27-Oct-2026

The Coca-Cola Co. (KO)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone. Thank you for joining us and welcome to Coca-Cola Company's Third Quarter 2026 Earnings Results Conference Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I'll now hand the conference over to Todd Beiger, Vice President and Head of Investor Relations. Mr. Beiger, please go ahead.

Todd Beiger

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

Good morning. And thank you for joining us. I'm here with Henrique Braun, our Chief Executive Officer; and John Murphy, our President and Chief Financial Officer.

We've posted schedules under Financial Information in the Investors section of our company website. These reconcile certain non-GAAP financial measures that may be referred to this morning to results as reported under generally accepted accounting principles. You can also find schedules in the same section of our website that provide an analysis of our gross and operating margins.

This call may contain forward-looking statements, including statements concerning long-term earnings objectives, which should be considered in conjunction with cautionary statements contained in our earnings release and the company's periodic SEC reports.

Following prepared remarks, we will take your questions. Please limit yourself to one question. Reenter the queue to ask follow-ups.

Now, I will turn the call over to Henrique.

Henrique Gnani Braun

Chief Executive Officer, The Coca-Cola Co.

Thanks, Todd, and good morning, everyone. Our third quarter results reinforce the continued strength of the Coca-Cola system. We are acting with speed and discipline, enabling us to deliver strong results in an uneven environment. I want to start by thanking all our associates and bottling partners around the world. Every day they serve customers, support communities, and bring our brands to life. This year has required resilience, agility and strong execution, and our people have continued to rise to the occasion. Their efforts reinforce my confidence in our updated 2026 guidance and in the long-term opportunities ahead.

This morning, I will provide an update on the global landscape and review our third quarter business performance. Then I will discuss how our system is delivering at scale and adapting locally to create durable growth. John will close with our financial results for the quarter, full year 2026 guidance, and some early considerations for 2027.

First, the global operating environment continues to evolve. Geopolitical disruptions affect several parts of the world, cost pressures have accelerated, and all of this has an impact on many consumers. Yet, our confidence in the long-term opportunity remains unchanged.

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We have a strong portfolio of 32 billion-dollar brands and unmatched system reach with our bottling partners. These advantages matter, but so does what we do with them.

For several years, we have been strengthening capabilities around consumer recruitment, digital, revenue growth management, and system execution. By staying close to consumers and remaining constructively discontented, we continue to adapt in a dynamic environment. We're increasingly seeing that work reflected in our performance, including this quarter.

Volume grew 5%, and organic revenue grew 7%. Stepping back, our longer term performance reflects a more balanced contribution to top-line growth. We expanded margins while continuing to invest in our business. We delivered double-digit comparable earnings per share growth and gained value share.

Beyond the headline numbers, I'm encouraged by how we are growing. Our disciplined investments and digital capabilities are creating momentum across many of our markets and brands. Yet, we know there is still more work to do. We continue to sharpen how we turn consumer insights into innovation, and we are balancing scale and intimacy to drive stronger execution across our system. Our focus is simple. Keep learning and do a little better every day.

This quarter, I spent much of my time with our people and bottling partners in several of our markets. These experiences always reinforce the importance of understanding local needs and responding to consumers, a strength of our system across the world.

While every market is different, three themes were consistent. One, affordability is working. Two, both Zero Sugar and Original Taste are recruiting consumers. And three, execution and local relevance are helping us win. Let me bring each of these to life across our business.

Starting in North America. We grew revenue and gained value share for the quarter. Volume was even due in part to the timing of the July 4th holiday and temporary challenges in certain finished goods businesses, but performance improved sequentially each month during the quarter. Across our total beverage portfolio, we had strong volume growth from many brands, including Trademark Coca-Cola, fairlife, Powerade, Fresca, and smartwater.

Mr. Pibb continued its success with another quarter of double-digit volume growth. We are applying our learnings from our strong sports playbook with the next iteration of Fan Work is Thirsty Work, which brings Coca-Cola into football fandom through team packaging, retail activation, and locally relevant fan experiences.

For Halloween, we are pairing Fanta's Haunted Universe with limited edition Ghost Face Punch and collectible packaging that brings the experience from screen to shelf. We're also creating new opportunities across our portfolio.

Fairlife expanded its nutrition plan offerings with the return of fan favorite vanilla, while BODYARMOR FIT brings sports hydration beyond the workout with Sparkling Zero Sugar format with caffeine, electrolytes, and metabolism support.

In Latin America, several key markets started the year facing difficult conditions, but our teams responded with market-specific actions that drove meaningful acceleration in the third quarter. We grew volume, delivered balanced top line growth, and gained value share with broad-based improvement across the region.

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In Mexico, the environment remains challenging, but we're seeing encouraging progress by combining affordability, strong revenue growth management capabilities, and locally relevant marketing and disciplined execution.

In Brazil, momentum remained strong across our total beverage portfolio. Trademark Coca-Cola delivered another strong quarter, while Sprite and sports beverages also performed well.

We continued to connect our brands with locally relevant passion points, including the Rock in Rio music festival, while also investing behind growth opportunities across our total beverage portfolio.

In Argentina, the environment remains challenging. We have strong plans in place, and while there is still more work to do, we're encouraged by progress across the region.

Moving to EMEA and starting with Europe. For the quarter, we grew volume, but we lost value share in a few key markets in Western Europe, and we are taking actions to improve performance.

Following the FIFA World Cup, we transitioned into soccer activations around the English Premier League and Bundesliga, while continuing to build everyday consumption occasions through our Meals platform. We are complementing these efforts with affordable propositions like our 500ml Supercan, and are continuing to focus on price pack architecture to help us recruit consumers and drive transactions.

In Africa, despite cycling a tough volume comparison, we gained value share and delivered high single-digit volume growth. We celebrated 75 years of Coca-Cola system in Nigeria with an end-to-end activation. To meet evolving consumer needs in South Africa, we adapted an affordable single-serve package from India, giving it a locally relevant name, Mashesha, meaning quick. We also activated our Springboks Rugby team partnership with the 'Be a Bok' campaign in limited-edition collectible players' cans.

In Eurasia and the Middle East, ongoing geopolitical conflicts continue to disrupt business in parts of the region. Our system was resilient, delivering another strong quarter with volume growth and value share gains.

From Coke Studio featuring Pakistani artists to affordability initiatives to locally relevant taste innovations like Sprite Cool Mint and Fanta Pomegranate, our teams are adapting to dynamic market conditions.

Finally, in Asia Pacific, performance varied across our operating units, but we are encouraged by the progress in many markets. We gained value share and grew volume, revenue, and profit, while price/mix remained pressured due to negative geographic mix and affordability initiatives.

India delivered strong volume growth with each of our top 10 brands growing double digits. We're expanding our consumer base by scaling both affordability and premiumization, strengthening execution, and leaning into emerging channels.

For example, we expanded our Sprite & Spicy platform into the QSR channel in India with meal combo activations, social media content, and influencer collaborations, which contributed to Sprite's volume growth of nearly 20% in the region.

In China, the consumer environment remains subdued, with cautious spending and soft domestic demand. Despite this, we delivered another strong quarter of volume growth, with strength in Trademark Coca-Cola and Fanta. We continue to advance our digital capabilities to create more consumption occasions and connect with

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consumers in new ways. These actions are helping us drive immediate consumption packages and accelerate significant growth across digital commerce and emerging channels.

In Japan, volume declined as consumers remained pressured in a challenging macroeconomic environment that was heavily impacted by adverse weather. For the quarter, we gained share, expanded our consumer base in Trademark Coca-Cola, and accelerated Zero Sugar volume growth. We're adapting our offerings and executing to meet changing needs.

In ASEAN and South Pacific, volume growth was broad-based across many key markets. Affordability, Zero Sugar offerings, innovation, and stronger execution are helping us recruit consumers and create new growth opportunities, including the launch of Coca-Cola Zero Zero in Thailand. In Vietnam, we are expanding our affordable single-serve package, which is now available in over 400,000 outlets with high repurchase rates.

To sum it all up, while the global operating environment remains uneven, we are encouraged by the momentum across our business and believe in our ability to deliver more for more markets and more for more brands. I'm energized by the progress we're making across the Coca-Cola system.

We are learning as we go, continuing to raise the bar, and finding new ways to create value. The actions we are taking are helping us deliver today while strengthening our ability to create value for the long term.

With that, I'll turn the call over to John.

John Murphy

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

Thank you, Henrique, and good morning, everyone. Our results once again demonstrate the strength and adaptability of our business. For the quarter, organic revenue grew 7%. Our unit cases grew 5%. Our two-year year-to-date volume growth average of 2% reflects a more sustained and balanced contribution to top-line revenue growth.

Concentrate sales were two points ahead of unit case volume, due to the timing of concentrate shipments. Price/mix grew 1%. This was driven by four points of pricing actions, partially offset by three points of unfavorable mix, primarily due to geographic mix, timing of investments, and category mix.

Comparable gross margin increased approximately 170 basis points, and comparable operating margin increased approximately 110 basis points. Both reflect underlying expansion, currency tailwinds, and a favorable structural impact from last year's sale of our finished product operations in Nigeria.

Importantly, margin expansion did not come at the expense of investment, and we continue to drive greater productivity and efficiency across our operations. We are investing behind our brands and executing revenue growth management strategies that help us better serve consumers across brands, packages, price points, and occasions.

Putting it all together, third-quarter comparable earnings per share of $0.91 reflected an 11% increase, including a two-point benefit from currency tailwinds. Year-to-date free cash flow was $11.4 billion, an increase versus the prior year. Our balance sheet remains strong, with our net debt leverage of 1.3 times EBITDA, which is below our target range of 2 to 2.5 times. We are continuing to judiciously manage our balance sheet as we await a court decision related to our ongoing dispute with the IRS.

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We are confident in our long-term free cash flow generation and the optionality it gives us as we move through the fourth quarter and into 2027. Our priorities remain the same, invest in our business and return capital to shareowners.

Now, let me turn to guidance for full-year 2026. We now expect organic revenue growth of at least 5%, which includes the impact of slight destocking and six fewer days in the fourth quarter. Our commodity exposure overall remains manageable. However, we are seeing elevated cost pressures in aggregate driven by increased logistics and transportation costs. We now expect comparable currency-neutral earnings per share growth, excluding acquisitions and divestitures, of at least 9%.

Divestitures are now expected to be an approximate 2% headwind to comparable net revenues, and we continue to expect an approximate 1% headwind to comparable earnings per share. This assumes the pending sale of Coca-Cola Beverages Africa closes during the fourth quarter, subject to regulatory approvals.

Based on current rates and our hedge positions, we continue to expect an approximate one-point currency tailwind to comparable net revenues and continue to expect an approximate three-point currency tailwind to comparable earnings per share for full-year 2026.

Our underlying effective tax rate for 2026 is now expected to be 19.7%. This reflects certain benefits in the current year that we do not expect to repeat going forward. All in, we now expect comparable earnings per share growth of at least 11% versus $3 in 2025. Finally, we now expect to generate at least $13 billion of free cash flow in 2026.

There are some considerations to keep in mind for the rest of the year. As a reminder, the fourth quarter will have six fewer days versus the prior year. We also now expect slight destocking in the fourth quarter. Therefore, we expect concentrate shipments to slightly trail unit case volume for the full year.

For the fourth quarter, following the anticipated refranchising of CCBA, we expect a four-point headwind to comparable net revenues, a three-point headwind to comparable earnings per share, and slight margin benefits. While it is too early to provide specific guidance for 2027, we do want to share some considerations based on what we know today.

Overall, we expect consumer behavior to remain largely unchanged, with value being a very important consideration across all markets and income groups. The investments we've made to date and the actions we've taken across our business position us to enter 2027 ready to execute.

With respect to commodities, we continue to manage various cost pressures and look for ways to navigate the environment through productivity initiatives with our Cross Enterprise Procurement Group and using all of our revenue growth management levers. At the same time, we'll continue to invest behind our brands, maintain disciplined cost management, and focus on expanding margins over time.

With the anticipated refranchising of CCBA, we expect an eight-point headwind to comparable net revenues and a two-point headwind to comparable earnings per share, but expect positive impacts to both our margins and the return profile of our business. Additionally, as previously announced, we are exploring a potential IPO of our bottling operations in India and will provide further updates as appropriate.

Regarding currency, if we assume current rates and our hedge positions, there would be a slight headwind to both comparable net revenues and comparable earnings per share for full-year 2027. Many factors could impact

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both our currency outlook and broader business outlook between now and when we expect to provide guidance in February.

To summarize, we are pleased with our third-quarter performance. Our proven all-weather strategy continues to be our best ally to sustain our momentum for the rest of the year and into 2027. Across our many markets and operating environments, our people continue to rise to the occasion, and we are grateful for their dedication every day.

With that, operator, we are ready to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Dara Mohsenian from Morgan Stanley. Please go ahead. Your line is open.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning. Obviously, another very strong unit case result in Q3 on top of Q2 strength, but the summer results were aided by events such as the World Cup and favorable weather.

So, A, I wanted to touch on those events. It'd be helpful just what you learned from the summer events with the World Cup and even America's 250, how you're using technology investments to enable the system to better activate those events, but also really how you're working to hold on to incremental customers or greater demand from the existing customers during the events as you look across your brand portfolio.

And then B, just maybe taking it broader, as you look out to 2027 across the business globally, can you just discuss the challenge you see from cycling some of these tougher comparisons on the unit case side and how you think about the system's ability to continue to sustain volume growth going forward? Thanks.

Henrique Gnani Braun
Chief Executive Officer, The Coca-Cola Co.

A

Thank you, Dara. It's great to hear from you. Look, first of all, we're really excited with the results that we had on Q3, because it shows sustained and steady momentum that we had from the first half. It was important to continue that through to the Q3. You see in the numbers that we're getting more for more markets and more for more categories. And that showed up also in how we continue to gain value share globally. So it's 22 consecutive quarters of value share gains. So we're feeling that we got the right momentum, this strategy is working in an environment that continues to be very dynamic.

To your point about the World Cup and specifically here in the US, also the 250 campaign, those were great moments for us to pressure test our end-to-end activation, going from the brand strategy, the innovations that we brought to life, the revenue growth management, and execution coming in a very integrated way. And we showed up really well as a system, not only in North America, but globally, and we leveraged that into Q3. And we're going to continue to leverage this in Q4 and 2027.

Parts of the tech, data, and AI that we used during the World Cup, you're seeing on campaigns like Fanta Halloween that you can see the connected packaging really with great content and going all the way down to a

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transaction, which brings that ability for us to start pressure test, the opportunities to drive more engagement all the way to transactions moving forward.

So the plans continue to be addressed market by market in an environment that continues to be very dynamic, and we feel good about where we are right now for Q3 and building the plans for 2027 as well.

To the point that you asked as well on what we're going to be bringing in for next year, I always start with the energy that we see with our bottlers, our customers, when they see our plans year-to-date and what we are laying up for the rest of the year and next year.

Yes, we are cycling year-to-date, high-volume year, but we earned that, right, with getting closer to the consumer and building the flexibility on our plans to develop the right foundations to get where we are. So we believe in our momentum, we believe in the plans, a lot still to happen until we get to next year, but we believe that we have everything that is under our control to guarantee that we continue to deliver on our long-term algorithm.

Operator: Our next question comes from Chris Carey from Wells Fargo Securities. Please go ahead. Your line is open.

Chris Carey
Analyst, Wells Fargo Securities LLC

Q

Hi, good morning everyone.

Henrique Gnani Braun
Chief Executive Officer, The Coca-Cola Co.

A

Good morning, Chris.

Chris Carey
Analyst, Wells Fargo Securities LLC

Q

A key strategy coming into the year was to drive more balanced top line across volume and price/mix. Certainly, as noted with Dara's question, you're on track for an exceptional year from a volume delivery standpoint and you'll have to compare against that going into next year, as you just noted.

But one of the things that I wanted to drill into a bit was the price/mix side, which if it turns out to be about 2% this year, we'll see, could prove one of the lower price/mix years in about a decade. So the question is really, as you go into 2027, how do you think the price/mix strategy evolves so as to continue to deliver on the commitments that you have around your top-line algorithm?

And within that, can you perhaps provide a bit of perspective on how much control you have over that price/mix line? There is clearly geographic mix, there is category mix, you have pricing investments this year. And I think underlying the question is just your ability to have control over the complexion of your top line as opposed to there are just these headwinds coming at the price/mix line that are perhaps out of your control as you go into next year. So I'd love any context on that. Thanks.

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

A

Thanks, Chris. Topic close to our hearts here. Let me just take a step back from the quarter, in fact, the last two quarters. And just a reminder that when you think about the two year volume CAGR, it's still around the 2% mark,

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maybe slightly above that, given the last two quarters. So we still feel good about the objective to deliver a balanced revenue algorithm, two to three points volume, two to three points price/mix as we move forward.

When you take into account some of the factors that have impacted our price/mix numbers recently, there are – it's worth unpacking a little bit. We mentioned in the script that we had four points of underlying pricing in the quarter. And that's pretty consistent with our year-to-date numbers, a little bit of higher inflation from a couple of markets in the emerging world, but pretty consistent. And then it's the – I think it's the mix piece that has had a bigger impact on that PMO number, and maybe a little bit of a surprise to some.

But within that, about two-thirds of it relate to actions that either we have taken ourselves proactively or reflect just some of the inherent mix that has taken place this year, particularly with the finished goods performance.

And if you were to factor in the Topo Chico situation we've had this year, and you factor in the timing of investments, you take those out. Our price/mix for the year is pretty much within the band that we would look to deliver.

Now, as we go into 2027, it's a little early to give specifics on what we expect for 2027. But just look at the volume CAGR, the volume momentum that we have been delivering, we're continuing to look closely across the world at pricing dynamics going into 2027.

Inflation is one factor, but we also take into account a number of other factors, the state of the consumer, market-by-market, the competitive environment, the customer environment, et cetera. We'll provide a little bit more color on that in Feb.

But the mix piece, we'll continue to see some geo mix headwinds, just given the nature of the overall portfolio globally with the developing markets will continue, I believe to outgrow some of the developed markets volumetrically. But two-thirds of the mix, as I said this quarter were due to factors which we think are manageable going into next year.

Operator: Our next question comes from Lauren Lieberman from Barclays. Please go ahead. Your line is open.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Great, thanks. Good morning. I wanted to talk a little bit about reinvestment. I know, the mantra is more with more, and it looks like this quarter in terms of the reinvestment that went into SG&A, there was a lot of more.

So if you could just talk a bit about how much advertising and marketing was up, how much of this is sort of a set the stage into 2027? Because the gross margin, and also while we're on margins, underlying gross margin, I think in the slide, was up 70 basis points.

So just curious how to think about that, right? You've talked about mix has actually been a headwind. So is it just the absolute strength of the volumes flowing through that's driving that gross margin strength? So marketing investments, where the SG&A dollars went, and then drivers of the underlying 70 basis points in gross margin. Thanks.

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

A

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Yes, Lauren, thank you. Let me start with the gross margin numbers. As you're well aware, we think of gross margin in three distinctive buckets, the underlying strength of the business, the structural and currency were benefiting from some currency tailwinds this year. But the underlying numbers just reflects the quality of top line and the ongoing focus we have on managing our cost base. So as you think about the underlying going forward, implied in our algorithm is modest expansion, and we believe we have the ability to sustain that as we go forward.

Regarding the marketing investments, yes, we have taken a number of actions in recent months to set us up for a strong start to 2027. We have double-digit growth in above-the-line, and we have a number of programs that we're working in partnership with our bottlers on to, as I said, to be ready for a strong start into 2027.

I would expect as we go forward that we will have marketing investments growing more or less in line with gross margins to get the shape of the P&L where we want it to be, not just for 2027, but beyond.

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

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Yes, hey great, thanks and good morning. We've spoken about this before, but just the reality is that a lot of the inflationary pressures facing the system today sit more heavily with your bottling partners than with the concentrate business itself. And I guess, in that context, as you approach collective 2027 planning, how would you characterize bottler economics today and their stance relative to those inflationary pressures? And any impacts that may be having on considerations around future pricing, investment levels, or just the way that system economics are shared as you think about the year ahead? Thank you.

Henrique Gnani Braun
Chief Executive Officer, The Coca-Cola Co.

A

Thank you, Steve. Look, first of all, we always look at that from a system point of view. Everything starts from how we are going to first grow our plans aligned with our brand plans per market.

And we feel that we have great plans for 2027, and we are actually anticipating that with investments this year, as we have done in previous years, to be ahead of the curve, right, to get the momentum that we have and the flexibility that we built during the year to continue to invest on those plans.

Regarding costs, which is one input into the plan, the environment remains very fluid. The commodities have been manageable for us at this time. Looking forward, we are working with the bottlers right now through all the levers that we have as a system. One of them, it's our Cross Enterprise Procurement Group that we procure the number, the big commodities that we have for next year together.

And with that, we bring also other levers into the equation, which is productivity, cost management, and our RGM tools to ensure that we have an operational environment that can be totally linked with our growth plans for next year. So, more to come, as we learn during the next few months, but so far, it has been something that we believe it's going to be manageable on the overall scheme of things.

Operator: Our next question comes from Filippo Falorni from Citi. Please go ahead. Your line is open.

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Filippo Falorni
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning everyone. I wanted to go back to the North America business. Henrique, you mentioned that there were a few impacts on the volume being flat in the quarter, timing of 4th of July, and some changes in the finished good business. Can you expand a little bit more on that? And given we see solid consumption data and track channels, are you expecting some improvement as you move forward?

And then on price/mix, I know you were cycling difficult comp in Topo Chico and fairlife. How should we think about that, particularly, that mix component, as we look ahead on the price/mix in North America? Thank you.

Henrique Gnani Braun
Chief Executive Officer, The Coca-Cola Co.

A

Yeah, Filippo, thank you. So on North America, let me step back and talk a little bit about the quarter and the year so far. We continue to see solid performance in North America. We grew this quarter, right? Revenue, we gained value share, we expanded margins, we got pricing in line with inflation that was really important, which shows that the brands have the equity and the right to take price. And we kept investing in our brands.

The impact that you mentioned on the price/mix was definitely impacted by the cycling of a very strong prior year on some of the premium brands that were generated through our finished goods, including Topo Chico, one of them that you know, and BODYARMOR as well.

So with that into the equation, if you take that out, actually, and you take the impact of the July 4th that fell into the second quarter, and we mentioned that before, we would see volume growth, right?

So we see the momentum is still there. Now in terms of the strength of our strategy and our brands, we also feel confident that we have pretty good momentum, especially of Trademark Coca-Cola that grew again this quarter. Diet Coke and Coca-Cola Zero, especially Coca-Cola Zero growing double-digit again.

And fairlife continues to do really well. Powerade also grew. And we have other areas that we have work to do, which is always good for us also to instill here our motto of being constructive with discontent that there are areas for us to work on.

And one of them is to do a better performance on Sprite and BODYARMOR and our supply chain going into next year. So all-in-all, we believe that we have the good momentum as a system and the right plans to navigate through the rest of the year in 2027.

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

A

Yeah. And I would just add, Filippo, if you're looking at the overall volume number, the restaurant industry continues to be under pressure. And so, when you are looking at the scanner data, et cetera, I think you are seeing a stronger business at home versus away from home, largely driven by consumer pressures that we have talked about in the past. And while our own business continues to have a lot of momentum across those channels, I think the underlying pressure across the consumer landscape is there, and I think it will be there for the rest of the year as we go into 2027.

Operator: Our next question comes from Andrea Teixeira from JPMorgan. Please go ahead. Your line is open.

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Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Hi, good morning everyone. So, I have a question on exploring the theme of affordability, and of course, among all the CPGs, you have significant brand equity. How should we be thinking about the list pricing, and your bottling partners have historically been able to take pricing in the low single digits? If we put the geo mix, the geographical mix aside, do you think you still can count on RGM capabilities and would still allow some selective pricing while protecting the entry price points?

And then a clarification on the fourth quarter, you obviously raised guidance, and you have the six fewer selling days. John, you called out also the destocking comment, but you had also had said that ahead of the third quarter. So, I was hoping to think about like how it's a wide range, of course, minimum five allows you to have a wide range there, but just thinking, how demand and destocking, and how we should be seeing how many points of headwind that could be. Thank you.

Henrique Gnani Braun
Chief Executive Officer, The Coca-Cola Co.

A

Okay, Andrea. So, I'll start with your question especially on our strategy on affordability, and John can chime in on the outlook.

So look, the affordability, you need to look at this on the full context of revenue growth management. It's one of the legs of how we get closer to the consumer these days. The premiumization is equally important, so we always look at both.

What we are seeing across the world, and this is something that, especially in my travel the last quarter going – dividing, conquering here with John going different parts of the world, we have seen that value continues to be something that cuts across every market and every consumer that we see all over the world. And value means different things for the consumer, which then touches into affordability and premiumization in a way that we capitalize that in our plans.

Let me elaborate on that. On the affordability, what we always look at is, do we have the right value, the relevance of that brand, and the worth-choosing option for the consumer to keep them in the franchise? And if the answer is yes, we continue to push forward and get more coverage of that packaging format. If not, we adapt our plans and put that in place. A good example of that is what we did in Africa, piggybacking from what we've learned in India, where they had one package, which is a single-serve PET package with plasma technology that can allow you to go in longer routes and still keep the shelf life high. Now we imported that into Africa, and that plays on affordability on both of these markets. And it's going to continue to be very important moving forward, because the consumer loves the brands but needs to be closer to what they can afford.

On the premiumization side, that's equally important in this equation, we play the category mix. There are few brands that continue to help us with that. In North America, you got Core Power, you got smartwater and you got in other parts of the world, also different packaging sizes, that allows us to play with the convenience, and that value equation for the consumer also works really well. And in the overall, RGM strategy, we end up delivering what we need.

So it goes in tandem, affordability and premiumization. And that's what you're going to see not only the rest of the year, but building into 2027. John, if you want to add on that?

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

A

Yeah, Andrea, the whole marriage of unit cases with our concentrate shipments this year has proven to be – maybe the more challenging year since I've been around for a few reasons.

You've got the first quarter and the fourth quarter, the plus six, the minus six days. We have, as we've seen since the start of the year around the world, an external environment that's quite unpredictable. And I think our system has a tendency to want to get ahead of that.

And so the expectation that we highlighted in guidance reflects the best information we have at the moment. There's a couple of our segments where we do expect to see some destocking on the back of what has happened year-to-date.

But we've still got some distance to go in the year and we're keeping a close eye on this area. And as we – it's six less days. It's difficult to predict with accuracy, just the cut offs as we move towards the end of the year.

So, that's the best information we have at the moment. And based on all the inputs we get from around the world and if there's changes through the quarter, we'll certainly have the opportunity to update closer to the end of the year.

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

Robert Ottenstein
Analyst, Evercore ISI

Q

Great. Thank you very much. You had a pretty nice increase in your guidance for free cash flow. Your leverage is down to I think 1.3, you said. So I was wondering if you could talk about the drivers on the free cash flow.

And then, you mentioned in the opening comments about increased optionality from your strong free cash flow and balance sheet going into 2027, so maybe if you could elaborate on that and then put these comments in the context of potential outcomes from the IRS case. Thank you.

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

A

Yeah. Thank you. Let me take those, one-by-one. So free cash flow year-to-date, three primary drivers. The first and the most important one is underlying business performance has been strong. We continue to make progress on working capital initiatives. Our cash conversion cycle, if I get it correct, is as good as it's been for many years at the moment.

And then we have some timing that will play its way through the rest of the year. For example, our CapEx year-to-date is a little behind what you would typically expect, and we expect that to make up in the fourth quarter. So key message, though, is free cash flow is strong, and we've got momentum as we close out the year into next year.

We've used the word optionality very deliberately over the last number of months because we are in a situation where we're anticipating a decision in the coming months in the IRS case. And at the same time, we continue to think ahead as to the various outcomes that that decision could generate, and feel good where we are with respect to being able to manage a best and worst-case scenario.

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So the name of the game has really been to strengthen the balance sheet. I believe our balance sheet today is in as good a shape as it's been for many years. And to be ready in 2027 to deliver on the priorities that we outlined in the script, we'll continue to invest in the business, primarily in the short term organically. We remain open to other opportunities; we don't see them in the immediate horizon.

And as always, we're here to return capital to our shareowners, and again at the moment, that's primarily through our dividend. So think of the work to date has been focused on strengthening the balance sheet, being ready for a decision and the outcome of that decision to do the right thing for the business, and to be ready for whatever that might mean in 2027 and 2028.

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

Peter Grom
Analyst, UBS Securities LLC

Q

Great, thank you. Good morning, everyone. So I wanted to follow up on Filippo's question on North America. You touched on some of the timing dynamics, but you also mentioned that you saw sequential improvement in volume performance each month throughout the quarter. So, I was wondering if you could elaborate on that, and have you seen that momentum continue into the fourth quarter?

And then, John, you touched on the at-home versus away-from-home component. I'd be curious if you've seen any notable shifts in that dynamic as the year has progressed. Thanks.

Henrique Gnani Braun
Chief Executive Officer, The Coca-Cola Co.

A

So on the volume, yes, we saw that improvement month-for-month on the quarter. And the biggest impact in that was really what we said before, was the July 4th impact that fell into Q2, so we knew that we would start the first month of the quarter lagging behind it.

What we have seen and mentioned when you look at the overall flat volume for the quarter, we're cycling a good performance of Topo Chico last year as well, which has also an impact on that. And we just got back with Topo Chico in Texas. So its great news I think to everybody and to the consumers that have been waiting for too long. It's the first step back and we will sequence that moving into 2027, right? So that volume will start to come back. So definitely it's something that we're looking forward to.

The other ones, really the momentum that we have, we grew, Coca-Cola trademark, like we mentioned, really good growth on the Zero variants as well. Fairlife continues to grow. Powerade grew as well. Fresca, Mr. Pibb, has been another very good surprise, still small in the overall volume to impact the overall volume for North America. But we think the innovation pipeline, it's something that we're very excited with that. So all-in-all, what we see is we have the momentum.

We got the right plans in place, but we have also, going into the Q4, which is important to reinforce the biggest quarter that we had in North America last year, and we have six less days. So you need to compose that with the equation, but when you look into daily average sales we have the momentum that was built over the quarter.

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

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Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Hey. Good morning. Thanks for taking the question. John, I was just hoping to get maybe a clarification, and then the question is tied to that.

But, on the currency FX guidance for 2027, I just wanted to understand if that was updated through yesterday and the context of it being obviously there's been some pretty big currency movements even in the last 48 hours in some big important markets for you. I know you caveated your commentary that there's many factors that could impact currency between now and February, but just want to understand kind of in real time how you're thinking about that, given some of the moves that we've had and whether that's embedded in the slight headwind kind of outlook that you have for 2027 at this point. Thanks very much.

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

A

Yeah, great question. And the short answer is no. We need to take into account what's unfolded over the last 24 to 48 hours. And we'll continue to do so. There's been quite a lot – as you've seen throughout the years, there's been quite a lot of movement.

So it's one we're watching very carefully. And if there's sufficient movement over the course of the next number of weeks, we'll certainly would want to provide an update on that. And as I say, there's been quite a lot of swings throughout the course of this year. And it's one to keep watch on. But the numbers that I talked about in the script do not reflect the movement in the real, particularly over the last day or two.

Operator: Our next question comes from Kaumil Gajrawala from Jefferies. Please go ahead. Your line is open.

Kaumil Gajrawala
Analyst, Jefferies LLC

Q

Hey, guys. I guess first, sort of belabor the point, but just for purposes of clarity, on the destocking is the full year intended to be sort of below in line or above in terms of concentrate versus shipments? And then maybe if there are particular regions where the destocking is expected to occur, I think that'd be useful.

And then on gross margin, you had such a strong concentrate shipment number. Can you give some context of leverage on the GM and maybe leverage on the SG&A line as well, and how it sort of works top to bottom? Because you probably won't have this spread going forward. And so to what degree can you help us forecast what margins would look like in the context of maybe better aligned unit case volume and gross margins? Thank you.

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

A

Sure. On the destocking, as I said in the previous question on this topic, it's somewhat of an anomalous year in trying to predict exactly. Right now, if you ask me, we expect shipments to run slightly behind volumes for the full year. That's our in-going assumption that's linked to the guidance that we've provided. And as I've said, there's a lot happening around the world, and there's every possibility that that could deviate, but that's the in-going assumption as we head into the rest of the year.

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On your margin question, if I line up cases, shipments, everything else, we expect to have margin expansion for the full year. And again, the exact amounts that we're anticipating, it's really on trend with what we've seen thus far this year.

Operator: Our next question comes from Kevin Grundy from BNP Paribas. Please go ahead. Your line is open.

Kevin Grundy
Analyst, BNP Paribas Securities Corp.

Q

Great. Thank you. Good morning, everyone, and congrats on another strong quarter. We've mentioned the brand twice, but haven't spent a lot of time on the strategy, and that's fairlife, which has been a fantastic success story. Additional capacity came on this year, so we've seen a nice reacceleration in the scanner data. So a few questions related to the brand. One, can you talk about updated plans and how you're defining success? Two, where you see the brand's sourcing occasions at the moment? And then three, maybe an update on the opportunity for the brand outside of the US, understanding the supply chain complexities. So thank you.

Henrique Gnani Braun
Chief Executive Officer, The Coca-Cola Co.

A

Okay. Thanks, Kevin. Look, we love the brand, as you know, a fantastic performance, and we're pleased to see, number one, another quarter of strong and double-digit growth across all the variants, right? So fairlife, the nutrition plan, and also on Core Power, that has been really encouraging.

You remember that at the beginning of the year, we were still lagging behind the demand and supply with the ramp-up of Webster. So we're getting better and better at that with the ramp-up of the plant to the extent that we were able to launch also a new flavor for nutrition plan, the vanilla flavor, which is doing really well as well. And we announced already that we're going to have in the pipeline, going into 2027, the banana flavor, which is great, right? [indiscernible] (00:59:22). We have a lot of fans for that flavor. And it's something that we always wanted to start expanding. So good news is we're getting the product back on the shelf to keep up with the demand and the pipeline looks strong going into 2027.

When you look at overall investment ahead of United States and Canada that we have today, we're still working around it. The brand has tremendous equity value and that it's going to be embedded into our long range plans, so more to come on that. But the number one priority for us right now is to keep up with the demand in these markets, because there's still plenty of growth opportunities for us, and it's important component of our growth moving forward.

Operator: Our last question today comes from Bonnie Herzog from Goldman Sachs. Please go ahead. Your line is open.

Henrique Gnani Braun
Chief Executive Officer, The Coca-Cola Co.

A

Bonnie, maybe mute. So there's no Bonnie. So I think we got to the end, huh?

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

A

Yeah.

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Henrique Gnani Braun

Chief Executive Officer, The Coca-Cola Co.

Okay, great. Look, to close us out, our performance reflects the hard work of our teams and partners around the world, who continue to stay close to consumers and doing a little bit better every day. And we are very pleased with that. We are confident in our ability to deliver our 2026 and long-term objectives. And thank you for your interest, for your investment in our company and for joining us this morning. Thank you so much.

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

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