

Keurig Dr Pepper Inc.

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Third Quarter 2024 Earnings Call

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October 24, 2024, 8:00 AM ET

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**CORPORATE PARTICIPANTS**

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**Tim Cofer** - *Chief Executive Officer*

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## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to Keurig Dr Pepper's Earnings Call for the Third Quarter of 2024. This conference call is being recorded, and there will be a question and answer session at the end of the call. I would now like to introduce Keurig Dr Pepper's Head of Investor Relations, Jane Gelfand. Ms. Gelfand, you may please begin.

### Jane Gelfand

Thank you, and hello, everyone. Earlier this morning, we issued two separate press releases announcing third quarter results and our pending transaction with GHOST. We will discuss both topics during this conference call and in the accompanying slide presentation, which can be tracked in real time on the live webcast. Before we get started, I'd like to remind you that our remarks will include forward-looking statements, which reflect KDP's judgment, assumptions, and analysis only as of today. Our actual results may differ materially from current expectations based on a number of factors affecting KDP's business. Except as required by law, we do not undertake any obligation to update any forward-looking statements discussed today. For more information, please refer to our earnings release and the risk factors discussed in our most recent Forms 10-K and 10-Q filed with the SEC.

Consistent with previous quarters, we will be discussing our Q3 performance on a non-GAAP adjusted basis, which reflects constant currency growth rates and excludes items affecting comparability. Definitions and reconciliations to the most directly comparable GAAP metrics are included in our earnings materials. Here with us today to discuss our results are Keurig Dr Pepper's Chief Executive Officer, Tim Cofer; and Chief Financial Officer and President, International, Sudhanshu Priyadarsh. I'll now turn it over to Tim.

### Tim Cofer

Thanks, Jane, and good morning, everyone. Our solid 2024 year-to-date performance demonstrates KDP's resiliency and flexibility. This morning, we reaffirmed our full year outlook, despite an uneven operating environment. And we're targeting a strong finish to the year in Q4. Simultaneously, we are making good progress against our long-term strategy, laying the groundwork for multiyear success.

Now before covering our quarterly results, I want to highlight the just announced GHOST deal as yet another example of how we are enhancing our portfolio while exercising capital discipline. We've reached an agreement to purchase a majority stake in GHOST this year to be followed by the acquisition of the remainder of the business in the first half of '28. This transaction strengthens our position in the attractive energy drink category and accelerates our portfolio evolution towards consumer preferred and growth accretive spaces. GHOST is young, versatile, and founder-led, with approximately \$0.5 billion portfolio anchored by its leading energy drink while also spanning supplements and an emerging presence in other LRB categories. The brand more than quadrupled in size over the last three years and remains one of the fastest-growing in the energy category, thanks to its unique brand identity, distinctive flavors and packaging, cross-occasion appeal, and strong consumer engagement, including on-premise.

GHOST will complement KDP's existing energy portfolio and substantially enhance our presence in the category. We see significant potential to further scale GHOST in collaboration with its founders, Dan Lorenzo, and Ryan Hughes, who will continue to lead the brand as part of KDP's U.S. refreshment beverages unit. I've been very impressed with Dan and Ryan and their tremendous success to date. More importantly, I share their vision for strong growth in the years

to come. Together, we plan to take GHOST to new heights as we build out KDP's platform-based approach to the energy category.

Now at \$23 billion in size, energy remains one of the fastest-growing scaled categories in beverages and enjoys multiple structural growth characteristics. These beverages satisfy a near universal consumer need for energy and alertness, which is increasingly relevant in a world with significant demands on our time and attention. They appeal to consumers across all ages and demographics, including over-indexing to GenZennials. There is significant headroom for household penetration to grow versus other leading beverage categories. And the category is still in the development stage of price pack architecture and channel diversity. All of these elements translate to a large total addressable market that we believe the category will grow into and on which KDP is well positioned to capitalize.

As energy drink consumption becomes more prevalent, the category is evolving to serve distinct consumer need states and occasions. This landscape lends itself nicely to a portfolio approach, which we have successfully employed in premium water to become the #2 share player. We're now using a similar playbook in energy, having accelerated our push into the category over the last 24 months with C4, GHOST, and Black Rifle Energy.

In addition to today's Ghost announcement, we just signed a distribution agreement with Nutrabort for Bloom ready-to-drink energy. Bloom is a highly promising emerging and distinctive beverage brand with a female-oriented SKU. Together, each of these brands can work in complementary ways to address consumer needs while driving greater scale in the category and across our DSD infrastructure.

Beyond its strategic merits, the GHOST transaction is another good example of how we approach efficient capital deployment. Through an elegant deal structure, we are capturing the growth opportunity and paving the way for compelling financial returns while retaining manageable balance sheet leverage and aligning long-term incentives.

Our chosen structure retains GHOST leadership team, reinforcing a unique element of KDP's white space expansion strategy, our founder network. We work to keep visionary entrepreneurs at the helm of the brands they created while adding substantial scale and resources from KDP. In energy drinks, we've seen the value of this arrangement firsthand through our close relationship with Nutrabort's innovative leader, Doss Cunningham. With alignment and support from energy leaders like Doss, Dan and Ryan of GHOST, and others, we are building a formidable energy platform that will drive win-win outcomes for all involved.

Let's now move to our third quarter results. Constant currency net sales grew 3.1%. We made solid progress on volume/mix with 3.5% growth in Q3. As anticipated, U.S. refreshment beverages momentum strengthened considerably, U.S. coffee volume mix grew nicely, and international trends remained healthy. Total KDP net price was a source of modest pressure in Q3. We expect sequential improvement in Q4 and a further step-up into 2025 as recently announced pricing actions across meaningful parts of our portfolio including CSDs and single-serve coffee take effect early next year.

Our focus on productivity and cost discipline continued to ratchet up in Q3. These elements help to support gross and operating margin expansion. As a result, consolidated operating income grew in the high single digits, and EPS grew 6%, consistent with our plan. We are focused on near-term delivery while also truly orienting our business towards the long term. Our strategy provides a road map for achieving strong and consistent results over a multiyear time frame, and

we aim to incrementally advance our strategic pillars each and every quarter. Let me discuss our latest progress.

I'll start with consumer-obsessed brand building. Our consumer-centric scorecards include awareness, household penetration, loyalty, and other classic brand-led metrics. And yet, how we ultimately measure success comes down to market share growth. In Q3, we gained share across each of our major product verticals, liquid refreshment beverages, K-Cup pods and brewers, and in each of our major markets, the United States, Mexico, and Canada. We achieved this performance through a combination of exciting innovation and brand activity as well as strong commercial delivery. While our Q3 top line also reflected the impact of the softer consumer environment on certain category growth rates, our market share results are a good indicator that we are effectively stewarding our brands and controlling the controllables.

Our second pillar, reshaping our now and next portfolio, has been a major 2024 priority, primarily through our new Electrolit and La Colombe partnerships. Both brands continued to transition to our DSD network during the third quarter with a growing financial contribution. We are now able to more directly influence their marketplace performance and, accordingly, our trends are accelerating with significant opportunity still ahead. Our just announced transaction with GHOST furthers our commitment to evolving towards high-growth areas. We will continuously shape our portfolio in the future, which will likely entail both brand additions and targeted pruning.

Moving now to route to market. During the third quarter, we closed on and integrated our recently acquired assets in Arizona. The transition of coverage to our network went smoothly and was achieved in record time. We have now shifted our focus to ensuring the Arizona operations run as efficiently as possible and leverage the network benefits of being part of KDP. We also continue to opportunistically expand our distribution presence in other regions, including the recent tack-on of incremental territories in Tennessee.

Our company-owned DSD network in Mexico is another focus area, given the vital competitive advantage it provides in a market with a sizable traditional trade. During the third quarter, we invested in expanding the systems coverage, selling routes, and cooler penetration, all of which contributed to our strong relative trends.

Turning now to our productivity and overhead disciplined work to generate fuel for growth. This is a priority in all environments, but it's particularly critical in the current moment. As such, we delivered strong savings during the third quarter with healthy productivity and the reemergence of SG&A overhead leverage for the first time in many quarters. We are now on track to exceed our cost savings goals for the year while also carrying a healthy pipeline of productivity and efficiency projects forward into 2025.

Finally, our cash generation has strengthened, as expected in 2024, and we are dynamically allocating this cash flow to support multiple parallel priorities. Our capital deployment this year has thus far included capital expenditures to support our growth and productivity initiatives, a sizable share buyback near our stock's 52-week low, a 7% dividend increase announced in Q3, which marked our fourth consecutive annual raise, and now our pending acquisition of a 60% interest in GHOST. In other words, we are staying disciplined, being opportunistic when compelling options become available, and managing across our capital allocation objectives, including our commitment to a resilient balance sheet.

Let me now share some observations on our third quarter segment performance, starting with U.S. refreshment beverages. We saw a nice sequential acceleration in revenue growth, which

increased at a mid-single-digit rate in the quarter. Our volume/mix momentum built as we completed the distribution transition and significantly ramped display activity for Electrolit. We also delivered solid base business trends across our core brands.

The consumer environment remains dynamic, which is having varying impacts across our portfolio. For instance, the carbonated soft drinks category is outperforming our expectations. CSDs have accessible price points and are supported by sophisticated revenue growth management capabilities, which make them well positioned to provide options for value-seeking consumers. At the same time, we are also winning in the category with a strong innovation and commercial programming slate that is driving healthy share trends.

Our CSD performance was led by brand Dr Pepper, thanks in part to a very successful summertime LTO with creamy coconut as well as the continued build-out of our zero sugar line. We expect the brand's momentum and share gains to sustain, supported by a recent launch of the seventh season of our incredibly popular Fansville college football marketing campaign. Elsewhere in CSDs, Canada Dry Fruit Splash, the brand's most significant launch in years remains highly incremental to the franchise and is demonstrating the potential of this great brand. We're also stepping up support behind our iconic 7UP with a first-in-a-decade brand design refresh that debuted in Q3 and a limited time offering Shirley Temple flavor that is just now rolling out and has been a hit on social media.

Meanwhile, some still beverage categories remain under pressure, which we see as a reflection of the current consumer softness. This is particularly true for categories with a greater exposure to convenience stores and with higher average price per ounce products like ready-to-drink teas. In these categories, we must continue engaging consumers with compelling brand activity, while also appropriately emphasizing value at key price points.

In other still beverages, we're seeing stronger trends. One example is our billion-dollar warehouse delivered Mott's brand, which has been an investment priority during 2024. During Q3, our back-to-school campaign, which highlighted fresh, minimally processed apples as a point of differentiation for Mott's, performed well, supporting top line growth and share gains for the brand. In total, we're pleased with the performance of the U.S. refreshment beverages segment in Q3, with notable progress made in scaling the Electrolit partnership and supporting our core portfolio.

In U.S. coffee, we experienced a soft overall quarter. Market share momentum drove solid volume mix, but pricing realization was challenged due to persistent category promotions, which weighed on segment revenue and profitability. We're not satisfied with this outcome and are actively working to improve these trends even in the context of escalating inflation. At the same time, we're planning prudently regarding U.S. coffee's role in our near-term overall enterprise performance. The reality is that at-home coffee category consumption remains muted. However, within that, single serve is outperforming, and within that, our brands are as well. But because the category's absolute growth rate is below the long-term trend, we are choosing to be judicious, and we're focusing on the elements within our control.

Let me dive deeper into three such areas that, together, should result in improving revenue trends for the coffee segment over time. First, we have good pod market share momentum. Our three-pronged strategy focused on affordability, premiumization, and cold coffee translated into further meaningful owned and licensed share momentum in the quarter. We saw strength across both Green Mountain and the Original Doughnut Shop, including particular traction and incrementality from our new line of refreshers, which we are building into a distinct single-serve platform.

At the same time, we are attracting new brands into the Keurig ecosystem, including the recent addition of Black Rifle K-Cup pods, which began to scale in our network during Q3. Taken together, our favorable owned and licensed market share trends and new partnerships position us for a stronger set of financial outcomes as the category recovers.

Second, brewer trends continue to move in the right direction. In Q3, we drove strong double-digit growth in brewer shipments. While quarterly trends are inherently lumpy, the coffee maker category has returned to more stable footing and Keurig and Keurig compatible brewers are gaining significant share. This speaks to our ongoing appeal among coffee-consuming households and should be supportive of future pod consumption. Looking out to the important holiday season, we're well positioned with excellent retailer and consumer feedback for K-Brew & Chill in the early days of our launch and good momentum behind our entry-priced models.

Third, while not yet evident in category trends or our results, we are encouraged by recent category pricing in response to escalating inflation. The competitive environment in the third quarter was notably promotional as in the first half, and we do not expect any immediate easing in Q4. However, industry pricing should build over the coming quarters given recently announced competitor price increases as well as our early 2025 single serve increase. Even with an anticipated elasticity impact and some related volume trade-off, we'd expect this to result in a healthier overall revenue trend.

All in, though the path ahead will likely come with some quarter-to-quarter variability, we continue to see traction across our U.S. coffee segment. As long as the at-home coffee category remains soft, we will continue to plan with restraint, all while positioning Keurig and our assortment of brands to win longer term. In other words, we are playing the long game by driving high-quality innovation and marketing and attracting new brands into the Keurig ecosystem.

Turning now to international. We delivered another quarter of good performance, with constant currency net sales growth nearing the high single digits. We drove gains across multiple regions and categories. In Mexico, market share grew in almost every category in which we operate, reflecting productive brand-building activity and DSD investments bearing fruit. We often talk about the success of our powerhouse, Penafiel brand, which maintained its trajectory in Q3, but Squirt's performance was also notable. The brand recently achieved a significant milestone becoming the #2 flavored CSD in Mexico, and it is a great example of another iconic KDP brand with local traction and momentum.

Our cold beverages performance in Canada was also robust, led by growth in Canada Dry and Dr Pepper as well as continued strength in our low- and no-alcohol portfolio. In international coffee, as in the U.S., our three-pronged strategy helped to drive market share gains across both brewers and pods. Overall, we feel great about our international momentum and, with ongoing investment, expect this segment to remain an outsized growth driver for KDP.

In closing, we're pleased with our team's strong execution in what remains a dynamic operating environment. We are on track and focused on closing out the year strong while pushing ahead on key strategic initiatives and setting the stage for healthy, consistent financial performance beyond 2024. And with that, I'll turn the call to Sudhanshu.

### **Sudhanshu Priyadarshi**

Thanks, Tim, and good morning, everyone. We delivered a solid quarter with operational discipline driving strong OI growth and accelerating cash generation. We are on track to a strong finish to 2024 while also making important strategic progress like today's announced transaction

with GHOST. The actions we are taking to support base momentum and enhance our portfolio help reinforce visibility to consistent performance in the years ahead.

Third quarter net sales grew 3.1% in constant currency. U.S. refresh and beverages top line accelerated, U.S. Coffee posted a soft quarter, and international growth remained healthy. I will discuss each segment in more detail shortly. On a consolidated basis, volume/mix was the primary sales driver, a strengthening to a 3.5% gain. We grew share across our portfolio and also benefited from a building contribution from new partnerships.

Net price realization declined 0.4%. Pricing was positive across most of the business with pressure confined to U.S. coffee. We expect consolidated pricing to turn positive once again in quarter 4. Gross margin expanded 20 basis points versus prior year. This reflected good productivity delivery and a performance incentive from C4, which contributed approximately 50 basis points of expansion.

SG&A also leveraged 80 basis points as the lean overhead discipline we are embedding across the organization is beginning to more meaningfully benefit results. This will remain a focus area going forward. All in, operating margins expanded 110 basis points and operating income grew 7.5%. Inclusive of a net headwind below the line, EPS grew a solid 6%, consistent with our plan.

Moving to the segments. U.S. refreshment beverages net sales grew 5.3%, accelerating from a low single-digit rate in quarter 2. Volume/mix led the way, up 4%, including a growing contribution from Electrolit as volume fully transition to our DSD network. Our base business trends also strengthened, led by our CSD portfolio. Pricing contributed 1.3% to the top line, reflecting favorable price realization in CSDs and targeted value investments in parts of the still beverages portfolio.

We expect segment net sales growth to improve further in quarter 4, reflecting a healthy partnership contribution and base business trend. Segment operating income grew 6.8%, with 40 basis points of margin expansion. The improvement was driven by our net sales momentum, productivity, and the C4 performance incentive. This was partially offset by cost inflation across key inputs.

In U.S. coffee, net revenue and operating income declined 3.6% and 7.2%, respectively. Obviously, we are not pleased with these results, but this performance deserves greater context. Despite a still muted coffee category, we drove improving volume/mix in the third quarter with 2.7% growth. This was comprised of flattish pods and 14% growth in brewer shipments. We enjoyed good market share momentum across both product lines, thanks to strong innovation and retail execution. This market share trend should sustain in quarter 4 as we continue to benefit from our three strategic focus areas of affordability, premiumization, and cold coffee.

Third quarter pricing was soft, declining 6.3%. We lapped a challenging year ago pricing competition, and like in the first half, continued to respond to industry promotions, which remained at odds with coffee commodity moves. We do not expect the competitive picture to moderate immediately, but our comparisons get easier starting in quarter 4.

In addition, we just announced a price increase due to take effect early in the next year. As is typical, there will likely be an elasticity impact as industry pricing is implemented. As Tim said, we will manage the business for overall revenue dollars, which we expect to reflect the combination of good market share and more favorable pricing.

Shifting to the segment operating income decrease in quarter 3. We generated strong productivity savings, but these were more than offset by the net price decline. Though Q4 operating income is likely to once again be pressured given the return of commodity cost inflation, our team is focused on two major levers to improve the trend into next year. Price increases and modulating promotions will be one significant driver, and productivity, network optimization, and broader cost controls will be the other important enabler. Our discipline across both is getting stronger, and we are revving our productivity engines, which gives us optimism looking out to 2025.

International constant currency net sales grew 6.5% or 0.4% on a reported basis. Top line growth was balanced, with volume/mix increasing 3.1% and net price realization adding another 3.4%. Our growth was strong in absolute terms, and also came against a tough year ago comparison. During quarter 3, our local execution was exceptional, driving market share gains in our major categories and markets.

International top line growth should accelerate in quarter 4 as our market share outperformance sustains and comparisons begin to ease. Beyond this year, we have exciting plans to continue to capture the significant long-term growth opportunity we see for this segment. International segment operating income advanced meaningfully in the quarter, growing 16.6% in constant currency. The strong bottom line result was driven by net pricing and productivity. This more than offset continued inflationary pressures and help fund incremental marketing.

Moving to the balance sheet, cash flow, and capital allocation. In the third quarter, we generated more than \$500 million in free cash flow. Consistent with our expectations, free cash flow dollars and conversion are improving. We remain on track for a meaningful step-up in full year cash flow compared to prior year. The accelerating cash flow profile is supporting our ability to advance multiple capital allocation priorities. GHOST will enhance our presence in an attractive white space category. By utilizing a thoughtful restructure, we are setting up to deliver compelling multiyear financial returns. We are doing so while aligning incentives and ensuring our balance sheet remains resilient post the transaction. In quarter 3, we also announced a 7% dividend increase, marking KDP's fourth consecutive year of dividend growth and underscoring our commitment to direct shareholder return.

Turning now to our 2024 guidance. On a constant currency basis, we continue to expect mid-single-digit net sales and high single-digit EPS growth. Our full year 2024 outlook also embeds the following below-the-line assumptions: Interest expense in a range of \$615 million to \$625 million, an effective tax rate in a 22% to 23% range, and approximately \$1.37 billion diluted weighted average shares outstanding.

When it comes to quarter 4, we are focused on delivering a strong top line result, driven by solid base momentum, including improved net price realization and a continued healthy contribution from recent partnerships. Though revenue growth is expected to accelerate, and our productivity bias will remain strong, our margin progress is likely to pause this quarter. This is because inflation is slated to become a bigger factor in quarter 4, while the benefits of just announced pricing do not kick in until early 2025. We also expect a modest FX translation headwind to both top and bottom line.

In closing, we are pleased with our overall performance in quarter 3. In an uneven operating environment, we are focused on executing our plans over the balance of the year, emphasizing Q4 delivery, advancing our strategic pillars, and actively planning for another year of consistent performance in 2025. I will now pass on to Tim to wrap with some brief remarks about next year.



**Tim Cofer**

Thanks, Sudhanshu. Before we move to Q&A, I want to leave you with a few closing thoughts. First and foremost, we are laser-focused on finishing 2024 on a strong note. At the same time, similar to many of you, our internal attention is increasingly shifting to 2025. While it's premature to provide an exact outlook, I can share a few preliminary thoughts. As we build our 2025 plan, we see considerable opportunity and also some risk. On the one hand, the operating environment remains subdued, with no immediate signs of relief for stretched consumers. Pockets of escalating inflationary pressure are necessitating industry pricing, but because consumer health is varied, the elasticity impact is uncertain.

On the other hand, our strategic progress in 2024 will provide long-tailed benefits in 2025. We have strong innovation and commercial plans across our brands, the benefit of continued portfolio evolution, and expanded route-to-market capabilities and greater productivity and cost discipline taking hold across the company. We will also have added top line flexibility from GHOST, which will enable us to plan judiciously in the case of coffee and to push ahead on other portfolio optimization opportunities, all while delivering consistently. Put another way, as we see it today, the various puts and takes into 2025 appear fairly balanced. Together, we expect them to support another year of performance within our long-term algorithm.

We'll continue to monitor the environment and refine our assumptions and will share official 2025 guidance during our next earnings cycle. Thank you for the time, and we're now happy to take your questions.

**QUESTION AND ANSWER****Operator**

We will now begin the question and answer session. To ask a question, you may press "\*" then "1" on your touchtone phone. If you are using a speaker phone, please pick up the handset before pressing the keys. If at any time your question has been addressed and you would like to remove your question, please press "\*" then "2." Please limit yourself to one question. At this time, we will pause momentarily to assemble our roster. The first question today comes from Kaumil Gajrawala with Jefferies. Please go ahead.

**Kaumil Gajrawala**

Hey, guys. Good morning. Congrats. can we maybe talk more about how the portfolio works together in energy? And maybe specifically C4 and GHOST, but also with Black Rifle and some of the other things that you've been doing? Just how is the whole meant to work? Or is there any concern of the blurring of lines between some of these categories?

**Tim Cofer**

Yeah. Good morning, Kaumil. I could certainly speak to that. As you look at energy, we continue to believe energy is one of the most attractive categories within total LRB, large, consistently fastest growing over the last many years. I think what we're starting to see is as that category matures, it's evolving to serve distinct consumer need states and occasions, and we believe that that landscape lends itself well to a portfolio approach. And that's what we're pursuing with today's announcement is a collection of brands that work in complementary ways to address different consumer needs and different occasions while obviously generating scale that will benefit our DSD system.

So if you think about it, step back just two years ago, KDP basically had very little, if any, presence in the energy category. As a result of today's announcement, primarily around GHOST, but also

around Bloom, we now have a portfolio of four to five material brands in the category that will allow us to establish a multifaceted energy platform. Very quickly on each one, to your question. As you look at C4, Doss Cunningham has done a great job of establishing a strong performance-based positioning with products that really provide functional efficacy, targeted largely at gym and fitness occasions and everyday energy. It's also, from a consumer standpoint, tends to be more male and skewing a little bit millennial.

Then you get to GHOST. GHOST has a more lifestyle positioning, bold flavor forward products, popular with gamers, social settings, and increasingly a business that lends itself to on-prem, on-premise, including occasions like music festivals. Also, a slightly more balanced male, female split, a little bit more Gen Z, and a real growing authority in zero sugar. In fact, recent data would suggest 6 of the top 30 SKUs in zero sugar are from GHOST.

Then you get to Black Rifle, a recently announced partnership with Black Rifle. This brand will serve consumers seeking more mainstream energy products as well as those looking for coffee energy hybrids and obviously, the chance to leverage that strong coffee brand with that target. And then finally, the other news of today, Bloom. Clearly more female-oriented, early days, but highly promising. And as you heard, we just signed on to distribute that business nationwide after really a very successful launch at Target this summer. So, we feel great about this portfolio approach. It's a big step forward for KDP. The energy category is more sophisticated, and we think this approach will serve us well in the years to come.

#### **Operator**

The next question comes from Brett Cooper with Consumer Edge Research. Please go ahead.

#### **Brian Callen**

Good morning. Another question for you on the GHOST transaction. The brand has been able to get to about a 3% share in peer to peer distribution network, there's some stuff there. So, can you talk about what KDP brings to the table that can step change that, maybe offering past examples? And then on the other side of that, can you speak to and maybe quantify the scale benefit it brings to your business in the C-store channel, and the impact that can have on the total portfolio over the long term? Again, any tangible examples would be helpful. Thanks.

#### **Tim Cofer**

Yes, absolutely. I think the best example of what KDP can bring to GHOST and why this today's announcement and acquisition, I think, has tremendous logic and benefit is really what we've done in the last couple of years with Doss, Nutrabolt, and C4. In less than two years, we've effectively doubled the business on C4 together. We've increased market share by more than 1 point. We've essentially doubled TDPs, total distribution points, in particular, in C-stores and UDS, which, as you well know, is critical for energy. With the power of KDP DSD, we've almost tripled display activity, and we've, by orders of magnitude, increased cold drink assets.

So, I think when you're looking for specifics, there's a number of specifics there. We know energy now well, and I think we have a proven playbook that we've executed with C4 that we believe we can replicate with GHOST. Beyond that, I think there's other elements that we bring to this partnership that can be powerful and a real win-win. Obviously, things like R&D capabilities, innovation capabilities, marketing strength, our commercial teams, our GM skill sets, connections and top to tops, obviously, with our customers in building out the doors, price pack architecture. And then over time, I think, a lot of synergies as well from the procurement side, certainly manufacturing long term, there's quite a few cost synergies that we can think about. So overall, I

feel good about our model, the strong momentum that we have with Doss and C4 and our ability to replicate this once again with GHOST.

And I think the last part of your question, no doubt this will help drive the total KDP DSD flywheel. When you look at what we've done here over the last few years, say the last 3 years, we've gone at C-store in particular, from about a 7 share to approaching a 10 share across total LRB. C-store is obviously critical for the energy segment. And with the addition of GHOST, that will probably add close to 20% additional scale in small format to KDP's footprint. And obviously, that drives the entire DSD flywheel and economics.

### **Operator**

The next question comes from Dara Mohsenian with Morgan Stanley. Please go ahead.

### **Dara Mohsenian**

Hey, good morning. Tim, you spent a lot of time on your plans in the coffee segment. And obviously, there's a lot occurring from an industry standpoint here. Just wanted to get your perspective, it does sound like you've taken a step back in terms of what you assume from an industry perspective in coffee. How durable do you think that is as you look out? And then, given some of the company initiatives you mentioned that are paying off in terms of your market share picking up, brewers picking up, do you think that you can offset some of those industry headwinds? Are you looking at a pace of organic sales growth that's similar to long-term trends as you look out over the next year or two? And how do you think about that?

And then second, just on profitability. Once pricing goes into place, do you think you can start to expand year-over-year margins again in the coffee segment, or with some of the cost pressures and industry top line headwinds that's more uncertain? Just how you think about those things going forward would be helpful.

### **Tim Cofer**

Okay. Thanks, Dara. Yes, I'll start on that, and I'll kick it over to Sudhanshu to speak to the last part of your question on margin for next year. Dara, I'll start. I said it before, I'm going to say it again, we are bullish on coffee's long-term prospects. I think the structural tailwinds are intact. We're bullish on this category. Ubiquitous regular consumption. The most consumed beverage aside from water on the planet, addressing a critical need for energy and alertness. So, we're bullish long term. No doubt, at-home coffee category's performance has been sluggish, and it is taking longer to recover than we have planned and anticipated.

Having said that, what we're doing is focusing on what we can control. And I think the encouraging signs are, within at-home coffee, which overall is sluggish, the single-serve category continues to outperform. And within the single-serve category, our brands continue to outperform. So, for us, and you said it in your question, pardon me, we are planning prudently when it comes to the category recovery. That's inclusive of Q4 in terms of year to go and affirmation of our guide on the year. So, we're planning prudently in Q4.

And as we look ahead to '25, you heard me give some preliminary commentary on '25. We're planning prudently. But we're continuing to execute, I think, a strategy that we believe is working and I've talked before, I won't drain it, affordability, premiumization, cold coffee, those three vectors, we think, are working. We have plans against it. We're encouraged by our results. Evidence of that are market share gains you're seeing in both pods and brewers and an improving trend in '24 versus '23.

The new dynamic now is the green coffee increase in cost. And to your question, what that means for us is we intend to manage the business for overall revenue dollars in the near term, as you would expect in an inflationary environment. So, as I shared in my prepared remarks, we've announced the pricing that will go into effect in early '25. Obviously, there will be an elasticity impact as is usually the case. But this should translate to a healthier top line trend as well as continued good market share as we go into 2025. And then maybe, Sudhanshu Priyadarsh, do you want to speak to margin?

### **Sudhanshu Priyadarshi**

Thanks, Tim. Hello Dara. So, as you know, we indicated consistently that our plan for U.S. coffee margin in '24 was skewed to a first half that are mainly driven by the timing of green coffee cost impacting our P&L because we had six to nine months. And as you have seen, this cadence has generally played out consistently with our expectation. Our first half margin expanded nicely, and then margins started to come under pressure versus last year in quarter 3, which we expect will continue in quarter 4.

Now if you look at 2025, we expect coffee inflation to continue to ramp. We will look to offset with pricing that is going into market early in the year, as just Tim said. And we'll -- also, we'll have heightened focus on productivity and other expense discipline. As it is typical inflationary environment, our plan is to manage for operating profit growth and not the margin percentages. However, as inflation normalizes, we continue to see opportunity to rebuild segment margin on a multiyear basis and our focus on delivering that outcome.

### **Operator**

The next question comes from Chris Carey with Wells Fargo Securities. Please go ahead.

### **Christopher Carey**

Hey, good morning. One quick follow-up on Dara's question just around coffee. Do you have any shipment timing impacts from storms in the quarter, cost came in a bit below consumption? And I would just love your thoughts on that. Obviously, less material over the long term. But perhaps if there's any caveats there, I'd be curious.

And then really, Tim, you've been going through portfolio. You have some comments on portfolio optimization over time. Clearly, you've been adding some faster growth assets, but the business has not done a whole lot of pruning. So how does this all come together as you look out over the next one to two years and you think about the type of portfolio that you're really trying to create and some of the avenues that adding some of this volume scale and energy and Electrolit allow you to do on maybe some of the areas that are not growing quite efficiently or quickly? Thanks.

### **Tim Cofer**

Yeah, Chris. Thank you. On the first one, here's what I'd say. Look, the hurricanes came right at the end of the quarter, literally in the last few days, and it didn't help, all right? We saw an impact. We actually had a significant facility as well in -- right in the hurricanes path that got wiped out temporarily. And we're putting it back together. So, it didn't help. We're not going to give you a number, but that certainly didn't help our quarter and close in Q3, particularly on the coffee side.

To your other question on portfolio optimization, I would say, look, any good company continuously shapes their portfolio, and that means adding good on top end and cleaning house as appropriate. And when you do that well and consistently, you drive a more efficient total network from procurement and raw materials through the manufacturing, supply chain, distribution, operations. And I think part of our approach here is really assessing our existing

portfolio holistically and now deciding which categories and brands do we really want to emphasize. And within the categories and brands, which SKUs. And when you do that, that does open the door to network optimization and really DSD optimization.

Now when you do that, it also can come with a net sales trade-off. But the long-term win, and I've seen it many times in my career, is a faster-growing portfolio operating at higher service levels and operating at a more attractive cost structure. If you think about KDP, you know we're still a relatively young company. And if you think about the last five to six years, first things first, it was around integrating these two companies, doing a great job on synergy capture. Then we hit that whole COVID pandemic. And so, we're now at a point, especially when you add a great new brand like GHOST, where we can take the opportunity to refocus on portfolio optimization.

And so, you're going to hear us talk more about it. I referenced it in today's remarks. And I think it's particularly true on U.S. refreshment beverage. So, we're actively working. We're scoping and sizing the potential as we speak. We'll share more details over time. But no doubt, when you add a high-growth focused asset like GHOST in an attractive category like energy, that, and I said it in my remarks, that gives us some top line flexibility going into '25 to make some tough choices on portfolio optimization that, over the long term, I think, will really yield fruit both on the top line growth and on the margin.

#### **Operator**

The next question comes from Robert Ottenstein with Evercore. Please go ahead.

#### **Robert Ottenstein**

You kind of -- two things. First of all, congratulations on both GHOST and Bloom, they're terrific brands. You kind of win at this a little bit, but obviously, there is a bit of a concern. You can hear from investors and others on the call about whether you're kind of doing too much at the same time and whether the system can handle it all. And not just in terms of energy, but you got Electrolit, there's a lot going on, you talked about pruning things. But maybe if you could talk a little bit about your infrastructure capabilities, what you have in terms of warehouses, logistics, IT systems, and the investments that you've done over the last number of years to be able to handle increased complexity. And then just more of an execution issue, any comments on plans to transition from the Anheuser-Busch distribution system to yours for GHOST and kind of roughly how long you expect that to take. Thanks.

#### **Tim Cofer**

Thanks, Robert. I think a little bit to your preface. We spoke about this a little bit but let me try to unpack it a little bit more. In short, I think we are well prepared and well positioned to take on the new growth vector with GHOST. I think evidence of that is what you've seen us do the last couple of years. C4, I gave a lot of stats earlier to one of the earlier questions on our success with C4. Electrolit has been a very smooth and successful transition this year. We have an incredible relationship with Electrolit management and the family at Grupo Pilsa. I was actually there a few months ago talking about the transition. And I think they and we are very pleased with that handover and that transition.

You're seeing the good early results, and you will see more next year. We've had a very successful sell-in into 2025 resets on Electrolit. I think the KDP DSD system is showing its resilience. Point in fact, I met with our DSD leadership team the last couple of days here in Frisco headquarters, and they are feeling very bullish about what we're doing on C4 and Electrolit. And I know their -- I told them for all the right reasons, obviously, we didn't share the news of this

morning until this morning. I told him to call in and listen and I know they're listening right now. They're really excited about seeing the flywheel of KDP accelerate, particularly in C-stores.

So, from an infrastructure standpoint, from an investment standpoint, to your point, in our branches, in our DCs, and our warehouses, you've seen that investment take hold. You've seen us also get acquisitive around territories, which is, I think, another proof point of our confidence in DSD. We'll look at what you see in Arizona, I mentioned a new smaller territory in Tennessee we just took, and then there's some broader bigger news that may follow in '25 that's out in the public domain.

So we've got really a strong commercial skill set with our partners. I think that's why we're a preferred partner in the industry and we feel good overall about our ability to digest these. At the end of your question, you referenced AVI, yeah. And no doubt, AVI is GHOST distribution partner. Our expectation is we will begin to transition the distribution in mid-2025. This is consistent with the six-month termination notice that's required. After that, we will resume -- assume responsibility for all the distribution and work within KDP DSD and, in some select cases, partner distributors to ensure that GHOST is available everywhere.

## **CONCLUSION**

### **Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Jane Gelfand for any closing remarks.

### **Jane Gelfand**

Thank you, Betsy, and thank you, everyone, for participating. We're going to try to keep you on time given multiple competing earnings. We do appreciate your support, and IR will be available all day to answer any follow-up questions you may have. Thank you, again, and have a great day.

### **Operator**

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.