MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Keurig Dr Pepper's Baa2/P-2 ratings; outlook changed to stable from negative

26 Feb 2021

New York, February 26, 2021 -- Moody's Investors Service, ("Moody's") today affirmed the Baa2 senior unsecured and Prime-2 commercial paper ratings of Keurig Dr Pepper Inc. (KDP). The rating outlook was changed to Stable from Negative.

The affirmation reflects KDP's solid performance in spite of COVID-related challenges over the past year and meaningful debt repayment, that is allowing the company to make continued good progress on its post-merger deleveraging plans. The company has lowered debt to EBITDA to 3.9x (including Moody's adjustments) for the fiscal year ended December 2020, meeting Moody's expectation that it would de-lever to below 4.0x by the end of 2020. Moody's expects further deleveraging to the mid 3x range by the end of 2021. The just announced 25% quarterly dividend increase is credit negative but will still allow KDP to generate sizable free cash flow to utilize for continued debt repayment.

The change in outlook to stable from negative reflects the company's successful de-leveraging since the Keurig Green Mountain merger with Dr Pepper Snapple in 2018, aided by strong operating performance and over $3 billion of debt repayment over the past two years. It also reflects Moody's expectation that the company will recognize remaining deal synergies of approximately $200 million in 2021, and that it will seek to further reduce leverage.

The following ratings/assessments are affected by today's action:

Ratings Affirmed:

..Issuer: Keurig Dr Pepper Inc.

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

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

....Senior Unsecured Notes, Affirmed Baa2

Outlook Actions:

..Issuer: Keurig Dr Pepper Inc.

....Outlook, Changed To Stable From Negative

RATINGS RATIONALE

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 cold drinks product portfolio is skewed to higher growth flavored beverages and the company has expanded its alternative beverage portfolio through innovation and acquisition. KDP also enjoys a strong position in fast growing single serve coffee where it has seen increased household penetration as consumers have stayed at home more in the past year. These strengths are tempered by the company's more limited geographic diversity than its global peers, and debt-to-EBITDA leverage (including Moody's adjustments) of 3.9x at December 2020 which, while significantly lower than leverage at the time of the Keurig-Dr Pepper merger in 2018, is still at the high end of the range expected for the rating category given the company's operating profile.

Working capital improvements have contributed to significant funded debt reduction since the merger but Moody's expects such benefits to be more moderate over the next 12-18 months. Moody's considers the company's approach to working capital to be aggressive, because it has significantly extended its payables days and relies in part on vendor 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.

ENVIRONMENTAL SOCIAL AND GOVERNANCE CONSIDERATIONS

The coronavirus outbreak, the government measures put in place to contain it, and the weak global economic outlook continue to disrupt economies and credit markets across sectors and regions. Moody's analysis has considered the effect on the performance of KDP from the current weak global economic activity and a gradual recovery for the coming year. Although an economic recovery is underway, it is tenuous, and its continuation will be closely tied to containment of the virus. As a result, the degree of uncertainty around Moody's forecasts is unusually high. Moody's regards the coronavirus outbreak as a social risk under Moody's ESG framework, given the substantial implications for public health and safety. Volatility can be expected 2021 due to uncertain demand characteristics, channel disruptions, and 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 its success in making all K-Cups recyclable and its goal to increase the percentage of returnable packaging in its mix.

In terms of corporate governance, JAB's partial 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 net leverage to 3x (by its definition -- which currently places net leverage at 3.6x) within 3 years of the transaction.

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

To achieve an upgrade the company would need to show continued solid operating momentum and profitability, successfully achieve continued 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, has deteriorating liquidity, fails to achieve planned synergies or if debt to EBITDA is expected to be sustained above 4.0x. A shift toward more aggressive financial policies, further increases in shareholder distributions, or debt-funded acquisitions could also lead to a downgrade.

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.

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 almost $12 billion of annual sales. JAB Holding Company S.a.r.l. owns 34% of KDP, with Mondelez (8%), Bdt Capital Partners LLC (8%) and a remaining public float (50%) accounting for the rest of the ownership.

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.

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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_1243406 .

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