

Financial Analysis and Market Analysis of Coca-Cola

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Abstract. Coca-Cola company's main themes have been intertwined with social issues such as environmental protection and people's preference for low-sugar products. The company tends to analyze some social phenomena and reflect the research results in new products as much as possible. Because of this, consumers have become more trustful of the Coca-Cola brand. Coupled with Coca-Cola's advertising efforts, Coca-Cola has become a best-selling product in more than 200 countries worldwide. In order to analyze the prospect of Coca-Cola and the potential risks and problems of the company, the article analyzes Coca-Cola's strategy on funding and cash holding and accounting performance based on the company's financial statement. Also, the market valuation, net cash flow, profitability analysis, and SWOT analysis will be done. After a series of analyses, the article's authors found that although Coca-Cola's cash flow has received recessionary effects in recent years, the cash position is still positive from a macro perspective. Meanwhile, the investors need not worry about the company's financial health since the non-current ratio, liquidity, and such indicators point to the company's considerable capacity. Based on the SWOT analysis, the strong brand image helps the company consolidate customer loyalty and enhances market stability. In addition, the authors found that if the company could put more effort into increasing the diversity of its products, more research and innovation would help the appeal of the company's products.

Keywords: Coca-Cola; Financial Analysis; Market Analysis.

1. Introduction

1.1 Background

The Coca-Cola Company is one of the world's best-known and most successful beverage companies. Founded in 1886 by John Pemberton in Atlanta, Georgia, the company has grown into a global brand with more than 500 different brands and products. The company's flagship product, Coca-Cola, is one of the world's most widely consumed and recognized beverages and is consistently regarded as the company's main source of revenue. The company's success is attributed to several factors, including strong brand recognition, efficient marketing and distribution, and a wide range of products that appeal to different consumer segments.

1.2 Related Research

There is a large body of literature on The Coca-Cola Company, with research focusing on a variety of different topics. One of the most common research topics is the company's marketing and advertising strategies and the effectiveness of these strategies in building brand awareness and driving sales. Other studies have focused on the company's financial performance, including its revenues, profits, and stock price [1]. There is also research on the company's corporate social responsibility initiatives and the impact of these initiatives on its reputation and consumer perception. In terms of environmental protection and sustainability, The Coca-Cola Company has a long-standing commitment to enhancing its sustainability and environmental stewardship. The company has set several ambitious targets to reduce its environmental impact, including reducing greenhouse gas

emissions, conserving water, and reducing waste. The Coca-Cola Company has also implemented programs to promote sustainable sourcing, minimize its packaging footprint and invest in renewable energy. And as a result of its efforts over the years, the Coca-Cola Company has been included in the Dow Jones Sustainability Index.

However, it has also been noted that while Coca-Cola holds a significant amount of wealth and resources in society, it allocates a relatively large amount of money to practices that are potentially harmful to society and the public, such as the widespread marketing of unhealthy products. In one data, it was shown that the proportion of wealth and income transferred to shareholders by Coca-Cola has increased significantly in recent decades; while the proportion of wealth and income redistributed to the public through income taxes has decreased significantly [2].

The majority of studies on The Coca-Cola Company have used quantitative methods such as financial analysis and surveys. Some research has also used qualitative methods, including in-depth interviews and case studies. This paper continues to use the previous analysis of Coca-Cola and extant data using a case approach to the analysis.

1.3 Objection

The objective of this study is to analyze the performance and strategies of The Coca-Cola Company to understand the factors that have contributed to its success. The study will use quantitative and qualitative methods to examine the company's financial performance, marketing and advertising strategies, corporate social responsibility initiatives, and consumer perceptions. The framework of the study will include a review of relevant literature and an analysis of the company's financial statements and marketing materials. The study aims to provide insights and recommendations for other companies in the beverage industry, as well as The Coca-Cola Company itself, as it continues to navigate the ever-changing business environment.

2. Basic Descriptions of Coca Cola

The coca-cola company is a total beverage company with an abundance of product portfolio, including 20 brands with annual sales of over 1 billion dollars, such as Coca-Cola, Fanta, Sprite, and other sparkling soft drinks Besides, the company also offers dairy drinks, juices, teas, and coffees. It was officially founded in 1886 by an Atlanta pharmacist, Dr. John S. Pemberton. The company has a wide business scope. Owing to the investment in advertising through the internet, television, newspapers, and other media, the products have become worldwide and have been sold across more than 200 countries worldwide. The company's core product is Coca-Cola, a carbonated beverage that has been chemically sweetened to cater to the preference of the taste people. At its peak, Coca-Cola products consumed 1 billion cups daily, accounting for 48 percent of the world's soft drink market. Although the company has been established for over 100 years, it still reigns supreme in the capital market. In July 2019, the Fortune 500 list was announced, and The Coca-Cola Company was ranked 395th. The company has been hammering at creating an inclusive work environment for its employees and strives to enhance economic development where it does business. With a total of 700,000 employees worldwide, Coca-Cola and its bottling partners are among the top 10 private employers in the world.

Along with the pursuit of a proportionate physique and other related aspects of health, people have a high sensitivity to high-sugar beverages. They are committed to being very restrained in their sugar intake to stabilize their blood sugar level. To cater to this habit, Coca-Cola launched a brand-new Coca-Cola product in Australia in 2005. This product has become a hot seller because it meets people's demand for low-sugar drinks. Apart from the sugar reduction scheme, the company also has a long-term commitment to promoting sustainable development in our societies, consistently advocating for environmental protection and energy conservation, and frequently adjusting the products with some subliminal issues.

In recent years, many companies in the same market have faced shrinking due to the epidemic, and Coca-Cola has not been spared. As a result, Coca-Cola has been questioned about its supreme in the market, as well as having a pessimistic view of its growth prospects [2]. Our study will be focus on the analysis of Coca-Cola's financial and operational strategies, comprising the analysis of the company's financial strategy, cash holdings, and accounting performance based on the company's financial statement, and will also conduct a business valuation, including market analysis, net profit, profitability analysis, and SWOT analysis. After the above analysis, we will respond to the current controversies and potential problems of Coca-Cola, determine the pros and cons of Coca-Cola compared to other companies in the same market, and advise shareholders who are interested in investing in the company.

3. Financial Analysis of Coca-Cola

3.1 The Funding strategy of Coca-Cola

Based on the information [3] (Table 1), about 71% of Coca-Cola Company shares are held by large American financial institutions like State Street Corporation, JP Morgan Chase & Company and Charles Schwab Investment Management, and so on.

Table 1. Coca-Cola investment activity [3]

time	2019	2020
net PPE Purchase	-1,076,000	-988,000
net Business Purchase	-5,113,000	-863,000

3.2 The Cash holding strategy of Coca-Cola

Due to the Covid-19 pandemic, many people have become unemployed and even Coca-Cola cut the redundant employees; the large negative unemployment effect made Coca-Cola generate less net income in 2020 [4]. (Data are shown in Table.2)

Table 2. Cash flow statement of Coca-Cola [3]

year	2019	2020	2021
net income	8,920,000	7,747,000	9,771,000
operating cash flow	10,471,000	9,844,000	12,625,000
investing cash flow	-3,976,000	-1,477,000	-2,765,000
end cash position	6,737,000	7,110,000	10,025,000

However, Although Coca-Cola had been influenced by the economic recession and generated less operating cash flow, the ending cash position still increased. The majority reason is that the company cut a lot of investment cash flow, significantly cutting a massive amount of business acquisition. This is because most of the companies in the world faced a decrease in stock price in 2020. If Coca-Cola still invests as much cash as it did in 2019, it will bear a huge loss. The investment cash flow in 2019 is -3,976,000, and in 2020 it becomes to -1,477,000. It is a decisive decision because, during the pandemic, more cash in hand made the company more confident when facing problems.

In conclusion, during the recession period, the cash holding strategy is to deduct investment cash activities.

3.3 Profitability of Coca-Cola

“The gross profit margin for the nonalcoholic beverage industry was 54.87% in 2019.” [5] Based on Table 3 data, in 2019, the gross profit ratio is 0.61 for Coca-Cola, which is greater than the industry data. This means Coca-Cola had a more significant production management system, leading to a lower revenue cost. Also said that the average net margin is only 15.58% [5]. However, Table 3 shows

that Coca-Cola has a net margin of around 24%. Probably because Coca-Cola generated fewer general and administrative expenses, operating expenses, and so on compared to other competitors in the industry. As a result, the profitability of Coca-Cola is relatively good in the industry.

Table 3. Profitability analysis [3]

year	2019	2020	2021
total revenue	37,266,000	33,014,000	38,655,000
cost of revenue	14,619,000	13,433,000	15,357,000
gross profit	22,647,000	19,581,000	23,298,000
gross profit margin	0.61	0.59	0.6
net income	8,920,000	7,747,000	9,771,000
net income margin	0.24	0.23	0.25
EBIT	11,732,000	11,186,000	14,022,000
Retained Earnings	65,855,000	66,555,000	69,094,000
Dividend	6,845,000	7,047,000	7,252,000

Table 3 indicates that the EBIT kept growing from 2019 to 2021. Even in 2020, the economic recession period, the operating profit still increased. This means the company has a good manufacturing, selling & distribution system and has plenty of loyal customers. Apart from that, the retained earnings and dividends were also stimulated during the period. The historical dividend increment may make the investor more optimistic about the company's future, and the share price will also increase. Retained earnings can be used to repay some outstanding loans and make an acquisition with another company, which further helps the company grow.

In conclusion, Coca-Cola has considerable operating profit growth and retained earnings growth. The company's profitability should further increase in the future.

Table 4. Short-term liquidity of Coca-Cola

year	2019	2020	2021
current asset	20,411,000	19,240,000	22,545,000
current liability	26,973,000	14,601,000	19,950,000
liquidity ratio	0.76	1.32	1.13

Table 4 shows that the current liability is 2697300 and 1460100 in 2019 and 2020, respectively. The current debt decreased by 46% from 2019 to 2020 [6]. Coca-Cola expanded its manufacturing infrastructure and access acquisition to the company like Bambi in Serbia, Lurisia in Italy, and so on. Table 2 shows that the cash investment in PPE and Business purchase in 2019 is far more significant than in 2020. The expansion activity made Coca-Cola issue many debts. The beverage industry is currently facing a downturn. If Coca-Cola does not cut its debt, the future operating cash flow will be challenging to pay back the debts. As a result, Coca-Cola cut a large proportion of its current debt in 2020 [7].

Table 5. Long-term liquidity of Coca-Cola

year	2019	2020	2021
non-current asset	65,970,000	68,056,000	71,809,000
non-current liability	38,310,000	51,411,000	49,544,000
non-current ratio	1.72	1.32	1.45

Table 5, the non-current ratio shows that Coca-Cola could be solvent in their long-term debt. As a result, debt and equity holders should not worry about the company's financial health.

4. Market Analysis of Cocca-cola

4.1 Market share of Coca-Cola

Coca-Cola's main competitors are Pepsi and Red Bull, because these two companies also sell their products worldwide and own a huge market share. Coca-Cola owns 20.1% of the global beverage market share in 2020, while Pepsi owns 10%: The sum market share of Coca-Cola and Pepsi is more significant than the total market share of the next top 78 beverage companies in the world, given that the ranking is based on the market share [2].

4.1.1 The non-alcoholic beverage Market Analysis



Figure 1. The beverage industry growing trend in North America [8]

Fig.1 indicates that before the global pandemic, the non-alcoholic industry in North America increased even though the increment was not too noticeable. However, in 2020, Covid-19 started, and the beverage market shrunk dramatically. This is because the economic recession happened in 2020. As Fig.2 shows, the US30 Market index moves almost in the same direction as the beverage market. It is certain that when the economy starts to revive, the beverage market will multiply as well, mainly because it is necessary for people's daily lives.



Figure 2. US30 Market Index[9]

4.1.2 The competitor Profitability Analysis

Pepsi should be the primary competitor of Coca-Cola because Pepsi also operates and sells its product all over the world with good famous.

Table 6. Pepsi's gross ratio margin [3]

year	2019	2020	2021
revenue	67,161,000	70,732,000	79,474,000
gross profit	37,029,000	38,575,000	42,399,000
gross margin	0.55	0.55	0.53

Table 7. Pepsi's net margin ratio [3]

year	2019	2020	2021
revenue	67,161,000	70,372,000	79,474,000
net profit	7,314,000	7,120,000	7,618,000
gross margin	10.89%	10.12%	9.59%

The PE ratio and EPS of Pepsi are 23.98 and 6.69, respectively. So, the fair stock price should be $23.98 \times 6.69 = 160.43\$$. However, the market price is 175.24\$, which is overpriced, and the premium ratio is about 9.23%. As an investor, a put option with a strike price of 175.24 should be purchased because, reasonably, the share price will fall to 160.43, and when the investors use the put option to sell it, they will make a profit.

The PE ratio and EPS of Coca-Cola are 24.21 and 2.28, respectively, so the fair price should be 51.2\$ and the market price is 61.43\$, which is also overpriced. The premium ratio is about 20%.

When comparing the gross margin and net margin between Pepsi and Coca-Cola (Table 3, Table 6, and Table 7), it was evident that Coca-Cola has a greater ratio. However, Coca-Cola also has a more significant stock price premium than Pepsi. So, the decision should base on the investors' views.

4.2 Analysis

Coca-Cola offers a wide range of products and services, including Diet Coke, Coke Zero, Cie, Dasani, DeValle, Fanta, Fair life, Georgia, Gold Peak Tea, Honest Tea, Mello Yello, Minute Maid, Odwalla, Powerade, Simply Beverages, Glaceau Smartwater, Sprite, Suge, Glaceau vitamin water and Zico. However, it faces competition from other beverage companies such as Pepsi, Dr. Pepper Snapple, Mountain Dew, Gatorade, Nestle, Redbull, Parle, Unilever, Heineken, and Diageo. The following is a specific analysis of the Coca-Cola Company.

4.2.1 Coca-Cola Strengths

Coca-Cola has strong brand recognition and reputation, as well as a strong brand image, and is one of the most recognizable brands in the world. It has a wide range of products. This includes soft drinks, juices, water, and sports drinks, catering to different consumer preferences. Strong distribution network. Coca-Cola has a well-established distribution network around the world, giving it a competitive advantage. Economies of scale. Coca-Cola has a large scale of operations, which enables it to take advantage of economies of scale and reduce costs [10].

4.2.2 Coca-Cola Weaknesses

Dependence on sugary beverages. Coca-Cola relies heavily on the sales of sugary beverages, and this is something that Coca-Cola has suffered criticism for due to the growing public interest in health and wellness. Mature market saturation. The company has limited room for growth in mature markets, while demand for sugary drinks is currently declining in the market. Competition from healthier alternatives. Coca-Cola faces competition from healthier alternatives such as tea, coffee, sugar-free drinks, and non-alcoholic beverages.

4.2.3 Coca-Cola Opportunities

Expansion in emerging markets. There are significant opportunities for Coca-Cola to grow in emerging markets where the demand for soft drinks is growing. In sugar-free and sugar-substituted drinks, for example, Coca-Cola invested early and costly research and took a foothold from 2018 onwards. At one point, sales of its product Diet-coke surpassed those of its classic original Coca-Cola original. Investment in research and development. The company has the opportunity to invest in research and development to stay ahead of evolving consumer preferences and trends. Diversify into new product categories. Coca-Cola has the opportunity to diversify into new product categories, such as functional drinks and snacks, to increase its revenue streams.

4.2.4 Coca-Cola Threats

Competition from other beverage companies. The Coca-Cola Company faces stiff competition from other large beverage companies such as PepsiCo and Dr. Pepper Snapple Group. Government regulations. The company faces increasing regulation of sugary drinks, which could harm its sales. In particular, mandatory requirements in terms of sugar taxation make it necessary for them to comply. It was changing consumer preferences. Coca-Cola is facing changing consumer preferences for healthier options, which could harm sales of its sugary beverages [10].

Overall, The Coca-Cola Company has a strong brand image and a wide range of products, which provides it with some advantages. However, the company faces challenges from the competition and changing consumer preferences, which pose a degree of threat to its business. To address these challenges, Coca-Cola should focus on expansion in emerging markets, invest in research and development, and diversify into new product categories.

5. Discussion

The current study of this paper can be regarded as an initial valuation of the Coca-Cola Corporation. The paper mainly estimates the company's worth of Coca-Cola from three perspectives: Balance sheet, Marketing strategies, and SWOT analysis. The result of this paper can be used to assess the overall financial performance and future forecasting of Coca-Cola Corporation, along with a future outstanding investor's decision-making upon the company.

Since 71% of Coca-Cola shares are held by large American financial institutions, Coca-Cola Corporation has good company credibility, which implies that the firm takes high investor expectations in the market. Our study gives a good outcome of Coca-Cola's cash holding strategy. However, due to the economic recession caused by the outraged pandemic, Coca-Cola has to cut its investment cost to retain a steady cash flow. The operating cash flow conducted by Coca-Cola is also reduced in 2020. Even though the ending cash position is increased, further investigation is required to conclude the efficiency of Coca-Cola's cash holding strategies because a significant rising trend is observed in the industry since 2021.

Our study suggested the profitability of Coca-Cola is relatively good on a three-year basis. The gross profit margin from 2019 to 2021 is steady at 60%, while the company's net profit margin stabilizes at 23%. The outcome indicates that Coca-Cola has a good business model and abilities to keep on a good pace of maintaining the rising trend in its profit.

Upon the data given in tables 4 & 5, our study indicates that Coca-Cola has good debt solvency. Thus, investors could expect good financial health from Coca-Cola Corporation. Results come from the year 2019 to 2021 is an excellent example to estimate a company's ability since the worldwide pandemic has had a great impact on the global economy; under the such an extreme situation, a steady output of Coca-Cola's balance between its assets and liabilities implies that the company would have relatively good financial performance when facing against extreme environment such as the economic recession. However, for long-term investment via Coca-Cola Corporation, it is better to cast debt solvency with a wider time range so that the company is not overvalued.

Based on our SWOT analysis, Coca-Cola has a great brand image in the beverage industry, which brings the company advantage when competing with its main competitor Pepsi. The strong brand image and customer loyalty guarantee Coca-Cola a steady income over time. Nevertheless, the main risk of Coca-Cola Company is the lack of product diversity [1] and environmental issue. Lack of product diversity brings fierce price competition among soft drink companies. A good way out could be expanding Coca-Cola's product diversity.

A good example of expanding product diversity is the release of diet coke. Diet coke has had an outstanding marketing volume since the year 2020. Figure 3 below shows the sales volume rank and the product's market value. It is evident that diet coke has taken an important place in the soft drink market and has the potential to be a second dominant product in the future.

2021 rank	Brand	Volume (hl)	Value (£m)	2020 rank	Up or down
1	Coca-Cola	431,747	275.1	1	Level
2	Diet Coke	331,213	217.1	2	Level
3	Pepsi Max	247,329	132.3	3	Level
4	R Whites	208,898	109.4	4	Level
5	Pepsi	200,366	108.2	5	Level
6	Schweppes Lemonade	191,507	116.1	6	Level
7	Diet Pepsi	157,202	84.3	7	Level
8	Coke Zero	135,872	82	8	Level

Figure 3. Sales Volume Rank along with the Product's Market Value [11]

(Photo credit: <https://www.morningadvertiser.co.uk/Article/2021/12/02/What-is-the-best-selling-soft-drink-of-2021>)

6. Conclusion

According to the financial analysis based on Coca-Cola's cash holding strategy and profitability analysis, Coca-Cola has good performance facing the global economic recession.

By deducting investment cash activities, Coca-Cola successfully increased its ending cash position and improved its total revenue by 17.1% by 2021. Increasing is also observed concerning EBIT, retained earnings, and dividends. These lively performances during the epidemic period show that Coca-Cola can keep its profitability while facing disadvantages brought about by the economic recession.

Based on short-term liquidity (Table 4) and long-term liquidity (Table 5), Coca-Cola has been holding an efficient strategy during 2019-2021. The manufacturing infrastructure expansion and acquisition accessed by Coca-Cola improve the corporation's debt solvency both in the short term and long term. Therefore, as an initial valuation outcome, the corporation generates good performances upon their financial health.

Overall, our study briefly introduces Coca-Cola's financial performance; even though it has been affected by the epidemic since 2020, Coca-Cola has a steady good performance in its financial and non-financial behavior. Through SWOT analysis, opportunities exist, and further rising trend is expected along with the corporations' current financial performance.

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