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The Coca-Cola Co. (KO)

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CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Bryan D. Spillane
Analyst, BofA Securities, Inc.

Stephen Powers
Analyst, Deutsche Bank Securities, Inc.

Filippo Falorni
Analyst, Citigroup Global Markets, Inc.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Kaumil Gajrawala
Analyst, Jefferies LLC

Robert Ottenstein
Analyst, Evercore ISI

Chris Carey
Analyst, Wells Fargo Securities LLC

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Peter Grom
Analyst, UBS Securities LLC

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

William B. Chappell
Analyst, Truist Securities, Inc.

Robert Moskow
Analyst, TD Cowen

Michael S. Lavery
Analyst, Piper Sandler & Co.

MANAGEMENT DISCUSSION SECTION

Operator: At this time, I'd like to welcome everyone to The Coca-Cola Company's Fourth Quarter and Full Year 2024 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'm 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 report.

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. We are pleased with our 2024 results, which include volume growth, robust organic revenue growth and comparable gross and operating margin expansion. This led to a 7% comparable earnings per share growth despite nearly double-digit currency headwinds and the impact of bottler refranchising.

These results reflect the continuation of delivering on our long-term commitments. Through our all-weather strategy, we've demonstrated we have agility to navigate what comes at us and continue to grow comparable earnings per share. Given the strong momentum of our business, we're confident we can deliver on our 2025 guidance and longer-term objectives.

With that as context, I'll next provide perspective on our industry and review our business performance across our segments in the fourth quarter. Then I'll explain how we're executing our strategy by amplifying what is working and fine-tuning where needed. John will end by discussing our financial results in more detail and providing an overview of our 2025 guidance.

One of our fundamental strength is that we operate in a great industry with steady growth, no matter how you slice it by consumer, by customer, by beverage category, by geography we have vast opportunities ahead of us.

During the quarter, we leveraged the power of our portfolio and the local expertise of our franchise system to capitalize on these opportunities. We want overall share and had broad-based share gains across our global beverage categories.

We're making progress across our total beverage portfolio delivering ongoing growth in sparkling soft drinks, as well as momentum in other categories like value-added dairy and tea, which are reaching global scale while remaining tailored to local consumer needs.

And we're continuing to strengthen alignment across our system, and we believe our global franchise model, which operates locally is an advantage to drive long-term balanced growth. During the quarter, while our operating environment remained dynamic, consumer demand held up well and our industry remains strong.

Starting in Asia-Pacific. In ASEAN & South Pacific, we grew volume during the quarter and benefited from successful integrated marketing campaigns like Foodmarks, which was activated in over 7,000 outlets and led to Trademark Coca-Cola volume growth.

Our system also drove affordability by increasing refillable offerings and focusing on attractive price points. Refillable offerings contributed to approximately one-third of ASEAN & South Pacific volume growth in 2024.

In China, despite continued macro headwinds, we grew volumes during the quarter and while early, we're seeing improved trends across our business. Trademark Coca-Cola continues to gain share and Sprite, Fanta and Minute Maid, each improved volume performance. Our system is stepping up integrated execution in 2024, by accelerating placement of cold drink equipment and activating integrated marketing campaigns in key channels.

In Japan and South Korea, we grew volume during the quarter. Innovation was a strong contributor to growth, led by resurgence of Ayataka and a number of other brands. We're continuing to benefit from steady performance from Trademark Coca-Cola and stepped up integrated execution in key channels.

In India, our business rebounded nicely during the quarter, and we grew volume. We recruited consumers with innovative marketing campaigns that link Coca-Cola with Music, Sprite with Travel and Thums Up with Movies. And Maaza is now our 30th $1 billion brand. In 2024, our system added approximately 440,000 outlets, to our digital customer platforms in India, which provides more opportunities to better tailor our product, price and packaging offerings.

Moving on to EMEA, in Europe, volume declined during the quarter with mixed performance across Western and Eastern markets. Despite volume pressure, we grew both revenue and profit. We're engaging consumers with experiential marketing campaigns like, The World Needs More Santas, for Trademark Coca-Cola and by linking our brands to new occasions like Sprite with Spicy Meals.

Also, innovation velocities and multi-year innovation success rates both performed well in 2024. We're seeing good traction on Fuze Tea, POWERADE Zero, Jack & Coke and Absolut & Sprite.

In Eurasia and Middle East, despite a confluence of continued macro headwinds, we returned to volume growth during the quarter. We're emphasizing the localness of our business and seeing positive responses. For example, the [ph] Made in – Made by (00:06:38) campaign in Türkiye, led to strong volume growth for Trademark Coca-Cola. Fuze Tea also had good momentum across the region. Our system is driving affordability and stepping up integrated execution by increasing cooler placement and share of visible inventory during the year.

In Africa, volume declined during the quarter, driven primarily by pressure in North Africa and Nigeria and partially offset by strong volume momentum in South Africa. We took action during the quarter by adjusting our pack price architecture to further drive affordability. Our system is investing for the long term, adding refillable offerings, placing more cold drink equipment and increasing manufacturing capacity in 2024.

In Latin America, despite some macroeconomic pressures, we grew volume, revenue, and profit during the quarter. We drove trial and recruited weekly plus drinkers for Trademark Coca-Cola in 2024 by better linking the brand to the meal occasion. Also, to drive balanced top-line growth our system focused on increasing single-serve offerings.

Over 90% of our fragmented trade customers are now on our systems digital customer platforms, allowing for greater opportunity to tailor offerings to customers' individual needs.

Lastly, in North America, we grew both transactions and volume and had robust top-line and profit growth during the quarter. Trademark Coca-Cola and fairlife remain leaders in at-home retail sales growth.

Sparkling flavors gained share during the quarter due to successful limited time innovations like Sprite Winter Spiced Cranberry, and Fanta Beetlejuice and stepped up integrated execution focused on increased point-of-sale messaging and increased share of visible inventory.

Consumers responded well to value messaging in away-from-home channels and we increased distribution of key affordable and premium offerings and benefited from product, package and channel mix in the quarter.

To sum everything up, we have good momentum in our business. We're responding to market dynamics locally to execute on our global objectives. While we're delivering on our near-term commitments, we're also investing to improve execution, build capabilities and get more granular across our strategic growth flywheel. Our network marketing model is integrating product, digital, live and retail experiences and we are harnessing passion points to connect with consumers in more personalized ways.

One great example, Fanta Halloween was our first ever global Halloween activation, and we scaled to nearly 50 markets. Partnering with Warner Bros. Pictures, we've created a limited time Fanta Beetlejuice Haunted Apple flavor. Consumers scanned packages to access personalized experiences and we replicated the Beetlejuice Afterlife Train taking over train stations, trams and metros. The campaign was activated in-store with our largest customers and contributed to sparkling flavors share gain during the quarter.

Our culture increasingly emphasizes acting boldly, learning and scaling successes. This year, for the first time, our Coca-Cola Christmas ad was created with Generative AI, combining emerging technology with human creativity, which allowed us to produce the ad faster and at a lower cost. The power of emerging technologies like Generative AI, are still at early stages and we will continue to lead and iterate our approach.

We're seeing tangible results from our marketing transformation. Over the past three years, Trademark Coca-Cola's retail sales have increased approximately $40 billion. According to TIME Magazine, Coca-Cola, Minute Maid and fairlife were named World's Best Brands in their respective beverage categories in 2024.

While we're building capabilities in marketing, we're also focusing on innovation that prioritizes bigger and bolder bets. Each of our innovations has a clear objective. Sometimes, we innovate to create short-term buzz like Coke and OREO or Sprite Winter Spiced Cranberry.

In other instances, we innovate for lasting impact. This year we focused on sustaining investments behind key innovations to improve multiyear success rates and drive greater impact. This is paying off as Fuze Tea grew retail value three times faster than the tea category. Topo Chico Sabores continued its momentum and Minute Maid Zero Sugar realized strong growth.

In 2024, innovation contributed strongly to revenue growth and our innovation success rates improved versus prior year. We're excited about our innovation pipeline for 2025.

Moving across our top-line flywheel. Our system is investing heavily in digital capabilities and sticking to the fundamentals of commercial excellence to accelerate consumer recruitment, increase consumption and winning the market.

Ensuring product availability is one of our system's greatest strengths, yet we still have tremendous opportunity. While our system improved share of visible inventory in 2024 and our brands are found in 33 million outlets, there remains ample headroom to increase outlet coverage, reduce out of stocks and better tailor our offerings with the right placements.

Basket incidence is another opportunity. Winning just one point of global beverage incidence translates into over $40 billion in additional retail sales. To drive basket incidence, our system is focused on better activating integrated marketing campaigns in key channels, increasing point-of-sale displays and winning impulse zones outside the traditional beverage aisle.

Finally, cold drink equipment is one of the strongest consumption drivers in our systems toolbox with approximately 14 million units of cold drink equipment present in our approximately 33 million customer outlets. We have significant opportunity to drive consumption by placing more cold drink equipment. In 2024, our system invested to add nearly 600,000 coolers.

Strong commercial execution is enabled by our revenue growth management capabilities, which fuel both top-line growth and margin expansion. We're driving affordability and premiumization across our total beverage portfolio. The strong elasticities we're realizing today are a testament to the progress we're making in this area. By focusing on availability, basket incidence and cold drink equipment, coupled with great marketing, innovation and revenue growth management, our system recruited weekly plus drinkers, grew volume and won share in 2024.

While we made steady progress executing our all-weather strategy in 2024, we're operating with the mindset that we're only just getting started. As we turn the page to 2025, we anticipate the year will bring both opportunities and challenges.

While we expect the external environment will be dynamic, several underpinnings remain constant: one, we operate in a great industry; two, we have many opportunities available to us, and we are primed to capture these and deliver sustained performance; three, our powerful portfolio of brands, pervasive distribution system and the unwavering dedication of our system employees are clear advantages.

Next Tuesday, at CAGNY, I look forward to sharing more about how we're leading to deliver results in all types of backdrops. And I encourage everyone to listen.

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. We closed the year with strong fourth quarter results. And as James said earlier, we delivered 7% comparable earnings per share growth in 2024 on top of 6% average comparable earnings per share growth over the prior five years.

During the fourth quarter, we grew organic revenues 14%. Unit case growth was 2%, which is in line with our multiyear trend. Concentrate sales grew 3 points ahead of unit cases driven primarily by two additional days in the quarter and the timing of concentrate shipments.

Our price/mix growth of 9% was driven by two items: approximately 8 points of pricing split somewhat evenly between normal pricing actions across our markets and intense inflationary pricing in a handful of markets experiencing currency devaluation, and approximately 1 point of favorable mix.

Excluding the impact intense inflationary pricing, organic revenue growth was above our long-term growth algorithm. Comparable gross margin was up approximately 160 basis points and comparable operating margin was up approximately 80 basis points.

Bottler refranchising had a greater benefit to comparable gross margin and currency headwinds had a larger impact to comparable operating margins.

Putting it all together, fourth quarter comparable EPS of $0.55 was up 12% year-over-year, despite 11% currency headwinds and 4% headwinds from bottler refranchising.

Free cash flow, excluding the IRS tax litigation deposit was $10.8 billion in 2024, an increase of 11% versus prior year. This increase was primarily driven by strong business performance and timing of working capital initiatives, partially offset by higher capital expenditures and higher tax payments.

In 2024, adjusted free cash flow conversion was 93%, which is within our long-term targeted range. Our balance sheet is strong, and our net debt leverage of 1.8 times EBITDA is below our targeted range of 2 to 2.5 times. If you include our latest estimate of $6.2 billion related to our fairlife contingent consideration payment, our expected net debt leverage would be at the low end of our target range.

As James mentioned, 2025 will likely bring both opportunities and challenges. Enabled by our all-weather strategy, we have demonstrated our ability to deliver on our objectives and drive long-term growth.

Our 2025 guidance builds on the enduring momentum of our business. We expect organic revenue growth of 5% to 6% and comparable currency neutral earnings per share growth of 8% to 10%, both of which reflected delivery at the high end of our long-term growth algorithm.

We continue to focus on driving balanced volume and price/mix, and anticipate intense inflationary pricing will play a smaller role in 2025 and will moderate throughout the year.

Bottler refranchising is expected to be a slight headwind to comparable net revenues and comparable earnings per share, as we cycle the impact of bottler refranchising in 2024. We'll continue to invest appropriately behind our brands while also driving productivity across all areas of marketing.

Next week at CAGNY, we'll discuss further our marketing transformation and enhanced resource allocation capabilities give us confidence in our ability to continue to drive more productivity.

We expect interest expense to be elevated versus prior year. We believe the step-up is manageable, and we're not expecting significant leverage or deleverage below the line.

Based on current rates and our hedge positions, we anticipate an approximate 3-point to 4-point currency headwind to comparable net revenues and an approximate 6-point to 7-point currency headwind to comparable earnings per share for full year 2025.

Our underlying effective tax rate for 2025 is expected to increase to 20.8%, which is driven primarily by the impact of several countries enacting the global minimum tax regulations. All in, we expect comparable earnings per share growth of 2% to 3% versus $2.88 in 2024.

Excluding the fairlife contingent consideration payment, we expect to generate approximately $9.5 billion of free cash flow in 2025, through approximately $11.7 billion in cash from operations, less approximately $2.2 billion in capital investments.

Included in this guidance are two items to highlight. One, a $1.2 billion transition tax payment, an increase of approximately $240 million versus 2024. This is the final year that we will make a payment related to the Tax Cuts and Jobs Act of 2017. Number two, we expect that part of the timing of working capital initiatives that benefited 2024 free cash flow will reverse and impact 2025 free cash flow.

Driven by our underlying cash flow generation, we have flexibility to invest in our business and return capital to shareowners. A significant portion of our expected capital investment is to build capacity for fairlife and to continue to invest in our system in India and Africa.

With respect to acquisitions and divestitures, we're making good progress on our agenda. Since 2006, we've added $9 billion brands via acquisition. Importantly, only three of these brands were $1 billion brands at the time of acquisition, demonstrating progress in scaling acquisitions.

In 2024, we realized $3.5 billion in gross proceeds from refranchising. Bottling investments as a percent of consolidated net revenue is 13%, down from 52% in 2015. Return on invested capital is up 6-points over the same time.

Related to capital return, we have an unwavering priority to grow our dividend, as we've done for 62 consecutive years. Our dividend is supported by our long-term free cash flow generation. In 2024, dividends paid as a percent of adjusted free cash flow was 73%.

On share repurchases, we've typically repurchased shares to offset any dilution from the exercise of stock options by employees in the given year. Our capital allocation policy prioritizes agility and we're committed to driving the long-term health of our business and creating value for our stakeholders.

There are some considerations to keep in mind for 2025. We expect bottler refranchising to have a greater impact to comparable net revenues and comparable earnings per share during the first quarter, as we cycle the impact of re-franchising the Philippines, which closed during the first quarter of 2024.

We expect the productivity benefits that I previously discussed to have a larger impact during the latter half of 2025. Due to our reporting calendar, there will be two less days in the first quarter and one additional day in the fourth quarter.

So, in summary, we're successfully executing our all-weather strategy to deliver on our objectives. Our system remains incredibly focused and motivated. We will continue to invest with discipline and believe we're well positioned to drive quality top-line growth and deliver continued margin expansion. A hallmark of our company since its inception has been our ability to create enduring value over time, and we expect to continue to do so.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first 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, everyone. The business seemed to buck the trend that we've seen from many other staples companies between strong 4Q results and the conviction in upper-end of the sales algorithm for 2025.

So, I'd just be curious to hear more from you about your perspective about the consumer environment globally, particularly in developed markets where US sentiment has been so mixed. Western Europe, there have been some flags on certain markets lagging. So, curious your kind of global perspective on the consumer environment? Thanks so much.

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

A

Sure. Morning, Lauren. I think the overall consumer environment is pretty stable in the sense that there's good economic growth on a broad-based view around the world, and that includes both the developed and the emerging markets.

If I look at the developed markets, whilst it is absolutely true that the lower income segments in the US and perhaps even more notably in Europe and Western Europe are under disposable income pressure and have been in 2024, and quite possibly will continue for some part of 2025. The rest of the consumer base is actually still gaining in terms of disposable income and is spending. Maybe spending a little more in the US, North America than Western Europe, where there was more direction to saving, but a pretty strong sustained demand level across the developed world.

And similarly, in the emerging markets, yes, it's a little more volatile in ups and downs. But in aggregate, again, you see pretty robust or enduring consumer demand. In the quarter, we saw India rebound; we saw China get a bit better; the Middle East got a bit better; they're still doing pretty well in Latin America, a little softer perhaps in Africa.

But overall, we see continued robustness and growth across consumers that we need to respond to with all the strategies that we have. It's not going to be a one size fits all. We need to focus on delivering for them with the marketing and the innovation and the execution and particularly the affordability and premiumization.

So, the demand is there. And I think what you see in the fourth quarter has been our ability to focus on what we have to do to get a good result for the company. And that's what we're confident in continuing for 2025.

Operator: Our next 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. So, just on that 5% to 6% organic revenue growth forecast for 2025, can you just give us a bit more granularity on the balance between volume that you see as well as price and mix?

And just wanted to focus on your plans on the pricing component in 2025, you mentioned there's some stress on low-end consumer in a few markets after inflation in recent years. But clearly, with your Q4 results, the overall consumer seems to be handling pricing from Coke well. There's also FX pressure. So, there's just a number of volatile external circumstances. Just how does that impact how you manage pricing in 2025? And how that might be different than a typical year, either on the pricing or the mix front? Thanks.

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

A

Yeah. Sure. Good morning, Dara. Look, I think let's start from the top level down on 2025. Our long-term algorithm we called out, we want to be at the top end, so 5% to 6% and expect in the long-term a balance between volume and price, so say 2% to 3% of each. It seems more likely in 2025, there'll be a little more price and a little less volume but there will be volume growth and obviously, there will be price growth.

But perhaps a little weighted a little more to price than volume than a long-term year, but still solid continued volume momentum, which has been an enduring feature of what we have pursued over the last number of years, which is not just keeping people in our franchise, but growing our franchise for the long-term. And so that's the headline of what we expect to see.

And I would say like if you take 2024, where you've got a kind of a headline price/mix of about 10%, half of that is from these high-inflation countries, which we expect to largely drop out in 2025. So, another way of thinking of it is really ex-high inflation, you had about 5% price mix in 2024. And you're going to see that continue to moderate as inflation has moderated down to a kind of a slightly lower number in 2025 and largely the drop-out of these high-inflation countries in 2025, if that helped give you a [ph] factor (00:29:39).

And so, we feel we've got a level of actual pricing in the marketplace that is proportionate and reasonable relative to inflation and relative to what we can support through the actions we're taking across the whole flywheel from the marketing, the innovation, the execution, the RTM through affordability and premiumization and all the commercial execution.

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

Bryan D. Spillane
Analyst, BofA Securities, Inc.

Q

Hey, thanks, operator. Good morning, everyone. Maybe just to pick up on Dara's question. Maybe John, can you – and James, can you give us just two perspectives. One, as we think about the organic sales growth for 2025, just given some of the – I guess, some of the moving parts we saw in 4Q, just how should we kind of think about it from a phasing perspective?

Does the – I guess does the pricing from some of the emerging markets or inflationary countries kind of fade as we move through the year. So that's the first one. And the second, maybe if you could also just give us a context of 5% to 6% organic sales growth and how that stands against kind of industry growth? If you can give us some perspective on kind of what the exit rate was for the industry and maybe what you're thinking about for next year? And then, just last one, I forgot – I should have called this out last time, but the hold music is amazing. It was a real nice change. And I just want to make sure that that gets recognized, Robin, doing her job.

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

A

Thanks, Bryan. Well, I'm glad the last comment was not a question, so. Yeah, on the guidance for the – I'm not going to get into a lot of commentary inside the quarter. We do have two less days in the quarter coming out of 2024, decent momentum going into it.

On the pricing front, some inflation in – from the more intense markets in Q1, which we expect to moderate throughout the year. And on the volume phasing itself, I think we're looking at – there's a – Q2, I think, is probably the more challenging uphill of the quarters ahead. On – as I say, on the intense inflationary markets that we've highlighted in 2024, as James said, affecting the headline numbers, we see that moderating throughout the year.

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

A

Do you want me to say – yeah, on the industry growth, if I – I mean clearly, we are planning to and expect and aim to gain share. So, to the extent that we end up growing 5% to 6%, then that is based on the idea that the industry is growing at a more normalized level. If you look at the long-term growth rate of the industry, you tend to get a 4% or a 5%.

So, we are absolutely expecting the industry growth rate towards the model, which is kind of what was happening in Q4, the underlying rate, if you take out the high-inflation countries is kind of 6% or 7% in the fourth quarter, and we were gaining share. So again, it's very consistent with this idea we've been talking about, which is as inflation moderates, we see a normalization of both the industry growth rate, our growth rate with us being the long-term winner in the industry with ongoing robust industry growth.

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

Stephen Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, guys. Good morning. Thank you. I guess moving down the income statement. Your outlook seems to imply some pretty strong underlying margin and profitability progress just net of the FX pressures and the higher tax rate. So, could you talk about some of the key drivers there?

And then, I guess, similar to Bryan's question, any timing considerations we should keep in mind over the course of the year beyond just the number of days in each fiscal quarter. Thank you.

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

A

Sure. Maybe I'll start and then John will weigh in on some of these considerations. Firstly, yes, there is some implied margin expansion in 2025, coming from some of the marketing expenditure and some of the SG&A. This is the culmination of many of the programs we've been putting in place over the last number of years to continue not just to get effectiveness but to get efficiency.

And the simplest example is the marketing transformation where it is helping us continue – take the Christmas out in Q4 last year, which we made with generative AI, as a small example, it was both quicker and cheaper to make the ad. And so, what you're seeing come into 2025 is some of the fruition of work that's been going on across the organization, including the marketing transformation that is producing some productivity in 2025.

But it is important to say that we are not backing off our bias to invest for growth. This is not less marketing, this is more productive spend. And so, our mode of operation going into the year will continue to be, we believe there will be growth in 2025 in the industry. We are going to invest from the marketing all the way down, through the system into the commercial levers in order to continue to drive growth.

As we find pluses and minuses around the world, of course, we will adapt and be flexible. But this is about leaning into growth, continuing to invest to drive the franchise and being able to capture some of the benefits of the transformational work, that's been going on over the number of years. John, do you want to add some considerations?

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

A

Sure. Let me go up a little bit and talk about gross margin, Steve. So, I can provide some additional commentary. We're not building an enormous amount of expansion on the gross margin front into our guidance. We do expect to continue to have some underlying expansion. But as you alluded to the FX, that's largely maybe offset by currency. It's – we've anticipated for 2025, there's quite a lot of moving parts inside of the gross margin equation. So, we've – as I said, we've not for guidance purposes built in an enormous amount of expansion.

Commodities will be in the low-single-digits range overall, some pressures on the agriculturals, particularly juice and coffee that are a big part of our base. We have the usual set of levers that we will deploy to cover those. But for – as I said, for guidance purposes, you can assume modest expansion at the gross margin line. And as James said, we've been anticipating for quite some time the 2025 environment and the sort of the more for same, more for less mantra is certainly alive and well.

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 your thoughts on just the global trade environment, obviously, with tariff coming more into play here. It seems your supply chain is largely localized in most countries. But can you talk about some exposures in terms of import/export? And also just the secondary impact on commodities. I know a lot of it is on your [indiscernible] (00:38:12) System, but just thoughts on the recent tariffs also on aluminum and steel. Thank you.

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

A

Yeah. Thanks, Filippo. Clearly, there's – it's a dynamic macro environment out there. As commodities change for whatever reason, up or down, obviously, we – our number one objective is to look at how we mitigate through that.

And whether it's the recent aluminum tariffs or any other tariff-based or frankly weather-based or any other variation in the input commodities, we do a number of things. One, we have hedging programs in place that look to assure supply and price going out. Secondly, as the relative prices of different sources of ingredients, and imports change, of course, we look at mitigation, productivity, efficiency, adjusting where we get our materials from. All of that goes into the equation to constantly manage how this goes through.

Net-net, as John just mentioned, we are expecting more variation in agriculturals than industrials, notwithstanding recent actions, we will manage through it. As you said, we are predominantly a local business when it comes to making each of the beverages. The vast majority of everything that's consumed in the US is made in the US. Similarly, we've merged every country around the world. And so while it's a global business, it's very local.

So yes, every bottler will be importing something from somewhere as a piece of the puzzle, but the economics are more predominantly local than they are global. And so, it's a piece of the puzzle we need to manage through.

As John said, we have that, we believe, under control from a point of view of sustaining gross margin. No doubt the environment will continue to be dynamic, but we will continue to manage and mitigate and adjust and be agile and flexible our way through the year.

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

A

And just one additional comment. Supply chain continuity continues to be, I think for many industries, an ongoing challenge for a variety of reasons. 2024 was no stranger to that. And our cross-enterprise procurement team are managing a vast network and in addition to the economics, just making sure that we can continue to supply our markets around the world consistently is a key priority and an important advantage, I think, to enjoy as well in the many markets that we're in.

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

Hi. Thank you. Good morning. I guess thinking about the new administration and some potential regulatory changes, what percentage of your domestic portfolio might be subject to potential changes? And then, James, how quickly can you pivot or adapt your portfolio if some of these changes are implemented.

And then I'll ask it, since it's become more topical again lately, but how are you thinking about potential impacts on consumption from GLP-1 drugs? Have you seen any impact? And has your thinking on this potential headwind changed in terms of your strategy, innovation, et cetera? Thanks.

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

A

Well, Bonnie, I'm tempted to start with the answer to the first question by saying you win the prize for the Vegas question so far this year with what might happen subject to changes. There are many things that could happen out there in the world. And of course, we do scenario planning on regulations, on economics, on all sorts of things, and we will adapt as and when they come.

More specifically on the GLP-1s, as we've commented on previous calls, we continue to see anecdotal evidence of the impact of GLP-1s on consumption of food and beverages. So far, our take is, it's not a big aggregate factor for the beverage industry or the non-alcoholic beverage industry [ph] weakness (00:42:39) The volume for our sales was up 1% in the fourth quarter in North America. So, we continue to see pretty sustained momentum in North America.

There is anecdotal evidence that people consume slightly less alcohol perhaps, and they do some switching in non-alcoholic beverages. But overall, we're seeing sustained momentum, and we are a total beverage company.

So, we believe whether it's GLP-1 drugs or changes in adaptations to regulation ingredients, our objective is to have the biggest possible toolbox of ingredients of super high quality and safety, which we use to make a total beverage portfolio that works for consumers. And we believe we can adapt to anything that comes at us.

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. John, you laid out a long list of very substantial cash payments that have been made this year, last year, almost all of which will be behind you very soon.

So, can you maybe just talk about how you think about cash or capital allocation when you're on the other side of it, whether it be buybacks, whether it be more aggressive around M&A. The magnitude of the change of the amount of cash you'll have on hand next year versus this year is so substantial. I'd like to see how you might think about it differently. Thank you.

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

A

Thanks, [ph] Kaumil (00:44:18). Yeah. Let me maybe answer that in two parts. First of all, the – I don't foresee a substantial change in our focus to support the underlying business and the momentum that has. And secondly, as we just talked about in our guidance, we will continue to support the dividend. So, those two areas, you can assume will remain top priorities.

As we get into 2026, it's a little early to anticipate exactly what 2026 will deliver for us. But as you said, clearly, the transition tax will be in the rearview mirror. Some of the M&A payments likewise, and it will give us the opportunity to take a closer look at the M&A and the share repurchase agenda.

So I think it's pre-mature to get too specific on what 2026 might bring for us. But I'm looking forward actually to having to deal with that challenge in the next year or so. We also have – as you are well aware, we also have a keen focus on the overall health of the balance sheet. And we'll take into account the puts and takes on that.

We continue to have the tax case in the next couple of years to deal with. So the name of the game for me is to – it would be to have more to manage in a flexible manner some of the opportunities that may present themselves.

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

Robert Ottenstein
Analyst, Evercore ISI

Q

Great. Thank you. So Walmart has created now, I guess, what you call the Modern Soda shelves. And I'd love to get your thoughts on that category, broadly speaking. Is this something that is a fad in your view or is this something that represents some kind of departure and is just very responsive to consumer needs?

Is it something like fairlife, where you just have a better product and how do you look to play in the so-called Modern Soda area that Walmart seems to at least have some confidence in? Thank you.

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

A

Hey, Rob. Yeah. Look, it's great news that people are innovating and willing to create new brands and dedicate more shelf space to the beverage industry, which is, I think, goes for the whole idea this a vibrant industry with lots of growth, so that's the first one.

Secondly, we are a total beverage company. We look to compete everywhere we see enduring consumer demand and traction, including some of the [ph] stuff that goes here (00:47:34).

Look, in the end, these are soda beverages that are great tasting, that's the central idea. And I think to the extent that's enduring, we'll take a really hard look at it. But I think the most important thing to take from this is the confidence in the overall industry of beverages to continue to grow.

And as John alluded to, and we'll talk more at CAGNY, when you look at the track record of the Coca-Cola Company in terms of creating organically and scaling small bolt-on M&A into billion-dollar brands, we are by far and away the clear leaders in the industry and the winners.

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

Hey, everyone. James, you mentioned agricultural commodities. You also, I think, said something to the effect of industrial commodities are perhaps moving a bit less, but you're watching developments. I'm assuming you're speaking to aluminum, can you just maybe provide some context, number one, on how incremental moves in aluminum might impact your cost per case outlook, number one.

And just related, there's this element of the system will need to respond to incremental inflation from aluminum. Can you just talk about comfort, that affordability and volume durability will not be impacted if the system needs to respond to climbing inflation. So it's a little bit of a two-part question and the impact to the model, but also a bit forward looking and what may be required to protect the model and the impact on the consumer in the coming months. Thanks so much.

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

A

Yeah, sure. I mean, firstly, this is predominantly an impact in the North American or in the US business with, let's say, the North American business, which is obviously a piece of the puzzle. So from a total company perspective, bear in mind this is just one of the four segments largely speaking, as we sit here today.

And of course, as it relates to our strategies, around ensuring affordability and ensuring consumer demand. If one package suffers some increase in input costs, we continue to have other packaging offerings that will allow us to compete in the affordability space.

So for example, if aluminum cans become more expensive, we can put more emphasis on PET bottles, et cetera, et cetera. So we will adapt the packaging strategy in function of changes in the relative input costs of what goes into that. So that is part of the total adaptation plan that we use around the world.

Secondly, so I don't believe if part of the question in the second half is, do you think this is going to fundamentally undermine the ability of the system to do well in volume in 2025? The short answer is no. I think we control enough variables that we can adapt and mitigate our way through what is happening, because it's a combination of hedging, which we use on the key materials.

It's an opportunity to do mix management between different packaging materials. And of course, we're going to look at where the supply is from because it's all about relative pricing. To the extent relative pricing changes, we can seek to adapt. And so, I think this is mitigatable and manageable and one of the dynamic elements of 2025 that I think we can get through.

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 hi, James, John. I have a question on Mexico and then a follow-up on mix. On Mexico, you have obviously managed cycles, regulation, tax as well, and arguably you count on one of the best bottling partners there. But can you comment on the playbook.

And if you're embedding a deceleration in volumes there and can you talk about the potential risk of recession or would we [indiscernible] (00: 52:12) stronger dollar, meaning obviously, more business to their pockets, partially offsetting the slowdown?

And then on the second point, you both spent a fair amount of time discussing the accelerating innovation results, which are remarkable. On the strong delivery in North America, I believe you posted like 12% growth in price mix, how much is that driven by fairlife or away-from-home recovery?

And should we expect of comparisons to lead to a deceleration there? Or you still see a lot of potential for fairlife distribution and potentially better execution on on-premise ahead? Thank you.

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

A

Wow. Okay. That's a lot of questions in there. Let me try and pack it into two. North American pricing, about half of the North American pricing that you see in Q4 is mix. And therefore, you can basically kind of park that relative to 2025.

And so – and it's not just fairlife. But if you just take half of that and call that price mix, that is going to continue to moderate as you go into 2025 in the North American sense and the mix will also moderate in 2025.

We'll continue to grow fairlife in 2025, but we are – given the runaway success of the product, we are reaching the need to get the New York factory that we've been building up and running in order to continue unconstrained growth. So we will see some moderation of the fairlife growth in 2025, which will obviously then moderate the mix. So much more normalization of US price mix in 2025.

And then Mexico, I mean, unpacking the Mexican playbook is a longer conversation, but I think it is a place we're par excellence, we have had a dedicated and consistent execution of the overall playbook, whether it's great quality marketing, great quality innovation, great quality execution, great quality [ph] RTM (00:54:21).

So pricing options – I mean the one place you can go and find a package at almost every price point is Mexico. It's one of the broadest beverage portfolios in the world in terms of covering off all the categories. So it's been a long-term dedication by the system in Mexico to build the total beverage company with a product and a package and a price point for everyone, everywhere.

And of course, we commented just on the peso and we did call out FX headwinds in 2025, but they have taken on a different nature that we're not expecting large impacts to come from the intense inflation countries, we're expecting those headwinds to come from some of the more normal, let's say, emerging markets like Mexico, and that's part of the headwind you see on the peso conversion to the US dollar for 2025.

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

Peter Grom
Analyst, UBS Securities LLC

Q

Thanks, operator. Good morning, everyone. So James, I was hoping just to follow up on your response to Dara's question. And I apologize if I misheard this, but I think you mentioned organic growth to be a bit more weighted to price relative to volume, which isn't entirely surprising. And not to get too granular, but I wasn't sure if you were implying that you were expecting volume growth to kind of fall short of the 2% to 3% growth we typically see or just at the lower end of that range.

And I'd just ask that in the context of 2% unit case volume growth exiting the year. You touched on a lot of these more challenged markets getting better in the quarter. So it would seem that you have some pretty nice momentum exiting the year and 4Q exit rate would be a good place to start. But I'm not sure if there's maybe some offsets or areas of concern that we might not be thinking about. Thanks.

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

A

Yeah. Peter, yeah, I think you've got what I said to Dara correctly. Yeah, I mean, if you just take 2024, we did 2% in the fourth quarter. We did 1% overall for the year. So yeah, I mean, what I was saying is implying we're at the 2%, 1%-2% kind of floating around that sort of range with a compensating factor on the pricing side. So we still get up into the 5% to 6% range.

So I think you've got it clearly. And I think – also, I think John made a comment earlier in terms of the time during the year that Q2 is clearly going to be a tougher cycling quarter. But overall for the year, we feel we're coming in with momentum. There are a decent number of unknowns and a dynamic environment 2025. We believe we can manage through. And from a volume perspective, I think – I like to think it's going to be a little better than 2024 overall, but it's in that sort of ballpark.

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

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Q

Yeah. Hi, James, John. I hope you're both well. I've got a question on India, please, which had a good 2024. And more broadly, it's been a great market for you over the past few years. I saw in Q4 that you refranchised 40% to a local partner. And I was just wondering if you could comment on that? And what attributes that local partner brings that perhaps could even accelerate the Indian business to the next level? Thank you.

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

A

Thanks, Charlie. I just came back from a trip to India. So maybe I'll take this one. The refranchising program that we've had in place continues to move ahead. And India is no different to other parts of the world. We look for a certain profile of partner. Those are ambitious as we are to capture the opportunity. We have the capital who have the ability to build capability over time.

And we believe that our new partner there ticks the box very handsomely on all of these attributes. So you can think – just think of it as another chapter in the refranchising program, not just for India, but for those remaining in our portfolio.

And the Indian market has got a tremendous amount of runway ahead. The environment there is pretty vibrant, tremendous competitive set. And we believe that the Jubilant Group coming in is going to add tremendously to our abilities to continue to step change our execution in the marketplace. And as we continue to work on the re-franchising program, we will advise in the coming months and into next year as to how that shapes out.

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. I just want to follow-up on kind of the commentary on the hyperinflationary environment, you're kind of comment of it moderating. And I understand moderating, but I believe the pricing – a lot of the pricing you took was kind of more in the second half, so that will carry through. I don't think you – these countries have really slowed down in their inflationary environment.

So are you saying that you're kind of done with pricing there and – or that you would be taking price cuts. So I'm – it seems like I understand you have a general guidance for this year, but seems like the hyperinflation environment, there's not a real reason for them to moderate so much at least for the next couple quarters.

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

A

Bill, yeah, absolutely not taking the foot off the pedal in terms of passing through where we have a lot of input costs coming in. So it's not that we are not going to be passing through the input costs in those marketplaces. There are – it was very concentrated these high inflationary countries, and there has been inflationary moderation. I mean if you look at Argentina for the sake of the single dealer example, the monthly inflation rate has dropped markedly through 2024. I think it's down to a few percent a month now or 4% a month.

So you definitely see a moderation. Yes, you're right that in a sense you'll see more of it in the first half and the first quarter than you will in the back end of the year. But inflation has definitively dropped in a lot of these countries. It was very concentrated in a handful, Argentina, a couple of the African countries and Turkey. And so the inflation has come down. There's – but we will continue.

If it doesn't moderate, if there's other countries that fall into this category, because its input costs go up, we will pass those through in price. Even though we look to execute all our affordability strategies, we have to pass through the costs in those sorts of environments because it's just too overwhelming.

Operator: Question comes from Robert Moskow from TD Cowen. Please go ahead. Your line is open.

Robert Moskow
Analyst, TD Cowen

Q

Hi. Thanks. I wanted to maybe push a little bit more on your commentary that you can – you changed your mix of packaging to react to aluminum tariffs or higher aluminum costs. Is there any way to kind of delineate this, like how much of a mix shift is necessary to go more toward plastic, less toward aluminum cans in the event of a sharp increase in can cost. It may not be a fair question, but like is a 1% change in mix, like, big enough to really influence the cost structure? Or does it have to be something much bigger than that?

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

A

Look, I think we're in danger of exaggerating the impact of the 25% increase in the aluminum price relative to the total system.

It's not insignificant, but it's not going to radically change a multibillion dollar US business. And packaging is only – is a small component of the total cost structure. So firstly, it's not a multimillion dollar – billion dollar problem relative to the input cost. It's a much more manageable number.

And so between mitigation of supply chain, sourcing, weights of the cans, price increase of the cans at some level potentially, switch to because it's a manageable problem in the context of the total US business.

And I don't think we should – you should not conclude that this is some huge swing factor in the US business. It's a cost. It will have to be managed. It would be better not to have it relative to the US business, but we are going to manage our way through.

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

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Thank you. Good morning. Just wanted to unpack Asia Pacific a little bit more, you had price mix down there partially offset by some pricing. But in the full year market share commentary, which I know is a little bit apples and oranges. South Korea and Japan grew or gained share and then Indonesia and Bangladesh declined or lost share, but that would seem like a positive for mix. So maybe how do you reconcile those? What are some of the moving parts? And just help us to understand that a little bit better.

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

A

Sure. I think the biggest factor here in Asia Pacific in Q4 is what we're cycling from last year. So I would encourage you, as you look at Asia overall, but Asia Pacific, in particular, for the reasons you called out, you've got some very developed markets like Japan and Australia. And some very emerging markets like Bangladesh and Indonesia. And their relative volume performances can make a big difference to mix. So what you're seeing is a base effect from 2023 coming over, but I would encourage any analysis of price mix in Asia Pacific to be multi-quarter, because it's just very choppy for the very reasons you just called out.

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

Okay. Perfect. Thanks very much, everyone. To summarize, we are winning in the marketplace. We're going to continue to maintain our agility and focus on getting better on everything we do.

We believe we are well positioned to deliver on our 2025 guidance and create value for our stakeholders over the long term. We look forward to discussing more next week at CAGNY. Thanks for your interest, the investment in our company and for joining us this morning. Thank you very much, everyone.

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