S&P Global
Ratings

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Keurig Dr Pepper Inc.

Primary Credit Analyst:
Diane M Shand, New York + 1 (212) 438 7860; diane.shand@spglobal.com

Secondary Contact:
Chris Johnson, CFA, New York + 1 (212) 438 1433; chris.johnson@spglobal.com

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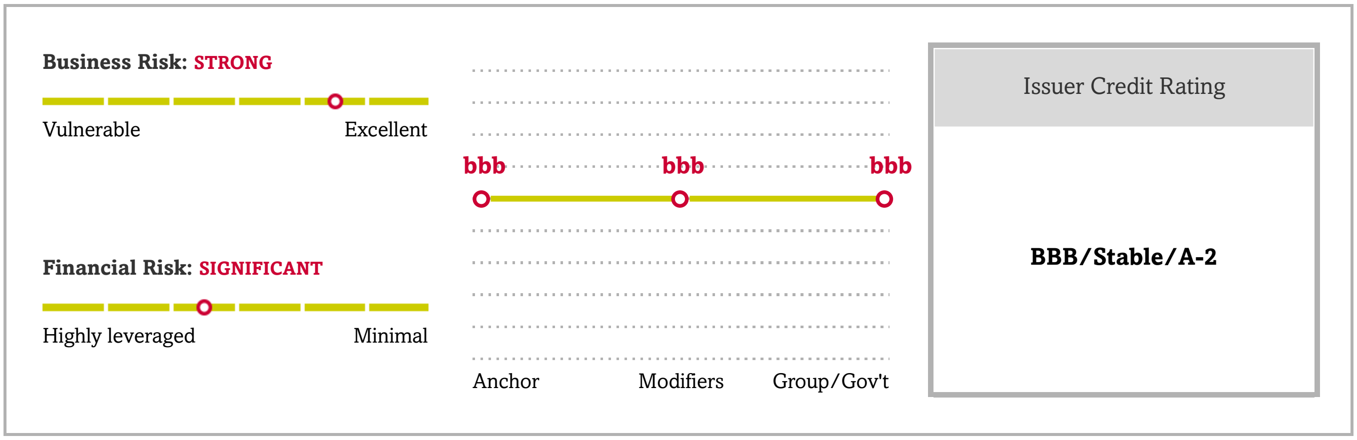
Keurig Dr Pepper Inc.



Credit Highlights

Overview

Key strengths	Key risks
Solid market positions in categories with good growth trends.	High leverage because of largely debt-financed merger in 2018.
Benefits from product diversification and a comprehensive distribution network.	Limited geographic diversity compared to global beverage and food peers.
Good negotiating power with retailers and suppliers because of scale and diversity.	Distant third market position in cold beverages.
Portfolio benefits from increased at-home consumption.	Key competitors have greater financial wherewithal.
Strong cash flow because of high margins.	

Keurig Dr Pepper Inc. (KDP) will likely post organic growth even after the COVID-19 pandemic. The company was consumer-centric and channel-agnostic coming into the COVID-19 pandemic because it has increased operating efficiency, improved the quality of its brewers, and brought down the prices of its coffee pod to broaden its customer base. The operational changes enabled KDP to meet the spike in demand and adapt to the shifting channel mix. KDP's volume grew 6.3% for K-Cup pods in 2020 and 13.7% in the first quarter of 2021, despite a significant decrease in away-from-home business. The company's brewer volume jumped 21% and 61%, respectively. Moreover, its Packaged Beverages segment increased 8.5% and volume mix was up 8.2% in 2020. Those figures grew 7.2% and 6.8%, respectively, in first-quarter 2021. Consolidated sales, excluding foreign exchange, rose 5% in 2020 and nearly 11% in first-quarter 2021. EBITDA margin expanded to 32.1% from 31.4% in the same year-ago period because of productivity programs and merger synergies. However, KDP's EBITDA margin eroded to 28.4% in the first quarter of 2021 from 30.4% in the year-ago period. The decline is attributable to foreign exchange headwinds, inflation in logistics, and negative mix shift because of strong growth of its low-margin brewers.

We believe KDP will grow organic sales 5.4% in 2021 and at a 3%-4% rate from 2022 through 2025 because of its broad product portfolio and its scalable, multichannel selling and distribution system, as well as the acceleration of household penetration that has occurred over the past year. In addition, we believe KDP can expand its EBITDA margin to the mid-30% area over the next five years, given its good service levels and initiatives to improve operating efficiency and expand distribution.

KDP has industry-leading margins. The company's 2020 EBITDA margin of 32.1% compares favorably to PepsiCo Inc.'s 2020 EBITDA margin of 19.1% and Molson Coors Beverage Co.'s 22.5%, as well as packaged goods peers such as General Mills Inc., The J.M. Smucker Co., Conagra Brands Inc., Campbell Soup Co., and McCormick & Co. Inc., which generate EBITDA margins in the low-20% area. The Coca-Cola Co.'s (Coke's) 2020 EBITDA margin of 35.5% is the highest among peers. This is attributable to its large scale and asset-light business model.

Expanding margins and strong cash flow will rapidly reduce KDP's leverage. KDP's leverage was 4.1x in the trailing 12 months ended March 31, 2021, down from 5.8x at the close of the merger in July 2018. We expect leverage will decline to 3.5x in 2021 and to 3.3x in 2022 through a combination of debt paydown and EBITDA growth. We expect KDP to reduce leverage to 3.0x in 2023 and that the company will manage leverage in the low-3.0x area thereafter. In addition, we forecast that KDP will generate $1.3 billion of discretionary cash flow (DCF) in 2021 and $1.2 billion in 2022. We base the 2021 improvement on expected margin expansion from cost cutting and post-acquisition synergies, as well as the return of some of its higher-margin away-from-home business.

Outlook: Stable

The stable rating outlook on KDP reflects our expectations that it will grow earnings and cash flow and continue to reduce leverage. We believe KDP will generate 3%-4% top-line growth, maintain the EBITDA margin of more than 33% over the next two years, and continue to generate strong cash flow. This should enable KDP to reduce leverage to the mid-3x area by year-end 2021.

Downside scenario

We could lower our rating on KDP if:

- Management's financial policies become more aggressive, resulting in an inability to reduce debt in line with our base-case forecast such that leverage remains above 4x;
- Leverage remains above 4x because KDP does not achieve anticipated cost-cutting goals; or
- Operating performance deteriorates (possibly because of competitive incursions).

Upside scenario

We could raise the rating over the next two years if:

- KDP achieves long-term benefits from the increased consumption of its products and reduces debt using its strong cash flow;
- KDP improves EBITDA by increasing operating efficiencies and achieving $600 million in planned synergies, resulting in EBITDA margins expanding to close to 35% and leverage declining to below 3x; and
- Management adheres to a financial policy consistent with maintaining leverage below 3x.

Our Base-Case Scenario

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Assumptions

- U.S. GDP increases 6.5% in 2021 and 3.1% in 2022. Canada's GDP grows 5.5% in 2021 and 2.4% in 2022.
- Sales of KDP's cold beverages grow 5.6% in 2021 and 3% in 2022 because of strength in its core business, brand innovation, and recovery in its on-premise and Latin American businesses.
- Hot beverage revenue grows about 5% in 2021 and 4.0% in 2022 because of strong sales of coffee pods and some growth of KDP's coffee machines, given robust at-home consumption and a slow rebound in office demand.
- EBITDA margin expands to about 33.4% in 2021, up from 32.1% in 2020, reflecting favorable mix, the benefit from supply chain productivity initiatives and merger synergies. We believe KDP will achieve its targeted $600 million of merger synergies by year-end 2021. It has already achieved $420 million of merger synergies since 2018.
- Capital expenditure (capex) of about $350 million in 2021 and $380 million in 2022. The EBIDA margin should expand to 33.8% because of lower distribution costs and increased operating efficiency.
- Dividends of about $1 billion annually in 2021 and 2022.
- DCF of $1.4 billion in 2021 and $1.3 billion in 2022, up from $1.1 billion in 2020. The increase in cash flow in 2021 reflects reflects higher income from operations and working capital benefits, as well as lower capital spending. The modest decrease in DCF in 2022 reflects a lower benefit from working capital.
- Modest working capital benefit from extending accounts payable days.
- No share repurchases.
- Limited mergers and acquisitions (M&A).

Key metrics

Table 1

Keurig Dr Pepper Inc.--Key Metrics*

	--Fiscal year ended Dec. 31--				
(Mil. $)	**2018a**	**2019a**	**2020a**	**2021e**	**2022f**
Revenue	7,442.0	11,120.0	11,618.0	12,242.0	12,658.3
Revenue growth (%)	11.2	49.4	4.5	5.4	3.4
EBITDA	1,801.5	3,497.0	3,734.0	4,090.9	4,281.6
EBITDA margin (%)	24.2	31.4	32.1	33.5	34.0

Table 1

Keurig Dr Pepper Inc.--Key Metrics* (cont.)

	--Fiscal year ended Dec. 31--				
(Mil. $)	**2018a**	**2019a**	**2020a**	**2021e**	**2022f**
Net debt	16,760.9	15,886.1	15,174.8	14,282.9	13,942.2
Debt to EBITDA (x)	9.3	4.5	4.1	3.5	3.3
FFO to debt (%)	8.0	15.9	17.2	21.1	21.2

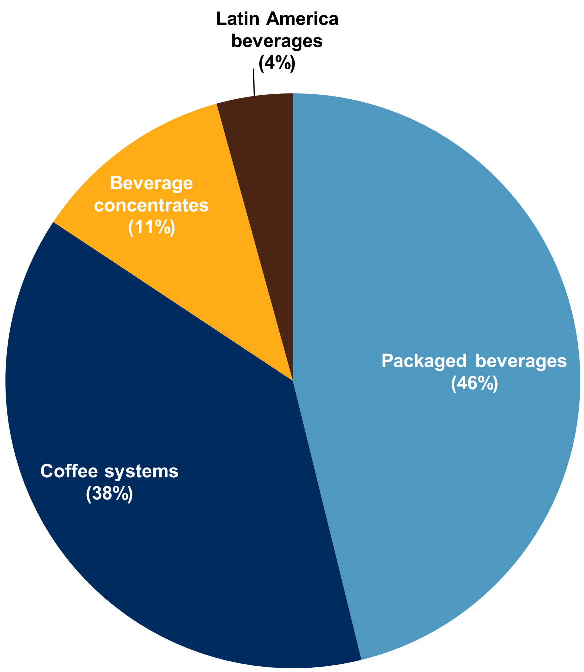
*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations.

Company Description

KDP is a major beverage company in North America with a diverse portfolio of flavored (non-cola) carbonated soft drinks (CSDs), specialty coffee and non-carbonated beverages, and the No. 1 single-serve coffee brewing system in North America. KDP has a national distribution system that provides its portfolio of more than 125 owned, licensed, and partner brands to consumers. Its coffee business is modestly more profitable than its cold beverage business.

Chart 1

Keurig Dr Pepper Inc.'s Product Mix
2020



Source: Company data.

Peer Comparison

KDP has several close beverage peers, including Coke and PepsiCo. Both Coke and PepsiCo are larger and have greater product and geographic diversity. Their credit protection measures are stronger than KDP's.

KDP's business strength is greater than Molson Coors' because it has more product diversification and higher margins. KDP's DCF to total debt exceeds that of all of its aforementioned peers, except for Molson Coors.

We rate KDP the same as packaged goods peers J.M. Smucker, General Mills, and Kellogg Co. (as of April 22, 2021). These peers have similar business risks, given their leading market positions, diverse brand and product portfolios, good margins, and cash flow generation. In addition, these peers generate most of their sales in the U.S. KDP's DCF to total debt is higher than that of all of these peers.

Table 2

Keurig Dr Pepper Inc.--Peer Comparison

Industry sector: Beverages

	Keurig Dr Pepper Inc.	The Coca-Cola Co.	PepsiCo Inc.	Molson Coors Beverage Co.
Ratings as of April 26, 2021	BBB/Stable/A-2	A+/Negative/A-1	A+/Stable/A-1	BBB-/Negative/A-3
	--Fiscal year ended--			
	Dec. 31, 2020	Dec. 31, 2020	Dec. 26, 2020	Dec. 31, 2020
(Mil. $)				
Revenue	11,618.0	33,014.0	70,372.0	9,654.0
EBITDA	3,734.0	11,709.0	13,443.0	2,173.7
Funds from operations (FFO)	2,612.3	9,460.8	10,451.9	1,760.5
Interest expense	628.7	1,482.2	1,193.1	288.9
Cash interest paid	539.7	980.2	1,221.1	286.2
Cash flow from operations	2,544.3	10,151.8	11,086.9	1,752.8
Capital expenditure	517.0	1,177.0	4,240.0	567.1
Free operating cash flow (FOCF)	2,027.3	8,974.8	6,846.9	1,185.7
Discretionary cash flow (DCF)	1,181.3	1,809.8	(758.1)	1,060.4
Cash and short-term investments	240.0	10,914.0	9,551.0	770.1
Debt	15,174.8	38,276.7	42,294.2	7,862.8
Equity	23,830.0	21,284.0	13,552.0	12,621.3
Adjusted ratios				
EBITDA margin (%)	32.1	35.5	19.1	22.5
Return on capital (%)	7.4	18.0	19.6	5.4
EBITDA interest coverage (x)	5.9	7.9	11.3	7.5
FFO cash interest coverage (x)	5.8	10.7	9.6	7.2
Debt/EBITDA (x)	4.1	3.3	3.1	3.6
FFO/debt (%)	17.2	24.7	24.7	22.4
Cash flow from operations/debt (%)	16.8	26.5	26.2	22.3
FOCF/debt (%)	13.4	23.4	16.2	15.1

Table 2

Keurig Dr Pepper Inc.--Peer Comparison (cont.)				
DCF/debt (%)	7.8	4.7	(1.8)	13.5

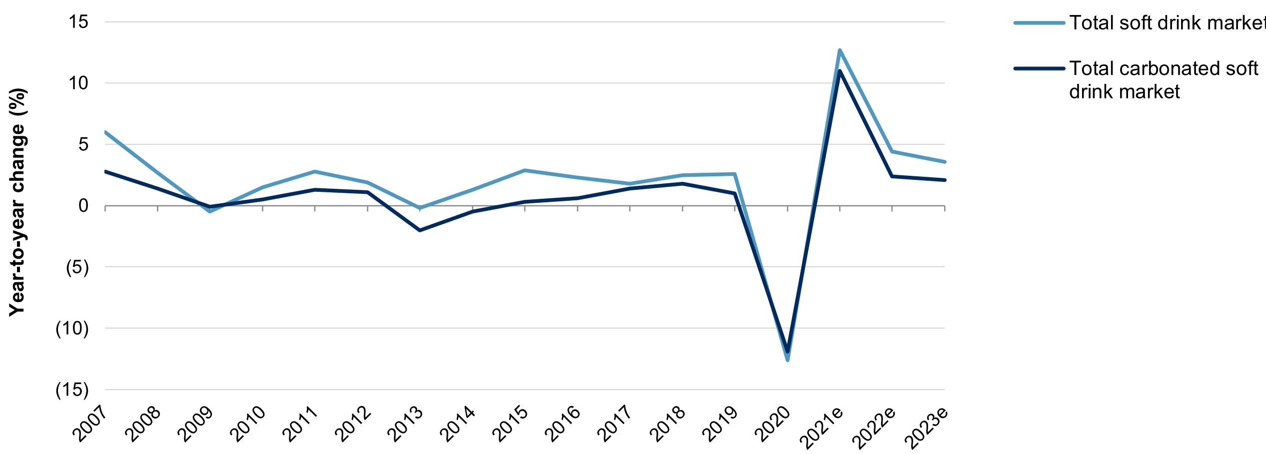
FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Business Risk: Strong

KDP is a formidable competitor in the beverage industry. It is the No. 1 player in the North American single-serve coffee sector, and it holds the No. 3 position in the North American liquid refreshment beverage industry. We expect single-serve coffee to continue as the fastest-growing segment of the coffee market, and we expect non-cola carbonated beverages to grow faster than the overall carbonated beverage market. We believe KDP's diversified portfolio of hot and cold beverages, as well as its scalable, multichannel selling and distribution system, should enable it to steadily grow sales and profits. Its demonstrated ability to pivot operations to address changes in demand and channel mix also supports our expectation that the company can grow organic sales by 3%-4% annually for at least the next five years.

Chart 2

Euromonitor Expects The North American Soft Drink Market Will Rebound
Soft drink market should grow 3%-4% in 2022-2023



e--Estimate. Source: Euromonitor.

On the cold beverage side, KDP has very defendable market positions, given the strength of its core and difficult-to-replicate Dr Pepper brand, customer loyalty, and favorable demographic trends across many of its flavored carbonated drinks, as well as its strong brands in non-carbonated drinks. Moreover, its core CSD business does not overlap much with that of its large competitors, Coke and PepsiCo. KDP's strategy focuses on fragmented categories. The North American off-premise soft drink category is large, at $132 billion in 2020, according to market research firm Euromonitor. We believe industry sales in off-premise channels will grow 2%-3% annually over the next five years because of price mix. The on-premise channel, which represents about 10% of KDP's sales, plunged 36% in 2020, and we expect it will rebound 33% in 2021. We forecast the channel will grow 4%-5% annually in 2022 through 2025.

The non-cola flavored carbonated market has been growing faster than the cola market, and KDP's portfolio has benefited from the strength of its Dr Pepper and Canada Dry brands. According to Euromonitor, off-premise volume in the North American carbonated beverage market has declined about 1%-2% annually for the past 14 years. This trend, with the exception of 2020, should continue over the next five years because of consumers' shift toward drinks with lower sugar content as well as energy drinks and non-carbonated drinks. Moreover, growth trends in non-cola carbonated drink share outpaced those of the industry. According to Euromonitor, the Dr Pepper brand's market share increased to 17.8% in 2020, up from 15.4% in 2011, which compares favorably to Coke's one-percentage-point gain and PepsiCo's almost five-percentage-point decline in market share. We attribute this to the difficult-to-replicate taste of KDP's Dr Pepper brand and the popularity of its Canada Dry brand as mixers in alcoholic beverages.

Table 3

KDP And Small To Medium Brands Have Been Gaining Market Share In The Carbonated Beverage Market

	--Market share (%)--										Share change (percentage points)
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2020 compared to 2011
The Coca-Cola Co.	35.9	35.9	36.0	36.1	36.0	36.3	36.4	36.6	37.1	36.9	1.0
PepsiCo Inc.	30.9	30.1	29.8	29.9	29.4	28.8	27.8	27.0	26.2	26.3	(4.6)
Keurig Dr Pepper Inc.	15.4	15.7	15.8	16.0	16.3	16.6	17.2	17.4	17.5	17.8	2.4
Private label	8.8	8.5	8.1	7.6	7.5	7.2	6.9	6.7	6.6	6.4	(2.4)
Others	6.2	6.6	6.6	6.6	6.9	6.9	7.6	7.8	7.9	7.7	1.5

Source: Euromonitor.

We believe KDP will also benefit from its non-carbonated drinks portfolio. The company should be able to compete in the water segment, which is the second-largest segment of the soft drink market and has better growth prospects compared to all other subcategories of the soft drink industry, given consumers' shift toward healthier beverages. KDP purchased Bai in 2017 and Core in 2018, and distribution partnerships for Polar and evian. According to Euromonitor, Nestle S.A. is the clear branded leader in the category, with its portfolio of water brands commanding a 17.5% share of the industry. Coke is the next-largest player; its water brands have a 10.1% share. PepsiCo has a 8.4% water brand market share. Still, the category is very fragmented, and no individual brand has more than an 8% share. Most brands have less than a 1% share. According to Euromonitor, KDP's owned brands have a 0.3% share of the market. The company has an advantage over smaller and regional brands, given its national distribution capabilities. We expect KDP to build on the premium water segment, as well as other faster-growing categories such as sport and energy, as well as ready-to-drink (RTD) tea and coffee. Although KDP is a small player in the fast-growing energy segment, we consider it a major participant, given consumers' use of coffee as an energy booster. Overall, we believe KDP's cold beverages will gain share because of the company's focus on non-cola beverages, its water offerings, its RTD Peet's coffee, and its allied brands.

KDP has the No. 1 position in the single-serve coffee segment in North America. It is successful because it has more than 125 brands and large distribution. The company's dollar share of pods manufactured in the U.S. was 83% in 2020. The North American coffee market is large; it accounted for $16.5 billion of sales (excluding retail coffee shops) in 2020, according to Euromonitor. Single-serve constituted a 48% share in 2020 on a dollar basis in North America, up from 2% in 2008. The category is benefiting from an expansion of work-from-home policies because of the pandemic, as well as the company's good execution. Generally, the Keurig brand consistently grows household penetration by 2 million households per year. In 2020, it added about 3 million new households. Moreover, the number of cups of coffee consumer per brewer has increased. Typically, that number has remained steady. Overall household penetration in the U.S. was 33 million at year-end 2020, up from 21 million in 2015. We believe demand for at-home coffee occasions will be higher for at least the next five years compared with 2020, given the acceleration of household penetration, the shift in employers' work-from-home policies, and an increase in consumers' desire to work remotely. According to Euromonitor, coffee pod volume should grew 5.7% in 2020, and it expects growth of about 4.6% in 2021 and then growth of 1%-2% annually from 2022-2025. The overall coffee category's volume declined 2.2% in 2020 because of the loss of on-premise business. The category is expected to grow 6% in 2021 because of recovery in the on-premise market. Thereafter, it is expected to marginally grow until 2024.

Table 4

Volume Growth Of Single-Serve Coffee Has Led The Market And Should Accelerate

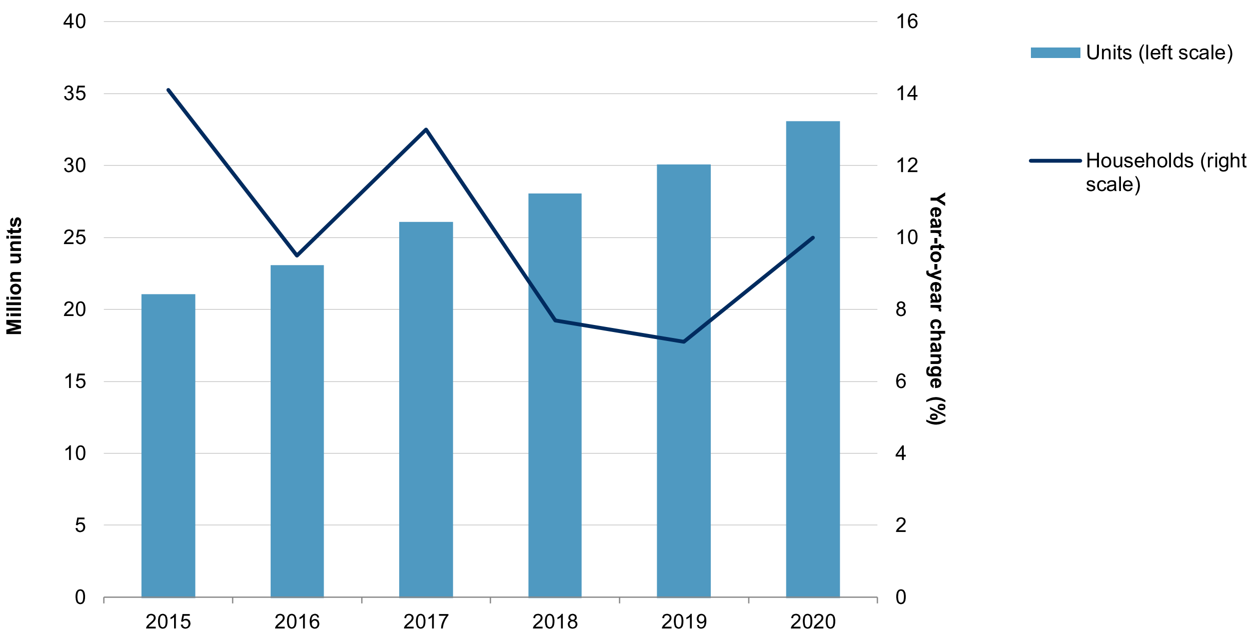
	2015	2016	2017	2018	2019	2020e	2021e	2022e	2023e	2024e	2025e
Coffee	1.3	0.3	(0.9)	1.4	1.4	(2.2)	6.0	1.4	0.6	0.1	(0.2)
Fresh coffee beans	2.7	3.8	(0.2)	2.8	3.3	(2.2)	3.3	1.8	1.5	1.2	1.0
Fresh ground coffee pods	17.0	12.0	3.7	6.3	5.7	4.4	4.6	2.4	1.5	1.1	0.9
Standard fresh ground coffee	0.1	(1.1)	(1.4)	0.9	0.7	(3.1)	6.6	1.3	0.4	(0.2)	(0.4)

e--Estimate. Source: Euromonitor.

KDP still needs to grow household penetration, given its large share. Household penetration increased to 25.1% in 2020, up from 23% in 2019 and 17% in 2015. Still, there is plenty of room for growth, given there are 128 million households in the U.S. and 89 million at-home coffee drinkers. KDP has strategic initiatives to grow U.S. household penetration above 50%. This is still below household penetration in France and the Netherlands, of 65% and 63%, respectively. We think KDP can increase household penetration in North America because it has reduced the price of pods to broaden its customer base, improved the quality of its brewers, and invested in advertising. Its brewer volume jumped 21% in 2020, and its sustainability policies will likely also support growth. The company's pods in North America are 100% recyclable, which could help increase household penetration among environmentally conscious consumers.

Chart 3

Number Of U.S. Households Regularly Using Keurig Brewers Is Still Growing



Source: Company data and Omnibus Study 2020.

In its hot coffee business, KDP competes against large brands with deep financial resources, such as Kraft Foods Group Inc.'s Maxwell House and Smucker's Folgers, as well as coffee retailers such as Starbucks Corp. and Dunkin' Brands Inc. In the single-cup coffee segment, KDP competes against companies such as Nestle, which leads the global category with about $8 billion in coffee sales. KDP also competes against coffees and teas sold through supermarkets, club stores, mass merchants, specialty retailers, and food service accounts. In the single-serve coffee segment, KDP has a competitive advantage, because it controls innovation on brewers and pods, and it has multiyear strategic relationships with Starbucks, Dunkin' Donuts, Kraft-Heinz, Smucker, Eight O' Clock Coffee, and others. KDP has more than 125 brands in its system, including 18 of the top 20 brands, which creates a significant competitive advantage because no other single-serve system offers more choices for consumers. We believe KDP will maintain a very strong share in the U.S. and Canadian markets because of its successful history of developing innovative products. Its pipeline of new innovative brewers and marketing initiatives should enable it to gain additional share.

Financial Risk: Significant

Although KDP's leverage remains high because of its largely debt-financed merger with Dr Pepper Snapple Group, it has substantially decreased. Its debt to EBITDA was 4.1x for the fiscal year ended Dec. 31, 2020, down from pro forma leverage of 5.8x following the merger in July 2018. We forecast KDP will focus on reducing debt over the next two years. The company paid down $961 million of debt in 2020, and it paid down $1.3 billion in 2019. KDP is steadily improving cash flow and is prioritizing debt repayment this year. We believe KDP will reduce leverage to the low-3x area by year-end 2021, given its strong DCF. We estimate DCF to adjusted debt will be strong at about 10% in 2021 and almost 9.5% in 2022. We consider this a key factor in our rating. Our forecast assumes no share repurchases, an almost $400 million benefit from working capital, and we expect M&A activity to be leverage neutral. KDP has shown a willingness to use equity to finance acquisitions (e.g., Core). In 2021, we believe the company will repay debt through a combination of working capital gains and EBITDA growth; thereafter, debt paydown will occur predominantly through EBITDA growth. We do not expect the company's accounts-payable days to exceed 160 days at year-end 2021. Its accounts-payable days outstanding was 154 days as of March 31, 2021, and we believe the industry norm is about 120 days. Without adding the 44 days payable to debt, KDP's leverage would be 3.9x for the trailing 12 months ended March 31, 2021 compared to our 4.1x adjusted leverage for the same period. We have added $1 billion to debt in 2021 for accounts payable beyond 120 days. Leverage would be 3.2x without the adjustment. This compares with our 3.5x leverage forecast for 2021. We note that a portion of transportation and warehousing, as well as advertising and promotion expense, that are included in selling, general, and administrative on the income statement are included in accounts payable.

Financial summary

Table 5

Keurig Dr Pepper Inc.--Financial Summary

Industry sector: Beverages					
	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
(Mil. $)					
Revenue	11,618.0	11,120.0	7,442.0	6,690.0	6,440.0
EBITDA	3,734.0	3,497.0	1,801.5	1,697.5	1,699.0
Funds from operations (FFO)	2,612.3	2,520.2	1,345.2	1,280.2	1,135.5
Interest expense	628.7	676.8	467.3	179.3	164.5
Cash interest paid	539.7	543.8	246.3	157.3	132.5
Cash flow from operations	2,544.3	2,533.2	1,646.2	1,063.2	965.5
Capital expenditure	517.0	365.0	180.0	207.0	179.0
Free operating cash flow (FOCF)	2,027.3	2,168.2	1,466.2	856.2	786.5
Discretionary cash flow (DCF)	1,181.3	1,324.2	1,234.2	43.2	(118.5)
Cash and short-term investments	240.0	75.0	83.0	61.0	1,797.0
Gross available cash	240.0	75.0	83.0	61.0	249.0
Debt	15,174.8	15,886.1	16,760.9	4,692.9	4,515.5
Equity	23,830.0	23,257.0	22,533.0	2,451.0	2,134.0
Adjusted ratios					
EBITDA margin (%)	32.1	31.4	24.2	25.4	26.4
Return on capital (%)	7.4	6.7	5.5	20.5	24.1
EBITDA interest coverage (x)	5.9	5.2	3.9	9.5	10.3
FFO cash interest coverage (x)	5.8	5.6	6.5	9.1	9.6

Table 5

Keurig Dr Pepper Inc.--Financial Summary (cont.)

Industry sector: Beverages

	--Fiscal year ended Dec. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
Debt/EBITDA (x)	4.1	4.5	9.3	2.8	2.7
FFO/debt (%)	17.2	15.9	8.0	27.3	25.1
Cash flow from operations/debt (%)	16.8	15.9	9.8	22.7	21.4
FOCF/debt (%)	13.4	13.6	8.7	18.2	17.4
DCF/debt (%)	7.8	8.3	7.4	0.9	(2.6)

FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

Reconciliation

Table 6

Keurig Dr Pepper Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $)

	--Rolling 12 months ended March 31, 2021--									
Keurig Dr Pepper Inc. reported amounts (mil. $)										
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Dividends**	**Capital expenditure**
	13,465.0	24,070.0	11,907.0	3,346.0	2,654.0	591.0	3,763.0	2,588.0	826.0	458.0
S&P Global Ratings' adjustments										
Cash taxes paid	--	--	--	--	--	--	(532.0)	--	--	--
Cash interest paid	--	--	--	--	--	--	(544.0)	--	--	--
Reported lease liabilities	1,256.0	--	--	--	--	--	--	--	--	--
Operating leases	--	--	--	114.0	27.8	27.8	(27.8)	86.2	--	--
Postretirement benefit obligations/deferred compensation	19.8	--	--	--	--	--	--	--	--	--
Accessible cash and liquid investments	(318.3)	--	--	--	--	--	--	--	--	--
Share-based compensation expense	--	--	--	87.0	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	--	11.0	--	--	--	--	--
Debt: Other	855.0	--	--	--	--	--	--	--	--	--
EBITDA: Restructuring costs	--	--	--	190.0	190.0	--	--	--	--	--
EBITDA: Other	--	--	--	26.0	26.0	--	--	--	--	--
Depreciation and amortization: Impairment charges/(reversals)	--	--	--	--	67.0	--	--	--	--	--
Total adjustments	1,812.5	0.0	0.0	417.0	321.8	27.8	(1,103.8)	86.2	0.0	0.0

Table 6

Keurig Dr Pepper Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. $) (cont.)

S&P Global Ratings' adjusted amounts

	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends	Capital expenditure
	15,277.5	24,070.0	11,907.0	3,763.0	2,975.8	618.8	2,659.2	2,674.2	826.0	458.0

Liquidity: Adequate

We assess KDP's liquidity as adequate, reflecting our expectation that projected sources will cover uses by more than 2.5x over the next 12 months. We expect sources will continue exceeding uses even if forecast EBITDA declines 30%. Although KDP's ratio of sources to uses would qualify for a more favorable liquidity assessment, we don't believe KDP could absorb high-impact, low-probability events without refinancing. In early 2020, KDP increased the size of its 364-day credit facility and issued notes to increase liquidity because of macroeconomic uncertainties. We believe KDP has a strong standing in the credit markets, strong relationships with its banks, and EBITDA cushion of more than 15% on its debt-to-EBITDA covenant.

Principal liquidity sources	Principal liquidity uses
• Cash of about $335 million as of March 31, 2021; • Full availability under its $2.4 billion revolving credit facility maturing 2023 and $1.5 billion available under its 364-day facility; • Funds from operations of about $2.4 billion; and • Debt issuance of $2.2 billion.	• Repayment of $1.9 billion of debt including commercial paper, other debt maturities, and amortization in 2021; • Seasonal working capital requirement of more than $100 million; • Capex of $360 million in 2021; and • Dividends of about $1 billion in 2021.

Debt maturities

As of March 31, 2021:

- 2021: $1.8 billion
- 2022: $0
- 2023: $1.5 billion
- 2024: $1.2 billion
- 2025: $1.5 billion
- Thereafter: $7.7 billion

Covenant Analysis

Compliance expectations

We forecast KDP will maintain a covenant cushion of more than 20% over the next two years. This calculation includes pro forma synergies.

Requirements

KDP is subject to maintenance financial covenants under its senior unsecured revolver and 364-day credit facility. The company is subject to a leverage covenant of 4x.

Environmental, Social, And Governance

We view environmental and social credit factors for KDP as broadly in line with those of industry peers, especially given its coffee business and portfolio of non-carbonated drinks, which add diversity to its CSD portfolio. Ongoing changing consumer tastes away from traditional CSDs and societal efforts to reduce the sugar content of beverages have reduced demand for some soft drinks. In response, KDP is diversifying its portfolio toward categories such as premium water, sports, and energy. This strategy has yielded good organic sales growth while improving the portfolio mix toward faster-growing, more socially acceptable offerings. KDP so far has not been significantly affected by government efforts to raise taxes on sugary foods and drinks. These efforts tend to temporarily reduce sales and consumption, but sales typically rebound after a year or so. For example, Mexico enacted a sugar tax in 2014, and consumption fell in the subsequent year, but it stabilized thereafter. The global anti-plastic movement is also an inherent environmental risk factor, and KDP is focusing on using fully recycled and recyclable products in its packaging. The company's coffee pods are 100% recyclable in North America.

Issue Ratings - Subordination Risk Analysis

Capital structure

KDP's capital structure consists of senior unsecured debt, all of which is issued at the holding company. The company has no secured debt or priority subsidiary debt.

Analytical conclusions

We rate KDP's unsecured debt 'BBB', the same as the issuer credit rating, because we believe that any subordination risk that may exist is not significant enough to warrant a notch down.

Ratings Score Snapshot

Issuer Credit Rating

BBB/Stable/A-2

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/portfolio effect:** Moderate (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb

Related Criteria

- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- ARCHIVE | Criteria | Corporates | Industrials: Key Credit Factors For The Branded Nondurables Industry, May 7, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- ARCHIVE | General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- ARCHIVE | General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of May 5, 2021)*

Keurig Dr Pepper Inc.	
Issuer Credit Rating	BBB/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Unsecured	BBB
Issuer Credit Ratings History	
14-May-2018	BBB/Stable/A-2
29-Jan-2018	BBB+/Watch Neg/A-2
13-Nov-2013	BBB+/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.