

COCA-COLA FINANCIAL ANALYSIS

by Sam Kamande

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Coca-cola is a company known for its success in the beverage sector. Coca-cola sells the highest quantity of beverage in the entire world, other than operating a powerful business model as noted from their dividend history. The company's dividend incessantly increased fifty four years since it went public. Coca-cola implements a recession resistant business model that offered the giant beverage company a wide economic moat alongside unique competitive advantage. The report intends to examine the company's market share and growth potential through a financial analysis of their financial performance. Coca-cola holds a huge position in the market share and is expected to grow.

Eye-ball assessment

Coca cola's capital structure measures the company's debt and equity used in managing their operations. According to Banerjee, (2015), the shareholder ownership in Coca-cola illustrates the summation of the company's common stock and the earning without the treasury shares. Coca cola's shareholder equity for 2016 became \$ \$ 23, 062 which illustrated 26.5%, unlike 2006 which became \$ 16,920 denoting 57% excluding the treasury shares. Coca cola's market capitalization for 2016's third quarter became \$ 187.791 billion.

Coca cola's debt capitalization expresses the capital structure represents the value Coca-cola owns creditors. According to Banerjee, (2015), the company's debts are classified into two categories with the first one becoming current liabilities due in a year. Coca cola's total current liabilities for 2006 became \$ 8,890 million representing 30% of what the company would cater. The total current liabilities for 2016 becomes \$ 26, 532 representing 30.5% of what the company would cater with its available cash. The inclusion of deferred income, long-term debts and other long-term liabilities represents the total liabilities expected to mature after a year or so. Coca

cola's total liabilities for 2006 became \$ 13, 043 million representing 43% of what the company would cater. The total liabilities for 2016 represented \$ 64, 208 million.

The total assets for Coca-cola illustrates the summation of the company's non-current and current assets. The assets listed depending on the purchase price rather than the market value for the company

Common size statements

The common size statements illustrates the changes the company underwent for the past ten years. For instance, the total assets in the company increased from \$ 8, 441 million in 2006 up to \$ 34,010 million in 2016 because the company apparently expanded their operations. The business grew its services and the total current assets comprised 39% from 29% in the past. The total assets ten years ago became \$ 29, 963 million while in 2016 the total assets increased to \$ 87, 270 million. Coca-cola offered additional brands apart from the main ones offered ten years ago which made the company's assets soar. The company resorted to invest more in assets through setting new branches and increasing brands in the existing branches.

The total equity and liabilities ten years ago became \$ 29, 963 million while in 2016 the value became \$ 87, 270 million. The company acquired a lot of capital for expansion and running its programs. The business needed the capital for various activities not limited to running and expansion programs.

Coca-cola had few operations in 2006 which translated into few revenues totaling to \$ 24, 088 million while in 2016 when the company had increased its operations and branches the company's revenues increased to \$ 41, 863 million. In 2006 Coca-cola had a capital expenditure of \$ 17,510 million which means that the company did not have as many activities unlike the

present in 2016 when the capital expenditure totals to \$ 33, 727 million. The opening of new branches and increasing the number of brands forced the company to increase their capital expenditure to meet their customer demands.

Ratios by category

Liquidity

The liquidity illustrates Coca cola's ability to meet its short-term financial goals spanning one year in a given financial year. The company's main liquidity ratios become current and quick ratios. The higher the ratios, the better because Coca-cola would be able to meet their short-term financial obligations. For instance, in 2006 the company had 0.9 or 90% current ratio which rose to 128% in 2016. The company also had a quick ratio of 76% which rose to 118% as of 2016. Generally, Coca-cola had a high chance of paying off their short-term debts. The industrial average in the beverage sector indicated that Coca-cola was way above its competitors.

Efficiency

The efficiency ratios are determined by the ability of Coca-cola to generate revenue from their assets. The company's inventory turnover increased from 5 to 5.6 from 2006 to 2016 respectively. The increment in the inventory turnover augurs well with the success of the company. The fixed asset turnover illustrated the company's ability to generate income from their assets. In 2006, the fixed asset turnover ratio became 35% while in 2016 the fixed asset turnover ratio became 39.4% illustrating an increase in the value of the fixed assets in generating income for Coca-cola. However, the company's entire turnover ratio reduced from 0.8 in 2006 down to .48 in 2016.

Profitability

The profitability illustrated by the net profits collected in a given year depends on the revenues and the expenditure that Coca-cola faces at any given time. The revenues might become high when the expenses remain high, the net income does not matter anymore. The net income becomes important when the revenue remains high while the expenses get reduced which also seems impractical. The higher the gross and net profit margin, the safe it becomes for the company. For instance, Coca cola's gross margin reduced from 66.1 to 60.7 in 2016. The net profit also reduced from 21.1 down to 15.6. The return on investment reduced from 17% down to 7.5%. Even though the company's profitability reduced, it still remains a profitable firm in the beverage sector compared to their competitors.

Leverage

Loughran, (2016) argued that the interest levels reduced in the 2008 crisis aftermath by the Federal Reserve. Several companies took advantage of the low-interest rates including coca cola thus issuing bonds that go for low-interest rates. Coca cola's outstanding bonds stood at \$ 48 billion because they issued their bonds at low interests of 1.4 up to 3.25%. Even the though bond underwriting increased, Coca-cola has the capacity to meet its current liabilities. The company's current ratio alongside the quick ratios increased by 14% for the current ratio while 16% for the quick ratio. In 2016, the current ratio rose to 1.24 while the quick ratio became 0.885 or 88.5%.

Coca cola's debt-to-equity ratio increased significantly. Ahamed, (2014) argued that the debt-to-equity ratio allows Coca-cola assess the money owed to creditors against the company ownership. The debt-to-equity ratio obtained from the total liabilities over the shareholder equity generates the debt-to-equity ratio. The company had a debt to equity ratio of 160% in 2012,

which increased in the years that followed to beyond 250%. Actually, the debt-to-equity ratio became 283% as of 2016 which augurs well with the company's future, Loughran, (2016).

DuPont equation analysis

The company's ROE and the ROI illustrated a significant drop from 2006 to 2016 probably because of the profit deterioration. The company's ROI reduced from 17% down to 7.5% in 2016. Fortes, (2010) argued that the company's ROE also reduced from 29.9% down to 28.3%. The ROE in the two durations illustrated that Coca-cola generated positive income to shareholders. However, the reduction identified in the ROE and the ROI resulted from reduced net income in the company, otherwise, the shareholders still get their returns. The decrease in the net income impacted the shareholder equity by some extent.

Working capital analysis

The working capital expresses the Coca cola's ability to cater its short-term goals and liabilities. Ahamed, (2014) argued that the working capital gets simply defined as current assets minus the current liabilities. Coca cola's working capital increased from \$ -449 million to a \$ 7,478 million in 2006 and 2016 respectively, Fortes, (2010). The working capital increased in the period indicating that the company met its short-term liabilities and goals efficiently.

Cash Conversion Cycle

The cash conversion cycle illustrates Coca cola's ability into converting cash at hand. The factors considered include the time spent selling the inventory, time used in collection of receivables and time used in catering their bills on time before penalties. Coca-cola had a cash conversion of -137 and 33.6 in 2006 and 2016 respectively. The lower the value, the beneficial it

becomes to Coca-cola. However, the CCC ought to get integrated alongside ROA and ROE before comparison with the competitors.

Summary and conclusion

Coca-cola performed exemplarily against the competitors. The company's profits deteriorated which impacted their shareholder equity but they still obtained profits. The company obtained high net incomes because they maintained a high revenue leveled against the high expenditure. The increased expenditure came from the many brands and branches the company ventured in the recent. Coca-cola remains a top company in the beverage sector and quite profitable in the short and long term.

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