MOODY'S INVESTORS SERVICE

CREDIT OPINION

22 July 2019

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.

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Keurig Dr Pepper

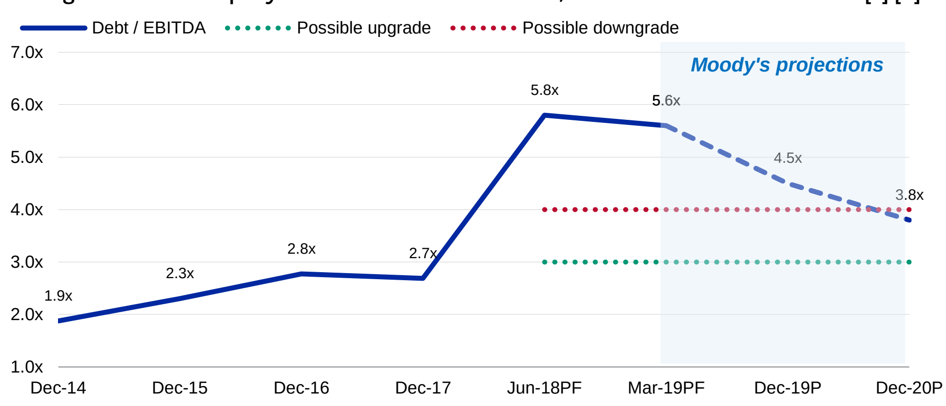
Update to credit analysis - KDP remains on pace to deleverage to 4.0x or below by year end 2020

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 and good product diversity. These strengths are tempered by the company's more limited geographic diversity than its global peers, its focus on the declining carbonated soft drink ("CSD") category and pricing pressure in its single-serve K-cup business. KDP's profile also reflects high debt to EBITDA leverage of around 5.6 times. However we expect relatively rapid deleveraging to the high-3.0x range by 2020, if cost take outs, working capital improvements and synergies can all be achieved.

Exhibit 1

Leverage will decline rapidly over the next 12-18 months, if cost take outs are achieved [1] [2]



[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.
Source: Moody's Financial Metrics, Moody's estimates

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 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

Rating outlook

The negative outlook reflects the execution risk in achieving the rapid deleveraging, without which the rating could be lowered. It also reflects integration risk in combining two very different cultures.

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

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]

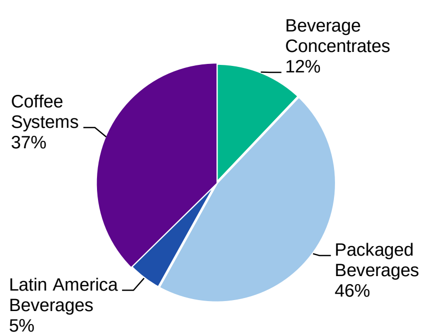
Keurig Dr Pepper								
US Millions	Dec-14	Dec-15	Dec-16	Dec-17	Jun-18PF	Mar-19PF	Dec-19P	Dec-20P
Revenue	6,121	6,282	6,440	6,690	10,947	10,995	11,218	11,436
EBITA Margin %	20.9%	21.6%	23.2%	22.9%	22.8%	23.5%	26.4%	28.6%
RCF / Net Debt	27.5%	25.0%	23.9%	15.2%	8.5%	8.9%	9.5%	11.4%
EBIT / Interest Expense	10.5x	10.4x	9.6x	8.6x	4.7x	5.4x	5.6x	6.7x
Debt / EBITDA	1.9x	2.3x	2.8x	2.7x	5.8x	5.6x	4.5x	3.8x

[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.
Source: Moody's Financial Metrics, Moody's estimates

Profile

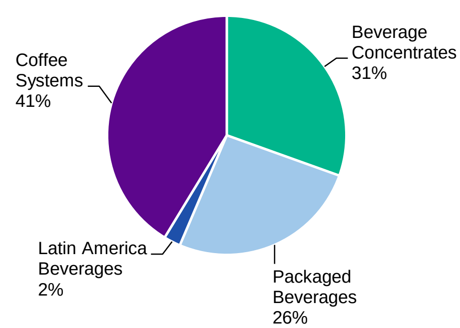
Headquartered in Plano, Texas, and Burlington, Massachusetts, Keurig Dr Pepper is a leading integrated brand owner, bottler and distributor of nonalcoholic beverages. It's products include flavored carbonated soft drinks and non-carbonated beverages (juices, juice drinks, ready to drink teas and mixers). 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 67% controlling interest in KDP, with Mondelez (14%) and public float (19%) accounting for the rest of the ownership.

Exhibit 3
Pro-forma fiscal 2018 revenue split by segment



Source: Company filings, Moody's estimates

Exhibit 4
Pro-forma fiscal 2018 operating income split by segment [1]



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

Detailed credit considerations

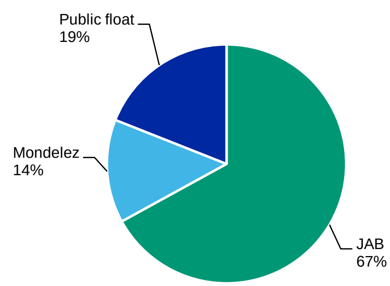
Merger created total beverage company

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.

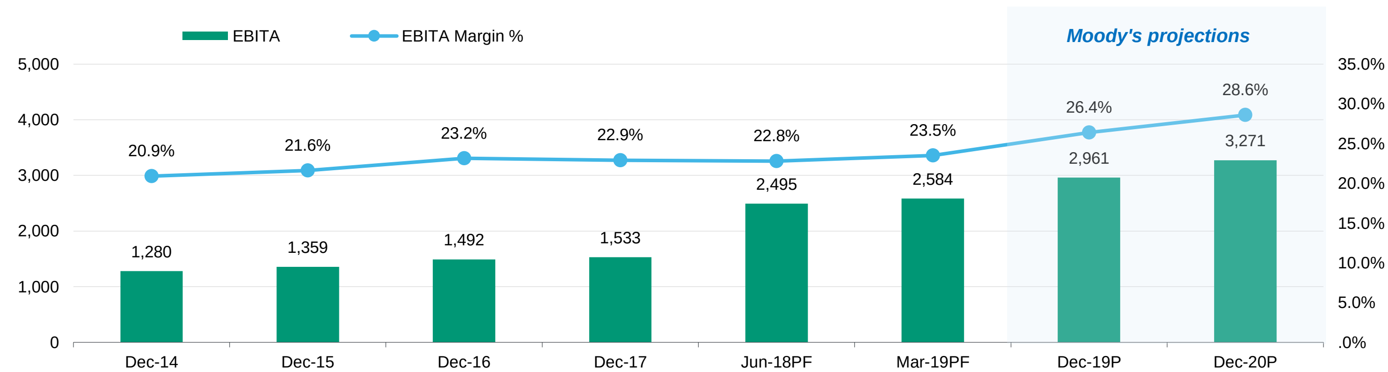
We expect the company to continue to seek out growth opportunities. In August 2018 KDP completed the acquisition of Big Red, a regional CSD brand that was previously among Dr Pepper's allied brands, for cash. In October 2018, KDP entered into a long-term partnership with Danone Waters of America to sell, 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. These portfolio additions will help to boost revenue and earnings growth over time.

Leverage will decline but execution risks exist

We expect that KDP's high leverage will begin to decline more meaningfully in the back half of calendar 2019, when the company generates most of its cash flow and as some cost savings materialize. Nevertheless, the company will still need to generate significant cash from working capital improvements. We estimate that leverage as of March 31, 2019 was about 5.6x (including Moody's standard adjustments, pro-forma for the merger). Leverage is high despite some debt repayment because closing leverage was slightly higher than anticipated and because KDP purchased allied brand 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 March 2019 of $595 million, as debt. We expect the company to reduce this facility and to deleverage by about a turn by the end of 2019. We expect leverage of 4 times or below by fiscal year end 2020 and the low 3 times range by 2021. This will be accomplished through strong seasonal cash flow, working capital improvements and debt paydown. However there are still significant execution risks to achieve relatively large working capital improvements, as well as the synergies and cost reductions that are planned over the next few years. All of these will be necessary to reduce leverage quickly. Failure to meet any of these leverage hurdles could result in a downgrade.

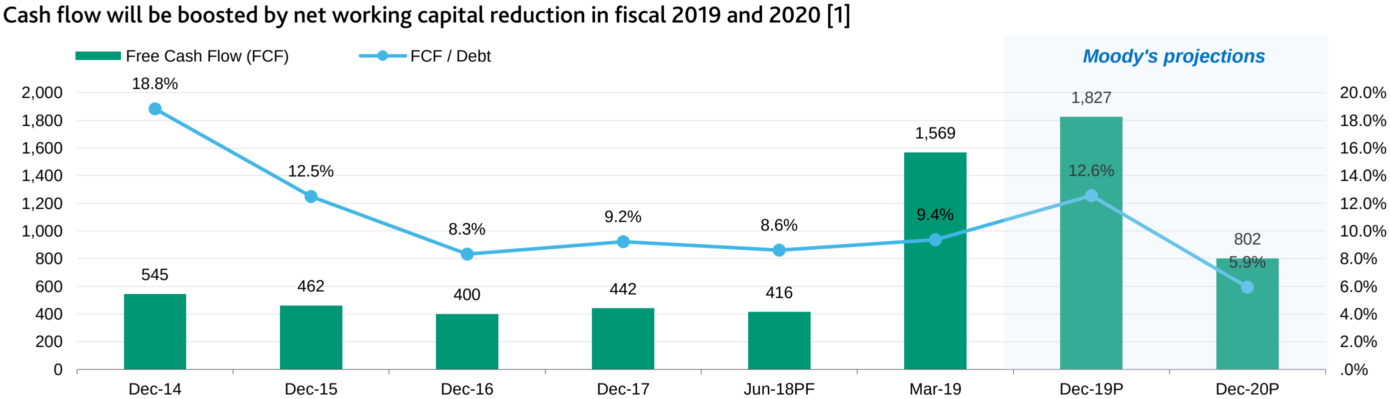
KDP expects to realize at least $600 million of cost synergies by 2021, primarily through reductions in supply chain costs and overlaps in SG&A costs between the two businesses. This will improve profit margins over time.

Exhibit 6
Moody's expects profitability to increase over the next 12-18 months [1]



[1] 2014-2017 figures represent Dr Pepper Snapple Group standalone metrics.
Source: Moody's Financial Metrics, Moody's estimates

Exhibit 7
Cash flow will be boosted by net working capital reduction in fiscal 2019 and 2020 [1]



[1] 2014-2017 figures represent Dr Pepper Snapple Group standalone metrics.
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 a 22.1% share of US 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 will benefit from its established DSD systems in rolling out such products. KDP's soft beverage business operates under an integrated model, whereby it distributes approximately 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 increasing 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 combined company over the next 12-18 months.

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

We believe that 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 $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. 84% 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.

Liquidity analysis

KDP has excellent 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 March 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 5.5x debt/EBITDA with step-downs to 5.0x on September 30, 2019 and 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. The facility is pari-passu with the $2.4 billion senior unsecured revolver and contains a one year term out option. The facility shares the same maximum net leverage covenant as the $2.4 billion senior unsecured revolver.

The company has $250 million notes coming due in January 2020, which we expect it will repay with cash on hand.

Rating methodology and factors

Exhibit 8

Rating Factors				
Keurig Dr Pepper				
Soft Beverage Industry Grid [1][2]	**Current LTM 3/31/2019PF**		**Moody's 12-18 Month Forward View As of 7/11/2019 [3]**	
Factor 1 : SCALE (16%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$11.0	Baa	$11.4	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	23.5%	Aaa	28.0%	Aaa
Factor 5 : LEVERAGE & COVERAGE (21%)				
a) RCF / Net Debt	8.9%	B	10.9%	B
b) EBIT / Interest Expense	5.4x	Baa	6.0x	Baa
c) Debt / EBITDA	5.6x	B	4.0x	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		Baa2

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

Appendix

Exhibit 9
Peer comparison

	Keurig Dr Pepper			The Coca-Cola Aggregation			PepsiCo, Inc.		
	Baa2 Negative			A1 Stable			A1 Stable		
(in US millions)	FYE Dec-17	LTM Jun-18PF	LTM Mar-19PF	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-17	FYE Dec-18	LTM Mar-19
Revenue	$6,690	$10,947	$10,995	$84,409	$82,835	$81,732	$63,525	$64,661	$64,983
EBITA Margin	22.9%	22.8%	23.5%	19.7%	21.4%	21.4%	16.7%	16.5%	16.7%
EBIT / Int. Exp.	8.6x	4.7x	5.4x	9.2x	9.7x	8.7x	8.1x	6.2x	6.5x
RCF / Net Debt	15.2%	8.5%	8.9%	16.4%	11.7%	13.6%	24.4%	18.2%	18.0%
Debt / EBITDA	2.7x	5.8x	5.6x	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	LTM Mar-19PF
As Reported Debt	**2,583**	**3,382**	**4,478**	**4,479**	**15,990**	**15,541**
Pensions	40	78	82	71	41	41
Operating Leases	210	200	210	224	262	356
Non-Standard Adjustments	61	35	30	13	756	807
Moody's-Adjusted Debt	**2,894**	**3,696**	**4,800**	**4,787**	**17,049**	**16,745**

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	LTM Mar-19PF
As Reported EBITDA	**1,417**	**1,528**	**1,654**	**1,566**	**1,705**	**2,654**
Pensions	18	7	8	8	2	1
Operating Leases	69	60	55	58	48	56
Unusual	35	7	13	150	452	258
Non-Standard Adjustments	2	2	-	-	-	-
Moody's-Adjusted EBITDA	**1,541**	**1,604**	**1,730**	**1,782**	**2,207**	**2,969**

Source: Moody's Financial Metrics

Ratings

Exhibit 12

Category	Moody's Rating
KEURIG DR PEPPER	
Outlook	Negative
Senior Unsecured	Baa2
Commercial Paper	P-2
MAPLE ESCROW SUBSIDIARY, INC.	
Outlook	No Outlook
Senior Unsecured	Baa2
MAPLE PARENT HOLDINGS CORP.	
Outlook	No Outlook
Sr Unsec Bank Credit Facility	Baa2

Source: Moody's Investors Service

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