MOODY'S INVESTORS SERVICE

CREDIT OPINION
8 April 2020

Update

Rate this Research

RATINGS

Keurig Dr Pepper

Domicile	Texas, United States
Long Term Rating	Baa2
Type	Senior Unsecured - Dom Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Linda Montag +1.212.553.1336
Senior Vice President
linda.montag@moodys.com

John E. Puchalla, CFA +1.212.553.4026
Associate Managing Director
john.puchalla@moodys.com

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Keurig Dr Pepper

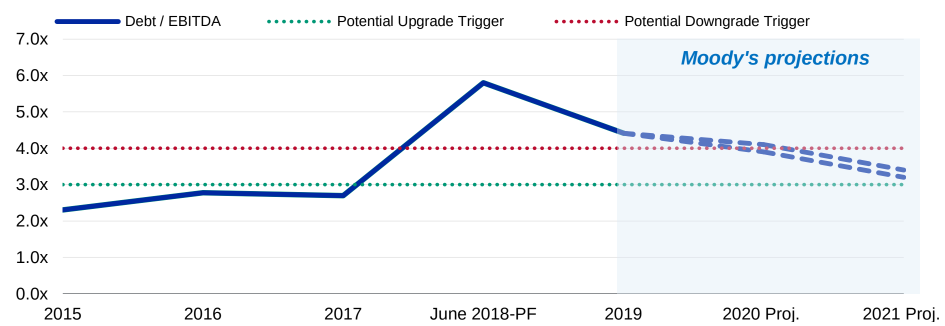
Update to credit analysis after rating affirmation - KDP remains on pace to deleverage to 4.0x or below by year end 2020

Summary

Keurig Dr Pepper ("KDP") has a credit profile reflecting its solid portfolio of brands, many with leadership positions in their sub-categories, strong profitability, good liquidity, and strong product and channel diversity. KDP's product portfolio is skewed to higher growth flavored beverages and the company has expanded its alternative beverage portfolio through innovation and acquisition. It enjoys a strong position in fast growing single serve coffee. These strengths are tempered by the company's more limited geographic diversity than its global peers, an aggressive approach to working capital management, and debt-to-EBITDA leverage of 4.4x at December 2019 that while declining, is still high for the rating category. KDP's focus on the carbonated soft drink ("CSD") category can be a challenge given declines in US CSD consumption in recent years. The unprecedented impacts of the coronavirus on consumer behavior and supply and distribution adds a degree of uncertainty.

Exhibit 1

Leverage will decline over the next 12-18 months given earnings growth and debt repayment [1] [2] [3]



[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] 2014-2017 figures represent Dr Pepper Snapple Group standalone metrics.
[3] The forward view reflects a range of outcomes given uncertainty of Covid-19
Source: Moody's Financial Metrics™, Moody's estimates

This report was republished on 8 April 2020 to correct dates labeled on the projected periods for exhibits 6 and 7.

Credit strengths

» Diversified portfolio of strong brands

» Synergies and brand power will drive strong profit margins and stable top line

» Good liquidity with robust and stable cash flows

Credit challenges

» Execution risks remain around working capital improvements and cost takeouts

» Keurig coffee business faces a shifting competitive environment and challenges to sustain growth

» Good scale, albeit much smaller relative to its major competitors

» Limited geographic diversity

» High financial leverage and aggressive working capital management

Rating outlook

The negative outlook reflects that deleveraging progress could be slowed by the current weak economic environment and retail distribution point closures. KDP is better positioned than many other companies to navigate the challenges of the unprecedented shocks brought on by the coronavirus. Still, the full impact on companies is as of yet unknown. Packaged beverages have seen sharply increased demand in recent weeks, but the sustainability of that demand is uncertain. The more recent closures of bars, restaurants and entertainment venues across the country will translate into lower on-premise sales. The potential for shifting demand, supply chain disruptions or unexpected higher costs could slow deleveraging, and the duration of disruptions is also uncertain.

Factors that could lead to an upgrade

» Successful integration of Keurig and Dr Pepper Snapple Group, including execution of cost savings and working capital plans

» Strong operating momentum

» Solid operating profitability; and

» Debt to EBITDA leverage (including Moody's adjustments) sustained below 3 times

» Sustain retained cash flow to net debt at least in the high teens

Factors that could lead to a downgrade

» Operational difficulties

» Unfavorable shifts in business conditions

» Failure to achieve planned synergies and working capital improvements; or

» If it appears unlikely that KDP will be able to reduce debt to EBITDA to about 4 times by the end of 2020

Key indicators table

Exhibit 2

Key indicators [1] [2] [3]

Keurig Dr Pepper

US Billions	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	2020 Proj.	2021 Proj.
Revenue	6.1	6.3	6.4	6.7	7.4	11.1	11.3-11.6	11.6-11.9
EBITA Margin %	20.9%	21.6%	23.2%	22.9%	26.0%	28.4%	27.9%-28.7%	30.1%-31.0%
RCF / Net Debt	27.5%	25.0%	23.9%	15.2%	5.8%	8.4%	8.8%-9.6%	12.3%-13.8%
EBIT / Interest Expense	10.5x	10.4x	9.6x	8.6x	3.7x	4.3x	4.6x-4.8x	5.1x-5.6x
Debt / EBITDA	1.9x	2.3x	2.8x	2.7x	7.7x	4.4x	3.9x-4.1x	3.2x-3.4x

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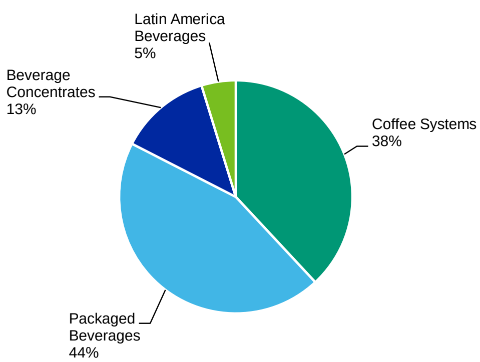
Profile

Headquartered in Plano, Texas, and Burlington, Massachusetts, Keurig Dr Pepper is a leading integrated brand owner, bottler and distributor of nonalcoholic beverages. It's products include flavored carbonated soft drinks and non-carbonated beverages (juices, juice drinks, ready to drink teas and mixers). Among the company's key brands are Dr Pepper, 7UP, Sunkist soda, Canada Dry, A&W, Snapple, Hawaiian Punch, Mott's and Bai. It is also 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 operates in the United States, Canada, Mexico and the Caribbean. Keurig Dr Pepper generates approximately $11 billion of annual sales. JAB Holding Company S.a.r.l. owns a 65% controlling interest in KDP, with Mondelez (13%) and public float (22%) accounting for the rest of the ownership.

Exhibit 3

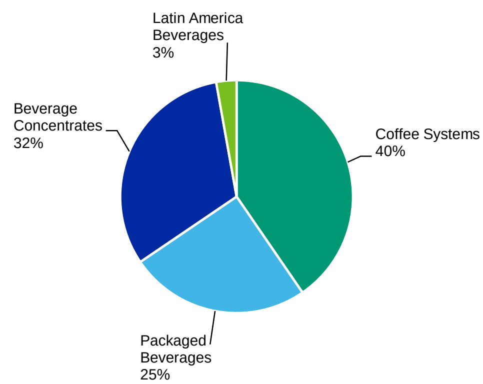
2019 Net sales by segment



Source: Company filings, Moody's estimates

Exhibit 4

2019 Operating income by segment



Excludes unallocated corporate expense.
Source: Company filings, Moody's estimates

Detailed credit considerations

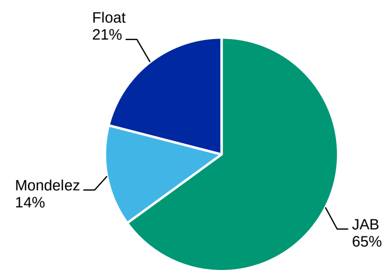
Merger created total beverage company

On July 9, 2018, DPSG and Keurig merged to create Keurig Dr Pepper. As part of the transaction, an $18.9 billion cash payment was made to DPSG shareholders, partly funded by JAB Holdings. JAB became the controlling shareholder of Keurig Dr Pepper, with Mondelez, Inc. and existing DPSG shareholders each owning minority interests. The deal was funded through $9 billion of equity from JAB and its partners, approximately $12.4 billion of new debt.

Exhibit 5

Equity ownership structure

Keurig Dr Pepper



Source: Moody's estimates

KDP has a diverse portfolio of beverage products and distribution systems. Additionally, KDP's relationships with numerous branded coffee companies opens the door to develop a portfolio of ready to drink coffees, a fast growing space that other beverage companies have only tapped through partnerships. In addition, there are some distribution advantages for KDP to distribute Keurig products through the soft beverage direct store delivery infrastructure and for soft beverages to benefit from the coffee business's E-commerce and warehouse capabilities.

The Keurig coffee business is facing certain business pressures including revenue and margin pressure due to competition from private label coffee and other at-home coffee systems. The company has plans to roll out new innovative products to boost the top line, and to continue to cut costs to be able to compete with lower price pods. It has also moved to a more profitable Keurig machine pricing structure to improve overall profitability.

We expect the company to continue to seek out growth opportunities. In August 2018 KDP completed the acquisition of Big Red, a regional CSD brand that was previously among Dr Pepper's allied brands, for cash. In October 2018, KDP entered into a long-term partnership with Danone Waters of America to sell, distribute and merchandise premium spring water brand Evian across the U.S. In November 2018 KDP completed the acquisition of Core, a premium enhanced water in an equity deal. The company has also added Forto, a brand of coffee energy shots, to its partner portfolio and expanded its distribution relationship with Peet's coffee company for the expansion of the Peet's RTD Iced Espresso line.

In September 2019, McDonald's USA and KDP announced a long-term master licensing and distribution agreement for McCafé packaged coffee in the U.S. Under the agreement, KDP will continue to be the exclusive manufacturer of McCafé K-Cup® pods in the U.S. KDP will also take on responsibility for coffee sourcing, distribution and marketing of the McCafé brand in K-Cup® pods and bagged and canned coffee formats in all classes of trade, including retail and e-commerce, beginning in the second half of 2020. With this partnership, McCafé will continue to be marketed alongside KDP's single-serve brewing systems in addition to in the coffee aisle.

In January 2020, the company acquired the caffeinated sparkling water maker Limitless.

These portfolio additions will help to boost revenue and earnings growth over time.

Leverage will decline but execution risks exist

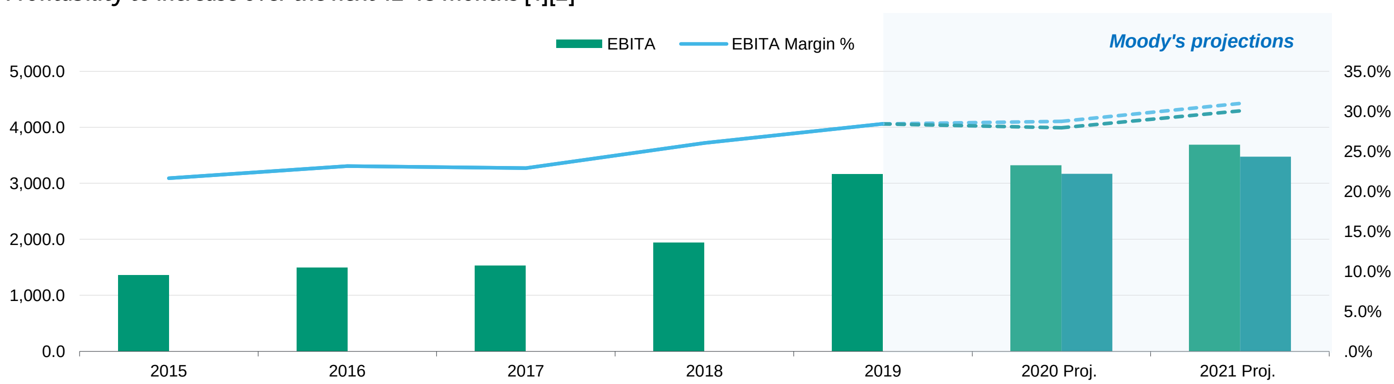
KDP's has substantially reduced leverage following the merger from about 5.6x (including Moody's standard adjustments, pro-forma for the merger) to about 4.4x by December 2019. This was a function of good cash flow generation driven by working capital improvements, materialization of cost savings, and general earnings growth and debt repayments. Deleveraging was slightly delayed after KDP's purchase of Big Red for $300 million cash in July 2018 using a new structured payables facility.

We consider KDP's structured payables, which had borrowings as of December 2019 of $321 million, as debt. We expect the company to reduce this facility over the next few years. We expect leverage of below 4 times in the next 12-18 months. This will be accomplished through strong seasonal cash flow, working capital improvements and debt paydown. Working capital improvements are contributing to significant funded debt reduction since the merger but we expect such benefits to be more moderate over the next 18 months. We also consider the company's approach to working capital to be aggressive, because it has significantly extended its payables days and relies in part on vendors financing receivables through third party financial institutions that KDP helps arrange. The availability of such third party financing could diminish or become more costly if KDP's credit quality were to weaken, which could create pressure from vendors to reduce payable days, and thereby increase KDP's funding needs.

KDP expects to realize at least $600 million of cost synergies by 2021, primarily through reductions in supply chain costs and overlaps in SG&A costs between the two businesses. This will improve profit margins over time. The company is on track with synergy realization as of December 2019 having recognized $200 million and on track to achieve an additional $200 million in each of 2020 and 2021.

Exhibit 6

Profitability to increase over the next 12-18 months [1][2]



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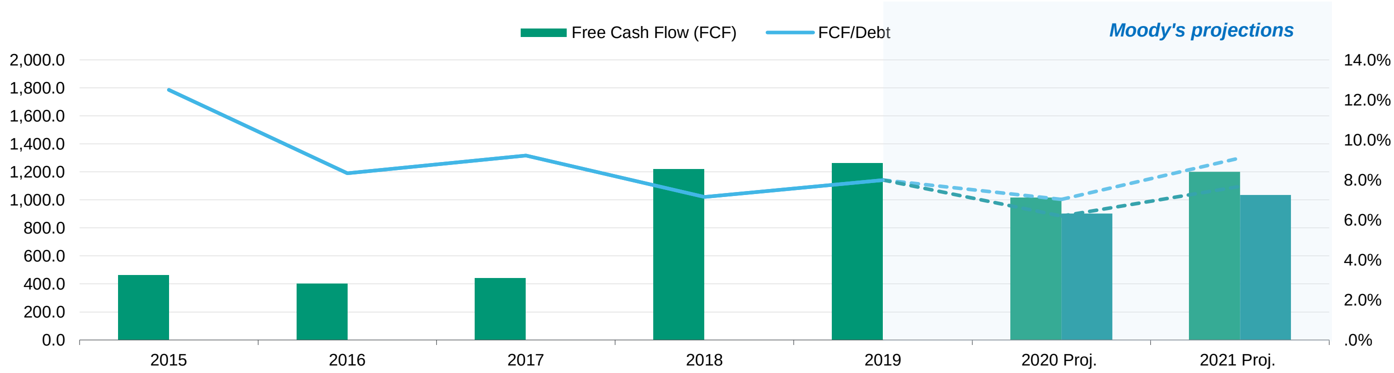
[2] The forward view reflects a range of outcomes given uncertainty of Covid-19
Source: Moody's Financial Metrics™, Moody's estimates

Exhibit 7
Cash flow improved significantly given working capital improvements [1] [2]



[1] 2014-2017 figures represent Dr Pepper Snapple Group standalone metrics.
[2] The forward view reflects a range of outcomes given uncertainty of Covid-19
Source: Moody's Financial Metrics™, Moody's estimates

Diversified portfolio of strong brands with good growth prospects

Keurig Dr Pepper benefits from a strong portfolio of brands across numerous categories. These include flavored CSDs, juices, juice drinks, ready-to-drink teas, mixers, carbonated mineral water, bottled water, and at-home-brew coffee and teas. Over 80% of the soft beverage business is generated by brands holding either a #1 or #2 position in their categories. These include Dr Pepper (#2 overall flavored CSD in the U.S.), Mott's (#1 branded apple juice and apple sauce), and Sunkist soda (#1 orange CSD in the U.S.). While many of these brands have strong positions in certain subcategories, some of these categories are considerably smaller than the leadership categories of the larger beverage companies.

We view the company's focus on the flavored soft beverage segment as a positive. It does not participate significantly in colas, which have been continuously declining in the U.S. for the past two decades. While the KDP's beverage portfolio has not been immune to the challenges of the generally declining U.S. CSD market, it has still grown faster than the overall segment for the past several years. This is because flavored CSD's have outperformed the market, and we expect continued stronger growth from flavored beverages going forward. KDP's soft beverage business is attractively positioned and claims around 23% share of CSDs and a leading market share in flavored CSDs as measured by retail sales according to Nielsen.

Keurig is the leading single-serve coffee platform in the US. It offers more than 75 owned or licensed coffee brands, which include the top ten coffee brands in the US. Leading brands include the owned brands Green Mountain, Donut Shop, and Tully's, and licensed brands Starbucks, Folgers, and Dunkin' Donuts, among others.

KDP has good potential to create new products and roll out product extensions, including ready to drink coffees. KDP benefits from its established DSD systems in rolling out such products. KDP's soft beverage business operates under an integrated model, whereby it distributes about 52% of its soft beverage volume in the U.S. through company-owned route-to-market systems such as direct-store delivery, warehouse and fountain. The integrated model allows KDP to align the interests of the brand ownership with manufacturing and distribution to grow net sales and profits. At the same time, the reliance on 3rd party bottlers for approximately 48% of its soft beverage volume means that profitability is positively skewed to the concentrate company model. (Concentrate companies who do not do their own distribution generally enjoy higher margins than do fully integrated beverage companies). The Dr Pepper brand is distributed in some markets through either PepsiCo or bottlers of the Coca-Cola system, and we expect this arrangement to be maintained. However, future product development that KDP performs under the Keurig brand, including ready to drink coffee products or other new beverage brands, will likely go through KDP's owned DSD system or other 3rd party distributors.

We expect that the growth of KDP's CSD business will be challenged by the ongoing decline of U.S. CSD consumption and concerns about artificial sweeteners in diet CSDs. However, we anticipate that KDP will still outperform the overall U.S. CSD market due to its portfolio mix. Thus we expect low single digit reported sales growth for the company over the next 12-18 months.

Coffee business exposed to risks of brewer market saturation and strong unlicensed pod competition

The Keurig coffee business has entered a stage in which growth will be more difficult to achieve than in the past. Core to KDP's business strategy is growing the installed base of Keurig home coffee brewers, which are generally sold at break-even prices at best, but drive sales of high-margin portion packs that are used in the brewers – similar to a razor/razor-blade model. As the installed base of brewers grows, so do sales of single-serve coffee pods. However the rate of brewer sales has slowed as the company has reached its most receptive single-serve consumers. The company intends to grow household penetration of its machine base by expanding the range of its offerings to meet different consumer needs and through investment in innovation.

KDP will continue to face growing direct competition in single serve coffee pods from unlicensed private label manufacturers that work in Keurig machines. Competitor's pod sales have been the fastest growing segment of the single-serve category and we expect that this segment will continue to grow faster than the category over the next 18 months. Unlicensed private label coffee pod manufacturers such as TreeHouse Foods (Ba3 stable), Badger Finance (B3 negative) and others have intensified price competition and contributed to industry-wide margin erosion.

Good scale, albeit smaller relative to its major competitors with some geographic and customer concentration

KDP generates more than $11 billion in annual revenue. This represents good scale, but the company is still smaller and more geographically concentrated than Coke and Pepsi, its larger beverage peers, which each have sales on an aggregated system basis of more than $60 billion. With a footprint focused on the United States (approx. 88.5% of sales), Canada, Mexico and the Caribbean KDP is less geographically diverse than its competitors. This increases the company's exposure to country and regional specific factors such as changes in economic conditions, labor strikes, sweetener or other taxes, weather and competition from other players in the market. It reaches a diverse and widespread customer base within its territories by using its own and third-party distribution systems. As consolidation continues in the retail industry, the concentration and bargaining power of KDP's largest retail customers will continue to grow.

ESG considerations

We view the coronavirus outbreak as a social risk given the substantial credit implications of public health and safety. The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. That said, KDP and packaged beverage companies in general, are likely to be more resilient than other sectors although some volatility can be expected in 2020 due to uncertain demand characteristics, channel disruptions, and the potential for supply chain disruptions.

In terms of Societal factors, KDP faces the risk of shifts in consumer behavior as well as health and wellness considerations, which can influence the consumption of its products.

We view KDP's environmental risk as low. The company has initiated a number of sustainability programs including a commitment to make all K-Cups recyclable and to increase the percentage of returnable packaging in its mix.

In terms of corporate governance, JAB's 65% ownership of the company has influenced financial policy which has been more aggressive than the previous Dr Pepper Snapple business as evidenced by the willingness to take on substantial leverage at the time of the merger, and significantly extend payables. Nevertheless, JAB invested $9 billion of equity in the original transaction, and management has committed to reduce leverage to 3x within 3 years of the transaction.

Liquidity analysis

KDP has good liquidity, characterized by strong and predictable cash flows with some seasonality. The company has a $2.4 billion senior unsecured revolving credit facility expiring 2023 that was undrawn as of December 31, 2019. The facility has no general MAC language at drawings. The revolver and term loan facility require that KDP maintain a net leverage ratio of below 5.0x debt/EBITDA with a step-down to 4.5x on June 30, 2020. We expect the company to be in compliance with these covenants. The company has a $2.4 billion commercial paper program, back stopped by the revolving credit facility. We expect that KDP will maintain sufficient availability under the revolver to fully back-stop commercial paper.

On May 29, 2019 the company entered into an agreement for a $750 million 364-day credit facility that expires on May 27, 2020, but expects to double the size of the facility and extend it to April of 2021 to enhance liquidity. The facility shares the same maximum net leverage covenant as the $2.4 billion senior unsecured revolver.

The company's next maturity is in May 2021 when it has $1,750 million notes due.

Rating methodology and factors

Exhibit 8

Soft Beverage Industry Grid [1][2]	Current FY 12/31/2019		Moody's 12-18 Month Forward View As of April 2020 [3]	
Factor 1 : SCALE (16%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$11.1	A	$11.5-11.7	A
Factor 2 : BUSINESS PROFILE (40%)				
a) Product Diversification	Baa	Baa	Baa	Baa
b) Geographic Characteristics	Baa	Baa	Baa	Baa
c) Market Position & Brand Strength	Baa	Baa	Baa	Baa
d) Innovation, Distribution & Infrastructure	Baa	Baa	Baa	Baa
e) Pricing Flexibility	Baa	Baa	Baa	Baa
Factor 3 : FINANCIAL POLICY (16%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : PROFITABILITY (7%)				
a) EBITA Margin	28.4%	Aaa	29.0%-29.9%	Aaa
Factor 5 : LEVERAGE & COVERAGE (21%)				
a) RCF / Net Debt	8.4%	B	10.6%-11.7%	B
b) EBIT / Interest Expense	4.3x	Baa	4.8x-5.2x	Baa
c) Debt / EBITDA	4.4x	B	3.5x-3.7x	Ba
Rating:				
Indicated Rating from Grid Factor 1-5		Baa2		Baa2
Rating Lift				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned				Baa2

Source: Moody's Financial Metrics™, Moody's estimates

Appendix

Exhibit 9

Peer comparison

(in US millions)	Keurig Dr Pepper Baa2 Negative FYE Dec-17	FYE Dec-18	LTM Dec-19	Coca-Cola Company (The) A1 Stable FYE Dec-16	FYE Dec-17	LTM Dec-18	PepsiCo, Inc. A1 RUR-DNG FYE Dec-17	FYE Dec-18	LTM Dec-19
Revenue	$6,690	$7,442	$11,120	$84,409	$82,835	$81,569	$63,525	$64,661	$67,161
EBITA Margin	22.9%	26.0%	28.4%	19.7%	21.4%	21.4%	16.7%	16.4%	16.3%
EBIT / Int. Exp.	8.6x	3.7x	4.3x	9.2x	9.7x	8.8x	8.1x	7.3x	8.7x
RCF / Net Debt	15.2%	5.8%	8.4%	16.4%	11.7%	13.7%	24.4%	18.2%	16.9%
Debt / EBITDA	2.7x	7.7x	4.4x	3.3x	3.6x	3.4x	3.6x	3.0x	2.8x

Source: Moody's Financial Metrics™

Exhibit 10

Moody's adjusted debt breakdown

(in US Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19
As Reported Debt	**2,583.0**	**3,382.0**	**4,478.0**	**4,479.0**	**15,990.0**	**14,420.0**
Pensions	40.0	78.4	82.2	71.0	41.4	52.8
Operating Leases	209.9	200.4	209.6	223.8	261.5	806.0
Non-Standard Adjustments	60.8	35.0	30.0	22.0	756.0	504.0
Moody's-Adjusted Debt	**2,893.7**	**3,695.8**	**4,799.8**	**4,795.8**	**17,048.9**	**15,782.8**

Moody's Financial Metrics
Source: Moody's Financial Metrics™

Exhibit 11

Moody's adjusted EBITDA breakdown

(in US Millions)	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19
As Reported EBITDA	**1,417.0**	**1,528.0**	**1,654.0**	**1,566.0**	**1,705.0**	**3,046.0**
Pensions	18.0	7.4	8.3	7.5	1.8	-0.4
Operating Leases	69.0	60.0	55.0	58.0	48.0	82.0
Unusual	35.0	7.0	13.0	150.0	452.0	450.0
Non-Standard Adjustments	2.1	1.8	0.0	0.0	0.0	0.0
Moody's-Adjusted EBITDA	**1,541.1**	**1,604.2**	**1,730.3**	**1,781.5**	**2,206.8**	**3,577.6**

Source: Moody's Financial Metrics™

Ratings

Exhibit 12

Category	Moody's Rating
KEURIG DR PEPPER	
Outlook	Negative
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Commercial Paper	P-2

Source: Moody's Investors Service

REPORT NUMBER 1223188

Contacts

Linda Montag +1.212.553.1336
Senior Vice President
linda.montag@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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