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The Coca-Cola Co. (KO)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: At this time, I'd like to welcome everyone to The Coca-Cola Company's First Quarter 2025 Earnings Results Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time.

All participants will be on listen-only mode until the formal question-and-answer portion of the call. I would like to remind everyone that the purpose of this conference is to talk with investors and, therefore, questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations department if they have any questions.

I would now like to introduce Ms. Robin Halpern, Vice President and Head of Investor Relations. Ms. Halpern, you may now begin.

Robin Halpern

Vice President & Head-Investor Relations, The Coca-Cola Co.

Good morning, and thank you for joining us. I am here with James Quincey, our Chairman and Chief Executive Officer; and John Murphy, our President and Chief Financial Officer.

We've posted schedules under Financial Information in the Investors section of our company website. These reconcile certain non-GAAP financial measures that may be referred to this morning to results as reported under generally accepted accounting principles. You can also find schedules in the same section of our website that provide an analysis of our gross and operating margins.

This call may contain forward-looking statements, including statements concerning long-term earnings objectives, which should be considered in conjunction with cautionary statements contained in our earnings release and in the company's periodic SEC reports.

Following prepared remarks, we will take your questions. Please limit yourself to one question. Reenter the queue to ask any follow-ups.

Now I will turn the call over to James.

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

Thanks, Robin, and good morning, everyone. Our results in the first quarter reflect the continued execution of our all-weather strategy and demonstrate the resilience of our business as we navigate a dynamic external environment. We delivered 2% volume growth and organic revenue growth at the high end of our long-term growth algorithm. We also delivered comparable gross and operating margin expansion.

With this as context, we're grounded in our starting point of human-centricity. Our first quarter results would not have been possible without the actions of our people around the world. I'd like to express my gratitude to our system associates, who are adapting quickly and creating enduring value. And as we look to the remainder of the year, we will continue to be consumer and customer-centric. Based on what we know today, we believe we can achieve our 2025 guidance.

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This morning, I'll provide further detail on our first quarter business performance and will discuss the current operating environment. Then, I'll explain how we're improving execution and investing to strengthen our system. John will also discuss our financial results and provide further commentary on the outlook for the rest of the year.

During the quarter, some markets improved sequentially, while other markets faced macroeconomic uncertainty and geopolitical tensions that impacted consumer confidence and consumption behaviors. Despite this backdrop, we delivered robust organic revenue growth. Through our stepped-up capabilities and better-than-ever system alignment, we're getting more granular and tailoring our execution to win locally in key geographies, categories and channels.

During the quarter, we grew volume across all global beverage categories. We won value share by three key metrics: overall share, at home and away from home. However, as we look across our top country category combinations, we still have opportunities to further improve our performance.

Across our markets, we leveraged our global scale and local expertise to respond to complex dynamics in the quarter. In North America, we grew revenue and profit and won value share, but we were not satisfied with our volume performance. In addition to challenges with severe weather and calendar shifts, volume was impacted by weakening consumer sentiment as the quarter progressed, particularly among Hispanic consumers.

Bright spots include continued volume growth for Coca-Cola Zero Sugar, another good quarter for fairlife and Topo Chico Sabores and continued traction with foodservice customer renewals and new accounts. Our system has quickly pivoted to prioritize the most impactful investment opportunities and is emphasizing faster decision-making and greater agility to accelerate volume growth.

In Latin America, while volume was flat, we grew both organic revenue and comparable currency neutral operating income. Brazil and Argentina had strong volume performance, while momentum in Mexico was weaker due to cycling strong volume growth in the prior year, calendar shifts and diminished consumer sentiment, partly stemming from geopolitical tensions.

Our system has taken swift action in Mexico. We've learned from best practices in other markets by messaging affordability with value packages in key channels and by launching the Hecho en México campaign to further build trust with consumers. Across Latin America, our system is leveraging connected packaging and digital customer platforms to drive long-term growth.

In EMEA, we grew volume, organic revenue and comparable currency neutral operating income. In Europe, volume declined, with mixed performance in both Western and Eastern markets due to a range of factors. To drive demand for our brands, we're focused on affordability and launching impactful integrated marketing activations. For example, with Trademark Coca-Cola, we launched the Everyday Tasty Celebrations campaign for the meal occasions in over 20 markets, leveraging local influencers. For Fanta, we launched a partnership with Xbox to recruit Gen Z drinkers.

In Eurasia and Middle East, we drove strong volume growth and won value share. In Turkey, despite continued external challenges, our business performance improved. We're leveraging our learnings from the past year to better understand consumer motivations and pivot during shifts in demand. Our efforts across the region to emphasize the localness of our system, while driving affordability and partnering closely with customers, are taking hold.

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Lastly, in Africa, we grew volume, despite cycling strong growth in the prior year and dealing with double-digit inflation. We're driving affordability with refillable offerings and value packages, and we're engaging consumers by scaling global integrated marketing campaigns at a local level, including Wanta Fanta, Sprite Spicy Meals and Schweppes Born Social 2.0.

Finally, in Asia Pacific, we delivered volume, organic revenue and comparable currency neutral operating income growth. In ASEAN and South Pacific, volume declined as strong performance in the Philippines was more than offset by weaker performance in Thailand and Indonesia. However, we won value share in the region. We're focused on driving affordability with refillable offerings and attractive absolute price points, increasing outlet coverage and accelerating placement of cold drink equipment.

In China, our system focus on improving execution is paying off and led to volume growth. We delivered impactful integrated marketing activations around the Lunar New Year and invested to drive growth in away-from-home channels. Trademark Coca-Cola had strong volume performance, while Sprite is getting back on track.

In India, we had strong volume growth across our portfolio of global and local brands. Our system added nearly 350,000 outlets and increased household penetration. Also, our system increased cooler placement and added approximately 100,000 customers to its digital customer platforms.

In Japan and South Korea, we drove volume growth and won value share with strong performance from Ayataka Tea. Our system is benefiting from stepped-up execution across key channels.

Putting it all together, our business proved to be resilient during the quarter. And we're prepared to respond to changing consumer dynamics as our external environment continues to evolve.

While we're navigating near-term market dynamics, we're focused on capturing the boundless opportunities we discussed at CAGNY, and we're building capabilities to further our strategic edge.

Starting with our portfolio of loved brands. Our total beverage portfolio offers consumers choice, whether it be by brands, package size or package type. We have 30 global and local billion-dollar brands that address a broad range of consumer need states and drinking occasions. 30% of our volume is from low or no-calorie beverages and 68% of our products in our portfolio have less than 100 calories per 12-ounce serving. We also have a diversified mix of affordable and premium offerings. By staying consumer-centric and offering choice, we're seeing growth across multiple elements of our portfolio.

Moving on to our marketing and innovation agenda. Our ongoing transformation continues to fuel our top line growth. With Studio X, we're producing tailored digital marketing at scale and with speed, and we're measuring the impact in real time. For example, during Lunar New Year, we scaled an integrated campaign with Trademark Coca-Cola across China, Japan, Vietnam and other Asia Pacific markets.

Consumers access personalized digital experiences through our systems connected packaging. The campaign leveraged social media, live events and increased displays in customer outlets, contributing to Trademark Coca-Cola volume growth in Asia Pacific during the quarter.

We're also excited about the global return of our iconic Share a Coke campaign. The 2025 iteration of this campaign offers digital experiences and increased shareability and customization. The return of Share a Coke is the first chance for Gen Z to experience this much-loved campaign. We're investing in multiyear innovations and prioritizing fewer, but bolder, launches to drive greater impact and improve our success rates.

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For example, we're continuing to invest in Fuze Tea, which contributed to value share gains in the category during the quarter. We expanded Fuze Tea Sabor Original to Spain and Fuze Iced Tea to Canada. In the US, Coca-Cola Orange Cream is off to a good start with approximately $50 million in retail sales during the quarter. At the end of February, we launched Simply Pop, our first prebiotic soda, in select locations and channels across the country. We're excited about our ability to test and learn and scale successes over time.

Lastly, we're striving to optimize our broader ecosystem. This extends far beyond the company and our bottling partners. If you include our suppliers, approximately 6 million people service our ecosystem. Coca-Cola is for everyone, and we strive to contribute to each of the communities we serve. We believe our franchise model, which leverages global scale but prioritizes localness, is an advantage in today's environment.

Our system primarily produces and distributes our brands locally. We also aim to procure locally, where possible. Much of the value we create in terms of jobs and retail sales stays in the local markets. For example, according to a recent economic impact study by Steward Redqueen in the US, our ecosystem contributes approximately 860,000 jobs and approximately $58 billion to annual gross domestic product. In Brazil, our ecosystem contributes approximately 575,000 jobs and over $15 billion annually to the gross domestic product.

While it is reasonable to assume global trade tensions and broader macro uncertainty may persist in the near term and could impact consumer sentiment, the building blocks behind our long-term growth opportunities are unchanged.

We continue to benefit from three primary factors. Firstly, we operate in a resilient industry with predictable growth. Second, while barriers to entry in our industry are low, barriers to scale in our industry are high. Lastly, we have significant headroom to develop our industry and gain share. And we believe we're primed to capture these opportunities. Our portfolio power, as demonstrated by our 30 billion-dollar brands and pervasive, yet local, distribution are key differentiators. Our system continues to prioritize agility, consumer-centricity and close partnership across our ecosystem to drive long-term growth.

In summary, it's early in the year, and we know that the external environment is dynamic. Enabled by our all-weather strategy, we'll continue to expand our toolkit to respond to the opportunities and challenges ahead. Thanks to the unwavering dedication of our system employees, we are confident we can achieve our objectives.

With that, I'll turn the call over to John.

John Murphy

President & Chief Financial Officer, The Coca-Cola Co.

Thank you, James, and good morning, everyone. During the quarter, we pivoted as needed to continue delivering on our objectives. We grew organic revenues 6%, which reflects performance at the high end of our long-term growth algorithm. Unit case growth was 2%, in line with our multiyear trend. Concentrate sales were 1 point behind unit case sales, as the impact of two fewer days in the quarter was partially offset by the timing of concentrate shipments.

Our price/mix growth of 5% was driven primarily by pricing actions across our markets, partially offset by approximately 1 point of unfavorable mix. Pricing from intense inflationary markets contributed to approximately 1 point of price/mix growth, down from approximately 5 points in full year 2024.

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Comparable gross margin increased approximately 30 basis points and comparable operating margin increased approximately 130 basis points. Both were driven by underlying expansion and a benefit from bottler refranchising, partially offset by currency headwinds.

Putting it all together, first quarter comparable EPS of $0.73 increased 1% year-over-year despite 5% currency headwinds, dilution from bottler refranchising, elevated net interest expense and an approximate 2-point increase in our effective tax rate.

Free cash flow, excluding the fairlife contingent consideration payment, was approximately $560 million, an increase versus prior year. During the quarter, we made our final $6.2 billion payment related to our acquisition of fairlife, which continued to deliver strong performance. We're expecting fairlife's growth to moderate during the remainder of 2025, in advance of bringing additional capacity online.

Our balance sheet remains strong with our net debt leverage of 2.1 times EBITDA, which is at the low end of our target range of 2 to 2.5 times. We're confident in our long-term free cash flow generation and continue to have balance sheet capacity to pursue our capital allocation agenda, which prioritizes an unwavering commitment to drive growth and support our dividend, while staying flexible and opportunistic.

Before I discuss our guidance, I'd like to provide perspective on the current global trade environment and the actions we're taking to manage our business. While our system primarily executes locally, we're not immune to global trade dynamics. Based on what we know today, the dynamic tariff landscape could impact pockets of our system's cost structure as well as consumer sentiment in our markets.

At this time, we believe we have numerous levers to help manage the impact, which is contributing to our current 2025 guidance. Enabled by our all-weather strategy, we believe our business model has the flexibility needed to allow us to deliver on our near-term commitments. Our current 2025 guidance takes into consideration the underlying momentum of our business and what we know today about our external environment.

We continue to expect organic revenue growth of 5% to 6%, but now expect comparable currency neutral earnings per share growth of 7% to 9%, both of which reflect delivery in line with our long-term growth algorithm. Bottler refranchising is still expected to be a slight headwind to comparable net revenues and comparable earnings per share. Most of the impact of bottler refranchising occurred during the first quarter of this year as we cycled the impact of refranchising the Philippines, which closed during the first quarter of 2024.

Based on current rates and our hedge positions, we now anticipate an approximate 2- to 3-point currency headwind to comparable net revenues and an approximate 5- to 6-point currency headwind to comparable earnings per share for full year 2025. Our underlying effective tax rate for 2025 is still expected to be 20.8%, which is over a 2-point increase versus prior year.

All-in, based on what we know today, we continue to expect 2025 comparable earnings per share growth of 2% to 3% versus $2.88 in 2024. There are some considerations to keep in mind for 2025. During the second quarter, we are cycling a tougher volume comparison from the prior year.

While we're taking action to address consumer dynamics across some key markets and are seeing encouraging signs, we expect recovery to take some time. We continue to expect the productivity benefits that I discussed in February to be weighted towards the latter half of 2025. Last, due to our reporting calendar, there will be one additional day in the fourth quarter.

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To sum it up, we remain focused on the execution of our all-weather strategy and are well positioned despite macro complexity and uncertainty in the remainder of 2025. Thanks to the power of our portfolio and the partnership of our system, we're confident we will continue to create enduring value for our stakeholders.

And with that, operator, we are ready to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Dara Mohsenian from Morgan Stanley. Please go ahead. Your line is open.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning. Another strong quarter, clearly in Q1, but you did maintain the all-in full year 2025 earnings guidance, which implies constant currency earnings growth is now lower by 100 basis points with FX improving. So is that just because it's early in the year and in a difficult environment, it doesn't make sense to raise overall earnings, particularly with volatile currency? Or are there discrete factors that are incremental as we think about full-year currency neutral earnings?

And maybe I can just extend that question also to unit cases, 2%, great result in the quarter. Comps do get tougher going forward. There's some geopolitical risk in theory. So just any thoughts around your ability to drive continued corporate unit case growth going forward in this more difficult environment that you referenced. Thanks.

John Murphy
President & Chief Financial Officer, The Coca-Cola Co.

A

Thanks, Dara. On the currency front, as we said in the script, currency guidance is based on current rates and hedge positions. And it's early in the year. We have most of our G10 pretty much hedged, but there's still a lot of volatility out there with emerging markets. So we are being, I think, prudent to not get the flow through. And I am sure there's more to come in the coming months on the currency front, particularly in the emerging world.

And on unit case volume, not dissimilar. We have had an overall strong start when you look at the global portfolio, thanks to the strength of that portfolio. I highlighted in my script remarks, as you just alluded to, we're cycling a strong second quarter. We have had a number of actions to address some of the challenges we've seen in the first quarter. And we expect those actions to have an impact, but it will not be immediate. So I'd highlight the full year guidance, we feel comfortable and confident with. And like we've seen over the last, I'd say, 12 to 13 quarters, each quarter has its own personality nowadays. And so I'd look at the full year versus, let's say, the dynamics of any one quarter.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks.

Operator: Our next question comes from Bryan Spillane from Bank of America. Please go ahead. Your line is open.

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Bryan D. Spillane
Analyst, Bank of America Securities

Q

Hey. Thanks, operator. Good morning, everyone. And, John, I'm still trying to figure out, that's the first time I've heard quarters described as having personality. So I'm trying to understand what personality this quarter might have been. But just, could we talk a little bit about Mexico? And the quarter was, I think, was a little bit softer.

Also, I think you talked about market share gain – or market share losses. So maybe can we talk a little bit about the current conditions there? I know last year, there was some noise with the consumer around the election. So just what's happening with the consumer there? And I guess, perhaps what actions you're going to take, what you're planning to take going forward to sort of restart volume growth.

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.

A

Yeah, sure. Firstly, stepping back a bit, I mean, Latin America had a reasonable quarter. There was strong growth in Brazil and particularly Argentina. And yes, as you say, it was a bit softer in Mexico. There are a few things that went into that softness in Mexico. It's cycling a stronger first half from last year. And Easter being an important holiday in Mexico, that shifted effectively from the first quarter to the end of April, effectively the second quarter. So that's one. That's the first piece.

Second piece, there was some macro uncertainty coming into the year post the election, the local Mexican elections and some geopolitical tension. We called out some of the pullback in Hispanic consumers in the US as part of underlying one of the factors in the US volume. That is also the same thing that's happening in Mexico and Northern Mexico. There's some of the geopolitical tension and Hispanic pullback also affected the Mexican, particularly the border region, which is very connected to the US. And so you've got that as well. And so there was a couple of impacts there coming.

We had some pretty good bright spots on Coke Zero and Del Valle and Santa Clara and Fuze. But we're very focused going into Q2 on affordability with refillables and value, reinforcing Hecho en México, which is a campaign about the localness, the hundreds – the tens of thousands of jobs in Mexico that run our Mexican system and partnering closely with the fragmented trade. So I think that it will come back.

As John said, each quarter will have its own personality. I'm not sure what Q2 will end up with, but choppy would be a good start. We're confident in our guidance because we're confident in our strategy and the system's execution of that all-weather strategy. And so I think we'll come back in Mexico, and we'll pull it back.

Operator: Our next question comes from Lauren Lieberman from Barclays. Please go ahead. Your line is open.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Great. Thanks so much. So I want to talk a little bit more perhaps about the actions you're taking in the US. You called out consumer softness, particular demographics, but there was also some pretty pointed anti-Coke brand Coke sentiment out there. So I was just curious, anything you could share and articulate on what the system is doing to kind of manage through that. So yes, that's the key question. Thanks.

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.

A

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Yeah, sure. I mean, clearly, the key is agility and reprioritization, refocusing on some of the issues within the context of a strategy that has been working for us in the US marketplace. I mean, we have been very focused on driving the portfolio and upping the execution with our bottling partners, and that's been a multi-quarter, multiyear successful strategy. So within the context of continuing that, we're going to make some adjustments for what's happened in the first quarter.

Just standing back a second and saying what happened, there were a whole set of things came together. There's a shift in Easter, which I mentioned, re Mexico and the weakness in some of the consumer traffic, particularly Hispanics in traffic. And there was some very unfortunate video circulating around. False, completely false, but they impact the business. That kind of hit us, particularly Coke Original in the southern states. That is abating. But there were other things like cold weather and some of the calendar shifts.

So, there were some known factors. There were some unfortunate factors and there's some stuff that we've got to focus on so that we can build on what went well. Coke Zero was still growing. Fairlife was still the number one brand to add retail dollars in the first quarter. Topo Chico is going well. So we have a lot to build on. We've focused on coming back on Coke Original. We're focusing in on winning back some of the Hispanic consumers, both from a consumer and a channel point of view, and reinforcing some of our affordability options. So I think we're going to again come back. Might be choppy again going into Q2, but we feel we have a handle on the controllables and can get ourselves back on track to our winning strategy.

Operator: Our next question comes from Steve Powers from Deutsche Bank. Please go ahead. Your line is open.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Hey, great. Thanks. So, James, as you emphasized in the prepared remarks, the company's portfolio is made up – a broad mix of both global and local brands. Given some of the shifts you've seen in demand since we were all together at CAGNY in February, could you talk maybe about how you're leaning more into some of those local brands in the current environment to the extent that you are or perhaps how you're executing or positioning differently some of your global brands to emphasize their local relevance?

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.

Sure. And let me start by emphasizing the nature of the Coke system globally. Obviously, we're iconically known for Coca-Cola, the world's most global brand, and a set of other global brands. But along with that kind of headline globalness, actually, it's a very profoundly local business. The beverages in each country are largely made in that country by local employees using local inputs. So the US system, for example, between the people we employ directly and the kind of the economic jobs that come through the supply chain and total ecosystem is like 860,000 people and $58 billion of GDP. You go to Brazil, same, 575,000 people, $15 billion of GDP. So it's a very profoundly local business as much as it looks like a global business.

And so, the paradox that gets managed, productively from our point of view, is how do we make global brands locally relevant. So, it's not that we, in this current context, are switching from supporting and investing behind the global brands into just local brands. No. The trick, or the imperative, is to make the global brands locally relevant. And in the moments of geopolitical tension, one of the key strategies is to drive and reinforce the made in or made by. The fact that it's a local business, the factory is down the road from you, your neighbors make the product.

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And this underlining of the localness of the production and the distribution and the workforce plus reinforcing affordability tends to be the key thing to do, particularly with brand Coca-Cola in these moments. So I would not expect to see any major shifts in the makeup from a global brand or from a brand portfolio sense as we go forward. It's about how you engage locally to reinforce the global nature of the brand, but the local physical presence of the brand, and that's what works in these circumstances. And it's a best practice that we know from around the world. It's not the first time it's had to be used. I'm sure it won't be the last.

And so, we think our business model is set up for an environment that can take a degree of disturbance because it's a very resilient business model.

Operator: Our next question comes from Filippo Falorni from Citi. Please go ahead. Your line is open.

Filippo Falorni
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning, everyone. I wanted to ask you about your comment about the global trade dynamics. You mentioned that your operations are primarily local. But what are the portion of your business where you're actually seeing the tariff implication impacting your business? Any sense if you can give us a sense of quantifying the potential impact? I know aluminum is a component, but just any broader comment on the implication from the global trade environment?

And then, a follow-up to that in the sense of the responses to just a general anti-American brand sentiment around the world from the global trade dispute. Are there any countries, other than Mexico, which you called out, where you're seeing a little bit more of, I guess, negative sentiment towards American brands? Thank you.

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.

A

Yeah. I'll take the second piece first because it's very much linked to my previous answer, which is about reinforcing localness and really making sure we're on affordability and getting that really working and focused on driving the execution of that strategy. I'm not sure I would call out many other places. Obviously, there have been countries that have cycled through this problem over the last number of years. I'm sure there'll be more.

I think the predominant issues have been, as we've seen this quarter so far, in the US and in Mexico, a little bit perhaps in Europe and some of the other countries. But one has to parse apart sentiment from behavior. And therefore, it's very important that we're not responding to sentiment, we're responding to behavior.

Turning back to the tariff dynamic. As we called out in our release, we see it as manageable. Obviously, we're not immune to global trade dynamics and we're talking now, knowing what we know today, and we're mindful the environment can change around us.

Again, as I said before, I think our local franchise structure is an advantage. Our exposure to trade, import/export is not massive in the major countries relative to our cost structure. So, if we were to take the US, for example, we are exposed on a couple of inputs like orange juice or some of the dispensing equipment we buy. Our bottling system is a bit exposed to some of the resin and aluminum. But these are small pieces relative to the total size.

And even if you focus just in on those elements exclusively and think about what impact they may have on marketplace pricing, you don't just have to take into account the tariff. You've got to take into account, well, what's

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happened to the price of the underlying commodity? What's happened to the exchange rate from where you're buying it? What's happened to our hedging positions because we have long-term hedging positions in place.

So, when you put all those things together and all the other levers across the cost elements of the business, that's how we and the bottling partners locally make the decisions on pricing. So, as it comes to the US, given all the things I talked about, both we, in the bits where we operate directly, and the bottlers locally, we're sticking to our current pricing plans for the year and knowing what we know today.

Operator: Our next question comes from Chris Carey from Wells Fargo. Please go ahead. Your line is open.

Chris Carey
Analyst, Wells Fargo Securities LLC

Q

Hi, everybody. I wanted to ask a question about margins and specifically operating margins. I think this is the best operating margin delivery going back in our model, I suppose, the modern era. I don't know what they were 100 years ago, but let's say these are very, very strong operating margins. To what level are such margins sustainable? And do you envision any caveats in the quarter? I know you talked about marketing timing. And then, just connected to that, as you think about reigniting trends in some of your developed markets, North America, Europe, is there a scenario whereby you would need to use some of this margin strength to drive that? Or is the price pack and RGM strategy strong enough that you can still offer affordability without sacrificing the margin strength? Thank you.

John Murphy
President & Chief Financial Officer, The Coca-Cola Co.

A

Thanks, Chris. Yes, pleased with the way we came out of the first quarter on the operating margin front. There is an element of timing in there that has benefited us. I would kind of step out of the quarter, point to our longer-term algorithm and the embedded in that our belief in our ability to expand margins over time. As you know, we have made a lot of progress over the last five or six years to get to where we are north of 30%, 31% as we go into the rest of this year. And we expect to be able to do that with the levers we have. And those levers are not just on the cost containment and management front. As you mentioned in your second question, they also flow through to being able to manage a quality top line over time.

And with regard to the investment thesis we have to enable both the top and the margin line to expand in line with our algorithm, a combination of the buildup over the last few years of a substantial spend behind our portfolio and the opportunity to leverage further productivity that we know we have over the next few years, we feel good about our ability to lean into growth, to invest behind the brands, and to adapt as we need to.

This quarter is a good example of a quarter where there's been a lot of adaptation required to deliver the numbers we have delivered for the here and now. But we're confident that we have sufficient ammunition to be able to do that for the next number of quarters. And embedded in that is an assumption that we'll probably have to pivot again in some part of the world or other.

Operator: Our next question comes from Rob Ottenstein from Evercore. Please go ahead. Your line is open.

Robert Ottenstein
Analyst, Evercore ISI

Q

Great. Thank you very much. You mentioned in the opening comments that fairlife growth may moderate. And fairlife and Core Power have been a phenomenal success. So, wondering if you can kind of, one, talk about the

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trajectory of that business starting now with kind of the service levels you have, when the capacity will come on, a sense of how much capacity is coming on, and where you see that brand going forward in terms of how big it could get? And then also, how you're going to protect that brand from an intellectual property perspective. Thank you.

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.

A

Sure. Thanks, Rob. Firstly, when we talk about the kind of the growth moderating of fairlife, we're very much focusing on the percent growth. And I think there, you're starting to see the law of big numbers. It's starting to get to be a very big business as it compounded very, very high double-digit percent growth rates over the last number of years. So, it's a comment relative to percentages rather than total business size. If you look, as I commented earlier, in the first quarter of this year, fairlife again was the brand that added most retail dollars to the beverage industry on top of doing so last year.

So, the dollars, the robustness and the size of the business continues to grow substantially. It's just a percentage compounding question as it moderates a little.

The capacity will come on towards the – we've been increasing capacity in a number of different places in some of the existing locations. And the major capacity uplift will happen at the end of the year. And it'll be more than enough to see us through a good number of years and certainly will make it unconstrained to the extent we get into that towards the end of the year.

The long-term opportunity, I think, is still very substantial. There's a lot – I mean, it's got a lot of reasons behind its underlying growth in terms of the quality of the product, the quality of the taste, the quality of the shelf life, the low or no lactose, the higher protein. I mean, it's just a great product on many dimensions, which is part of what gives it a competitive advantage. It doesn't just depend on any one piece, including the IP and the technology that comes with it for the filtration. So it is a very strong business.

Obviously, as we get into lots of extra headroom in terms of capacity, we can redouble-down on marketing, innovation and really continue to drive and expand that business. So we've kept in the swim lanes of the core products at the moment because that's the most effective thing to do when you're running such growth rates and risk running out of capacity. Obviously, we haven't because we're continuing to grow in the first quarter, but we will get soon into unconstrained opportunity to continue to really drive this master brand forward.

Operator: Our next question comes from Andrea Teixeira from JPMorgan. Please go ahead. Your line is open.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you, operator, and good morning, everyone. So I will start with James and then a clarification for John. First, James, can you comment on Europe, Middle East and Africa? You had the 3% growth in unit volume. And I'm assuming, of course, there's a lot of different dynamics, given how large the region is. But can you comment on the performance of Western Europe, which is a very large component of your profit pool as you exit the quarter as some CPG, as you probably have been following, have been calling a deceleration in the consumer dynamics there as well?

And then, a clarification for John on the underlying results. I mean, it seems that the FX came in – or the outlook is 100 basis points better, but it seems that the underlying profit is assumed to be 100 basis points worse to make

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for the all-in comparable EPS to be the same. So can you comment on what got sequentially worse? Or is that some – you're embedding some of the risk of more punitive trading news or just conservatism, despite the strong start of the year? Thank you.

John Murphy
President & Chief Financial Officer, The Coca-Cola Co.

A

Yeah. Let me get the clarification out of the way, Andrea. Thanks for the question. It's early in the year. Currency is a function of what we know today and our hedge positions, and there's still a long way to go. And so we feel it's prudent at this juncture to guide as we have done so. And we'll continue to update on the currency front as we go through the year.

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.

A

Yeah. And in the EMEA segment, yes, the volume growth was principally driven by the Eurasia markets, actually including some of the North Africa ones, but it's a strong performance, particularly by the Eurasian market. The European business specifically, as you say calling out, it's a good profit pool. There, the volume performance was actually in line with previous quarters. There were mixed performances between the East and the West, maybe the West a little softer.

Again, Europe has some of the factors that we talked about in the case of the US and Mexico, the shift of Easter, some of the macro uncertainties and the political tensions. But again, just one, like, it was very similar to what they were tracking from last year in terms of volume performance. And there were some really strong bright spots in things like Coke Zero, Sprite Zero, Fuze Tea, Powerade and some really good marketing across not just Coke with kind of Everyday Tasty Celebrations and things, but partnerships with Xbox and Fanta. And as we look forward, we're really going to continue to focus on some of the RGM and affordability and the availability of cold drink equipment going into what is for Europe, the most important season, which is the summer season.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: Our next question comes from Bonnie Herzog from Goldman Sachs. Please go ahead. Your line is open.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Q

All right. Thank you. Good morning, everyone. I just had a quick question on the away from home channel and consumer. Curious to hear how your away from home business trended in the quarter, I guess, versus even Q4. And then what's your outlook for the channel this year given the consumer, I guess? And then with that in mind, how should we think about the impact on your top line and margins if the away from home channel slows? And I guess, is that factored in your guidance? Thanks.

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.

A

Okay. Are you talking just US or globally?

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Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Q

Honestly, globally. But if you want to give some color on the US as well, that would be helpful. Thank you.

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.

A

Yeah, sure. Look, I think let's start with the US. I mean, in the US, actually, immediate consumption actually held up better than future consumption. Some of the issues, particularly some of the pullbacks from consumers, was more concentrated in the take home channel. So if we were to look at the North American business, the IC business actually did reasonably well and the future consumption business is where the impact was most felt.

Similarly, in Europe, the impact was more on the future consumption. The IC was actually growing in Europe. I think that calls out the importance of affordability in the retail channels. And I think that's what it's kind of reflecting and that's notwithstanding some of the geopolitics, that's what it's reflecting, and that's what it's calling for in the months going forward.

And then, if you kind of extract that to a global basis, both at home and away from home were both growing globally speaking, with away from home growing slightly faster than at home. So on a global basis, looking good, strong activations across a number of places, particularly Asia Pacific, where away from home grew really strongly. And the bit that was a little bit more of the drag is the developed markets, particularly US and Europe. It was in the future consumption where there was a bit of weakness, which, as I said, calls for working with the retail customers on some affordability to really drive solutions there.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you.

Operator: Our next question comes from Kaumil Gajrawala from Jefferies. Please go ahead. Your line is open.

Kaumil Gajrawala
Analyst, Jefferies LLC

Q

Hey, everybody. Good morning. If I could ask a question on currency maybe slightly differently is since, John and James, your arrival, it's been about dollar-based growth and worked very hard to be able to grow earnings in dollar terms. We may be coming towards the end of a strong dollar super cycle. And I'm curious, to what degree are you contemplating that and does it change how you're sort of thinking about future investments, capital returns, things like that?

John Murphy
President & Chief Financial Officer, The Coca-Cola Co.

A

Do you want me to take it? Yeah, we're not quite there yet, Kaumil, on celebrating the demise of the dollar. But we will continue to stay very focused on our core objective to grow US dollar EPS. If there is a scenario over time whereby the dollar weakens to the extent that it impacts our total portfolio of currencies, we would expect to flow that through. And we have a debt scenario in our pipeline. It's not the foremost scenario we have at the moment because I think some of the headlines on dollar weakness are really linked to the US dollar index, which covers only six currencies and a heavy weighting towards the euro. So for example, four of our top five market currencies are not covered in that index. So I think the way we are looking at the US dollar at the moment is in the context of

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our total currency basket and as reflected in our guidance. And if there is a significant change, of course, on that front in the course of this year, we'll adjust accordingly.

Operator: Our next question comes from Nik Modi from RBC Capital Markets. Please go ahead. Your line is open.

Nik Modi
Analyst, RBC Capital Markets LLC

Q

Yeah. Thank you. Good morning, everyone. So, James, I just wanted to get your thoughts on innovation in the wellness and functional space. There's a growing popularity of ingredients like Ashwagandha and Lion's Mane and Turmeric, among others in the US. Many of these ingredients have some kind of science backing on health and other functional benefits. So just wanted to get an understanding how you're thinking about using these products or ingredients in terms of your innovation in the US. Like do you need clinical studies to support some of the health claims? A lot of these ingredients are used a lot overseas. And so given your global exposure, just curious on how you're thinking about this in terms of the US, especially as the population is aging? Thanks.

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.

A

Sure. Clearly, from a – we're going to – firstly, we're going to follow the consumer. And I think there are a couple of pieces to that. One is what do they really want and how are they really behaving in terms of where they want to spend their money. And second piece that goes with that is do they want product combinations. In other words, whatever the ingredient on your list is, do they want to take it through their beverage or do they want it a different way? And I'm going somewhere with that. Because at the end of the day, they generally want their beverages to taste good and adding certain ingredients affects the taste.

So, taste is, in my mind, still going to remain primary. But to the extent there are consumers that are willing to trade taste for ingredients, absolutely, we'll follow that trend. You can go back and look in history. We once did a product where we combined a tablet people were taking to give themselves what effectively was a fake suntan into a beverage. This was in France many years ago. And I think it was with Sanofi. They came up with this idea of, well, people go to the pharmacy, they buy the Coke or they buy the drink and they buy the pills, why not put it all together? And it's what people do in France.

And when they did it, no one bought the drink. They were not interested in combining the drink and the pill. They wanted to take the pill when they wanted to take the pill and they wanted to have the drink when they wanted the drink. And so the idea that everything is going to mega combine into one overall product, I think, is something yet to be tested. Clearly, there are segments of consumers that are interested in certain ingredients. And they will go and they will try them and they're happy to have them in their beverage.

And, I think, you see a little progress on that. I think it's more likely it will be around macro kind of ingredients like protein rather than more focused ones. And the last thing, I don't think we're in the business of running clinical studies. To the extent there are ingredients that we want to use, for sure, we're interested in absolute product safety and quality, and then we may buy them in from someone else to use. But we will continue to follow the consumer.

Operator: Our next question comes from Peter Grom from UBS. Please go ahead. Your line is open.

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Peter Grom
Analyst, UBS Securities LLC
Q

Thank you, operator. Good morning, everyone. I wanted to ask a follow-up on the 2Q commentary. It was flagged back in February, and I know the world is clearly quite different today versus when you provided that outlook. But have your expectations for the second quarter shifted? James, you mentioned the word choppy a couple of times. So I just wasn't sure if the 2Q comment was based on some of the performance you've seen thus far in April or kind of what you're expecting looking ahead or whether it's simply just kind of a reminder on the comparisons? Thanks.

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.
A

Yeah, sure. I think, firstly, it's a reminder on the comparisons that it was the strongest quarter last year. And so clearly, it's going to be more complicated just on a cycling basis to cycle, although we still want to do well in Q2. And as John said earlier, it's one of the four quarters that goes to make up our full year guidance. So it's clearly got to play its role and have its personality, so to speak, in delivering the full year.

The only thing that I would add relative to our previous commentary on Q2 is clearly, there's – and which just references my choppy comment, there's clearly some short-term disruption in supply chains likely in the US. I think the simplest way of bringing that to life is looking at container shipping bookings for late May, early June. Again, back to my earlier comment, it's not because it drives and impacts our business. We are not expecting to see supply chain disruptions for our business in Q2 in the US. But I think there's going to be some disruption around another – a number of categories and industries around us, which will have some effect with the consumers. You can see the consumer sentiment has been impacted, but consumer spending still seems robust.

So, I would just highlight there's an increased number of known unknowns, if you like, going into Q2, which is likely to produce a broader range of choppiness that we're going to have to respond to. And that's, I think, the texture I would add on to the previous comments. But again, let me underline what we both said earlier, which is we believe it's manageable given our business system, our strategy, and our ability to adapt as we go through the quarter and the year.

Operator: Our next question comes from Charlie Higgs from Redburn. Please go ahead. Your line is open.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.
Q

Yeah. Hi, James, John. Hope you're both well. I've got a question on Asia Pacific volumes. I'm just wondering if you could unpack the plus 6% a bit more, but perhaps with a focus on China and how you're feeling about the consumer environment there. I know a lot of other consumer staples companies have spoken of a deflationary environment. So, how do you feel about the consumer, but also your now rationalized portfolio in China and the execution by the local bottlers there? Thank you.

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.
A

Yeah. Sure. Thanks, Charlie. Look, we had good momentum in Asia Pacific this quarter with the 6% volume growth. That was very strongly driven by a good quarter in India, in particular, also with China growing. As you called out, I think the China growth is a function of a number of the actions we were taking last year to focus the portfolio and restage some of the brands, with Coke doing better, good Lunar New Year, Sprite a little more of a

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work in progress. So, good recovery there, perhaps still early to call, but with continued focus on the soft drink portfolio in China and a good growth rate there.

As I said, India, really good start to the year as we brought to activated a number of things in the marketplace there and grew customers and cold drink equipment. Our long-term thesis remains intact. Obviously, it's not necessarily always going to be a straight line. A decent result in Japan and South Korea. Japan continuing to grow. Some softness in ASEAN, but we're focused on working through that. So, hopefully, that unpacks it a little bit for you.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Great. Thank you.

Operator: Our next question comes from Kevin Grundy from BNP Paribas. Please go ahead. Your line is open.

Kevin Grundy
Analyst, BNP Paribas Exane

Great. Thanks. Good morning, everyone. Thanks for the question. I wanted to follow up on Chris' margin question from earlier, but more from a North America perspective and within the context of kind of striking the right balance with volume growth. So, North America margin is clearly very strong, 30%. Historically, that's quite good. Price/mix has been up materially the past four years. That was the case again in 1Q, yet volumes have been flattish the past couple of years and took a step back in the first quarter for the reasons that we talked about.

So, James, can you comment on striking the right balance in North America between margin delivery and perhaps higher levels of volume growth and how that may differ in terms of how the company is going to go about that tactically in the near term, given the uneven macro and then more – in the intermediate term, in a more normalized environment? So, thanks for that.

John Murphy
President & Chief Financial Officer, The Coca-Cola Co.

Let me take this one. Yes. So, in North America, if I step out of the quarter for a moment first, we have been on a journey for the last three to four years now of consistently improving the overall margin profile of our business in North America. And that has been driven by a stronger core business, a much better revenue growth management approach in that core business. And then, we've had the addition of fairlife into the portfolio that has helped it.

So, I think you should think about North America in that context is that we continue to see opportunity to improve that margin profile to be more in line with what we have in other parts of the world, the developed world particularly. And so, there's a keen focus on leaning into the growth opportunity to investing behind that. But we also have had for some time now a core enterprise priority for North America to play a more important and a bigger role in our overall quest, to one of the earlier questions, to get our overall operating margin back to levels, which we're excited to see in the 30s.

Operator: Our next question comes from Michael Lavery from Piper Sandler. Please go ahead. Your line is open.

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Michael S. Lavery
Analyst, Piper Sandler & Co.
Q

Thank you. Good morning. Also just looking at margins and keeping in mind last quarter, you touched on some SG&A leverage, calling out some better marketing productivity. One of the examples you gave was using some generative AI in working media – or of the nonworking, the development of the ads, which conceptually is straightforward enough. But I guess in terms of just the total spend, what outcomes do you focus on to know where the right level is and to make sure that the productivity is just efficiency and not reducing any effectiveness? And how do you look – how do you see that playing out as you're making a push to get more efficient this year?

John Murphy
President & Chief Financial Officer, The Coca-Cola Co.
A

So, maybe I can start. Yeah, I think we're very focused on the activities that are needed to support the portfolio. And then, working backwards from there, what is the most efficient way to execute those activities versus looking at the other way around and trying to drive efficiency through cutbacks or through taking sort of a blunt weapon at them.

So, the approach has changed pretty significantly over the last few years to be, as I say, activity driven. We have a pretty clear understanding as to where the opportunities exist to drive more efficiency. So, for example, the relationship between the amount we spend on creative work versus the amounts that we spend on engaging with those creatives is something that is a high priority. And we have work underway to get that to optimal levels. And we're confident that we can do so.

The use of new technology to be able to do activities, which, in the analog world, were more expensive and took a longer time to happen, is something that we're embedding more and more into the marketing equation. The way in which we are planning our media using a much more sophisticated data set, et cetera, et cetera, is another opportunity to create the same, if not higher, impact more efficiently. So, I just – I think the name of the game is focus on the activities and then challenge ourselves as to how those activities can be delivered either faster, cheaper or both.

Michael S. Lavery
Analyst, Piper Sandler & Co.
Q

That's great. Thank you.

Operator: Our next question comes from Bill Chappell from Truist Securities. Please go ahead. Your line is open.

William B. Chappell
Analyst, Truist Securities, Inc.
Q

Thanks. Good morning. Hey, just kind of a quick question. Could you remind us kind of what your business looked like in both Ukraine and Russia four or five years ago, what it looks like today? And if there was peace there, what could look like down the road?

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.
A

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Sure. I mean, four or five years ago, when we pulled out our brands, I think we called out it was about a 1% to 2% of revenue and a similar-ish kind of amount of profits. So that's kind of what we left on the table when we pulled out whenever that was a few years ago. The Ukraine is a much smaller business. Obviously, it's been impacted by the war, but it was a good business. We like the market, but it's not so big. I think any thoughts on the future are, at this stage, premature. There's a long way to go to get from A to B. And I think a lot of water has to pass under the bridge.

Operator: Our last question today will come from Robert Moskow from TD Cowen. Please go ahead. Your line is open.

Robert Moskow
Analyst, TD Cowen

Q

Hi. Thank you. James and John, could you be a little more specific as to where you think you are on clearing up the misconceptions about Trademark Coke that kind of impacted first quarter? And then, secondly, maybe a little more detail on the state of the Hispanic consumer. You're uniquely capable of evaluating how those consumers are thinking, how they're spending in home, away from home. Can you touch on those two things?

James Quincey
Chairman & Chief Executive Officer, The Coca-Cola Co.

A

Yeah. Look, I think as it relates very specifically firstly, to the false video, I think that's largely in the rearview mirror in terms of its virality and affecting the business. It wasn't the first piece of misinformation, disinformation or anything else nefarious about the Coca-Cola brand, and I'm sure it won't be the last. But we are very focused on recovering from it. I called out some of the actions, particularly around localness, our local economic impact, our connectivity to the values and events that those consumers care about, but also driving affordability with some tailored promotions and value channels.

The overall state of the Hispanic consumer, I think partly there was this video, so let's just leave that one aside for now. I think there was a little bit of pullback in purchasing and in traffic, not just on the US side of the border. Remember that there's a significant portion of the industrial footprint in Northern Mexico, which provides exports. I mean, the highly integrated nature of the supply chain between Northern Mexico and the US. And I think some of the geopolitical tension was just causing people to be a little more cautious with their spend, a little less going out, a little more keeping the money in the pocket.

And I think that will – there's the kind of the shock of the event happening and then it tends to abate, which was kind of the comment on the US consumer, the difference between – the marked difference between sentiment and actual spend. Obviously, that, as previously advertised, could be choppy in the near term as resolution occurs. But that's kind of the general state. I think from our point of view, we've got to focus on our game plan, which is sticking to our all-weather strategy, focusing on the brands, the execution, the local connectivity, reinforcing the made in the US for the US business and the Hecho en México for the Mexican business. And I think that will see us through as we go through the balance of the year.

Robert Moskow
Analyst, TD Cowen

Q

Thank you.

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James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

Okay. Thanks very much, everyone. So, to summarize, enabled by our all-weather strategy, we're focused on prioritizing agility, remaining consumer-centric and partnering closely across our ecosystem for the rest of the year. There will be many types of environments, and we're going to leverage our capabilities to drive the growth and the enduring value. Thank you for your interest, for your investment in the company and for joining us this morning. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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