Coca-Cola Co KO (XNYS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	38.33 USD	44.00 USD	0.87	2.98	168.88	Beverages - Soft Drinks	Exemplary
02 Apr 2014	02 Apr 2014			02 Apr 2014	02 Apr 2014		

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Wide	Wide
Valuation	★★★★	Fairly Valued
Uncertainty	Low	Low
Financial Health	AA-	Strong

Source: Morningstar Equity Research

Quantitative Valuation

KO USA

Undervalued | Fairly Valued | Overvalued

	Current	5-Yr Avg	Sector	Country
Price/Intrinsic Value	0.96	0.95	1.02	1.03
Price/Earnings	20.2	18.3	19.2	20.9
Forward P/E	16.6	—	15.1	14.2
Price/Cash Flow	16.4	16.5	11.7	12.3
Price/Free Cash Flow	21.7	22.3	19.6	20.8
Dividend Yield %	2.98	2.75	1.97	2.02

Source: Morningstar

Bulls Say

- Coca-Cola's distribution network spans more than 200 countries. This infrastructure would be extremely difficult and costly for new entrants to duplicate.
- Coke has ample runway for growth in emerging markets where per capita consumption is relatively low.
- Coca-Cola and its global bottlers tend to have a very symbiotic relationship and are largely focused on the same goals.

Bears Say

- Coke's revenue base is relatively undiversified compared with PepsiCo's; Pepsi's snack business has proved quite resilient during economic downturns.
- Despite the popularity of Coke's flagship brand, cola consumption has been declining in the U.S.
- Soft drink bottling operations are capital-intensive and lower-margin than Coke's core concentrate and syrup business. Consequently, Coke's profitability could be hurt by its acquisition of CCE's North American assets.

Coke's global brands and distribution network are unmatched.

R.J. Hottovy, CFA, 27 February 2014

Investment Thesis

Coca-Cola described its 2020 vision in 2009 and since then has been making steady progress in achieving its goals. The company hopes to double the amount of Coca-Cola beverages consumed around the world and double system revenue in that time frame. While we believe that volume growth during the next decade will be led by emerging markets, we also think that Coca-Cola's sales in mature geographies will also expand as it continues to broaden its portfolio of still beverages. Coca-Cola's vast distribution network and powerhouse brands are second to none and have helped the company create one of the widest economic moats in our consumer defensive coverage universe. We believe the firm's wide moat justifies an above-average multiple and that the shares are undervalued compared with our $44 fair value estimate.

While declining consumption of carbonated beverages in North America is a near-term headwind for Coke, we believe international markets will provide plenty of growth opportunities in the long term. Barring any strategic missteps, we view Coca-Cola as a haven in an uncertain economic environment, given that it has one of the widest moats in our consumer coverage universe.

Even though its distribution network spans the globe, Coke continues to invest for international growth. The company and its bottling partners intend to invest billions during the next few years in countries such as China, Russia, and Brazil, where per capita consumption is increasing in light of a burgeoning middle class. For example, annual per capita consumption of Coca-Cola products in China is currently just 38 servings, versus eight servings in 1998 and more than 400 servings in the United States. We think these investments will build out the firm's manufacturing and distribution footprint to such an extent that it would be too costly for a new entrant to duplicate, solidifying the sustainability of Coke's competitive advantages.

R.J. Hottovy, CFA, 18 February 2014

Analyst Note

While Coca-Cola's fourth-quarter volume growth moderated to just 1%, 7 percentage points of adverse exchange rates will have a negative impact on the firm's 2014 operating profit. Management remains committed to Coke's 2020 vision and its long-term growth algorithm (which includes high-single-digit growth in constant currency EPS). Even though Coke's 2013 volume growth was tepid--partly the result of emerging-market headwinds--we believe the firm's economic moat remains wide with a strong brand portfolio that commands pricing power. Longer-term, we believe that Coca-Cola will benefit from rising per capita emerging-market consumption across its entire beverage portfolio, as government-led wage rate increases and infrastructure investments, a flight to urban centers, and younger populations are all conducive to favorable emerging-market disposal income trends. This should help drive volume growth of 3% to 4%, and sales growth of 5% to 6%.

This Friday, Coca-Cola management will present at the Consumer Analyst Group of New York, or CAGNY, conference in Florida. They will be discussing the firm's long-term growth opportunities in more detail. As such, we will wait to update our valuation model or change our $45 fair value estimate. However, given the near-term currency headwinds, new soda taxes in Mexico, and declining diet soda consumption in the United States, we may end up slightly reducing our fair value estimate.

For the year, comparable constant currency revenue grew 3%, and constant currency operating profit climbed 6%. Adjusted EPS was $2.08, an increase of 8%. Going forward, Coca-Cola plans to achieve $1 billion of cost savings by 2016 (primarily in supply chain and IT functions). The firm will reinvest these cost savings into increased media investments. In our opinion, this is a prudent use of capital because much of Coca-Cola's wide economic moat is centered on its power brands.

Economic Moat

27 February 2014

Coca-Cola's massive scale and global distribution network are the key sources of the company's wide economic moat. Although consumer tastes in several developed markets are shifting away from Coke's core carbonated products, the firm has aggressively pursued growth in emerging categories. As long as Coke remains focused on the demands of the consumer, we expect its distribution network to preserve Coke's position as the leading global beverage supplier and to maintain its solid returns on

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Nestle SA NSRGY	USD	242,920	100,005	14.15	21.51
PepsiCo Inc PEP	USD	125,954	66,415	14.61	19.16
Monster Beverage Corp MNST	USD	11,623	2,246	25.50	35.71
Dr Pepper Snapple Group, Inc. DPS	USD	10,606	5,997	17.44	17.61

invested capital.

Furthermore, in many markets, Coke operates a direct distribution system, whereby its distributors physically place products onto retailers' shelves. This access to retailers gives Coke a significant competitive advantage over second-tier manufacturers that distribute through third parties. In our view, the financial resources required to replicate Coke's direct distribution footprint act as a barrier to entry.

Additionally, the Coca-Cola brand is arguably one of the strongest and most enduring brands in the world. This can drive meaningful retail traffic, giving Coke substantially more power over retailers than many other consumer staple companies.

Valuation

27 February 2014

Following the company's fourth-quarter earnings, we are reducing our fair value estimate to $44 per share from $45, as near-term currency swings have meaningfully muted the company's earnings growth in 2014. Our new fair value estimate implies fiscal 2014 price/earnings of nearly 21 times, an enterprise value/EBITDA of 15 times, a free cash flow yield of 4.4%, and a dividend yield of 2.5%. We believe that Coca-Cola's wide economic moat and opportunities for continued growth merit above-average valuation multiples.

Volume and pricing are key drivers of our valuation model. We forecast Coca-Cola's top line to grow roughly 5.5% per year during the next decade, driven by roughly 3%-4% volume growth and 1%-2% pricing growth. We believe operating margins should range between 25% and 27.5%, in line with the average adjusted operating margin during the past five years. From our perspective, earnings per share growth should outpace top-line growth as the firm uses the substantial free cash flow it generates to reduce debt and repurchase shares.

Our estimates for Coke's revenue and earnings per share growth are within the range of the company's long-term targets of 5%-6% compound annual growth for the top line and 7%-9% compound annual growth for long-term EPS growth. For 2014, we expect Coca-Cola to generate about $47 billion in revenue and earn $2.10 per share.

Risk

27 February 2014

Coke's sales and profitability could be negatively affected beyond our forecasts by greater-than-expected increases in commodity prices, particularly for raw materials such as sugar, cocoa, and oranges. Ownership of the company's North American distribution platform will increase Coke's exposure to other commodities such as aluminum and plastic resins, and the deal is not without integration risk. With about 60% of revenue being generated outside the U.S., the firm is subject to currency and geopolitical risks in overseas markets. Sales of Coke's carbonated drinks could be hurt by negative publicity regarding health issues concerning drinks with high sugar content, and Coke's sugary drink volume could be constrained should governments look to increase taxes on soda.

Management

R.J. Hottovy 27 February 2014

Coca-Cola generally has a high standard of management stewardship. We attribute the firm's consistent execution in the difficult operating environment of the past several years to strong leadership and a very deep bench. We are also impressed by management's focus on the company's 2020 vision, which emphasizes making the best decisions to expand the business over the long term, not just the next quarter.

Muhtar Kent is CEO and chairman. In general, we prefer to see these roles separated. Executive compensation is generous, but incentive-based pay does appear to be aligned with the long-term interests of shareholders.

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Analyst Notes Archive

Near-Term Challenges Do Not Diminish Coca-Cola's Long-Term Opportunities

R.J. Hottovy 18 February 2014

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Coca-Cola and GMCR Enter Into a Long-Term Partnership; Great Deal for GMCR, Good Deal for Coke

Thomas Mullarkey 05 February 2014

Coca-Cola and Green Mountain Coffee Roasters have entered into a 10-year collaboration deal that will introduce Coca-Cola brands for use in GMCR's soon-to-be released Keurig Cold at-home beverage system. The system and Coke pods will be sold around the world. In connection with this agreement, GMCR will issue Coke 16.7 million newly issued shares at $74.98 per share, representing 10% of GMCR. Coca-Cola's equity investment will total $1.25 billion, and given the surge in GMCR's stock price following the announcement, Coca-Cola has already garnered more than $800 million of paper profits. We believe that by entering this new premium channel, the Coca-Cola brand will continue to be viewed as the leading global soft drink brand, and we consequently maintain our wide moat rating and $45 fair value estimate.

GMCR will be Coca-Cola's exclusive partner for the production and sale of Coca-Cola branded single-serve, pod-based, cold beverages. We expect that the Coca-Cola pods will be available during 2015, and as such are not yet incorporating the associated equity income of GMCR in our Coca-Cola valuation model. Green Mountain will be able to sign on other cold beverage brands, and we suspect that it is actively courting Pepsi, Dr Pepper, Red Bull, and Monster to join the ecosystem.

Coca-Cola Takes Another Step Toward Refranchising North American Bottling Operations

Thomas Mullarkey 13 December 2013

As of Jan. 1, 2014, Coca-Cola will operate its Coca-Cola Americas segment under a new operating model. The company's business in North America will follow a more traditional model, with Coca-Cola North America supporting the brand and delivering the concentrate and Coca-Cola Refreshments being the wholly owned bottling operation. CCR will become part of Coca-Cola's Bottling Investment Group, which owns and operates bottling operations in various countries around the globe. The Latin America group, which is currently part of Coca-Cola Americas, will join the Coca-Cola international segment. These hierarchical changes will not affect our $45 fair value estimate or wide moat rating.

By separating CCNA and CCR, Coca-Cola should be able to more nimbly shed bottling assets and distribution territories when the time is right. We believe that over the next few years, Coca-Cola will eventually unload all of CCR's current distribution territories while looking to

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02 Apr 2014	02 Apr 2014			02 Apr 2014	02 Apr 2014		

maintain a singular ownership structure for the bottling operations, thereby reducing any redundancy in the entire system and helping to keep systemwide costs as low as possible.

Coke's Long-Term Outlook Remains Bright; Shares Are Attractively Priced

Thomas Mullarkey 15 October 2013

In the midst of currency headwinds and volatile emerging markets, Coca-Cola posted good third-quarter results, increasing global beverage volume 2% and gaining share in the global nonalcoholic ready-to-drink category. Although the currency headwinds are likely to result in a slight lowering of our 2013 and 2014 earnings per share estimates, we are maintaining our $45 fair value estimate as well as our long-term outlook and view Coca-Cola's shares as attractively priced.

Recently, investors have been concerned that Coca-Cola is facing a plethora of problems, including emerging-markets softness, weakening pricing power in North America, softening demand for carbonated soft drinks in the United States, and a potential soda tax in Mexico. We believe these worries are overblown and anticipate that Coca-Cola will be able to continue to invest in its brands and successfully execute its 2020 vision. Over the next decade, we believe worldwide per capita consumption of Coke's beverages will continue to grow. This combined with a growing global population and a steadily expanding global middle class should result in consistent revenue and earnings growth for Coca-Cola. We expect that the bulk of Coke's growth will come from carbonated soft drinks in emerging and developing countries, where per capita consumption is low, and from still beverage growth in developed markets as consumers' tastes shift away from sparkling beverages.

Coca-Cola continues to make plans to divvy up its North American bottling operations by selling off distribution territories to several independent bottlers. Although the first volley of five distribution territories was announced following the firm's second-quarter earnings release, no additional announcements were made today. We believe that more details will come to light over the next year and that the production assets will remain centrally operated.

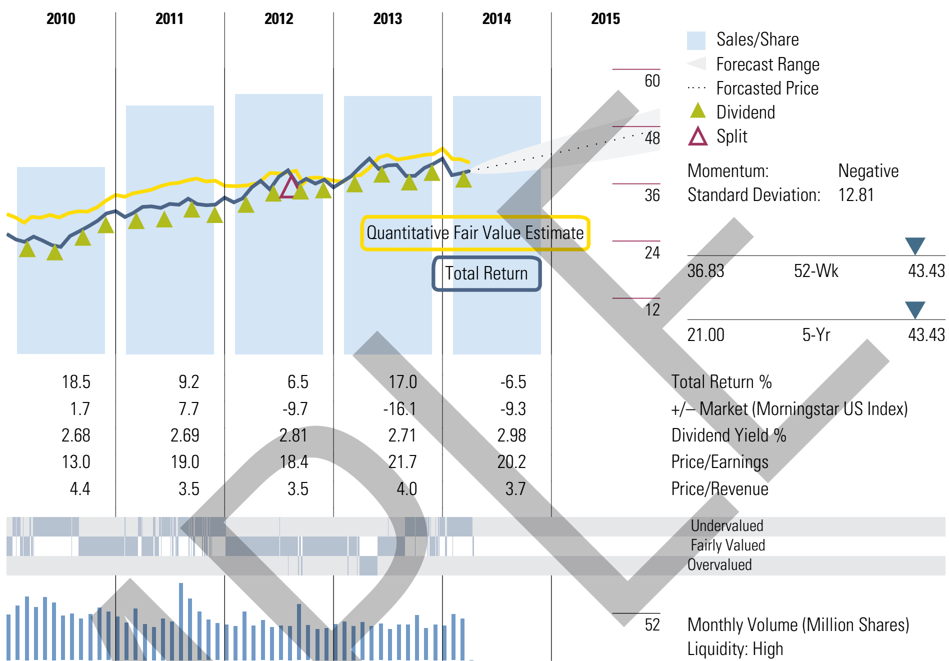
Quantitative Equity Report | Release Date: 02 April 2014 | Reporting Currency: USD | Trading Currency: USD

Coca-Cola Co KO

Last Close	Quantitative Fair Value Estimate	Market Cap (Bil)	Sector	Industry	Country of Domicile
38.33	40.15	169.2	**Consumer Defensive**	**Beverages - Soft Drinks**	**United States**

Coca-Cola Co manufactures, distributes and markets non-alcoholic beverage concentrates and syrups.

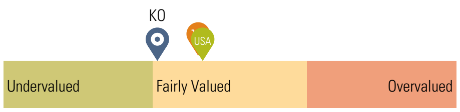
Price Versus Quantitative Fair Value



2010	2011	2012	2013	2014	
18.5	9.2	6.5	17.0	-6.5	Total Return %
1.7	7.7	-9.7	-16.1	-9.3	+/– Market (Morningstar US Index)
2.68	2.69	2.81	2.71	2.98	Dividend Yield %
13.0	19.0	18.4	21.7	20.2	Price/Earnings
4.4	3.5	3.5	4.0	3.7	Price/Revenue

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Wide	100	100	100
Valuation	Fairly Valued	79	86	79
Quantitative Uncertainty	Low	99	98	95
Financial Health	Strong	86	83	86



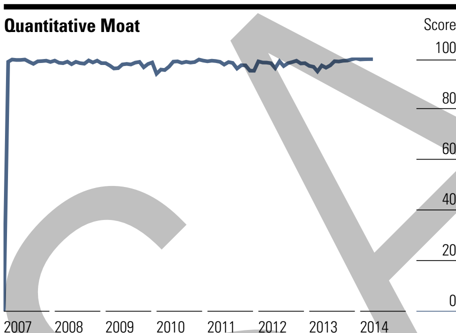
Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.96	0.95	1.02	1.03
Price/Earnings	20.2	18.3	19.2	20.9
Forward P/E	16.6	—	15.1	14.2
Price/Cash Flow	16.4	16.5	11.7	12.3
Price/Free Cash Flow	21.7	22.3	19.6	20.8
Dividend Yield %	2.98	2.75	1.97	2.02
Price/Book	5.1	5.1	1.8	2.4
Price/Sales	3.7	3.9	0.9	1.9

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	26.0	30.8	11.6	12.1
Return on Assets %	9.7	13.3	5.9	5.0
Revenue/Employee (K)	358.8	316.2	529.1	289.7

Quantitative Moat



Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.8	0.8	0.6	0.6
Solvency Score	386.3	—	496.9	579.5
Assets/Equity	2.7	2.4	1.8	1.7
Long-Term Debt/Equity	0.6	0.4	0.2	0.3

Financials (Fiscal Year in Mil)

2009	2010	2011	2012	2013	TTM	
30,990	35,119	46,542	48,017	46,854	46,854	Revenue
-3.0	13.3	32.5	3.2	-2.4	0.0	% Change
8,231	8,449	10,154	10,779	10,228	10,228	Operating Income
-2.5	2.6	20.2	6.2	-5.1	0.0	% Change
6,824	11,809	8,572	9,019	8,584	8,584	Net Income
8,186	9,532	9,474	10,645	10,542	10,542	Operating Cash Flow
-1,993	-2,215	-2,920	-2,780	-2,550	-2,550	Capital Spending
6,193	7,317	6,554	7,865	7,992	7,992	Free Cash Flow
20.0	20.8	14.1	16.4	17.1	17.1	% Sales
1.47	2.53	1.85	1.97	1.90	1.90	EPS
17.7	72.7	-27.1	6.8	-3.6	0.0	% Change
1.33	1.57	1.41	1.72	1.77	1.77	Free Cash Flow/Share
0.82	0.88	0.94	1.02	1.12	1.12	Dividends/Share
5.38	6.76	6.99	7.34	7.54	7.53	Book Value/Share
4,584	4,526	4,469	4,402	4,406	4,406	Shares Outstanding (Mil)

Profitability

2009	2010	2011	2012	2013	TTM	
30.2	42.3	27.4	28.0	26.0	26.0	Return on Equity %
15.3	19.4	11.2	10.9	9.7	9.7	Return on Assets %
22.0	33.6	18.4	18.8	18.3	18.3	Net Margin %
0.69	0.58	0.61	0.58	0.53	0.53	Asset Turnover
2.0	2.4	2.5	2.6	2.7	2.8	Financial Leverage
64.2	63.9	60.9	60.3	60.7	60.7	Gross Margin %
26.6	24.1	21.8	22.5	21.8	21.8	Operating Margin %
5,059	14,041	13,656	14,736	19,154	19,154	Long-Term Debt
24,799	31,003	31,635	32,790	33,173	33,173	Total Equity
3.5	2.9	3.1	3.3	3.2	3.2	Fixed Asset Turns

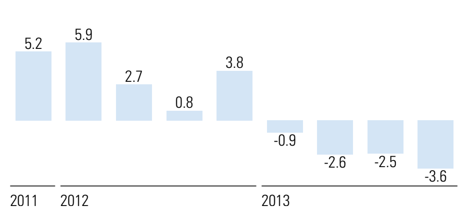
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	-2.4	10.1	8.0	8.3
Operating Income %	-5.1	6.7	3.9	7.0
Earnings %	-3.2	-9.0	8.9	8.0
Dividends %	9.8	8.4	8.1	9.8
Book Value %	2.7	3.7	11.2	10.1
Stock Total Return %	-3.1	7.3	13.8	6.2

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2013	11,035.0	12,749.0	12,030.0	11,040.0	46,854.0
2012	11,137.0	13,085.0	12,340.0	11,455.0	48,017.0
2011	10,517.0	12,737.0	12,248.0	11,040.0	46,542.0
2010	7,525.0	8,674.0	8,426.0	10,494.0	35,119.0
Earnings Per Share					
2013	0.39	0.59	0.54	0.38	1.90
2012	0.45	0.61	0.50	0.41	1.97
2011	0.41	0.60	0.48	0.36	1.85
2010	0.35	0.51	0.44	1.23	2.53

Revenue Growth Year On Year %



Morningstar Equity & Credit Research Methodology

Fundamental Analysis

At Morningstar, we believe buying shares of superior businesses at a discount and allowing them to compound over time is the surest way to create wealth in the stock market. The long-term fundamentals of businesses, such as cash flow, competition, economic cycles, and stewardship, are our primary focus. Occasionally, this approach causes our recommendations to appear out of step with the market, but willingness to be contrarian is an important source of outperformance and a benefit of Morningstar's independence. Our analysts conduct primary research to inform our views on each firm's moat, fair value and uncertainty.

Economic Moat

The economic moat concept is a cornerstone of Morningstar's investment philosophy and is used to distinguish high-quality companies with sustainable competitive advantages. An economic moat is a structural feature that allows a firm to sustain excess returns over a long period of time. Without a moat, a company's profits are more susceptible to competition. Companies with narrow moats are likely to achieve normalized excess returns beyond 10 years while wide-moat companies are likely to sustain excess returns beyond 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe lower-quality no-moat companies will see their returns gravitate toward the firm's cost of capital more quickly than companies with moats will. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

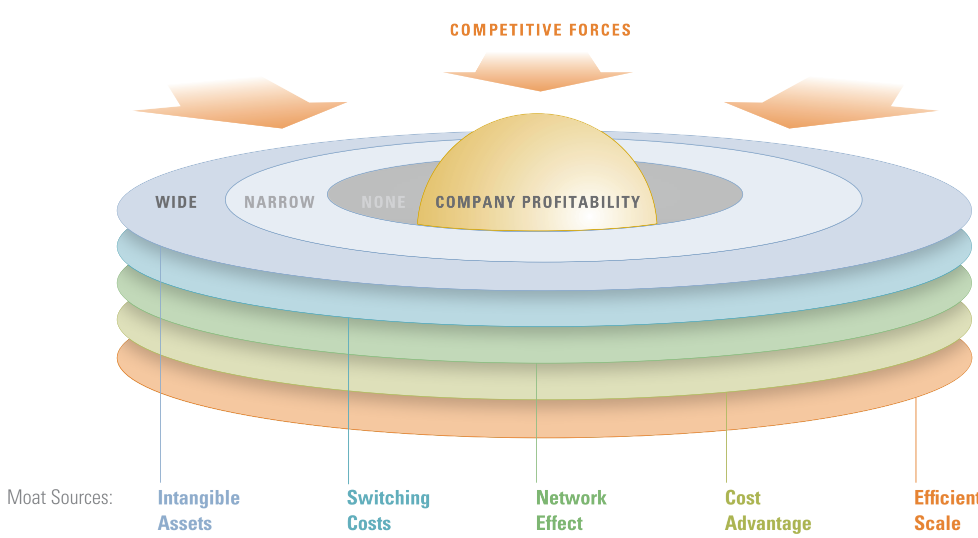
Fair Value Estimate

Our analyst-driven fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. We also use a variety of supplementary fundamental methods to triangulate a company's worth, such as sum-of-the-parts, multiples, and yields, among others. We're looking well beyond next quarter to determine the cash-generating ability of a company's assets because we believe the market price of a security will migrate toward the firm's intrinsic value over time. Economic moats are not only an important sorting mechanism for quality in our framework, but the designation also directly contributes to our estimate of a company's intrinsic value through sustained excess returns on invested capital.

Uncertainty Rating

The Morningstar Uncertainty Rating demonstrates our assessment of a firm's cash flow predictability, or valuation risk. From this rating, we determine appropriate margins of safety: The higher the uncertainty, the wider the margin of safety around our fair value estimate before our recommendations are triggered. Our uncertainty ratings are low, medium, high, very high, and extreme. With each uncertainty rating is a corresponding set of price/fair value ratios that drive our recommendations: Lower price/fair value ratios (<1.0) lead to positive recommendations, while higher price/fair value

Economic Moat



Morningstar Equity & Credit Research Methodology

ratios (>1.0) lead to negative recommendations. In very rare cases, the fair value estimate for a firm is so unpredictable that a margin of safety cannot be properly estimated. For these firms, we use a rating of extreme. Very high and extreme uncertainty companies tend to have higher risk and volatility.

Credit Rating

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debtlike obligations. The higher the rating, the less likely we think the company is to default on these obligations.

Quantitatively Driven Valuations

To complement our analysts' work, we produce Quantitative Ratings for a much larger universe of companies. These ratings are generated by statistical models that are meant to divine the relationships between Morningstar's analyst-driven ratings and key financial data points. Consequently, our quantitative ratings are directly analogous to our analyst-driven ratings.

Quantitative Fair Value Estimate (QFVE): The QFVE is analogous to Morningstar's fair value estimate for stocks. It represents the per-share value of the equity of a company. The QFVE is displayed in the same currency as the company's last close price.

Valuation: The valuation is based on the ratio of a company's quantitative fair value estimate to its last close price.

Quantitative Uncertainty: This rating describes our level of uncertainty about the accuracy of our quantitative fair value estimate. In this way it is analogous to Morningstar's fair value uncertainty ratings.

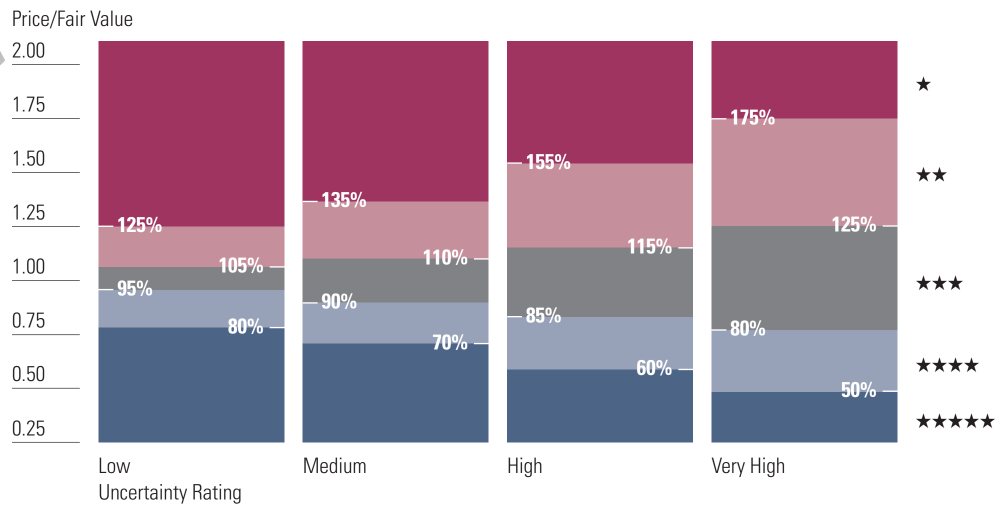
Quantitative Economic Moat: The quantitative moat rating is analogous to Morningstar's analyst-driven economic moat rating in that both are meant to describe the strength of a firm's competitive position.

Financial Health: Financial health is based on Morningstar's proprietary Distance to Default calculation.

Understanding Differences Between Analyst and Quantitative Valuations

If our analyst-driven ratings did not sometimes differ from our quantitative ratings, there would be little value in producing both. Differences occur because our quantitative ratings are essentially a highly sophisticated analysis of the analyst-driven ratings of comparable companies. If a company is unique and has few comparable companies, the quantitative model will have more trouble assigning correct ratings, while an analyst will have an easier time recognizing the true characteristics of the company. On the other hand, the quantitative models incorporate new data efficiently and consistently. Empirically, we find quantitative ratings and analyst-driven ratings to be equally powerful predictors of future performance. When the analyst-driven rating and the quantitative rating agree, we find the ratings to be much more predictive than when they differ. In this way, they provide an excellent second opinion for each other. When the ratings differ, it may be wise to follow the analyst's rating for a truly unique company with its own special situation, and follow the quantitative rating when a company has several reasonable comparable companies and relevant information is flowing at a rapid pace.

Uncertainty Rating



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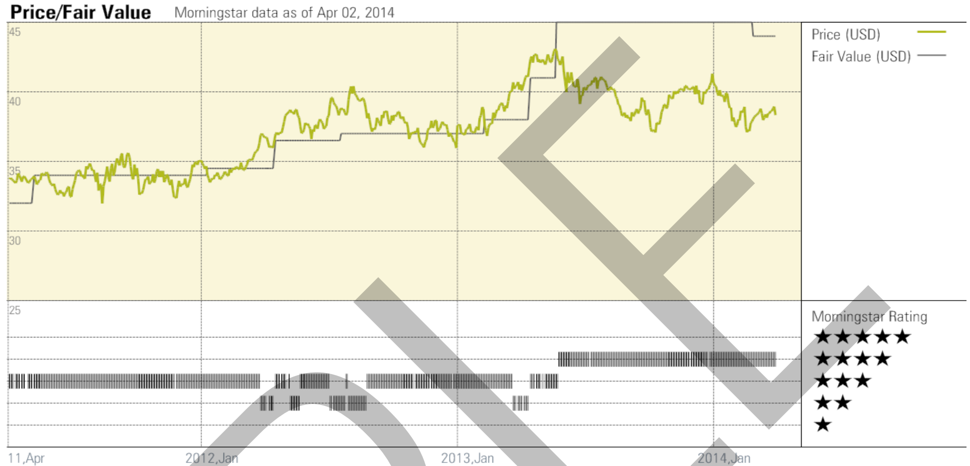
02 Apr 2014	02 Apr 2014			02 Apr 2014	02 Apr 2014		

Price/Fair Value Morningstar data as of Apr 02, 2014



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