Equity Research

November 11, 2009

United States of America
Consumer
Beverages & Tobacco

Coca-Cola Co. (KO - US$ 55.81) 1-Overweight

Company Update

Michael J. Branca
1.212.526.4887
michael.branca@barcap.com
BCI, New York

Preview of "2020 Vision" Meeting

Investment Conclusion

- In this note we lay out key themes ahead of KO's investor meeting (11/16-11/17). KO will likely illustrate how global demographics and system investments set the stage for balanced (price & volume) growth through 2020--possibly implying a ~6% system wide revenue CAGR 2008-2020. Second, KO will likely touch upon key markets such as North America, China, and Japan. In North America, the emphasis will likely be on revenue (not volume), profit, and cash flow growth driven by increased package segmentation, additional productivity savings, and unified business planning. In China, KO will likely show the opportunity in a market with mid-teen category growth. In Japan, KO may paint a more challenged, but manageable road ahead in which it provides more value to consumers while taking costs out of the system. Third, KO will likely begin to address the efforts to generate savings on its $50 billion global supply chain--particularly in North America. Fourth, with improved system credit metrics and KO's own +$40 billion FCF potential over the next 5 years, we believe joint KO-bottler investments, minority stakes in emerging beverage companies, and increased cash returns to shareholders are all on the table.

EPS (US$) (FY Dec)

	2008	2009			2010			% Change	
	Actual	Old	New	St. Est.	Old	New	St. Est.	2009	2010
1Q	0.67A	0.65A	0.65A	0.65A	N/A	N/A	0.75E	-3%	N/A
2Q	1.01A	0.92A	0.92A	0.92A	N/A	N/A	1.04E	-9%	N/A
3Q	0.83A	0.82A	0.82A	0.82A	N/A	N/A	0.90E	-1%	N/A
4Q	0.64A	0.67E	0.67E	0.68E	N/A	N/A	0.73E	5%	N/A
Year	3.15A	3.06E	3.06E	3.07E	3.45E	3.45E	3.42E	-3%	13%
P/E			18.2			16.2			

Market Data

Market Cap (Mil.)	130149
Dividend Yield	3.03
52 Week Range	56.19 - 37.44

Financial Summary

Revenue TTM (Mil.)	30606.0

Stock Overview

Stock Rating

New: 1-Overweight
Old: 1-Overweight

Target Price

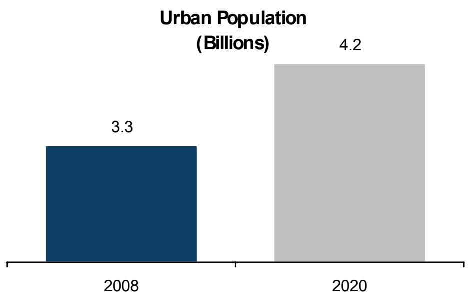
New: US$ 62.00
Old: US$ 62.00

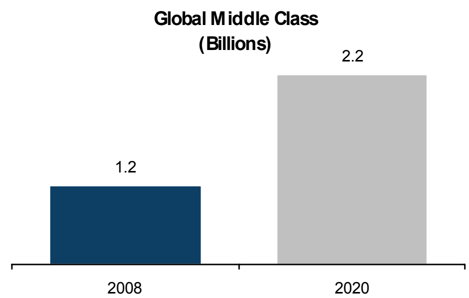
Sector View: 1-Positive

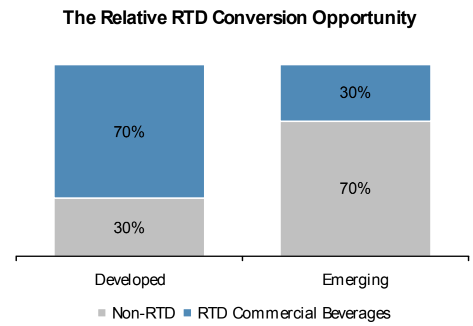
What to Do With the Stock: In our view, there has been increasing anticipation that next week's presentations will be favorable for both KO and CCE. Indeed, we believe the red system will likely spend a good deal of time reassuring the investment community that joint 2010 business planning in North America is well on track and that the future for the North American beverage system is supported by further supply chain savings, coordinated business planning, and the continued implementation of an incidence based pricing model. Some of that expectation, we believe, has been building in the stocks. Indeed, KO's stock has been strong of late and we do believe the meetings will be another positive data point. That said, the shares are likely to slowly grind up towards our $62 price target -- based on an 18x P/E multiple on our FY10 EPS estimate of $3.45. With CCE shares trading at a 6.2x EV/EBITDA multiple on our FY10 EBITDA estimate of $2.8 billion, we believe the Street will continue to have interest in the shares and would not be surprised to see the stock steadily drift toward the mid-point of our $20-$24 trading range.

The 2020 Vision: Throughout this year, management has begun to preview its vision of the business in 2020 and KO's analyst meeting will likely open with an expansive discussion on this operating framework. To be sure, we have seen glimpses of the opportunity in various management presentations; however this will be its official unveiling.

KO will likely discuss the key demographic trends which it believes underpins the growth opportunity through 2020; namely urbanization and middle class growth which will likely facilitate the conversion to commercial beverages. Indeed, management believes that 1 billion people will have entered the middle class between 2008 and 2020 and that as disposable consumer income rises, the propensity to consume commercial beverages does as well. While macro factors are interesting, the Street will be keen on why the Coke system is poised to capitalize on such economic growth.

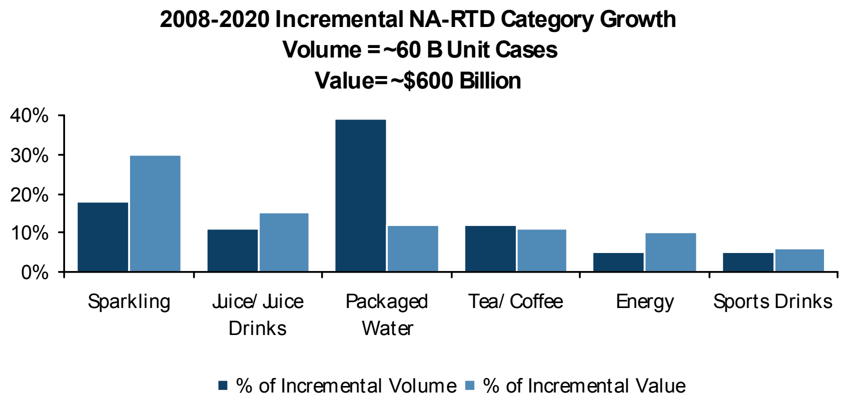






Source: KO Company Presentations, and Barclays Capital Estimates

In thinking about the category growth opportunities, we are enthusiasts of juice/juice drinks and teas, as they offer positive nutrient delivery systems to consumers. KO's investments around the world (aside from bottling operations in need of repair) also show a penchant for juice businesses –Jugos del Valle & Multon. While the volume opportunities are of interest, the incremental industry value pools will likely continue to be the company's focus. Here we see that sparkling beverages and juice/juice drinks are predicted to be among the largest incremental value drivers through 2020.

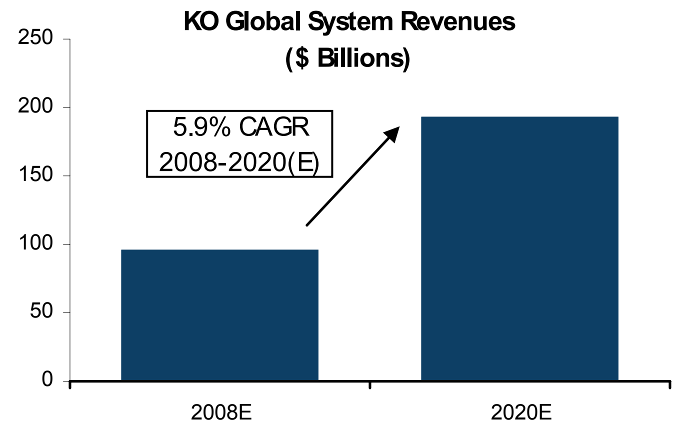


Source: KO Company Presentations, Barclays Capital Estimates

Given the disproportionate value growth anticipated in the sparkling and juice/juice drinks category, we believe KO will spend a significant amount of time talking about its efforts to position the global system to take advantage of such growth through 2020. Indeed, some of this positioning began in 2005 when the company invested an incremental $400 million in marketing spend to improve the brand equities of its core sparkling beverages. Since then, KO has also made efforts to build out its global juice portfolio. In 2005, the company jointly acquired the Multon juice business in Russia with Coca-Cola Hellenic for a total purchase price of $501 million (split equally) and KO also bought Sucos Mais, a Brazilian juice company that same year. Towards the end of 2006, KO and Coke FEMSA jointly acquired Jugos del Valle, the second largest producer of packaged juices in Mexico and the largest producer in Brazil, for approximately $380 million in cash. Subsequently, they have leveraged this business as a strong jumping off point to grow their non-CSD portfolio in Latin America. So, clearly

KO has been focused on juice & juice drinks globally, and we believe management will have more to say on this during the upcoming presentation.

In the context of an incremental 60 billion global unit case opportunity and a $600 billion global category revenue opportunity, management may very well look to quantify a revenue target for the red system by 2020. Assuming 2008 total red system revenues approached $100 billion dollars, a doubling of system revenues from 2008 to 2020 would equate to a roughly 6% revenue growth CAGR. We would note that this rate of growth coincides with the high end of KO's long term 5%-6% currency neutral revenue growth target.



Source: Barclays Capital Estimates, Company Presentations

The Franchise System: Having laid out the growth opportunities, we believe KO will spend more time talking about its role within the broader red system and its commitment to the franchise model that it has developed around the world. This commentary will likely be directly aimed at investors' questions around the red system's ability to compete with PepsiCo, post its bottler acquisitions, which free up significant funds for reinvestment around the globe and vertically integrate PepsiCo's beverage operations in important markets.

The end result of the PEP bottler acquisitions, in our view, creates a stronger competitor for the red system once the integration is complete. Indeed, we think that PepsiCo could well deliver ~$800 million in pre-tax cost savings (a portion of which, $500 million, will be reinvested) over three years with such productivity coming in a bar-bell like manner: $300 million, $200 million, $300 million. Then the question KO may look to answer is how does this impact the relationship with their bottlers and what will the red system do to compete? Not surprisingly, KO will likely maintain its position that the franchise model is still the best way to win in the marketplace, providing both global breadth/scale and local leadership.

We believe the red system's efforts to create a virtually integrated system will need to tackle key issues such as responsibility for hot-fill manufacturing, management/economics of the fountain business (Fountain Harmony), and better management of global sales relationships – not to mention supply chain, which is a whole other topic. Management could very well spend time highlighting its efforts to create a virtual unified system around the globe with programs such as the joint business plan and execution agreement KO has with bottlers representing 99% of its North American volume or its efforts to create a unified IT platform (Project OAisys) with Coke Amatil and other participating bottlers.

For investors, the issue will be whether or not they buy into the virtually integrated system concept. Our view is that this will be a tough sell. The Coca-Cola Company has made efforts to flatten its organization and speed the pace of decision making. In 2007, for instance, the company reduced its international offices from 117 to 50. That being said, there is much more to be done and the key word is "virtual." At the end of the day, while we believe a virtual one system approach is possible, it will likely take a long time to get there and there very well could be bumps in the road. Whereas KO's chief competitor will have attained a largely unified system in 2010. To be clear, we do not believe KO will move to buy-in its large anchor bottlers. Indeed, if they were to buy-in one, the investment community would fully expect the others to be brought in as well. This would be a significant hit to KO's margins and returns and not likely welcomed by the investment community. Rather, we believe investors want to see evidence and results from a virtually integrated system in the near term, not by 2020.

Looking even further out, there are a number of strategic questions institutional investors might ask as it relates to the global integrated red system. Particularly, will CCE participate in further structural change in the KO global bottling system? For example, CCE lacks high growth emerging market exposure, such as China and India. Those countries can offer a very sizable top-line opportunity and, over the longer term, good cash flow and earnings growth. Meanwhile, from a profit improvement perspective, we wonder what sort of cost savings opportunities exist for KO's European bottling system. At present, there are three major players: CCE (in Northwest Europe), Coca-Cola Hellenic, and KO themselves in Germany. One could posit that this represents an opportunity for further efficiency and effectiveness in this geography. While the margins and returns structure of CCE seem, in our opinion, unlikely to change dramatically, alterations to the company's global geographic footprint (exposure to faster growth markets and the like) could well alter the company's growth algorithm over time.

Supply Chain: Part and parcel of the global franchise discussion is KO's efforts in leading the drive to generate savings on the global supply chain. KO previously stated that they are well on track to achieve $500 million in annualized productivity savings by year-end 2011—half of which to be attained by year-end 2009. Importantly, these savings exclude those that could be derived from the $50 billion global red system supply chain. We believe KO and its bottlers will have to become much more aggressive in attacking this piece of the puzzle in order to compete effectively with their global CPG brethren. Indeed, PEP's recent agreement to join forces with Anheuser-Busch InBev (ABI) for the procurement of indirect services in the US (IT hardware, office supplies, travel and facility services, transportation, and maintenance, repair and operating supplies) shows that KO's competitors are thinking on an even broader scale than their own related party transactions. This, in our view, should add to KO, and frankly their bottlers', sense of urgency around taking a more inclusive global approach to productivity. While we expect that efforts to generate such savings with key anchor bottlers (such as a CCE) will be highlighted, frankly, we expect more, a lot more. As always, time will tell, but it seems that finally the spotlight is heading toward the $50 billion global Coke supply chain.

KO began talking about the $50 billion global supply chain in 2007 with a discussion of their supply chain vision built around a competitively advantaged, sustainable, demand driven, local & global network. Since then, the company has focused more on its own $500 million productivity program which it introduced in 2Q08. This program was part of an effort to take layers out of the management structure, concentrate marketing resources around fewer, bigger, and better global marketing campaigns, and optimize KO's own manufacturing, logistics, and warehousing operations.

That being said, the company has dwelled less on the $50 billion global supply chain. Ideally, investors would want a quantity and timeline for supply chain savings. Additionally, understanding the margin implications (gross margin & operating income) for KO would be of interest. That being said, given the complexity of this supply chain and the number of public entities involved, we would be surprised (albeit positively) if KO provided this type of information at the investor day.

Rather, we believe the company will make more of an effort to educate investors on its ongoing global supply chain efforts, the wins it has already recorded, and the future opportunities to take costs out of the system. Such a discussion may also include examples of regional supply chain operations such as the ongoing efforts in North America with Coca-Cola Supply (which currently targets $150 million in joint KO/CCE savings by 2011) and the past attempts at a joint production/procurement company in Japan. With regards to Japan, management may take the opportunity to discuss how the system evolved, what was learned from the mistakes and how difficulty with decision making around production eventually contributed to the dissolution of this entity. This type of background discussion may be the launching pad for how the company has taken lessons from the past and applied them to the future. Going forward, supply chain initiatives at KO could create a virtuous circle in which leaner, more efficient bottlers provide better execution, leading to improved top-line results for KO and, in turn, generating incremental funds to be reinvested back into marketing & brand building within the system.

While KO is unlikely to quantify the possible savings, in thinking about the $50 billion global supply chain, we note that a mere 5% savings on this pool of spending could yield $2.5 billion in annual aggregate red system savings. Cost savings opportunities are probably greatest in procurement, shared manufacturing/services, outsourcing, and IT systems. We believe the red system's late start on global supply chain initiatives unequivocally puts it at a competitive disadvantage, especially as PepsiCo finalizes the acquisition of its North American bottlers and joins forces with ABI on indirect procurement in the US. Motivated not by significant input cost inflation over the past few years, but rather a focus on building long-term structural competitive advantages, multinational companies like CL, PG, Nestle and PEP have seriously attacked their supply chain structures and--importantly--continue to do so. Now, if the joint PEP/ABI program proves successful in the US, there are likely opportunities to expand this procurement relationship around the globe.

Supply Chain & Distribution: Frankly, it's probably as good a time as any for Street discussions to evolve from just merging beer & soda on the same truck to a more sophisticated -- and admittedly difficult to execute -- global supply chain (where the real benefits have always been hidden).

We believe the opportunities for significant global supply chain savings meaningfully dwarf synergies derived from the combination of beer and soft drink distribution. Indeed, CEO Muhtar Kent has been consistent in his view for a very, very long time (3Q09 conference call): " If there are synergies in non-strategic areas like freight, warehousing, back office I think in this day and age you can't leave those on the table." We certainly believe that in specific markets opportunity for big benefits from soda/beer combinations exist. But, management stressed that at the front end, strategic functions need to remain separate: given the different consumer cohorts, buying patterns, regulations, product servicing, velocities, channels of distribution, price compliance et al.

The discussion around soda & beer on the same trucks has been around for a long time. To be sure, we think there is value to be extracted on a specific market by market basis. But, it's not like brewers around the world are clamoring to put Pepsi brands on their trucks. Instead, it seems that brewers are clamoring to get their brews on many Coke trucks because of KO's dominant market share & leading distribution prowess. But, given the rather low per capita consumption of non-alcoholic beverages in the vast majority of the markets around the world, it seems there is still plenty of room for growth for KO bottlers in the business that they already know and understand. Moreover, we think the time has come for the real conversation of how to extract the tremendous cost savings that KO global bottlers can generate from truly pooling the $50 billion supply chain. With high quality CPG companies already fully integrated and prospects now for the world's biggest beverage joint procurement system emerging, we wonder how long the system can ignore what seems to be a strategy whose time has come.

The Price & Volume Balance: Despite continued strong global currency neutral profit growth, the Street remains focused on volume growth as a key indicator for the business. Make no mistake, organic volume growth is the life blood of the business as it provides for long duration cash flows. However, we believe KO is in the process of aligning itself with its bottling partners around the globe with a focus on revenue, profits, and cash flow. During this period of positive re-alignment, we are not surprised to see some volatility in volumes, particularly in regions of the world (e.g. North America) where structural mistakes (lack of bottler CSD pricing, and packaging segmentation) are now in the process of being corrected. Indeed, this re-alignment has been particularly difficult in the context of a declining non-alcoholic ready-to-drink North American category.

North America

	1Q07A	2Q07A	3Q07A	4Q07A	1Q08A	2Q08A	3Q08A	4Q08A	1Q09A	2Q09A	3Q09A
YOY Unit Case Volume Growth	-3.0%	-2.0%	1.0%	1.0%	0.0%	0.0%	-2.0%	-3.0%	-2.0%	-1.0%	-4.0%
YOY Net Revenue Growth	1.2%	8.0%	19.4%	13.6%	13.2%	8.6%	-1.2%	3.8%	8.5%	-3.0%	-1.1%
YOY Operating Profit Growth	-10.6%	1.4%	20.1%	-1.7%	-6.1%	-7.8%	-13.5%	10.4%	32.8%	0.4%	9.3%

Source: Company Documents, Barclays Capital Estimates

We believe KO will spend a good deal of time discussing these bottler alignment initiatives with a particular focus on North America. In the process, we do not expect the company to back away from its long term 3%-4% unit case volume growth target. Rather, we expect the discussion to emphasize cash flow and profitability, as it drives greater global system alignment through a broader application of incidence based pricing and joint KO/bottler investment.

Some of the efforts to improve the North American system and restore growth have centered on improving the red system's product portfolio. Indeed, KO made its most significant moves in North America beginning in 2007 when it acquired Fuze and Glaceau. Since then, the company has also invested heavily in its Simply juice brand, which KO believes is on the path to be the next $1 billion brand. Additionally, KO has been successful using PowerAde as a flanker brand in the active lifestyle beverage category. At the end of the day, filling in the product portfolio white spaces and investing in non-CSD brands in North America was a strategic imperative given the continual decline of the CSD category.

However, while KO did do its part to help fill in the portfolio white spaces, it became clear that its relationship with CCE also needed to adapt to a North American liquid refreshment beverage category which declined in 2008 for the first time. Disagreements around brand execution, pricing, and volume growth targets seemed to come to a head in 3Q08. In the midst of a significant commodity cost spike, CCE initiated an additional price increase. In return, KO took an incremental concentrate price increase and partially withdrew funding from CCE. The result was a mutual drag on both companies' valuations, as the investment community saw the system's issues out in the public.

Realizing the situation to be untenable, CCE & KO made good progress on fixing some of their issues by the time the 4Q08 conference call came around. Indeed, KO & CCE agreed on an incidence based pricing model for 2009 along with the establishment of the Coca-Cola Supply Company. With these changes CCE management has clearly shifted to a focus on revenue and profit generation with less regard (but not disregard) for volume. Now, a key question for investors will likely be, is the focus on revenues and profits sustainable given the rate of volume decline? To be sure, some of the volume decline is contingent on the macroeconomic climate. But the days of 2%-3% LRB category growth are likely over and even when we see a recovery in the category we are not likely to see growth above annual population gains.

North America YOY Unit Case Growth

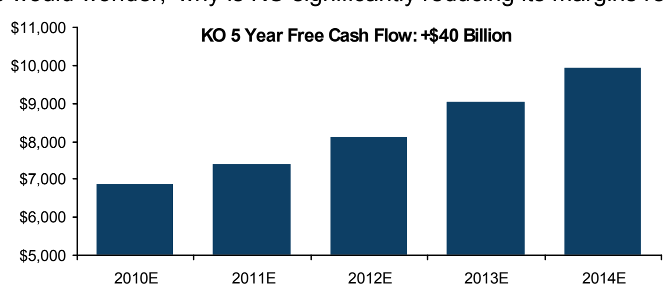
	1Q	2Q	3Q	4Q	Full Year
2009	-2%	-1%	-4%		
2008	0%	0%	-2%	-3%	-1%
2007	-3%	-2%	1%	1%	-1%
2006	2%	2%	-1%	-2%	0%
2005	0%	1%	3%	3%	2%
2004	2%	2%	-3%	-1%	0%
2003	3%	3%	1%	1%	2%
2002	5%	4%	9%	5%	6%
2001	1%	3%	3%	2%	2%
2000	1%	1%	0%	1%	1%
1999	2%	-1%	2%	3%	1%
1998	6%	8%	4%	5%	6%
1997	9%	4%	6%	6%	6%
1996	8%	8%	5%	5%	6%
1995	4%	6%	8%	8%	7%
1994	7%	6%	6%	8%	7%
1993	3%	6%	6%	5%	5%
1992	2%	-1%	2%	4%	2%
1991	4%	4%	1%	3%	3%
Average	2.8%	2.8%	2.5%	3.0%	2.9%

Source: Company Documents, Barclays Capital Estimates

For 2010, the North American liquid refreshment beverage category will likely decline again, in our view. We continue to look for a low single-digit (-3/-4%) decline in CSDs for next year with bottle water down at a double-digit clip and overall non-CSD volume depressed by a mid single-digit decline in sports drinks. As for front line pricing, we are hopeful that it should remain rational. Indeed, CCE's Steve Cahillane described a rational approach to pricing on its 3Q09 conference call and PBG's Rob King noted that that its pricing actions were satisfactorily received by customers. We believe the beverage players will continue to pursue a moderate rate pricing strategy in 2010, as all players have worked hard to correct mistakes of the past (lacking pricing discipline & price-pack architecture). Additionally, a benign/slightly inflationary commodity cost environment should also support very low single-digit rate pricing.

With this operating environment in mind, we believe KO and CCE may set the stage for their 2020 vision. Such a discussion could include expanded Coca-Cola Supply chain savings – most on the Street agree the $150 million figure is too low. Additionally, discussions around package segmentation may also receive a good deal of attention at the upcoming meetings. Consumers clearly have a bias towards value offerings, caring more about the absolute price point (also seen in FLNA's results) rather than pantry loading during a promotional offering. Part of the challenge is figuring out how to bring everyday value to the consumer (especially in non-feature periods), and we believe KO & CCE are working to solve for this with the implementation of geographic and channel specific package segmentation on a scale much larger than seen ever before. Aside from cost savings and package segmentation, we expect KO & CCE will also highlight efforts to align the system with a consolidated retailer base. Indeed, we heard hints of this during KO's 4Q09 conference call when CEO Muhtar Kent discussed the joint marketing agreement with KO's bottlers which cover 99% of its North American volume.

Cash Flow & Investment: Thus far, KO has seemingly remained tepid on the share repurchase front despite an 11% increase in year-to-date CFO and the estimated 5-year +$40 billion free cash flow opportunity ahead. Some may posit that the company is positioning itself for a larger acquisition, especially in light of PEP's decision to acquire its North American bottlers. However, at the end of the day, our view is pretty simple. We don't think KO needs to go out and consolidate its bottlers. If it consolidates just one large bottler, it would suggest to most on the Street, the reversal of the prior multi-decade strategy. Specifically, that it would mark the beginning of a new multi-decade program to fully re-integrate the Coke system. We believe that would do wonders for the KO long-term business model - in terms of margins and returns. Indeed, investors would wonder, 'why is KO significantly reducing its margins returns and free cash flow?'.



Source: Barclays Capital Estimates, Company Documents

Conversely, we believe KO is following a judicious path of investment around the world -- notably in emerging markets and in growing beverage categories. Indeed, management has highlighted three ongoing strategies: strengthening global system capability, driving global beverage leadership, and leveraging its balanced geographic footprint. On strengthening the global system capabilities the company has made a string of multi-year investment announcements recently in China ($2 billion over the next three years), Russia (planning to invest another $1 billion in the next 3-5 years), and Mexico ($5 billion system investment planned over the next five years). We are encouraged that Coke is putting up its fair share of capital to invest in growth around the world and would not be surprised to see investments in more developed markets like North America as well. Indeed, we foresee more investment in initiatives on the North American foodservice side of the business -- especially in light of PEP's pending bottler acquisitions -- like the Coca-Cola Freestyle proprietary fountain dispenser.

Aside from co-investment with the bottlers investors will likely wonder if KO will buy other beverage businesses. While we don’t expect KO to go far afield in its acquisition strategy (gone are the days of Columbia Pictures), we do expect the company to continue to invest in many small beverage companies. Recall that in February of 2008 the company took a 40% interest in Honest Tea, as KO’s North American Venturing and Emerging Brands (VEB) business unit identified this business as an important foray into the organic beverage business. In April of 2009 KO also took a minority stake in Innocent Drinks, the UK’s leading smoothie maker. We see these types of minority ownership stakes with the option to expand ownership down the road, as a growing strategy employed by KO. We believe the company will pursue such a strategy particularly as it relates to global non-CSDs – more specifically in juice/juice drinks, teas, and possibly dairy based beverages (longer term).

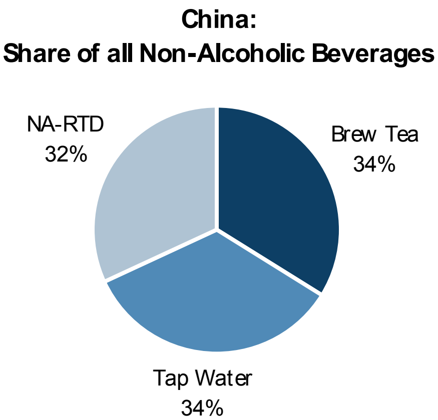
To be sure, given the accumulating cash within the North American red system, investors will continue to wonder if KO & CCE are positioning themselves for a move on the Dr Pepper distribution rights (currently in flux as a result of the PepsiCo bottler acquisitions). While the red system has been very open about its strong relationship with DPS, we do not believe that a significant value transfer for the distribution rights is likely. KO realizes that it needs to continue to invest in non-CSDs and DPS may not want a portion of its volume further concentrated with one LRB competitor. Nevertheless, this dialogue does potentially drive up the cost of business for PEP.

Certainly, the prospects for a more robust cash return to shareholder program will also likely be a focus. The company has followed a rather consistent dividend strategy increasing the dividend for the last 48 years with the recent payout ratio ranging 50%-60%. KO has ample flexibility to meaningfully increase its annual dividend and we see the long duration cash flows backed by their global brands as providing support for such a strategy.

There may also be opportunity for increased cash returns to shareholders through share repurchase. As of its last update, the company targeted $1 billion in total share repurchase for the year with the full P&L impact likely in 4Q09. This occurs in the context of improving system credit metrics. Indeed, CCE raised its free cash flow guidance to $800 million (from at least $650 million), while concurrently announcing that it would evaluate methods for returning additional cash to shareholders--likely more detail to be provided on the December guidance call. Management also stated that while it is currently carrying a cash balance of $945 million (as it weathered the credit crisis) they would not look to carry such a balance going forward. Additionally, we would also point out that Coke Hellenic's recent special dividend may be representative of a stepped-up effort on the part of the red system to take advantage of improvements in the system's credit metrics and reward shareholders. To be sure, any changes to the rating agency methodologies could, over time, play a significant role in how KO returns cash to its shareholders.

Report Continued on Next Page

China: We expect KO to spend some time highlighting key emerging markets such as China and how growth in these markets fits into their 2020 vision. KO's Pacific operating region as a whole presents significant growth opportunities, in our view. KO has pointed to an additional 340 million urban inhabitants between 2008 and 2020 in this operating segment along with 507 million people joining the middle class in this time frame. In turn, the company believes NA-RTD cases could more than double from 2008 to 2020. Looking at share of stomach in China, we see that commercial non-alcoholic ready to drink beverages (NA-RTD) only make up about 32% of consumption in China – meaning there is a considerable consumer conversion opportunity.



Source: Company Presentations, Barclays Capital Estimates

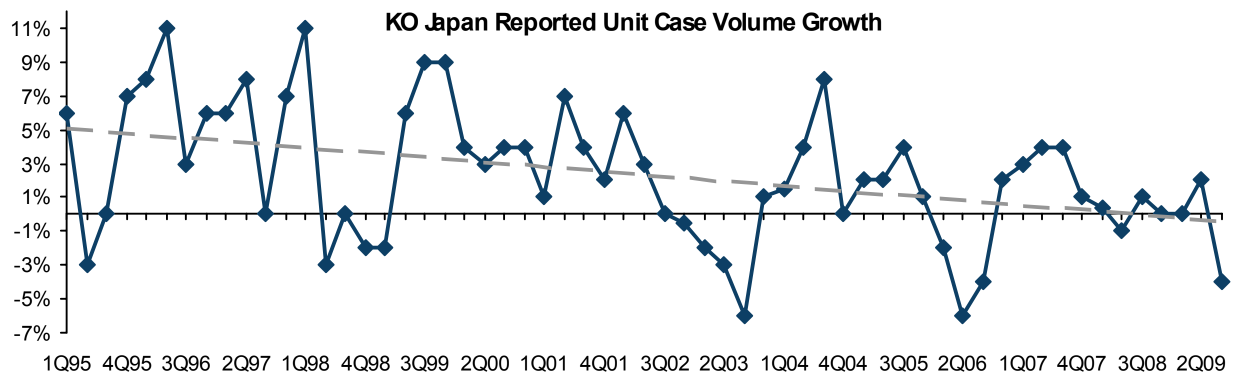
China, in particular, represents a key opportunity for the company. Indeed, in 2008 China contributed about ¼ of the company's global incremental volume growth and was the company's 4th largest volume market. Taking a broader view of the market we see that from 2002-2007 NA-RTD growth averaged 15% and KO's average growth during that time period was 19%. Given the growth characteristics, KO plans on investing $2 billion over the next three years in this territory.

The company has built its China infrastructure into a system with 38 plants (end of 2008), 900+ sales centers, and 9,700+ sales representatives. While in the early part of the decade the company focused on growing its sparkling beverages in this market, it now has made a push into non-CSD's – with a focus on juice. KO has always supported the Minute Maid brand, but in September of 2008 KO launched a $2.4 billion bid for the Huiyuan juice company, a leader in the China juice market with significant infrastructure which would allow KO to expand across China. While the Chinese government subsequently blocked the acquisition, it was clear KO was intent on growing its juice business within China. Today, Minute Maid Pulpy represents close to 20% of KO's volume in China. We expect further juice & juice drink innovation in this market in the years to come.

Aside from investments in the portfolio KO has made significant moves to build system scale in China. From a bottling perspective it acquired Kerry bottling in 2006 to assure the business remained focused in one of its key growth markets. KO also established a China bottler procurement consortium which has been operational since 2004 and makes joint purchases of ingredients and equipment. On the production side of the business, a supply chain management organization which works with all the bottlers provides for centralized production and planning.

Report Continued on Next Page

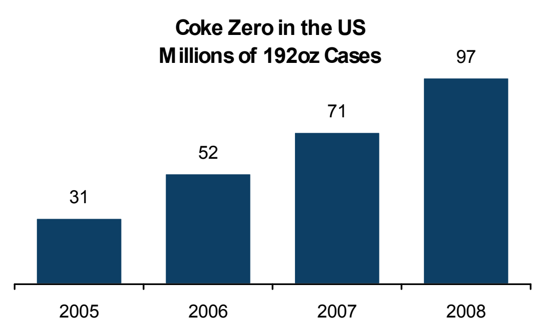
Japan: While China has been an engine for growth, Japan has been a more difficult developed market for KO. This, too, seems likely to continue, in our opinion. KO's hurdles in this market are not a product of competitor challenges. KO boasts a 79% market share in colas, a 43% share in canned coffee, and a 75% share in blended tea. Rather, a good deal of KO's challenges stem from the structural macroeconomic difficulties in Japan. Consumers which historically purchased luxury items en mass, seem to be more frugal and cost conscious. Additionally, Japan's election this past summer possibly signaled a change in the social positioning of the population as the Liberal Democratic Party, which has ruled Japan almost continuously since 1955, was voted out of power in favor of the Democratic Party of Japan, which ran a more populist egalitarian social platform. At the same time in KO's business, difficulties in driving premium beverage consumption, namely Georgia Coffee, were on display in 2Q09 when volume declines in the vending channels contributed to a slightly negative global price/mix result.



Source: Company Document, Barclays Capital Estimates

Going forward, we believe KO will focus on profits and cash flow in this developed market. However, to achieve this, given the macro environment and consumer shift, we believe pricing may well be more difficult to attain. In turn, reductions in operating expenses necessary. We wonder whether further bottler consolidation in Japan may be a source of savings in the future. As for current consolidation events, the Kirin and Suntory merger certainly brings on a very interesting discussion. As noted by Beverage Digest (published 11/6/09), PepsiCo and Suntory formed a 30 year franchise agreement in 1998 for Japan and Suntory also owns 65% of the third largest bottler in the US, Pepsi Bottling Ventures. On the other hand, Kirin owns a 10% stake in Coke West, a Japanese Coke bottler, and also controls the number six US Coke bottler Northern New England. Kirin is no stranger to KO bottling enterprises, having attempted to acquire Coke Amatil in 2008. As the Kirin-Suntory merger is consummated, we wonder if the new venture's ownership of KO bottling assets will change, given the concurrent relationship with PepsiCo. This in turn, could lead to further bottler consolidation, perhaps involving the company's bottling investments group, in our view. While we don't expect KO to discuss such prospective actions, we do believe investors will begin to think more about KO's structural positioning in Japan given the secular headwinds which seem to be emerging.

Innovation: Undoubtedly, KO will discuss its vision for future innovation and the marketing approach it has taken. On the innovation side we do expect some perspective on Coke Zero, which continues to grow at a double-digit rate in North America and has become a truly global brand.



Source: Beverage Digest, Barclays Capital Estimates

Aside from recognition of KO's innovation successes, we believe there is even further news to come on all natural zero calorie sweeteners, particularly in regard to their use in CSDs. Till now, Stevia has been utilized primarily in non-CSDs with strong flavor profiles which can mask the after taste of the sweetener. While forays have been made with its use in CSDs (Sprite with Stevia), we do not believe that the red or blue systems have yet to master their use in traditional colas. This could become even more of a focus in consideration of any stepped-up government regulation or taxation of sugar sweetened beverages – a high impact, low probability factor that must still be considered.

Aside from zero calorie natural sweetener technology in colas, we also think KO will discuss continued efforts into positive nutrition beverages. Diet Coke Plus was an interesting attempt at adding nutrients to CSD's but there is probably a lot more to do with juice/juice drink & active lifestyle beverages. We believe KO has invested resources in developing beverages with positive health credentials that can be backed by scientific evidence. Recently, such claims made by other CPG companies have started to come under greater scrutiny, but we believe KO will likely discuss a long run innovation pipeline supported by longitudinal studies to back up health claims.

Marketing and Management: On the marketing side of the equation, KO will likely highlight its comprehensive marketing strategy, detailing the focus behind global advertising campaigns that can be tailored to local needs (saves on production costs), key customer partnerships which lead to co-investment in growing the category (example: WMT TV ads), and precision in-store execution with the company's bottling partners. This portion of the presentation may highlight examples of integrated marketing in Latin America and Eurasia & Africa along with increasing usage of digital media to build brand awareness. We believe discussions around the application of consumer data which enables customized segmented display solutions by geography and retailer will also take center stage—enhanced by technology and new media. Of course, KO's marketing might is also a product of top-talent. Management will likely highlight its efforts to attract and retain the best in the brand building business. The company has certainly made efforts to improve its bench strength and the analyst meetings as a whole will likely be an opportunity for KO to showcase some of their emerging talent.

Analyst Certification:

I, Michael J. Branca, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Other Team Members:

Gamerman, Jacob, CFA (BCI, New York)	1.212.526.2967	jacob.gamerman@barcap.com
Marshall, William (BCI, New York)	1.212.526.7156	william.marshall@barcap.com

Company Description:

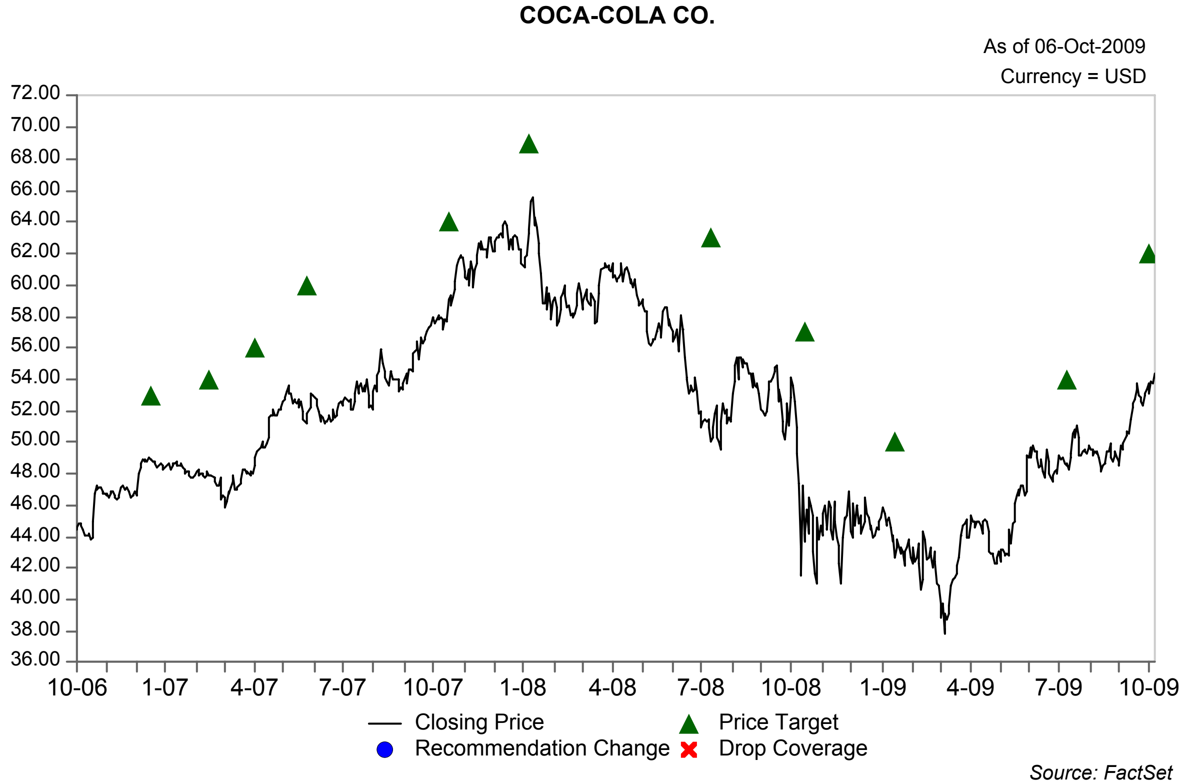
Sells concentrate to bottlers in about 200 countries. Owns world's best-known brand. Has equity stakes in Coca-Cola Enterprises, Coca-Cola HBC, Coca-Cola Amatil, and other bottlers.

On September 20, 2008, Barclays Capital acquired Lehman Brothers' North American investment banking, capital markets, and private investment management businesses. All ratings and price targets prior to this date relate to coverage under Lehman Brothers Inc.

Important Disclosures:

Coca-Cola Co. (KO) **US$ 55.81 (10-Nov-2009)** **1-Overweight / 1-Positive**

Rating and Price Target Chart:



Currency=US$

Date	Closing Price	Rating	Price Target
01-Oct-09	53.12		62.00
08-Jul-09	48.51		54.00
14-Jan-09	42.62		50.00
15-Oct-08	44.21		57.00
10-Jul-08	50.04		63.00
08-Jan-08	63.57		69.00

Date	Closing Price	Rating	Price Target
17-Oct-07	59.09		64.00
25-May-07	51.89		60.00
03-Apr-07	48.99		56.00
14-Feb-07	47.88		54.00
18-Dec-06	48.90		53.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by Coca-Cola Co. or one of its affiliates.
Barclays Bank PLC and/or an affiliate trades regularly in the shares of Coca-Cola Co..

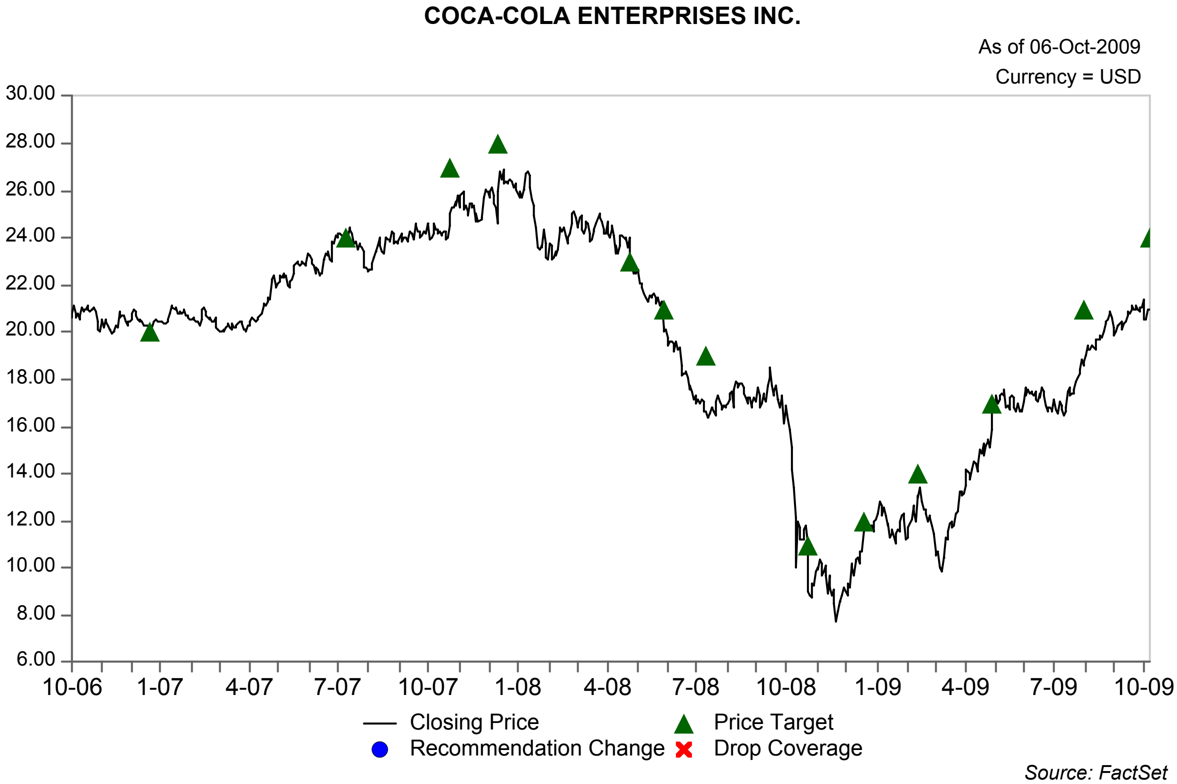
Valuation Methodology: Our price target is based on an 18.0x P/E multiple on our FY10 EPS estimate of $3.45.

Risks Which May Impede the Achievement of the Price Target: Various risk factors include consumer acceptance of new & existing products, weather, competitive pricing environment, raw material cost inflation (e.g. PET resin, commodities, corrugated packaging, fuel and others), health of parent/subsidiary relationships, continuity of management, effectiveness of marketing & advertising, foreign currency translation, ongoing retailer consolidation, geo-political & economic instability, labor negotiations, taxation and acquisition integration.

Important Disclosures Continued:

Coca-Cola Enterprises (CCE) **US$ 20.03 (09-Nov-2009)** **2-Equal Weight / 1-Positive**

Rating and Price Target Chart:



Currency=US$

Date	Closing Price	Rating	Price Target
06-Oct-09	20.95		24.00
30-Jul-09	18.63		21.00
28-Apr-09	15.90		17.00
12-Feb-09	12.98		14.00
18-Dec-08	11.58		12.00
23-Oct-08	9.00		11.00
10-Jul-08	16.62		19.00

Date	Closing Price	Rating	Price Target
28-May-08	20.20		21.00
24-Apr-08	22.94		23.00
12-Dec-07	25.96		28.00
24-Oct-07	25.00		27.00
09-Jul-07	23.95		24.00
20-Dec-06	20.05		20.00

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in securities issued by Coca-Cola Enterprises or one of its affiliates.
Barclays Bank PLC and/or an affiliate trades regularly in the shares of Coca-Cola Enterprises.

Risks Which May Impede the Achievement of the Price Target: Various risk factors include consumer acceptance of new & existing products, competitive pricing environment, weather, raw material cost inflation (e.g. aluminum can, PET resin, high fructose corn syrup, corrugated packaging, fuel and others), ongoing retailer consolidation, geo-political & economic instability, health of parent/subsidiary relationships, continuity of management, effectiveness of marketing & advertising, foreign currency translation, labor negotiations, taxation and acquisition integration.

Important Disclosures Continued:
The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Company Name	Ticker	Price	Price Date	Stock / Sector Rating
Coca-Cola Co.	KO	US$ 55.81	10-Nov-2009	1-Overweight / 1-Positive

Mentioned Company	Ticker	Price	Price Date	Stock / Sector Rating
Coca-Cola Enterprises	CCE	US$ 20.03	09 Nov 2009	2-Equal Weight / 1-Positive

Barclays Capital produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

Guide to the Barclays Capital Fundamental Equity Research Rating System:
Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe"). Below is the list of companies that constitute the sector coverage universe:

Altria Group Inc. (MO)
Coca-Cola Enterprises (CCE)
Dr Pepper Snapple Group Inc. (DPS)
PepsiAmericas Inc. (PAS)
Philip Morris International Inc. (PM)
Coca-Cola Co. (KO)
Cott Corp. (COT)
Pepsi Bottling Group (PBG)
PepsiCo Inc. (PEP)
Reynolds American (RAI)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating
1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.
2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12- month investment horizon.
3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12- month investment horizon.
RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including when Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View
1-Positive - sector coverage universe fundamentals/valuations are improving.
2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.
3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Distribution of Ratings:
Barclays Capital Equity Research has 1309 companies under coverage.
40% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 43% of companies with this rating are investment banking clients of the Firm.
45% have been assigned a 2-Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 38% of companies with this rating are investment banking clients of the Firm.

13% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 30% of companies with this rating are investment banking clients of the Firm.

Barclays Capital offices involved in the production of Equity Research:
London
Barclays Capital, the investment banking division of Barclays Bank PLC (Barclays Capital, London)

New York
Barclays Capital Inc. (BCI, New York)

Tokyo
Barclays Capital Japan Limited (BCJL, Tokyo)

São Paulo
Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong
Barclays Bank PLC, Hong Kong branch (BB, Hong Kong)