

The Baratelli Institute

EDUCATIONAL CASE STUDY · THE BERKSHIRE READ

BERKSHIRE READ · CASE 6 · KO

Thirty years, not one share sold: read Berkshire's ~\$31.8B Coca-Cola hold through a ~\$20B tax fight.

Position ~400M shares, held since 1988–1994 · **Filing** long-standing 13F holding (#3) · Equity stake, not an acquisition
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Berkshire bought ~400 million Coca-Cola shares for ~\$1.3B between 1988 and 1994, has never sold one, and now holds a stake worth ~\$31.8B that pays ~\$848M of cash dividends a year — a yield on the original cost of roughly 65%. This is the cleanest illustration of “our favorite holding period is forever” in the whole portfolio. The one live variable worth underwriting is the IRS transfer-pricing case, now fully briefed at the Eleventh Circuit: a ~\$20B aggregate exposure, of which ~\$6.0B is already paid as a refundable deposit and ~\$14B is disclosed potential KO has not reserved. Even a full loss is a fundable, mostly one-time cash event plus a permanent ~3.5-point rise in the tax rate. The read: a textbook permanent compounder — own it, but at ~26× don't mistake the lawsuit for a reason to sell or the multiple for a reason to add.

~\$31.8B

BRK MARKET VALUE (#3 HOLDING)

400M

SHARES HELD SINCE 1988–94

~9.3%

OF COCA-COLA OWNED

~65%

YIELD ON ORIGINAL COST

64 yrs

CONSECUTIVE DIVIDEND INCREASES

~\$848M

ANNUAL DIVIDENDS TO BRK (2026)

\$12,472M

Q1'26 REVENUE (+12% REP.)

\$4,359M

Q1'26 OPERATING INCOME

\$0.91

Q1'26 DILUTED EPS

\$3.04

FY2025 DILUTED EPS

~\$11BUNDERLYING FREE CASH FLOW /
YR**~\$30B**

NET DEBT (~2× EBITDA)

~26×TRAILING P/E (PREMIUM TO
PEERS)**~\$20B**

IRS AGGREGATE EXPOSURE

~3.5 pptWORST-CASE PERMANENT ETR
RISE

Position value at an approximate June 2026 KO price of ~\$79.40 (~\$341.6B market cap / ~4.30B shares); cost basis and share count from Berkshire disclosures. Financials from Coca-Cola's FY2025 Form 10-K and Q1 2026 Form 10-Q. Re-verify against the latest 13F and quote before relying on these figures.

The position — 30 years, never sold

Most Berkshire Reads examine a new purchase. This one examines a decision *not* to act. Berkshire accumulated roughly **400 million Coca-Cola shares** between 1988 and 1994 for about **\$1.299B** — roughly \$3.25 a share — and has not bought or sold a share since. At a June 2026 price near \$79.40, that stake is worth about **\$31.8B**, an unrealized gain of ~\$30.5B, or about 24× the original cost. It is Berkshire's third-largest equity holding, behind Apple and American Express. The entire question in front of a reader is whether the reasons to keep holding still hold.

Position summary	Figure	Note
Shares held	~400M	Accumulated 1988–1994; unchanged since
Total cost basis	~\$1.299B	~\$3.25 / share
Market value (~\$79.40)	~\$31.8B	Berkshire's #3 equity holding
Unrealized gain	~\$30.5B	~24× the original cost
Economic stake	~9.3%	400M of ~4.30B shares outstanding
Annual dividends (2026 rate)	~\$848M	400M × \$2.12 — rising every year

Cost basis and share count from Berkshire Hathaway disclosures; market value at an approximate June 2026 price of ~\$79.40. Reconcile against the latest 13F and quote before relying on these figures.

Look-through earnings — and the 65% yield on cost

Buffett's preferred lens on an equity stake is *look-through earnings*: ownership percentage times the company's net income — the profit Berkshire economically owns whether or not it is paid out. On Coca-Cola's FY2025 net income of ~\$13.1B, the ~9.3% stake represents about **\$1.2B** of look-through earnings, of which ~\$848M now comes back as cash dividends and the rest is retained and reinvested inside Coca-Cola.

Metric	Figure	Note
Berkshire ownership	~9.3%	400M of ~4.30B shares
KO FY2025 net income	~\$13.1B	Reported
Look-through earnings	~\$1.2B	Ownership % × net income
Of which paid as dividends	~\$848M	2026 rate; the rest retained & reinvested
Dividend per share (2026)	\$2.12	64th consecutive annual increase (raised Feb 2026 from \$2.04)
Yield on original cost	~65%	~\$848M annual dividend ÷ ~\$1.299B cost

The dividend alone now returns about two-thirds of the entire original investment every single year, and it has risen for 64 consecutive years. Selling would trigger an enormous deferred-tax bill and surrender a 65%-yielding, growing, tax-efficient income stream that compounds untouched — which is exactly why Berkshire never sells.

What Buffett said — “forever,” and why he meant it

Berkshire began buying Coca-Cola in 1988, the same year Buffett wrote the line that became shorthand for his whole approach. Read against a 30-year hold that has compounded a \$1.3B outlay into ~\$31.8B plus a 65%-yielding dividend stream, it is not a slogan — it is a description of the arithmetic.

“Our favorite holding period is forever.”

— Warren Buffett, Berkshire Hathaway 1988 Letter to Shareholders — the year Berkshire began buying Coca-Cola. (Verify exact wording before relying on it.)

The reason “forever” worked here is the business underneath it. Coca-Cola is a capital-light concentrate machine: it sells concentrate and syrup to a global network of bottlers who carry the capital-intensive work — plants, trucks, cans — while Coca-Cola keeps the brand, the formula, the marketing, and the pricing power. The international, concentrate-led segments earn extraordinary operating margins, and the business converts modest volume growth into reliable, rising cash returns. It is a toll booth on global beverages.

FY2024 operating segment	Net revenue	Op. income	Op. margin
North America	\$18.6B	\$4.3B	~23%
EMEA	\$8.1B	\$4.1B	~51%
Latin America	\$6.5B	\$3.8B	~59%
Asia Pacific	\$5.5B	\$2.1B	~39%
Bottling Investments	\$6.2B	\$0.5B	~8%

FY2024 operating segment	Net revenue	Op. income	Op. margin
Global Ventures	\$3.1B	\$0.4B	~11%

Reported FY2024 segment table (KO Q4/FY2024 8-K); margins computed. This structure is also the heart of the IRS dispute: the highly profitable, concentrate-led international segments earn most of the operating income — exactly the cross-border profit allocation the IRS is challenging. Company-owned bottling is low-margin by design; KO sells those operations back over time (“refranchising”).

Why Latin America’s margin is the highest — and what it says about Pepsi

Latin America’s ~59% operating margin looks anomalous next to North America’s ~23%, but it is mostly an artifact of *what the segment contains*, not a sign that the region is twice as profitable a place to do business. Latin America is almost **pure concentrate**: KO sells concentrate and syrup to large, independent, publicly traded bottlers — Coca-Cola FEMSA, Arca Continental, Andina — who own the plants, trucks, cans and routes. All of that capital-intensive, low-margin finished-goods work sits on the *bottlers’* books (and, where KO still owns bottling, in the separate ~8%-margin Bottling Investments segment), so what remains inside the Latin America line is the high-margin toll: concentrate revenue against concentrate cost plus marketing. North America, by contrast, still carries a large company-owned finished-goods and distribution business, which is exactly why its margin is a third of Latin America’s. EMEA (~51%) is high for the same concentrate-led reason; Asia Pacific (~39%) sits in between as its bottling mix is refranchised.

Layered on top of that structural story are two genuine economics: Coca-Cola is dominant in the region — very high carbonated-soft-drink share in Mexico (the world’s top per-capita Coke market) and Brazil — and that dominance, plus dense partner distribution, supports pricing and mix. **Pepsi is present, but it competes on a different battlefield.** PepsiCo’s strength in Latin America is overwhelmingly *snacks* — Sabritas, Gamesa, Frito-Lay — not carbonated beverages, where its share trails Coke by a wide margin. So Coca-Cola faces less pricing pressure on concentrate in Latin America than the “cola war” framing implies. But the headline ~59% is first and foremost a *segment-accounting* outcome — concentrate-only revenue with the bottling capital stripped out — and only secondarily a competitive-intensity story.

The financials — a durability machine

Coca-Cola is not a fast grower; it is a durability machine. FY2025 revenue was ~\$47.9B (~+5% organic), operating income recovered ~38% to ~\$13.8B (FY2024’s ~\$10.0B was depressed by a ~\$3.1B fairlife remeasurement charge), and net income was ~\$13.1B on diluted EPS of \$3.04. The first quarter of 2026 carried the momentum forward: reported revenue rose 12% to \$12,472M and operating income rose to \$4,359M. Read that 12% honestly: KO’s own bridge splits it into ~8 points of concentrate-volume growth, ~2 points of price/mix, and ~3 points of favorable foreign currency, less ~1 point of divestitures — so underlying organic growth was closer to ~10%, with a ~3-point FX tailwind that will not repeat if the dollar firms.

Income statement (\$M)	FY2023	FY2024	FY2025	Q1'25	Q1'26
Net operating revenues	\$45,754	\$47,061	\$47,941	\$11,129	\$12,472
Operating income	\$11,311	\$9,991*	\$13,762	\$3,659	\$4,359
Operating margin	24.7%	21.2%	28.7%	32.9%	35.0%
Net income (shareowners)	\$10,714	\$10,631	\$13,107	\$3,330	\$3,924
Diluted EPS	\$2.47	\$2.46	\$3.04	\$0.77	\$0.91

*FY2024 operating income was depressed by ~\$4.16B of other operating charges (including a ~\$3.1B fairlife contingent-consideration remeasurement). FY figures from the FY2025 Form 10-K; quarters from the Q1 2026 Form 10-Q (three months ended April 3, 2026 vs March 28, 2025). The Q1 operating margins above ~33% reflect concentrate-mix seasonality; full-year margin runs in the high-20s.

The balance sheet — why net debt makes the IRS case real

This is the one place Coca-Cola differs sharply from a net-cash compounder like Alphabet, and it is load-bearing for this case. KO carries roughly **\$45.5B of total debt against ~\$16B of cash and investments — about \$30B of net debt, or ~2× EBITDA**. That is comfortably investment-grade, but it is *not* a fortress of idle cash. It is precisely why a maximal IRS loss — which management has said could require borrowing — actually registers on the balance sheet rather than being absorbed by a cash hoard. The leverage is manageable; it is simply the reason the tax tail is worth quantifying instead of waving away.

Nine quarters of net debt — why KO carries it, and whether the dividend depends on it

The natural question is *why* a business that throws off ~\$11B of free cash a year carries ~\$32B of net debt at all. The nine-quarter walk below answers it. Net debt is not drifting up because the business is weak — it is the visible footprint of the two ~\$6B one-time cash calls passing through. Net debt jumps in **Q3'24** (the \$6.0B IRS deposit) and again in **Q1'25** (the \$6.17B fairlife payment), then grinds back down each subsequent quarter as the cash engine repays it. Underneath those two spikes, KO runs a *deliberate* ~2.0–2.5× leverage target: a concentrate toll-booth with this much cash-flow certainty can safely carry investment-grade debt, and using cheap debt rather than idle cash lifts return on equity.

Quarter	Net debt	EBITDA (norm. TTM)	Leverage	Δ vs. prior qtr	Cumulative Δ since Q4'23
Q4 2023 (base)	\$30.9B	\$12.2B	2.5×	—	—
Q1 2024	\$31.6B	\$12.4B	2.5×	+\$0.7B	+\$0.7B
Q2 2024	\$30.3B	\$12.8B	2.4×	–\$1.3B	–\$0.6B
Q3 2024 — IRS deposit	\$36.1B	\$13.2B	2.7×	+\$5.8B	+\$5.2B

Quarter	Net debt	EBITDA (norm. TTM)	Leverage	Δ vs. prior qtr	Cumulative Δ since Q4'23
Q4 2024	\$32.1B	\$13.5B	2.4×	−\$4.0B	+\$1.2B
Q1 2025 — fairlife payment	\$37.6B	\$14.4B	2.6×	+\$5.5B	+\$6.7B
Q2 2025	\$35.0B	\$14.7B	2.4×	−\$2.6B	+\$4.1B
Q3 2025	\$33.3B	\$14.9B	2.2×	−\$1.7B	+\$2.4B
Q4 2025	\$32.1B	\$15.0B	2.1×	−\$1.2B	+\$1.2B
Q1 2026	\$32.7B	\$15.1B	2.2×	+\$0.6B	+\$1.8B

Net debt = total debt – cash, equivalents and short-term investments. Year-end columns (Q4'23, Q4'24, Q4'25) anchor to reported balance sheets; the six intermediate quarters are Institute estimates that place the two known cash calls (IRS deposit, Sept 2024; fairlife, March 2025) in the correct quarter and let free cash flow repay them — exact interim net debt is also moved by refinancing, FX translation on foreign-currency debt, and refranchising proceeds not modeled here. EBITDA is a normalized trailing-twelve-month figure that adds back the ~\$3.1B FY2024 fairlife remeasurement charge (GAAP TTM EBITDA bottoms ~\$3B lower in 2024, which would optically push leverage toward ~2.9×); this reconciles toward KO's reported ~1.8× comparable-EBITDA leverage versus ~2.1× on a straight GAAP basis. Reconcile each quarter to its 10-Q/10-K before publishing.

So is the debt there “to ensure the dividend is paid”? Not in the ordinary course. The dividend (~\$8.8B) is covered by normal-year free cash flow (~\$11B) with room to spare — KO does not borrow to fund its regular payout, and the 64-year streak of annual increases (a “Dividend King”) is funded by the concentrate engine, not the credit line. What the balance sheet capacity *does* buy is **shock absorption**: when the two ~\$6B bills landed, KO chose to protect the dividend in full — and most of the buyback — by letting net debt rise temporarily rather than touch shareholder returns. So the honest answer is that debt is not a crutch for the dividend, but it *is* the reason the dividend never flinched while \$12B of one-time cash passed through over two years.

What has the recent borrowing actually funded — setting the IRS deposit and the fairlife payment aside? Very little exotic. KO has not done a large debt-funded acquisition in this window; the incremental borrowing has gone to *general corporate purposes* — terming-out and refinancing maturing notes at manageable rates, bridging the timing of the two cash calls, and sustaining the dividend-plus-buyback program through the drain years. In other words, the debt backfilled two knowable one-time bills and refinanced existing debt; it did not fund empire-building.

And if KO wins the case, what happens to the refunded \$6B deposit? Management has been deliberately non-committal: the \$6.0B sits on the balance sheet as a *deposit* (it was paid to stop interest from accruing, not because KO concedes the liability), and a win would return it with interest. KO has **not earmarked it for a special dividend**. The realistic uses, consistent with how the company already operates, are **paying down net debt** back toward the low end of the 2.0–2.5× target and **resuming a fuller buyback** (repurchases were throttled to ~\$0.7B in FY2025 to conserve cash during the drains). A one-time windfall is far more likely to repair the balance sheet and restore buyback capacity than to arrive as a special check to shareholders.

The cash engine — two ~\$6B one-time drains over a ~\$11B machine

Reported free cash flow looks volatile, and the reason confuses people. Underneath, Coca-Cola generates roughly **\$11B of free cash flow a year** and pays out ~\$8.8B in dividends. But two separate ~\$6B one-time cash items — the FY2024 **\$6.0B IRS litigation deposit** and a FY2025 **\$6.17B fairlife contingent-consideration payment** — pulled reported free cash flow down to \$4.7B and ~\$5.3B in those two years. Strip both out and the engine is steady.

Cash flow (\$M)	FY2023	FY2024	FY2025	Q1'25	Q1'26
Operating cash flow	\$11,599	\$6,805	\$7,408	\$(5,202)	\$2,021
Gross capex	\$(1,852)	\$(2,064)	\$(2,112)	\$(309)	\$(266)
Free cash flow (reported)	\$9,747	\$4,741	\$5,296	\$(5,511)	\$1,755
Free cash flow ex one-time items	\$9,747	\$10,800	~\$11,400	—	—
Dividends paid	\$(7,952)	\$(8,359)	\$(8,779)	\$(89)	\$(2,281)
Share repurchases	\$(2,289)	\$(1,795)	\$(746)	\$(370)	\$(477)

Free cash flow = operating cash flow less gross capex. FY figures reconcile to the FY2025 Form 10-K (operating cash flow \$11,599 / \$6,805 / \$7,408M; capex \$1,852 / \$2,064 / \$2,112M; dividends \$7,952 / \$8,359 / \$8,779M; treasury purchases \$2,289 / \$1,795 / \$746M). Q1'25 operating cash was negative \$(5,202)M because the \$6,173M fairlife contingent-consideration liability was paid in March 2025; the \$6.0B IRS deposit depressed FY2024 operating cash flow. KO reports “free cash flow ex these items” of \$10.8B (FY24) and ~\$11.4B (FY25).

Nine quarters of cash flow — the engine, and the two drains, quarter by quarter

The clearest way to see the engine is nine quarters of cash flow side by side — the same lens we used on Alphabet and Delta. KO's table tells its own story: the two ~\$6B one-time drains are visible as the negative operating quarters (the IRS deposit in 2024, the fairlife payment in Q1'25), while underneath, the dividend climbs every single year and the buyback flexes down to absorb the cash calls. This is what a durability machine looks like when two large, knowable bills pass through it.

Quarter	Operating CF	Capex	Free CF	Dividends	Buybacks
Q1 2024	\$950	\$(380)	\$570	\$(85)	\$(370)
Q2 2024	\$3,900	\$(500)	\$3,400	\$(2,090)	\$(475)
Q3 2024 — IRS deposit	\$(1,850)	\$(560)	\$(2,410)	\$(2,090)	\$(475)
Q4 2024	\$3,805	\$(624)	\$3,181	\$(4,094)	\$(475)
Q1 2025 — fairlife payment	\$(5,202)	\$(309)	\$(5,511)	\$(89)	\$(370)

Quarter	Operating CF	Capex	Free CF	Dividends	Buybacks
Q2 2025	\$4,100	\$(560)	\$3,540	\$(2,190)	\$(130)
Q3 2025	\$4,200	\$(590)	\$3,610	\$(2,190)	\$(123)
Q4 2025	\$4,310	\$(653)	\$3,657	\$(4,310)	\$(123)
Q1 2026	\$2,021	\$(266)	\$1,755	\$(2,281)	\$(477)
9-quarter total	\$16,234	\$(4,442)	\$11,792	\$(19,419)	\$(3,018)

\$M. Free cash flow = operating cash flow less gross capex. Q1'25 and Q1'26 are reported (10-Q); the seven intermediate quarters are Institute estimates calibrated to audited FY totals (the four 2024 quarters tie to \$6,805M operating cash, \$2,064M capex, \$8,359M dividends, \$1,795M buybacks; the four 2025 quarters tie to \$7,408M / \$2,112M / \$8,779M / \$746M). The two negative operating quarters carry the one-time items — the \$6.0B IRS deposit (paid Sept 10, 2024) and the \$6,173M fairlife payment (March 2025). Dividend cash is lumpy by quarter because KO's ~April-1 payment falls just after the late-March fiscal-quarter close in most years (so Q1 cash is small and a later quarter carries two payments); Q1'26's \$2,281M is large because that quarter closed April 3, capturing the April payment. Reconcile each quarter to its 10-Q/10-K before publishing.

The teaching case — how transfer pricing works

Every Berkshire Read isolates one variable. For a 30-year permanent holding the variable is not the business — it is a tax case that could permanently raise the rate at which Coca-Cola's profits are taxed. It is also the clearest live example we have of **transfer pricing**, so we use it to teach the whole subject from first principles: the arm's-length standard, IRC Section 482, a negotiated method, a retroactive reversal, blocked income, and the post-*Chevron* legal backdrop.

What transfer pricing is, and why it exists

A multinational is one company to its shareholders but many taxpayers to many governments. Coca-Cola's U.S. parent owns the trademarks, the formulas and the brand; its foreign affiliates manufacture concentrate and sell it abroad. When the parent licenses that intellectual property to an affiliate, the affiliate has to *pay* for it — a royalty, or a price on the concentrate. That internal price is the **transfer price**, and it decides how much of worldwide profit is booked and taxed in the United States versus overseas. Set the royalty high, more profit is taxed at home; set it low, more profit stays in lower-tax countries. Because both sides of the deal are the same economic owner, no real market sets the price — so the tax law imposes one.

The rule is the **arm's-length standard**, written into U.S. law as **Internal Revenue Code Section 482**. Coca-Cola's filing states it plainly: “*IRS rules governing transfer pricing require arm's-length pricing of transactions between related parties such as the Company's U.S. parent and its foreign affiliates.*” Arm's length means related parties must price the deal the way two strangers would, and Section 482 lets the IRS **reallocate** income between affiliates if it thinks they didn't. The hard part: there is no clean “comparable” for an asset as unique as the Coca-Cola brand, so the fight is over *method* — how to approximate an arm's-length split when no true market price exists.

The 1996 Closing Agreement and the “10-50-50” method

This is why Coca-Cola believes it will win. The identical dispute was fought once before, for 1987–1995, and the two sides *settled it by agreeing on a method*. In the company’s words: “*To resolve the same transfer pricing issue for the tax years 1987 through 1995, the Company and the IRS had agreed in 1996 on an arm’s-length methodology ... The Company and the IRS memorialized this accord in a closing agreement resolving that dispute.*” A closing agreement is a binding contract with the IRS. The formula is the “**10-50-50**” method: each foreign supply point (the licensee that makes concentrate) first keeps a routine profit equal to **10% of its gross sales**, and the residual profit above that is split roughly **50/50** with the U.S. parent. The agreement set the rules going forward and shielded KO from penalties — and the IRS then **audited and confirmed KO’s compliance with that method in five successive audit cycles for tax years 1996 through 2006**. For a decade the government blessed the method it would later attack.

A worked example — 10-50-50 vs. the method the IRS substituted

The whole \$9B fight is the gap between two ways of splitting the same profit. Take one illustrative foreign supply point with **\$10,000 of net sales**, **\$3,000 of operating profit** to allocate, and **\$4,000 of operating assets** (its tangible plant, equipment and working capital). Watch what each method does with that identical \$3,000.

Step	10-50-50 (the agreed method — KO’s position)	CPM (the method the IRS substituted)
Operating profit to allocate	\$3,000	\$3,000
Routine return to the supply point	10% × sales = \$1,000	market return on <i>operating assets</i> , ~10% × \$4,000 = \$400
Residual profit above the routine return	\$2,000	\$2,600
How the residual is split	50 / 50	100% to the U.S. parent
→ Profit kept abroad (supply point)	\$1,000 + \$1,000 = \$2,000	\$400
→ Income taxed in the U.S. (parent)	\$1,000	\$2,600

Illustrative round numbers, not KO figures. On the “gross vs. net assets” question: the 10-50-50 routine return is a percentage of gross sales — no asset base enters it at all, so the gross-vs-net-assets distinction simply does not arise under KO’s method. Assets matter only under the IRS’s Comparable Profits Method (CPM), which sets the supply point’s routine return as a market return on its operating assets — generally operating assets net of operating liabilities (tangible plant, equipment and working capital), and pointedly excluding the Coca-Cola brand and formula intangibles, which the IRS argues belong to the U.S. parent and must be paid for by a royalty home. That exclusion is the engine of the dispute: it leaves the supply point only a thin routine return and sweeps the brand-driven residual back to the United States. Same \$3,000 of profit; a \$1,600 swing in U.S. taxable income on this one supply point. Scale that across Coca-Cola’s foreign supply points for 2007–2009 and you get the IRS’s >\$9B income reallocation and the ~\$3.3B tax bill.

What the IRS did in 2015 — and why KO calls it retroactive

On September 17, 2015 the IRS sought about **\$3.3B** of additional tax for 2007–2009 and announced it would **reallocate over \$9B of income** to the U.S. parent. The filing’s language is pointed: the Notice “*retroactively rejected the previously agreed-upon methodology for the 2007 through 2009 tax years in favor of an entirely different methodology, without prior notice to the Company.*” The IRS then **designated the matter for litigation** — which, KO says, “*forecloses to a company any and all alternative means for resolution of a tax dispute*” — leaving pay-in-full or sue as the only options. KO sued in the Tax Court in December 2015. Notably, the IRS asserted **no penalties**, an implicit nod to the agreed method.

Blocked income, the 3M reversal, and Loper Bright

Two legal threads now matter most. The first is **blocked income**: Brazilian law limited how much KO’s Brazilian licensee could legally remit as royalties, and the question is whether the IRS may tax the U.S. parent on income an affiliate was *barred from paying*. The Tax Court’s November 8, 2023 supplemental opinion said yes, applying the IRS’s blocked-income regulations and holding that *3M Co. v. Commissioner* controlled. Then, on **October 1, 2025, the Eighth Circuit reversed 3M** — finding, in KO’s words, that “*the blocked-income regulation was inconsistent with Internal Revenue Code (‘IRC’) Section 482 and that the IRS therefore could not reallocate income from 3M’s subsidiary in Brazil to 3M in contravention of Brazilian restrictions on the payment of royalties.*” KO calls the ruling “*highly supportive of the Company’s position.*” The second thread is administrative law: in **Loper Bright v. Raimondo (2024)** the Supreme Court overruled *Chevron*, ending the rule that courts must defer to an agency’s reading of an ambiguous statute. With less deference owed to IRS regulations, an appellate court is freer to strike them down — exactly as the Eighth Circuit just did. KO also presses a constitutional argument against the retroactive change of method.

How GAAP forces Coca-Cola to show its hand — ASC 740

The accounting is the best tell of what management truly believes. Uncertain tax positions fall under **ASC 740** (formerly FIN 48), a two-step test: first, is it **more likely than not** (over 50%) the position survives on its merits; only if yes do you measure and book a benefit. A company expecting to lose would **reserve** the loss now. Coca-Cola does nearly the opposite: it concludes it is “*more likely than not the Company’s tax positions will ultimately be sustained on appeal,*” and carries a reserve of just **\$520M (April 3, 2026)** — about half a billion against a ~\$20B headline. Two more mechanics: the **\$6.0B paid in 2024 is booked as an asset**, recorded “*in the line item other noncurrent assets*” because it “*would be refunded in full or in part if the Company’s tax positions are ultimately sustained on appeal*” (KO even books interest income on it — \$217M in 2025); and total **gross unrecognized tax benefits are only ~\$857M (~\$581M net)**. Carrying \$6.0B of cash out the door as a receivable, and reserving almost nothing, is management saying in audited language that it expects to win. The counterweight, also disclosed: a loss means no refund of the \$6.0B, a potential **~\$14B** more for 2010–2025, and a going-forward tax-rate rise of **~3.5 points**.

The dispute	Figure	What it means
Tax years decided (2007–2009)	\$2.7B	Additional tax per the Aug. 2, 2024 Tax Court decision

The dispute	Figure	What it means
Refundable deposit paid 9/10/2024	~\$6.0B	\$2.7B tax + interest; booked as a noncurrent asset, refundable if KO wins
Remaining potential, 2010–2025	~\$14B	KO's disclosed incremental tax + interest, <i>not</i> reserved
Aggregate exposure	~\$20B	\$6.0B deposit + ~\$14B remaining (Dec. 31, 2025)
Unrecognized tax benefits (gross)	~\$857M	~\$581M net — the amount actually booked
Going-forward ETR effect if applied	~3.5 ppt	KO's own 2026 estimate of the rate rise

Sources: KO FY2025 10-K and Q1 2026 10-Q tax disclosures and Legal Proceedings; U.S. Tax Court record. The signal worth reading: KO carries the \$6.0B as a refundable asset and reserves none of the ~\$14B remaining potential — gross unrecognized tax benefits are only ~\$857M — telling shareholders in accounting that it expects to prevail. KO also presses a constitutional argument and, post-Loper Bright (the 2024 overrule of Chevron deference), challenges the IRS's blocked-income regulations. The IRS is litigating parallel transfer-pricing cases (e.g., Meta, Amgen).

How to size it — three scenarios

Scenario	One-time cash	Annual EPS drag	The read
Win on appeal (KO base case)	refund of ~\$6.0B	none	Deposit plus booked interest returns; thesis intact
Partial / settlement	~\$6–13B total	~1–2 ppt	Method survives in part; rate effect muted
Full loss	~\$20B aggregate	~3.5 ppt	Borrow to fund; permanent ~\$0.5B/yr tax drag

Even the full-loss case is survivable. The ~\$20B is largely a one-time settlement of back taxes and interest against a company that generates ~\$11B of free cash flow a year and borrows at investment-grade rates. What actually compounds is the ~3.5-point permanent rise in the tax rate — worth ~\$0.5B a year, a real but modest ~4–5% reduction in earnings power. The case is a haircut, not a guillotine.

The price — a premium to staples peers

Berkshire is not adding to this position, and the valuation is why a new buyer should be thoughtful. At roughly **26× trailing earnings and ~20× EV/EBITDA**, Coca-Cola trades at a clear premium to its consumer-staples peers. The market pays up for the brand, the capital-light concentrate model, the ~50–59% international margins, and the 64-year dividend record.

Company	Market cap	Trailing P/E	EV/EBITDA	Div yield
Coca-Cola (KO)	~\$341.6B	~26x	~20x	~2.9%
PepsiCo (PEP)	~\$195B	~22x	~15x	~3.6%
Mondelez (MDLZ)	~\$88B	~21x	~15x	~2.7%
Keurig Dr Pepper (KDP)	~\$46B	~16x	~13x	~2.8%
Procter & Gamble (PG)	~\$375B	~24x	~17x	~2.5%

Approximate June 2026 market data; verify against live quotes. That premium is the bull and bear case at once: it prices in durability, which means a left-tail event the market is not pricing — a maximal IRS loss that permanently lifts the tax rate ~3.5 points — is exactly the kind of risk that could compress the multiple. For Berkshire, sitting on a ~\$3.25 cost basis, the multiple is irrelevant; for a new buyer it is the whole question.

The bear case — what a careful reader must underwrite

Risks a careful reader must underwrite

- **The IRS transfer-pricing loss.** The load-bearing variable. A full loss is a ~\$20B aggregate cash event (mostly one-time, ~\$6.0B already deposited) plus a permanent ~3.5-point rise in the tax rate — a ~4–5% earnings haircut. KO reserves none of the ~\$14B remaining potential (gross unrecognized tax benefits are only ~\$857M), so a loss would hit earnings without a reserve to cushion it.
- **The premium multiple.** ~26x earnings is rich for a low-single-digit volume grower; for a new buyer there is little margin for error, and the multiple could compress toward staples peers.
- **Volume & health headwinds.** Sugary-beverage taxes, GLP-1 weight-loss drugs, and secular pressure on full-sugar soda are slow, persistent drags that pricing and portfolio mix (Zero Sugar, water, coffee) must keep offsetting.
- **FX and emerging-market exposure.** A concentrate model that earns most of its margin abroad is structurally exposed to a strong dollar and EM currency weakness.
- **Net debt, not net cash.** ~\$30B of net debt and ~2x leverage mean less balance-sheet shock-absorber than a cash-rich compounder if stresses arrive together.

The Berkshire read

Put the pieces together and the 30-year hold is entirely coherent. Berkshire owns ~9.3% of one of the best consumer franchises ever built, bought for ~\$1.3B, now worth ~\$31.8B and throwing off ~\$848M of rising, tax-efficient cash every year — a 65% yield on cost after 64 straight annual increases. The business is a capital-light concentrate toll booth with ~50–59% international margins and ~\$11B of underlying free cash flow. The one live variable, the IRS transfer-pricing case, is genuinely large but genuinely bounded: a mostly one-time, fundable cash settlement in the

worst case, plus a permanent but modest ~3.5-point tax-rate drag. This Read is not about a new purchase — it is about the arithmetic of patience.

WHAT TO WATCH

The appeal — and whether the dividend keeps climbing through it

The variable that decides how this Read ages is the Eleventh Circuit. A KO win refunds the \$6.0B deposit and leaves the thesis intact; a full loss is a fundable cash event plus a permanent ~3.5-point tax-rate drag that slows — but does not stop — the dividend's 64-year climb. Watch the ruling, and watch whether KO keeps raising the dividend regardless. On the evidence (the \$6.0B carried as a refundable asset, the ~\$14B unreserved), management is telling shareholders it expects to win.

Our verdict: a textbook permanent compounder, owned for the right reasons — and a live tax dispute that is a manageable tail risk, not a thesis-breaker. For Berkshire, on a ~\$3.25 cost basis and a 65% yield on cost, this is “forever” working exactly as advertised: hold, and let the deferred-tax bill and the compounding dividend make the case for never selling. For a new buyer at ~26×, the verdict is more guarded — a wonderful business at a full, durability-priced multiple, with a quantified ~\$20B / ~3.5-point tax tail the market is not pricing. Own it; don't mistake the lawsuit for a reason to sell, or the multiple for a reason to add.

— The Baratelli Institute · Berkshire Read Case 6 · our verdict, not investment advice

Sources & verification notes

Position sizing from Berkshire Hathaway disclosures (400M shares; ~\$1.299B cost; held since 1988–1994); market value at an approximate June 2026 KO price of ~\$79.40. Coca-Cola financials from the FY2025 Form 10-K and Q1 2026 Form 10-Q (and the FY2024 Q4/FY 8-K segment table): FY2025 revenue \$47,941M, operating income \$13,762M, net income \$13,107M, diluted EPS \$3.04; Q1'26 revenue \$12,472M, operating income \$4,359M, net income \$3,924M, diluted EPS \$0.91; operating cash flow \$11,599 / \$6,805 / \$7,408M (FY23–25) and \$(5,202) / \$2,021M (Q1'25 / Q1'26); capex \$1,852 / \$2,064 / \$2,112M and \$309 / \$266M; dividends paid \$7,952 / \$8,359 / \$8,779M and \$89 / \$2,281M; treasury purchases \$2,289 / \$1,795 / \$746M and \$370 / \$477M; ~\$45.5B total debt vs ~\$16B cash & investments (~\$30B net debt, ~2× EBITDA). Dividend: 2026 rate \$2.12/share, the 64th consecutive annual increase. IRS dispute from KO 10-K / 10-Q tax disclosures and Legal Proceedings and the U.S. Tax Court record: tax years 2007–2009; ~\$3.3B additional tax sought; Tax Court opinion Nov. 18, 2020, supplemental opinion Nov. 8, 2023, decision of \$2.7B (\$6.0B with interest) entered Aug. 2, 2024; \$6.0B paid as a refundable deposit Sept. 10, 2024; appeal to the Eleventh Circuit filed Oct. 22, 2024, fully briefed (KO Mar. 2025, IRS Jul. 2025); ~\$20B aggregate exposure (\$6.0B deposit + ~\$14B for 2010–2025, not reserved); gross unrecognized tax benefits ~\$857M (~\$581M net); ~3.5-point going-forward ETR effect if applied; parallel IRS cases against Meta and Amgen. The nine-quarter cash-flow table reports Q1'25 and Q1'26 and estimates the seven intermediate quarters to tie to audited FY totals. Buffett “forever” quotation: Berkshire Hathaway 1988 Letter. Before relying on any figure, re-verify against primary sources. Educational analysis, not investment, tax, or legal advice.

THE BARATELLI INSTITUTE · BERKSHIRE READ · INVESTMENT COMMITTEE
MEMORANDUM

Berkshire Hathaway's ~\$31.8B Position in The Coca-Cola Company The 30-Year Hold, Read Through a ~\$20B Tax Fight

TO: Investment Committee · **FROM:** Phil Baratelli, The Baratelli Institute · **DATE:** June 23, 2026

RE: Why Berkshire has owned the same Coca-Cola stake for 30+ years — and how to underwrite the live IRS transfer-pricing dispute · **CLASSIFICATION:** Educational analysis — not investment, tax, or legal advice

ANALYTICAL VERDICT

A textbook permanent compounder, owned for the right reasons — and a live tax dispute that is a manageable tail risk, not a thesis-breaker. Own it; don't mistake the lawsuit for a reason to sell, or the 26× multiple for a reason to add.

Berkshire bought ~400 million Coca-Cola shares for ~\$1.3B between 1988 and 1994, has never sold a share, and now holds a stake worth ~\$31.8B that pays ~\$848M of cash dividends a year — a yield on the original cost of roughly 65%. The Committee's read: this is the cleanest illustration of “our favorite holding period is forever” in the entire portfolio. The one variable worth underwriting is the IRS transfer-pricing case, now fully briefed at the U.S. Court of Appeals for the Eleventh Circuit: a ~\$20B aggregate exposure made up of ~\$6.0B already paid as a refundable deposit (the 2007–2009 years) and ~\$14B of disclosed potential for 2010–2025 that KO has *not* reserved because it expects to win. Even a full loss is a fundable, mostly one-time cash event plus a permanent ~3.5-point rise in the tax rate — a ~4–5% earnings haircut. Painful, not moat-breaking. Underwrite KO as a durability machine with a quantified tax tail, not as a broken thesis.

~\$31.8B

BRK MARKET VALUE (#3 HOLDING)

400M

SHARES HELD SINCE 1988–94

\$1.299B

TOTAL COST BASIS (~\$3.25/SH)

~\$30.5B

UNREALIZED GAIN (~24×)

~9.3%

OF COCA-COLA OWNED

~\$848M

ANNUAL DIVIDENDS (2026)

~65%

YIELD ON ORIGINAL COST

64 yrs

~\$1.2B

LOOK-THROUGH EARNINGS (FY25)

	CONSECUTIVE DIVIDEND INCREASES	
~26× TRAILING P/E (PREMIUM TO PEERS)	~\$20B IRS AGGREGATE EXPOSURE	~3.5 ppt WORST-CASE PERMANENT ETR RISE

1. The position — 30 years, never sold

Berkshire accumulated roughly **400 million Coca-Cola shares** between 1988 and 1994 for a total cost of about **\$1.299B** — roughly \$3.25 a share. It has not bought or sold a share since. At a June 2026 price near \$79.40, that stake is worth about **\$31.8B**, an unrealized gain of ~\$30.5B, or about 24× the original cost. It is Berkshire’s third-largest equity holding, behind Apple and American Express. Unlike the Alphabet position built in 2025–26, nothing here is new: the entire “decision” in front of the Committee is whether the reasons to keep holding still hold.

The position	Figure	Note
Shares held	~400M	Accumulated 1988–1994; unchanged since
Total cost basis	~\$1.299B	~\$3.25/share
Market value (~\$79.40)	~\$31.8B	Berkshire’s #3 equity holding
Unrealized gain	~\$30.5B	~24× the original cost
Ownership of Coca-Cola	~9.3%	400M of ~4.30B shares outstanding
Annual dividends (2026 rate)	~\$848M	400M × \$2.12 — rising every year

Cost basis and share count from Berkshire Hathaway disclosures; market value at an approximate June 2026 price of ~\$79.40 (~\$341.6B market cap / ~4.30B shares). Verify against the latest 13F and quote before relying on these figures.

2. The teaching case — transfer pricing and the IRS dispute

Every Berkshire Read isolates one variable. For a 30-year permanent holding the variable is not the business — it is a tax case that could permanently raise the rate at which Coca-Cola’s profits are taxed. This is also the case we use to **teach transfer pricing**, because the KO dispute is the clearest live example of every concept that matters: the arm’s-length standard, IRC §482, a negotiated method, a retroactive government reversal, the blocked-income regulations, and the post-*Chevron* administrative-law backdrop. We build it from first principles.

What transfer pricing is, and why it exists

A multinational is one company to its shareholders but many taxpayers to many governments. Coca-Cola's U.S. parent owns the trademarks, the formulas and the brand; its foreign affiliates manufacture concentrate and sell it abroad. When the parent licenses that intellectual property to an affiliate, the affiliate must *pay* for it — a royalty, or a price on the concentrate. That internal price is the **transfer price**, and it decides how much of worldwide profit is booked (and taxed) in the United States versus overseas. Set the royalty high and more profit is U.S.-taxed; set it low and more profit stays in lower-tax foreign jurisdictions. Because both sides of the transaction are the same economic owner, the price is not set by a real market — so the tax law imposes one.

The governing rule is the **arm's-length standard**, codified for the United States in **Internal Revenue Code Section 482**. KO's own filing states the principle plainly: "*IRS rules governing transfer pricing require arm's-length pricing of transactions between related parties such as the Company's U.S. parent and its foreign affiliates.*" Arm's length means related parties must price the deal as two unrelated parties would. Section 482 lets the IRS **reallocate** income between commonly controlled entities if it concludes the intercompany price did not reflect arm's length — exactly the power the IRS invoked here. The hard part is that there is rarely a clean "comparable" for a unique asset like the Coca-Cola brand, so the parties fight over *method*: how to approximate an arm's-length split when no true market price exists. The competing methods (comparable uncontrolled price; the comparable profits method, or CPM; profit splits) are just different ways of answering that one question.

The 1996 Closing Agreement and the "10-50-50" method

This is the heart of why KO believes it will win. The same dispute — how to split profit between the U.S. parent and the foreign licensees — was fought once before, for tax years 1987–1995, and the two sides *settled it by agreeing on a method*. In KO's words: "*To resolve the same transfer pricing issue for the tax years 1987 through 1995, the Company and the IRS had agreed in 1996 on an arm's-length methodology for determining the amount of U.S. taxable income that the U.S. parent company would report as compensation from its foreign licensees. The Company and the IRS memorialized this accord in a closing agreement resolving that dispute.*" A **closing agreement** is a formal, binding contract between a taxpayer and the IRS. The negotiated formula is known as the "**10-50-50" method**: each foreign supply point (the licensee that makes concentrate) first keeps a routine profit equal to **10% of its gross sales**, and the residual profit above that is split roughly **50/50** between the licensees and the U.S. parent. The agreement set the rules *going forward* and shielded KO from penalties for using them — and the IRS then **audited and confirmed KO's compliance with that method in five successive audit cycles covering tax years 1996 through 2006**. For a decade, the government blessed the very method it would later attack.

A worked example — 10-50-50 vs. the method the IRS substituted

The entire \$9B fight is the gap between two ways of splitting the same profit, so it is worth working one illustrative supply point. Take a foreign licensee with **\$10,000 of net sales**, **\$3,000 of operating profit** to allocate, and **\$4,000 of operating assets** (its tangible plant, equipment and working capital). Watch what each method does with that identical \$3,000.

Step	10-50-50 (the agreed method — KO's position)	CPM (the method the IRS substituted)
Operating profit to allocate	\$3,000	\$3,000
Routine return to the supply point	10% × sales = \$1,000	market return on <i>operating assets</i> , ~10% × \$4,000 = \$400
Residual profit above the routine return	\$2,000	\$2,600
How the residual is split	50 / 50	100% to the U.S. parent
→ Profit kept abroad (supply point)	\$1,000 + \$1,000 = \$2,000	\$400
→ Income taxed in the U.S. (parent)	\$1,000	\$2,600

*Illustrative round numbers, not KO figures. On the “gross vs. net assets” question the Committee raised: the 10-50-50 routine return is a percentage of gross sales — no asset base enters it at all, so the gross-vs-net-assets distinction simply does not arise under KO's method. Assets matter only under the IRS's **Comparable Profits Method (CPM)**, which sets the supply point's routine return as a market return on its operating assets — generally operating assets *net* of operating liabilities (tangible plant, equipment and working capital), and pointedly excluding the Coca-Cola brand and formula intangibles, which the IRS argues belong to the U.S. parent and must be paid for by a royalty home. That exclusion is the engine of the dispute: it leaves the supply point only a thin routine return and sweeps the brand-driven residual back to the United States. Same \$3,000 of profit; a \$1,600 swing in U.S. taxable income on this one supply point. Scale that across Coca-Cola's foreign supply points for 2007–2009 and you arrive at the IRS's >\$9B income reallocation and the ~\$3.3B tax bill.*

What the IRS did in 2015 — and why KO calls it retroactive

On **September 17, 2015**, the IRS issued a Statutory Notice of Deficiency seeking roughly **\$3.3B** of additional federal tax for 2007–2009 and announcing its intent to **reallocate over \$9B of income** to the U.S. parent from the foreign licensees. The filing's own language captures the grievance: the 2015 Notice “*retroactively rejected the previously agreed-upon methodology for the 2007 through 2009 tax years in favor of an entirely different methodology, without prior notice to the Company.*” The IRS then **designated the matter for litigation**, which, per KO, “*forecloses to a company any and all alternative means for resolution of a tax dispute*” — leaving KO no choice but to pay in full or sue. KO petitioned the U.S. Tax Court in December 2015. Consistent with the old closing agreement, the IRS asserted **no penalties**, an implicit acknowledgment that KO had relied on an agreed method.

The litigation — trial, opinions, and the \$6.0B deposit

Trial ran in the Tax Court from **March through May 2018**; post-trial briefs were exchanged in April 2019. On **November 18, 2020**, the Tax Court issued an opinion that “*predominantly sided with the IRS*” — but handed KO one win: dividends the foreign licensees had already paid up to the parent in reliance on the closing agreement would be allowed to **offset** the royalties the new method imposed. On **August 2, 2024**, the court entered a decision of **\$2.7B of additional tax** for 2007–2009; with interest the total reached **\$6.0B**, which KO **paid on September 10, 2024** to stop interest from accruing. KO appealed to the **U.S. Court of Appeals for the Eleventh Circuit** on October 22, 2024; briefing closed with KO’s principal brief (March 12, 2025), the IRS’s brief (July 7, 2025) and KO’s reply (August 27, 2025). The appeal now awaits argument and decision.

Blocked income and the 3M case — the most important recent development

One sub-issue could decide a large slice of the money: **blocked income**. Brazilian law restricted how much KO’s Brazilian licensee could legally remit to the U.S. parent as royalties. The question is whether the IRS may reallocate income to the U.S. that a foreign affiliate was *legally barred from paying*. The IRS’s **blocked-income regulations** say yes; KO says that violates the arm’s-length standard, because unrelated parties cannot transact in defiance of a foreign government. In its November 8, 2023 supplemental opinion the Tax Court applied the blocked-income regulations against KO and held that *3M Co. v. Commissioner* controlled. Then the ground shifted: on **October 1, 2025 the U.S. Court of Appeals for the Eighth Circuit reversed the Tax Court in 3M**, concluding — in KO’s words — that “*the blocked-income regulation was inconsistent with Internal Revenue Code (‘IRC’) Section 482 and that the IRS therefore could not reallocate income from 3M’s subsidiary in Brazil to 3M in contravention of Brazilian restrictions on the payment of royalties.*” KO calls the reversal “*highly supportive of the Company’s position.*” It is the single most favorable development since the deposit was paid.

Loper Bright — the administrative-law backdrop

Much of the IRS’s case rests on its *regulations*. For forty years, under *Chevron U.S.A. v. NRDC* (1984), courts were required to defer to a federal agency’s reasonable interpretation of an ambiguous statute — a thumb on the scale for the IRS. In **Loper Bright Enterprises v. Raimondo (2024)** the Supreme Court **overruled Chevron**, instructing courts to decide for themselves what a statute means rather than defer to the agency. KO states it is evaluating Loper Bright (and related rulings such as *Ohio v. EPA* and *Garland v. Cargill*) for its appeal. The relevance is direct: if the blocked-income and CPM-style regulations no longer receive automatic deference, an appellate court is freer to find — as the Eighth Circuit just did in 3M — that the regulations exceed what Section 482 permits. KO also presses a **constitutional** argument: that retroactively imposing tax under a method different from the one the IRS itself audited for over a decade is impermissible.

How GAAP forces Coca-Cola to show its hand — ASC 740

The accounting is its own lesson, and it is the best tell of what management truly believes. Uncertain tax positions are governed by **ASC 740** (the former FIN 48), which prescribes a **two-step** test: first *recognition* — is it **more likely than not** (greater than 50%) that the position survives on its technical merits? — and only if yes, *measurement* — book the largest benefit more than 50% likely to be realized. A company that expected to lose would have to **reserve** the expected loss against earnings now. Coca-Cola does almost the opposite. It concludes it

is “more likely than not the Company’s tax positions will ultimately be sustained on appeal,” and so carries only a modest reserve — **\$520M as of April 3, 2026** (up from \$512M at year-end 2025 and \$438M first booked in 2020, the increases largely accrued interest). Against an aggregate exposure near \$20B, a ~\$0.5B reserve is management telling shareholders, in the one language that is audited, that it expects to win.

Two further GAAP mechanics matter. First, the **\$6.0B paid in September 2024 is not an expense — it is an asset**. KO records the payment and related accrued interest “*in the line item other noncurrent assets*,” because it is a deposit that “*would be refunded in full or in part if the Company’s tax positions are ultimately sustained on appeal*,” and it books **interest income** on it (\$217M in 2025, \$77M in 2024). Carrying \$6.0B of cash out the door as a receivable rather than a cost is, again, a statement of expected victory. Second, KO’s total **gross unrecognized tax benefits are only ~\$857M** (a net ~\$581M benefit if it prevails on every position), with ~\$708M of accrued interest and penalties on top — small relative to the headline exposure precisely because so little of the dispute is reserved.

The honest counterweight, also disclosed: if KO ultimately loses, it “*would not receive a refund*” of the \$6.0B plus the related accrued interest receivable (~\$457M at April 3, 2026), and it estimates the **potential aggregate remaining incremental tax and interest for 2010–2025 at approximately \$14B** as of December 31, 2025 (accreting ~\$450M per quarter), with a going-forward effective-tax-rate increase of **about 3.5 percentage points**. That is the figure that makes this a real risk rather than a footnote — and the reason we size it three ways below.

The dispute	Figure	What it means
Tax years decided (2007–2009)	\$2.7B	Additional tax per the Tax Court’s Aug. 2, 2024 decision
Refundable deposit paid 9/10/2024	~\$6.0B	\$2.7B tax + interest; booked as a noncurrent <i>asset</i> , refundable if KO wins
Remaining potential, 2010–2025	~\$14B	KO’s disclosed incremental tax + interest, <i>not</i> reserved
Aggregate exposure	~\$20B	\$6.0B deposit + ~\$14B remaining (Dec. 31, 2025)
Unrecognized tax benefits (gross)	~\$857M	~\$581M net if KO prevails — the amount actually booked
Going-forward ETR effect if applied	~3.5 ppt	KO’s own 2026 estimate of the rate rise
Added annual cash tax (rate effect)	~\$0.5B	~4–5% permanent haircut to net income

Sources: KO FY2025 Form 10-K and Q1 2026 Form 10-Q tax disclosures and Legal Proceedings; U.S. Tax Court (2020 opinion, 2023 supplemental opinion, Aug. 2024 decision). The signal worth reading: KO carries the \$6.0B as a refundable asset and reserves none of the ~\$14B remaining potential — gross unrecognized tax benefits are only ~\$857M — telling shareholders in accounting that it expects to prevail. KO is also pressing a constitutional argument and, post-Loper Bright (the 2024 overrule of Chevron deference), challenging the IRS’s blocked-income regulations. The IRS is litigating parallel transfer-pricing cases (e.g., against Meta and Amgen), which is why the outcome matters beyond KO.

How to size it — three scenarios

Scenario	One-time cash	Annual EPS drag	The read
Win on appeal (KO base case)	refund of ~\$6.0B	none	Deposit plus booked interest returns; thesis intact
Partial / settlement	~\$6–13B total	~1–2 ppt	Method survives in part; rate effect muted
Full loss	~\$20B aggregate	~3.5 ppt	Borrow to fund; permanent ~\$0.5B/yr tax drag

The key analytical point for the Committee: even the **full-loss** case is survivable. The ~\$20B is largely a **one-time** settlement of back taxes and interest — against a company that generates ~\$11B of underlying free cash flow a year and can borrow at investment-grade rates. What actually compounds is the **~3.5-point permanent rise in the tax rate**, worth ~\$0.5B a year. That is a real, permanent ~4–5% reduction in earnings power — enough to matter to valuation, not enough to break the dividend or the moat. The case is a haircut, not a guillotine.

3. What Berkshire owns — the toll booth on global beverages

Coca-Cola is a capital-light concentrate machine. The company sells concentrate and syrup to a global network of bottlers who carry the capital-intensive work — plants, trucks, cans — while Coca-Cola keeps the brand, the formula, the marketing, and the pricing power. That is why the international, concentrate-led segments earn extraordinary operating margins (Latin America runs near ~59%) and why the business converts modest top-line growth into reliable, rising cash returns.

FY2024 operating segment	Net revenue	Op. income	Op. margin
North America	\$18.6B	\$4.3B	~23%
EMEA	\$8.1B	\$4.1B	~51%
Latin America	\$6.5B	\$3.8B	~59%
Asia Pacific	\$5.5B	\$2.1B	~39%
Bottling Investments	\$6.2B	\$0.5B	~8%
Global Ventures	\$3.1B	\$0.4B	~11%

Reported FY2024 segment table (KO Q4/FY2024 8-K); margins computed. This structure is also the heart of the IRS dispute: the highly profitable, concentrate-led international segments earn most of the operating income, which is exactly the cross-border profit allocation the IRS is challenging. Company-owned bottling is low-margin by design — KO sells those operations back over time (“refranchising”).

Why Latin America’s margin is the highest

Latin America’s ~59% operating margin is mostly a *segment-accounting* outcome, not evidence the region is twice as profitable as North America. Latin America is almost pure concentrate: KO sells syrup to large independent bottlers — Coca-Cola FEMSA, Arca Continental, Andina — who own the plants, trucks and routes, so the capital-intensive, low-margin finished-goods work sits on the *bottlers’* books (or in the separate ~8%-margin Bottling Investments segment). What remains in the Latin America line is the high-margin toll: concentrate revenue against concentrate cost plus marketing. North America still carries a large company-owned finished-goods business, which is exactly why its margin (~23%) is a third of Latin America’s; EMEA (~51%) is high for the same concentrate-led reason. Layered on top: Coca-Cola is dominant in Mexico (top per-capita Coke market) and Brazil, and **Pepsi competes there mainly in snacks** (Sabritas, Gamesa, Frito-Lay) rather than carbonated beverages, where its share trails Coke widely — so concentrate pricing faces less pressure than the “cola war” framing implies. But the headline number is first a structural artifact and only secondarily a competitive-intensity story.

4. The financials — a durability machine with two one-time drains

Coca-Cola is not a fast grower; it is a durability machine. FY2025 revenue was ~\$47.9B (~+5% organic), operating income recovered ~38% to ~\$13.8B (FY2024’s ~\$10.0B was depressed by a ~\$3.1B fairlife remeasurement charge), and net income was ~\$13.1B on diluted EPS of \$3.04. The one number that confuses people is free cash flow, and it is worth getting right.

Income statement (\$B)	FY2023	FY2024	FY2025
Net operating revenues	\$45.8	\$47.1	\$47.9
Operating income	\$11.3	\$10.0*	\$13.8
Net income (shareowners)	\$10.7	\$10.6	\$13.1
Diluted EPS	\$2.47	\$2.46	\$3.04
Free cash flow (reported)	\$9.7	\$4.7*	~\$5.3*
Free cash flow ex one-time items	\$9.7	\$10.8	~\$11.4

*FY2024 operating income was depressed by ~\$4.16B of other operating charges (including a ~\$3.1B fairlife contingent-consideration remeasurement). Reported FCF looks volatile only because of **two separate ~\$6B one-time cash items**: the FY2024 **\$6.0B IRS litigation deposit** and a FY2025 **~\$6.1B fairlife contingent-consideration payment**. Strip both out and underlying free cash flow is ~\$11B a year — comfortably covering the ~\$8.8B dividend. KO itself reports “FCF ex these items” of \$10.8B (FY24) and ~\$11.4B (FY25). Figures reconcile to the FY2025 Form 10-K: FY2025 operating cash flow \$7.41B less capex \$2.11B = \$5.30B reported FCF; FY2024 \$6.81B less \$2.06B = \$4.74B; FY2023 \$11.60B less \$1.85B = \$9.75B; dividends paid \$8.78B (FY25).

Nine quarters of cash flow — the engine, and the two drains, quarter by quarter

The clearest way to show the Committee the engine is nine quarters of cash flow side by side — the same lens we used on Alphabet and Delta. The two ~\$6B one-time drains are visible as the negative operating quarters (the IRS deposit in Q3'24, the fairlife payment in Q1'25), while underneath, the dividend climbs every year and the buyback flexes *down* to absorb the cash calls. This is what a durability machine looks like when two large, knowable bills pass through it without touching the payout.

Quarter	Operating CF	Capex	Free CF	Dividends	Buybacks
Q1 2024	\$950	\$(380)	\$570	\$(85)	\$(370)
Q2 2024	\$3,900	\$(500)	\$3,400	\$(2,090)	\$(475)
Q3 2024 — IRS deposit	\$(1,850)	\$(560)	\$(2,410)	\$(2,090)	\$(475)
Q4 2024	\$3,805	\$(624)	\$3,181	\$(4,094)	\$(475)
Q1 2025 — fairlife payment	\$(5,202)	\$(309)	\$(5,511)	\$(89)	\$(370)
Q2 2025	\$4,100	\$(560)	\$3,540	\$(2,190)	\$(130)
Q3 2025	\$4,200	\$(590)	\$3,610	\$(2,190)	\$(123)
Q4 2025	\$4,310	\$(653)	\$3,657	\$(4,310)	\$(123)
Q1 2026	\$2,021	\$(266)	\$1,755	\$(2,281)	\$(477)
9-quarter total	\$16,234	\$(4,442)	\$11,792	\$(19,419)	\$(3,018)

\$M. Free cash flow = operating cash flow less gross capex. Q1'25 and Q1'26 are reported (10-Q); the seven intermediate quarters are Institute estimates calibrated to audited FY totals (the four 2024 quarters tie to \$6,805M operating cash, \$2,064M capex, \$8,359M dividends, \$1,795M buybacks; the four 2025 quarters tie to \$7,408M / \$2,112M / \$8,779M / \$746M). The two negative operating quarters carry the one-time items — the \$6.0B IRS deposit (paid Sept 10, 2024) and the \$6,173M fairlife payment (March 2025). Dividend cash is lumpy by quarter because KO's ~April-1 payment falls just after the late-March fiscal-quarter close in most years; Q1'26's \$2,281M is large because that quarter closed April 3, capturing the April payment. Reconcile each quarter to its 10-Q/10-K before publishing.

The balance sheet — why net debt makes the IRS case real

This is the one place Coca-Cola differs sharply from a net-cash compounder like Alphabet, and it is load-bearing for this case. KO carries roughly **\$45.5B of total debt against ~\$16B of cash and investments — about \$30B of net debt, or ~2× EBITDA**. That is comfortably investment-grade, but it is *not* a fortress of idle cash. It is precisely why a maximal IRS loss — which management has said could require borrowing — actually registers on the balance sheet rather than being absorbed by a cash hoard. The leverage is manageable; it is simply the reason the tax tail is worth quantifying instead of waving away.

Nine quarters of net debt — why KO carries it, and whether the dividend depends on it

The natural Committee question is *why* a business that throws off ~\$11B of free cash a year carries ~\$32B of net debt at all. The nine-quarter walk answers it: net debt is not drifting up because the business is weak — it is the visible footprint of the two ~\$6B one-time cash calls. Net debt jumps in **Q3'24** (the \$6.0B IRS deposit) and again in **Q1'25** (the \$6.17B fairlife payment), then grinds back down each subsequent quarter as the engine repays it. Underneath those spikes, KO runs a *deliberate* ~2.0–2.5× leverage target: a concentrate toll-booth with this much cash-flow certainty can safely carry investment-grade debt, and using cheap debt rather than idle cash lifts return on equity.

Quarter	Net debt	EBITDA (norm. TTM)	Leverage	Δ vs. prior qtr	Cumulative Δ since Q4'23
Q4 2023 (base)	\$30.9B	\$12.2B	2.5×	—	—
Q1 2024	\$31.6B	\$12.4B	2.5×	+\$0.7B	+\$0.7B
Q2 2024	\$30.3B	\$12.8B	2.4×	–\$1.3B	–\$0.6B
Q3 2024 — IRS deposit	\$36.1B	\$13.2B	2.7×	+\$5.8B	+\$5.2B
Q4 2024	\$32.1B	\$13.5B	2.4×	–\$4.0B	+\$1.2B
Q1 2025 — fairlife payment	\$37.6B	\$14.4B	2.6×	+\$5.5B	+\$6.7B
Q2 2025	\$35.0B	\$14.7B	2.4×	–\$2.6B	+\$4.1B
Q3 2025	\$33.3B	\$14.9B	2.2×	–\$1.7B	+\$2.4B
Q4 2025	\$32.1B	\$15.0B	2.1×	–\$1.2B	+\$1.2B
Q1 2026	\$32.7B	\$15.1B	2.2×	+\$0.6B	+\$1.8B

Net debt = total debt – cash, equivalents and short-term investments. Year-end columns (Q4'23, Q4'24, Q4'25) anchor to reported balance sheets; the six intermediate quarters are Institute estimates placing the two known cash calls in the correct quarter and letting free cash flow repay them — exact interim net debt also moves with refinancing, FX translation on foreign-currency debt, and refranchising proceeds not modeled here. EBITDA is a normalized TTM figure that adds back the ~\$3.1B FY2024 fairlife remeasurement charge (GAAP TTM EBITDA bottoms ~\$3B lower in 2024, optically pushing leverage toward ~2.9×); this reconciles toward KO's reported ~1.8× comparable-EBITDA leverage versus ~2.1× straight GAAP. Reconcile each quarter to its 10-Q/10-K before publishing.

Is the debt there “to ensure the dividend is paid”? Not in the ordinary course. The ~\$8.8B dividend is covered by normal-year free cash flow (~\$11B) with room to spare; KO does not borrow to fund its regular payout, and the 64-year streak of annual increases (a “Dividend King”) is funded by the concentrate engine, not the credit line. What balance-sheet capacity *does* buy is **shock absorption**: when the two ~\$6B bills landed, KO protected the dividend in full — and most of the buyback — by letting net debt rise temporarily rather than touch shareholder returns. So debt is not a crutch for the dividend, but it is the reason the dividend never flinched while \$12B of one-time cash passed through over two years.

What has recent borrowing funded, setting the IRS deposit and fairlife payment aside? Very little exotic. There has been no large debt-funded acquisition in this window; incremental borrowing went to *general corporate purposes* — terming-out and refinancing maturing notes, bridging the timing of the two cash calls, and sustaining the dividend-plus-buyback program through the drain years. The debt backfilled two knowable one-time bills and refinanced existing debt; it did not fund empire-building.

If KO wins, what happens to the refunded \$6B deposit? Management has been deliberately non-committal: the \$6.0B sits as a refundable *deposit* (paid to stop interest accruing, not a concession), and a win returns it with interest. KO has **not earmarked it for a special dividend**. The realistic uses, consistent with how the company already operates, are **paying net debt back toward the low end of the 2.0–2.5× target and restoring a fuller buyback** (repurchases were throttled to ~\$0.7B in FY2025 to conserve cash during the drains). A one-time windfall is far likelier to repair the balance sheet and rebuild buyback capacity than to arrive as a special check.

5. The price — a premium to staples peers

Berkshire is not adding to this position, and the valuation is the reason a new buyer should be thoughtful. At roughly **26× trailing earnings and ~20× EV/EBITDA**, Coca-Cola trades at a clear premium to its consumer-staples peers. The market pays up for the brand, the capital-light concentrate model, the ~50–59% international margins, and the 64-year dividend record.

Company	Market cap	Trailing P/E	EV/EBITDA	Div yield
Coca-Cola (KO)	~\$341.6B	~26×	~20×	~2.9%
PepsiCo (PEP)	~\$195B	~22×	~15×	~3.6%
Mondelez (MDLZ)	~\$88B	~21×	~15×	~2.7%
Keurig Dr Pepper (KDP)	~\$46B	~16×	~13×	~2.8%
Procter & Gamble (PG)	~\$375B	~24×	~17×	~2.5%

Approximate June 2026 market data; verify against live quotes. That premium is the bull and bear case at once: it prices in durability, which means a left-tail event the market is not pricing — a maximal IRS loss that permanently lifts the tax rate ~3.5 points — is exactly the kind of risk that could compress the multiple. For Berkshire, sitting on a ~\$3.25 cost basis, the multiple is irrelevant; for a new buyer it is the whole question.

6. Look-through earnings — and the 65% yield on cost

Buffett’s preferred lens is “look-through earnings”: ownership percentage times the company’s net income — the profit Berkshire economically owns whether or not it is paid out. On Coca-Cola’s FY2025 net income of ~\$13.1B, Berkshire’s ~9.3% stake represents about **\$1.2B** of look-through earnings, of which ~\$848M now comes back as cash dividends and the rest is retained and reinvested by Coca-Cola on Berkshire’s behalf.

Metric	Figure	Note
Berkshire ownership	~9.3%	400M of ~4.30B shares

Metric	Figure	Note
KO FY2025 net income	~\$13.1B	Reported
Look-through earnings	~\$1.2B	Ownership % × net income
Of which paid as dividends	~\$848M	2026 rate; the rest retained & reinvested
Dividend per share (2026)	\$2.12	64th consecutive annual increase (raised Feb 2026 from \$2.04)
Yield on original cost	~65%	~\$848M annual dividend ÷ ~\$1.299B cost

This is the number that explains why Berkshire never sells: the annual dividend alone now returns about **two-thirds of the entire original investment every single year**, and it has risen for 64 consecutive years. Selling would trigger an enormous deferred-tax bill and surrender a 65%-yielding, growing, tax-efficient income stream that compounds untouched. The IRS case matters to Berkshire indirectly: a permanently higher KO tax rate would slow both the look-through earnings and the company's capacity to keep raising that dividend.

7. The bear case — what the Committee must underwrite

Risks the Committee must underwrite

- **The IRS transfer-pricing loss.** The load-bearing variable. A full loss is a ~\$20B aggregate cash event (mostly one-time, ~\$6.0B already paid as a refundable deposit) plus a permanent ~3.5-point rise in the tax rate — a ~4–5% earnings haircut. Fundable and survivable, but real — and note KO reserves none of the ~\$14B remaining potential (gross unrecognized tax benefits are only ~\$857M), so a loss would hit earnings without a reserve to cushion it.
- **The premium multiple.** ~26× earnings is rich for a low-single-digit volume grower. For a new buyer there is little margin for error if growth, margins, or the tax outcome disappoint; the multiple could compress toward staples peers.
- **Volume & health headwinds.** Sugary-beverage taxes, GLP-1 weight-loss drugs suppressing appetite, and secular pressure on full-sugar soda are slow, persistent drags that pricing and portfolio mix (Zero Sugar, water, coffee) must keep offsetting.
- **FX and emerging-market exposure.** A concentrate model that earns most of its margin abroad is structurally exposed to a strong dollar and EM currency weakness; reported results swing on translation.
- **Net debt, not net cash.** ~\$30B of net debt and ~2× leverage mean KO has less balance-sheet shock-absorber than a cash-rich compounder if multiple stresses arrive together.

None is disqualifying, and together they frame the verdict precisely: this is a high-quality, wide-moat durability machine whose single quantifiable tail risk — the IRS case — is large in headline but manageable in substance.

Underwrite KO as a permanent income compounder with a bounded tax tail, not as a growth bet and not as a broken thesis.

8. The Berkshire Read

Put the pieces together and the 30-year hold is entirely coherent. Berkshire owns ~9.3% of one of the best consumer franchises ever built, bought for ~\$1.3B, now worth ~\$31.8B and throwing off ~\$848M of rising, tax-efficient cash every year — a 65% yield on cost after 64 straight annual increases. The business is a capital-light concentrate toll booth with ~50–59% international margins and ~\$11B of underlying free cash flow. The one live variable, the IRS transfer-pricing case, is genuinely large but genuinely bounded: a mostly one-time, fundable cash settlement in the worst case, plus a permanent but modest ~3.5-point tax-rate drag. The lesson this Read teaches is not about a new purchase — it is about the arithmetic of patience: what a wide moat, a fair entry price decades ago, and the discipline to never sell do to a dividend over thirty years.

“Our favorite holding period is forever.”

— Warren Buffett, Berkshire Hathaway 1988 Letter to Shareholders — the year Berkshire began buying Coca-Cola.
(Verify exact wording before relying on it.)

Sources & verification notes

Position sizing from Berkshire Hathaway disclosures (400M shares; ~\$1.299B cost; held since 1988–1994); market value at an approximate June 2026 KO price of ~\$79.40. Coca-Cola financials from the FY2025 Form 10-K and Q1 2026 Form 10-Q (and the FY2024 Q4/FY 8-K segment table): FY2025 revenue ~\$47.9B, operating income ~\$13.8B, net income ~\$13.1B, diluted EPS \$3.04; FY2025 operating cash flow \$7.41B less capex \$2.11B = \$5.30B reported FCF (FY24 \$4.74B, FY23 \$9.75B); FCF ex one-time items \$10.8B (FY24) / ~\$11.4B (FY25); dividends paid \$8.78B (FY25); ~\$45.5B total debt vs ~\$16B cash & investments (~\$30B net debt, ~2× EBITDA). Dividend: 2026 rate \$2.12/share, the 64th consecutive annual increase (raised ~4% from \$2.04 in February 2026). IRS dispute from KO FY2025 10-K / Q1 2026 10-Q tax disclosures and Legal Proceedings and the U.S. Tax Court record: tax years 2007–2009; ~\$3.3B additional tax sought; Tax Court opinion Nov. 18, 2020, supplemental opinion Nov. 8, 2023, decision of \$2.7B additional tax (\$6.0B with interest) entered Aug. 2, 2024; \$6.0B paid as a refundable deposit Sept. 10, 2024 and booked as a noncurrent asset; appeal filed to the Eleventh Circuit Oct. 22, 2024, fully briefed (KO Mar. 2025, IRS Jul. 2025) and awaiting oral argument; ~\$20B aggregate disclosed exposure (\$6.0B deposit + ~\$14B potential for 2010–2025, not reserved); gross unrecognized tax benefits ~\$857M (~\$581M net); ~3.5-point going-forward ETR effect if applied; constitutional and post-*Loper Bright* blocked-income arguments; parallel IRS transfer-pricing cases against Meta and Amgen. Comps, look-through earnings, ROIC/ROE and the scenario table are computed in the companion model. Before relying on any figure, re-verify against primary sources. This is educational analysis, not investment, tax, or legal advice.

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The Coca-Cola Company (KO) — Full Financial Model

Case 6 companion · \$ in billions unless noted · 2026 edition

Last updated June 22, 2026

Tabs in this workbook

Income Statement	Revenue, margins, operating income, net income — FY2023-FY2025 + Q1'26
Balance Sheet	Net-debt balance sheet: ~\$13B cash vs ~\$45B debt = ~\$30B net debt
Cash Flow Statement	OCF, capex, free cash flow — and the two ~\$6B one-time cash drains
Segments	Six operating segments + Corporate — FY2024 (10-K)
Valuation vs Staples	P/E, EV/EBITDA, dividend yield vs PEP, MDLZ, KDP
Returns & Capital Quality	ROIC, ROE, FCF margin, 64-year dividend record
Position vs BRK	Berkshire's 400M-share stake, 62% yield-on-cost, look-through earnings
IRS Transfer-Pricing Risk	The live risk lens: ~\$20B at stake, ETR & cash sensitivity

Blue = input · Black = formula · Green = cross-sheet link · Yellow = key assumption. FY2023 and FY2024 figures are reported (Coca-Cola Q4/FY2024 8-K earnings release). FY2025 and Q1'26 figures are from the FY2025 and Q1'26 earnings releases; some FY2025 balance-sheet and cash-flow sub-lines are estimates that tie to reported totals (flagged 'est.') pending the FY2025 10-K. The IRS sensitivity tab is a scenario tool, not a prediction. Educational analysis, not investment, tax, or legal advice. (c) 2026 The Baratelli Institute.

Income Statement

\$ in billions. FY2023-FY2024 reported; FY2025 & Q1'26 reported (est. expense split). Margins computed.

(\$B)	FY2023	FY2024	FY2025	Q1 2026
Net operating revenues	\$45.8	\$47.1	\$47.9	\$12.5
Cost of goods sold	\$18.5	\$18.3	\$18.6	
Gross profit	\$27.2	\$28.7	\$29.3	
Selling, general & administrative	\$14.0	\$14.6	\$14.9	
Other operating charges	\$2.0	\$4.2	\$0.6	
Operating income	\$11.3	\$10.0	\$13.8	\$3.9
Interest income	\$0.9	\$1.0	\$1.0	
Interest expense	\$1.5	\$1.7	\$1.7	
Equity income, net	\$1.7	\$1.8	\$1.8	
Other income / (expense), net	\$0.6	\$2.0	\$1.0	
Income before income taxes	\$13.0	\$13.1	\$15.9	
Income taxes	\$2.2	\$2.4	\$2.7	
Consolidated net income	\$10.7	\$10.6	\$13.2	
Less: noncontrolling interests	(\$0.0)	\$0.0	\$0.0	
Net income — shareowners	\$10.7	\$10.6	\$13.2	\$3.9
Depreciation & amortization	\$1.1	\$1.1	\$1.1	
EBITDA (op income + D&A)	\$12.4	\$11.1	\$14.9	
Diluted EPS (\$/share)	\$2.47	\$2.46	\$3.04	\$0.91
Dividends declared (\$/share)	\$1.84	\$1.94	\$2.04	\$0.51
Operating margin	24.7%	21.2%	28.8%	31.0%
Net margin	23.4%	22.6%	27.5%	
EBITDA margin	27.2%	23.5%	31.1%	
Effective tax rate	17.4%	18.6%	17.0%	
Revenue growth YoY		2.9%	1.8%	

FY2023 & FY2024 are reported (KO Q4/FY2024 8-K). FY2024 GAAP operating income (\$9.99B) was depressed by \$4.16B of other operating charges, including a ~\$3.1B fairlife contingent-consideration remeasurement; FY2025 GAAP operating income grew ~38% to ~\$13.8B and diluted EPS rose to \$3.04 (comparable EPS \$3.00). Q1'26 net operating revenues ~\$12.5B; operating margin shown at a comparable ~31% (GAAP). FY2025/Q1'26 expense splits are estimates that tie to reported revenue, operating income and EPS; replace with the FY2025 10-K before publishing. Sources: KO

Balance Sheet (Condensed)

\$ in billions. FY2024 reported; FY2025 est. to reported totals. Coca-Cola runs a net-DEBT balance sheet.

(\$B)	FY2024	FY2025	Note
ASSETS			
Cash & cash equivalents	\$10.8	\$10.3	Reported FY24; FY25 est.
Short-term investments	\$2.0	\$2.5	
Marketable securities	\$1.7	\$1.8	
Trade accounts receivable, net	\$3.6	\$3.7	
Inventories	\$4.7	\$4.9	
Other current & prepaid (est.)	\$3.1	\$3.0	est.
Property, plant & equipment, net	\$10.3	\$11.0	
Equity method, intangibles, goodwill, other (est.)	\$64.2	\$67.6	Bottler stakes, brands, goodwill (est.)
Total assets	\$100.5	\$104.8	FY24 reported \$100.5B; FY25 est. ~\$104.8B
LIABILITIES & EQUITY			
Accounts payable & accrued (est.)	\$21.7	\$20.5	Incl. IRS deposit/fairlife accruals (est.)
Loans & notes payable (short-term)	\$1.5	\$2.5	Reported FY24
Current maturities of long-term debt	\$0.6	\$2.0	Reported FY24
Long-term debt	\$42.4	\$41.0	Reported FY24; FY25 est.
Other long-term liabilities (est.)	\$8.0	\$9.0	Deferred tax, leases, benefits (est.)
Total liabilities	\$74.3	\$75.0	
Total equity (plug)	\$26.3	\$29.8	Incl. noncontrolling interests (~\$1.5B)
Total debt (ST + current LTD + LTD)	\$44.5	\$45.5	FY24 reported ~\$44.5B; FY25 est. ~\$45.5B
Total cash & investments	\$14.6	\$14.6	Cash + ST investments + marketable securities
Net debt (total debt - cash & investments)	\$30.0	\$30.9	KO carries real net debt — relevant if the IRS case is lost
Net debt / EBITDA (leverage)	2.7x	2.1x	~2x EBITDA — investment-grade, but not a net-cash fortress

FY2024 lines are reported (cash \$10.83B, ST investments \$2.02B, marketable securities \$1.72B, long-term debt \$42.38B, total assets \$100.55B). FY2025 sub-lines are estimates calibrated to reported FY2025 totals (~\$104.8B assets, ~\$45.5B total debt, ~\$13B cash & investments); replace with the FY2025 10-K balance sheet before publishing. The key fact is reported and load-bearing for this case: unlike a net-cash compounder, Coca-Cola operates with ~\$30B of NET DEBT and ~2x leverage. That is why a maximal IRS loss — which management has said could require borrowing — actually matters to the balance sheet.

Cash Flow Statement (Condensed)

\$ in billions. FY2023-FY2025. Two ~\$6B one-time cash drains mask the underlying free-cash-flow power.

(\$B)	FY2023	FY2024	FY2025
Consolidated net income	\$10.7	\$10.6	\$13.1
D&A	\$1.1	\$1.1	\$1.1
Stock-based compensation	\$0.3	\$0.3	\$0.3
Working capital, one-time items & other	(\$0.5)	(\$5.2)	(\$7.0)
Operating cash flow	\$11.6	\$6.8	\$7.5
Capital expenditures	(\$1.9)	(\$2.1)	(\$2.2)
Free cash flow (reported)	\$9.7	\$4.7	\$5.3
<i>FY24: \$6.0B IRS litigation deposit. FY25: ~\$6.1B fairlife contingent-consideration payment.</i>	-	\$6.0	\$6.1
Free cash flow ex one-time items	\$9.7	\$10.7	\$11.4
Share repurchases (gross)	(\$2.3)	(\$1.8)	(\$2.0)
Dividends paid	(\$8.0)	(\$8.4)	(\$8.8)
Total capital returned	\$10.2	\$10.2	\$10.8
FCF margin ex one-time (FCF / revenue)	21.3%	22.8%	23.8%
Dividend covered by FCF ex one-time?	1.2x	1.3x	1.3x

Reported anchors: operating cash flow \$11.6B (FY23) / \$6.8B (FY24) / ~\$7.41B (FY25); free cash flow \$9.7B / \$4.7B / ~\$5.3B. Reported FCF looks volatile only because of two separate ~\$6B one-time cash items — the FY2024 IRS litigation deposit and the FY2025 fairlife contingent-consideration payment. Strip both out and underlying free cash flow is ~\$10-11B a year and comfortably covers the ~\$8.8B dividend. KO itself reports 'free cash flow ex these items' of \$10.8B (FY24) and ~\$11.4B (FY25). FY2025 sub-lines are estimates tying to reported FCF; replace with the FY2025 10-K cash-flow statement before publishing.

Segments — FY2024 by operating segment (10-K)

\$ in billions. The six operating segments Coca-Cola discloses, plus Corporate. FY2024 reported.

Operating segment	Net rev	Op income	Op margin	Note
North America	\$18.6	\$4.3	23.3%	Largest revenue base; sparkling + still + dairy/juice
Europe, Middle East & Africa	\$8.1	\$4.1	50.8%	Highest-margin segment; concentrate-led model
Latin America	\$6.5	\$3.8	58.5%	Highest operating margin (~59%); strong pricing
Asia Pacific	\$5.5	\$2.1	38.7%	Concentrate-led; growth markets
Bottling Investments	\$6.2	\$0.5	8.0%	Company-owned bottlers — low margin by design
Global Ventures	\$3.1	\$0.4	11.5%	Costa Coffee, innocent, fairlife distribution, etc.
Corporate	\$0.1	(\$5.3)	-5414.4%	Unallocated costs, charges & eliminations
Eliminations	(\$1.2)	-		Intersegment
Consolidated	\$47.1	\$10.0	21.2%	<i>Reported FY2024: revenue \$47.06B, operating income \$9.99B</i>

Reported FY2024 segment table (KO Q4/FY2024 8-K). The structure is the heart of Coca-Cola's economics — and of the IRS dispute: the highly profitable, concentrate-led international segments (EMEA, Latin America, Asia Pacific) earn most of the company's operating income, which is exactly the cross-border profit allocation the IRS is challenging. Corporate operating income is negative because it absorbs unallocated charges (e.g., the FY2024 fairlife remeasurement). FY2025 segment splits to be re-tied to the FY2025 10-K before publishing.

Valuation vs Consumer-Staples Peers

Approx. June 2026 market data. P/E, EV/EBITDA and dividend yield — how KO's multiple compares.

Company	Market cap (\$B)	Trailing P/E	EV / EBITDA	Div yield	Rev growth	Note
Coca-Cola (KO)	\$342	26.0x	20.0x	~2.9%	~+5% organic	Global concentrate model; 64-yr dividend
PepsiCo (PEP)	\$195	22.0x	15.0x	~3.6%	low single	Snacks + beverages; more capital-intensive
Mondelez (MDLZ)	\$88	21.0x	15.0x	~2.7%	mid single	Global snacking
Keurig Dr Pepper (KDP)	\$46	16.0x	13.0x	~2.8%	mid single	NA-centric; coffee + CSD
Procter & Gamble (PG)	\$375	24.0x	17.0x	~2.5%	low single	HPC staple; quality comp

Peer average (ex-KO)

20.8x	15.0x
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KO trades at a premium to staples peers

*The read: at ~26x trailing earnings and ~20x EV/EBITDA, Coca-Cola trades at a clear premium to its consumer-staples peers — the market pays up for the brand, the capital-light concentrate model, the ~60% international operating margins, and a 64-year dividend-increase record. That premium is the bull case and the bear case at once: it prices in durability, so a left-tail event that the market is *not* pricing — such as a maximal IRS transfer-pricing loss that permanently raises the tax rate ~3.5 points — is exactly the kind of risk that could compress the multiple. Approx. June 2026 figures; verify against live quotes before publishing.*

Returns on Capital & Capital Quality

\$ in billions. Why Berkshire has held for 30+ years — the Berkshire read.

FY2025 operating income (est.)	\$13.8	
Assumed cash tax rate	19.0%	
NOPAT (op income x (1 - tax))	\$11.2	
Total equity (FY2025, est.)	\$27.5	
Total debt (FY2025, est.)	\$45.5	
Cash & investments (FY2025, est.)	\$13.0	
Invested capital (equity + debt - cash)	\$60.0	
ROIC (NOPAT / invested capital)	18.6%	Capital-light concentrate model earns high returns
FY2025 net income	\$13.1	
ROE (net income / equity)	47.6%	Elevated by a relatively thin equity base
FY2025 free cash flow ex one-time	\$11.4	
FCF margin (FCF / revenue \$47.9B)	23.8%	
Dividends paid (FY2025)	\$8.8	
Dividend / FCF ex one-time	77.2%	Comfortably covered once one-time items are removed
Consecutive years of dividend increases	64	One of the longest records in the S&P 500

The read

Coca-Cola is not a fast grower; it is a durability machine. A capital-light, concentrate-led model produces high returns on invested capital, ~24% free-cash-flow margins (ex one-time items), and a 64-year streak of dividend increases. That is precisely the profile Berkshire has prized for three decades: a wide-moat brand that converts modest top-line growth into reliable, rising cash returns. The risk this case isolates is not the business model — it is a tax dispute that could permanently raise the rate at which those profits are taxed. ROIC/ROE use estimated FY2025 equity, tax and operating-income figures; replace with exact 10-K figures before publishing.

Berkshire's Coca-Cola stake — the textbook hold

\$ in billions unless noted. 400M shares bought 1988-1994, never sold. Includes yield-on-cost and look-through earnings.

THE POSITION

Shares held (millions)	400	Accumulated 1988-1994; unchanged since
Total cost basis	\$1.3	~\$3.25/share — bought over 1988-1994
Share price (approx. June 2026, \$)	\$79.40	~\$341.6B market cap / ~4.30B shares
Market value	\$31.8	~\$31.8B — Berkshire's #3 equity holding
Unrealized gain	\$30.5	~24x the original cost

THE INCOME (why he never sells)

Dividend per share (FY2026, \$)	\$2.12	64th consecutive annual increase (raised Feb 2026 from \$2.04)
Annual dividends received	\$0.8	Cash to Berkshire every year, rising
Yield on cost	65.3%	Annual dividend alone ~63% of original cost
Current dividend yield	2.7%	On today's price

LOOK-THROUGH EARNINGS

KO FY2025 net income	\$13.1	Reported FY2025
KO shares outstanding (B)	4.30	Diluted
Berkshire ownership %	9.3%	400M of ~4.30B shares
Look-through earnings	\$1.2	Ownership % x KO net income (Buffett's lens)
Of which paid out as dividends	\$0.8	The rest is retained & reinvested by KO on BRK's behalf

The Coca-Cola position is the cleanest illustration of Buffett's philosophy in the entire portfolio: ~\$1.3B invested over 1988-1994, never added to and never sold, now worth ~\$31.8B and paying ~\$848M in cash dividends every year (at the 2026 rate of \$2.12/share) — a yield on cost of roughly 65%. Berkshire owns ~9.3% of Coca-Cola, so its look-through share of FY2025 profit is ~\$1.2B, of which ~\$0.8B comes back as dividends and the rest is retained and reinvested by the company. This is what 'our favorite holding period is forever' looks like on a spreadsheet — and it is why the IRS case matters to Berkshire indirectly: a permanently higher KO tax rate lowers both the look-through earnings and the company's capacity to keep raising that dividend.

IRS Transfer-Pricing Dispute — Risk & Sensitivity

\$ in billions unless noted. A scenario tool, not a prediction. The live risk lens of this case.

THE DISPUTE (facts)

Tax years at issue (initial case)	2007-2009	The IRS reallocated ~\$9B of income to the U.S. parent
2020 U.S. Tax Court ruling	For the IRS	Judge Lauber rejected KO's 1996 '10-50-50' method
Deposit already paid (2024)	\$6.0	Cash deposit to IRS after the Tax Court loss
Estimated total exposure (through 2025)	\$20.0	KO's own disclosed potential aggregate (~\$20B incl. interest)
Incremental exposure if fully lost	\$14.0	Beyond the \$6.0B already deposited
Amount reserved on the books	\$0.5	KO reserves only ~\$520M — it expects to win
Unreserved exposure	\$19.5	Gap between exposure and reserve

THE ONGOING RATE EFFECT

ETR increase if KO loses (ppt)	3.5ppt	KO's disclosed effect on the going-forward tax rate
Pre-tax income (FY2025, est.)	\$16.3	From Income Statement tab (est.)
Added annual cash tax (rate effect)	\$0.6	Roughly \$0.5-0.6B a year, every year
As share of FY2025 net income	4.4%	Permanent ~4-5% haircut to earnings

SCENARIOS (illustrative)

Scenario	One-time cash	Annual EPS drag	Read
Win on appeal	refund of \$6.0B	none	KO's base case; deposit + booked interest returns
Partial / settlement	\$6-13B total	~1-2 ppt	Method survives in part; rate effect muted
Full loss	~\$20B aggregate	~3.5 ppt	Borrow to fund; permanent ~\$0.5B/yr tax drag

Coca-Cola is appealing the 2020 Tax Court decision to the U.S. Court of Appeals for the Eleventh Circuit, where the case is fully briefed and awaiting oral argument. The dispute turns on the transfer-pricing method (the 1996 'closing agreement' 10-50-50 split) used to allocate profit between the U.S. parent and foreign licensees/supply points. KO discloses a potential aggregate exposure approaching \$20B including interest, has already deposited ~\$6.0B, reserves only ~\$520M (signalling confidence), and has said a full loss could raise its going-forward effective tax rate by ~3.5 points and may require borrowing. Three of the Big Four accounting firms, the U.S. Chamber of Commerce and the NFTC have filed in support of Coca-Cola; the IRS is litigating parallel transfer-pricing cases against Meta and Amgen. This tab is an illustrative scenario tool calibrated to KO's own disclosures, NOT a prediction of the outcome or legal advice. Sources: KO 10-K/10-Q tax disclosures; U.S. Tax Court (2020).

Thirty years, not one share sold

A ~\$1.3B purchase that became a ~\$31.8B stake paying ~\$848M a year — a 65% yield on the original cost.

The cleanest illustration of “our favorite holding period is forever” in the whole portfolio — and the case we use to teach transfer pricing, through a live ~\$20B IRS dispute now at the Eleventh Circuit.

A permanent compounder — own it, don't add at 26×

The arithmetic of patience. Berkshire bought ~400M shares for ~\$1.3B (1988–94) and never sold. That stake is worth ~\$31.8B and pays ~\$848M a year — a ~65% yield on the original cost after 64 straight annual dividend increases.

A capital-light toll booth. Coca-Cola sells concentrate and licenses its brand; the bottlers carry the capital. The result is ~50–59% international operating margins and ~\$11B of underlying free cash flow that funds a rising dividend.

One live variable: the IRS case. A transfer-pricing dispute, ~\$20B aggregate exposure — ~\$6.0B already paid as a refundable deposit, ~\$14B disclosed potential not reserved. Even a full loss is fundable and mostly one-time, plus a permanent ~3.5-point tax-rate rise.

“The lesson isn't a new buy. It's what a wide moat, a fair entry price decades ago, and the discipline never to sell do to a dividend over thirty years — and how to underwrite a real but bounded tax tail without mistaking it for a broken thesis.”

30 years, never sold — Berkshire's #3 holding

~\$1.299B

Total cost (1988-94)

~\$31.8B

Market value (~\$79.40)

~24×

On original cost

~9.3%

Economic stake in KO

The position, untouched for three decades. ~400 million shares accumulated 1988-1994 at ~\$3.25 a share; not a share bought or sold since. At ~\$79.40 the stake is worth ~\$31.8B — an unrealized gain of ~\$30.5B, behind only Apple and American Express. The annual dividend alone (400M × \$2.12 = ~\$848M) now returns ~65% of the entire original investment every year.

Why it never sells. Selling would trigger an enormous deferred-tax bill and surrender a 65%-yielding, growing, tax-efficient income stream. The holding is a master class in the power of doing nothing. Reconcile share count and value against the latest 13F and quote before relying on these figures.

The number that explains why Berkshire never sells

Look-through earnings = Berkshire's % ownership × Coca-Cola's net income — the profit Berkshire economically owns whether or not it is paid out:

Berkshire's economics	Figure	Note
Stake × FY25 net income	~\$1.2B	~9.3% × ~\$13.1B — look-through earnings
Cash dividends received (2026 rate)	~\$848M	400M × \$2.12 — actually paid to Berkshire
Dividend ÷ original cost	~65%	\$848M ÷ ~\$1.299B — yield on cost

The read: the dividend alone returns about two-thirds of the entire original 1988–94 investment every single year, and it has risen for 64 consecutive years. The IRS case matters here only indirectly: a permanently higher tax rate would slow both the look-through earnings and the company's capacity to keep raising the dividend. That is the whole reason the tax tail is worth quantifying.

A durability machine, in six figures

\$47,941M

FY2025 revenue

\$13,762M

FY2025 operating income

\$3.04

FY2025 diluted EPS

~\$11B

Underlying FCF (ex one-time)

\$2.12

2026 dividend — 64th raise

~\$30B

Net debt (~2× EBITDA)

Q1'26: revenue \$12,472M (+12% reported, ~10% organic; ~3pts was FX), operating income \$4,359M, net income \$3,924M, diluted EPS \$0.91. Reported FY free cash flow looks volatile only because two separate ~\$6B one-time cash items — the FY24 \$6.0B IRS deposit and a FY25 \$6.17B fairlife payment — passed through it. Strip both out and the engine throws off ~\$11B and easily covers the ~\$8.8B dividend.

The toll booth on global beverages

Concentrate, not cans. Coca-Cola's U.S. parent owns the trademarks and formulas and sells concentrate to a global network of independent bottlers who carry the trucks, plants and people. KO keeps the high-margin top of the value chain; the capital sits with someone else.

Where the profit lives. The concentrate-led international segments earn ~50-59% operating margins and most of the operating income; company-owned bottling is low-margin by design and is sold back over time ("refranchising").

Why this matters for the tax case: the structure that makes Coca-Cola such a good business — most profit earned by the highly profitable foreign affiliates that license the brand — is exactly the cross-border profit allocation the IRS is challenging. The moat and the lawsuit are the same fact seen from two sides.

What transfer pricing is — and why a law exists

One company, many taxpayers. A multinational is one company to its shareholders but a separate taxpayer to every government. When KO's U.S. parent licenses its brand and sells concentrate to a foreign affiliate, the affiliate must pay for it — a royalty or a price. That internal “transfer price” decides how much profit is taxed in the U.S. vs. abroad.

The rule: arm's length, IRC §482. Because both sides are the same owner, no real market sets the price — so the law imposes one. Related parties must price as two strangers would, and Section 482 lets the IRS reallocate income if they didn't. KO's filing: “IRS rules governing transfer pricing require arm's-length pricing of transactions between related parties.”

The hard part — method. There is no clean “comparable” for an asset as unique as the Coca-Cola brand, so the entire fight is over how to approximate an arm's-length split when no true market price exists. The competing methods — comparable uncontrolled price, the comparable profits method (CPM), and profit splits — are just different answers to that one question. KO and the IRS once agreed on an answer. Then the IRS changed it.

The “10-50-50” method — and a decade of IRS sign-off

This dispute was settled once before. The identical question — how to split profit between the U.S. parent and the foreign licensees — was fought for tax years 1987–1995 and resolved by agreeing on a method, memorialized in a binding Closing Agreement with the IRS.

THE “10-50-50” METHOD

- Foreign licensees first keep a ~10% return on assets.
- The residual profit is split ~50 / 50 between the licensees and the U.S. parent.
- The agreement set the rules going forward and shielded KO from penalties for using them.

THE IRS BLESSED IT — FOR A DECADE

“The IRS audited and confirmed the Company’s compliance with the agreed-upon Closing Agreement methodology in five successive audit cycles for tax years 1996 through 2006.”

This is the heart of why KO believes it will win: the government audited and approved the very method it would later attack.

2015-2026: notice, trial, a \$6.0B deposit, appeal

Date	What happened
Sep 17, 2015	IRS Notice: ~\$3.3B more tax for 2007-09; intent to reallocate >\$9B of income to the U.S. parent. Method changed “retroactively ... without prior notice.”
Oct 15, 2015	IRS designates the matter for litigation — “forecloses ... any and all alternative means for resolution.” KO petitions the Tax Court (Dec 2015).
Nov 18, 2020	Tax Court opinion “predominantly sided with the IRS” — but lets dividends offset royalties. Supplemental opinion Nov 8, 2023 (blocked income).
Aug 2, 2024	Decision: \$2.7B additional tax for 2007-09 — \$6.0B with interest. KO pays the \$6.0B deposit Sep 10, 2024 to stop interest accruing.
Oct 22, 2024 →	KO appeals to the Eleventh Circuit. Fully briefed (KO Mar 12 & Aug 27, 2025; IRS Jul 7, 2025). Awaiting argument and decision.

Consistent with the old Closing Agreement, the IRS asserted no penalties — an implicit acknowledgment that KO relied on an agreed method.

Blocked income, the 3M reversal, and Loper Bright

Blocked income

The sub-issue

Brazilian law barred KO's licensee from remitting royalties. Can the IRS tax the U.S. parent on income an affiliate was legally barred from paying? IRS regs say yes; KO says that breaks the arm's-length standard.

The 3M reversal

Oct 1, 2025

The Eighth Circuit reversed the Tax Court in 3M — “the blocked-income regulation was inconsistent with ... Section 482.” KO calls it “highly supportive of the Company's position.” The most favorable development yet.

Loper Bright

2024

The Supreme Court overruled Chevron, ending automatic deference to an agency's reading of a statute. With less deference owed to IRS regs, a court is freer to strike them — as the Eighth Circuit just did.

Plus a constitutional argument: KO contends that retroactively imposing tax under a method different from the one the IRS itself audited for over a decade is impermissible. The IRS is litigating parallel transfer-pricing cases (e.g., Meta, Amgen) — which is why the outcome matters beyond KO.

ASC 740 — the accounting tells you what management believes

The two-step test. Uncertain tax positions fall under ASC 740 (formerly FIN 48): first, is it more likely than not (>50%) the position survives on its merits; only if yes do you measure and book a benefit. A company expecting to lose would reserve the loss now.

\$520M

Tax reserve (Apr 3, 2026)

\$6.0B → asset

Deposit in “other noncurrent assets”

~\$857M

Gross unrecognized tax benefits

What the numbers say: KO concludes it is “more likely than not” its positions “will ultimately be sustained on appeal,” so it reserves only ~\$520M against a ~\$20B headline. It books the \$6.0B it paid as a refundable asset — not an expense — and even earns interest income on it (\$217M in 2025). Carrying \$6.0B out the door as a receivable, and reserving almost nothing, is management telling shareholders in audited language that it expects to win. **The honest counterweight:** a loss means no refund of the \$6.0B, ~\$14B more potential for 2010–25, and a ~3.5-point higher tax rate.

Three scenarios — even a full loss is survivable

Scenario	One-time cash	Annual EPS drag	The read
Win on appeal (KO base case)	refund ~\$6.0B	none	Deposit + booked interest returns; thesis intact
Partial / settlement	~\$6-13B total	~1-2 ppt	Method survives in part; rate effect muted
Full loss	~\$20B aggregate	~3.5 ppt	Borrow to fund; permanent ~\$0.5B/yr tax drag

The key analytical point: even the full-loss case is survivable. The ~\$20B is largely a one-time settlement of back taxes and interest — against a company that generates ~\$11B of underlying free cash flow a year and can borrow at investment-grade rates. What actually compounds is the ~3.5-point permanent rise in the tax rate, worth ~\$0.5B a year — a real, permanent ~4-5% reduction in earnings power, enough to matter to valuation, not enough to break the dividend or the moat. The case is a haircut, not a guillotine.

A premium multiple — the bull and bear case at once

Company	P/E (fwd)	Div yield	Op margin	Note
Coca-Cola (KO)	~26x	~2.7%	~29%	Premium for durability
PepsiCo (PEP)	~19x	~3.6%	~14%	Snacks + drinks; lower margin
Procter & Gamble (PG)	~24x	~2.5%	~23%	Closest quality comp
Mondelēz (MDLZ)	~20x	~2.9%	~16%	Snacks
Colgate (CL)	~25x	~2.2%	~21%	Premium small-cap staple

The read: KO trades at a premium to staples peers — the market is paying up for durability. That is the bull and bear case at once: it prices in quality, which means a left-tail event the market is not pricing (a maximal IRS loss that permanently lifts the tax rate ~3.5 points) is exactly what could compress the multiple. For Berkshire on a ~\$3.25 cost basis the multiple is irrelevant; for a new buyer it is the whole question — which is why the verdict is own, don't add. Approximate June 2026 data; verify vs live quotes.

WHAT BUFFETT SAID — “FOREVER”

“When we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever.”

— Warren Buffett, Berkshire Hathaway 1988 Letter to Shareholders. Verify exact wording before publishing.

Coca-Cola is the line made literal: bought in that same era, never sold, now a 65%-yield-on-cost income stream that has risen for 64 straight years. The one live variable — the IRS case — is large in headline but bounded in substance.

The bear case a serious Read must name

The IRS loss

The load-bearing variable. A full loss is ~\$20B aggregate (mostly one-time, ~\$6.0B already deposited) plus a permanent ~3.5-point tax-rate rise. KO reserves none of the ~\$14B remaining potential, so a loss would hit earnings without a cushion.

Volume & health

Sparkling-soda volumes face long-run pressure from health trends, GLP-1 drugs and sugar taxes. KO offsets with price/mix and a broader portfolio, but the secular volume question is real.

Premium multiple

At ~26× the stock prices in durability and leaves little margin of safety for a new buyer. Any combination of the tax loss, a strong dollar, and slower volume could compress the multiple.

None is disqualifying — together they frame the verdict: a high-quality, wide-moat durability machine whose single quantifiable tail risk is large in headline but manageable in substance. Underwrite KO as a permanent income compounder with a bounded tax tail.

THE VERDICT

A permanent compounder — own it, don't add at ~26x.

Our read: Coca-Cola is a textbook permanent compounder — a capital-light brand-and-concentrate toll booth with ~\$11B of underlying free cash flow and a dividend that has risen 64 years running. For Berkshire, on a ~\$3.25 cost basis with a 65% yield on cost, the only rational move is to keep holding; selling would forfeit a tax-efficient, growing income stream. For a new buyer at ~26x, the multiple already prices the quality, so this is own-don't-add. The IRS transfer-pricing case is the one live variable: genuinely large (~\$20B aggregate) but genuinely bounded — mostly one-time, fundable, and worst-case a permanent ~3.5-point tax drag. A haircut, not a guillotine.

Library crosswalk: First Principles of Master Investing (the arithmetic of patience; yield on cost) · International Tax & Cross-Border (transfer pricing, §482, the arm's-length standard) · CFO & Controller's Technical Guide (ASC 740 uncertain tax positions; free cash flow).