ANALYSIS OF PERFORMANCE OF COCA COLA CO

The Coca Cola is one of the key players in the beverage industry. It deals in a variety of non-alcoholic beverages which are sold across the globe. Therefore, it has demand all around the world. The company was formed initially in the United States and now operates in all the major countries of the world.

Analyzing the performance of the company through various tools and methods, it can be assessed that the performance of the company has remained satisfactory over the past 5 years. Even though there has been a decline in the profit of the company in certain years the profit figure of the company has always remained positive which implies that the company has been able to earn return for its investors.

Some of the valuation parameters of the company has been compared with its major competitor PepsiCo and it can be assessed that even though the company has performed well its competitor has outperformed it in some aspects and therefore it is important to ensure the consistency of the market share that is present of the company currently and proper steps have to be implemented in order to ensure the maintenance and enhancement of the current market share.

The results of the company have been discussed hereunder with the important parameters of the valuation in order to determine the performance and profitability of the company:-

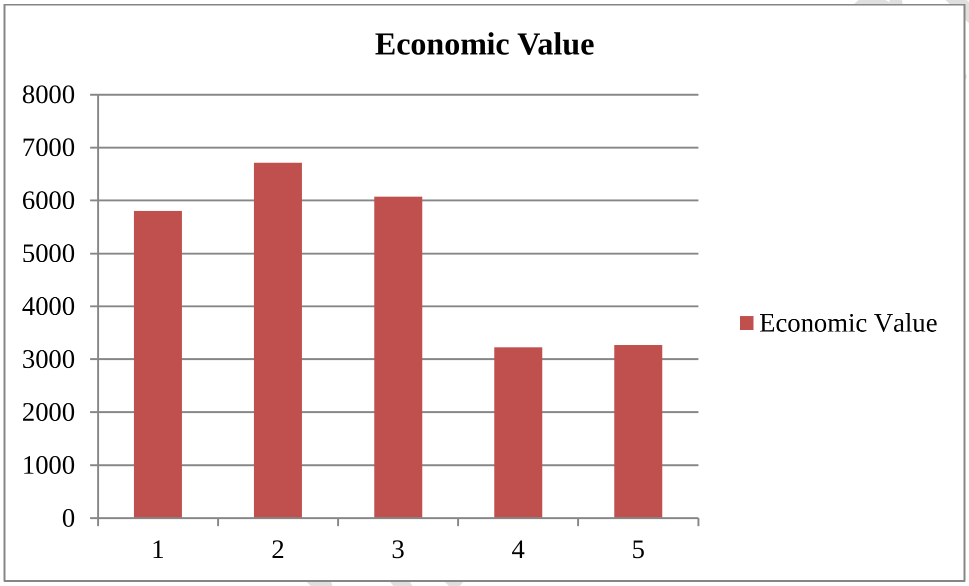
EVA Analysis

It refers to the value that has been added by the investment over and above the cost of capital. The cost of capital is the financial commitment or obligation that a company has towards its investors. Therefore, it is essential for a company to fulfill its financial obligations therefore, the value that is earned over and above these commitments would be the actual value addition that has been made in the entity. This parameter states if the investment is able to earn a return which is greater than the required rate of return by the investors. There would be no value addition for the entity if EVA is less than or equal to zero as the entire income that has been earned by the company would be spent in meeting its financial obligations in such a scenario and the investment would not add any economic value to the company. A true profit is made by the company only if the investment generates an income which is greater than the opportunity cost of the capital that has been invested in it.

In Appendix 1 we can study the EVA of the Coca Cola Co. The net income comprises of operating profit after providing for income tax and including the interest expense. The net investment is the carrying value of all the fixed assets of the company.

In the given case, we can observe that even though the EVA of the company has remained positive it has been very fluctuating over the past 5 years. Therefore, the business of the company has added economic value to the company. However, the difference between these additions is very huge over the given period of 5 years. The performance of the company even though it had remained satisfactory it has been very unpredictable over the given years. In the past few years the net income of the company has declined even with an increase in the net investment which has adversely impacted the EVA of the company. The main reason attributable behind the same would be the uncertain demand for the various products in which the company deals. Therefore, the business of the company is running successfully even though the pace of the growth is uncertain.

The following figure contains the graphical trend of the same:-

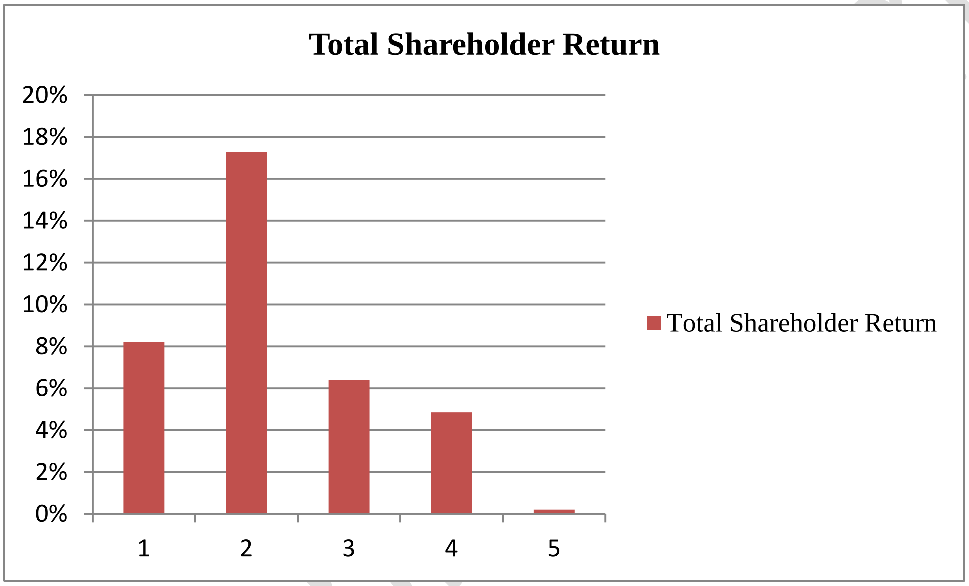


Total Shareholder Return

TSR is the total return that has been earned by an investor over a given period of time. The return is earned by an investor in the form of dividend and an increase in the share price of the company. Both the figures are added and then multiplied by the initial investment in order to obtain the total shareholder return that has been given to the shareholder. The higher the return the more value is added to the investment of the investor. The investors would prefer investing in the company that has a high TSR. In this parameter, the percentage of return is measured and analyzed irrespective of the quantum of return that has been given to the shareholder and the size of the investment that has been made by the investor.

In the Appendix 2 the share price has steadily increased over the past 5 years of the company. However, the dividend that has been declared by the company has fluctuated in the given years. The dividend has fallen in the third year after which again it has steadily increased. The performance of the company deteriorated in the year 2013 due to certain internal conditions, manufacturing challenges which led to a fall in the dividend of the company. But since the company had positive results and was able to earn profit in the year, the share price of the company steadily increased as the investors expected the company would address the challenges and gradually increase the profits of the company. Therefore, the fluctuation in the dividend that has been paid by the company has adversely affected the parameter of the company though the share price of the company has steadily increased.

It has been explained graphically hereunder:-

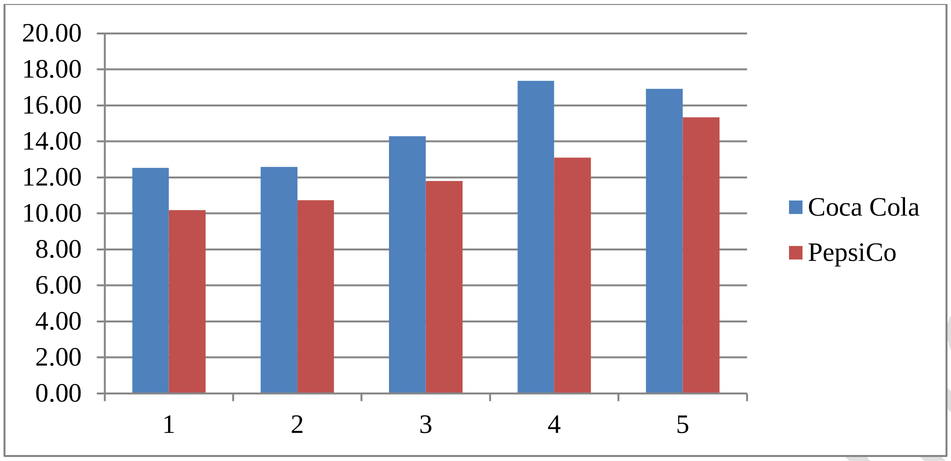


Valuation on Equity

Comparables

P/E Ratio – This ratio reflects the number of times a share is priced to its earnings. This ratio does not measure the current performance of the company rather the expected future performance of the company by the investors of the company. This ratio has improved over the past 5 years which implies that the confidence of the investors on the performance of the company has strengthened over the given 5 years. The company has witnessed a slight decline in the year 2012. However, this ratio has remained satisfactory over the past 5 years. The ratio can be studied in the Appendix 3.

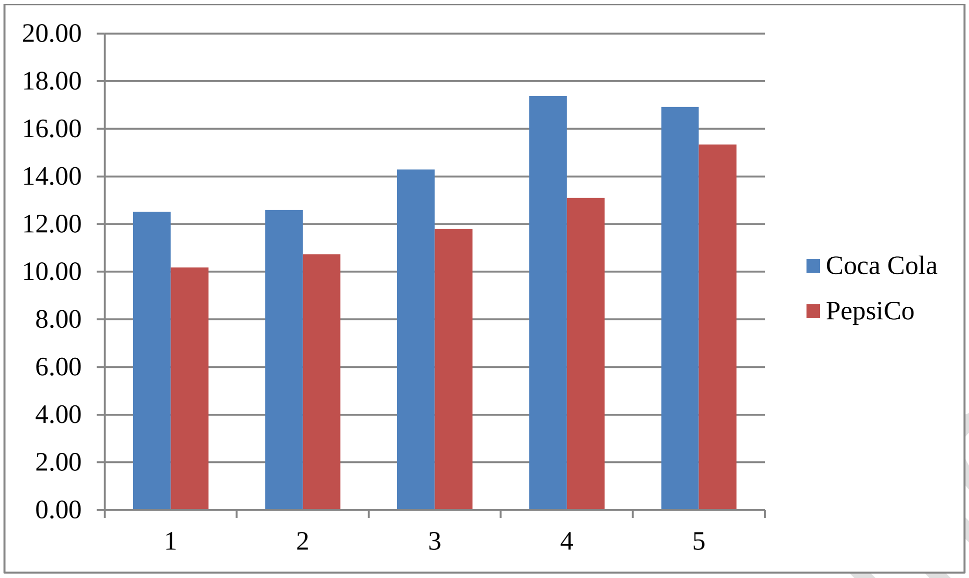
The figure hereunder represents the P/E ratio of Coca Cola and its competitor PepsiCo for the past 5 years.



In the given case, we can observe that the P/E Ratio of PepsiCo has enhanced steadily over the given period of time and it has slowly surpassed the P/E ratio of Coca Cola in the year 2015. It would imply that the equity valuation of PepsiCo would be higher considering this factor and the confidence amongst the shareholders regarding the performance of its major competitor PepsiCo has also strengthened in the past 5 years. The Coca Cola has witnessed a decline in the year 2012. However, PepsiCo has not witnessed any decline in this ratio which means that the investor confidence has increased with the passage of time for PepsiCo.

P/B Ratio - This ratio shows the number of times the price of a share is priced to its book value. Book value shows the value of the equity shares on the basis of book value of the assets of the company. The value is based upon the current conditions and does not take into account the future possibilities. However, the share price is the present value of the future dividend that an investor expects to earn on his investment as well as the present value of the share price at the time of sale by the investor. The higher this ratio greater is the investor expectation regarding the performance of the company.

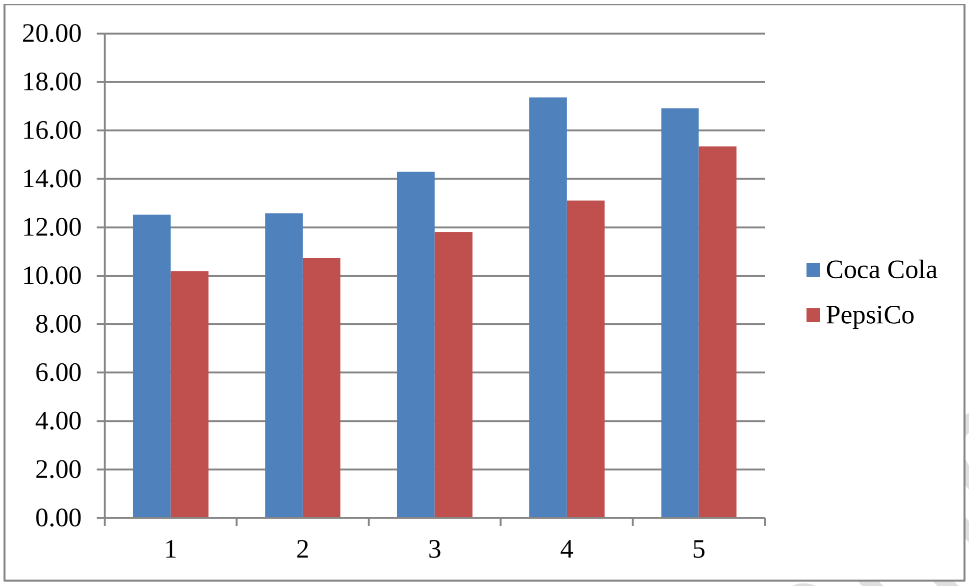
This ratio has been graphically compared hereunder with PepsiCo:-



For the past 5 years we can observe that the ratio of both the companies have steadily increased with a slight decline in the second year therefore, the performance of both the companies has improved with the passage of time. However, the P/B ratio of PepsiCo is higher than the P/B ratio of Coca Cola since the year 2014 which implies that the share price of the PepsiCo is priced higher when compared to Coca Cola if this ratio is considered. Even though this ratio has remained on an increasing trend for both the companies the rate of increase has been very high for PepsiCo as compared to Coca Cola which can be observed from the above chart.

EV/EBITDA – It shows the number of times the enterprise is valued to its earnings. EBITDA states the current earnings of the company before providing for any appropriations and taxes which EV is the current value of the enterprise. EV is computed keeping in mind all the factors like goodwill and future earning capacity of the enterprise. Higher this ratio, the greater is the value of the enterprise when compared to its earnings.

The Appendix 3 contains this ratio. We can observe that the ratio has remained on an increasing trend over the past 5 years for the company with a slight decrease in the last year. The ratio has been compared with its major competitor PepsiCo in the following figure:-



This ratio has remained positive for PepsiCo in the fifth year also which has reduced the gap between these two companies in the last year as PepsiCo has witnessed a major enhancement in this ratio while Coca Cola has observed a slight decline. This ratio has always remained higher for Coca Cola in the past 5 years but analyzing the trend and current situation there is a possibility that the PepsiCo would have a better ratio in the subsequent years.

Discounted Free Cash Flow

This method involves estimating the future cash flows of the company and discounting them with the required rate of return in order to obtain their current valuation.

Computation of Discounted Free Cash Flow						
Sl. No.	Particulars	2016	2017	2018	2019	2020
a	Sales	46000	48300	50715	53250.8	55913.3
b	Operating Expense	17940	18837	19779	20768	21806
c	Operating Income	28060	29463	30936	32483	34107
d	Income Tax	8418	8838.9	9280.85	9744.89	10232.1
e	Depreciation Tax Shield	200	186	183	170	161
f	Capex	-	200	500	100	200
g	Free Cash Flow	19842	20610	21338	22808	23836
h	Discounting Factor @7.19%	18511.05	17937.9	17326	17277.1	16844.6

Computation of Terminal Value		
Sl. No.	Particulars	Amount
a	Free Cash Flow	24551.05
b	Required Rate of Return	7.19%
c	Growth Rate	3.00%
d	Terminal Value	585943.99
e	PV of Terminal Value	386305.13

Computation of Total Value		
Sl. No.	Particulars	Amount
a	PV of Cash Flows of 5 years	87896.66
b	PV of Terminal Value	386305.13
c	Total Value	474201.79

Total no. of shares = 4387

Equity Valuation – 109.41 approx

Note:

- It has been assumed that sale will grow constantly at 5% for next 5 years.
- It has been assumed that the business will continue till perpetuity and the valuation has been done accordingly.
- Keeping in mind the current trends, the operating expenses have been taken at 39% of sales.
- The Depreciation tax shield also accounts for the capex acquisition in the subsequent years.
- Tax has been assumed @30%.
- It has been assumed that the free cash flow will constantly increase at the rate of 6% from the 6^{th} year.
- Discounting Factor has been assumed to be same as current cost of capital i.e. 7.19%.

Differences and Reconciliations of Valuation

The equity valuation is different under different valuation techniques. The differences arise due to the difference in the assumption that has been undertaken by the various methods for the equity computation. All the methods show different parameters and value the equity with different perspective therefore, none of the method can supersede the other method. The estimation and predictions are based upon future which is uncertain therefore, the estimations that have been considered by the various methods cannot be questioned.

Appendices

Appendix 1

Computation of Economic Value Added						
Sl. No.	**Particulars**	**2011**	**2012**	**2013**	**2014**	**2015**
a	Net Income	8,584	9,019	8,584	7,098	7,351
b	Net Investment	54477	55846	58751	59037	56698
c	Actual Return	15.76%	16.15%	14.61%	12.02%	12.97%
d	Cost of Capital	5.11%	4.12%	4.27%	6.56%	7.19%
e	Economic Value Added	5800.23	6718.14	6075.33	3225.17	3274.41

Appendix 2

Computation of Total Shareholder Return							
Sl. No.	**Particulars**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
a	Dividend	1.88	1.53	1.12	1.22	1.32	-
b	Share Price	34.98	35.97	40.66	42.14	42.96	41.73
c	Total Shareholder Return	8.20%	17.29%	6.39%	4.84%	0.21%	-

Appendix 3

Comparable Ratios						
Sl. No.	**Particulars**	**2011**	**2012**	**2013**	**2014**	**2015**
a	P/E Ratio	18.91	18.40	21.74	26.39	25.72
b	P/B Ratio	5.01	4.94	5.48	6.08	7.27
c	EV/EBITDA	12.52	12.58	14.29	17.37	16.92

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