firms	55.62	46.68	43.88

Table 5 shows the final results of the media and average price per share of the Coca-Cola's competitors which are in the same industry. It needs to be emphasized that this paper used the forecast EPS value to assume instead of the actual EPS in 2022. This is because forecast EPS is a more accurate and reasonable value which the management company's prospective views of the performance in the future.

Comparing the media and average price per share in the industry to the Coca-Cola's current stock price which is £60.2, it is slightly overvalued. Due to several competitive advantages, the analysts indicate Coca-Cola may have a increasing growth rate and strong ability to make a more profit in the future. These are the reasonable reasons why Coca-Cola's stock price in 2022 are overvalued.

4. Business Strategies and Risks

4.1. Business Strategies

In order to maintain its dominant leadership in the beverage industry, Coca-Cola has a lot of business strategies in the long run. STP analysis model can be applied to explain the Coca-Cola's business strategies.

'S' represents Segment. Coca-Cola always seeks to carve out a distinct niche for itself in the market by growing its customer base and combating product counterfeiting [8]. Because people are becoming more and more concerned about their health these days, Coca-Cola attempts to classify its product as zero-calorie and diet Cola in terms of lowering the sweetness without compromising the flavours. In addition, they developed a new beverage consumption segmentation for the price-conscious customer with established habits: tea.

'T' represents Targeting. Before preparing a new product, Coca-Cola always attempt to choose the best business and segment to make its product can penetrate different products into different market as a targeting strategy. For example, Coca-Cola concentrates on the 18–30 age group since they are the biggest Coca-Cola product consumers and have the most potential for brand loyalty in the future.

'P' represents Position. In order to undertake the positioning strategy, Coca-Cola has identified the elements influencing customers to make a purchase. By analysing these factors of purchasing, Coca-Cola introduces a lot of particular goods which can tailored to the specific area tastes, which is famous for localization [9].

4.2. Business Risks

Coca-Cola also has may risks which cannot be ignored. Increased competition and Sustainability matters are the two main risks which Coca-Cola is facing now.

Increased competition: Coca-Cola is in the strong competition beverage industry. Due to increasing numbers of, it is difficult for Coca-Cola to increase or retain market shares. It may force the Company and its bottling partners to lower the prices charging customers. These will threat the role of leadership for Coca-Cola.

Sustainability Matters: As all the people around the world focus on the sustainability matters, Coca-Cola are facing a big challenges and risks to take a responsibility to take some actions to develop the global goals for sustainability, such as climate change, health lifestyle and reducing water pollution [10].

5. Conclusion

This paper briefly introduced the current situation of Coca-Cola Company and found that it has strong market segment system around the wold in addition to Bottling Investments Group and Global Ventures scheme which make Coca-Cola has fundamental customer base. Through the SWOT analysis, this paper has clearly found that Coca-Cola has many inherent strengths and beneficial opportunities that make it play a dominant role in the beverage industry. However, although it has already achieved great success in the world, there are still some inherent weakness and treats which impede its future development. For further more accurate analysis of the value of Coca-Cola Company, this paper conducted the Multiples Valuation Model, quantitative method, to estimate the how the current performance of Coca-Cola. By comparing other competitors in the same industry, it concluded that its stock price in 2022 is overvalued slightly as it has several competitive advantages which other competitors do not have. The final part takes further concretize STP analysis for the business strategies and also consider some other risks for the Coca-Cola Company, finding that Coca-Cola Company still need take more responsibility for many areas, especially in social sustainability. Additionally, if it can expand its business scope and make its products more diversified, it will attract more types of people and gain some more market shares in the beverage industries. In conclusion, the investors are confident in the development of Coca-Cola Company and it is a good choice to invest the Coca-Cola Company.

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