

Coca-Cola shares bubble up on higher profits

July 23 2019, by John Biers



Shares of Coca-Cola rose early Tuesday after the company lifted some of its profit targets

Coca-Cola's move to sell soda in smaller packages helped soften the blow from consumers who increasingly reject sugary drinks, shoring up profits in the second quarter and adding some fizz to its share price on Tuesday.

The soda giant increased profit and revenue targets for the year following the better-than-expected quarter, with gains in North America helping to offset the hit from a strong dollar which made products more expensive in some overseas markets.

Coke's [share price](#) popped to a new all-time high and were up 6.0 percent at \$54.27 in midday trading.

The company saw net income jump 12.6 percent from a year earlier to \$2.6 billion. That included higher operating profits in North America and Asia Pacific which offset lower profits in Europe, Middle East & Africa and Latin America where currency effects were strongest.

Revenues overall climbed 6.1 percent to \$10 billion.

In North America, the company cited the popularity of Coca-Cola Zero Sugar and the newly-introduced Coca-Cola Orange Vanilla, as well as [strong sales](#) of enhanced water and sports drinks.

Robust sales of "mini" cans of Coca-Cola have helped bolster results in North America. The minis hold 7.5 ounces instead of 12 ounces and contain about 36 percent fewer calories.

The company does not break out sales by can size, but a Coca-Cola spokesman said mini-cans are growing double-digits in the US.

Globally, the smaller cans "still represent a very small part of the portfolio," and are "heavily weighted toward developed countries, mainly the United States," the spokesman said.

James Quincey, chief executive of the soda giant, said the company is "focused on building the consumer engagement," which includes consumers "leaning" in to smaller packages.

If volumes "are little bit negative, that hasn't concerned us because we think we can stabilize the volumes in the long-term and have the value be created ultimately through the price/mix," Quincey said on a conference call.

Garrett Nelson, an analyst at CFRA Research, said US consumers in general are still shifting away from [sugary drinks](#), but that Coca-Cola has many offerings in water and instant coffee, the two fastest-growing beverage segments in 2018.

"We think there's a long-term trend to more lower-calorie beverages, but they're shifting their portfolio proactively," Nelson said.

Nelson noted that North America was the weakest region in volumes, falling one percent compared with the prior year period, but revenues climbed two percent.

"They can sell those smaller packages and also pass on higher prices," Nelson said. "Consumers are continuing to buy the product."

More 'benign' dollar environment

Globally, soft drink sales rose four percent during the quarter, with the company's namesake beverage selling well, especially in emerging markets. The company's revamped diet soda, Coca-Cola Zero Sugar, also again notched higher volumes.

Volumes increased in Europe, Middle East & Africa and in Latin America, but operating income declined in both regions due largely to the hit from a strong dollar.

The company's chief financial officer, John Murphy, expects an improved foreign exchange environment in 2020, saying the current

cycle of dollar strength is one of the longest such stretches over the last 20 or 30 years.

"As we move through the back half of the year, we expect the impact from currencies to become less of a headwind," he said. "Looking even further out at current spot rates and hedged positions, we expect a benign currency environment in 2020 compared to 2019.

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