Keurig Dr. Pepper Inc. Investor Day 2021

October 1, 2021

08:30 AM ET

Operator:

Please welcome Keurig Dr Pepper Chairman and CEO, Bob Gamgort.

Bob Gamgort:

On behalf of everyone at Keurig Dr Pepper, welcome to our Investor Day presentation. We're excited to recap the progress we've made since 2018 and to highlight our strategy and outlook, moving forward. At the end of our presentation, we'll be answering your questions. I encourage you to submit them throughout the presentation using the Q&A functionality located below the video player on your screen.

We'll be covering a wide range of information today. I'm confident that at the end of our session, you'll take away a number of important conclusions. The integration of Keurig Green Mountain and Dr Pepper Snapple has been successfully completed. And we've shifted our focus to the strong opportunities in front of us. We're on track to meet or exceed the financial commitments made at the announcement of the merger in 2018.

In addition to delivering our financial goals, we built a better company that's ready to scale. Our forward-looking value creation algorithm is competitive and attractive. And we have a unique opportunity to deliver out-sized returns through the deployment of our significant free cash. Finally, we believe that we have the talent and ambition across our organization to continue to disrupt the industry.

Three years ago, we welcomed many of you to our first KDP Investor Day. In that meeting, we introduced ourselves as the new challenger in the beverage industry. We explained our vision behind the formation of Keurig Dr Pepper, as illustrated in this original slide. We detailed our strategy to create a better beverage company. And we communicated our ambitious three-year shareholder value creation algorithm. This vision, which is rooted in consumer and shopper insights, continues to serve as true north for KDP.

While we introduced ourselves as a new challenger in 2018, we've worked hard since then to shake KDP into the modern beverage company it is today. Along the way, we have been and continue to be tested by macro challenges that no one could have anticipated in 2018. And we never blinked, maintaining guidance and delivering our commitments with no excuses.

As we approach the end of our original three-year outlook for KDP, we're proud to tell you that we are on track to meet or exceed our financial commitments. Among them is adjusted EPS, which we expect to land within our original target range of 15% to 17%, compounded annually. And we're projected more than 4% annual revenue growth, which is above our original target of 2% to 3%. Importantly, our revenue growth has accelerated throughout the three-year period as reflected in our 2021 guidance for 6% to 7% growth.

We also achieved our results in a very high-quality manner as evidenced by our increasing competitiveness in the marketplace. Since 2017, we expanded our share of total liquid refreshment beverages by nearly a half point, and added just under two points of carbonated soft drink share. In the 2018 Investor Day, we detailed our Keurig innovation pipeline and our strategic pod pricing initiatives. Those efforts have clearly paid off as we've added eight million new Keurig households since 2017 and expanded our KDP manufactured of pods to 83%.

For those of you who invested in us in 2018, we thank you for your support and trust. You have been rewarded with financial returns that have been well above those of our beverage peer set and the broader index for consumer stables.

Since 2018, we have successfully transitioned from a closely-held company to one that is widely-held. Over the past three years, approximately 700 million shares have been added to KDP's public float. At current valuation, that equates the nearly $25 billion in KDP equity absorbed by the public market.

Despite the outstanding financial returns we have delivered, KDP still trades at a discount to its beverage peers on three common valuation metrics. We look forward to the opportunity today to share our strategy, expectations, and excitement about our future so that our story may be more fully appreciated.

Our new long-term organic growth algorithm builds on our success since the merger and reflects the expected impact of the business plans we are sharing with you today. Our algorithm starts with net sales growth projections in the mid-single digit range, which we expect to translate into earnings per share in the high-single digit range. Combined with projected dividend payments, this year, the yields are expected total share for shareholder return are in the high-single digit low double-digit range.

As we'll discuss later in the finance section of today's presentation, we expect to be able to continue to convert earnings into cash at a high rate. That enables this new algorithm to generate more than $4 billion of discretionary free cash flow over the next three years to be able to invest into inorganic value creation. We believe the most attractive use of that cash is value of creative M&A. $4 billion in discretionary free cash translates into $20 billion in M&A capacity.

We remain disciplined in evaluating numerous M&A targets, all manageable in terms of size and complexity that deliver one or more strategic benefits, including portfolio expansion, distribution scale, geographic expansion, and new capabilities. And we believe we are well positioned to capitalize on M&A given our integration expertise and our proven capability to capture value.

In addition to M&A, our free cashflow provides further leavers such as share buybacks and special dividends to drive incremental shareholder value. Earlier today we issued a press release about a newly-approved opportunistic share buyback program. We'll discuss more about this in the finance section of our presentation.

Critical to appreciating the KDP story is understanding the full scope of the platform that we have built over the past three years, which we are now fully ready to activate. While the presenters who follow me will bring up each of these items and bring them to life through examples, I'd like to highlight some of the key points.

The first is our proven ability to expand our portfolio. Our starting point is remarkably strong, with a portfolio of brands that hold leadership positions across a wide range of North American beverage segments. Yet we see opportunity for continued expansion within these segments as well as to enter new segments. We have a clear and powerful process to drive growth. We identify priority growth opportunity areas by looking at beverages through the lens of consumer needs, occasions, and formats.

We have a proven toolkit to convert opportunities into reality through innovation and renovation, as well as through partnerships and M&A. Recent examples of how this approach has driven success are the introduction of our new one-step latte-take coffee pods, the launch of by boost, and our partnership with Polar, which we identified as the most attractive path forward among many options we consider to expand our position in flavored sparkling water.

In any discussion of sustainable growth opportunities, it's important to highlight the household growth potential of the Keurig system. Five years ago, when we took Keurig Green Mountain private, there was a concern among investors and analysts of KGM that the company had maxed out on household penetration. Well, since that time, we've increased our installed base by 57% or 11 million new households.

We address similar concerns in our Investor Day in 2018, and have added 8 million new households since then. With our refresh consumer analysis and hand in a robust innovation pipeline defined, we have line of sight to continuing our mid-single digit installed base growth for years to come.

We've created a unique, flexible, scalable go to market system that ensures our portfolio reaches consumers everywhere they shop. Our go-to market capability combines centralized retailer headquarter coverage, one that leverages the full scale of the complete KDP portfolio and matches it with a diverse route to market that enables unprecedented shopper reach, ranging from direct store delivery, to e-commerce, to nearly everything in between.

Based on the questions that we frequently receive from analysts and investors, it's important to highlight how we partner with retailers at the headquarter level. Our selling organization represents the full KDP portfolio, which means we can provide retailers insight and advice across a wide range of beverages and appliances. We directly cover more than 250 retailer headquarters across all channels of trade. And we're valuable partners, delivering more than $5 billion of annual retailer profit, giving us access to key decision-makers.

When we approach our customers, we do so as one fully combined modern beverage company. This go-to market system is strengthened through sophisticated data and technology. This includes the only-point-of-sale consumption data available in CPG through our panel of connected brewers, predictive ordering powered by AI for our frontline sales team, and best-in-class revenue growth management tools. While already impacting our business, we're still in the early stages of harnessing the full power of the data and technology available to us. Our KDP financial model provides the fuel for investment in our brands and go-to market system. In the finance section of our presentation, Ozan will walk you through how our business model efficiently translates sales to profit and profit to cash. In short, our accelerated revenue growth combined with continued margin expansion delivers attractive earnings per share. Continue to high free cash flow conversion generates significant discretionary free cash, which provides optionality for investment into inorganic growth.

ESG has become embedded in the way that we do business at KDP, ensuring that we make a positive impact in our environment and communities. In 2019, we launched a comprehensive and ambitious ESG program under the banner of drink well, do good. We've been highly transparent about our ESG goals and deliverables, which is reflected in the growing appreciation for our good work. As you'll hear later, we have delivered our commitments and continue to raise the bar with new and aggressive ESG goals, moving forward.

Finally, as we discussed many times, we believe that our team and the culture we have created are truly our competitive advantage. KDP'S team has been tested by the integration of two companies into one, through the challenges of the pandemic, And now through supply chain disruptions and inflation. They've passed that test, demonstrating remarkable resilience and making speed a competitive advantage for us. I'm grateful for their commitment and flexibility, and I'm honored to represent their great work today.

KDP's board of directors has evolved since the merger to reflect our widely-held ownership and ambitions as a modern beverage company. Highlights of our board development include balanced perspective across functional expertise and industry experience, an increase in the proportion of independent directors and the appointment of a lead independent director, and expanded diversity across a number of dimensions.

KDP continues to benefit from an experienced and capable leadership team. Several of whom you will hear from today. As we've evolved the company, we have continued to add new capabilities and perspectives to our leadership team, investing ahead of our current size to ensure that we can operate an even larger company in the future. Each member of this team is required to main a significant ownership stake in the company that has been acquired through personal investment that is separate and distinct from any equity granted through our long-term incentive program. This reflects our belief in the future and aligns well with our shareholders.

So here's our lineup for the remainder of our session. We will discuss coal beverages, coffee, corporate responsibility, international, and finance. Remember, please submit your questions along the way so we can address them at the end of our session. And it is now my pleasure to introduce Derek Hopkins who leads our cold beverage business.

Derek Hopkins:

Good morning. As you can see from the video, beverages are an exciting category. And we are extremely pleased with the performance of our portfolio. I look forward to sharing what we built the last three years in our cold business, our go-to market, and how we are confident that we have put ourselves in a position to continue to win and capture new growth opportunities.

We are very fortunate to participate in an extremely attractive sector of consumer products. The scale of the categories where we compete as very large, $145 billion annually at retail for non-alcoholic beverages with over one trillion annual consumption occasions. It's growing. Historically, annual growth rates should range between 2% and 3%. And over the past four years, that has accelerated to just under 5%. It's profitable. Importantly, it's also very profitable for our retail partners who have a vested interest in helping us sustain the growth. And finally, while the dialogue has frequently about three players, the reality is, that it is surprisingly fragmented. In fact, the three largest players, ourself, Coke, and PepsiCo, the owned brand of these three companies contribute only to 38% of the total dollar sales of the industry. And if you look at distribution, including distribution partnerships, you will still find that over 50% of the brands exist outside of those systems. So to us, this is exciting, as it shows the opportunity exists for further consolidation.

Finally, if we look at how beverages have grown, it's been balanced. You can see the expansion of what we're calling emerging categories on the left. These are categories that are driving half the growth. There also continues to be development white spaces. Over the past four years, over 250 brands have entered the space, generating significant retail growth. In many cases, these new entrance are blurring the lines and addressing consumer needs differently.

This underlying dynamic of emerging category growth and new brand entrance provides a key opportunity for us, whether this is through innovation, renovation, partnerships, or M&A. We are looking to unlock this growth through two fundamental approaches. The first, a unique go-to market model with capacity that we believe positions us to effectively win in the marketplace. The second is a strong underlying portfolio that has both organic growth opportunities and room for additional expansion. These two focus areas they've led to our success over the last three years, and they provide a means to capture future growth.

Let me start with our go-to market approach. As you heard earlier, we represent the entire KDP portfolio to our customers from a headquarter selling standpoint, regardless of the route to market or brands. This includes coffee, appliances, our carbonated beverages, our non-carbonated beverages, our juice, our sauce. So everything. We then have the option of the best distribution method to ensure those products can be delivered in a manner that are efficient from a cost standpoint and the most effective to win in the market. And importantly, meet the needs of our retail partners.

I'd like to talk a little bit more about our selling and commercial capabilities. In addition to having one selling organization that represents our total KDP portfolio with our retail partners, we have also set up an integrated commercial organization with center of excellence and key areas like revenue growth management, shopper marketing, and channel strategy. This commercial group works back with our KDP-owned and partner brands and in close partnership with our national selling teams to bring these complete portfolio to our retailers, regardless of the route to market.

This is important as it creates a seamless experience for our customers. For instance, with our DSD brands, these sometimes use different trucks in different geographies. It allows us to access senior leadership at our retailers, and it brings them solutions that leverage the entirety of our portfolio. It drives consistency with how we execute in the marketplace. And it has given us very good discipline on how we manage our pricing and promotion.

This approach is a repeatable model and one that we can scale up with increased capacity. I'd like to talk about some of the enhancements that we've been making across our route to markets. And while I won't review all six of our route to markets, I would like to highlight a few. Let me start with our company-owned DSD system and our independent distributor partners.

Within our company-owned DSD, we have been very active improving both the reach and our depth of coverage through acquisitions. We've done 22 deals over the past three years. Several of these deals were new territories, many that were contiguous with our existing operations. This allowed us to create scale with surrounding geography. This took our company owned DSD operations to approximately 77% of the U.S. population base. Several of our larger deals have actually been focused on bringing brands back onto our trucks in geographies where we were already operating in.

A great example is in the New York Metro area. We had an existing distribution network that primarily focused on the Snapple brand. 2019, we brought Core onto those trucks. And most recently, in 2021, early, we acquired our CSD brands from an independent distributor and added those to our trucks. And we've done similar deals in other metro areas like Los Angeles, San Diego, and Las Vegas, to mention a few. This has improved our portfolio depth on our trucks across a population base of roughly 30 million consumers. Ultimately, this has given us a better scale, which is critically important in DSD.

In addition to strengthening our distribution system, we have also been investing in improving the capabilities of our company owned DSD system. This has been and will continue to be a focus area for us. We've invested in our final mile. This is all about improving how we show up an outlet and improving our ability to better service our customers, from training, to execution standards, to our warehouse and delivery systems.

We've embedded data and analytics in our business. For instance, we have implemented AI-driven predictive ordering with our account manager's tablets. This provides a starting point for writing an order. This has increased our order accuracy. It's reduced our out of stock. And it saves us time that can be re-devoted to other higher value-add activities in the account. We're also updating our routing system to more dynamic routing to optimize cost and service.

And we are introducing image recognition to capture in-store conditions. We have also been very focused on the people front. We've increased the specialization of roles between our selling teams and our operations teams. We've been deliberate about looking for talent externally to build capabilities. And we have put in place a robust diversity and inclusion agenda with our over 11,000 employees in this group.

As we said, we are committed to continuing to create the best distribution option for our brands in each market. We've been focused on strengthening our relationship with key long-term independent distributors who provide great execution in their geographies. This is something that we believe is unique to our system. And we've been able to create some win-win partnerships.

As I mentioned, we strengthen our company-owned network in metro New York with our CSD brands onto our trucks moving on to our trucks. This is a deal that we did with the Honickman Group. Also, part of that deal, we moved our products to their territories in Virginia, where it created better scale and efficiency part of their network. Buffalo Rock, a Pepsi bottler and a partner with us on Dr. Pepper in the Southeast, we shifted all of our brands into the Buffalo Rock system, creating a system where KDP and the Pepsi portfolios are on the same truck. This created skill for Buffalo Rock and the results have been outstanding.

Finally, we are very pleased with our relationship with the Polar Company. This is example of how these partnerships can become multifaceted. We have partnered with Polar to produce and take Polar nationally through our DSD system. Polar is our distributor in the New England market. And we also work with polar on co-manufacturing opportunities. These are examples of our commitment to finding the best distribution options and creating win-win relationships. Let me share the progress in a couple of areas outside of our traditional retail channels, specifically, eCommerce and on premise.

We have a leading eCommerce platform, and we have been able to translate that expertise to our cold business. The migration to eCommerce has accelerated, and COVID has step changed the adoption of the shopping behaviors. What was once primarily a national ship model now has evolved to a number of fulfillment options that are better suited economically for beverages. Just over the past year, KDPs eCommerce penetration has doubled for cold beverages. KDP has been able to leverage what has been an expertise developed on the coffee and appliance side of the business, now across the entirety of our portfolio. We have built dedicated teams against digital capabilities. We're embracing eCommerce, not just as a specialized skill, but something that every member of our selling and commercial team needs to be competent against. This has led to a robust certification program that we've established in trained over 600 Associates.

We've invested in supply chain solutions to meet the specific packaging needs of these channels and retailers. And our retail partners, they see us as key advisors. Food service and on premise is an incredibly important set of channels for building brands, and we are positioned very well. Brand Dr. Pepper is the most available CSD on fountain. Because of this, we have direct relationships with every major food service player. Over the past three years, we have been able to leverage these relationships and grow our total valve count by 10%. This has not just been through the Dr. Pepper brand. The landscape for food service is also changing. Now over 1/3 of retail locations utilize cell phone fountain equipment, and this is a trend that will continue. This creates opportunity for the balance of our portfolio. Often, the consumer preferred flavor option, and it gives us access to compete for more valves. We have seen a step change in our retail operators desire to carry bottles as additional option for their customers. In fact, we have doubled the penetration of bottles over the past year.

As the dynamics are changing in this channel, we have built the capability to gain deeper penetration. These two channels, both eCommerce and food service, give us access beyond traditional retail channels. Now, let's pivot and talk about our portfolio. This is a view of the major trademarks of our cold portfolio. It includes both the brands we own, as well as our partnerships. Our portfolio is positioned well with leadership positioning key categories. In many of the segments we have either the leading or number two trademark. We are the leader in both flavored CSDs and mixtures. And while CSDs as a category has been volumetrically challenged historically, flavors have consistently outperformed colas. And this continued with our brands leading the recent growth in CSDs. Another area that's been a focus for us has been premium water, and I'll talk more about this later, around how our portfolio approach has allowed us to claim the number two spot in this segment.

The scale of Snapple and Mott’s trademarks allows us to have the number two position in both juice, juice drinks and premium tea. And we've been building a broader entry into energy and coffee through partnerships. While we are certainly proud of the powerful lineup on the previous slide, we will continue to expand our portfolio and we think about accessing every opportunity, through a consumer led approach. What is the fundamental need state? How does that translate into distinct consumption occasions throughout the day? And which beverage format and package solution are best suited to satisfy those needs and occasions? We leverage a broad and flexible toolkit. This toolkit includes capabilities such as renovating trademarks to ensure they stay relevant, driving new functional or flavor innovation within the current portfolio, or looking to leverage partnerships and M&A to fill in space. So let's talk a little bit more about our growth and how we've achieved that.

On this slide is a comparison of the growth contribution from products within our portfolio. The brands we own, or the brands we sell and distribute through partnership. The results are broken out between pre and post merger, and these are IRI retail dollar sales. Pre merger, the legacy DPSG portfolio was posting solid dollar growth in the aggregate, just under 4% annually. This is on the left hand side of the page. What you can see on this slide is the majority of the growth was from the contribution of the Allied portfolio, or what we have here on the slide as DPSG partner brands. Post merger, the right hand side, you can see that we've been receiving a similar level of retail dollar contribution from our current product brands, roughly 2%. But what is really impressive, has been the step change we have driven in our own brand performance. Over five points of improvement, close to 7% retail dollar growth over the last three years on our own brands. This is a good example of an and strategy. We have built our, our partnerships, and we've accelerated our own brand growth.

So let's talk about how we've been able to drive this growth. We have accomplished this step change in growth by a combination of innovation, renovation and packaging. Just to touch on a few examples that are working. We launched market leading innovation on Dr Pepper, like Dr Pepper and cream soda and Dr Pepper zero. We have repositioned to zero sugar throughout our entire CSD portfolio, increasing its appeal to younger drinkers without sacrificing our base. We have brought new functional benefits into existing trademarks to drive incremental households, like enhanced energy delivery for Bai boost, or vitamin and fiber for the Mott’s trademark through the Mighty platform. We've set up our delivery on new packaging choices for consumers. And we have introduced, better environmental packaging solutions for the Core and

Snapple trademarks by converting them to 100% rPET this year. All of this, it's been combined with world class marketing.

Dr Pepper's Fansville is in its fourth year, engaging college football fans all season long. And we have donated over $12 million over the last 10 years as part of our college football tuition program. Earlier this year, our Core TikTok challenge went viral and we received two and a half billion video views. Snapple’s A Corner Story is a local example of a partnership in New York City to celebrate the importance of Bodegas to the local community. And finally, Dr Pepper Perks, it's our recently launched digital rewards platform that lets our passionate drinkers have unique Dr Pepper experiences. These are just a few examples of what we believe makes our brands so relevant with our consumers targets. And the proof? The proof is that it's been working in the results. Brand Dr Pepper has led shared growth, not only in CSD, but all of LRB. Sunkist has recently overtaken its competitor to be the number one fruit CSD in volume. Snapple, it has the highest household penetration of any premium brand in tea category. We have double course household penetration. The Mott’s trademark has gained three points of share. Canada Dry has grown 14 consecutive years.

Our recent zero sugar launches are contributing a full point of share growth. And in the majority of grocery accounts, our CSD portfolio is the number two player, not just in flavors, but in all of CSD dollar sales. So you've heard from me about how we've driven the success and step changed our growth. I thought it would be more compelling to hear from some of our partners. And we think about partners, we think about these on both the brand and the distribution side.

We have great partners, and you just heard from some of them around what we're doing at KDP. I'd like to talk briefly about Premium Water, a category that continues to do well. Early on, we identified an opportunity to become the number two player in Premium Water, and we leveraged our partnership approach to do just that. After entering our system through partnerships we acquired Core and Bai, We continued a great relationship with Vita Coco, and we started new partnerships with the Evian and Polar company. These actions are a combination of M&A, strategic partnerships, and our own brand development have put us in the number two spot for Premium Water. And with these partnerships we've driven success, both for us and our partners. With Evian, we've been focused on rebuilding its footprint through DSD and returned it to share growth. Vita Coco continues to expand on its leadership in the plant water space with three points of shared growth in great reception of the new innovation. And earlier this year, we began to produce and sell Polar and bring it national to a full footprint.

Over the last nine months, we have doubled its availability and we are extremely excited for 2022. As I finalize the cold section, I want to reiterate a few key points. We have an approach that is working, you can see that through the results. The approach is flexible, it's repeatable and importantly it is scalable. It leverages a go to market that is unique in its approach with partnerships. And we've been making material improvements in our distribution system. And we have the capacity and the capability to take on more. And we have access and the ability to win beyond traditional retail. While we are pleased with our current portfolios, we will continue to expand it. We believe we have a broad and flexible toolkit to achieve this. And we can leverage a number of pathways, innovation, renovation partnership, and M&A to drive expansion. Ultimately, this is a business that is ready for more. Thank you very much for your time this morning and it is my pleasure to welcome Mauricio.

Mauricio Levya:

Hello everybody. So it's a pleasure to take you through our coffee systems update, specially today that we're celebrating International Coffee Day. A celebration of a category that's very attractive in the US, with more than 75 billion locations per year, and growing in all cohorts of young, mid age and adult consumers. You know what's interesting about this, is that in the last 10 years, coffee locations have increased by 26% and younger consumers have been driving a disproportionate share of this growth. And it's happening both in away from home and at home locations. And Keurig's ecosystem has been leading this growth, representing 70% of all coffee retail dollar's growth in the last five years, and now accounting for almost half of all coffee retail dollars in the US. This result has been achieved by converting one household at a time. So we've been adding at least two million households every year, reaching now, an active base of more than 33 million. And the trend has been accelerating in recent years, so in Q4 2020 for the first time ever, single serve brewers exceeded traditional brewers sales.

Another key success factor has been the wide choice of brands in our system. It's actually hundreds of varieties to choose from. And Keurig is proud of all of its partners, and we create important value for each of them. Also, for our retailers, for our consumers and for KDP all together, because that's what a healthy ecosystem is all about. So let me take you to this slide, which is quite interesting as it shows how the healthy ecosystem has kept our growth equation strong through time. Why? Because it makes us all aligned to increase household penetration. That's why our number one priority has been and continues to be to increase Keurig's install base. And then, we focus on maximizing household value. So let me stop here a minute, maximizing household value. In essence, what it means is that we have an existing base of 33 million households, and we're thinking how to satisfy their broader coffee needs beyond attachment rate. So today we'll talk about some of these enablers, such as price, mix, eCommerce, and one on one connectivity, even though there are many more enablers to come.

So in the coming slides, let me share some more details with you. Why Keurig is so unique and interesting in this world of consumer products. And let's start with TrueNorth growing the installed base, where our growth model has significant headroom for years to come. With a current 25% penetration, and a potential 56 million American households, we have more than 10 years to continue growing at mid to high single digit rate. And we are addressing that opportunity constantly by updating our knowledge as consumer needs and expectations evolve. So we deeply understand consumer segments like value, coffee quality or specialty that you're seeing there on the chart. And we've made significant progress in this segment since 2018. As a result, you're seeing the modern segment now is our largest opportunity, and we're addressing it via connectivity and BrewID, which I'll explain in a moment. And through innovation, we take each of those consumer segments that you saw in the prior slide, and we transform it into a family of products to satisfy your specific consumer need like coffee formats, drinking preferences, or even price point.

That's why our research and development and engineering teams have developed dozens of brewers that make up these families of products. And these new brewers have generated more than half of our appliances sales in the last five years. This is why innovation is a key pillar of our journey to double household penetration. And innovation also works on creating features that roll across families or brewers, like the recently introduced multi stream technology, because it all starts with an amazing cup of coffee, right? So this new feature has five needles instead of the previous standard of one, so this saturates the grounds more evenly. So it's like, mimicking the barista way of brewing. So by pouring the hot water in circles across all of the grounds, it enhances the taste and the aroma of every single cup of coffee. So multi stream will attract both new and existing users, as we roll it out further into different brewer families.

And for today, another example that I'm very proud to share with you is BrewID. It has recently made its debut on the Keurig Supreme Plus Smart Brewer. We just launched it last July, on keurig.com, and it is now being rolled out to retail for Q4. But let me take a minute here to explain why this innovation is so important. You see BrewID is more than just a new feature. BrewID is the gateway to consumer connectivity at an individual and personalized level. So it is a platform that recognizes the pod and then improves the user experience through conductivity. For example, BrewID automatically adjusts the settings to the recipe recommended by the master brewer. And the one to one consumer conductivity is allowing for personalized recommendations based on actual household consumption. With this information, we're working together with our partners to develop more varieties based on preparation and consumption insights. And BrewID will also enable a bold step forward in our hugely popular coffee subscription service. But let me share with you a short period explaining how BrewID works.

So BrewID, and both consumer and media reviews are in, with amazing comments and star ratings that support both the enhanced quality of the coffee cup, as well as the full range of connected brewers. So, if you see Keurig Supreme Plus Smart reviews 4.6 stars on keurig.com. Some of the quotes, I like the Men's Health one. “I used to think that making a Keurig coffee meant sacrificing good coffee for easy coffee. Keurig's newest brewer has altered that thought.” That is one of my favorite ones but there are many. And something that I'm personally excited about is how lapsed users returning to the Keurig system through this Brewer, are saying how far the experience has come along since their last purchase. So more to come, and I'll keep on sharing more information about BrewID. And even though I don't have much time today to take me more detailed through away from home strategy, I can share that the complete Keurig commercial lineup has been enhanced and ready for the return to office. And BrewID has a pivotal role in this through connectivity with the company for an enhanced value added, and service experience.

Another key enabler we talked about, is our marketing strategy. You see this investment has been crucial to increase system awareness and sales. From big advertising campaigns featuring James Corden, to targeted messaging to attract Hispanic consumers, collaborations with Apple TV, Disney Plus, or experiential marketing with Van Gogh. Let me share an example today, how we combine these communication platforms. So you'll be among the first to see this new campaign for Keurig Supreme Plus Smart explaining the benefits of this new technology in simple language to consumers. Roll video please.

Okay so now changing things a little bit, and continuing with our enablers to have a healthy ecosystem, our alignment with retailers and partners is another key to our success. So from a retailer perspective, Keurig is driving almost half of the category dollars for both coffee and coffee makers. And generating incremental value through innovations, trade investments, and retailer exclusives. And on the right hand side of the slide, you'll see how with partners, we're delivering the one thing everybody is seeking, superior growth. So Keurig investment in research and development, consumer insights and marketing increases household penetration, and we share connected panel data to explore new sources of growth, so that it all comes to the benefit of partners as well.

And we're happy to share them our partner satisfaction rating continues to be very strong. Actually, the latest reading has given us an all-time high result well above 90%. And now shifting to value creation among our 33 million households, we'll talk about three enablers today, price, mix and eCommerce, even though there are many more enablers to come. So let's start with pricing. So I'd like to take you back to 2018, when we shared that the biggest barrier to consumer adoption of the Keurig system, was pod pricing. That is why through the years, KDP has been very intentional aligning pod price with consumer expectations to therefore continue driving household penetration. But very important, at the same time, we did this while expanding margins due to our focus on productivity and efficiencies.

Now, if we fast-forward three years later, we can see how price points have moderated over the past three years as expected and are now aligned to the critical price thresholds we discussed in 2018 for mainstream and private label or value pods.

So the combination of household penetration growth, which continues to drive pod volume, combined with moderated pricing, has generated revenue growth well above levels we originally forecasted. So the chart on the right shows how, in 2019, we reached the higher end of our forecast and, in 2020 and '21, exceeded it.

And our coffee innovation and Keurig's owned and licensed brands play a key role in mix creation. We're addressing consumer need states, such as indulgence with innovation, like one-step latte, or expanding into new occasions like brew over ice for an afternoon coffee. And we've also enhanced our owned and licensed growth by bringing new brands, like McCafe. That's not only growing successfully in the US, but it already represents more than 7% market share in Canada.

Now, shifting to another source of brand renovation and adding value to consumers is by hitting our commitments on sustainability. Our goal is to make all of our products more socially and environmentally friendly. So let me take you through our Good, Better, Best approach that you see on the slide.

So it all starts with the coffee. So all Keurig coffee is 100% responsibly sourced. We've already delivered on our 2020 transition to recyclable pods. We're investing in improving recycling infrastructure and education, which Maria will talk about later. And we'll continue to innovate to make it easier for consumers to recycle, which I'll talk about in a moment.

We also know some consumers have interest in compostability. However, this is an area susceptible to confusion and misinformation. We all need to be clear that biodegradable is not necessarily compostable. Industrial compostability requires a system that almost 90% of Americans don't have access to.

That is why KDP and in Keurig, we continue to set the bar higher. And our ambition is to deliver a truly home compostable pod that will work for everyone. And in this journey, we're glad to announce today the rollout of our peel tab lid. This is making recycling easier to consumers. As research has shown, this will facilitate adoption and recycling intent of our already available recyclable pods.

First, we'll use our own brands on Keurig.com to gain consumption on consumer insights. And then we'll roll it out into 2022 with participating partners and channels. So more news to come, but this is very happy, glad, us launching now the peel tab lid across the portfolio, coming forward '22.

And finally, when we think about value creation among our 33 million households, we come to a passion point of mine: eCommerce. Know that eCommerce has been in the center of KDP's strategy for 18 years, building strong capabilities ahead of other FMCG players. So while FMCGs have an average of 5% online sales mix, KDP is above 10%. And coffee and brewers sit well above that. You see, pods are perfectly suited for eCommerce by having higher value, light weight, long shelf life, and daily usage. And our brewers, appliances are even more developed in the digital shelf. As an example, almost half of Keurig brewers were sold online Q4 of 2020.

So, KDP's full omnichannel set of capabilities are rooted in almost two decades of experience we've had in our direct-to-consumer site called Keurig.com.

So let me take you through Keurig.com. It is a direct-to-consumer operating at scale. It is a site that's already large, as a fact, we would say that it would be a top tier Keurig retailer when ranked by revenue. It is already giving us volumes and interesting insight for all of our category. But what's really important about this is that it has a clear role in the ecosystem, delivering 70% of pod sales through the subscription model.

Our latest innovation in smart auto-delivery takes our subscription offering to the next level for BrewID owners. BrewID recognizes the pods, and therefore, if pantry stock is low, it sends an order trigger to our platform, making that orders are driven by actual consumption at the SKU level. So as we roll out more brewers with BrewID, we expect smart auto-delivery to become one of our leading recruitment drivers.

So we've covered a lot of territory today in a short period of time. Let me wrap it up in a couple of points. Our business model is one of a kind in the world of consumers products, which sometimes makes it difficult to apply traditional CPG thinking. Our model is based on a sustainable ecosystem with aligned incentives that add incremental benefits to partners, retailers, consumers, and KDP. This way, all of the players in the ecosystem share the incentives to grow the installed base.

And now, we're adding to it the opportunity to maximize value from the existing 33 million households by improving their Keurig experience, initially through pod mix, price, brand choice, and one-on-one connectivity, with many more enablers to come.

So our model gives Keurig a clear and attractive long-term growth trajectory in a category that is already benefiting from consumer trends.

And we know our, our success actually begins and ends with the quality of our coffee experience. So we will continue to measure our progress one consistently excellent cup of coffee at a time.

Thank you very much for your time today. And now, let me introduce a video of our state-of-the-art research and development facilities and the team that look across both the hot and cold beverages portfolio, presented by our chief R&D officer himself, David Thomas.

Operator:

Please welcome Keurig Dr. Pepper Chief Corporate Affairs Officer Maria Sceppaguercio.

Maria Sceppaguercio:

Good morning, everyone. It is my pleasure to discuss Keurig Dr. Pepper's Corporate Responsibility program with you today.

At KDP, we have embraced ESG, which is at the heart of how we create value. Our Drink Well, Do Good platform launched after merger is ambitious, and we are proud of the progress we've made to date in achieving commitments and enhancing transparency and governance.

We've expanded into new areas and have invested significantly to reduce virgin plastic use, drive sustainable supply chains, and strengthen environmental stewardship. Over the last two years, leveraging our unique partnership philosophy, we have co-founded two industry coalitions to drive circular economy solutions and we are accelerating our impact.

Our team and culture are critical to us, and we are building strength in this area as well through a robust diversity and inclusion program.

Our Drink Well, Do Good Corporate Responsibility platform is focused in four key pillars: environment, supply chain, health and wellbeing, and people and communities. This platform and related programs are very well-integrated within KDP, led by dedicated teams in each area to work across the organization to drive impact.

We have clear commitments with glide pads to achieve our goals, strong governance from both executive leadership and our board of directors. And we pride ourselves on transparency, which we have increased greatly over the past three years. In 2020, we achieved our long-standing commitments. All K-Cup pods have been converted to recyclable polypropylene. We are one of the leading companies now able to say that 100% of our coffee is responsibly sourced. Along that journey, we have been able to improve the lives of one million coffee farmers. And our community impact at home is also aimed at improving lives and health through exercise and fitness opportunities with our signature Let's Play philanthropic program.

We have fully embraced ESG transparency. In our third annual CR report issued in June, we aligned with GRI, SASB, and the UN Sustainable Development Goals reporting standards.

We also issued our first TCFD index, highlighting among other things our science-based emissions reduction targets. Related to climate, our disclosures to the CDP for both climate and water continue to earn better scores each year as our programs mature. And we are now at leadership level with CDP for both.

In Newsweek's most recent Responsible Companies, we ranked as the number one beverage company, we achieved the number one environmental score for all consumer goods companies, and we placed within the top 15% of 400 companies ranked. And in late breaking news, the nonprofit group As You Sow just published their 2021 Plastic Pollution Scorecard, focused on plastic usage and packaging sustainability. KDP ranked number two, tied with four others, among the 50 largest CPG and retail companies.

Partnership models are a part of KDP's DNA, which enables us to magnify our collective impact for good in critical areas. We co-founded two critical packaging collaborations focused on specific plastics most impactful to our business.

The first is the Polypropylene Recycling Coalition that aims to expand infrastructure for number five plastic. This is the plastic used in our K-Cup pods. In year one, grants provided enabled recycling for an additional 15 million Americans. The second is the Every Bottle Back collaboration with beverage industry peers and the ABA to unlock critical supply for PET for reuse in making new bottles. In year one, grants provided will enable more than 650 million pounds of PET to be recycled and move into circular use versus waste over 10 years.

We also work with a variety of partners, including the Nature Conservancy, to restore water in high water risk areas in which we operate. In 2020, we launched water restoration and conservation projects in California, Texas, and Mexico.

And finally, we have a long history of collaborative projects in our supply chain to ensure the social and environmental sustainability of coffee.

Here, I'd like to highlight our membership in the OECD's Business for Inclusive Growth Coalition. KDP is sharing our expertise in social impact with coffee farmers, while also learning about leading inclusive sourcing practices from peers and participating in a project to develop and use a Best Practices Inclusive Sourcing Toolkit.

In addition to partnerships to magnify our impact, we also expanded our ambitions for 2025 in priority areas, including the addition of new goals. Specifically, as previously mentioned, reducing plastic waste continues to be a priority area for KDP and the broader CPG industry.

We recently expanded our supply chain goals to include a new regenerative agriculture commitment that will deliver on climate and water resilience in our supply chain. We also added new focused on positive hydration and advancing diversity and inclusion.

Starting with plastics, we are building a circular economy through packaging design, collaboration, investment, and consumer education and engagement. A great example is our recyclable K-Cup pod. We are continuing to improve our K-Cups with a peel tab that will make recycling easier for consumers. And as Mauricio noted, our ambition is for compostable pods, further reducing plastic from our portfolio. We have invested significantly in recycling infrastructure through our coalitions, committing 10 million dollars over five years for polypropylene recycling and contributing to a 100 million dollar industry fund to advance PET recovery and recycling.

In 2020, we eliminated almost 50 million pounds of virgin plastic use by closing the loop with recycled PET, or rPET, and using post-consumer recycled plastic, or PCR, in packaging and brewers. Brands transitioned to recycled PET include Core, 16-ounce Snapple, and Aquafiel in Mexico. In addition, several brewer models now use 30 to 50% plastic PCR, and we have plans to expand PCR use to more models.

KDP is also driving climate and water resilience with climate goals approved by science-based target initiative. Starting with climate, we have committed to using 100% renewable energy in our operations by 2025, and, by 2030, a 30% reduction in direct emissions and a 15% reduction in indirect emissions in select categories.

We have designed our new facilities with sustainability in mind, including our new Spartanburg pod manufacturing plant, the largest LEED certified industrial manufacturing facility in North America.

Our Allentown cold beverage facility advanced efficiency will result in 80% lower transportation emissions by shipping pre-forms versus blown bottles and 49% less plastic use in our packaging on Snapple 16-ounce products.

Our Ireland beverage concentrate facility will be 100% wind powered. And we anticipate LEED certification for a new Frisco co-headquarters.

Turning to water, we continue to improve the efficiency of our water use. And in fact, two of our bottling plants in Mexico and one in California have already exceeded our 2025 water efficiency target of 20%.

With our 2025 and 2030 goals now on the horizon and well underway, we are shifting our focus to evaluating opportunities to be net zero for emissions and net positive for water based on science. It is critical to us to have solid guidance behind our efforts, and we await SBTI guidance later this year.

We are expanding our focus on resilient and inclusive supply chains, taking learnings from our leadership in coffee and expanding our focus to include other supply chains, including cocoa, apple, and corn. In addition, we have recently set a new goal to support regenerative agriculture and conservation on 250,000 acres of land by 2030.

Another new goal, this one in the health and wellbeing pillar, is positive hydration. In some cases, positive hydration can be a serving of fruit, such as Mott's No Sugar Added Applesauce, which is also a good source of fiber. In other cases, it can be a product with less than 40 calories that offer a functional benefit, such as Bai Boost, which contains as much caffeine as a cup of coffee, made with plant-based energy from tea extract or Limitless Relax, a sparkling water with

L-Theanine to support relaxation, or Mott's Mighty Juices, fortified with vitamins and formulated with 50% less sugar than 100% apple juice.

Importantly, our definition of positive hydration is grounded in science and has been informed by an advisory panel of experts and independently validated by Partnership for Healthier America.

We know that representation matters. We have a robust strategy in this area with a number of internal objectives, two of which we have shared publicly. Through a strong governance framework, including ELT engagement and sponsorship, and through the establishment of a diversity and inclusion leadership team, we identified initial representation goals to increase diversity by 25% in leadership roles, specifically for women and people of color.

Establishing representation goals is only part of the story regarding our progress. As mentioned, we have engaged our leaders in defining our diversity and inclusion journey. We've listened to employees to inform our strategy. We launched employee resource groups to strengthen inclusion, and we completed training for all leaders, with a phased employee rollout underway. And finally, our 2020 CR Report provides significant transparency on our progress to date and our ambitions for the future. I encourage you, if you haven't done so already, to check it out on our website.

I'm now going to hand it over to Ozan to discuss international.

Ozan Dokmecioglu :

Hello, everyone. It's a pleasure to be here today. I'm very excited to share information about our international operations, which we have not discussed in detail with you previously.

We report Latin America beverages as a separate reporting segment externally, but not Canada. For the purpose of this conversation today, we are referring to international as our Canadian business and Latin America beverages.

And in this presentation, we will only talk Mexico, given it is the larger part off of our business in Latin America beverages segment.

We have two great businesses outside of US: Canada and Mexico. Combined, Canada and Mexico's sales growth have been accretive to KDP's overall top line, delivering 7% growth versus 4% growth off of our total entire business.

I would also like to note that Euromonitor projects the liquid refreshment beverage category to grow faster in Canada and Mexico versus the US in 2021 to 2025 projection period.

A little over 10% off of our KDP's business is in Canada and Mexico. In Canada, we have approximately 800 million dollars in sales, whereas in Mexico we have approximately 500 million dollars.

In both markets, we have several great brands with leadership positions. In Canada, we have the largest single serve coffee brewing system, with 86% KDP manufactured pod share. We have the number one flavored carbonated soft drink. Also, you may find it surprising, given we haven't spoken much on this before. However, we also have built a strong, ready-to-drink alcohol business in Canada that is growing nicely, with brands such Clamato, Canada Dry, and Snapple Spiked.

In Mexico, Penafiel is the number one mineral water, with 55% market share. Most of our portfolio in Mexico is also used as mixers. We also have number two flavored carbonated soft drink. Clamato is number one in its own category. And at the same time, we have built a distribution system that covers 80% of point-of-sales.

Now, let me turn into our growth opportunities in these markets. So we will continue to grow our core business, including extending our Keurig single serve coffee brewing system in Canada, as well as expanding our DSD and traditional trade footprint in Mexico.

The great news is that we have numerous growth opportunities. We don't have enough time to cover all of them today, but I want to give few examples from each market.

An example in Mexico is our Peñafiel brand. Peñafiel is the leader in mineral water, growing high single digit. Peñafiel has been a great flagship brand for us in Mexico. Besides being consumed as mineral water, it is widely used as a mixer as well. We are expanding the trademark into new consumption occasions like new “Ades,” which has been very successful so far.

Beyond growing our core, we have great brands in our portfolio that we can lift and shift in order to cover some of the wider spaces that exist in our business. For example, earlier this year, we launched our Bai brand in Canada. We will also continue to invest in the rapidly growing ready-to-drink alcohol category. Let's do a double-click on our unique, ready-to-drink alcohol business in Canada. Retail sales of our ready-to-drink alcohol business is approximately $130 million dollars. As I mentioned earlier, brands such as Clamato, Canada Dry, Snapple Spike are the leading ones. We established powerful distribution routes for our ready-to-drink alcohol business with Mark Anthony brands and the Liquor Control Board of Ontario.

At the same time, we have entered into a new partnership with Labatt to distribute their non-alcoholic beer brands in English Ontario. We expect our ready-to-drink alcohol business to continue to grow throughout the country. Our international business continues, as overall, to perform very well, with leading positions in key categories. The business is poised to continue to provide above average growth, and expansion potential for KDP.

Now, I would like to transition to discuss our financial model and compelling outlook for the future. Our long-term algorithm delivers accelerated, organic revenue growth on the back of increased business investments and a strong in-market execution. Combined with this accelerated revenue growth, productivity programs, lower interest expense, and effective tax rate drive earnings growth. We expect to deliver a top-tier cash conversion ratio that would generate $4 billion dollars in discretionary, free cash flow over the next three years. That discretionary cash flow is after all CapEx investments and ordinary dividend payments.

Now that we have delivered our balance sheet very successfully, and some of the heavy investments are largely behind us, we will have further optionality in capital deployment that will enable the inorganic shareholder value creation. Our long-term algorithm projects to deliver attractive financial returns, with sales growth at mid single digit, earnings per share at high single digit, and total shareholder return at high single digit to low double digit.

We are projecting to deliver approximately 4% percent sales growth for the 2019 to 2021 period, which will be higher than our merger target of two to three percent. We are expecting to deliver a bit more than 350 base points of outsize margin expansion, led by merger synergies, primarily. Strong operating income growth combined with lower interest expense and lower effective tax rate are expected to drive around 15% earnings per share compounded annual growth.

During the same period, we are also projecting to generate industry-leading several billion dollars free cash flow, due to EBITDA growth and superior working capital management. Our sales are expected to grow mid single digit in our long-term algorithm as a result of the drivers already covered in the cold beverages, coffee, Canada and Mexico sections earlier this morning. We will not have merger synergies going forward, that is true. Yet, our productivity programs will continue to improve our margins while we continue reinvesting behind our brands to fuel our growth.

We are also expecting to deliver high single digit earnings per share growth. We will also continue to generate top-tier cash flow with cash conversion ratio being around 100%, led by working capital management and also moderating one-time transformational investments.

Let's take a detailed look at our operating margins. We are expecting productivity and pricing to offset inflation, and also provide fuel to invest in our business and brands. Accelerated revenue growth combined with incremental volume capacity that we already have will enable fixed-cost leverage that would further enhance our margins. So, three levers: Productivity, pricing and fixed-cost leverage.

Productivity has been an important driver for us to offset inflation and also provides funding to invest in our business in order to drive growth. We do have a robust productivity pipeline that has been incorporated into our long-term algorithm that we are sharing with you today. Manufacturing network optimization and three new plants that we have just built will play an important role, namely Spartanburg for coffee, Allentown for packaged beverages, and our new concentrate plant in Ireland. Other levers will be designed to value in further network optimization in our overall logistics area.

Pricing played an important role to offset inflation, which has been enabled by our brand strength. As we all know, the beverage sector is disciplined in pricing and has shown the ability to take pricing whenever it is needed. We will continue to implement and expand our revenue growth management strategies combined with innovation and price-pack architecture. Also, the moderating strategic port price investment will further help to expand our margins. Accelerated sales growth combined with the volume capacity that we have will enable to us to take advantage of fixed-cost leverage. We have several fixed-cost leverage opportunities, such as DST and manufacturing network that we own. Further, creation of center of excellence groups and indirect procurement area.

In line with our merger targets, we are expecting to deliver a little more than 15% earnings per share compounded annual growth between 2019 through 2021. We are expecting to deliver high single digit EPS growth as part of our long-term algorithm, led by operating income growth and further improvement in our interest expense and effective tax rate. Since merger, our top line and earnings per share are expected to grow 4% and 15%, respectively.

Base productivity programs, merger synergies, and pricing will all play an important role in driving our profitability growth for the period of 2019, 2021. Brand investment also contributed positively due to reducing some of low return investments in the COVID-19 environment, whereas inflation in input costs and materials, transportation, and labor inflation play a significant headwind that we managed to navigate successfully and deliver strong financial results.

In our long-term algorithm, we expect productivity programs, fixed-cost leverage and pricing to, first, offset inflationary pressures, and also continue to contribute positively to our profit growth. We also expect significant headwinds due to commodities, transportation, and continued labor inflation. In order to fuel our growth, we will continue to increase our brand and business investments as well. However, the pace and the rate of purchase price, index inflation, as well as commodity inflation across the board has been so steep.

Despite the liquid refreshment beverage category taking sizeable pricing, so far it has not been enough to offset the headwinds in full. The rate and the pace of inflation has been unprecedented. We believe that there will be some catch-up to be realized, yet for sure, in the short term, there's a mismatch from a timing perspective. We typically don't provide annual guidance of the following year until February. Giving that we are talking about our long-term algorithm today, we thought it would be only fair to share our high-level perspective in terms of what we may expect from 2022. Today, it is October 1st, let's don't forget that, and on the basis of the unprecedented inflationary pressures that our sector is experiencing, led by commodities, again, across the board, and then followed by transportation and labor inflation, it would only be prudent to temper our profit growth target for 2022 as mid single digit, whilst still projecting to deliver mid single digit revenue growth. Net net, we are still projecting to deliver attractive financial results in 2022.

Between 2019 and 2021, we are projecting to generate $7 billion dollars free cash flow, as top tier group of performance. In our long-term algorithm, we expect to generate top-tier free cash flow and deliver approximately 100% cash conversion ratio. Let's have a double-click now and talk a little details on the cash conversion.

Our cash conversion ratio is expected to be approximately 117% between 2019, 2021, led by superior working capital management, partially offset by one-time integration costs to achieve. We expect to continue to generate top tier cash flow in our long-term algorithm, with conversion ratio being approximately 100%, led by working capital management and also sizeable, one-time expenditures coming off.

In 2019, 2021 period, our capital allocation focus was to pay down our debt and delever our balance sheet followed by paying our dividends. We expect to reduce our management leverage ratio from six to three times and below at the end of 2021. Due to our strong balance sheet position and cash that we will continue to generate starting 2022 onwards, our capital allocation will include optionality to enhance value creation priorities while we will continue to pay our ordinary dividends. We will continue to increase our EBITDA, which mechanically will continue to reduce our leverage. You may also see that we continue to pay down our debt for short term, tactical cash management purposes, in order not to carry too much cash on our balance sheet. Yet, that does not meant that we are shifting strategic priorities. In other words, we are keeping our powder dry for strategic opportunities.

Our long-term algorithm is projected to deliver high single digit earnings per share growth along with 100% profit to cash conversion ratio. We are also planning to pay approximately 45% of our free cash flow as ordinary dividends. This overall algorithm is expected to deliver $4 billion dollars of discretionary cash in the next three years, and with this $4 billion dollars, our capital allocation priorities are projected to change as well.

Our capital allocation priorities will shift from debt reduction to inorganic shareholder value creation activities. M&A will be our number one priority, since we believe that we can create the most value by doing disciplined M&A transactions. Share buybacks and special dividends will be our secondary priority inorganic value creation options.

Led by strong cash conversion ratio, we are planning to generate $4 billion dollars in discretionary cash in the next three years, which has the potential to translate into $20 billion dollars of M&A capacity. Our $20 billion dollar M&A thinking assumes a market multiple for the target companies with mid single digit synergy target whilst maintaining our credit rating. Our M&A focus will balance the size and the complexity of the potential deals that would enable us to achieve portfolio expansion and/or distribution scale and/or geographic expansion and new capabilities combined with our proven track record of successful integration. Besides M&A, our capital allocation strategy projects to also include share buybacks as further inorganic value-enhancing proposition.

Earlier this morning, I'm sure either you've heard or seen, we announced our share buyback program that will expand over four years for $4 billion dollars, starting January 2022 onwards. This program is not formulaic and there is no required purchase of minimum number of shares. The program is only meant for opportunistic implementation that we believe will help us to improve inorganic shareholder value creation.

Before I wrap up my section, I will summarize the key takeaways from our long-term financial algorithm. Accelerated revenue growth, continued margin expansion, and high single digit EPS growth drive attractive, organic returns while top-tier cash flow conversion drives $4 billion dollars of discretionary cash available to reinvest in inorganic value creation and deliver very attractive financial returns and outsized total shareholder return.

Key to our financial model is investing to support in the next chapter of Keurig Dr Pepper's growth story. Please enjoy this next short video that shares how we are building capabilities and capacity in our supply chain, and then we will hand it back to Bob for closing thoughts.

Bob Gamgort:

Tony, great to have you on the team, and thanks for showing our supply chain. We've covered a tremendous amount of information today. I hope it's been helpful for you. In a few moments, we're going to take a break, and then we're going to come back and answer your questions. What I'd like to do is wrap up and synthesize a lot of the conversation that we've had so far this morning, and I'm going to come at it from two different approaches.

We've talked a lot about a modern beverage company, and I've been asked, "What does it mean, and what are the benefits to investors and other stakeholders?" So, let me start with how we define modern beverage company. First, we see it as very disruptive, yet it's based on an insight that we've said from day one is hiding in plain sight, and that is making sure that we have beverages available for every consumer need, and we make our products available everywhere our consumers are shopping.

We see ourselves as tech-enabled, culturally and consumer connected, and we have a mix of enduring, and new, and reinvigorated brands, and we have the ability to continue to innovate and renovate them to maintain their consistency over time. We've got a scalable business model. In addition to deliver the financial returns, we've built a business model that is ready for more growth. And it's really featuring this one of a kind distribution system that we can plug in new businesses and be able to expand.

And then we see ourselves as a values-based company. We embrace corporate and shareholder responsibility, and we know that that's the path to delivering sustained value creation for all stakeholders in the future. So, what are the benefits? The benefits for you, as an investor, would be access to healthy growth. We're all looking for real growth. That comes from participations in great categories, expansions of households, increasing our mix, premiumizing our portfolio, and then the opportunity to expand into new segments and new geographies.

We've got a business model that delivers attractive and financial returns on an organic basis. It comes from the revenue growth combined with margin expansion, cash generation, and investment that we have prioritized into growth. That cash flow also provides optionality for enhanced value creation as we deploy it into a number of opportunities that we've discussed, that I'm sure will come up in our Q&A.

And then, finally, we've got a very unique situation here, which, between the ownership position of our management and our anchor shareholder, we are aligned with the interests of all shareholders and stakeholders moving forward. And we think that's very differentiated and unique within business in general, and the consumer product space in particular.

So, we're going to be moving now to a quick break. When we come back, all of the speakers will join me on stage today and we'll be answer, be able to answer your questions. So we'll see you in a short bit of time. Thanks.

Operator:

Ladies and gentlemen, we will now take a break and return shortly.

The event will resume in one minute. Welcome back from the break. Presenters will now hold a Q&A session moderated by Steve Alexander, Keurig Dr Pepper Investor Relations.

Steve Alexander:

Thank you and welcome to our Q&A session. Ozan, we've had a couple of questions on this topic, so I've grouped them together. Can you talk more about the cadence of your long-term guidance, particularly around 2022, given the industry pressures on inflation?

Ozan Dokmecioglu:

Absolutely. Thank you Steve. So, as I have just spoken a little while ago, our long-term financial algorithm states that sales will grow mid single digit, EPS high single digit and with the top tier financial cash flow delivery attached to it. So, when we step back and look what's going on there are quite a bit of pressures that the whole sector, the whole industry has been experiencing, which has started in 2020, and it actually has gotten worse in terms of the increase in behind the commodities across the board.

Second, transportation, led by warehouse. And lately, the last six months that we are feeling at this sector a big pressure on the labor inflation at the same time. Therefore, right now, as I have shown the graphics of the purchase price index, as well as the commodity occurs. Quite a big step increase that took place. And we don't have a crystal ball. And we don't know more than anybody in terms of whether it is going to plateau or it is going to come down or if the inflation are the factors, again, behind this flee. Elements are going to persist accordingly.

But as we always do, we pull several levers to run our business successfully as well as daily ware on our financial targets, as was the case in 2020, and as is the case in 2021. So that's very important to note. And another point there is giving that these inflationary pressures we are seeing, are at the, from a pace and the rate perspective, have been very unprecedented. It would be only fair to temper our 2022 profit expectation to mid single digit. Whilst, we keep the sales growth at, again, as part and in line with our long term algorithm at mid single digit as well.

So that's our planning stance at this point in time. And again, let me reiterate the fact that today it's October 1st, and we are still five months away of providing our 2022 guidance, which we will be sharing with you as part of our normal operating cadence sometime the second half of February. Therefore, if the things will change, obviously we will change our expectation accordingly, but again, it is very important to take a little bit prudent approach and to temper our growth expectation, profit wise, in 2022.

Steve Alexander:

Okay. We have one follow-up to that. Is your financial guidance including any share buy backs?

Ozan Dokmecioglu:

No. As we announced, earlier this morning as well as I spoke, as well as Bob also touched, during his section, our share buy back program is not formulaic, we don't have any minimum number of shares that we need to purchase in terms of the guardrails either. So it is 100% meant opportunistically. Therefore, within the spirit, we did not build any financial impact that would be coming as a result of our share buy back program in our new longterm algorithm.

Steve Alexander:

Okay. Here's one more for you regarding the dividend. How does your dividend grow over time?

Ozan Dokmecioglu:

So, let me step back a little bit and just to refresh our memories. As you know, approximately six months ago that we have already increased our dividends from 60 cents to 75 cents, that made 25% increase. And the implementation of that increase, that we did half of, like 1st of July, effective onwards in 2021. What does this mean? This means that there will an automatic increase approximately 20% of our dividends that will be effective next year as well in terms of 2022 increase versus 21.

And as I have explained in my section earlier today our thinking at this point in time as part of our long term algorithm, is to pay approximately 45% of our free cash flow over time. And we do also expect our free cash flow to improve from year end to year out. And should that happens, that's what we expect to happen, we will we will reevaluate in terms of the further increases in our dividends pay out. That will give us a good opportunity to take a look and decide accordingly.

Steve Alexander:

Okay. So our next question relates to coffee systems. So Mauricio... what is your early read on coffee households in 2021?

Mauricio Levya:

So, our long term household growth has been about $2 million per year, and we expect that to be the case going forward. You see last year, because people spending more time at home during the pandemic, Keurig grew approximately 3 million households in 2020. And we know that some people were concerned thinking that maybe it would be kind of a pull forward from future years, but what we can say now is that, that's clearly not the case. As a fact, we typically don't report households until later in the year, but we can say now that we're on track in 2021 to add at least 2 million new households. That means that we will be returning to our longer term trend.

Steve Alexander:

Okay. Mauricio, one more question on coffee here. What are your expectations for pod attachment rates going forward? Especially as consumer behavior patterns normalize.

Mauricio Levya:

So as we've been sharing with you before, we believe and have seen that attachment rates have been quite stable for a long period of time. And last year was an exception to COVID, as we saw some significant increase due to the time spent at home, but we would have forecasted that that would normalize over time and that's exactly what we've seen now. The good news is as that is happening we're also benefiting from a recovery of a way from home as offices gradually start to reopen. So that's something that we're really looking forward to.

And most importantly, what we share today is that attachment rate is something that's quite critical for the total, as we say, household value creation. But what we share today, with 33 million existing households, the existing base, to maximize value of those households we have many other initiatives. And some of those initiatives are, or have to do with BrewID, with attachment rate, and all the new functionality and benefits that come with it, including, for example, the smart auto delivery, and many other functionalities that we share today. And we look forward to continue sharing and giving more color in months and years to come.

Steve Alexander:

All right. Thanks. Derek, the next question is for you. You already made changes to your beverage distribution network, but do you anticipate bigger changes in the future? And what are the pros and cons of re-franchising? And is this something that you've considered?

Derek Hopkins:

Sure. Thanks Steve. Thanks for the question. Let me start with the last part, re-franchising right now is not part of our consideration this time. I think, as you saw, from the presentation earlier we've been investing in our DSD system and capabilities and we're making it better and I think you see that in a couple areas. You certainly see it in the brand performance and also our market performance and market shares. And there's a few things that we've been focused on. As I stated earlier, the final mile is really about how we get product to the accounts and to the stores that goes all the way from the warehouse, to delivery, to what our people do in the stores.

We've invested in data analytics very, very heavily. And then there has been a significant focus on people from a training aspect, we've been very deliberate around specializing between cell skills and operation skills to leverage the skill set of our, almost, 11,000 employees there. And we've done 22 deals, and we believe there will be more there. So what we've done is we're really building, something that we believe is strategic, it's a controlled DSD system that's a strategic advantage and it gives us great benefit, not only for our own brands, but it gives us great benefit also for our partner brands.

Steve Alexander:

All right. Great. There we have one follow-up. What have been the drivers of your DSD profitability increases?

Derek Hopkins:

Sure. Well I think, you know, obviously in DSD I think it's a component of two things. One is cost and also getting the scale within the system. Let me start a little bit on the cost side 'cause three years ago we started a transformation program where we were very deliberate about going through all of the locations that we have in our DSD organization to make sure that we're creating consistency in the way that we operate both in our warehouse and our distribution to manage our cost to serve. And obviously a part of that program is to ensure that we have productivity every year, that actually covers any type of cost to serve increases that we have. The second piece is that we've been putting more volume through our system and we've been inputting volume into our system ahead of any type of capital cost, which obviously improves our return on invested capital. We've put that volume into that system on a few things. One is, our brand performance has been better. We brought in more partner brands, and importantly, we've brought in a number of territories that have actually added volume to our existing territories. So as I said earlier, almost 30 million new consumers in our existing territories, which obviously helps us with the scale.

And I think the last thing we've done is we've built a fairly robust revenue growth management practice that allows us to make sure that we're playing with pack size, mix, promotions and pricing in a very effective way to make sure that we're managing margins. Those are some of the things we've done within our DSD organization.

Steve Alexander:

All right. Thanks. Ozan, we're gonna come back to you. Can you speak to the inflation impact you're seeing on commodities, labor, and transport? Does the historical relationship between a move in your commodity basket still have the same impact as it has in the past?

Ozan Dokmecioglu:

Sure. First of all, we are seeing across the board commodity increases. Including transportation, as well as, lately, approximately six months on, labor inflation in a significant manner, including some labor short falls as well. Shortages, excuse me. So when we step back and look at it, as you asked the question as well, we have, like on a quarterly basis we always identify the major impacts of the commodities or the cost inflation in our numbers and report accordingly. However, past doesn't necessarily mean a good prediction for future for several reasons why. For example, we have hedges for example, that we put to manage our short term, short term meaning from three months to 18 months depending on the commodity type of our positions.

Therefore, hedges come in, hedges go off, and there will be always there will be some price changes plus or minus. But what matters is that our holistic approach, in terms of pulling the right lever of managing the overall inflation impact on our business. As I was articulating in my section, primarily we use three levers. Productivity, pricing, as well as the fiscal's average. Plus, the overall discretionary overhead management. So we leave no any stone unturned to manage the overall position. Therefore, we are going through unprecedented period in terms of the inflationary pressures that we are seeing and experiencing as part of overall sector. Nothing is unique to us. The rate, as well as the pace, have been really unprecedented.

That's why we are managing our overall financial delivery in a holistic manor. By looking, not on the one or two, but all the levers that come into play. And I think we have done a good job so far. Like, during the COVID environment in 2020 that we have delivered against all of our financial commitments including this year that we are projecting to do the same at the end of the day. And when we step back and look to, for example, coffee, which is one of the important commodities for us and important, obviously, business, we had several hedges that we took as part of our normal standard ways of working.

And those hedges, again, as I say, they come in, they go out, but as you know overall sector, the whole liquid refreshment beverages, as well as coffee sector, including all of our peers, increased the prices as one lever to deal with these inflationary pressures. And we were one of them, so we took pricing in the LRB categories that we compete as well as the coffee. Plus, we are doing all other things, including the productivity programs, again, overall management of our cost space in order to deal with all these pressures.

Steve Alexander:

Great. Thanks. Our next question is related to M&A, so Bob, this would be for you. Is M&A in your algorithm, that you discussed today? And how do you prefer to deploy the $20 billion dollar capacity you spoke about?

Bob Gamgort:

Yeah. So to be very clear, the algorithm that we showed you is an organic algorithm. So beyond the small seed investments or some small route to market acquisitions, no M&A is included in that algorithm. And so we see that M&A is an incremental opportunity to deliver above algorithm value creation. In terms of how we wanna deploy that, we talked about a wide range of targets and we've said, you know, manageable, both in terms of size and complexity, and we've looked across areas that would help us with portfolio expansion, distribution scale, bringing new capabilities into the company, or even expanding from a geographic standpoint.

You know, one of the unique elements to KDP is this route to market model that Derek described. And it really is attractive to beverage entrepreneurs. They want access to that, and so we have a number of people coming to us looking for, not only investment, but also for access to our distribution system, so it puts us in a really good position. If you think about the $20 billion capacity that we're talking about across multiple deals over time, it has a very significant impact relative to our market cap. And we really think that we are well positioned to take advantage of that given our integration expertise as demonstrated through the combination of the two companies into Keurig Dr Pepper so successfully, as well as our proven ability to capture value. When you think about the last three years, we've generated a significant amount of free cash. But we focus that on paying down debt. With the debt position that we're in and the leverage position that we will be at the end of the year, we can now direct that more assertively towards M&A.

Steve Alexander:

One follow up here Bob. How do I marry this with your historical statements that beverage M&A typically does not have a good return?

Bob Gamgort:

When I was talking about that in the past, what I was referring to is some of the real blockbuster beverage M&A deals without naming names, but we know what they all are, and said that the multiples that were paid at those, required a growth rate that nobody in the industry was ultimately able to achieve, and therefore from a financial return standpoint, they're not good. Our point of view hasn't changed on that one, and if you think about the target range that we've described today on M&A, those aren't the kind of deals that were out there and certainly we remain disciplined from a value creation perspective, not to overpay for any of these deals.

But you can't draw conclusions on M&A in general off of those few but large examples. Think about, for example, how we evaluated the acquisition of Core. That was just north of $200 million in sales. We've more than doubled that business. We've increased the profitability significantly. From a financial return perspective, it has been absolutely terrific. And from a strategic capability, it's equally important, and as Derek showed, it's helped make us the number two player in premium water. If you looked at the headline multiple of that, you might think that that was an expensive deal, but after growth after synergy, which is the way we look at it, was a very attractive deal.

And then the last point I would, I would make is that we have a wide range of target opportunities and I won't list all of the areas that we described before, but we're not just focused in on the very large brands that everybody likes to write about. We see wide territory for us to be able to increase value through M&A without being undisciplined and reaching for those.

Steve Alexander:

All right. Our next question will be for Maria. When are you planning on making a decision regarding net zero emissions?

Maria Sceppaguercio:

Thanks Steve. As we said today, we have ambitious climate goals that we are pursuing currently, including one to reduce direct emissions by 30% by 2030, consistent with the Paris agreement. It's important to us that our climate goals are backed by science. And we have very detailed glide paths to achieve them. We indicated today in the presentation that we are evaluating a net zero emissions goal and we are awaiting as, as we speak now for guidance from science based target initiative later this year.

With that in hand, we will be in a much better position to determine when and how we go about that. But in the meantime, we are continuing to work towards achieving the goals that we've set forth and at the appropriate time, we will share more information.

Steve Alexander:

All right. Thanks. Our next question, Bob, I think, comes to you. Alcohol as an attractive space. I was surprised to learn that you compete in ready to drink alcohol in Canada. What are your plans on this space going forward?

Bob Gamgort:

Sure. Let me start off and then I'm gonna ask Ozan to talk a bit about our experience in Canada. You know, when we think of ourselves as a modern beverage company and we take this holistic view of beverage, of course we take a look at alcohol as part of that. Now we know the regulatory environment is very different in the US than it is in Canada, and that has some implications of on how we may compete in the future. But as surprising as that is, we've actually been participating in the broader alcohol segment for some time in the US. For example, we're the number one company when it comes to mixers. So in many beverage occasions, our products accompany the alcohol, and we participate in that.

Second piece is we participate it through licensing. So we have a partnership with ABI, with their Bud Light Chelada where Clamato is a branded ingredient in that product, and it's a very substantial product in terms of size and profitability to us. We participate in Canada, directly, in ready to drink alcohol where the regulatory environment is very different than it is in the US. And then of course, I'd remind you that we have a minority investment in Drinkworks with ABI, which is our partnership for the appliance that delivers alcoholic mixed drinks at the push of a button.

And so, this is back to that thought process that we shared with you earlier, when we think about consumer needs, occasions formats, there are multiple ways for us to play in segments that we see as growing. Not necessarily putting a literal product out there, but being able to play on the edges sometimes, we're able to get some substantial growth. But Canada is a unique space, and I think, Ozan, it's worth taking a moment or two and explaining how you think about that business.

Ozan Dokmecioglu:

Absolutely. As you said, Bob, it's a very unique part of our portfolio, which is the ready to drink alcohol business that we have in Canada that we haven't spoken much before on that one. When we step back and look at it, obviously we started this some years ago but right now our total retail sales of ready to drink alcohol business in Canada is around $130 million.

And the great news there, has been growing double digit the last few years as well, led by the brands Clamato, followed by Canada Dry, as well as Snapple Spiked. And we are utilizing several different route to market. Either we partner with let's say leaders, in distribution to convenience stores for example where alcohol is allowed to be sold. If you don't have direct distribution then that's where the partnership comes into play. Or we have direct distribution, probably depending on the various jurisdictions of the different provinces in Canada.

And I believe we have shown as a well proven track record of being able to first compete in that category, as well as growing double digit as well as high single digit over time. So we are very pleased with our business in Canada and growing very nicely.

Steve Alexander:

All right. Our next question, Bob, is gonna be for you. One of the biggest white space opportunities at your cold beverage portfolio is energy drinks. How big of a priority is this for you? And what is your approach to building out this category? And follow up here, will M&A versus organic be a bigger priority in energy?

Bob Gamgort:

So I think energy is a good example of how we think about a need in this broadest sense. And so you could define energy as highly caffeinated carbonated beverages in a slim can. Or you could think about it differently and we certainly think about it differently and, when you look at the energy need from a consumer standpoint in the broadest sense, I would argue we're actually the largest player in that segment. And the reason is because coffee is the original, and the largest, energy drink out there. And we're the largest player within coffee within the Keurig system, ecosystem in the US. And so, we like to position that we're in there.

Of course we look beyond coffee, and so we have some brands, Xyience, Venom and we made a seed investment in a brand called A SHOC, and then we thought about, how do we bring the energy need into other products? So an example is Bai Boost and Limitless Refresh sparkling water. Those are all examples of hour we're able to take existing products, bring energy into them. But clearly, we would like to expand our position in what we would define as more the, you know, the traditional energy business that I described up front. We continue to look for partners, and willing to make investments and seed investments in there. And we're very thoughtful about where there is true white space in our category. And we look at multiple paths to be able to fill that need.

Steve Alexander:

All right. So that brings us to the end of our Q&A session. Thank you very much. And with that I'll turn it over to Maria for a few closing comments.

Maria Sceppaguercio:

Thanks Steve. And thank you all for participating today. A copy of the slides and required disclosures have been posted on our website. And a video recording of the presentation will be posted shortly. As always, the IR team is available should you have any follow up questions, so please don't hesitate to reach out. With that, I just wanna wish you all a wonderful weekend, and we're certain to be talking to you soon. Take care.