

KO delivers despite challenges, boosting outlook

KO's 3Q EPS in line, weaker top line hurt sentiment

KO reported underlying EPS of \$0.82, a penny ahead of consensus but aided by 1c from lower taxes. Shares slipped 1.3% as top line missed expectations, reflecting negative currency (as expected) and some challenges in developed markets (North America, Europe and Japan). We still see emerging market fundamentals as strong; anticipate some potential EPS upside from margins, shares, tax and currency in 2009/10; and vision a clear strategy to drive its brand share gains around the world. The minor pullback in KO's stock on Tuesday was understandable in our view – its shares have outperformed the market in the last 6 weeks (+11% since Sept 1 vs. +7% for the market), but challenges in developed markets likely reminded investors that the consumer is not yet “back.”

Developed market softness hurt volume & mix

Key positives -- strong margin expansion despite ongoing reinvestment; improved margins in its Bottling Investment Group; favorable emerging market growth trends; progress in some challenged markets (Germany, Philippines); return to growth in its important Georgia coffee brand in Japan; and ongoing global growth in trademark Coke. **Challenges** – developed markets weaker than expected (and cautious outlook on the consumer); and some price competition in North America. KO's results may imply some downside to our -6% volume est. for CCE, but Europe could exceed.

Boosting 2009 & 2010 EPS, PO to \$62 from \$60

Based on results this quarter (with various puts/takes in regional price/mix and margins) along with updated currency and share buy back timing, we are raising our 2009 and 2010 EPS to \$3.04 and \$3.44 from \$3.02 and \$3.40, respectively. With some minor target multiple expansion since our last evaluation (+50bps), we are raising our 12mo price obj, to \$62 from \$60 which reflects what we believe is an appropriate 20% premium on the market P/E multiple in 2010, our DCF analysis as well as a flat multiple from here (2009).

Estimates (Dec)

(US\$)	2007A	2008A	2009E	2010E	2011E
EPS	2.70	3.14	3.04	3.44	3.76
GAAP EPS	2.57	2.49	2.91	3.44	3.76
EPS Change (YoY)	13.9%	16.3%	-3.2%	13.2%	9.3%
Consensus EPS (Bloomberg)			3.06	3.37	3.61
Dividend Rate	1.36	1.52	1.64	1.76	1.88

Valuation (Dec)

	2007A	2008A	2009E	2010E	2011E
P/E	20.0x	17.2x	17.8x	15.7x	14.4x
GAAP P/E	21.0x	21.7x	18.6x	15.7x	14.4x
Dividend Yield	2.5%	2.8%	3.0%	3.3%	3.5%
EV / EBITDA*	15.1x	13.1x	13.2x	11.7x	10.9x
Free Cash Flow Yield*	4.4%	4.4%	5.1%	5.7%	6.4%

* For full definitions of *iQmethod*SM measures, see page 11.

Bank of America Merrill Lynch

Christine Farkas, CFA +1 646 855 3012
Research Analyst
MLPF&S
c.farkas@bamll.com

Carter D. Santos +1 646 855 3676
Research Analyst
MLPF&S
carter.d.santos@bamll.com

Stock Data

Price	US\$54.07
Price Objective	US\$62.00
Date Established	20-Oct-2009
Investment Opinion	A-1-7
Volatility Risk	LOW
52-Week Range	US\$37.44-55.50
Mrkt Val / Shares Out (mn)	US\$126,091 / 2,332.0
ML Symbol / Exchange	KO / NYS
Bloomberg / Reuters	KO US / KO.N
ROE (2009E)	32.7%
Total Dbt to Cap (Sep-2009A)	33.3%
Est. 5-Yr EPS / DPS Growth	9.0% / 10.0%

Key Changes

(US\$)	Previous	Current
Price Obj.	60.00	62.00
2009E Rev (m)	30,721.4	30,766.6
2010E Rev (m)	32,462.3	32,988.2
2011E Rev (m)	34,001.6	34,507.5
2009E EPS	3.02	3.04
2010E EPS	3.40	3.44
2011E EPS	3.74	3.76

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Refer to important disclosures on page 12 to 14. Analyst Certification on Page 10. Price Objective Basis/Risk on page 10.

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iQprofileSM The Coca-Cola Company

iQmethodSM – Bus Performance*

(US\$ Millions)	2007A	2008A	2009E	2010E	2011E
Return on Capital Employed	19.5%	20.3%	19.2%	20.5%	21.0%
Return on Equity	32.5%	34.8%	32.7%	33.4%	33.3%
Operating Margin	26.1%	27.5%	27.8%	29.4%	30.3%
Free Cash Flow	5,502	5,603	6,455	7,150	8,128

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2007A	2008A	2009E	2010E	2011E
Cash Realization Ratio	1.1x	1.0x	1.2x	1.2x	1.2x
Asset Replacement Ratio	1.4x	1.6x	1.6x	1.3x	1.1x
Tax Rate	24.0%	21.9%	23.7%	23.5%	23.5%
Net Debt-to-Equity Ratio	23.1%	21.2%	12.5%	12.8%	8.2%
Interest Cover	16.5x	20.0x	20.6x	23.7x	25.6x

Income Statement Data (Dec)

(US\$ Millions)	2007A	2008A	2009E	2010E	2011E
Sales	28,857	31,944	30,767	32,988	34,508
% Change	19.8%	10.7%	-3.7%	7.2%	4.6%
Gross Profit	18,465	20,570	19,815	21,585	22,680
% Change	15.9%	11.4%	-3.7%	8.9%	5.1%
EBITDA	8,683	10,004	9,928	11,199	12,077
% Change	15.2%	15.2%	-0.8%	12.8%	7.8%
Net Interest & Other Income	631	(1,007)	592	722	793
Net Income (Adjusted)	6,290	7,336	7,053	7,902	8,533
% Change	13.0%	16.6%	-3.9%	12.0%	8.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2007A	2008A	2009E	2010E	2011E
Net Income from Cont Operations (GAAP)	5,983	5,807	6,821	7,968	8,606
Depreciation & Amortization	1,163	1,228	1,371	1,505	1,618
Change in Working Capital	6	(688)	450	(100)	(100)
Deferred Taxation Charge	109	(360)	(100)	(100)	(100)
Other Adjustments, Net	(111)	1,584	63	(123)	(196)
Capital Expenditure	(1,648)	(1,968)	(2,150)	(2,000)	(1,700)
Free Cash Flow	5,502	5,603	6,455	7,150	8,128
% Change	20.9%	1.8%	15.2%	10.8%	13.7%

Balance Sheet Data (Dec)

(US\$ Millions)	2007A	2008A	2009E	2010E	2011E
Cash & Equivalents	4,308	4,979	5,867	5,172	5,935
Trade Receivables	3,317	3,090	2,976	3,191	3,338
Other Current Assets	4,480	4,107	3,956	4,241	4,437
Property, Plant & Equipment	8,493	8,326	9,655	10,800	11,532
Other Non-Current Assets	22,671	20,017	19,888	20,096	20,268
Total Assets	43,269	40,519	42,341	43,500	45,510
Short-Term Debt	6,052	6,531	6,205	6,001	5,884
Other Current Liabilities	7,173	6,457	6,219	5,465	5,488
Long-Term Debt	3,277	2,781	2,502	2,327	2,227
Other Non-Current Liabilities	5,023	4,278	4,740	5,026	5,311
Total Liabilities	21,525	20,047	19,665	18,818	18,909
Total Equity	21,744	20,472	22,675	24,682	26,600
Total Equity & Liabilities	43,269	40,519	42,341	43,500	45,510

* For full definitions of iQmethodSM measures, see page 11.

Company Description

Coca-Cola (KO) is the world's biggest brand and largest manufacturer of soft-drink concentrate and syrups. It enjoys a 50% share of the world's carbonated soft drink (CSD) market (and 44% share of the US market). KO continues to grow its portfolio of non-CSD brands as consumers' diets shift. Over 75% of its profits are derived outside of the US. Key US brands include Coca-Cola trademark, Sprite, Fanta, Minute Maid, Powerade, Dasani and Nestea.

Investment Thesis

We expect Coca-Cola to benefit from its portfolio mix improvements both through innovation and acquisition, attractive exposure to emerging markets and a weak dollar, focused management on turning problem markets, and an increasing eye on costs. Its wholly owned bottler division is slowly turning around and providing Coke with divestiture opportunities. Strong balance sheet flexibility should allow it to boost returns to shareholders or make opportunistic acquisitions for the long term.

Stock Data

Average Daily Volume 12,710,872

Quarterly Earnings Estimates

	2008	2009
Q1	0.67A	0.65A
Q2	1.01A	0.92A
Q3	0.83A	0.82A
Q4	0.64A	0.64E

Worldwide growth of 2%. Volume growth of 2% was below our 3% est, as weakness in NA (partially due to the July 4th shift), Europe and Eurasia/Africa offset strength in LatAm, the Pacific and Bottling Investment Group.

Comparable sales rose 3%. Reported net revenue of \$8.04bn fell 4.2%, hurt by FX (-6pts) and structural factors (-1pt), partially offset by shipment growth (+2pts) and favorable price/mix (+1pt). As such, currency-neutral, comparable revenue rose ~3% in 3Q and ~5% YTD, in-line with KO long-term targets.

Comparable operating profits rose 9%. KO's reported operating income fell 1.6% to \$2.20bn, slightly below our estimates, hurt by 11pts of currency. Currency-neutral profit growth of 9% was similarly ahead of its long term targets (6-8%). Mgmt expects a low-to-mid single-digit FX *tailwind* in 4Q09 profits, the first benefit from currency since 3Q08.

Operating margin expanded 70bps. Despite a slight miss in revenues and profits, Coke's underlying operating margin expanded 70bps to 27.3% in 3Q09 as productivity and media savings offset higher pension costs. SG&A saw 120bps of positive leverage. Its segment-only margin expanded by 120bps; and BIG margin improved a similar 120bps.

Negative leverage in 4Q. Mgmt again noted that 6 fewer shipping days in 4Q09 is likely to result in negative leverage. We forecast full year currency-neutral profit growth of 7% ex 10pts of negative FX), in-line with LT guidance of +6-8%.

Underlying EPS fell 1% to \$0.82. A slight profit miss (vs. our ests.) was partially offset by a lower tax rate and lower net interest expense. The timing of the share repurchase pushes the benefit to 4Q, and as such we expect a full \$1bn repurchases to provide below the line leverage next quarter.

Quarterly financial summary

Table 1: 3Q09 Variance Table

Dollars in millions	3Q08	3Q09E	3Q09A	Var to BAS-ML est	YoY Chng
Unit Case Volume Growth					
North America	-2%	1%	-4%	-500bps	-200bps
Latin America	8%	5%	7%	200bps	-100bps
Europe Group	3%	1%	-2%	-300bps	-500bps
Eurasia & Africa	9%	5%	2%	-300bps	-700bps
Pacific	7%	5%	6%	100bps	-100bps
Bottling investment group (BIG)	7%	-1%	4%	500bps	-300bps
Worldwide Volume Growth	5%	3%	2%	-100bps	-300bps
Worldwide Gallon Shipments	3%	5%	2%	-300bps	-100bps
International Volume Growth	7%	4%	4%	0bps	-300bps
Net sales (\$mn)					
North America	\$2,135	\$2,252	\$2,112	(\$140)	-1.1%
Latin America	\$989	\$931	\$960	\$29	-2.9%
Europe Group	\$1,249	\$1,173	\$1,137	(\$36)	-9.0%
Eurasia & Africa	\$540	\$551	\$465	(\$86)	-13.9%
Pacific	\$1,192	\$1,270	\$1,182	(\$88)	-0.8%
Segment revenue ex BIG	\$6,105	\$6,177	\$5,856	(\$321)	-4.1%
Corporate	\$34	\$35	\$12	(\$23)	-64.7%
Bottling investments (BIG)	\$2,254	\$1,941	\$2,176	\$235	-3.5%
Total Revenue	\$8,393	\$8,153	\$8,044	(\$109)	-4.2%
Underlying Operating Income (\$mn)					
North America	\$398	\$447	\$435	(\$12)	9.3%
Latin America	\$560	\$480	\$557	\$77	-0.5%
Europe Group	\$796	\$759	\$776	\$17	-2.5%
Eurasia & Africa	\$180	\$189	\$184	(\$5)	2.2%
Pacific	\$491	\$513	\$443	(\$70)	-9.8%
Segment op inc ex BIG	\$2,425	\$2,388	\$2,395	\$7	-1.2%
Corporate	(\$269)	(\$212)	(\$298)	(\$86)	10.8%
Bottling investments (BIG)	\$78	\$79	\$101	\$22	29.5%
Total operating income	\$2,234	\$2,255	\$2,198	(\$57)	-1.6%
Underlying Operating Margin					
North America	18.6%	19.8%	20.6%	80bps	200bps
Latin America	56.6%	51.6%	58.0%	640bps	140bps
Europe Group	63.7%	64.7%	68.2%	350bps	450bps
Eurasia & Africa	33.3%	34.2%	39.6%	530bps	620bps
Pacific	41.2%	40.4%	37.5%	-290bps	-370bps
Segment op margin	39.7%	38.7%	40.9%	220bps	120bps
Segment + corp op margin	35.1%	35.0%	35.7%	70bps	60bps
BIG margin	3.5%	4.1%	4.6%	60bps	120bps
Total op margin	26.6%	27.7%	27.3%	-30bps	70bps
Underlying Income Statement (\$mn)					
Sales	\$8,393	\$8,153	\$8,044	(\$109)	-4.2%
COGS	\$3,020	\$2,849	\$2,934	\$85	-2.8%
Gross Profit	\$5,373	\$5,305	\$5,110	(\$195)	-4.9%
SG&A	\$3,139	\$3,049	\$2,912	(\$137)	-7.2%
<i>SG&A as % of rev</i>	<i>37.4%</i>	<i>37.4%</i>	<i>36.2%</i>	<i>-120bps</i>	<i>-120bps</i>
Underlying Operating Income	\$2,234	\$2,255	\$2,198	(\$57)	-1.6%
Interest Income	\$105	\$104	\$67	(\$37)	-36.2%
Interest Expense	(\$111)	(\$114)	(\$89)	\$25	-19.8%
Underlying Equity Income	\$275	\$297	\$288	(\$9)	4.7%
Other income/loss (net)	(\$24)	\$0	\$23	\$23	-195.8%
Underlying Pre-Tax Income	\$2,479	\$2,542	\$2,487	(\$55)	0.3%
Underlying Taxes	\$545	\$597	\$542	(\$55)	-0.6%
Tax Rate	22.0%	23.5%	21.8%	-170bps	-20bps
Less: NI to non-controlling interests	-	(\$12)	(\$24)	(\$12)	NM
Underlying Net Income/Loss	\$1,934	\$1,933	\$1,921	(\$12)	-0.7%
Fully diluted shares (000)	2,329	2,318	2,332	14	0.1%
EPS - Underlying	\$0.83	\$0.83	\$0.82	(\$0.01)	-0.8%
EPS GAAP Reported	\$0.81	\$0.83	\$0.81	(\$0.02)	0.2%

Source: Company Reports, BofA Merrill Lynch Global Research

3Q09 Highlights

Overall, Coke reported a decent quarter with EPS 1c below our estimate and 1c ahead of consensus. While volumes were below expectations, largely driven by a shortfall in North America and Europe vs. our forecasts, Coke remains on track to meet its long-term target of 6-8% currency-neutral operating profit growth.

Though margins expanded materially YoY, Coke continues to invest behind its brands during the global economic crisis. We see positive bottler relationships here, and an improving global economic outlook could ultimately fuel better volume results expectations next year. Our consolidated 2009 volume estimate now rounds to 2% from 3%, and we maintain our 3% growth forecast in 2010.

Importantly however, the health of the consumer in KO's developed markets – North America, Europe and Japan – remain critical to watch as slower than expected trends could hurt both volumes (North America) and profits (Europe, Japan). We see international growth as favorable however while increasing flexibility through cost savings could drive EPS beats in the near term.

As mentioned, 3Q09 net revenue of \$8.04bn fell 4.2% hurt by currency (-6pts) and bottling divestures (-1pt), partially offset by shipment growth (+2pts) and price/mix (+1pt). Currency-neutral, comparable sales (ex structural impact of bottler divestures) rose 3% in 3Q and 5% YTD, in-line with KO long-term targets. Reported operating income fell 1.6% to \$2.20bn, hurt by 11pts of currency. Operating profit margins expanded YoY in all regions except the Pacific (reflecting channel and country mix). For 4Q09, management is forecasting a low-to-mid single-digit FX tailwind, the first benefit from currency since 3Q08.

Raising 2009 slightly for FX and tax; boosting 2010 on several factors

We are boosting our 2009 EPS to \$3.04 from \$3.02, implying 4Q09 EPS of \$0.64, and remain below consensus. The reason for this view is likely due to fewer shipping days in 4Q and resulting negative leverage. We believe investors are looking forward to 2010 however – we are raising our above-consensus 2010 EPS estimates from \$3.40 to \$3.44, reflecting favorable currency, improved segment margins offset by ongoing reinvestment. We see further upside from currency should the dollar move lower, from taxes should international growth perform better than expected, and from margins given flexibility in solid cost savings programs.

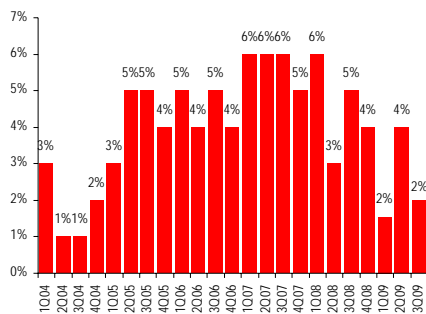
Boosting our 12mo price objective to \$62 from \$60

We are raising our price objective to \$62 from \$60. Our target is based on a long term discounted net free cash flow model (including a 9% weighted average cost of capital, 6.5% net operating profit growth and 2% long term secular growth). Our target is also based on a forward P/E of 18x our revised 2010 EPS estimate, which represents (i) a flat multiple from here (though up 50bps from our last evaluation); and (ii) a near 20% premium to the market multiple in 2010 (below its 10 and 20 year average near 20-40%). We believe that KO's brand strength, global diversification and solid execution should continue to stand out among staples peers.

Regional Highlights

- **NA volumes hurt by holiday shift and price competition.** Total North American volumes fell 4% in 3Q09, reflecting in part the shift of the July 4th holiday into 2Q (we estimate near 2pts), “aggressive competitive pricing environment within still beverages” and the “continuing difficult macro

Table 2: KO Quarterly Global Volume Growth



Source: Company Reports

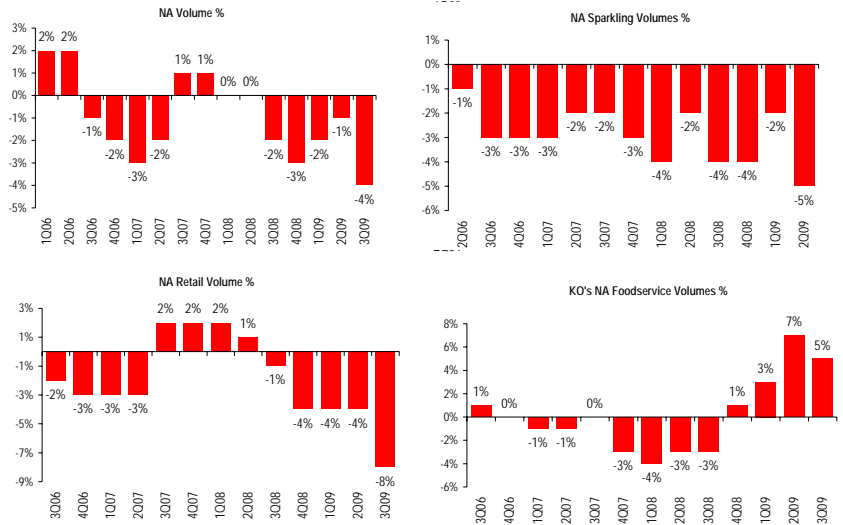
Table 3: 3Q09 currency-neutral rev & profit

	YoY
Reported Revenue	-4%
Structural impact (bottler div)*	-1%
Currency	-6%
Currency-neutral underlying revenue	3%
Underlying op profit	-2%
Currency	-11%
Currency-neutral underlying profits	9%

Source: Company Reports

environment.” Retail bottle and can volumes fell 8% (decelerating from -4% in 2Q), while Foodservice volumes grew 5% (slightly off the 7% growth reported in 2Q09). Sparkling volumes fell 5% (vs. -2% in 2Q), in part due to the holiday shift as well as reflecting sharp pricing from Labor Day 2008. Its still beverage volumes were flat (lapping a similar +0% in 3Q08), reflecting high-teens declines in case pack water and the competitive pricing in other beverages (i.e. sports drinks, enhanced water).

Chart 1: North American Volume Trends



Source: Company reports

Coca-Cola referred to lower incentive compensation expenses in the quarter. While this implies some missed internal targets, we understand that the reversal of accrued long-term incentive compensation reflected a shortfall in meeting such targets at the corporate level, which includes the negative impact from currency. On a currency-neutral basis and across the regions, long-term targets appeared to have been met.

In 3Q09, North American net revenues fell 1.1% to \$2.11bn, reflecting concentrate shipment declines of 3% partially offset by 1-2% of price/mix. Price/mix in the quarter reflected positive pricing in sparkling (based on its incidence-based pricing model), offset by negative mix from declines in case pack water and growth in (lower priced, lower margin) fountain beverages. Regional profits jumped 9.3% however to \$435mn, reflecting lower commodity costs, productivity initiatives and cost controls. Operating margins in North America increased by an impressive 200bps to 20.6%.

Read through to Coca-Cola Enterprises. CCE's shares slipped 2.8% on Tuesday following KO's lower than expected North American results. (Recall that North America is <20% of KO's profits but >70% of CCE's profits). Our 3Q09 volume forecast for CCE North America is 6%. It is not unusual to see CCE report volume growth below KO – in fact this is typically the case given KO's exposure to certain still categories and Foodservice.

- However, KO reported 3Q09 retail volumes down 8%, which could actually signal some downside to our NA volume number of -6%. (In 1H09, KO's retail volume trends were pretty close to CCE's reported North American volumes.)
- Our 3Q09 European volume estimate of 0% (flat) for CCE appears reasonable to conservative, as KO implied low-to-mid-single digit volume growth in France, Belgium and the Netherlands.

Regarding the potentially more competitive bottler environment in North America: KO's CEO remarked that "On this topic of customer governance, bottlers representing over 99% of U.S. volume have just signed a customer governance agreement for joint business planning and execution with large retail customers. This demonstrates how we are working with our system to create healthy value creating relationships with our customers. One theme, company and bottler, one face, one unified value story."

- We have modeled slower price growth in North America (+6%), though this may be optimistic if promotions heated up in non-measured channels into Labor Day. **Our 3Q09 EPS estimate for CCE remains at \$0.51, ahead of consensus.**

- **Latin American volumes remained strong.** Latin America grew volumes 7% (lapping +8% and accelerating from 6% in 2Q), beating our estimate and reflected +9% growth in Mexico; +11% in Latin Center Region; +3% in Argentina and Brazil; and +2% in Chile. Sparkling beverages in the region rose 4% (brand Coca-Cola up 5%) and still beverages increased by a strong 21%.

LatAm net revenues fell 2.9%, as negative double-digit currency was partially offset by +6% in concentrate shipments and double-digit positive price/mix. After four quarters of double digit currency hits and based on spot rates, we expect FX to be a slight tailwind in 4Q09. Operating profits fell a modest 0.5%, again largely due to the translational FX and some re-investment, partially offset by concentrate shipment growth and the positive price/mix. Margins expanded 140bps to 58% (vs. a 400bp contraction in 2Q). On a currency-neutral basis, the region's profits rose 18%.

- **The Pacific region hurt by country and channel mix.** KO's Pacific volumes rose +6% (cycling +7%), in-line with 2Q growth. Regional sparkling vols grew +5% (with trademark up +4%) and still beverages rose 8%. China enjoyed volume growth of +15% (similar to 14% in 2Q09), reflecting double-digit growth in trademark Sprite and Minute Maid, as well as mid single-digit growth in trademark Coke. By contrast, volumes in Japan fell 4% (vs. +2% growth in 2Q) due to "severe economic challenges as well as unfavorable weather." Although the country's economic environment is challenging, Coke has won share for six consecutive quarters. Given the high-priced and high-margin structure of Japan, a slowdown in Japan has an especially large impact on KO's profits. As such, the Pacific region again experienced negative mix, and will likely continue to do so in the near-term. Though included in KO's BIG group, volumes in the Philippines grew 5%, which is improvement over the -6% declines reported in 1H09, though reflected easier comparisons.

Pacific segment net sales were down 1% to \$1.18bn, reflecting +3% in concentrate shipments, positive mid single-digit currency, offset by negative country and channel mix (i.e. weakness in Japan's high margin vending channel). Operating income fell 10% to \$443mn, and margins contracted 370bps to 37.5%, again, reflecting the negative mix.

- **Europe Group volumes soft due to macro environment.** In 3Q09, volumes fell 2%, below our +1% forecast, driven by continued weakness in Eastern Europe and Spain, and partially offset by strength in Northwest Europe and low-to-mid single-digit growth in Belgium, Netherlands, France and Italy. Importantly, German volume rose +1% (rebounding from -3% in 2Q). Management noted that KO gained share in all key markets, despite strong competitive pressure from b-brands and private label.

KO's underlying European net revenue fell 9% in 3Q09, reflecting a double digit FX hit and -1% in concentrate shipments, partially offset by positive price/mix. Underlying profits slipped 2.5%, weakened by currency (-13pts) but partially offset by favorable expense controls. Comparable currency-neutral profit grew 7%.

No to Beer and Soft Drink combination: CEO Muhtar Kent maintained his view that combining beer and soft drink assets would have limited benefits, remarking "you are talking about a different consumer, different consumption pattern, different regulations. I think it is absolutely important to keep those strategic functions dedicated to each side and that's been my view on it and that remains my view on it."

See Chart 2 for a closer look at regional and country volume trends.

Of the BRIC countries, Russia continues to struggle the most. Brazil, India and China posted +3%, +37% and +15% volume growth respectively in the quarter; a sharp contrast to Russia's -18% volume decline, worse than the -9% in 2Q09.

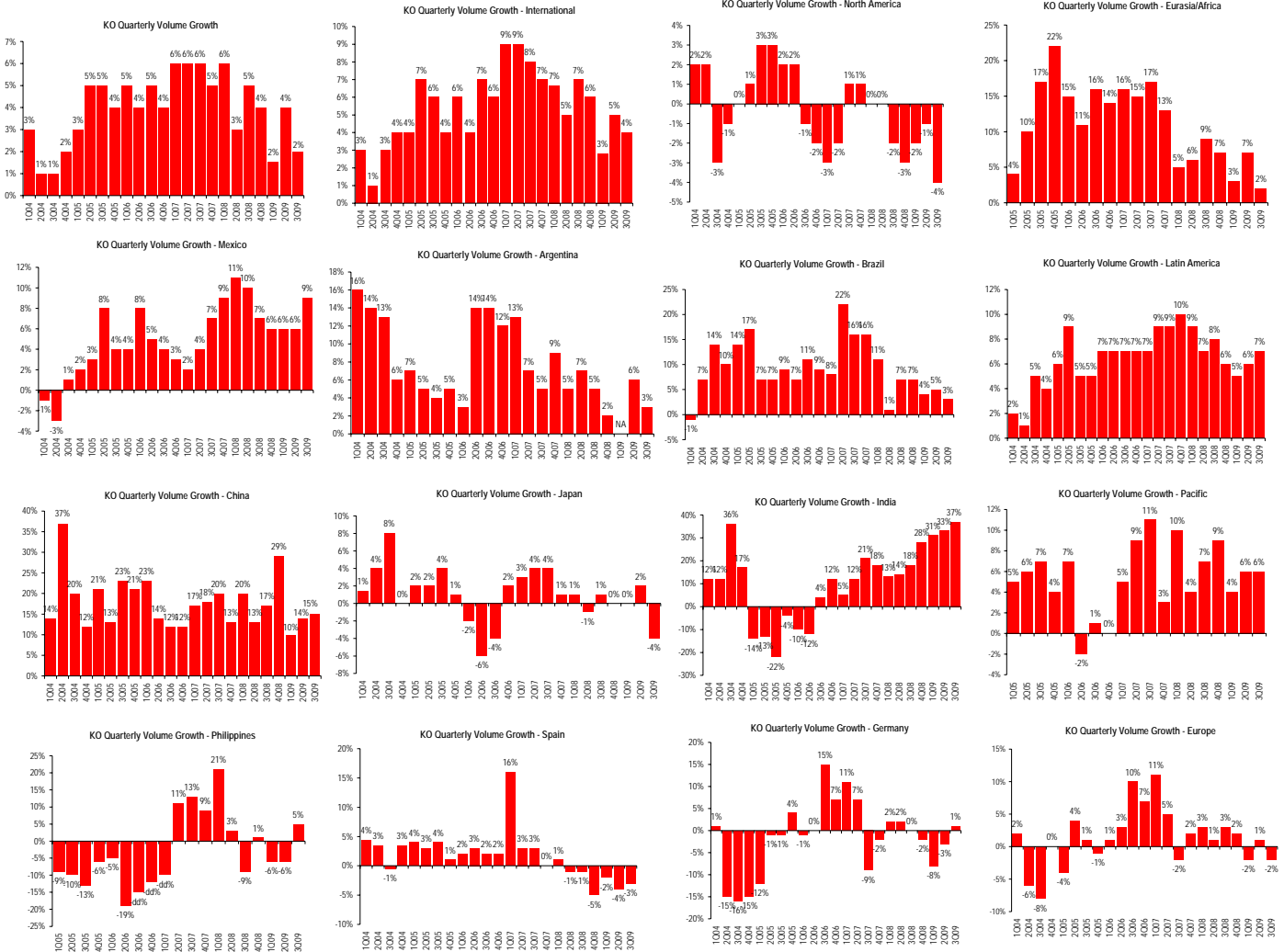
- **Eurasia & Africa region weighed down by Russia.** The Eurasia & Africa segment posted +2% volume growth, reflecting stellar +37% growth in India; +11% in East and Central Africa; +9% in North and West Africa; partially offset by an 18% decline in Russia (decelerating from -9% in despite easier volume comps) and -1% in Turkey (though cycling vols up double digits). Regional sparkling volumes rose +1% and still beverages increased +7%.

In 3Q09, the Eurasia & Africa region's net sales fell 14% driven by double digit FX and negative price/mix, partially offset by +6% concentrate shipments. Operating profits rose 2.2%, largely due to expense management and concentrate growth.

- **Bottler Investment Group (BIG) volumes grew in 3Q.** In 3Q09, BIG's unit case volume grew 4%, better than our expectations, reflecting strength in China, India and the Philippines, partially offset by the divestiture of the Pakistan bottler. Net revenues fell 3.5% given negative FX and divestitures, partially offset by volume growth. Underlying operating income jumped 29.5%, reflecting favorable commodity costs and tight expense management. BIG's operating margin rose 120bps to 4.6%.

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Chart 2: Coca-Cola - Selected quarterly regional volume performance



Source: Company Reports. Volumes for Spain are estimated in 1H09.

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Table 4: Quarterly Income Statement and Forecasts

Dollars in millions	Quarterly								Annual								
	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09E	1Q10E	2Q10E	3Q10E	4Q10E	2007	2008	2009E	2010E	2011E
Unit Case Volume Growth																	
North America	0%	0%	-2%	-3%	-2%	-1%	-4%	-2%	0%	0%	1%	1%	-1%	-1%	-2%	1%	1%
Latin America	9%	7%	8%	6%	5%	6%	7%	7%	5%	5%	4%	4%	9%	8%	6%	5%	3%
Europe Group	3%	1%	3%	2%	-2%	1%	-2%	0%	3%	2%	2%	3%	5%	2%	-1%	3%	3%
Eurasia & Africa	5%	6%	9%	7%	3%	7%	2%	3%	6%	3%	5%	5%	12%	7%	4%	5%	5%
Pacific	10%	4%	7%	9%	4%	6%	6%	5%	6%	5%	5%	6%	7%	8%	5%	6%	5%
Bottling investment group (BIG)	40%	16%	7%	-1%	-4%	-3%	4%	4%	4%	4%	3%	4%	64%	16%	0%	4%	4%
Worldwide	6%	3%	5%	4%	2%	4%	2%	3%	4%	3%	3%	4%	6%	4%	2%	3%	3%
Worldwide Gallon Shipments	5%	3%	3%	4%	7%	3%	2%	0%	0%	4%	4%	6%	6%	4%	3%	3%	3%
International Volume Growth	7%	5%	7%	6%	3%	5%	4%	4%	5%	4%	4%	4%	8%	6%	4%	4%	4%
Net sales																	
North America	\$1,884	\$2,240	\$2,135	\$1,946	\$2,044	\$2,173	\$2,112	\$1,959	\$2,020	\$2,218	\$2,209	\$2,058	\$7,761	\$8,205	\$8,288	\$8,506	\$8,806
Latin America	\$844	\$897	\$989	\$893	\$828	\$861	\$960	\$1,020	\$973	\$986	\$1,081	\$1,135	\$3,069	\$3,623	\$3,669	\$4,175	\$4,424
Europe Group	\$1,123	\$1,444	\$1,249	\$969	\$980	\$1,211	\$1,137	\$1,046	\$1,153	\$1,475	\$1,249	\$1,101	\$4,447	\$4,785	\$4,374	\$4,939	\$5,199
Eurasia & Africa	\$520	\$601	\$540	\$474	\$458	\$546	\$465	\$508	\$326	\$332	\$351	\$454	\$1,941	\$2,135	\$1,977	\$2,262	\$2,459
Pacific	\$913	\$1,227	\$1,192	\$1,026	\$1,046	\$1,235	\$1,182	\$1,024	\$1,056	\$1,297	\$1,338	\$1,126	\$3,997	\$4,358	\$4,487	\$4,817	\$5,081
Segment revenue ex BIG	\$5,284	\$6,409	\$6,105	\$5,308	\$5,356	\$6,026	\$5,856	\$5,558	\$5,528	\$6,307	\$6,229	\$5,875	\$21,215	\$23,106	\$22,796	\$24,699	\$25,970
Corporate	\$28	\$29	\$34	\$16	\$17	\$35	\$12	\$16	\$18	\$36	\$12	\$17	\$72	\$107	\$80	\$83	\$85
Segment rev + corp	\$5,312	\$6,438	\$6,139	\$5,324	\$5,373	\$6,061	\$5,868	\$5,574	\$5,546	\$6,343	\$6,241	\$5,892	\$21,287	\$23,213	\$22,876	\$24,782	\$26,055
Bottling investments (BIG)	\$2,067	\$2,608	\$2,254	\$1,802	\$1,796	\$2,206	\$2,176	\$1,713	\$1,868	\$2,294	\$2,263	\$1,781	\$7,570	\$8,731	\$7,891	\$8,206	\$8,452
Total Revenue	\$7,379	\$9,046	\$8,393	\$7,126	\$7,169	\$8,267	\$8,044	\$7,287	\$7,413	\$8,638	\$8,504	\$7,673	\$28,857	\$31,944	\$30,767	\$32,988	\$34,508
Underlying Operating Income																	
North America	\$326	\$461	\$398	\$455	\$433	\$463	\$435	\$419	\$432	\$479	\$440	\$473	\$1,719	\$1,640	\$1,750	\$1,824	\$1,915
Latin America	\$506	\$531	\$560	\$503	\$454	\$472	\$557	\$544	\$536	\$544	\$631	\$609	\$1,753	\$2,100	\$2,027	\$2,319	\$2,471
Europe Group	\$735	\$1,016	\$796	\$628	\$692	\$862	\$776	\$657	\$791	\$1,014	\$899	\$709	\$2,808	\$3,175	\$2,987	\$3,413	\$3,624
Eurasia & Africa	\$227	\$269	\$180	\$159	\$207	\$246	\$184	\$165	\$237	\$290	\$211	\$187	\$704	\$835	\$802	\$924	\$1,014
Pacific	\$388	\$604	\$491	\$375	\$456	\$594	\$443	\$354	\$457	\$620	\$515	\$412	\$1,702	\$1,858	\$1,847	\$2,003	\$2,132
Segment op inc ex BIG	\$2,182	\$2,881	\$2,425	\$2,120	\$2,242	\$2,637	\$2,395	\$2,139	\$2,453	\$2,947	\$2,695	\$2,389	\$8,686	\$9,608	\$9,413	\$10,484	\$11,137
Corporate	(\$247)	(\$266)	(\$269)	(\$352)	(\$283)	(\$275)	(\$298)	(\$302)	(\$283)	(\$275)	(\$298)	(\$302)	(\$1,366)	(\$1,182)	(\$1,158)	(\$1,158)	(\$1,100)
Segment/corp ex Cobo's	\$1,935	\$2,615	\$2,156	\$1,768	\$1,959	\$2,362	\$2,097	\$1,837	\$2,170	\$2,672	\$2,397	\$2,087	\$7,320	\$8,426	\$8,255	\$9,326	\$10,037
Bottling investments (BIG)	\$17	\$161	\$78	\$46	(\$4)	\$148	\$101	\$57	\$5	\$172	\$123	\$68	\$200	\$302	\$302	\$368	\$422
Total operating income	\$1,952	\$2,776	\$2,234	\$1,814	\$1,955	\$2,510	\$2,198	\$1,894	\$2,175	\$2,844	\$2,520	\$2,155	\$7,520	\$8,728	\$8,557	\$9,694	\$10,459
Underlying Operating Margin																	
North America	17.3%	20.6%	18.6%	23.4%	21.2%	21.3%	20.6%	21.4%	21.4%	21.6%	19.9%	23.0%	22.1%	20.0%	21.1%	21.4%	21.7%
Latin America	60.0%	59.2%	56.6%	56.3%	54.8%	54.8%	58.0%	53.3%	55.1%	55.1%	58.3%	53.6%	57.1%	58.0%	55.2%	55.5%	55.9%
Europe Group	65.4%	70.4%	63.7%	64.8%	70.6%	71.2%	68.2%	62.8%	68.6%	68.8%	72.0%	64.4%	63.1%	66.4%	68.3%	69.1%	69.3%
Eurasia & Africa	43.7%	44.8%	33.3%	33.5%	45.2%	45.1%	39.6%	32.5%	72.6%	87.4%	60.0%	41.2%	36.3%	39.1%	40.6%	40.8%	41.2%
Pacific	42.5%	49.2%	41.2%	36.5%	43.6%	48.1%	37.5%	34.5%	43.3%	47.8%	36.5%	36.5%	42.6%	42.6%	41.2%	41.6%	42.0%
Segment op margin	41.3%	45.0%	39.7%	39.9%	41.9%	43.8%	40.9%	38.5%	44.4%	46.7%	43.3%	40.7%	40.9%	41.6%	41.3%	42.4%	42.9%
Segment + corp op margin	36.4%	40.6%	35.1%	33.2%	36.5%	39.0%	35.7%	33.0%	39.1%	42.1%	38.4%	35.4%	34.4%	36.3%	36.1%	37.6%	38.5%
YoY margin change	1.4%	1.7%	2.7%	2.2%	0.0%	-1.6%	0.6%	-0.2%	2.7%	3.1%	2.7%	2.5%	0.5%	1.9%	-0.2%	1.5%	0.9%
BIG margin	0.8%	6.2%	3.5%	2.6%	-0.2%	6.7%	4.6%	3.3%	0.3%	7.5%	5.4%	3.8%	2.6%	3.5%	3.8%	4.5%	5.0%
Total op margin	26.5%	30.7%	26.6%	25.5%	27.3%	30.4%	27.3%	26.0%	29.3%	32.9%	29.6%	28.1%	26.1%	27.3%	27.8%	29.4%	30.3%
Underlying Income Statement																	
Sales	\$7,379	\$9,046	\$8,393	\$7,126	\$7,169	\$8,267	\$8,044	\$7,287	\$7,570	\$8,890	\$8,745	\$7,782	\$28,857	\$31,944	\$30,767	\$32,988	\$34,508
COGS	\$2,624	\$3,162	\$3,020	\$2,568	\$2,590	\$2,913	\$2,934	\$2,514	\$2,549	\$3,077	\$3,147	\$2,630	\$10,392	\$11,374	\$10,951	\$11,403	\$11,828
Gross Profit	\$4,755	\$5,884	\$5,373	\$4,558	\$4,579	\$5,354	\$5,110	\$4,772	\$5,021	\$5,813	\$5,599	\$5,152	\$18,465	\$20,570	\$19,815	\$21,585	\$22,680
SG&A	\$2,803	\$3,108	\$3,139	\$2,744	\$2,624	\$2,844	\$2,912	\$2,879	\$2,847	\$2,970	\$3,078	\$2,997	\$10,945	\$11,794	\$11,259	\$11,891	\$12,221
SG&A as % of rev	38.0%	34.4%	37.4%	38.5%	36.6%	34.4%	36.2%	39.5%	37.6%	33.4%	35.2%	38.5%	37.9%	36.9%	36.6%	36.0%	35.4%
Underlying Operating Income	\$1,952	\$2,776	\$2,234	\$1,814	\$1,955	\$2,510	\$2,198	\$1,894	\$2,175	\$2,844	\$2,520	\$2,155	\$7,520	\$8,776	\$8,557	\$9,694	\$10,459
Interest Income	\$65	\$69	\$105	\$94	\$60	\$57	\$67	\$73	\$61	\$58	\$68	\$75	\$236	\$333	\$257	\$262	\$264
Interest Expense	(\$117)	(\$89)	(\$111)	(\$121)	(\$85)	(\$97)	(\$89)	(\$143)	(\$84)	(\$106)	(\$98)	(\$121)	(\$456)	(\$438)	(\$414)	(\$409)	(\$411)
Underlying Equity Income	\$132	\$289	\$275	\$116	\$69	\$320	\$288	\$128	\$75	\$346	\$311	\$138	\$818	\$812	\$805	\$869	\$938
Other income/loss (net)	(\$11)	(\$22)	(\$24)	(\$6)	(\$13)	\$20	\$23	\$0	\$0	\$0	\$0	\$0	\$156	(\$63)	\$30	\$0	\$0
Underlying Pre-Tax Income	\$2,021	\$3,023	\$2,479	\$1,897	\$1,986	\$2,810	\$2,487	\$1,951	\$2,227	\$3,142	\$2,802	\$2,246	\$8,064	\$9,420	\$9,234	\$10,416	\$11,250
Underlying Taxes	\$445	\$665	\$545	\$418	\$464	\$658	\$542	\$458	\$523	\$738	\$658	\$528	\$1,774	\$2,073	\$2,122	\$2,448	\$2,644
Tax Rate	22.0%	22.0%	22.0%	22.0%	23.4%	23.4%	21.8%	23.5%	23.5%	23.5%	23.5%	23.5%	22.0%	22.0%	23.0%	23.5%	23.5%
Less: NI to noncontrolling interests	-	-	-	-	(11)	(12)	(24)	(12)	(12)	(14)	(27)	(14)	-	-	(59)	(67)	(73)
Underlying Net Income/Loss	\$1,576	\$2,358	\$1,934	\$1,479	\$1,511	\$2,140	\$1,921	\$1,481	\$1,691	\$2,390	\$2,116	\$1,705	\$6,290	\$7,347	\$7,053	\$7,902	\$8,533
Fully diluted shares (000)	2,351	2,344	2,329	2,321	2,319	2,323	2,332	2,314	2,310	2,302	2,295	2,287	2,331	2,336	2,322	2,299	2,268
EPS - Underlying	\$0.67	\$1.01	\$0.83	\$0.64	\$0.65	\$0.92	\$0.82	\$0.64	\$0.73	\$1.04	\$0.92	\$0.75	\$2.70	\$3.14	\$3.04	\$3.44	\$3.76
Gain/(Charge) per share	(\$0.03)	(\$0.40)	(\$0.02)	(\$0.21)	(\$0.07)	(\$0.04)	(\$0.01)	(\$0.00)	\$0.00	\$0.00	\$0.00	\$0.00	(\$0.13)	(\$0.66)	(\$0.13)	\$0.00	\$0.00
EPS GAAP Reported	\$0.64	\$0.61	\$0.81	\$0.43	\$0.58	\$0.88	\$0.81	\$0.64	\$0.73	\$1.04	\$0.92	\$0.75	\$2.57	\$2.49	\$2.91	\$3.44	\$3.76
EBITDA - Underlying	\$2,259	\$3,106	\$2,540	\$2,099	\$2,290	\$2,870	\$2,532	\$2,205	\$2,551	\$3,248	\$2,895	\$2,504	\$8,683	\$10,004	\$9,898	\$11,199	\$12,077

Source: BofA - Merrill Lynch Global Research, Company reports

Price objective basis & risk Coca-Cola (KO)

Our price objective for Coca-Cola is \$62, based on a discounted net free cash flow analysis using a net operating profit growth of 6.5 percent, terminal growth of 2 percent and a discount rate of 9 percent. This implies a forward P/E of 18x our 2010 EPS estimate of \$3.44. Note that this implied premium of near 20 percent vs the current market multiple is at the low end of its 10 and 20yr averages of 20 and 40 percent respectively. We believe that its bellwether status and strong execution should continue to support a premium to its beverage peers as well. Favorable pricing, improving operating leverage, strong emerging market exposure and a flexible balance sheet should allow for low double digit EPS growth over the next few years. Risks to achieving our price objective: multiple contraction in the consumer staples and/or beverage group: accelerated shifts away from carbonated soft drinks: weaker global macroeconomic trends or a strong dollar: brand weakness or share losses for a prolonged period: excessively poor weather in key selling seasons and deteriorating bottler relations.

Analyst Certification

I, Christine Farkas, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US-Tobacco and Beverages Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
BUY				
	Altria Group	MO	MO US	Christine Farkas, CFA
	Coca-Cola	KO	KO US	Christine Farkas, CFA
	Coca-Cola Ent.	CCE	CCE US	Christine Farkas, CFA
	Dr Pepper Snapple Group	DPS	DPS US	Christine Farkas, CFA
	Lorillard, Inc.	LO	LO US	Christine Farkas, CFA
	PepsiCo	PEP	PEP US	Christine Farkas, CFA
	Philip Morris International	PM	PM US	Christine Farkas, CFA
NEUTRAL				
	Cott	COT	COT US	Christine Farkas, CFA
	Molson Coors	TAP	TAP US	Christine Farkas, CFA
UNDERPERFORM				
	Constellation Brands	STZ	STZ US	Christine Farkas, CFA
	Reynolds American	RAI	RAI US	Christine Farkas, CFA
RSTR				
	Pepsi Bottling	PBG	PBG US	Christine Farkas, CFA

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iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings

Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense

Valuation Toolkit

Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

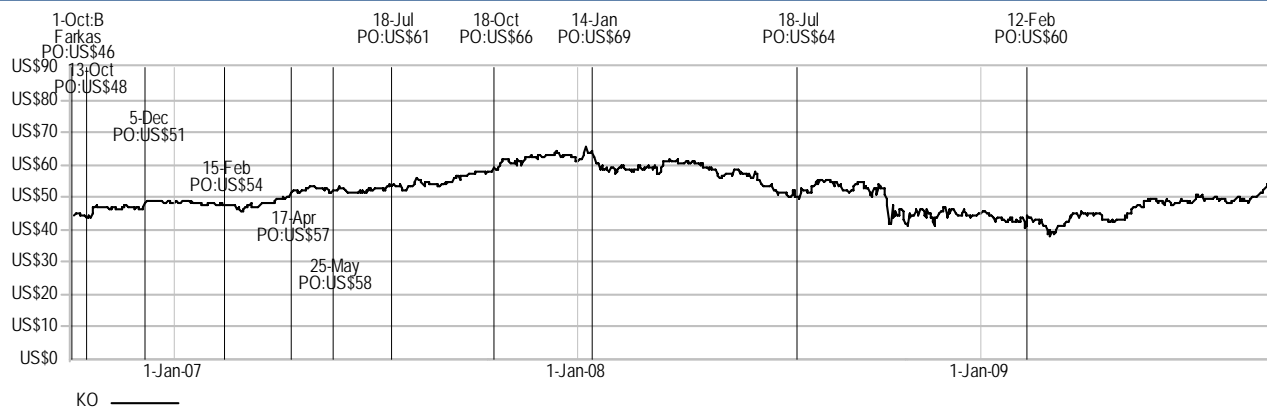
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iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BoFA Merrill Lynch.

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Important Disclosures

KO Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of September 30, 2009 or such later date as indicated.

BofAML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of September 30, 2009 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website.*

Investment Rating Distribution: Beverages - Soft Drinks Group (as of 01 Sep 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	9	50.00%	Buy	5	71.43%
Neutral	5	27.78%	Neutral	3	75.00%
Sell	4	22.22%	Sell	1	33.33%

Investment Rating Distribution: Global Group (as of 01 Sep 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1528	47.19%	Buy	740	53.86%
Neutral	815	25.17%	Neutral	436	60.39%
Sell	895	27.64%	Sell	378	45.99%

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofAML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofAML Comment referencing the stock.

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 The company is or was, within the last 12 months, an investment banking client of MLPF&S and/or one of its affiliates: Coca-Cola.
 MLPF&S or an affiliate has received compensation from the company for non-investment banking services or products within the past 12 months: Coca-Cola.
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