

Valuation date: 21st August 2026

The Coca-Cola Company (KO)

Beverages | Consumer Defensive | NASDAQ

RATING	HOLD	PRICE TARGET	\$88	CURRENT PRICE	\$91.10
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Company Snapshot

Ticker/ Exchange	KO / NYSE	Market Cap	\$391.962B
52-WEEK Range	65.35 – 91.10	Avg. Daily Volume	~17.7mm
FY2025 Revenue	\$47.94B	TTM Revenue	50.13bn
FY2025 EPS	\$3.04	TTM EPS	\$3.33
Gross Margin	61.89%	P/E (FWD)	26.80x
Dividend Yield	2.33%	Next Earnings	20 Oct 2026

1. Recommendation

I initiate coverage of The Coca-Cola Company (KO) with a HOLD rating and a 12-month price target of \$88, implying approximately 3.1% upside from the current price of \$91.10.

The target price is derived from a probability-weighted blend of three DCF scenarios: Bull (\$103.26, 25% probability), Base (\$87.43, 55% probability), and Bear (\$70.07, 20% probability), producing a weighted intrinsic value of approximately \$83. We round our formal target to \$88 to reflect KO's persistent quality premium, the market has historically paid, and continued to pay, above pure DCF fair value for KO's defensive characteristics, dividend reliability, and index/ESG portfolio inclusion.

A HOLD reflects a balanced risk/reward, not a negative view of the underlying business. We would move to BUY on a pullback toward the \$80-83 range (closer to the Base case intrinsic value) or reported revenue accelerating towards Bull Case pace, or durable evidence that Zero sugar momentum is offsetting GLP-1 concerns. I would move to SELL on sustained volume deterioration in North America, an adverse IRS litigation settlement that pressures the dividend coverage ratio or confirmation that refranchising has stalled.

2. Company Update

Coca-Cola delivered another solid performance in Q2 2026 on July 28, 2026, topping consensus estimates across top- and bottom-line metrics. Net revenues grew 7% year-over-year to \$13.38 billion, beating the ~\$13.13-\$13.16B by ~1.9%. Organic revenue (Non-GAAP) expanded 6%, driven by a 2% price/mix improvement and 4% concentrate sales growth. Unit case volume also posted strong results, up 5%. Reported EPS of \$1.03 grew 16% year-over-year, reaching \$1.03. Comparable grew 11% to 0.97 beating its consensus, \$0.93, by ~4.3%. Reported and comparable operating margins up 77bps to 34.9% and 86 bps to 35.6%, respectively.

Following the results, management raised full-year 2026 guidance organic revenue growth to approximately 5% (from 4-5% previously) and comparable EPS growth to 9-10% (from 8-9% previously). Free cash flow guidance was also raised to ~ \$12.4bn (up from \$12.2bn). This release caused shares to surge 6%, nearing a 52-week high.

2.1 Key Developments from the Quarter

- **Broad-Based Volume Strength:** Global unit case volume grew 5%, with every operating segment posting positive growth, led by India, China, the United States and Brazil.

- Trademark Coca-Cola Momentum: Trademark Coca-Cola volume grew 5%, anchored by Coca-Cola Zero Sugar, which surged 16% globally with strong performance across all operating geographic segments.
- North America Reacceleration: North America volume grew 3%, with 4% price/mix growth driving 7% reported revenue growth, a clear reversal of FY2025's slip of 1%, aided by strength in Trademark Coca-Cola.
- Regional Divergence: Latin America delivered the strongest reported growth (+16%), driven by a large FX tailwind on top of solid organic performance (+5%, Non-GAAP); EMEA grew a lot more modest 2% reported (+3% organic), weighed down by a divestiture-related headwind from the October 2025 sale of Nigeria finished-product operations. Asia Pacific posted the strongest volume growth of any segment (+8%) but the weakest revenue conversion (+1% reported, +2% organic), as deliberate affordability initiatives drove a 9-point price/mix decline.
- FX Tailwind: Currency movement contributed a 2-point tailwind to reported net revenue growth in the quarter, a reversal from historic pattern.
- World Cup Activation: Early FIFA World Cup 2026 marketing activation contributed to the quarter's volume strength, particularly for Trademark Coca-Cola and Powerade (+8% volume), raising a question of durability once the tournament driven tailwind fades in upcoming quarters.

2.2 Strategic & Portfolio Developments

- Asset-Light Progress: Bottling Investments comparable currency-neutral operating income grew 75% in the quarter reflecting continued refranchising progress. A pending sale of the company's African bottling operations remains in process, subject to regulatory approval.
- Fairlife Expansion: Fairlife continued to post strong volume growth, with the Webster, New York production facility now fully operational across all lines following its ramp-up, equipped for future capacity.
- FIFA World Cup 2026 Activation: The company executed a global campaign spanning over 180 markets, including a Trophy Tour across ~30 markets, contributing to record engagement metrics and helping Trademark Coca-Cola become one of the top brands during the tournaments.
- Tax & Legal Contingency: The IRS transfer pricing litigation remains pending on appeal; management maintained its existing tax reserve stance, preserving this as an ongoing monitorable risk factor in our valuation model.

3. Investment Thesis

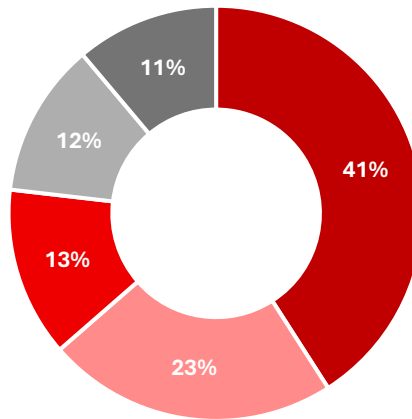
Coca-Cola is one of the highest-quality businesses in the world by virtually any measure; a 60+ year dividend growth streak, industry-leading margins on a concentrate-based licensing model, operations spanning over 200 countries, and one of the most recognised brand portfolios in history. Our HOLD reflects a view that this quality is well understood by the market and largely reflected in a 24.7x EV/EBITDA multiple (a significant premium to the sector median off 15.73x).

3.1 Why the Business Is Structurally Improving

Blended revenue growth is a mechanical output of segment-level growth rates, including Bottling Investments which decay from -5.0% growth in FY2026E to neutral by FY2030E, as refranchising concludes. This provides a cushion but does not completely reverse the underlying deceleration in core segments. Additionally, modest improvements in COGS and SG&A can be observed, consistent with the refranchising narrative, but not mechanically linked in this model. The net effect: EBITDA margins improve from 30.9% to 32.2% (FY2025A to FY2030E)

Segment Revenue Mix (FY2025A)

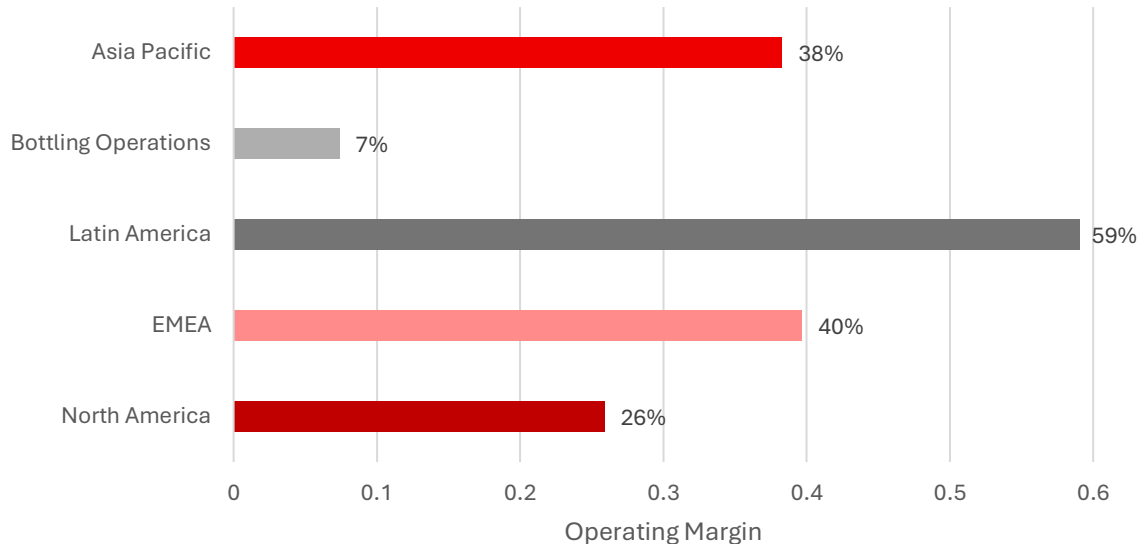
■ North America ■ EMEA ■ Latin America ■ Bottling Operations ■ Asia Pacific



*Corporate accounts for ~0.3% of revenue and is not included in pie chart

Every dollar of revenue that shifts from Bottling Investments (7.4% operating margin) to licensing fee relationship in a geographic franchise segment is structurally margin-accretive.

Operating Margin by Segment (FY2025A)



*Corporate operating margin is negligible

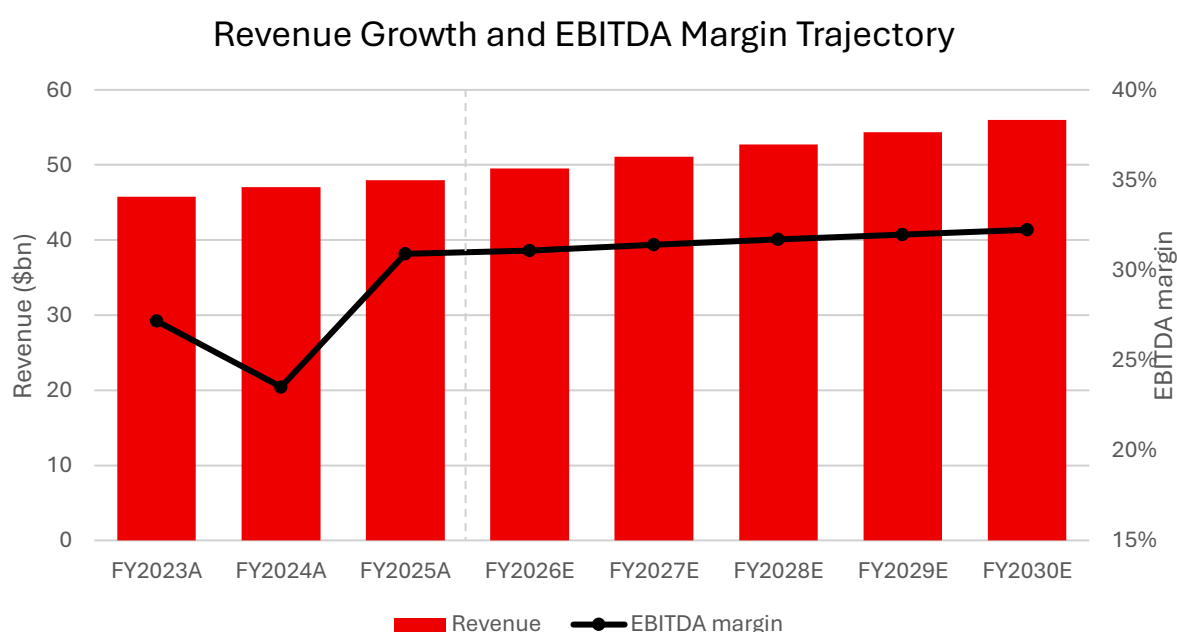
3.2 Why I Am Not More Bullish

Three factors temper our enthusiasm despite the genuine quality of the business. First, valuation: 24.7x EV/EBITDA, KO trades at a substantial premium to sector median, leaving limited room for multiple expansion even if execution continues as planned. Second, GLP-1 adoption remains an emerging, not fully quantified, multi-year category risk. Mass adoption threatens consumer demand in North America, pressuring the segment generating the largest absolute profit dollars. Third, Latin America, KO's highest-margin segment (59%), carries meaningful FX translation risk that has produced volatile reported results even when underlying organic

performance has been strong. In FY2025, revenue (Latin America) benefited from an 11% price/mix gain which was more than completely offset by a 12-point currency drag. The tailwind seen in Q2 2026 is not enough to outweigh the broader historical trend, and the underlying risk persists.

3.3 What Would Change My View

I would upgrade to a BUY recommendation in the event of a pullback towards \$80-83 (closer to Base case intrinsic value), blended revenue growth tracking towards the bull case (3.9%), or evidence that the 'Zero Sugar' momentum is durably offsetting any GLP-1 related volume pressure in core sparkling beverages. I would downgrade to a SELL recommendation on sustained North America volume deterioration beyond -2% (roughly double the 2025 print and a clear reversal of +3% growth experienced in Q2 2026), an adverse IRS litigation settlement exceeding \$3-4B, or confirmation that refranchising has stalled (Bottling Investments revenue flattening or turning positive against plan.)



4. Financial Information & Valuation

4.1 Financial Information & Assumptions

\$mm	FY2023A	FY2024A	FY2025A	FY2026E	FY2028E	FY2030E
Revenue	45,754	47,061	47,941	49,518	52,743	56,004
Revenue Growth	6.4%	2.9%	1.9%	3.3%	3.2%	3.0%
Gross Profit	27,234	28,737	29,544	30,543	32,590	34,667
EBITDA	12,439	11,067	14,812	15,398	16,721	18,055
EBITDA margin	27.2%	23.5%	30.9%	31.1%	31.7%	32.2%
Operating Profit	11,311	9,992	13,762	14,331	15,426	16,550

My DCF uses a five-year explicit forecast (FY2026E-FY2030E) built from individual segment-level revenue and margin assumptions, not a single blended growth rate. Every historical average used to anchor forward assumptions explicitly excludes years distorted by one-off items (specifics below). This ensures that projected items reflect Coca-Cola's underlying business trends. For instance, KO's FY2023-2024 results included a combined \$6.1B of non-cash charges (the fairlife LLC contingent consideration remeasurement and the BODYARMOR trademark impairment) that would meaningfully understate normalised profitability if included in a naïve historical average.

Metric	Approach	Years Excluded & Rationale
Revenue	Trend FY2026E (3.3%) to FY2030E (3.0%)	FY2026E anchored to FY2025A. KO's guidance of 4-5% organic growth adjusted for expected FX tailwinds and portfolio effects to arrive at reported estimate.
Cogs % of revenue	Trend FY2025A (38.4%) to FY2030E (38.1%)	Ex FY2022: peak commodity/freight inflation. Ex FY2020: Loss due to COVID. Refranchising removes high-COGS bottling from consolidated P&L
SG&A % of revenue	Trend FY2025A (30.3%) to FY2030E (29.8%)	Ex FY2020-21: COVID marketing freeze/rebound.
D&A % Beg. PP&E	Avg. 3 years, FY2023-25 (11.10%) held flat	Ex FY2020-21: capex slowdown shrank PP&E denominator while depreciation schedules continued, artificially spiking rate.
Capex % of revenue	Avg. 3 years, FY2023-25 (4.28%) held flat	Ex FY2020-21: COVID capex freeze distorts baseline. Post-refranchising run-rate captures stable asset-light model reinvestment level.
Tax Rate (FCF)	KO FY2026 guidance (20.9%) held flat	FY2025A (17.9%) reflected discrete tax benefits. IRS litigation remains a tail risk, not in base case.
Other Op. Charges	Avg. 3 years, FY2021,22,25 (2.55%) held flat	Ex FY2023-24 (<u>fairlife</u> charges)
DSO/DIO/DPO	26.9/88.7/110.0 days respectively held flat	Ex FY202-21 (supply chain disruption). Ex FY2024 DPO: spike due to <u>fairlife</u> payout timing

*Pre refranchising years (FY2017-19) were excluded from all assumptions

4.2 WACC Derivation

My discount rate is built from first principles using CAPM for the cost of equity and market-value weights for the capital structure.

Component	Value	Source/Rationale
Equity Value	\$391,962mm	Latest market cap
Debt Value	\$38,873mm	Fair value + short-term debt (From latest 10-Q)
Cost of Debt	4.39%	Interest expense (10-Q)/ Debt Value
Tax Rate	20.9%	KO FY2026 guidance
Risk-Free Rate (Rf)	4.7%	US 10-year Treasury yield, June 2026
Beta	0.35	Directly sourced, verified: Investing.com
Equity Risk Premium (ERP)	4.2%	Directly sourced implied ERP (Damodaran)
Cost of Equity (Ke)	6.18%	Ke formula
WACC	5.94%	WACC formula

4.3 Free Cash Flow Build

Unlevered FCF is derived via the standard NOPAT approach: EBIT – (EBIT*Tax Rate) + D&A – Capex – NWC(Change). D&A is modelled via a PP&E roll-forward rather than a revenue percentage, since depreciation is mechanically a function of the asset base, not current-year sales. NWC is modelled through DSO/DIO/DPO ratios derived from clean historical years.

Base case Unlevered FCF grows from \$11.2B (FY2026E) to \$12.4B (FY2030E), a 2.5% CAGR, modestly below the 3.1% revenue CAGR, reflecting an elevated FY2026E base from a one-time working capital release. The Gordon Growth terminal value using a WACC of 5.9% and g of 2.75% was applied, producing a tv that represents the substantial majority of total enterprise value, consistent with a mature, high-visibility franchise business

4.4 Sensitivity Analysis

WACC (Y axis), TGR (X axis) Implied share price(\$).

WACC/TGR	2.25%	2.50%	2.75%	3.00%	3.25%
4.94%	104.78	113.61	125.08	139.51	158.22
5.44%	88.71	95.13	102.75	111.94	123.23
5.94%	77.36	82.03	87.43	93.76	101.26
6.44%	68.72	73.26	76.27	80.87	86.18
6.94%	61.93	64.69	67.77	71.25	75.20

4.5 Scenario Analysis

I constructed three internally consistent scenarios varying revenue growth, EBITDA margin and g simultaneously, reflecting how these variables would plausibly move together under a coherent macro and operational narrative rather than in isolation

Assumption	BULL	BASE	BEAR	Commentary
Revenue Growth (FY2026)	3.9%	3.3%	2.1%	Segment-level build
Revenue Growth (FY2030)	3.8%	3.0%	1.6%	-
EBITDA Margin (FY2026)	33.5%	31.1%	30.8%	Made to reflect refranchising
EBITDA Margin (FY2030)	34.0%	32.2%	29.5%	-
TGR	3.0%	2.75%	2.5%	Above GDP, below WACC
Implied share price	103.26	87.43	70.07	Probability weighted: 25%/55%/20%
Upside/Downside	+13.4%	-4.0%	-23.1%	Weighted Price: ~\$88

*WACC (5.94%) is kept constant across all three scenarios

Bull Case (\$103.26, +13.4% vs current) - 25% probability

The BULL scenario requires three things to align; refranchising executes ahead of schedule (Bottling Investments declining faster but stabilising near-zero); blended revenue growth tracking towards 3.9% (FY2026E) and input cost inflation remains constant, allowing continued pricing power to expand EBITDA margins.

Base Case (\$87.43, -4.0% vs current) - 55% probability

KO executes on its stated strategy: 4-5% organic growth translates to ~3.3% reported growth after FX and portfolio effects; EBITDA margins improve gradually from 31.1% to 32.2% as refranchising completes. This is my central estimate, now sitting modestly below the current share price.

Bear Case (\$70.07, -23.1% vs current) - 20% probability

Requires multiple headwinds simultaneously: GLP-1 drugs see mass-market adoption by 2027-28, suppressing sparkling beverage volumes in North America and Western Europe; refranchising stalls as buyers cannot finance bottling acquisitions in higher-rate environment, eliminating the margin improvement thesis; Latin America FX headwinds persist and an adverse IRS litigation outcome pressures cash flows and dividend coverage. Only a 20% probability is assigned to this scenario as it requires several independent negative outcomes to occur together.

4.6 Peer Comparison

The following compares KO against publicly traded beverages on key valuation and operating metrics, all values are Non-GAAP TTM sourced from: stockanalysis.com. Sector Median for EV

Company	Mkt Cap	EV/EBITDA	P/E (FWD)	Revenue gr.	EBITDA Mg.	Div. Yield
Coca-Cola (KO)	~\$390bn	24.7x	26.80x	6.52%	33.91%	2.33%
PepsiCo (PEP)	~196bn	12.62x	~16.46x	5.62%	19.49%	4.13%
Keurig Dr Pepper (KDP)	~44bn	15.73x	~12.95x	27.48%	23.93%	2.87%
Monster Beverages (MNST)	~94bn	30.78x	38.85x	20.36%	31.83%	-
Sector Median	-	~15.73x	~16.46x	-	-	-

*KDP figures distorted due to acquisition of JDE Peet's (completed in April 2026) and GHOST lifestyle (ongoing).

Note on methodology: the 24.7x EV/EBITDA shown for KO is market sourced, distinct from the accompanying DCF's intrinsic valuation output. The DCF is not designed to reproduce this market multiple, rather the comparison serves as a cross-check on whether the market's current pricing of KO relative to its peers is broadly consistent with the premium the fundamental analysis would support.

KO's 24.7x EV/EBITDA premium to PepsiCo is justified by superior EBITDA margins (33.91% vs 19.49%), stronger consolidated organic growth and less complexity across snacks. KO's organic revenues (non-GAAP) experienced a 6% increase in Q2 2026, with North America's unit case volume returning to growth (+3%) after FY2025 softness (-1%). On top of this, Coca-Cola Zero Sugar continued its double-digit expansion (+16%). In contrast, PepsiCo saw slower organic growth (2.4%) and flat Frito-Lay North America volume despite price cuts of up to 15% on Lay's, Doritos, Cheetos and Tostitos, which failed to reignite consumer demand resulting in revenue and pricing for the segment to both slip 2%. KDP's 27.8% TTM revenue growth can be almost entirely attributed to the JDE Peet's acquisition, finalised 1st April 2026, which contributed \$2.80bn in Q2 2026. The 15.73x EV/EBITDA reflects strong U.S. refreshment Beverage (6.5% volume/mix growth) and legacy KDP, ~7.3% organic growth performance, which is dampened by ongoing U.S. Coffee weakness (net sales down 3.2%).

KO's premium to sector median can be decomposed into three components; brand quality and pricing power, dividend reliability and defensive portfolio allocation, and the ongoing refranchising story. This decomposition is defensible but leaves room for further re-rating, consistent with my HOLD.

5. Risk & Disclaimers

5.1 Company & Sector Specific Risks

- GLP-1 Appetite Suppressants: Mass-market adoption of appetite-suppressing drugs such as Ozempic, Wegovy and Mounjaro could structurally reduce caloric beverage consumption in developed markets.
- IRS transfer pricing litigation: The Coca-Cola company is currently in an ongoing dispute with the IRS over transfer pricing of intellectual property to foreign subsidiaries. A ruling against KO could result in a multi-billion dollar settlement.
- Latin America FX volatility: Reported results swing dramatically with Argentine peso and Brazilian real movements, despite strong underlying organic performance in the region.
- North America volume pressure: FY2025 showed less than favourable performance from North America, a 1% decline in both unit case and concentrate volume. Attributable to weakness in Trademark Coca-Cola, sparkling flavours and juice, dairy, plant-based products.
- Refranchising execution risk: If bottling divestitures (including pending African operations sale to CCHBC) cannot complete on schedule, COGS margin, SG&A margin and revenue growth in other sectors take a hit; resulting in lower than anticipated EBITDA margins.
- Regulatory & Health policy risk: Sugar taxes, plastic packaging regulation, and public health campaigns represent an ongoing cost and demand headwind.
- Input Cost Inflation: A return to 2022 level spikes in sugar, aluminium, PET plastic or freight costs would compress margins at a greater rate than pricing can offset.

5.2 General Investment Risk

- DCF valuations are highly sensitive to discount rate (WACC) and growth assumptions.
- Equity investments carry risk of loss, past performance not indicative of future results.
- Macroeconomic risks: broader equity market conditions and interest rate policy can affect KO's valuation, independent of company performance.
- Currency risk: as an internationally-operating, US dollar reporting company, KO's reported results subject to FX translation volatility.

- Model risk: all forward projections are my estimates based on historical performance, disclosed guidance and analyst judgement; actual results may differ.

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