

We invest in winners. That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

The Coca-Cola Company

Coca-Cola is the world's largest producer of soft drinks. Some 3,500 different products are sold under 500 brands in over 200 countries. The product range includes table waters, juices, fruit juice and sports drinks, teas, ready-made chilled coffee as well as hot beverages and milk drinks. Coca-Cola is the world's best known and most valuable brand name. It is celebrating its 125-year jubilee.

There is no other drinks producer with such an extensive distribution network. The supply chain comprises 300 own or controlled bottling firms as well as wholesalers and retailers, distributors and partners. The scale effects in distribution represent an enormous and permanent competitive advantage that allows exceptionally high operating margins in relation to tangible fixed assets. This is supported by brand-based pricing power, product innovations through new brands (e.g. Powerade Sportswater) or the extension of existing brands (e.g. Coca-Cola Zero) and by the systematic entry into new markets and penetration of existing markets. Coca-Cola cannot be replicated by any other competitor.

Global per capita consumption of the US group's drinks averages 89 units (21 liters) a year. The average annual growth rate over the past 20 years is 3.7%. The emerging markets especially hold huge growth potential.

While the average US citizen consumes 394 and the average German 179 beverage units, the figure for China is 34 and for India 11 units. According to "Vision 2020", beverage sales are to grow from currently 1.7bn units to over 3bn units a day. It can be assumed that Coca-Cola's sales and earnings will go on growing continuously in the future.

Coca-Cola is a good capital allocator that generates high returns on equity. Over the five years from 2005 to 2009 it earned USD 12.25 per share. USD 5.37 of this was retained. Adjusted after tax earnings per share have risen over the past five years by USD 0.99 or 8% per year to USD 3.03. That implies an internal rate of return on retained earnings of 18% in 2010. Share buybacks do not contribute much to that. About 3% of the shares have been repurchased over the past five years. The volume will increase slightly in the coming years and the tradition of share buybacks, existing since 1984, will be sustained.

In addition, the dividend per share will continue to be increased each year, as has been the case now for 49 years.

We see Coca-Cola as an equity bond with a rising coupon and permanent inflation protection. The initial yield is 5%. We expect this to grow at an annual rate of nearly 10%.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky