MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Keurig Dr Pepper's Baa2/P-2 ratings; outlook remains negative

07 Apr 2020

New York, April 07, 2020 -- Moody's Investors Service, ("Moody's") today affirmed the Baa2 senior unsecured and Prime-2 commercial paper ratings of Keurig Dr Pepper Inc. (KDP). Moody's also assigned a Baa2 to the company's new senior unsecured notes in 10 and 30 year tranches, the proceeds of which will be used to repay other debt and bolster available liquidity. The rating outlook remains negative

Assignments:

..Issuer: Keurig Dr Pepper

....Senior Unsecured Regular Bond/Debenture, Assigned Baa2

Affirmations:

..Issuer: Keurig Dr Pepper

....Senior Unsecured Bank Credit Facility, Affirmed Baa2

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

Outlook Actions:

..Issuer: Keurig Dr Pepper

....Outlook, Remains Negative

RATINGS RATIONALE

The affirmation reflects that KDP is making good progress on its post merger deleveraging plans. Moody's still expects that KDP will lower debt to EBITDA leverage to around 4x by the end of 2020 from year end 2019 leverage of 4.4x (including Moody's adjustments).

KDP's Baa2 ratings reflect 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, 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 negative outlook reflects that deleveraging progress could be slowed by the current weak economic environment and retail distribution point closures. Moody's believes that 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 in also uncertain.

Moody's expects that the company will continue to reduce leverage to reach its stated debt-to-EBITDA target of around 3x (based on the company's calculation) over the next 12-18 months, which will result in Moody's adjusted leverage of under 3.5x. Working capital improvements are contributing to significant funded debt reduction since the merger but Moody's expects such benefits to be more moderate over the next 18 months. Moody's also considers 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.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

To stabilize the outlook, Moody's would need to see the company manage through the disruption in the current environment to achieve the next leverage milestone of debt to EBITDA of 4x or below including Moody's adjustments. To achieve an upgrade the company would need to show continued solid operating momentum and profitability, successfully achieve the remainder of its of cost savings, sustain Debt to EBITDA leverage (including Moody's adjustments) below 3x and retained cash flow to net debt at least in the high teens. The rating could be downgraded if the company encounters operational difficulties, unfavorable shifts in business conditions, deteriorating liquidity, failure to achieve planned synergies or If it appears unlikely that KDP will be able to reduce debt to EBITDA to about 4x by the end of 2020. A shift toward more aggressive financial policies, increases in shareholder distributions, or debt-funded acquisitions could also lead to a downgrade.

Environmental Social and Governance considerations

Moody's views 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.

Moody's views 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.

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 over $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.

The principal methodology used in these ratings was Global Soft Beverage Industry published in January 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1053179 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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Linda Montag
Senior Vice President
Corporate Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

John E. Puchalla, CFA
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007

U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.