

London, 16th August 2019

To: James R Quincey, Chairman & CEO of The Coca-Cola Company

cc: asktheboard@coca-cola.com

Open Letter to the Board of the Coca-Cola Company

Dear James,

We are writing to you to express our concerns about the recent change of name at 'Coca-Cola Bottling Co. Consolidated' (which describes itself as "the largest Coca-Cola bottler in the United States"¹) to 'Coca-Cola Consolidated, Inc.'

In the interests of clarity, this letter will refer to The Coca-Cola Company as 'KO', and Coca-Cola Consolidated, Inc. as 'COKE'.

We believe that this name change, and the fact that Coca-Cola Consolidated trades under the ticker symbol 'COKE' is confusing to investors (especially to non-professional investors); creates a risk that investors will purchase shares in COKE on the misapprehension that they are buying shares in KO; appears to have distorted the stock-market valuation of COKE (of which we are currently short shares because of this distortion) and creates a risk that the actions of COKE and its management will be seen by the public as the actions of KO itself.

We note that according to SEC filings published by COKE, KO owns approximately 27% of the stock of COKE, and has the right nominate a candidate for COKE's Board of Directors².

This means that KO has both the standing, and we believe the duty to act to help rectify this situation.

¹ COKE, Form 10-K 2018, p3

² COKE, Form 10-K 2018, p3

COKE Changes its Name:

On 02.01.19, Coca-Cola Bottling Co. Consolidated announced a change of name to 'Coca-Cola Consolidated, Inc.'"³

At the time of the name change, the Charlotte Business Journal reported comments from Mr. Harrison, the CEO of COKE explaining that the change was intended to "simplify" the name of the company. The article also noted that in October 2018 that Mr. Harrison entirely aware that COKE's previous name was 'easily confused with' KO's.

During an October interview with the *Charlotte Business Journal*, Harrison, Coke Consolidated CEO, acknowledged that the former name of the company could be too long and easily confused with The Coca-Cola Co. (NYSE: KO), the Atlanta-based that supplies Coke Consolidated with the ingredients for its beverages.

Source: *Charlotte Business Journal*⁴

In light of this acknowledgement, it seems rather strange that COKE would change its name to something that is much more easily confused with KO's, and something that complicates, rather than simplifies how the market sees the company.

The Name Change Confuses the Market:

We are not suggesting that COKE had any dishonest intentions in changing their name. Rather, we suggest that when a company trades under the ticker COKE and changes its name to 'Coca-Cola Consolidated', confusion in the market is inevitable.

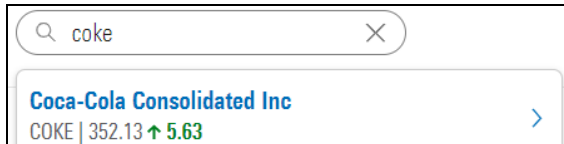
The first issue is the ticker symbol. The term 'coke' is universally associated with KO. It is not unusual for KO to refer to itself on its own website as "coke". One highly visible article on the website today invites the reader to "Share Your Coke Moments" (and clearly does not refer to the bottling activities of COKE).

³ "Coca-Cola Bottling Co. Consolidated Announces Company Name Change", 02/01/19. (<https://www.globenewswire.com/news-release/2019/01/02/1679599/0/en/Coca-Cola-Bottling-Co-Consolidated-Announces-Company-Name-Change.html>)

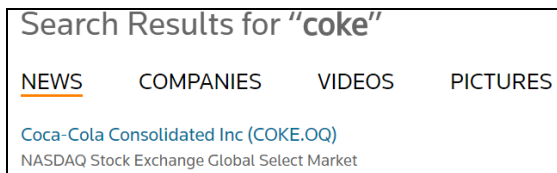
⁴ "How Coke Consolidated is simplifying for the new year", *Charlotte Business Journal*, 02/01/19

The fact that 'coke' is such a universal term for the products of KO compounds this issue. It is perfectly natural for a novice investor interested in investing in KO to search for 'coke' on websites providing information on shares.

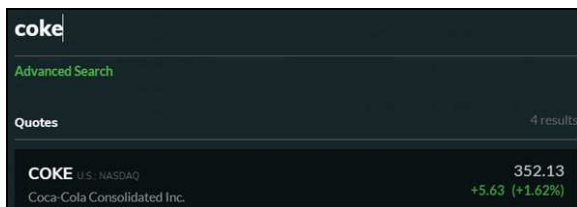
Unfortunately, the first result returned by this search term is almost always COKE (the bottler).



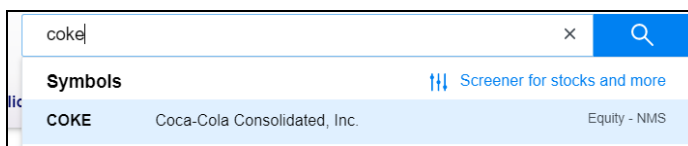
Source: Morningstar.com



Source: Reuters.com

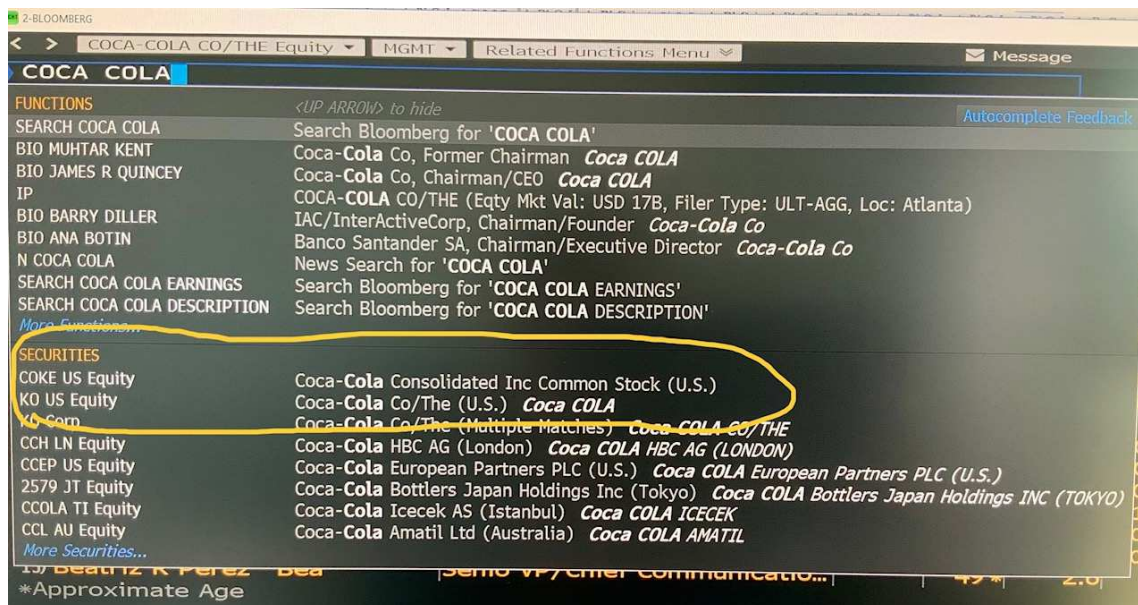


Source: Marketwatch.com



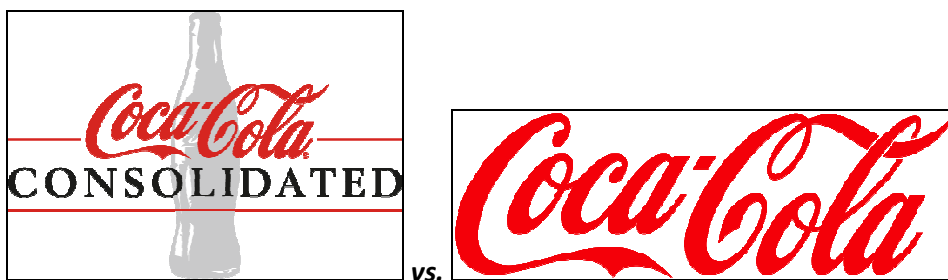
Source: Yahoo Finance

This issue even happens on a Bloomberg Terminal if one types “Coca Cola”, COKE shares are suggested before KO. Even professional investors may get confused:



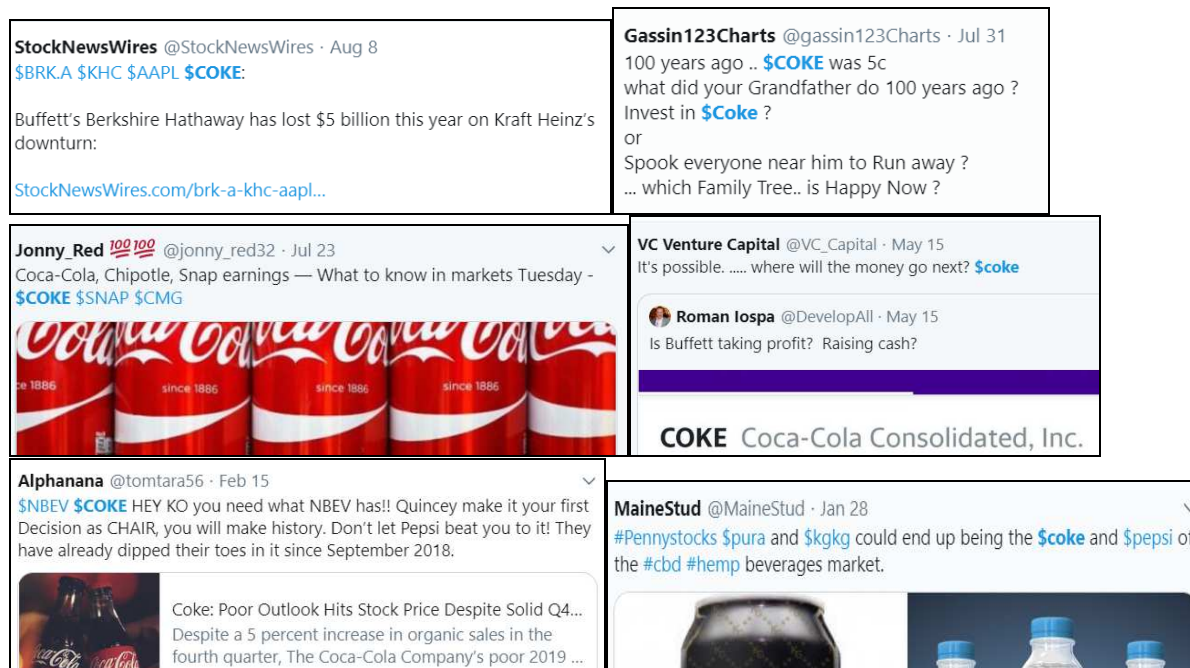
Source: Bloomberg

This presents a clear risk of investors inadvertently investing in COKE when trying to buy shares of KO. Moreover, the fact that COKE’s logo is not just similar to, but literally incorporates the iconic KO logo only adds to the risk of confusion between the two companies.



Source: Google Images

The tweets below show a small sample of the evidence of private investors (and in one case a news organisation) confusing COKE for KO.



Source: Twitter, all dates 2019

Even more concerning than this, there are examples of financial journalists confusing COKE for KO (note that the second and third image show stories from before COKE changed its name; demonstrating that the name change has made an existing problem worse).

Coca Cola Inc. ([COKE](#)) is eyeing a possible entry into the cannabis industry by infusing cannabidiol (or CBD as it is popularly known) from cannabis into “functional wellness beverages around the world”. Preliminary research has indicated that CBD has significant medical benefits in the treatment of neurological disorders. It is also non-psychoactive, meaning that it does not have an adverse effect on a person's awareness of their surroundings.

Source: Investopedia.com⁵

Coca Cola ([COKE](#)) Shares are up .02% right now in midday trading. The beverage giant is interested in CBD, the non-psychoactive ingredient in marijuana, and is in talks with Canadian marijuana producer Aurora Cannabis to develop drinks, according to Bloomberg.

Source: Yahoo Finance⁶

⁵ Investopedia.com, “Why are Beverage Companies Interested in Cannabis”, last updated 25/06/19

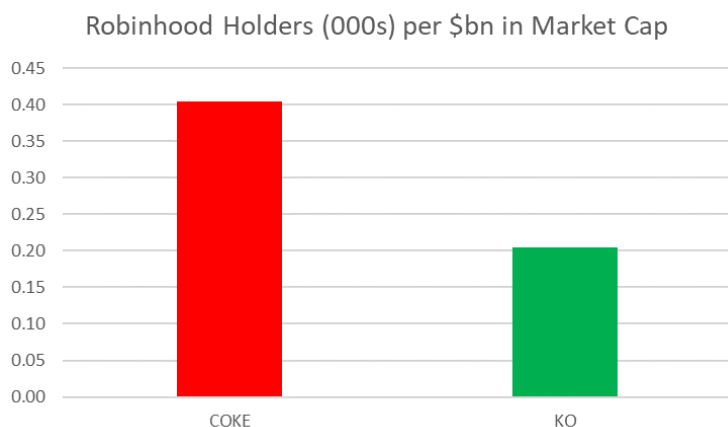
The orange juice in your refrigerator [probably](#) came from Coca Cola. The oatmeal you eat with it? That's [probably](#) a Pepsi jam. In fact, together these two companies make up an enormous proportion of the drinks and snacks you may have on a daily basis. Coca Cola ([COKE - Get Report](#)) alone claims more than 500 brands worldwide.

These two companies have expanded enormously since their founding in the late 19th century. Still, all the sports drinks and sun chips in the world don't change their core mission: winning the cola wars. Ever since Coke and Pepsi ([PEP - Get Report](#)) hit the shelves they have been direct competitors, a head-to-head that by now has become a part of American culture.

Source: *TheStreet.com*⁷

If the confusion between COKE and KO is so intractable that even professional journalists cannot avoid it, then this is a serious problem.

Robinhood, a commission free brokerage app popular with younger investors, provides data on the number of users holding each stock on the platform. Incredibly, COKE has approximately twice as many holders per billion dollars of market cap than KO.



Source: *Noster Capital*, data from *Robintrack.com* as of 07/08/19

Without intending any disrespect to COKE, we can think of no reason for it to see such a disproportionate level of interest from private investors other than that this is yet more evidence of the unfortunate confusion caused by COKE's recent name change, and its ticker symbol.

⁶ Yahoo Finance, "Coca Cola Shares climbing, Teva is soaring and Tesla takes a dive, 17/09/18

⁷ TheStreet.com, "Pepsi vs. Coke: What's Really the Difference", 14/11/18

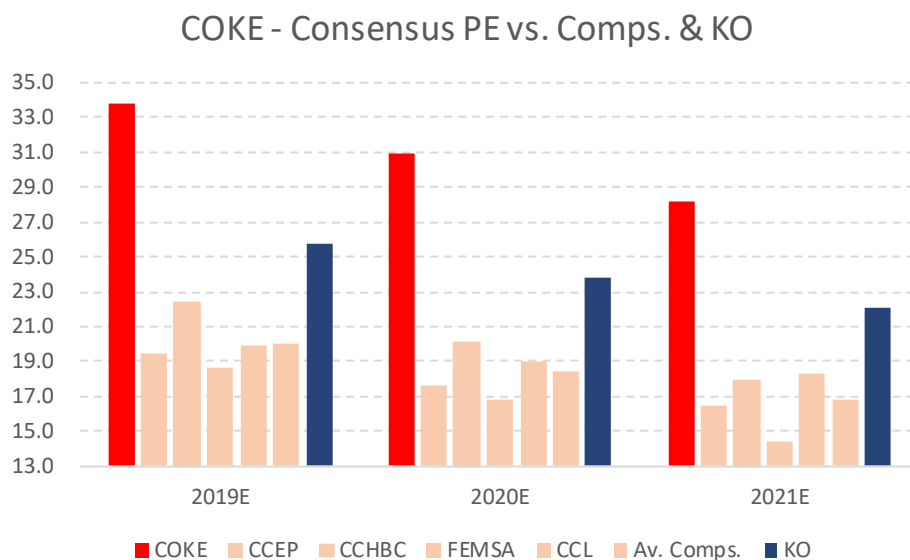
An especially compelling piece of evidence for COKE's name change can be seen in the divergence between the share prices of KO and COKE since the name change. The chart below (the blue line on the chart represents COKE, with KO in white) shows that the relative performance of the two shares was similar from the start of 2017, until COKE's name change at the start of 2019. Since when COKE's shares have dramatically outperformed (and now trade at materially higher valuation levels than) other publicly traded Coca-Cola bottlers – risking capital loss for investors buying COKE at current prices as a result of this confusion.

Again, we can see no compelling reason for a divergence as dramatic as this beyond confusion about the name change and ticker.



Source: Bloomberg

Unfortunately, the confusion generated in the market seems to have grossly distorted the valuation of COKE's shares. The charts below compare the price-to-earnings multiple of COKE, several other publicly traded Coca-Cola bottlers, and KO itself.



Source: Consensus Estimates, Noster Capital

The question is: Why is COKE (in red) trading at such a material premium to other Coca-Cola Bottlers, and at such a premium to KO (in blue)? We can see no other justification than its recent name change.

When this confusion unwinds, COKE is likely to return to similar multiples to other Coca-Cola bottlers – risking significant capital losses to any investors buying COKE on the misapprehension that they are buying KO.

Why this is relevant to the Board of Directors at KO:

As one of America's iconic corporations, and as the first investment choice of many novice investors, ***we believe that KO has a duty to intervene in the current confusion.***

This is important both to protect novice investors who may inadvertently buy COKE based on its confusing name and ticker, and to KO as a major shareholder in COKE, which surely has an interest in preventing the market value of its shareholding from being distorted by this confusion.

According to SEC filings published by COKE, KO owns approximately 27% of the stock of COKE, and has the right nominate a candidate for COKE's Board of Directors. This means that KO is well positioned to encourage the necessary changes in COKE's name, ticker symbol, and logo to prevent the risk of this confusion continuing.

Beyond this, there are some risks to KO's reputation from this confusion, because due to the confusing name change, the actions of COKE risk being interpreted by the general public as those of KO.

Risks to KO from the confusion with COKE:

We would also suggest that COKE exhibits a lower standard of corporate governance than investors expect from KO, and in the context of the confusing name change, any negative publicity about this could reflect badly on KO.

Despite its relatively small size, COKE owns a corporate jet, and encourages the CEO to use it for personal travel.

The Board requires the CEO to use the Company's corporate aircraft whenever reasonable for both business and personal travel.

Source: COKE, 2018 Proxy Materials

COKE leases its headquarters, and other buildings from companies owned by management, and we note that the cost of leasing these buildings over the last few years has risen rather faster than the dividend paid to shareholders.

Related Party Leases

The Company leases its headquarters office facility and an adjacent office facility in Charlotte, North Carolina from Beacon Investment Corporation, of which J. Frank Harrison, III, Chairman of the Board of Directors and Chief Executive Officer of the Company, is the majority stockholder and Morgan H. Everett, Vice President and a director of the Company, is a minority stockholder. The annual base rent the Company is obligated to pay under this lease agreement is subject to adjustment for increases in the Consumer Price Index and the lease expires on December 31, 2021. The principal balance outstanding under this capital lease was \$9.9 million on December 30, 2018 and \$12.8 million on December 31, 2017.

Source: COKE, 2018 10K

COKE has a dual share-class structure which leaves ordinary investors with very limited ability to influence the company.

The Class B Common Stock is entitled to 20 votes per share and the Common Stock is entitled to one vote per share with respect to each matter to be voted upon by the stockholders of the Company. Except as otherwise required by law, the holders of the Class B Common Stock and Common Stock vote together as a single class on all matters submitted to the Company's stockholders, including the election of the Board of Directors. As a result, the holders of the Class B Common Stock control approximately 86% of the total voting power of the stockholders of the Company and control the election of the Board of Directors. The Board of Directors has declared, and the Company has paid, dividends on the Class B Common Stock and Common Stock and each class of common stock has participated equally in all dividends declared by the Board of Directors and paid by the Company since 1994.

Source: COKE, 2018 10K

The corporate governance issues described above are all disclosed by COKE, and we are not suggesting that they are breaking any laws or regulations – but as long-term investors, we feel they fall far below the standards we expect of public companies, and due to the confusing name change at COKE, there is a clear risk of these issues being seen as directly connected to KO.

COKE's corporate messaging is explicitly religious.



Source: COKE Website⁸

We have **no objection** to COKE's religious position, and we acknowledge that it is up to COKE to follow any corporate 'mission' that their Board of Directors considers appropriate.

However, with COKE having changed its name in a way that is leading many market participants to confuse it with KO, there is a significant risk that COKE's explicitly religious messaging will be seen by the general public as being directly related to KO.

We note the efforts made by KO in recent years to strengthen its efforts in the areas of 'Diversity & Inclusion' and wonder what effect the continuing confusion of COKE and KO might have on this considering COKE's messaging.

The CEO of COKE also makes potentially controversial political donations: We have **no objection** to Mr. Harrison exercising his right to make such donations (and have thus chosen to redact certain information in the image below – despite the data being a matter of public record).

However, due to their potentially controversial nature, and the decision of COKE to change its name in a way that is causing many to confuse it with KO, we feel that this is worth the attention of the Board of Directors of KO.

⁸ <http://www.cokeconsolidated.com/stewardship-vision-community-activation>

These donations mention “Coca-Cola Consolidated” as his employer, which invites potential confusion with KO, and 4100 Coca-Cola Plaza (the head office of COKE; and an address that risks suggesting an official and direct connection with KO) as his mailing address.

There is a clear risk that these donations could appear to the general public as being directly related to KO.

B. Full Name (Last, First, Middle Initial) HARRISON, J. F. MR., III			Transaction ID : SA18.2175348 Date of Receipt	
Mailing Address <u>4100 COCA-COLA PLAZA</u>			MM / DD / YYYY 08 / 22 / 2016	
City	State	Zip Code		
CHARLOTTE	NC	28211		
FEC ID number of contributing federal political committee.			[REDACTED]	
Name of Employer <u>COCA-COLA CONSOLIDATED</u>			Occupation <u>CHAIRMAN/C.E.O</u>	
Receipt For: 2016 <input type="checkbox"/> Primary <input checked="" type="checkbox"/> General <input type="checkbox"/> Other (specify) ▼			Election Cycle-to-Date [REDACTED]	
			Amount of Each Receipt this Period [REDACTED]	
			<input checked="" type="checkbox"/> Memo Item	

Source: Federal Election Commission, Campaign Finance Database

Curiously the donation shown above was made on 22/08/2016 – 2 years, 4 months, and 10 days before COKE changed its name from ‘Coca-Cola Bottling Co. Consolidated’, adding to the risk of potential confusion.

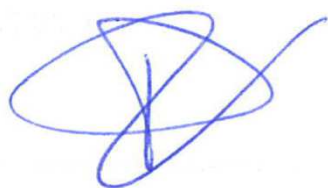
We would restate that we consider the recipient of these funds to be immaterial, but that KO being perceived to be taking (mistakenly or otherwise) any stance in today’s polarised political climate carries the potential for reputational damage.

Recommendations:

As mentioned above, we believe that KO has both the duty, and the ability to intervene in the confusion caused by COKE's confusing name change, and ticker symbol, and propose the following recommendations:

- KO should, as a major shareholder in COKE, with the right to nominate a Board Member, encourage COKE to change its name, logo, and ticker symbol to minimize the risk of investors confusing it with KO.
- KO should communicate with websites providing stock data, and with retail brokerage platforms to suggest that they include clarifications, and warnings to investors looking at stocks with potentially confusing names and ticker symbols to ensure that investors do not inadvertently purchase the wrong company.
- KO may also wish to consider making, and publicising a statement clarifying that COKE is a separate company despite the similarity in name and confusing ticker symbol, and that COKE is an independent business whose actions and public positions are not directly connected to KO.

Best regards,

A handwritten signature in blue ink, appearing to be 'Pedro de Noronha', with a stylized, overlapping loop structure.

Pedro de Noronha
Managing Partner
Noster Capital LLP