



# Keurig Dr. Pepper Inc. (KDP)

Updated August 9<sup>th</sup>, 2022 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$39	<b>5 Year CAGR Estimate:</b>	8.9%	<b>Market Cap:</b>	\$54.92B
<b>Fair Value Price:</b>	\$34	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	09/14/22
<b>% Fair Value:</b>	113%	<b>5 Year Valuation Multiple Estimate:</b>	-2.5%	<b>Dividend Payment Date:</b>	09/30/22
<b>Dividend Yield:</b>	1.9%	<b>5 Year Price Target</b>	\$55	<b>Years Of Dividend Growth:</b>	1
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	Hold

## Overview & Current Events

Keurig Dr. Pepper (KDP) is the result of a ~\$20B merger between Dr. Pepper Snapple (DPS) and Keurig Green Mountain completed in mid-2018. The new company started trading on July 10, 2018. KDP is now the third largest non-alcoholic beverage company in terms of revenue in the US behind Coca-Cola (KO) and Pepsi (PEP). KDP reports four business segments: Coffee Systems, Packaged Beverages, Beverage Concentrates and Latin America Beverages. Major brands include Core, Dr. Pepper, Sunkist, Canada Dry, Bai, 7UP, Snapple, and Keurig. JAB Holdings controls ~33.4% of the common stock and Mondelez owns ~5.3%, leaving ~61.3% as public float. Net sales were about \$12.68B in fiscal 2021.

Keurig Dr. Pepper reported Q2 2022 results on July 28<sup>th</sup>, 2022. Companywide net sales grew 13.2% to \$3,554M from \$3,140M in the prior year on strength in three segments offset by lower volumes in coffee systems. Adjusted diluted earnings per share increased 2.6% to \$0.39 in the quarter, compared to \$0.38 in the year-ago period. Coffee Systems had 3.3% volume growth and 5.8% higher prices. Volumes grew for K-pods by 3.3% and fell for brewers by (-4.2%). Packaged beverages saw volume growth of 1.9% and higher price realization of 11.0%. Most brands had higher sales led by CSDs, CORE, Polar Seltzers, Vita Coco, Hawaiian Punch, Mott's and Snapple. Beverage Concentrates continued to rebound from pandemic headwinds, volumes were higher by 3.7% and prices were 19.2% higher. Latin America Beverages volumes also increased by 12.0% and price realization was 14.5% higher.

KDP announced the acquisition of Atypique, a Canadian non-alcohol, ready-to-drink cocktail brand.

The company continues to aggressively reduce leverage, and the leverage ratio is now 3.4X at the end of the quarter compared to roughly 6X at the merger and 4.5X at end of 2019. The company has paid down over \$3B worth of debt since the merger.

Keurig Dr. Pepper raised revenue guidance at low-single-digit growth rate and maintained adjusted diluted EPS growth in 2022.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	--	--	--	--	--	--	\$1.04 <sup>1</sup>	\$1.22	\$1.40	\$1.60	<b>\$1.71</b>	<b>\$2.75</b>
<b>DPS</b>	--	--	--	--	--	--	\$0.30	\$0.60	\$0.60	\$0.71	<b>\$0.75</b>	<b>\$0.96</b>
<b>Shares<sup>2</sup></b>	--	--	--	--	--	--	1,406	1,407	1,407	1,418	<b>1,418</b>	<b>1,418</b>

Due to the recent merger, there is little historical earnings and dividend data available for Keurig Dr. Pepper. Keurig Dr. Pepper is expecting top and bottom-line growth in 2022, continuing its momentum from 2020. COVID-19 was impacting the company but the focus on coffee at home and packaged beverages is providing a tailwind despite weakness in food service and the away-from-home business. That said, the company performed well in 2020 and 2021. Keurig Dr. Pepper paid a \$0.60 per share dividend in 2019 and 2020 but raised the dividend to an annual rate of \$0.75 in Q2 2021. This bodes well for those seeking dividend growth combined with the modest payout ratio. We do not expect significant share buybacks as management has indicated that debt repayment and deleveraging is a priority.

<sup>1</sup> Adjusted pro forma assuming the merger occurred on December 31, 2016.

<sup>2</sup> Share count in millions.

Disclosure: This analyst is long KDP.



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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	--	--	--	--	--	--	46.2	31.9	30.3	23.1	<b>22.7</b>	<b>20.0</b>
Avg. Yld.	--	--	--	--	--	--	1.2%	2.4%	2.1%	2.1%	<b>1.9%</b>	<b>1.7%</b>

Keurig Dr. Pepper's share price is up since our last report after beating earnings. We have slightly raised our earnings estimates. Our estimated fair value multiple is 20X, near that of its two larger competitors, but uncertainty exists due to the short operating history. Our fair value price estimate is now \$34. Our 5-year price target is now \$55.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

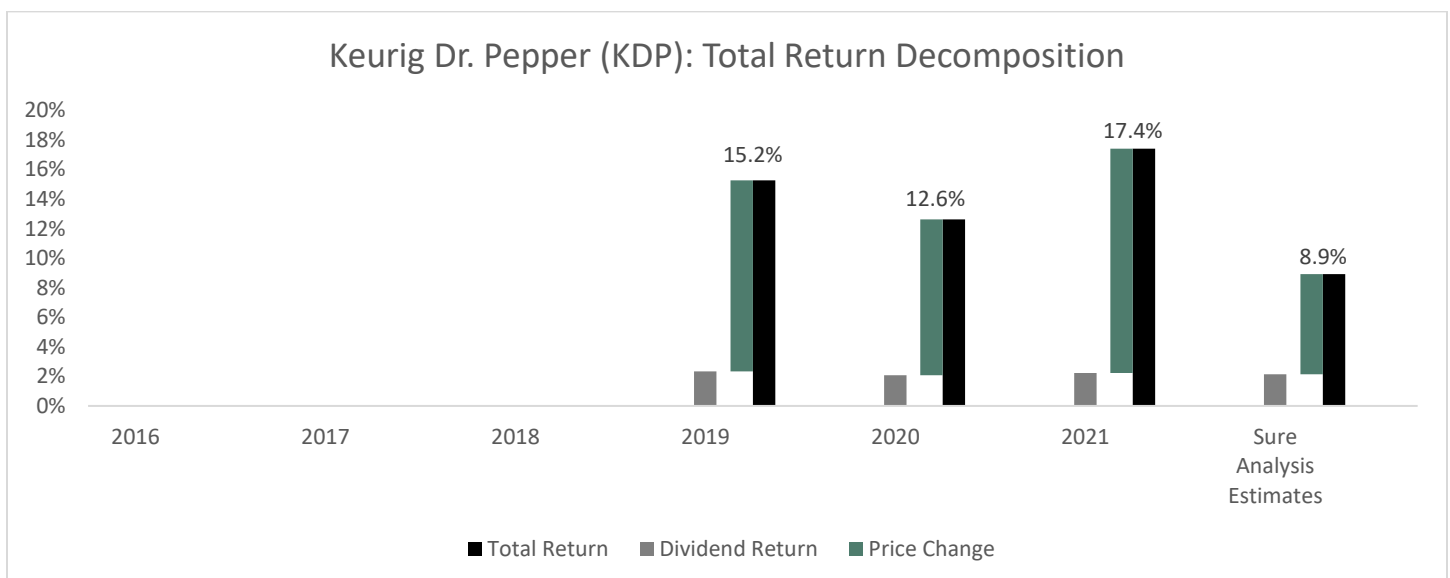
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	--	--	--	--	--	--	29%	49%	43%	44%	<b>44%</b>	<b>35%</b>

Keurig Dr. Pepper now controls one of the three major non-alcoholic beverage distribution networks in the U.S. giving it a major competitive advantage. From a brand perspective, Dr. Pepper and Canada Dry are market leaders; Snapple is the market leader in ready-to-drink teas; Bai, is a leader in enhanced flavor water; and Green Mountain Coffee is the market leader in K-Cup pods. The company's brewing systems have achieved ~20% household penetration and the estimated potential is 30% - 50%. Keurig Dr. Pepper has recession resistant characteristics due to strength of its brands and product portfolio. The coffee category is becoming increasingly competitive with new entrants including Coca-Cola.

Keurig Dr. Pepper is deleveraging. Short-term and current long-term debt are \$0 and long-term debt is \$11,555M at end of Q2 2022. Cash on hand is only \$552M. The current leverage ratio is approximately 3.4X.

## Final Thoughts & Recommendation

At present, we are forecasting 8.9% total annualized return over the next five years from a dividend yield of 1.9%, 10.0% EPS growth, and (-2.5%) P/E multiple contraction. Keurig Dr. Pepper's momentum from the merger is continuing into 2022. The company is seemingly delivering on its target of lower leverage, and more revenue and earnings growth. Keurig Dr. Pepper raised the dividend for the first time and the low payout ratio suggests that more increases may occur in the future. At the current stock price, we rate Keurig Dr. Pepper a hold.



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	5995	5997	6121	6282	6440	6690	7442	11120	11618	12683
<b>Gross Profit</b>	3495	3498	3630	3723	3858	3995	3882	6342	6486	6977
<b>Gross Margin</b>	58.3%	58.3%	59.3%	59.3%	59.9%	59.7%	52.2%	57.0%	55.8%	55.0%
<b>SG&amp;A Exp.</b>	2268	2328	2334	2313	2329	2556	2635	3962	3978	4153
<b>D&amp;A Exp.</b>	240	234	235	227	224	229	462	698	495	708
<b>Operating Profit</b>	1092	1046	1180	1298	1433	1388	1237	2378	2547	2894
<b>Operating Margin</b>	18.2%	17.4%	19.3%	20.7%	22.3%	20.7%	16.6%	21.4%	21.9%	22.8%
<b>Net Profit</b>	629	624	703	764	847	1076	586	1254	1325	2146
<b>Net Margin</b>	10.5%	10.4%	11.5%	12.2%	13.2%	16.1%	7.9%	11.3%	11.4%	16.9%
<b>Free Cash Flow</b>	258	682	851	834	779	830	1433	2109	1939	2419
<b>Income Tax</b>	349	-81	371	420	434	95	202	440	428	653

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	8928	8201	8265	8869	9791	10022	48918	49518	49779	50598
<b>Cash &amp; Equivalents</b>	366	153	237	911	1787	61	83	75	240	567
<b>Accounts Receivable</b>	552	564	556	570	595	668	1150	1115	1048	1148
<b>Inventories</b>	197	200	204	209	202	229	626	654	762	894
<b>Goodwill &amp; Int. Ass.</b>	5667	5682	5674	5651	5649	7342	43978	44289	44152	44038
<b>Total Liabilities</b>	6648	5924	5971	6686	7657	7571	26385	26261	25949	25626
<b>Accounts Payable</b>	283	271	289	277	303	365	2300	3176	3740	4316
<b>Long-Term Debt</b>	2748	2574	2497	3246	4325	4296	15659	14420	13488	11882
<b>Shareholder's Equity</b>	2280	2277	2294	2183	2134	2451	22533	23257	23829	24972
<b>LTD/E Ratio</b>	1.21	1.13	1.09	1.49	2.03	1.75	0.69	0.62	0.57	0.48

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	6.9%	7.3%	8.5%	8.9%	9.1%	10.9%	2.0%	2.5%	2.7%	4.3%
<b>Return on Equity</b>	27.7%	27.4%	30.8%	34.1%	39.2%	46.9%	4.7%	5.5%	5.6%	8.8%
<b>ROIC</b>	12.6%	12.6%	14.6%	15.0%	14.2%	16.3%	2.6%	3.3%	3.5%	5.8%
<b>Shares Out.</b>	--	--	--	--	--	--	1,400	1,406	1,406	1,428
<b>Revenue/Share</b>	28.24	29.33	31.01	32.65	34.51	36.60	6.78	7.84	8.17	8.88
<b>FCF/Share</b>	1.22	3.34	4.31	4.33	4.17	4.54	1.31	1.49	1.36	1.69

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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