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# The Coca-Cola Co. (KO)

Q1 2026 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 2026 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. [Operator instructions] 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 Todd Beiger, Vice President and Head of Investor relations. Mr. Beiger, you may now begin.

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### Todd Beiger

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

Good morning, and thank you for joining us. I'm here with Henrique Braun, our 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 the 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 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 a follow-ups.

Now, I will turn the call over to Henrique.

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### Henrique Gnani Braun

*Chief Executive Officer, The Coca-Cola Co.*

Thanks, Todd. And good morning, everyone. We are off to a good start this year. We delivered strong first quarter results despite a complex external environment. I'd like to thank our system associates for their continued commitment. We are focusing on becoming more consumer centric, remaining constructively discontent, and leveraging our digital capabilities to create enduring value. I'm confident we are well positioned to deliver on our updated 2026 guidance.

This morning, I will provide perspective on the global operating landscape before diving into our business performance. Then, I will share how we are getting closer to consumers by operating with both granularity and scale. Finally, John will discuss our financial results and 2026 guidance.

During the quarter, the external environment differed greatly across our Market. While many consumers remain resilient, others are under pressure due to persistent inflation, greater macroeconomic uncertainty, and volatility driven by the conflict in the Middle East. Against this backdrop, we are operating in an expanding industry. We harnessed the power of our brands, and our unmatched system reached to deliver 3% volume growth, and we

grew volume across all segments. We also extended our streak of gaining overall value share for the past 20 consecutive quarters.

Excluding the impact from six extra days in the quarter and the timing of concentrate shipments, organic revenue growth is on track with our full year guidance. We also expanded comparable operating margin, which contributed to double-digit comparable earnings per share growth.

We're always pushing ourselves to do even better and focusing on getting more from our markets and more from our brands to drive balanced growth. Starting with North America, while we benefited from cycling an easier comparison versus the prior year, we delivered solid performance. We gained both volume and value share and grew volume, revenue, and profit. The softness in price/mix can be attributed to Easter timing, coupled with unfavorable category mix from packaged water and constrained production capacity for Topo Chico and fairlife.

We had broad-based strength across our total beverage portfolio as Trademark Coca-Cola, Fanta, Fresca, BODYARMOR, Powerade, Dasani, smartwater, and Minute Maid each grew volume. Trademark Coca-Cola also led the industry in retail sales growth. Innovation contributed strongly to revenue growth. For example, we are tapping into the consumer insight favoring all things Cherry with Coca-Cola Cherry Float, Diet Coke Cherry, and Mr. Pibb. Also, Powerade Power Water and the expansion of mini-cans into the convenience retail channel, both had strong performance.

In Latin America, we gained value share and grew volume, revenue, and profit by focusing on fewer but more impactful initiatives. Volume growth in Brazil and Central America more than offset declines in Mexico and Argentina. Across the region, to drive resilience, we are balancing relevance with scale and more closely integrating our marketing and commercial plan. For example, we activated Coca-Cola with the FIFA World Cup Trophy Tour and offered fans interactive experiences, music, games, and product sampling. Consumers access ticket giveaways by scanning our connected packaging, which allows us to gather insights to customize future offerings and content.

In EMEA, we gained value share and grew volume across all operating units. We also grew both revenue and profit. In Europe, despite a cautious consumer environment, we gained value share. We are better linking our brands to key drinking occasions, including the Coke and Meals campaign, and passion points like the FIFA World Cup Trophy Tour and the English Premier League. Also, we are more granularly focusing on value offerings at attractive absolute price points.

In Eurasia and the Middle East, we gained value share. While we grew volume for the quarter, our volume declined in March after the onset of the conflict. Our top priority is supporting the safety and well-being of our system associates and partnering closely with customers across the region.

Lastly, in Africa, we are highlighting the localness of our system and sharpening our revenue management capabilities. For example, in Egypt and Algeria, our Ramadan campaign linked our brands to the meals occasion and emphasized refillable packaging.

In Asia Pacific, we grew volume across all operating units despite cycling a strong comparison versus the prior year. We also grew revenue, but profit declined driven by commodities, headwinds in tea and coffee, and phasing of inventory costs.

In ASEAN and South Pacific, despite a continued challenging external environment, we leaned into impactful marketing campaigns like the FIFA World Cup Trophy Tour and innovations like the Fanta Pineapple. We also focused on refillable packaging and driving availability.

In China, we activated our broad portfolio and stepped up execution in targeted channels during the Chinese New Year.

In India, we drove affordability and linked our brands to consumers' passion points, for instance, by connecting Thums Up with the T20 Cricket World Cup. We also expanded Sprite into more rural regions with content tailored to local languages.

Lastly, in Japan, we gained value share by doubling down on consumer needs. We grew volume across our tea brands. With Georgia Coffee, we refined our packaged options to address different drinking occasions.

In summary, we are adapting our execution as needed and focusing on improving performance across all dimensions of our strategic growth flywheel to recruit consumers and drive balanced long-term growth.

At CAGNY, I discussed how we are becoming even more consumer and customer centric by applying the four I's, insight, innovation, intimacy, and integrated execution. Leveraging data and our digital capabilities are an unlock to be much more precise in how we serve consumers and customers.

Here are a few examples of the four I's in action this quarter. In Europe, in select markets, approximately 60% of adult drinkers monitor caffeine intake in the evening. To capture incremental drinking occasions, we relaunched Coca-Cola Zero Zero, which offers zero sugar, zero caffeine, and zero calories with a new visual identity, expanding availability and activations tied to the evening meals occasion. Coca-Cola Zero Zero had a strong trial, positive repeat rates, and contributed to the Trademark Coca-Cola growing volume in Europe.

For Sprite, we recently launched our global campaign, It's That Fresh, which includes partnerships across music, basketball, spicy food and fashion. We're also scaling and launching products tailored to local needs. In China, we launched Sprite Prebiotic and lifted and shifted Sprite + Tea from North America. In Eurasia and the Middle East, to refresh consumers during Ramadan, we are linking Sprite Lemon Mint to local festivities and key drinking occasions. Globally, Sprite had strong volume growth.

Finally, Fuze Tea, which is available in more than 80 markets, appeals to consumers who are looking for greater balance. While we execute Fuze Tea Made of Fusion campaign globally to scale the brand, we deliver intimacy with a highly localized product portfolio tailored to taste profiles, tea types and zero sugar options. In Turkey, for example, we accelerated growth by emphasizing peach, lemon, watermelon and dragon fruit flavors, along with strong activation during Ramadan. Globally, Fuze Tea grew volume double digits.

It goes without saying that marketing and innovation do not come to life without commercial excellence, and our system is working towards mastering the fundamentals of integrated execution to drive customer value creation. In the past year, our system added more than 600,000 outlets, which increased outlet coverage. To drive basket incidence, we increased our share of visible inventory and grew off-the-shelf points of interruption by double digits to capture impulse purchase.

To drive transactions, our system also placed over 340,000 units of cold drink equipment. For the past eight years, we have been the leaders in customer value creation for our industry. Overall, greater focus across each

element of the four I's resulted in both volume and value share gains, volume growth, and more weekly plus drinkers during the quarter.

In summary, it's early in the year and we know the external environment remains complex and is quickly evolving. However, we continue to benefit from three unwavering beliefs: one, we are in great resilient industry; two, we have a powerful portfolio, as demonstrated by our 32 billion-dollar brands; three, our pervasive yet local system is a clear advantage. Moving forward, we'll continue to invest in these beliefs and leverage our all-weather strategy to achieve our objectives.

With that, I will turn the call over to John.

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## John Murphy

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

Thank you, Henrique. And good morning, everyone. During the quarter, we navigated market dynamics locally to deliver on our global objectives. We grew organic revenues 10%. Unit case growth was 3%. Concentrate sales were 5 points ahead of unit case sales, as the impact of six additional days in the quarter was partially offset by the timing of concentrate shipments.

Our price/mix growth of 2% was primarily driven by approximately 4 points of pricing actions, partially offset by 2 points of unfavorable mix, which was primarily driven by three items: one, Easter timing and category mix in North America; two, stronger growth of value offerings from revenue growth management initiatives across Asia Pacific; and three, geographic mix in Latin America.

Comparable gross margin declined approximately 30 basis points, stemming primarily from commodity pressures on our tea and coffee businesses, phasing of inventory costs, and timing of trade spend. However, comparable operating margin increased approximately 70 basis points, as we've realized operating expense efficiencies while investing further behind our brands.

Below the line, we benefited from a combination of higher equity income, lower net interest expense, and realized security gains in our captive insurance companies, which benefited comparable other income. Putting it all together, first quarter comparable EPS of \$0.86 increased 18% year-over-year, helped by 3% currency tailwinds.

Free cash flow was approximately \$1.8 billion, an increase versus prior year. Our balance sheet remained strong with our net debt leverage of 1.6 times EBITDA, which is below our targeted range of 2 to 2.5 times.

We're continuing to judiciously manage our balance sheet as we await a court decision related to our ongoing dispute with the IRS. We're confident in our long-term free cash flow generation and are prioritizing a capital allocation agenda that creates optionality to both reinvest in our business and return capital to shareowners.

Enabled by our all-weather strategy, we're on track to deliver on our updated 2026 guidance. We continue to expect organic revenue growth of 4% to 5%. We now expect growth in comparable currency neutral earnings per share, excluding acquisitions and divestitures, of 6% to 7%. Notwithstanding volatility in certain commodities like tea and coffee, we believe the overall impact on our cost basket is manageable at this time. However, uncertainty stemming from geopolitical tensions may cause this outlook to change.

Divestitures are expected to continue to be an approximate 4 point headwind to comparable net revenues and an approximate 1 point headwind to comparable earnings per share. This assumes the pending sale of Coca-Cola Beverages Africa, which is subject to regulatory approvals, closes during the second half of 2026.

Based on current rates and our hedge positions, we now anticipate an approximate 1- to 2-point currency tailwind to comparable net revenues, up from an approximate 1-point currency tailwind in our previous estimate. We continue to expect an approximate 3-point currency tailwind to comparable earnings per share for full year 2026.

Based on the latest analysis of our global operations, our underlying effective tax rate for 2026 is now expected to be 19.9%, which is a 1-point reduction versus our previous estimate. All in, we now expect comparable earnings per share growth of 8% to 9% versus \$3 in 2025, which is an increase from our prior estimate of 7% to 8% due to the lower effective tax rate.

Finally, there are some considerations to keep in mind for 2026. As a reminder, due to a calendar shift, the fourth quarter will have six fewer days compared to the fourth quarter of 2025. We estimate the shift of Easter into the first quarter was a 0.5-point benefit to first quarter volume. We also expect concentrate shipments to lag unit cases by a couple of points during the second quarter. Lastly, assuming the pending sale of Coca-Cola Beverages Africa closes during the second half of 2026, we see opportunity for more margin expansion in the latter half of this year.

To sum it up, we remain focused on improving execution of our strategy and are well positioned despite macro complexity and uncertainty. We look to drive balanced top line growth, margin expansion, cash generation, and returns over the long term, and we'll do so with continued strong partnership with our bottlers across the world.

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. Just given the strength we saw in Q1 unit cases at the corporate level, but also price/mix that was more subdued than recent trend for the second straight quarter, I just was hoping to get your view on the balance between volume versus price/mix in the remainder of the year, particularly in North America and Asia, where we saw some large variances in the quarter.

And on the volume front, just wondering, is consistent unit case growth reasonable in the balance of the year with the Easter help in Q1, some potential run impact?

And just on pricing, how much of the lower growth in the last couple of quarters is due to that affordability focus that you mentioned, John, which would seem more ongoing versus just some quarterly mix variances that are less ongoing? Thanks.

**Henrique Gnani Braun**

*Chief Executive Officer, The Coca-Cola Co.*

A

Thank you, Dara. It's great hearing from you. Look, first of all, we are really pleased with the results of the quarter. We believe that it's a statement to everything that we continue to say that would be a year where we would have a

top line balanced algorithm, not only the quarter, but for the full year. More importantly, growing volume across all operating units, gaining share and also topping the EPS growth as well, gives us the confidence that we are on the right track.

What we will continue to see is a algo that will be balanced, as we have said in the past, that it's not a coincidence that we actually got these in the quarter. We planned ahead of the curve. We invested accordingly. We started the year with a fast start as well. And what we're going to see probably in the next two quarters is variance around that balanced algorithm. But at the end of the year, what you see is this balanced growth about volume and price/mix playing a balance algo. Whether it's going to be 3:2, like we have here in the quarter, or it's going to be 2:3 variable during the different quarters, we're going to see. But we're managing all the levers to continue to deliver that.

Pricing is embedded into this equation as well. We are going where the consumer is, right? Affordability continues to be part of the revenue growth management architecture that we have, not only in the US but in different parts of the world as well. The consumers that have pressure today are the low-income consumers, and we really dialed up our affordability options to get closer to them. In North America, for instance, we went into bringing options not only on the single-serve, but on the multi-serve entry packs and helped us to continue to keep them in the franchise.

So, in a nutshell, what we are, we believe we had a great start of the year. The algo will continue to be balanced. We have confidence that we're going to deliver on the updated guidance to the year, and we'll continue to play on our RGM capabilities.

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**Dara Mohsenian**

*Analyst, Morgan Stanley & Co. LLC*

Thank you.



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**Henrique Gnani Braun**

*Chief Executive Officer, The Coca-Cola Co.*

Thank you.



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

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**Steve Powers**

*Analyst, Deutsche Bank Securities, Inc.*

Great. Good morning. And thank you, everybody. I wanted to pivot a little bit to cost, if I could. John, you mentioned that you were fairly well positioned despite the broader inflationary backdrop as you think about the year. But you also acknowledged that could change. And I guess, as I think about the system broadly, I'd expect some of the pressures that we're all thinking about to be building a bit more acutely on your bottling partners already.



So, perhaps, can you talk about how you're working with those bottling partners to address the burgeoning headwinds together and how the system overall is positioning to navigate what is likely going to be a net higher cost environment as you look through this year and potentially into next? Thanks.

**John Murphy**

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

A

Yeah. Steve, thanks. Very, very important topic for all of us here and with our partners. The environment, as you say, is fluid. It's difficult at this stage to say exactly how it's going to play out. As highlighted in our script, right now, we estimate it's manageable at the company level, given we have less exposure. Our bottling partners have more exposure, particularly to aluminum and PET, on the back of both the oil price impact and just the overall supply disruptions that are likely to affect us as we go through the year.

With the system, we have a playbook that we've had to use now for quite a few years on a range of disruptions. And it's a playbook that is working well for us. We have our RGM capabilities, as Henrique just pointed out. We have our cross-enterprise procurement group that works with the vast majority of our system partners on both resiliency and productivity initiatives. We have a number of playbooks, I would describe them, at the cost management level. And yet, each market is different. And so, the way that we use these various levers will vary by market. And we have confidence that the decision-making at the local level will allow us to navigate as well as we can through this.

As we said, the next few months are fluid, and it's important to keep agility at the center of this equation. And I guess just from the way that we've operated over the last three, four, five years on this front gives us that confidence. And it's important, I think, to be able to lead forward on a range of these topics as we look to Q2 and the rest of the year.

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**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. Good morning. I just had a question about Trademark Coke. So, Henrique, you mentioned the relaunch of Zero Zero in Europe. And I know that historically, I guess, the system kind of struggled with how to balance time and attention and resource attributed to Diet Coke and Coke Zero concurrently, how to manage sort of a – the decision to have more of a portfolio in no-sugar options is a newer drive.

So, how should we think about Zero Zero flowing into that? And maybe what are you doing from the center, from the KO level, to make sure that the system kind of has the right balance to have a portfolio as you make these moves, and with Zero Zero as just being the latest example? Thanks.

**Henrique Gnani Braun**

*Chief Executive Officer, The Coca-Cola Co.*

A

Thank you, Lauren. Also, great talking to you. Look, first of all, we're very pleased also with the performance of Coca-Cola Trademark overall in the quarter. We had volume growth that gives us the confidence that not only at the core of it, but all the options and variables that we bring in terms of innovation, different package sizes are playing a big role to that.

To your question regarding how we're actually bringing this to life in the marketplace in an effective way, we have to go back and start the conversation from years ago when we started to step up our RGM capabilities across the world, working in tandem with our bottlers. And we have been doing better every day.

You remember that the CAGNY was mentioning that one thing that plays in our advantage is the scale. But if we can actually gain a little bit every day, scale matters and it helps us to get there. That mindset, along with the

capabilities that we built over time to execute at the marketplace a broader portfolio, helped us a lot. But there is one element that's key to this story. It's the connectivity to the consumer-centricity approach that we have on everything that we've put in the market now.

The reason why zero, zero, zero is working right now in Europe is because it started with the four I's that was mentioned before, with a big insight that at a certain time of the day, the consumers want to load down, reduce their caffeine intake, but they want to stick to the flavors and the brands that they love. And then by bringing that with the right packaging, the right pricing, right communication, we ended up getting a really good innovation, and amplifying our reach to that consumer, which then in turn, and with our capabilities to execute better, you get a successful story. And it took years.

And it's important that also on the innovation discipline that we have developed over the years, we are bringing more insights and discipline on managing innovation and the success rates over time that gives us a better chance of success, and this was the reason why we materialized that moving forward.

So, we're seeing that not only with zero, zero, zero, since we're talking about Coca-Cola Trademark, let me bring it to North America, where we had also an opportunity to amplify our portfolio with the all-Cherry space, where we have Diet Coke Cherry. If you haven't tried it, it's one of my favorites. We got Coca-Cola Zero Cherry Float, which is also great. And we continue to expand that portfolio also with Mr. Pibb on the Cherry space, which then connects with what I said before, more connectivity to the consumer centricity on the platform and executing better, because we built the right capabilities moving forward.

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**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*

Hi, everybody.

Q

**Henrique Gnani Braun**

*Chief Executive Officer, The Coca-Cola Co.*

Hi, Chris.

A

**Chris Carey**

*Analyst, Wells Fargo Securities LLC*

I wanted to ask about gross margin. This is the first quarter in a few years where the underlying contribution to gross margin is a bit negative. I was wondering if you could just give us a sense of whether there are any timing elements associated with Q1, inflation impacts that you might be seeing this quarter, which ease, really bringing that up because you flagged coffee and tea. And then the general progression of the underlying contribution to gross margin as you would see it sort of going forward as the costs normalize.

Q

And then just one quick follow-up. John, I think you mentioned that the timing of CCBA could dictate margin progression in the back half. Can you just dig a bit deeper into what you were referring to with that comment? Thanks so much.

**John Murphy**

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

A

Sure, Chris. Let me start with the overall gross margin profile. Q1 was somewhat anomalous given one particular item in APAC, the phasing of juice inventory costs, particularly in China. And that really is a one-off in the quarter. We have had commodity pressures in the tea and coffee space. And that's going to continue somewhat through the year.

But at the overall level, if I take a step back and look at the underlying drivers of gross margin, for the full year, we don't see a big deviation from the playbook that we've had. We see the revenue growth management architecture work as a very solid foundation to sustaining margins. We continue to drive a lot of efficiency throughout the P&L. But on the cost front, we'll be taking a number of measures to somewhat mitigate against some of the commodity pieces I talked about earlier, which I said are manageable.

So, for the full, I don't see it as being an area that's going backwards, the gross margin trends, when I take out that inventory issue I mentioned. We've got a lot of levers to work through, both as a company and, as we alluded to earlier, as a system.

With regards to the CCBA piece, just it's a mechanical topic in terms of the impact it'll have to the margin profile of the company. If we take CCBA's numbers out, a lower margin bottling business will automatically result in the overall company margin profile improving. And we've highlighted that to be a second half of the year topic. For 2026, too, we can say for – which is anomalous relative to other years, FX will be a slight tailwind on the margin front, too. Thanks.

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

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**Robert Ottenstein**

*Analyst, Evercore ISI*

Q

Great. Thank you very much. And congratulations on a great start to the year and your tenure. I was wondering if you could go into a little bit more detail on the underlying drivers of your performance in APAC, particularly China and India, two years in a row of good – very strong results. How sustainable is this, do you think, throughout the rest of this year and going forward? And what are you doing differently now than in the past to produce such strong results? Thank you.

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**Henrique Gnani Braun**

*Chief Executive Officer, The Coca-Cola Co.*

A

Thank you, Robert. In APAC, we're pleased with the volume growth across all operating units in there. We're also pleased with the fact that we gained share overall in the region. But there's still a lot of work to be done. And the reason why I'm saying that is because it's one region that we're developing definite for the future.

The big majority of the countries in there are still under development stage. If you take a site like Japan, Korea, Australia that are in a different stage, but everything else in a huge population in there, it's equally important that we not only deliver on the volume growth, but we build this industry for the future. So, we're really focused, China and India, as you mentioned, on developing first the industry and the foundations of our business as we've learned in other parts of the world with the right price package, architecture, playing where we believe we can win, and then continue to expand that further.

If we drill down a little bit about China, a few years ago, we took a stand and said, we're not going to play in every category. We're going to play on quality, volume and categories that we believe we have the right to win. And that

is now starting to pay back because we continue to lead on sparkling. We are gaining share. And we're also building with our partners in there a better capability on how to execute the core to then expand to more.

And then if you go to India, it's equally important to build this for the long term, place where we're fortunate to also have local brands under the portfolio that were acquired a long time ago, composing a full portfolio that gives us the opportunity to be connected with the consumers in a very unique way in that place. But we're still far away from getting our overall architecture on RGM and our development capabilities with our bottlers to the stage that we can actually call it a mature market.

So, what you're going to see also, and we saw across the region is, actually in this quarter, if you go down, you see that our price/mix was negative 6 points in the region. And the reason is exactly connected to what I was just saying before, we're investing for the future. We have obviously in this quarter still elements, as John pointed out, that impacted the quarter. But on the long term, the most important thing in this market is to invest for growth, build a system, health economic system that allows us to invest ahead of the curve and bring more consumers to the base. John?

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**John Murphy**

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

A

Yeah. Just let me, given the previous questions on margin, I have no doubt there'll be a focus on the margin numbers for the Q1. So, two-thirds of the margin compression in Q1 is related to the inventory item I mentioned. We also have in APAC, as we've discussed in previous calls, just a structural headwind given the geographic mix of the markets, Japan versus the more developing part of the equation.

So, while we expect us to make progress in the course of the year on overall margin profile, it is a longer term play, as Henrique said, with the priority number one is getting the consumer base even more closer to us. So, more to come on that as we go through the year.

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

**Bonnie Herzog**

*Analyst, Goldman Sachs*

Q

All right. Thank you. Good morning. I just had a question on your business in Asia. Your top line growth was good, but your op margins contracted almost 10 points. I know, John, you touched on this a bit, but just hoping to hear a little more color on what drove this and really how we should think about profitability in that region going forward. Thanks.

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**John Murphy**

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

A

Yeah, Bonnie, it's just what I just said in the last question. The margin profile in Q1 was impacted by an inventory item, which is unique to Q1. We do have plans in the course of the year and the lead into next year to address this. Priority number one is the consumer franchise getting volume growth back into the range of markets that we have and investing appropriately behind them.

So, as Henrique said, APAC is a land of opportunity. We've both lived and worked there and appreciate that it doesn't happen overnight. And we're bullish on the way the year has started on the volume front. And we're

fortunate to have a global portfolio that will allow us to invest as we need to in the short term while we get the margin profile where it needs to be longer term.

**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. Good morning. Henrique and John, obviously, the resilience has been nothing short of impressive, both in terms of like your ability to sustain volumes and pricing. But you did call out that volumes understandably turned negative in March in the Middle East. I was just hoping to see if you can give us some sort of color for EMEA, and obviously, from two standpoints, right, the conflict and also the fact that as you go into a situation where inflation will be more pervasive in the region and broadly in EMEA for obviously, fuel, for gasoline prices, and then also for the bottlers to be able to pass through. So, I was hoping to see if you can help us with that.

And then in terms of the US, we saw fairlife, and again, you had explained to us, but in terms of the category and category deceleration, competition in the category, anything you can help us with as you pass more capacity into the system this year. Thank you.

**Henrique Gnani Braun**

*Chief Executive Officer, The Coca-Cola Co.*

A

Good. Thank you, Andrea, for the question. Look, in the EMEA as a whole, right, that encompasses Europe – Eurasia and Middle East and Africa, we had a good overall performance. We grew volume and profit and continue to gain share, which was a great result.

If you dial up a little bit the conversation on Eurasia and Middle East, as you wanted to know, yes, we grew volume actually in the quarter, and March was the month that got more impacted by the conflict. And we continue to work with our partners to support, number one, the safety of our associates and the business continuity. And it is a playbook that everyone in the region has learned from past situations similar to this and try to focus on what we can control and continue to thrive in being closer to the consumer.

If you look at the outlook from the region itself, we are confident that we can manage the complexity in there. We'll continue to be focused on the balanced growth, which is important for us, as we said, not only in the region but globally, having volume being a key driver of this balanced growth. But it's going to be a composition that in the year we will leverage the whole more than ever in a world that's going to be very dynamic. So, so far, we believe that we have everything in place to continue to thrive there. And we're going to continue to pivot with a playbook that has worked for us in years in the region.

Since you asked, I'll give a chance to answer also the fairlife here. It's a fantastic brand, as you know. We are excited that, as planned, the Webster capacity is going to start to get online in the Q2. And we're going to ramp up through the year. So, that's the latest on that. And we're very excited also about the fact that we're investing for the next chapter of growth there on the business itself.

**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 was hoping you can touch a bit more on the North America business, solid performance on volume to start the year. You have the FIFA World Cup coming in a couple of months. So, just any thoughts on like potential opportunities there in terms of accelerating volumes and activation at the brand level, obviously, both for the US and Canada, but also if you can touch on Mexico, and the opportunity there. And maybe even give some color on like the performance of the business post the sugar tax in Mexico. Thank you.

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**Henrique Gnani Braun**

*Chief Executive Officer, The Coca-Cola Co.*

A

Okay, Filippo. Look, in North America, we're definitely very happy with where we landed on the volume growth, 4%. It indicates that the strategy and also how we're showing up as a system is in the right place. We had a broad-based growth across different categories and brands, which is ensuring that we're executing with the right impact, right, in the marketplace.

And FIFA World Cup, look, we actually started to execute that in Q1, which was another great decision by our operators with the bottlers in North America and Mexico, that you mentioned, as well in Latin America, both of these regions decided to go head on and start the activation of FIFA World Cup in the Q1. And now, in Q2 is when we're going to realize that in there.

I want to bring a point here that it's also very interesting in this execution of the World Cup for us, and you heard me at CAGNY saying as well, that we're not only getting closer to the consumer, but bringing digital at the core of everything that we do. And if you find our packages in the market now in US and you're going to see in Mexico as well, you can actually interact with that package with the right content.

Actually, in US, you do that for the 250-celebration as well. That interactivity, you get the content of the campaign, you also engage the consumer on a reward experience, and you have a chance to connect even with the retailer on transforming engagement of the consumers all the way down to transactions, which is what we believe we should continue to drive in our campaigns and bringing the whole digital space into doing better what we do best. So, that's about North America.

Since you asked about Mexico, let me talk a little bit about what we're doing there. As you know, we had the sugar tax at the beginning of the year. That had an impact. The system has a strong resilience and a playbook on how to deal with the situation. It happened in 2014 as well. The impact is there. But with the right RGM capabilities and granularity, as I was explaining, using everything that we already had plus the personalization connections with consumers and our customers, we continue to do better than we expected, but still having Mexico playing a geo mix effect in the overall price/mix for LatAm.

Over time, during the year, we're going to continue to dial up the campaigns, our local and global brands, which is a strength that we have also in the region, to continue to engage the consumer and to overcome the impact that we have on taxes in there. Since we're talking to Mexico, I think I should say as well that Brazil and the Central America actually offset the impact of volume declines in Mexico and Argentina.

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**Operator:** Our next question comes from Peter Galbo from Bank of America. Please go ahead. Your line is open.

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**Peter T. Galbo**

*Analyst, BofA Securities, Inc.*

Q

Hey, guys. Good morning. Thanks for the question. I wanted to pivot to the away-from-home business a bit. I know that you've had maybe a more offensive-minded effort there recently with the And a Coke campaign in the US. John, I think you mentioned the Coke and a meal in Europe campaign. Obviously, a pretty big win in the hospitality space that we've heard about. So, maybe you can just dig in a little bit more on kind of the double-down efforts on the away-from-home channel, just given it's a part of the business we often don't hear a lot about. Thanks very much.

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**Henrique Gnani Braun**

*Chief Executive Officer, The Coca-Cola Co.*

**A**

Yes. Great, Peter. So, first of all, globally, we're seeing channel-wise, not a significant change, but better performance on away-from-home than at-home in the US was actually the opposite in the quarter. But nevertheless, the strategy remains the same, which is connecting the consumer on every occasion and need states that we have.

And what we are doing actually, very consistent in the foodservice in North America is to work together with our customers on understanding in detail and granularity their consumer profiles and how we can actually bring not only our core offerings, but other choices that they started to innovate within that category. So, what we're seeing is that there is an opportunity to continue to expand the beverage occasions.

And we think that being the preferred partners for the majority of the foodservice partners, we believe that we have a great runway actually to continue to develop that category and continue to thrive. Our focus is always on driving more incidence on that channel, and to that element, everything that I said, that we're building the right capabilities in house with RGM and being closer to consumer helps us to continue to thrive in there. So, more to come.

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**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. Henrique, I wanted to just maybe zoom out a little bit and see if there's any new learnings in the first few weeks, just seeing the company through the CEO lens. And it doesn't have to be marketing specific, but I know you've talked about a step change in recruitment, especially converting younger drinkers at the point of sale. And just curious if you could maybe lay out a little bit of some of the changes you might anticipate to the marketing approach to improve that and how quickly it might evolve.

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**Henrique Gnani Braun**

*Chief Executive Officer, The Coca-Cola Co.*

**A**

Thank you, Michael. Look, it has been very smooth transition. And you heard me at CAGNY, there's so many things that we're doing right over the last few years that I would not be the one to touch that and change the trajectory, because I fully believe in that. And it's very important to remind what those beliefs were.

The number one is this belief that we are in the best industry to be in, not only ourselves here at the top of the house on the company, but our bottlers share the same belief. They continue to invest accordingly. That's very important.

The number two is what I said also at CAGNY, this unrivaled portfolio that we have, the 32 billion-dollar brands, bringing more to the family and making the billion-dollar brands become multibillion over time, that's where I believe the consumer centricity and bringing the four I's can help us to actually even do better over time.

And the third one was about this unmatched system reach, is, with our bottlers, we know we have a very pervasive distribution system. But if we dial this up with what I mentioned before, bringing digital to do better what we already do best, scale will help us to actually unlock further growth and a bigger headwind – sorry, headroom on how to bring more consumers to the base, how to bring more value to our customers, and how to work as a system in a more integrated way.

So, that's what we're focusing on. But a lot of that continues to be very consistent. That's the way we have been working with our bottlers, our partners. And you can expect that that's going to be the way moving forward as well.

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

### Kaumil Gajrawala

*Analyst, Jefferies LLC*

Q

Hey, everyone. Good morning. If we can dig in a little bit on the United States and Peter's question on the away-from-home, and specifically, there's, for the first time, this emergence of what seems like an entirely new channel with the Dutch Bros and 7 Brews of the world and these sorts of things. McDonald's is obviously doing the same sort of thing. So, I'm just curious. Are you evolving your foodservice strategy to figure out how to participate better in this evolution of retail?

And then maybe if you want to talk a little bit more about the McDonald's relationship. Of course, the news of them using Red Bull is, I think, surprising to many of us outsiders given the depth of your relationship over such a long period of time. So, just curious how you're thinking about that as well. Thanks.

### Henrique Gnani Braun

*Chief Executive Officer, The Coca-Cola Co.*

A

Yeah. Thanks, Kaumil. So, first of all, I'll start from there. We have a fantastic and very long-standing partnership with McDonald's, and that's intact, right? We continue to be very happy with that partnership. And in terms of how they are also looking into creating these craft beverage offerings, and you alluded to also the fact that other players in that segment is working on, we totally embedded into the conversations about how to be part of that.

In McDonald's specifically, we have our Sprite brands being very – doing very well with that space of the craft beverage offerings. We have two flavors, Sprite Berry Blast and Lunar Splash, with them that continue to perform really well. And that expands actually the beverage occasions and the opportunity within the outlets. The way we see this, at the end of the day, the beverage space continue to be vibrant and more opportunities to play within that. And we believe that being part of this with our customers and being the number one value creator for them, we're going to have an advantage over time.

We do respect the decisions on other choices about their relationships with other companies. But the most important thing is that we've been very consumer centric about how to bring innovation to each customer. And we continue to have an expanded footprint, not only bringing more to our pool of customers, but getting more out of that relationship on a daily basis.

**Operator:** Our next question comes from Carlos Laboy from HSBC. Please go ahead. Your line is open. Carlos Laboy from HSBC, please go ahead. Your line is open.

**Carlos Laboy**

*Analyst, HSBC Securities (USA), Inc.*

Q

Sorry about that. Henrique, can you please expand on the four I's in a slightly different direction? To get all four of these to optimally work, you've put in a lot of effort into establishing the right incentives and the long-term clarity of what each side, you and the bottlers, are supposed to do and allowed to keep over the long term.

Can you speak to how this is reinforcing the loops between you and the bottlers so the trust can – allows these insights and innovation to flow more easily for better demand creation? And also related to that, how do you drive trust formation, this effort, and this philosophy throughout the company as well?

**Henrique Gnani Braun**

*Chief Executive Officer, The Coca-Cola Co.*

A

Yeah. Thanks, Carlos. Good to hear you, too. Look, at the end of the day, I think what we have today and all of us that have been in this business for years, I've been for 30 years, John and myself and James that have been around the same tenure, we believe that we have an unprecedented trust level with our bottlers and a great relationship that we don't take for granted. We nurture this every day.

And the most important thing to your point about how we connect the four I's to generate value on this trust level that we have with our bottlers comes down to having those three beliefs that I mentioned before, that if we are faithful to the consumer centricity of everything that we do, from a portfolio view, how we engage with them, and we bring value to our customers, understanding what are the levers that we have and they have to make that occasion work, the pie is going to be bigger for everybody.

And that's what we have been doing in the last few years. The trust brings agility. The trust brings a bigger value for the ecosystem. But you never take for granted. It takes years to build it and a second to lose it, and we nurture this every day.

So, on the four I's, it's the same with the consumer. We need to honor the choices that they want. And we need to be there every day. And we're humble that we know we can do better every day at scale, and that's how we're focusing moving forward.

**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

Hey, thanks. You might have touched on this, but I was wondering about the mix headwinds in first quarter. How sustainable are those headwinds during the course of the year? Do they fade? Kind of what I'm trying to get at is, what's the underlying price that we should expect for the company, and maybe even if we can drill down to LatAm, which was unusually low in the first? Thanks.

**John Murphy**

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

A

Yeah. Thanks, Robert. So, just the quarter was a 3 volume, 2 price/mix cycling 1:4 – 1:5. And so, the name of the game for us this year, and we're going to be very consistent in talking about it, is to have a more balanced algorithm driven from the top line throughout the year.

So, starting out with a 3:2 is pretty close to where we expected. In the first quarter, there were a couple of points of mix related to, in the area of North America, some category mix, which was a little stronger headwind-wise than we expected. We would not necessarily expect that to repeat going forward.

And Henrique talked about Mexico and being at the revenue line offset with strong performance in Brazil and Central America, but that too has a geographical mix feature there that accounts for maybe a slightly lower PMO than people were expecting.

For the full year, in our guidance, we remain committed and we remain very much focused on delivering that balanced algorithm. And the outlook for the rest of the year, we're confident we can meet it. So, 3:2, 2.5:2.5, 2:3, we'll take any one of those.

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**Operator:** Ladies and gentlemen, this concludes today's question-and-answer session. I would like to turn the call back to Henrique Braun for closing remarks.

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## Henrique Gnani Braun

*Chief Executive Officer, The Coca-Cola Co.*

Thank you, everyone, for participating. To close us out, enabled by our all-weather strategy, we're prioritizing agility, remaining consumer centric, and partnering closely with our customers. While the external environment is dynamic, we are using the capabilities to drive continued growth and create enduring value.

Thank you for your interest, for your investment in our company, and for joining us this morning. Thank you so much.

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

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