

MOODY'S

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Rating Action: Moody's reviews Keurig (Ba2 CFR) for upgrade on agreement to merge with Dr Pepper Snapple Group

Global Credit Research - 29 Jan 2018

New York, January 29, 2018 -- Moody's Investors Service ("Moody's") has placed the Ba2 Corporate Family Rating, Ba3-PD Probability of Default Rating and debt instrument ratings of Keurig Green Mountain, Inc. ("Keurig") under review for upgrade. The review follows today's announcement by Keurig that it has reached an agreement to merge with Dr Pepper Snapple Group ("DPS", Baa1 rating under review for downgrade). DPS, a publicly traded company, will be the surviving legal entity and be renamed "Keurig Dr Pepper" at closing.

The review for upgrade is based on Moody's expectation that Keurig Dr Pepper will have a stronger credit profile than Keurig, including enhanced scale, a broader brand and product portfolio, and greater geographic diversity. Moody's has said that if the deal is structured and consummated as announced, DPS's senior unsecured rating will be lowered by one notch to Baa2, with a negative outlook.

Moody's expects that at the close of the proposed transaction, all of Keurig's rated debt will be repaid. As a result, the existing ratings of Keurig Green Mountain will likely be withdrawn at closing.

RATINGS RATIONALE

Moody's has taken the following rating actions on Keurig Green Mountain, Inc.:

Ratings placed under review for upgrade:

Corporate Family Rating at Ba2;

Probability of Default Rating at Ba3-PD;

Senior secured bank credit facilities at Ba2 (LGD3)

Outlook actions:

Outlook changed to rating under review for upgrade from positive.

RATINGS RATIONALE

Keurig's Ba2 Corporate Family Rating reflects the company's expanding base of category-leading Keurig single-cup brewers, which in turn drive sales of high-margin single-serve portion packs that generate the vast majority of the company's earnings and cash flows. The ratings also are supported by the company's moderate financial leverage and a balanced financial policy that has allocated most of free cash flow to debt reduction. These credit strengths are balanced against growing competitive pressures in the single-serve coffee portion pack business that has led to a gradual decline in the company's growth rate and category profit margins. However, Moody's expects that Keurig will maintain high market share for the foreseeable future, supported by its strong portfolio of over 75 owned and licensed coffee brands.

The principal methodology used in these ratings was Global Packaged Goods published in January 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Keurig Green Mountain, Inc., based in Waterbury, Vermont, is a manufacturer of Keurig® single serve brewing systems and beverages. These include specialty coffee, tea and other beverages, in single serve packs for use with its brewers. The company's annual sales approximate \$4.3 billion. Keurig is wholly-owned by JAB Holding Company S.a.r.l.

JAB Holding Company S.a.r.l. (Baa1 stable) is a privately held investment holding company, focused on long-term investments in consumer goods and retail companies with premium brands.

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