UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED September 30, 2023
OR
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM TO

Commission file number 001-33829

kdpa13.jpg

Keurig Dr Pepper Inc.
(Exact name of registrant as specified in its charter)

Delaware	**98-0517725**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. employer identification number)*

53 South Avenue
Burlington, Massachusetts
01803
(Address of principal executive offices)
(781) 418-7000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock	KDP	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☐ Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☒

As of October 24, 2023, there were 1,398,336,103 shares of the registrant's common stock, par value $0.01 per share, outstanding.

KEURIG DR PEPPER INC.
FORM 10-Q
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MASTER GLOSSARY

Term	Definition
2021 364-Day Credit Agreement	The Company's $1,500 million credit agreement, which was entered into on March 26, 2021 and was terminated on February 23, 2022
2022 Revolving Credit Agreement	KDP's $4 billion revolving credit agreement, which was executed in February 2022 and replaced the 2021 364-Day Credit Agreement and the KDP Revolver
Annual Report	Annual Report on Form 10-K for the year ended December 31, 2022
AOCI	Accumulated other comprehensive income or loss
Athletic Brewing	Athletic Brewing Holding Company, LLC, an equity method investment of KDP
Bedford	Bedford Systems, LLC, an equity method investment of KDP and the maker of Drinkworks
Board	The Board of Directors of KDP
bps	Basis points
CSD	Carbonated soft drink
DIO	Days inventory outstanding
DPO	Days of payables outstanding
DPS	Dr Pepper Snapple Group, Inc.
DPS Merger	The combination of the business operations of Keurig and DPS that was consummated on July 9, 2018 through a reverse merger transaction, whereby a wholly-owned special purpose merger subsidiary of DPS merged with and into the direct parent of Keurig
DSD	Direct Store Delivery, KDP's route-to-market whereby finished beverages are delivered directly to retailers
DSO	Days sales outstanding
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934, as amended
FX	Foreign exchange
IRi	Information Resources, Inc.
KDP	Keurig Dr Pepper Inc.
KDP Revolver	The Company's $2,400 million revolving credit facility, which was entered into on February 28, 2018 and terminated on February 23, 2022
Keurig	Keurig Green Mountain, Inc., a wholly-owned subsidiary of KDP, and the brand of our brewers
La Colombe	La Colombe Holdings, Inc., an equity method investment of KDP
LRB	Liquid refreshment beverages
NCB	Non-carbonated beverage
Notes	Collectively, the Company's senior unsecured notes
Nutrabolt	Woodbolt Holdings LLC, d/b/a Nutrabolt, an equity method investment of KDP
Revive	Revive Brands, a wholly-owned subsidiary of KDP
RSU	Restricted share unit
RTD	Ready to drink
RVG	Residual value guarantee
Tractor	Tractor Beverages, Inc., an equity method investment of KDP
SEC	Securities and Exchange Commission
SG&A	Selling, general and administrative
SOFR	Secured Overnight Financing Rate
U.S. GAAP	Accounting principles generally accepted in the U.S.
Veyron SPEs	Special purpose entities with the same sponsor, Veyron Global
VIE	Variable interest entity
Vita Coco	The Vita Coco Company, Inc.
WD	Warehouse Direct, KDP's route-to-market whereby finished beverages are shipped to retailer warehouses, and then delivered by the retailer through its own delivery system to its stores

PART I - FINANCIAL INFORMATION
ITEM 1. Financial Statements (Unaudited)

KEURIG DR PEPPER INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(*UNAUDITED*)

	Third Quarter		First Nine Months	
(in millions, except per share data)	**2023**	**2022**	**2023**	**2022**
Net sales	**$ 3,805**	$ 3,622	**$ 10,947**	$ 10,254
Cost of sales	**1,694**	1,721	**5,051**	4,927
Gross profit	**2,111**	1,901	**5,896**	5,327
Selling, general and administrative expenses	**1,217**	1,196	**3,654**	3,418
Impairment of intangible assets	**2**	311	**2**	311
Gain on litigation settlement	**—**	—	**—**	(299)
Other operating income, net	**(4)**	—	**(9)**	(35)
Income from operations	**896**	394	**2,249**	1,932
Interest expense	**237**	207	**432**	570
Loss on early extinguishment of debt	**—**	—	**—**	217
Gain on sale of equity method investment	**—**	—	**—**	(50)
Impairment of investments and note receivable	**—**	—	**—**	12
Other (income) expense, net	**(5)**	4	**(41)**	22
Income before provision for income taxes	**664**	183	**1,858**	1,161
Provision for income taxes	**146**	4	**370**	179
Net income including non-controlling interest	**518**	179	**1,488**	982
Less: Net loss attributable to non-controlling interest	**—**	(1)	**—**	(1)
Net income attributable to KDP	**$ 518**	$ 180	**$ 1,488**	$ 983
Earnings per common share:				
Basic	**$ 0.37**	$ 0.13	**$ 1.06**	$ 0.69
Diluted	**0.37**	0.13	**1.05**	0.69
Weighted average common shares outstanding:				
Basic	**1,397.4**	1,416.1	**1,401.3**	1,417.3
Diluted	**1,406.2**	1,427.2	**1,410.8**	1,428.8

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

KEURIG DR PEPPER INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(*UNAUDITED*)

	Third Quarter		First Nine Months	
(in millions)	**2023**	**2022**	**2023**	**2022**
Net income including non-controlling interest	**$ 518**	$ 179	**$ 1,488**	$ 982
Other comprehensive (loss) income				
Foreign currency translation adjustments	**(135)**	(249)	**132**	(283)
Net change in pension and post-retirement liability, net of tax of $0, $0, $0 and $0, respectively	**—**	—	**—**	(3)
Net change in cash flow hedges, net of tax of $0, $(12), $24 and $(98), respectively	**9**	35	**(90)**	303
Total other comprehensive (loss) income	**(126)**	(214)	**42**	17
Comprehensive income (loss) including non-controlling interest	**392**	(35)	**1,530**	999
Less: Comprehensive income attributable to non-controlling interest	**—**	—	**—**	—
Comprehensive income (loss) attributable to KDP	**$ 392**	$ (35)	**$ 1,530**	$ 999

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

KEURIG DR PEPPER INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(*UNAUDITED*)

(in millions, except share and per share data)	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	**$ 260**	$ 535
Trade accounts receivable, net	**1,279**	1,484
Inventories	**1,348**	1,314
Prepaid expenses and other current assets	**519**	471
Total current assets	**3,406**	3,804
Property, plant and equipment, net	**2,527**	2,491
Investments in unconsolidated affiliates	**1,336**	1,000
Goodwill	**20,122**	20,072
Other intangible assets, net	**23,223**	23,183
Other non-current assets	**1,117**	1,252
Deferred tax assets	**32**	35
Total assets	**$ 51,763**	$ 51,837
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 4,090**	$ 5,206
Accrued expenses	**1,123**	1,153
Structured payables	**122**	137
Short-term borrowings and current portion of long-term obligations	**2,798**	895
Other current liabilities	**681**	685
Total current liabilities	**8,814**	8,076
Long-term obligations	**9,940**	11,072
Deferred tax liabilities	**5,714**	5,739
Other non-current liabilities	**1,931**	1,825
Total liabilities	**26,399**	26,712
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 15,000,000 shares authorized, no shares issued	**—**	—
Common stock, $0.01 par value, 2,000,000,000 shares authorized, 1,398,322,033 and 1,408,394,293 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	**14**	14
Additional paid-in capital	**21,014**	21,444
Retained earnings	**4,165**	3,539
Accumulated other comprehensive income	**171**	129
Total stockholders' equity	**25,364**	25,126
Non-controlling interest	**—**	(1)
Total equity	**25,364**	25,125
Total liabilities and equity	**$ 51,763**	$ 51,837

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

KEURIG DR PEPPER INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(*UNAUDITED*)

(in millions)	First Nine Months 2023	2022
Operating activities:		
Net income attributable to KDP	**$ 1,488**	$ 983
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	**299**	301
Amortization of intangibles	**103**	100
Other amortization expense	**136**	129
Provision for sales returns	**42**	38
Deferred income taxes	**(22)**	(281)
Employee stock-based compensation expense	**86**	43
Loss on early extinguishment of debt	**—**	217
Gain on sale of equity method investment	**—**	(50)
Gain on disposal of property, plant and equipment	**(3)**	(38)
Unrealized (gain) loss on foreign currency	**(4)**	22
Unrealized loss on derivatives	**44**	387
Settlements of interest rate contracts	**54**	125
Equity in (earnings) loss of unconsolidated affiliates	**(24)**	6
Impairment of intangible assets	**2**	311
Impairment on investments and note receivable of unconsolidated affiliate	**—**	12
Other, net	**(5)**	22
Changes in assets and liabilities:		
Trade accounts receivable	**170**	(372)
Inventories	**(31)**	(552)
Income taxes receivable and payables, net	**(39)**	(106)
Other current and non-current assets	**(159)**	(380)
Accounts payable and accrued expenses	**(1,155)**	1,014
Other current and non-current liabilities	**50**	167
Net change in operating assets and liabilities	**(1,164)**	(229)
Net cash provided by operating activities	**1,032**	2,098
Investing activities:		
Proceeds from sale of investment in unconsolidated affiliates	**—**	50
Purchases of property, plant and equipment	**(271)**	(260)
Proceeds from sales of property, plant and equipment	**9**	79
Purchases of intangibles	**(55)**	(19)
Issuance of related party note receivable	**—**	(18)
Investments in unconsolidated affiliates	**(308)**	(48)
Other, net	**2**	3
Net cash (used in) provided by investing activities	**$ (623)**	$ (213)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

KEURIG DR PEPPER INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(*UNAUDITED, CONTINUED*)

(in millions)	First Nine Months 2023	First Nine Months 2022
Financing activities:		
Proceeds from issuance of Notes	**$ —**	$ 3,000
Repayments of Notes	**—**	(3,365)
Net issuance (repayment) of commercial paper	**750**	(149)
Proceeds from structured payables	**91**	114
Repayments of structured payables	**(105)**	(111)
Cash dividends paid	**(842)**	(796)
Repurchases of common stock	**(457)**	(88)
Tax withholdings related to net share settlements	**(57)**	(10)
Payments on finance leases	**(74)**	(65)
Other, net	**(3)**	(45)
Net cash used in financing activities	**(697)**	(1,515)
Cash, cash equivalents, and restricted cash and cash equivalents:		
Net change from operating, investing and financing activities	**(288)**	370
Effect of exchange rate changes	**13**	(10)
Beginning balance	**535**	568
Ending balance	**$ 260**	$ 928
Supplemental cash flow disclosures of non-cash investing activities:		
Capital expenditures included in accounts payable and accrued expenses	**$ 196**	$ 179
Transaction costs included in accounts payable and accrued expenses	**13**	—
Non-cash conversion of note receivable to investment in unconsolidated affiliate	**—**	6
Non-cash purchases of intangibles	**—**	22
Supplemental cash flow disclosures of non-cash financing activities:		
Dividends declared but not yet paid	**300**	284
Supplemental cash flow disclosures:		
Cash paid for interest	**255**	236
Cash paid for income taxes	**413**	566

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

KEURIG DR PEPPER INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(*UNAUDITED*)

(in millions, except per share data)	Common Stock Issued Shares	Common Stock Issued Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity	Non-controlling Interest	Total Equity
Balance as of January 1, 2023	1,408.4	$ 14	$ 21,444	$ 3,539	$ 129	$ 25,126	$ (1)	$ 25,125
Net income	—	—	—	467	—	467	—	467
Other comprehensive income	—	—	—	—	26	26	—	26
Dividends declared, $0.20 per share	—	—	—	(282)	—	(282)	—	(282)
Repurchases of common stock, inclusive of excise tax obligation	(6.6)	—	(232)	—	—	(232)	—	(232)
Shares issued under employee stock-based compensation plans and other	1.9	—	—	—	—	—	—	—
Tax withholdings related to net share settlements	—	—	(31)	—	—	(31)	—	(31)
Stock-based compensation and stock options exercised	—	—	29	—	—	29	—	29
Balance as of March 31, 2023	1,403.7	14	21,210	3,724	155	25,103	(1)	25,102
Net income	—	—	—	503	—	503	—	503
Other comprehensive income	—	—	—	—	142	142	—	142
Dividends declared, $0.20 per share	—	—	—	(279)	—	(279)	—	(279)
Repurchases of common stock, inclusive of excise tax obligation	(7.0)	—	(229)	—	—	(229)	—	(229)
Shares issued under employee stock-based compensation plans and other	0.2	—	—	—	—	—	—	—
Tax withholdings related to net share settlements	—	—	(1)	—	—	(1)	—	(1)
Stock-based compensation and stock options exercised	—	—	29	—	—	29	—	29
Balance as of June 30, 2023	1,396.9	$ 14	$ 21,009	$ 3,948	$ 297	$ 25,268	$ (1)	$ 25,267
Net income	—	—	—	518	—	518	—	518
Other comprehensive loss	—	—	—	—	(126)	(126)	—	(126)
Dividends declared, $0.215 per share	—	—	—	(300)	—	(300)	—	(300)
Repurchases of common stock, inclusive of excise tax obligation	—	—	1	—	—	1	—	1
Shares issued under employee stock-based compensation plans and other	1.4	—	—	—	—	—	—	—
Tax withholdings related to net share settlements	—	—	(25)	—	—	(25)	—	(25)
Stock-based compensation and stock options exercised	—	—	29	—	—	29	—	29
Non-controlling interest surrender of shares	—	—	—	(1)	—	(1)	1	—
Balance as of September 30, 2023	1,398.3	$ 14	$ 21,014	$ 4,165	$ 171	$ 25,364	$ —	$ 25,364

(in millions, except per share data)	Common Stock Issued Shares	Common Stock Issued Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Non-controlling Interest	Total Equity
Balance as of January 1, 2022	1,418.1	$ 14	$ 21,785	$ 3,199	$ (26)	$ 24,972	$ —	$ 24,972
Net income	—	—	—	585	—	585	—	585
Other comprehensive income	—	—	—	—	241	241		241
Dividends declared, $0.1875 per share	—	—	—	(266)	—	(266)	—	(266)
Shares issued under employee stock-based compensation plans and other	0.4	—	—	—	—	—	—	—
Tax withholdings related to net share settlements	—	—	(5)	—	—	(5)	—	(5)
Stock-based compensation and stock options exercised	—	—	(16)	—	—	(16)	—	(16)
Balance as of March 31, 2022	1,418.5	14	21,764	3,518	215	25,511	—	25,511
Net income	—	—	—	218	—	218	—	218
Other comprehensive loss	—	—	—	—	(10)	(10)	—	(10)
Dividends declared, $0.1875 per share	—	—	—	(265)	—	(265)	—	(265)
Repurchases of common stock	(2.5)	—	(88)	—	—	(88)	—	(88)
Shares issued under employee stock-based compensation plans and other	0.1	—	—	—	—	—	—	—
Tax withholdings related to net share settlements	—	—	(3)	—	—	(3)	—	(3)
Stock-based compensation and stock options exercised	—	—	28	—	—	28	—	28
Balance as of June 30, 2022	1,416.1	14	21,701	3,471	205	25,391	—	25,391
Net income	—	—	—	180	—	180	(1)	179
Other comprehensive loss	—	—	—	—	(214)	(214)	—	(214)
Dividends declared, $0.20 per share	—	—	—	(284)	—	(284)	—	(284)
Shares issued under employee stock-based compensation plans and other	0.2	—	—	—	—	—	—	—
Tax withholdings related to net share settlements	—	—	(2)	—	—	(2)	—	(2)
Stock-based compensation and stock options exercised	—	—	31	—	—	31	—	31
Balance as of September 30, 2022	1,416.3	$ 14	$ 21,730	$ 3,367	$ (9)	$ 25,102	$ (1)	$ 25,101

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

1. General

ORGANIZATION

References in this Quarterly Report on Form 10-Q to "KDP" or "the Company" refer to Keurig Dr Pepper Inc. and all entities included in the unaudited condensed consolidated financial statements. Definitions of terms used in this Quarterly Report on Form 10-Q are included within the Master Glossary.

This Quarterly Report on Form 10-Q refers to some of KDP's owned or licensed trademarks, trade names and service marks, which are referred to as the Company's brands. All of the product names included herein are either KDP registered trademarks or those of the Company's licensors.

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting principally of normal recurring adjustments, considered necessary for a fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with KDP's consolidated financial statements and accompanying notes included in the Company's Annual Report.

References to the "third quarter" indicate the Company's quarterly periods ended September 30, 2023 and 2022.

USE OF ESTIMATES

The process of preparing KDP's unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and judgments that affect reported amounts. These estimates and judgments are based on historical experience, future expectations and other factors and assumptions the Company believes to be reasonable under the circumstances. These estimates and judgments are reviewed on an ongoing basis and are revised when necessary. Changes in estimates are recorded in the period of change. Actual amounts may differ from these estimates.

REPORTABLE SEGMENTS

As of January 1, 2023, the Company revised its segment structure to align with changes in how the Company's Chief Operating Decision Maker manages the business, assesses performance and allocates resources. This change had no impact on the Company's consolidated results of operations or financial position. Prior period segment results have been recast to reflect the Company's new reportable segments. Refer to Note 6 for additional information on the Company's reportable segments and Note 7 for the Company's disaggregated revenue portfolio for each reportable segment. The change in segment structure also resulted in a change to the Company's reporting units. Refer to Note 3 for additional information on the Company's reporting units.

RECLASSIFICATIONS

The Company reclassified amounts in the Financing Activities section of the unaudited condensed consolidated Statement of Cash Flows for the first nine months of 2022 in order to conform to current year presentation, as maturities for the Company's commercial paper program in both periods are 90 days or less.

(in millions)	Prior Presentation	First Nine Months of 2022
Net issuance (repayment) of commercial paper	Proceeds from issuance of commercial paper	$ 500
Net issuance (repayment) of commercial paper	Repayments of commercial paper	(649)

RECENTLY ADOPTED ACCOUNTING STANDARDS

As of January 1, 2023, the Company adopted ASU 2022-04, *Liabilities — Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*. The objective of ASU 2022-04 is to require entities to disclose information about the use of supplier finance programs in connection with the purchase of goods and services. While the adoption of ASU 2022-04 did not have a material impact on the Company's unaudited condensed consolidated financial statements, it did impact the nature of the disclosures. The disclosure previously included in the Company's Form 10-K was specific to the amount of KDP's outstanding payment obligations that were voluntarily elected by the supplier and sold to financial institutions as informed by the third party administrators. ASU 2022-04 instead requires disclosure of the amount of KDP's outstanding obligations loaded into the supplier finance programs by the Company at each reporting period regardless of whether the outstanding obligation has been elected by the supplier to be sold to financial institutions. Refer to Note 13 for additional information on the Company's obligations to participating suppliers.

2. Long-term Obligations and Borrowing Arrangements

The following table summarizes the Company's long-term obligations:

(in millions)	September 30, 2023	December 31, 2022
Notes	**$ 11,589**	$ 11,568
Less: current portion of long-term obligations	**(1,649)**	(496)
Long-term obligations	**$ 9,940**	$ 11,072

The following table summarizes the Company's short-term borrowings and current portion of long-term obligations:

(in millions)	September 30, 2023	December 31, 2022
Commercial paper notes	**$ 1,149**	$ 399
Current portion of long-term obligations	**1,649**	496
Short-term borrowings and current portion of long-term obligations	**$ 2,798**	$ 895

SENIOR UNSECURED NOTES

The Company's Notes consisted of the following:

(in millions, except %)

Issuance	Maturity Date	Rate	September 30, 2023	December 31, 2022
2023 Notes	December 15, 2023	3.130%	**$ 500**	$ 500
2024 Notes	March 15, 2024	0.750%	**1,150**	1,150
2025 Merger Notes	May 25, 2025	4.417%	**529**	529
2025 Notes	November 15, 2025	3.400%	**500**	500
2026 Notes	September 15, 2026	2.550%	**400**	400
2027 Notes	June 15, 2027	3.430%	**500**	500
2028 Merger Notes	May 25, 2028	4.597%	**1,112**	1,112
2029 Notes	April 15, 2029	3.950%	**1,000**	1,000
2030 Notes	May 1, 2030	3.200%	**750**	750
2031 Notes	March 15, 2031	2.250%	**500**	500
2032 Notes	April 15, 2032	4.050%	**850**	850
2038 Merger Notes	May 25, 2038	4.985%	**211**	211
2045 Notes	November 15, 2045	4.500%	**550**	550
2046 Notes	December 15, 2046	4.420%	**400**	400
2048 Merger Notes	May 25, 2048	5.085%	**391**	391
2050 Notes	May 1, 2050	3.800%	**750**	750
2051 Notes	March 15, 2051	3.350%	**500**	500
2052 Notes	April 15, 2052	4.500%	**1,150**	1,150
Principal amount			**11,743**	11,743
Adjustment from principal amount to carrying amount[1]			**(154)**	(175)
Carrying amount			**$ 11,589**	$ 11,568

(1) The carrying amount includes unamortized discounts, debt issuance costs and fair value adjustments related to the DPS Merger.

VARIABLE-RATE BORROWING ARRANGEMENTS

Revolving Credit Agreement

The following table summarizes information about the 2022 Revolving Credit Agreement:

(in millions)		September 30, 2023		December 31, 2022
Issuance	**Maturity Date**	**Capacity**	**Carrying Value**	**Carrying Value**
2022 Revolving Credit Agreement[(1)]	February 23, 2027	**$ 4,000**	**$ —**	$ —

(1) The 2022 Revolving Credit Agreement has $200 million letters of credit available, none of which were utilized as of September 30, 2023.

As of September 30, 2023, KDP was in compliance with its minimum interest coverage ratio relating to the 2022 Revolving Credit Agreement.

Commercial Paper Program

The following table provides information about the Company's weighted average borrowings under its commercial paper program:

	Third Quarter		First Nine Months	
(in millions, except %)	**2023**	**2022**	**2023**	**2022**
Weighted average commercial paper borrowings	**$ 1,495**	$ —	**$ 1,061**	$ 29
Weighted average borrowing rates	**5.49 %**	— %	**5.31 %**	0.58 %

Letter of Credit Facility

In addition to the portion of the 2022 Revolving Credit Agreement reserved for issuance of letters of credit, KDP has an incremental letter of credit facility. Under this facility, $150 million is available for the issuance of letters of credit, $68 million of which was utilized as of September 30, 2023 and $82 million of which remains available for use.

FAIR VALUE DISCLOSURES

The fair value of KDP's commercial paper approximates the carrying value and are considered Level 2 within the fair value hierarchy.

The fair values of KDP's Notes are based on current market rates available to KDP and are considered Level 2 within the fair value hierarchy. The difference between the fair value and the carrying value represents the theoretical net premium or discount that would be paid or received to retire all the Notes and related unamortized costs to be incurred at such date. The fair value of KDP's Notes was $10,242 million and $10,495 million as of September 30, 2023 and December 31, 2022, respectively.

3. Goodwill and Other Intangible Assets

GOODWILL

Changes in the carrying amount of goodwill by reportable segment are as follows:

(in millions)	U.S. Refreshment Beverages	U.S. Coffee	International	Total
Balance as of January 1, 2023	$ 8,714	$ 8,622	$ 2,736	$ 20,072
Foreign currency translation	—	—	50	50
Balance as of September 30, 2023	$ 8,714	$ 8,622	$ 2,786	$ 20,122

INTANGIBLE ASSETS OTHER THAN GOODWILL

The net carrying amounts of intangible assets other than goodwill with indefinite lives are as follows:

(in millions)	September 30, 2023	December 31, 2022
Brands(1)	$ 19,380	$ 19,291
Trade names	2,478	2,480
Contractual arrangements	122	122
Distribution rights(2)	155	100
Total	$ 22,135	$ 21,993

(1) The change in brands with indefinite lives was primarily driven by foreign currency translation of $89 million during the first nine months of 2023.
(2) The Company acquired certain distribution rights during the first nine months of 2023 of approximately $55 million, primarily attributable to Nutrabolt.

The net carrying amounts of intangible assets other than goodwill with definite lives are as follows:

	September 30, 2023			December 31, 2022		
(in millions)	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Acquired technology	$ 1,146	$ (530)	$ 616	$ 1,146	$ (475)	$ 671
Customer relationships	636	(227)	409	638	(204)	434
Trade names	126	(111)	15	127	(101)	26
Brands	51	(24)	27	51	(19)	32
Contractual arrangements	24	(11)	13	24	(10)	14
Distribution rights	29	(21)	8	29	(16)	13
Total	$ 2,012	$ (924)	$ 1,088	$ 2,015	$ (825)	$ 1,190

Amortization expense for intangible assets with definite lives was as follows:

	Third Quarter		First Nine Months	
(in millions)	2023	2022	2023	2022
Amortization expense	$ 34	$ 33	$ 103	$ 100

Amortization expense of these intangible assets over the remainder of 2023 and the next five years is expected to be as follows:

		For the Years Ending December 31,				
(in millions)	Remainder of 2023	2024	2025	2026	2027	2028
Expected amortization expense	$ 33	$ 127	$ 115	$ 111	$ 95	$ 87

IMPAIRMENT TESTING

KDP conducts impairment tests on goodwill and all indefinite lived intangible assets annually, or more frequently if circumstances indicate that the carrying amount of an asset may not be recoverable. Changes to the Company's operating segments effective January 1, 2023, as described in Note 6, resulted in a change to the Company's reporting units. The Company's reporting units are as follows:

Reportable Segments	Reporting Units
U.S. Refreshment Beverages	U.S. Beverage Concentrates
	U.S. WD
	DSD
U.S. Coffee	U.S. Coffee
International	Canada Beverage Concentrates
	Canada WD
	Canada Coffee
	Latin America Beverages

Management performed a step 0 analysis of the goodwill as of the effective date of the segment change for the impacted reporting units. The Company also performed an analysis as of September 30, 2023 to ensure that there were no additional triggering events which occurred during the quarter. As a result of these analyses, management did not identify any indications that a material carrying amount of any goodwill or any intangible asset may not be recoverable.

4. Derivatives

KDP is exposed to market risks arising from adverse changes in interest rates, commodity prices, and FX rates. KDP manages these risks through a variety of strategies, including the use of interest rate contracts, FX forward contracts, commodity forward, future, swap and option contracts and supplier pricing agreements. KDP does not hold or issue derivative financial instruments for trading or speculative purposes.

KDP formally designates and accounts for certain foreign exchange forward contracts and interest rate contracts that meet established accounting criteria under U.S. GAAP as cash flow hedges. For such contracts, the effective portion of the gain or loss on the derivative instruments is recorded, net of applicable taxes, in AOCI. When net income is affected by the variability of the underlying transaction, the applicable offsetting amount of the gain or loss from the derivative instrument deferred in AOCI is reclassified to net income. Cash flows from derivative instruments designated in a qualifying hedging relationship are classified in the same category as the cash flows from the hedged items. If a cash flow hedge were to cease to qualify for hedge accounting, or were terminated, the derivatives would continue to be carried on the balance sheet at fair value until settled, and hedge accounting would be discontinued prospectively. If the underlying hedged transaction ceases to exist, any associated amounts reported in AOCI would be reclassified to earnings at that time.

For derivatives that are not designated or for which the designated hedging relationship is discontinued, the gain or loss on the instrument is recognized in earnings in the period of change.

The Company has exposure to credit losses from derivative instruments in an asset position in the event of nonperformance by the counterparties to the agreements. Historically, the Company has not experienced material credit losses as a result of counterparty nonperformance. The Company selects and periodically reviews counterparties based on credit ratings, limits its exposure to a single counterparty under defined guidelines and monitors the market position of the programs upon execution of a hedging transaction and at least on a quarterly basis.

INTEREST RATES

Economic Hedges

KDP is exposed to interest rate risk related to its borrowing arrangements and obligations. The Company enters into interest rate contracts to provide predictability in the Company's overall cost structure and to manage the balance of fixed-rate and variable-rate debt. KDP primarily enters into receive-fixed, pay-variable and receive-variable, pay-fixed swaps and swaption contracts. A natural hedging relationship exists in which changes in the fair value of the instruments act as an economic offset to changes in the fair value of the underlying items. Changes in the fair value of these instruments are recorded in earnings throughout the term of the derivative instrument and are generally reported in interest expense in the unaudited Condensed Consolidated Statements of Income. As of September 30, 2023, economic interest rate derivative instruments have maturities ranging from December 2023 to January 2038.

Cash Flow Hedges

In order to hedge the variability in cash flows from interest rate changes associated with the Company's planned future issuances of long-term debt, during the first quarter of 2021, the Company entered into forward starting swaps and designated them as cash flow hedges. During the first quarter of 2023, KDP terminated the remaining forward starting swaps which were designated as cash flow hedges. As the forecasted debt transaction associated with the terminated forward starting swaps was no longer considered probable, the realized gains associated with the termination were recorded in interest expense during the first quarter of 2023.

FOREIGN EXCHANGE

KDP is exposed to foreign exchange risk in its international subsidiaries or with certain counterparties in foreign jurisdictions, which may transact in currencies that are different from the functional currencies of KDP's legal entities. Additionally, the balance sheets of each of the Company's Canadian and Mexican businesses are subject to exposure from movements in exchange rates.

Economic Hedges

KDP holds FX forward contracts to economically manage the balance sheet exposures resulting from changes in the FX rates described above. The intent of these FX contracts is to minimize the impact of FX risk associated with balance sheet positions not in local currency. In these cases, a hedging relationship exists in which changes in the fair value of the instruments act as an economic offset to changes in the fair value of the underlying items. Changes in the fair value of these instruments are recorded in earnings throughout the term of the derivative instrument and are reported in the same caption of the unaudited Condensed Consolidated Statements of Income as the associated risk. As of September 30, 2023, these FX contracts have maturities ranging from October 2023 to October 2024.

Cash Flow Hedges

KDP designates certain FX forward contracts as cash flow hedges in order to manage the exposures resulting from changes in the FX rates described above. These designated FX forward contracts relate to forecasted inventory purchases in U.S. dollars of the Canadian and Mexican businesses. The intent of these FX contracts is to provide predictability in the Company's overall cost structure. As of September 30, 2023, these FX contracts have maturities ranging from October 2023 to December 2024.

COMMODITIES

Economic Hedges

KDP centrally manages the exposure to volatility in the prices of certain commodities used in its production process and transportation through various derivative contracts. The Company generally holds some combination of future, swap and option contracts that economically hedge certain of its risks. In these cases, a hedging relationship exists in which changes in the fair value of the instruments act as an economic offset to changes in the fair value of the underlying items or as an offset to certain costs of production. Changes in the fair value of these instruments are recorded in earnings throughout the term of the derivative instrument and are reported in the same line item of the unaudited Condensed Consolidated Statements of Income as the hedged transaction. Unrealized gains and losses are recognized as a component of unallocated corporate costs until the Company's reportable segments are affected by the completion of the underlying transaction, at which time the gain or loss is reflected as a component of the respective segment's income from operations. As of September 30, 2023, these commodity contracts have maturities ranging from October 2023 to June 2025.

NOTIONAL AMOUNTS OF DERIVATIVE INSTRUMENTS

The following table presents the notional amounts of KDP's outstanding derivative instruments by type:

(in millions)	September 30, 2023	December 31, 2022
Interest rate contracts		
Forward starting swaps, not designated as hedging instruments	**$ 1,700**	$ 1,000
Forward starting swaps, designated as cash flow hedges	**—**	500
Receive-fixed, pay-variable interest rate swaps, not designated as hedging instruments	**—**	1,900
Swaptions, not designated as hedging instruments	**1,700**	—
FX contracts		
Forward contracts, not designated as hedging instruments	**652**	490
Forward contracts, designated as cash flow hedges	**482**	511
Commodity contracts, not designated as hedging instruments[1]	**439**	754

(1) Notional value for commodity contracts is calculated as the expected volume times strike price per unit on a gross basis.

FAIR VALUE OF DERIVATIVE INSTRUMENTS

The fair values of commodity contracts, interest rate contracts and FX forward contracts are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. The fair value of commodity contracts are valued using the market approach based on observable market transactions, primarily underlying commodities futures or physical index prices, at the reporting date. Interest rate contracts are valued using models based primarily on readily observable market parameters, such as SOFR forward rates, for all substantial terms of the Company's contracts and credit risk of the counterparties. The fair value of FX forward contracts are valued using quoted forward FX prices at the reporting date. Therefore, the Company has categorized these contracts as Level 2.

Not Designated as Hedging Instruments

The following table summarizes the location of the fair value of the Company's derivative instruments which are not designated as hedging instruments within the unaudited Condensed Consolidated Balance Sheets. All such instruments are considered level 2 within the fair value hierarchy.

(in millions)	Balance Sheet Location	September 30, 2023	December 31, 2022
Assets:			
FX contracts	Prepaid expenses and other current assets	**$ 6**	$ 8
Commodity contracts	Prepaid expenses and other current assets	**22**	6
Interest rate contracts	Other non-current assets	**—**	49
FX contracts	Other non-current assets	**3**	1
Commodity contracts	Other non-current assets	**5**	1
Liabilities:			
Interest rate contracts	Other current liabilities	**26**	58
FX contracts	Other current liabilities	**1**	—
Commodity contracts	Other current liabilities	**39**	51
Interest rate contracts	Other non-current liabilities	**299**	194
Commodity contracts	Other non-current liabilities	**1**	1

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Designated as Hedging Instruments

The following table summarizes the location of the fair value of the Company's derivative instruments which are designated as hedging instruments within the unaudited Condensed Consolidated Balance Sheets. All such instruments are designated level 2 within the fair value hierarchy.

(in millions)	Balance Sheet Location	September 30, 2023	December 31, 2022
Assets:			
FX contracts	Prepaid expenses and other current assets	**$ 9**	$ 21
FX contracts	Other non-current assets	**—**	1
Interest rate contracts	Other non-current assets	**—**	88
Liabilities:			
FX contracts	Other current liabilities	**11**	3

IMPACT OF DERIVATIVE INSTRUMENTS NOT DESIGNATED AS HEDGING INSTRUMENTS

The following table presents the amount of (gains) losses, net, recognized in the unaudited Condensed Consolidated Statements of Income related to derivative instruments not designated as hedging instruments under U.S. GAAP during the periods presented. Amounts include both realized and unrealized gains and losses.

		Third Quarter		First Nine Months	
(in millions)	Income Statement Location	2023	2022	2023	2022
Interest rate contracts	Interest expense	**$ 104**	$ 96	**$ 49**	$ 219
Interest rate contracts	Loss on early extinguishment of debt	**—**	—	**—**	31
FX contracts	Cost of sales	**(4)**	(7)	**(4)**	(9)
FX contracts	Other (income) expense, net	**(6)**	(10)	**(1)**	(9)
Commodity contracts	Cost of sales	**(7)**	29	**2**	33
Commodity contracts	SG&A expenses	**(20)**	24	**(2)**	(39)

IMPACT OF CASH FLOW HEDGES

The following table presents the amount of (gains) losses, net, reclassified from AOCI into the unaudited Condensed Consolidated Statements of Income related to derivative instruments designated as cash flow hedging instruments during the periods presented:

		Third Quarter		First Nine Months	
(in millions)	Income Statement Location	2023	2022	2023	2022
Interest rate contracts(1)	Interest expense	**$ (2)**	$ (2)	**$ (72)**	$ (4)
FX contracts	Cost of sales	**4**	—	**(1)**	5

(1) Amounts recognized during the first nine months of 2023 include the realized gains associated with the termination of forward starting swaps designated as cash flow hedges of approximately $66 million.

KDP expects to reclassify approximately $8 million and $1 million of pre-tax net gains from AOCI into net income during the next twelve months related to interest rate contracts and FX contracts, respectively.

5. Leases

The following table presents the components of lease cost:

(in millions)	Third Quarter 2023	Third Quarter 2022	First Nine Months 2023	First Nine Months 2022
Operating lease cost	**$ 40**	$ 34	**$ 118**	$ 101
Finance lease cost				
Amortization of right-of-use assets	**21**	19	**60**	57
Interest on lease liabilities	**6**	6	**18**	17
Variable lease cost[1]	**10**	9	**30**	26
Short-term lease cost	**1**	1	**1**	1
Sublease income	**—**	(1)	**—**	(1)
Total lease cost	**$ 78**	$ 68	**$ 227**	$ 201

(1) Variable lease cost primarily consists of common area maintenance costs, property taxes, and adjustments for inflation.

The following table presents supplemental cash flow and other information about the Company's leases:

(in millions)	First Nine Months 2023	First Nine Months 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$ 110**	$ 92
Operating cash flows from finance leases	**18**	17
Financing cash flows from finance leases	**74**	65
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	**78**	245
Finance leases	**75**	84

The following table presents information about the Company's weighted average discount rate and remaining lease term:

	September 30, 2023	December 31, 2022
Weighted average discount rate		
Operating leases	**5.2 %**	5.0 %
Finance leases	**3.8 %**	3.7 %
Weighted average remaining lease term		
Operating leases	**10 years**	11 years
Finance leases	**9 years**	9 years

Future minimum lease payments for non-cancellable leases that have commenced and are reflected on the unaudited Condensed Consolidated Balance Sheets as of September 30, 2023 were as follows:

(in millions)	Operating Leases	Finance Leases
Remainder of 2023	**$ 25**	**$ 31**
2024	**148**	**124**
2025	**141**	**120**
2026	**129**	**157**
2027	**107**	**69**
2028	**85**	**54**
Thereafter	**527**	**290**
Total future minimum lease payments	**1,162**	**845**
Less: imputed interest	**(261)**	**(131)**
Present value of minimum lease payments	**$ 901**	**$ 714**

SIGNIFICANT LEASES THAT HAVE NOT YET COMMENCED

As of September 30, 2023, the Company has entered into leases that have not yet commenced with estimated aggregated future lease payments of approximately $210 million. These leases are expected to commence between the fourth quarter of 2023 through 2026, with initial lease terms ranging from 4 years to 10 years.

ASSET SALE-LEASEBACK TRANSACTION

The Company entered into a sale-leaseback transaction with the Veyron SPEs during the first nine months of 2023. The following table presents details of the transaction. The gain on the sale-leaseback is recorded in Other operating income, net, and the leaseback is accounted for as an operating lease.

(in millions)	Sale Proceeds	Carrying Value	Gain on Sale
March 31, 2023[(1)]	$ 7	$ 1	$ 6

(1) The sale-leaseback transaction included one distribution property.

The initial term of the leaseback is approximately 15 years, with two 10-year renewal options. The renewal options are not reasonably assured as (i) the Company's position that the dynamic environment in which it operates precludes the Company's ability to be reasonably certain of exercising the renewal options in the distant future and (ii) the options are contingent on the Company remaining investment grade and no change-in-control as of the end of the lease term. The leaseback has a RVG. Refer to Note 15 for additional information about the RVG associated with the asset sale-leaseback transaction.

6. Segments

Effective January 1, 2023, the Company revised its segment structure to align with changes in how the Company's Chief Operating Decision Maker manages the business, assesses performance and allocates resources. The Company's reportable segments consist of the following:

- The U.S. Refreshment Beverages segment reflects sales in the U.S. from the manufacture and distribution of branded concentrates, syrup and finished beverages, including the sales of the Company's own brands and third-party brands, to third-party bottlers, distributors and retailers.
- The U.S. Coffee segment reflects sales in the U.S. from the manufacture and distribution of finished goods relating to the Company's K-Cup pods, single-serve brewers and accessories, and other coffee products to partners, retailers and directly to consumers through the Company's Keurig.com website.
- The International segment reflects sales in international markets, including the following:
  - Sales in Canada, Mexico, the Caribbean and other international markets from the manufacture and distribution of branded concentrates, syrup and finished beverages, including sales of the Company's own brands and third-party brands, to third-party bottlers, distributors and retailers.
  - Sales in Canada from the manufacture and distribution of finished goods relating to the Company's single-serve brewers, K-Cup pods and other coffee products.

Segment results are based on management reports. Net sales and income from operations are the significant financial measures used to assess the operating performance of the Company's reportable segments. Intersegment sales are recorded at cost and are eliminated in the unaudited Condensed Consolidated Statements of Income. "Unallocated corporate costs" are excluded from the Company's measurement of segment performance and include unrealized commodity derivative gains and losses, and certain general corporate expenses.

Information about the Company's operations by reportable segment is as follows:

(in millions)	Third Quarter 2023	Third Quarter 2022	First Nine Months 2023	First Nine Months 2022
Segment Results – Net sales				
U.S. Refreshment Beverages	**$ 2,270**	$ 2,144	**$ 6,607**	$ 6,009
U.S. Coffee	**1,012**	1,045	**2,913**	3,017
International	**523**	433	**1,427**	1,228
Net sales	**$ 3,805**	$ 3,622	**$ 10,947**	$ 10,254
Segment Results – Income from operations				
U.S. Refreshment Beverages	**$ 676**	$ 322	**$ 1,795**	$ 1,554
U.S. Coffee	**293**	272	**775**	822
International	**139**	97	**331**	259
Unallocated corporate costs	**(212)**	(297)	**(652)**	(703)
Income from operations	**$ 896**	$ 394	**$ 2,249**	$ 1,932

(in millions)	September 30, 2023	December 31, 2022
Identifiable operating assets		
U.S. Refreshment Beverages	**$ 28,688**	$ 28,987
U.S. Coffee	**14,103**	14,220
International	**6,961**	6,873
Segment total	**49,752**	50,080
Unallocated corporate assets	**675**	757
Total identifiable operating assets	**50,427**	50,837
Investments in unconsolidated affiliates	**1,336**	1,000
Total assets	**$ 51,763**	$ 51,837

7. Revenue Recognition

KDP recognizes revenue when obligations under the terms of a contract with the customer are satisfied. Branded product sales, which include LRB, K-Cup pods and appliances, occur once control is transferred upon delivery to the customer. Revenue is measured as the amount of consideration that KDP expects to receive in exchange for transferring goods. The amount of consideration KDP receives and revenue KDP recognizes varies with changes in customer incentives that KDP offers to its customers and their customers. Sales taxes and other similar taxes are excluded from revenue. Costs associated with shipping and handling activities, such as merchandising, are included in SG&A expenses as revenue is recognized.

The following table disaggregates KDP's revenue by product portfolio and by reportable segment:

(in millions)	U.S. Refreshment Beverages	U.S. Coffee	International	Total
For the third quarter of 2023:				
LRB	**$ 2,232**	**$ —**	**$ 348**	**$ 2,580**
K-Cup pods	**—**	**769**	**120**	**889**
Appliances	**—**	**211**	**20**	**231**
Other	**38**	**32**	**35**	**105**
Net sales	**$ 2,270**	**$ 1,012**	**$ 523**	**$ 3,805**
For the third quarter of 2022:				
LRB	$ 2,107	$ —	$ 268	$ 2,375
K-Cup pods	—	808	105	913
Appliances	—	204	21	225
Other	37	33	39	109
Net sales	$ 2,144	$ 1,045	$ 433	$ 3,622
For the first nine months of 2023:				
LRB	**$ 6,498**	**$ —**	**$ 932**	**$ 7,430**
K-Cup pods	**—**	**2,301**	**345**	**2,646**
Appliances	**—**	**512**	**46**	**558**
Other	**109**	**100**	**104**	**313**
Net sales	**$ 6,607**	**$ 2,913**	**$ 1,427**	**$ 10,947**
For the first nine months of 2022:				
LRB	$ 5,912	$ —	$ 745	$ 6,657
K-Cup pods	—	2,355	320	2,675
Appliances	—	566	55	621
Other	97	96	108	301
Net sales	$ 6,009	$ 3,017	$ 1,228	$ 10,254

LRB represents net sales of owned and partner brands within our portfolio and includes CSDs, NCBs, and contract manufacturing of KDP branded products for our bottlers and distributors. K-Cup pods represents net sales from owned brands, partner brands, and private label owners. Net sales for partner brands and private label owners are contractual and long-term in nature.

8. Earnings Per Share

The following table presents the Company's basic and diluted EPS and shares outstanding.

	Third Quarter		First Nine Months	
(in millions, except per share data)	**2023**	**2022**	**2023**	**2022**
Net income attributable to KDP	**$ 518**	$ 180	**$ 1,488**	$ 983
Weighted average common shares outstanding	**1,397.4**	1,416.1	**1,401.3**	1,417.3
Dilutive effect of stock-based awards	**8.8**	11.1	**9.5**	11.5
Weighted average common shares outstanding and common stock equivalents	**1,406.2**	1,427.2	**1,410.8**	1,428.8
Basic EPS	**$ 0.37**	$ 0.13	**$ 1.06**	$ 0.69
Diluted EPS	**0.37**	0.13	**1.05**	0.69
Anti-dilutive shares excluded from the diluted weighted average shares outstanding calculation	**1.0**	—	**1.0**	—

9. Stock-Based Compensation

The components of stock-based compensation expense are presented below:

	Third Quarter		First Nine Months	
(in millions)	**2023**	**2022**	**2023**	**2022**
Total stock-based compensation expense(1)	**$ 29**	$ 31	**$ 86**	$ 43
Income tax benefit	**(5)**	(5)	**(14)**	(6)
Stock-based compensation expense, net of tax	**$ 24**	$ 26	**$ 72**	$ 37

(1) The Company recorded a one-time $40 million reduction to stock-based compensation expense as a result of the change in forfeiture policy in the first nine months of 2022.

RESTRICTED SHARE UNITS

The table below summarizes RSU activity:

	RSUs	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2022	18,038,745	$ 27.46	1.6	$ 643
Granted	**3,520,386**	**31.21**		
Vested and released	**(5,273,915)**	**23.68**		**178**
Forfeited	**(913,249)**	**29.43**		
Outstanding as of September 30, 2023	**15,371,967**	**$ 29.50**	**1.7**	**$ 485**

As of September 30, 2023, there was $189 million of unrecognized compensation cost related to unvested RSUs that is expected to be recognized over a weighted average period of 3.1 years.

10. Investments

The following table summarizes investments in unconsolidated affiliates as of September 30, 2023 and December 31, 2022:

(in millions)	Ownership Interest	September 30, 2023	December 31, 2022
Nutrabolt[1]	33.2 %	**$ 907**	$ 874
La Colombe	33.3 %	**307**	—
Tractor	19.2 %	**45**	49
Athletic Brewing	13.1 %	**50**	51
Dyla LLC	12.5 %	**13**	12
Force Holdings LLC[2]	33.3 %	**4**	4
Beverage startup companies[3]	(various)	**5**	5
Other	(various)	**5**	5
Investments in unconsolidated affiliates		**$ 1,336**	$ 1,000

(1) The Company's investment in Nutrabolt consists of preferred equity units, and the ownership interest is calculated on an as-converted basis.
(2) Force Holdings LLC has a 14.1% ownership interest in Dyla LLC.
(3) Beverage startup companies represent equity method investments in development stage entities and may include entities which are pre-revenue, in test markets, or in early operations.

LA COLOMBE

In August 2023, the Company invested $300 million in exchange for common shares in La Colombe that represent a 33.3% ownership interest. The Company additionally capitalized $7 million of incremental third-party costs into the investment balance.

REVIVE

On July 31, 2023, the remaining shareholders of Revive surrendered their ownership interests. As a result, the Company holds 100% ownership interest in Revive and has eliminated the Non-controlling interest component within the Company's unaudited Condensed Consolidated Statements of Stockholder's Equity.

11. Income Taxes

The Company's effective tax rates were as follows:

	Third Quarter		First Nine Months	
	2023	2022	2023	2022
Effective tax rate	**22.0 %**	2.2 %	**19.9 %**	15.4 %

The following is a reconciliation of the provision for income taxes computed at the U.S. federal statutory tax rate to the provision for income taxes reported in the unaudited Condensed Consolidated Statements of Income:

	Third Quarter		First Nine Months	
	2023	2022	2023	2022
Statutory federal income tax rate	**21.0 %**	21.0 %	**21.0 %**	21.0 %
State income taxes, net	**3.0 %**	1.7 %	**3.0 %**	3.3 %
Impact of non-U.S. operations[1][2]	**(0.7)%**	(5.9)%	**(3.3)%**	(1.7)%
Tax credits[2]	**(3.8)%**	(11.7)%	**(3.4)%**	(3.2)%
U.S. taxation of foreign earnings[2]	**2.3 %**	11.2 %	**2.5 %**	3.1 %
Deferred rate change[3]	**(0.4)%**	(18.5)%	**— %**	(7.8)%
Uncertain tax positions	**0.2 %**	0.4 %	**0.1 %**	0.1 %
U.S. federal provision to return	**0.4 %**	— %	**— %**	— %
Excess tax deductions on stock-based compensation	**(0.5)%**	— %	**(0.5)%**	(0.1)%
Other	**0.5 %**	4.0 %	**0.5 %**	0.7 %
Total provision for income taxes	**22.0 %**	2.2 %	**19.9 %**	15.4 %

(1) For the first nine months of 2023, primarily driven by an immaterial non-cash true-up related to a prior period, which resulted in a $28 million reduction in foreign deferred tax liabilities.
(2) For the third quarter and first nine months of 2022, primarily driven by the Company's incremental income in low tax jurisdictions.
(3) For the third quarter and first nine months of 2022, primarily driven by the revaluation of state deferred tax liabilities due to state legislative changes during 2022.

12. Accumulated Other Comprehensive Income

The following table provides a summary of changes in AOCI, net of taxes:

(in millions)	Foreign Currency Translation Adjustments	Pension and Post-Retirement Benefit Liabilities	Cash Flow Hedges	Accumulated Other Comprehensive Income
For the third quarter of 2023:				
Beginning balance	**$ 181**	**$ (10)**	**$ 126**	**$ 297**
Other comprehensive (loss) income	**(135)**	**—**	**7**	**(128)**
Amounts reclassified from AOCI	**—**	**—**	**2**	**2**
Total other comprehensive (loss) income	**(135)**	**—**	**9**	**(126)**
Balance as of September 30, 2023	**$ 46**	**$ (10)**	**$ 135**	**$ 171**
For the third quarter of 2022:				
Beginning balance	$ 47	$ (7)	$ 165	$ 205
Other comprehensive (loss) income	(249)	—	36	(213)
Amounts reclassified from AOCI	—	—	(1)	(1)
Total other comprehensive (loss) income	(249)	—	35	(214)
Balance as of September 30, 2022	$ (202)	$ (7)	$ 200	$ (9)
For the first nine months of 2023:				
Beginning balance	**$ (86)**	**$ (10)**	**$ 225**	**$ 129**
Other comprehensive income (loss)	**132**	**—**	**(34)**	**98**
Amounts reclassified from AOCI	**—**	**—**	**(56)**	**(56)**
Total other comprehensive income (loss)	**132**	**—**	**(90)**	**42**
Balance as of September 30, 2023	**$ 46**	**$ (10)**	**$ 135**	**$ 171**
For the first nine months of 2022:				
Beginning balance	$ 81	$ (4)	$ (103)	$ (26)
Other comprehensive (loss) income	(283)	(3)	302	16
Amounts reclassified from AOCI	—	—	1	1
Total other comprehensive (loss) income	(283)	(3)	303	17
Balance as of September 30, 2022	$ (202)	$ (7)	$ 200	$ (9)

The following table presents the amount of (gains) losses reclassified from AOCI into the unaudited Condensed Consolidated Statements of Income:

		Third Quarter		First Nine Months	
(in millions)	Income Statement Caption	2023	2022	2023	2022
Cash Flow Hedges:					
Interest rate contracts[(1)]	Interest expense	**$ (2)**	$ (2)	**$ (72)**	$ (4)
FX contracts	Cost of sales	**4**	—	**(1)**	5
Total		**2**	(2)	**(73)**	1
Income tax expense		**—**	1	**17**	—
Total, net of tax		**$ 2**	$ (1)	**$ (56)**	$ 1

(1) Amounts reclassified from AOCI into interest expense during the first nine months of 2023 include the realized gains associated with the termination of forward starting swaps designated as cash flow hedges of approximately $66 million. Refer to Note 4 for additional information on the terminated forward starting swaps.

13. Other Financial Information

SELECTED BALANCE SHEET INFORMATION

The tables below provide selected financial information from the unaudited Condensed Consolidated Balance Sheets:

(in millions)	September 30, 2023	December 31, 2022
Inventories:		
Raw materials	**$ 449**	$ 475
Work-in-progress	**9**	8
Finished goods	**914**	858
Total	**1,372**	1,341
Allowance for excess and obsolete inventories	**(24)**	(27)
Total Inventories	**$ 1,348**	$ 1,314
Prepaid expenses and other current assets:		
Other receivables	**$ 116**	$ 167
Prepaid income taxes	**53**	49
Customer incentive programs	**55**	25
Derivative instruments	**37**	35
Prepaid marketing	**46**	19
Spare parts	**106**	89
Income tax receivable	**14**	17
Other	**92**	70
Total prepaid expenses and other current assets	**$ 519**	$ 471
Other non-current assets:		
Operating lease right-of-use assets	**$ 873**	$ 881
Customer incentive programs	**34**	46
Derivative instruments	**8**	140
Equity securities[(1)]	**67**	48
Equity securities without readily determinable fair values	**—**	1
Other	**135**	136
Total other non-current assets	**$ 1,117**	$ 1,252

(1) Fair values of these equity securities are determined using quoted market prices from daily exchange traded markets, based on the closing price as of the balance sheet date, and are classified as Level 1. Unrealized mark-to-market gains and losses are recorded to Other (income) expense, net. For the first nine months of 2023, the Company recorded an unrealized mark-to-market gain of $16 million on its investment in Vita Coco. The Company recorded no mark-to-market gains or losses on its investment in Vita Coco for the first nine months of 2022.

(in millions)	September 30, 2023	December 31, 2022
Accrued expenses:		
Accrued customer trade	**$ 403**	$ 429
Accrued compensation	**191**	246
Insurance reserve	**51**	53
Accrued interest	**151**	76
Accrued professional fees	**6**	7
Other accrued expenses	**321**	342
Total accrued expenses	**$ 1,123**	$ 1,153
Other current liabilities:		
Dividends payable	**$ 300**	$ 281
Income taxes payable	**49**	87
Operating lease liability	**108**	100
Finance lease liability	**100**	95
Derivative instruments	**77**	112
Other	**47**	10
Total other current liabilities	**$ 681**	$ 685
Other non-current liabilities:		
Operating lease liability	**$ 793**	$ 803
Finance lease liability	**614**	618
Pension and post-retirement liability	**30**	37
Insurance reserves	**87**	69
Derivative instruments	**300**	195
Deferred compensation liability	**30**	30
Other	**77**	73
Total other non-current liabilities	**$ 1,931**	$ 1,825

ACCOUNTS PAYABLE

KDP has agreements with third party administrators which allow participating suppliers to track payment obligations from KDP, and, if voluntarily elected by the supplier, to sell payment obligations from KDP to financial institutions. Suppliers can sell one or more of KDP's payment obligations, at their sole discretion, and the rights and obligations of KDP to its suppliers are not impacted. KDP has no economic interest in a supplier's decision to enter into these agreements and no direct financial relationship with the financial institutions. KDP's obligations to its suppliers, including amounts due and scheduled payment terms, are not impacted. The amount of the outstanding obligations confirmed as valid included in accounts payable as of September 30, 2023 and December 31, 2022 was $2,794 million and $4,113 million, respectively.

14. Commitments and Contingencies

KDP is occasionally subject to litigation or other legal proceedings. Reserves are recorded for specific legal proceedings when the Company determines that the likelihood of an unfavorable outcome is probable and the amount of loss can be reasonably estimated. As of September 30, 2023 and December 31, 2022, the Company had litigation reserves of $10 million and $12 million, respectively. KDP has also identified certain other legal matters where we believe an unfavorable outcome is reasonably possible and/or for which no estimate of possible losses can be made. The Company does not believe that the outcome of these, or any other, pending legal matters, individually or collectively, will have a material adverse effect on the results of operations, financial condition or liquidity of KDP.

ANTITRUST LITIGATION

In February 2014, TreeHouse Foods, Inc. and certain affiliated entities filed suit against KDP's wholly-owned subsidiary, Keurig, in the U.S. District Court for the Southern District of New York ("SDNY") (TreeHouse Foods, Inc. et al. v. Green Mountain Coffee Roasters, Inc. et al.). The TreeHouse complaint asserted claims under the federal antitrust laws and various state laws, contending that Keurig had monopolized alleged markets for single serve coffee brewers and single serve coffee pods. The TreeHouse complaint sought treble monetary damages, declaratory relief, injunctive relief and attorneys' fees. In March 2014, JBR, Inc. filed suit against Keurig in the U.S. District Court for the Eastern District of California (JBR, Inc. v. Keurig Green Mountain, Inc.). The claims asserted and relief sought in the JBR complaint were substantially similar to the claims asserted and relief sought in the TreeHouse complaint.

Beginning in 2014, a number of putative class actions asserting similar claims and seeking similar relief to the matters described above were filed on behalf of purported direct purchasers of Keurig's products in various federal district courts. In June 2014, these various actions, including the TreeHouse and JBR suits, were transferred to a single judicial district for coordinated pre-trial proceedings (the "Multidistrict Antitrust Litigation"). A consolidated putative class action complaint by direct purchaser plaintiffs was filed in July 2014. In January 2019, McLane Company, Inc. filed suit against Keurig (McLane Company, Inc. v. Keurig Green Mountain, Inc.) in the SDNY asserting similar claims and was also transferred into the Multidistrict Antitrust Litigation. These actions are now pending in the SDNY (In re: Keurig Green Mountain Single-Serve Coffee Antitrust Litigation). Discovery in the Multidistrict Antitrust Litigation concluded in 2021, with plaintiffs collectively claiming more than $5 billion of monetary damages. Keurig strongly disputes the merits of the claims and the calculation of damages. As a result, Keurig has fully briefed a summary judgment motion that, if successful, would end the cases entirely. Keurig has also fully briefed other significant motions, including challenges to the validity of plaintiffs' damages calculations. Keurig is also pursuing its opposition to direct purchaser plaintiffs' motion for class certification. Keurig's motions and opposition remain pending in the SDNY.

In July 2021, BJ's Wholesale Club, Inc. filed suit against Keurig (BJ's Wholesale Club, Inc. v. Keurig Green Mountain, Inc.) in the U.S. District Court for the Eastern District of New York ("EDNY") asserting similar claims and also was transferred into the Multidistrict Antitrust Litigation. In August 2021, Winn-Dixie Stores, Inc. and Bi-Lo Holding LLC filed suit against Keurig (Winn-Dixie Stores, Inc. et al. v. Keurig Green Mountain, Inc. et al.) in the EDNY asserting similar claims and was also transferred into the Multidistrict Antitrust Litigation. Following the conclusion of discovery in 2023, Keurig similarly filed a motion for summary judgment seeking dismissal of these cases and also filed other significant motions. These motions remain pending in the SDNY.

A number of putative class actions asserting similar claims and seeking similar relief were previously filed on behalf of purported indirect purchasers of Keurig's products. In July 2020, Keurig reached an agreement with the putative indirect purchaser class plaintiffs in the Multidistrict Antitrust Litigation to settle the claims asserted for $31 million. The settlement class consists of individuals and entities in the United States that purchased, from persons other than Keurig and not for purposes of resale, Keurig manufactured or licensed single serve beverage portion packs during the applicable class period (beginning in September 2010 for most states). The SDNY granted preliminary approval of the settlement in December 2020, and the Company paid the settlement amount in January 2021. In June 2021, the SDNY granted final approval of the settlement, entered final judgment, and dismissed the indirect purchasers' claims.

Separate from the U.S. actions described above, a statement of claim was filed in September 2014 against Keurig and Keurig Canada Inc. in Ontario, Canada, by Club Coffee L.P., a Canadian manufacturer of single serve beverage pods, asserting a breach of competition law and false and misleading statements by Keurig. To date, this plaintiff has not taken substantive action to prosecute its claims.

KDP intends to vigorously defend the remaining lawsuits described above. At this time, the Company is unable to predict the outcome of these lawsuits, the potential loss or range of loss, if any, associated with the resolution of these lawsuits or any potential effect they may have on the Company or its operations. Accordingly, the Company has not accrued for a loss contingency. Additionally, as the timelines in these cases may be beyond our control, we cannot assure you if or when there will be material developments in these matters.

15. Transactions with Variable Interest Entities

TRANSACTIONS WITH VEYRON SPEs

The Company has a number of leasing arrangements and one licensing arrangement with special purpose entities associated with the same sponsor, which are referred to as the Veyron SPEs. The Veyron SPEs are VIEs for which KDP is not the primary beneficiary, as KDP has limited power based on the contractual agreements to direct the activities that most significantly impact the VIEs' performance.

Leasing Arrangements

As of September 30, 2023, the Company has entered into sixteen lease transactions with the Veyron SPEs, fifteen of which were associated with asset sale-leaseback transactions. Refer to Note 5 for additional information about the asset sale-leaseback transaction during the first nine months of 2023. Each lease has a RVG based on a percentage of Veyron SPEs's purchase price; however, the Company concluded it was not probable that the Company will owe an amount at the end of each individual lease term, as the fair values of the properties are not expected to fall below the RVGs at the end of each individual lease term. As such, the Company recorded each lease obligation excluding the associated RVG. The aggregate maximum undiscounted RVG associated with the leasing arrangements as of September 30, 2023 and December 31, 2022 were $653 million and $650 million, respectively. This aggregate maximum value assumes that the fair value of each property at the end of either the original lease term or renewal term is equal to zero, which the Company has concluded is not probable.

The following table provides the carrying amounts of the right-to-use assets and lease obligations recorded on the Company's unaudited Condensed Consolidated Balance Sheets associated with these leasing arrangements related to the VIEs as of September 30, 2023 and December 31, 2022.

(in millions)	September 30, 2023(1)	December 31, 2022(2)
Non-current assets	**$ 418**	$ 430
Current liabilities	**23**	22
Non-current liabilities	**408**	419

(1) The leasing agreements included as of September 30, 2023 include nine manufacturing sites, five distribution centers and our Frisco, Texas headquarters.
(2) The leasing agreements included as of December 31, 2022 include nine manufacturing sites, four distribution centers and our Frisco, Texas headquarters.

Licensing Arrangement

ABC, a wholly-owned subsidiary of KDP, has provided a guarantee in connection with its distribution agreement with the Veyron SPEs to be paid only in the event the Veyron SPEs sell specific distribution rights and the value of those distribution rights does not exceed $142 million, which is the maximum undiscounted amount that KDP could pay under the guarantee. All obligations with respect to the guarantee will cease upon termination of the distribution agreement, which would occur upon notice by ABC not to renew the distribution agreement, KDP no longer being investment grade at the end of the term, or the sale of the distribution rights by the Veyron SPEs. As of September 30, 2023, KDP has not recorded a liability as it is not probable that the Company will have to make any payments required under the residual value guarantee, as the fair value of the distribution rights is not expected to fall below $142 million over the term of the agreement.

As of September 30, 2023, KDP had $94 million in fixed service fee commitments related to the 15-year distribution agreement which was effective on December 28, 2020, with Veyron SPEs. These commitments were used to assist the Veyron SPEs in obtaining financing. Such fixed service fee payments began on January 1, 2021.

Fixed service fees over the next five years are expected to be as follows:

		For the Years Ending December 31,				
(in millions)	Remainder of 2023	2024	2025	2026	2027	2028
Fixed service fees	**$ 1**	**$ 8**	**$ 8**	**$ 7**	**$ 8**	**$ 8**

TRANSACTION WITH NUTRABOLT

The Company has a preferred equity investment in Nutrabolt, which will earn the greater of (i) a 5% annual coupon on the preferred equity units plus any accretion for amounts not yet paid or (ii) KDP's share of Nutrabolt's earnings as if KDP's preferred equity was converted into common units. As the other investors of Nutrabolt have to share in Nutrabolt's earnings with KDP if in excess of the 5% annual coupon, the other investors lack certain characteristics of a controlling financial interest, which qualifies Nutrabolt as a VIE. KDP is not the primary beneficiary of the VIE and therefore is not required to consolidate Nutrabolt, as the primary shareholder of the VIE has control over the board and decision-making for the activities that most significantly impact the VIE's economic performance, including sales, marketing, and operations. KDP has no obligation to provide additional funding to Nutrabolt, and thus the Company's maximum exposure and risk of loss related to Nutrabolt is limited to the carrying value of KDP's investment. Refer to Note 10 for the carrying value of the Company's investment in Nutrabolt.

TRANSACTION WITH LA COLOMBE

The Company has an investment in common shares of La Colombe. Under the terms of the investment agreement, KDP has certain contractual rights that will result in a return of investment at the greater of a specified floor or fair value. As other investors of La Colombe will have to absorb more risk when the specified floor is greater than fair value, the other investors lack certain characteristics of a controlling financial interest, which qualifies La Colombe as a VIE. KDP is not the primary beneficiary of the VIE and therefore is not required to consolidate La Colombe, as the primary shareholder of the VIE has control over the board and decision-making for the activities that most significantly impact the VIE's economic performance, including sales, marketing, and operations. KDP has no obligation to provide additional funding to La Colombe, and thus the Company's maximum exposure and risk of loss related to La Colombe is limited to the carrying value of KDP's investment. Refer to Note 10 for the carrying value of the Company's investment in La Colombe.

16. Restructuring

RESTRUCTURING PROGRAMS

The Company records severance costs provided under an ongoing benefit arrangement once they are both probable and estimable.

2023 CEO Succession and Associated Realignment

In the third quarter of 2023, the Company began to enact several organization movements to ensure succession plans, to reinforce enterprise capabilities to support growth, and to control costs. A key component of the program was the announcement of the appointment of a Chief Operating Officer, effective November 6, 2023, with the expectation that the new Chief Operating Officer will succeed Robert Gamgort as Chief Executive Officer of the Company during the second quarter of 2024. The Company is also planning to realign its executive and operating leadership structure to enable faster decision making and to better support various strategic initiatives of the Company. Additionally, certain workforce reductions could occur as we assess our organization and upskill our talent and capabilities as needed. The program is expected to incur charges of approximately $45 million, primarily driven by severance costs and the sign-on bonus for our new Chief Operating Officer.

DPS Integration Program

As part of the DPS Merger, the Company developed a program to deliver $600 million in synergies over a three-year period through supply chain optimization, reduction of indirect spend through new economies of scale, elimination of duplicative support functions and advertising and promotion optimization. Although the program was initially expected to be completed in 2021, as a result of delays due to COVID-19, KDP continued to recognize expenditures for certain initiatives which began during the integration period through December 31, 2022. The restructuring and integration program resulted in cumulative pre-tax charges of approximately $962 million, primarily consisting of professional fees related to the integration and transformation and costs associated with severance and employee terminations.

RESTRUCTURING CHARGES

Restructuring and integration expenses for the defined programs during the periods presented were as follows:

	Third Quarter		First Nine Months	
(in millions)	**2023**	**2022**	**2023**	**2022**
2023 CEO Succession and Associated Realignment	**$ 25**	$ —	**$ 25**	$ —
DPS Integration Program	**—**	33	**—**	91

RESTRUCTURING LIABILITIES

Restructuring liabilities that qualify as exit and disposal costs under U.S. GAAP are included in accounts payable and accrued expenses on the unaudited condensed consolidated financial statements. Restructuring liabilities, primarily consisting of workforce reduction costs, were as follows:

(in millions)	**Restructuring Liabilities**
Balance as of January 1, 2023	**$ 55**
Charges to expense	**18**
Cash payments	**(42)**
Balance as of September 30, 2023	**$ 31**

17. Subsequent Events

STRATEGIC PARTNERSHIP WITH GRUPO PISA

Effective October 23, 2023, the Company executed an agreement for a strategic partnership with Grupo PiSA to sell and distribute Electrolit instant hydration beverages within the U.S. Under the long-term sales and distribution agreement, KDP will sell and distribute Electrolit in the majority of KDP's company-owned direct store distribution territories. The distribution is expected to begin in early 2024, and the Company estimates spending up to $57 million to transition the rights.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our audited consolidated financial statements and notes thereto in our Annual Report.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, including, in particular, statements about the impact of the global COVID-19 pandemic, inflation, future events, future financial performance, plans, strategies, expectations, prospects, competitive environment, regulation, labor matters, supply chain issues and availability of raw materials. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as “outlook,” “guidance,” “anticipate,” “expect,” “believe,” “could,” “estimate,” “feel,” “forecast,” “intend,” “may,” “plan,” “potential,” “project,” “should,” “target,” “will,” “would,” and similar words, phrases or expressions and variations or negatives of these words in this Quarterly Report on Form 10-Q. We have based these forward-looking statements on our current views with respect to future events and financial performance. Our actual financial performance could differ materially from those projected in the forward-looking statements due to the inherent uncertainty of estimates, forecasts and projections, and our financial performance may be better or worse than anticipated. Given these uncertainties, you should not put undue reliance on any forward-looking statements. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under "Risk Factors" in Part I, Item 1A of our Annual Report, as well as our subsequent filings with the SEC. Forward-looking statements represent our estimates and assumptions only as of the date that they were made. We do not undertake any duty to update the forward-looking statements, and the estimates and assumptions associated with them, after the date of this Quarterly Report on Form 10-Q, except to the extent required by applicable securities laws.

This Quarterly Report on Form 10-Q contains the names of some of our owned or licensed trademarks, trade names and service marks, which we refer to as our brands. All of the product names included in this Quarterly Report on Form 10-Q are either our registered trademarks or those of our licensors.

OVERVIEW

KDP is a leading beverage company in North America, with a diverse portfolio of beverages, including flavored (non-cola) CSDs, water (enhanced and flavored), ready-to-drink tea and coffee, juice, juice drinks, mixers and specialty coffee, and is a leading producer of innovative single serve brewing systems. With a wide range of hot and cold beverages that meet virtually any consumer need, our key brands include Keurig, Dr Pepper, Canada Dry, Snapple, Mott's, Clamato, Core, Green Mountain Coffee Roasters and The Original Donut Shop. We have some of the most recognized beverage brands in North America, with significant consumer awareness levels and long histories that evoke strong emotional connections with consumers. We offer more than 125 owned, licensed, and partner brands, including the top ten best-selling coffee brands and Dr Pepper as a leading flavored CSD in the U.S., according to IRi, which are available nearly everywhere people shop and consume beverages.

KDP operates as an integrated brand owner, manufacturer and distributor. We believe our integrated business model strengthens our route-to-market and provides opportunities for net sales and profit growth through the alignment of the economic interests of our brand ownership and our manufacturing and distribution businesses through both our DSD and our WD systems. KDP markets and sells its products to retailers, including supermarkets, mass merchandisers, club stores, e-commerce retailers, office superstores, vending machines, grocery and drug stores, and convenience stores; to restaurants, hotel chains, office product and coffee distributors, and partner brand owners; and directly to consumers through its websites. Our integrated business model enables us to be more flexible and responsive to the changing needs of our large retail customers and allows us to more fully leverage our scale and reduce costs by creating greater geographic manufacturing and distribution coverage.

Effective January 1, 2023, the Company revised its segment structure to align with how the Company's Chief Operating Decision Maker manages the business, assesses performance and allocates resources. The Company's reportable segments consist of the following:

- The U.S. Refreshment Beverages segment reflects sales in the U.S. from the manufacture and distribution of branded concentrates, syrup and finished beverages, including the sales of the Company's own brands and third-party brands, to third-party bottlers, distributors and retailers.
- The U.S. Coffee segment reflects sales in the U.S. from the manufacture and distribution of finished goods relating to the Company's K-Cup pods, single-serve brewers and other coffee products to partners, retailers and directly to consumers through our Keurig.com website.
- The International segment reflects sales in international markets, including the following:
    - Sales in Canada, Mexico, the Caribbean and other international markets from the manufacture and distribution of branded concentrates, syrup and finished beverages, including sales of the Company's own brands and third-party brands, to third-party bottlers, distributors and retailers.
    - Sales in Canada from the manufacture and distribution of finished goods relating to the Company's single-serve brewers, K-Cup pods and other coffee products.

COMPARABLE RESULTS OF OPERATIONS

Management believes that there are certain non-GAAP financial measures that allow management to evaluate our results, trends and ongoing performance on a comparable basis. In order to derive the adjusted financial information, we adjust certain financial statement captions and metrics prepared under U.S. GAAP for certain items affecting comparability and the impact of foreign currency. See *Non-GAAP Financial Measures* for further information.

We eliminate from our financial results all applicable intercompany transactions between entities included in our consolidated financial statements and the intercompany transactions with our equity method investees. References in tables below to percentage changes that are not meaningful are denoted by "NM".

EXECUTIVE SUMMARY

Financial Overview - Third Quarter of 2023 as compared to Third Quarter of 2022

As Reported, in millions (except EPS)

88	89	90	91

As Adjusted, in millions (except EPS)

135	136	138

Key Events During and Subsequent to the Third Quarter of 2023

Investment in La Colombe

In July 2023, we executed definitive agreements with La Colombe to invest $300 million in exchange for 33.3% ownership in La Colombe. Simultaneously, we entered into a sales and distribution agreement for La Colombe RTD coffee and a licensing, manufacturing and distribution agreement for La Colombe branded K-Cup pods. The transaction closed on August 31, 2023. The transition of La Colombe RTD coffee distribution to KDP and the launch of La Colombe branded K-Cup pods is expected to begin in late 2023.

Increase in Quarterly Dividend

On September 19, 2023, we announced that our Board approved a 7.5% increase in our annualized dividend rate to $0.86 per share, from the current annualized rate of $0.80 per share, effective with the regularly quarterly cash dividend announced on the same day.

Chief Executive Officer Succession Plan Announced

On September 20, 2023, we announced the appointment of Tim Cofer as Chief Operating Officer, reporting to Chairman and Chief Executive Officer, Bob Gamgort. Mr. Cofer, who will join KDP on November 6, 2023, will work side by side with Mr. Gamgort in the Chief Operating Officer capacity, with an expected transition to Chief Executive Officer in the second quarter of 2024. Mr. Gamgort will continue to serve as our Executive Chairman after the transition occurs.

Strategic Partnership with Grupo PiSA

Effective October 23, 2023, we executed an agreement for a strategic partnership with Grupo PiSA to sell and distribute Electrolit instant hydration beverages within the U.S., which is expected to begin in early 2024.

Third Quarter of 2023 Compared to Third Quarter of 2022

Consolidated Operations

The following table sets forth our unaudited condensed consolidated results of operations for the third quarter of 2023 and 2022:

	Third Quarter		Dollar	Percentage
($ in millions, except per share amounts)	**2023**	**2022**	**Change**	**Change**
Net sales	**$ 3,805**	$ 3,622	$ 183	5.1 %
Cost of sales	**1,694**	1,721	(27)	(1.6)
Gross profit	**2,111**	1,901	210	11.0
Selling, general and administrative expenses	**1,217**	1,196	21	1.8
Impairment of intangible assets	**2**	311	(309)	NM
Other operating income, net	**(4)**	—	(4)	NM
Income from operations	**896**	394	502	127.4
Interest expense	**237**	207	30	14.5
Other (income) expense, net	**(5)**	4	(9)	NM
Income before provision for income taxes	**664**	183	481	262.8
Provision for income taxes	**146**	4	142	NM
Net income including non-controlling interest	**518**	179	339	189.4
Less: Net loss attributable to non-controlling interest	**—**	(1)	1	NM
Net income attributable to KDP	**$ 518**	$ 180	338	187.8
Earnings per common share:				
Basic	**$ 0.37**	$ 0.13	$ 0.24	184.6 %
Diluted	**0.37**	0.13	0.24	184.6
Gross margin	**55.5 %**	52.5 %		300 bps
Operating margin	**23.5 %**	10.9 %		NM
Effective tax rate	**22.0 %**	2.2 %		NM

Sales Volume. The following table provides the percentage change in sales volumes for the third quarter of 2023 compared to the prior year period:

	Percentage Change
LRB	— %
K-Cup pods	(6.3)
Brewers	8.7

Net Sales. Net sales increased $183 million, or 5.1%, to $3,805 million for the third quarter of 2023 compared to $3,622 million in the prior year period. This performance reflected favorable net price realization across all segments totaling 5.5% and favorable FX translation of 1.0%, partially offset by unfavorable volume/mix of 1.4%.

Gross Profit. Gross profit increased $210 million, or 11.0%, to $2,111 million for the third quarter of 2023 compared to $1,901 million in the prior year period. This performance primarily reflected the benefits of net sales growth, a favorable change in unrealized commodity mark-to-market activity, and the benefit of productivity, partially offset by broad-based inflation. Gross margin increased 300 bps versus the prior year period to 55.5%.

Selling, General and Administrative Expenses. SG&A expenses increased $21 million, or 1.8%, to $1,217 million for the third quarter of 2023 compared to $1,196 million in the prior year period. The increase was driven by higher marketing expense, broad-based inflation, and increases in other operating costs, partially offset by a favorable change in unrealized commodity mark-to-market impacts, the benefit of productivity savings, and the favorable comparison to restructuring and integration expenses incurred in the prior year period.

Impairment of Intangible Assets. Impairment of intangible assets primarily reflected the favorable comparison to the non-cash impairment charge of $311 million in the prior year period for Bai, an indefinite lived brand asset.

Income from Operations. Income from operations increased $502 million, or 127.4%, to $896 million for the third quarter of 2023 compared to $394 million in the prior year period, primarily driven by the favorable comparison to the impairment of intangible assets in the prior year period and the increase in gross profit.

Interest Expense. Interest expense increased $30 million, or 14.5%, to $237 million for the third quarter of 2023 compared with $207 million in the prior year period. This change was primarily driven by increased use of our commercial paper facility in the current year period.

Effective Tax Rate. The effective tax rate was 22.0% for the third quarter of 2023, compared to 2.2% in the prior year period, primarily driven by the revaluation of state deferred tax liabilities due to state legislative changes in the prior year period. Refer to Note 11 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

Net Income Attributable to KDP. Net income increased $338 million, or 187.8%, to $518 million for the third quarter of 2023 as compared to $180 million in the prior year period, driven primarily by increased income from operations.

Diluted EPS. Diluted EPS increased 184.6% to $0.37 per diluted share for the third quarter of 2023 as compared to $0.13 in the prior year period.

Results of Operations by Segment

The following tables set forth net sales and income from operations for our segments for the third quarter of 2023 and 2022, as well as other amounts necessary to reconcile our segment results to our consolidated results presented in accordance with U.S. GAAP.

	Third Quarter	
(in millions)	**2023**	**2022**
Segment Results — Net sales		
U.S. Refreshment Beverages	**$ 2,270**	$ 2,144
U.S. Coffee	**1,012**	1,045
International	**523**	433
Net sales	**$ 3,805**	$ 3,622

	Third Quarter	
(in millions)	**2023**	**2022**
Segment Results — Income from operations		
U.S. Refreshment Beverages	**$ 676**	$ 322
U.S. Coffee	**293**	272
International	**139**	97
Unallocated corporate costs	**(212)**	(297)
Income from operations	**$ 896**	$ 394

U.S. REFRESHMENT BEVERAGES

The following table provides selected information about our U.S. Refreshment Beverages segment's results:

	Third Quarter			
(in millions)	**2023**	**2022**	**Dollar Change**	**Percentage Change**
Net sales	**$ 2,270**	$ 2,144	$ 126	5.9 %
Income from operations	**676**	322	354	109.9
Operating margin	**29.8 %**	15.0 %		NM

Sales Volume. Sales volume for the third quarter of 2023 decreased 2.0% compared to the prior year period. Growth in Dr Pepper, as well as C4 Energy as a result of our sales and distribution partnership, was more than offset by softness in our still portfolio.

Net Sales. Net sales increased 5.9% to $2,270 million for the third quarter of 2023, compared to $2,144 million in the prior year period, driven by favorable net price realization of 7.1%, partially offset by unfavorable volume/mix of 1.2%.

Income from Operations. Income from operations increased $354 million, or 109.9%, to $676 million for the third quarter of 2023, compared to $322 million for the prior year period, primarily driven by the favorable comparison to the $311 million non-cash impairment charge for Bai in the prior year period and the benefits of strong net sales growth and productivity, partially offset by broad-based inflation and increased marketing expense.

U.S. COFFEE

The following table provides selected information about our U.S. Coffee segment's results:

(in millions)	Third Quarter 2023	Third Quarter 2022	Dollar Change	Percentage Change
Net sales	**$ 1,012**	$ 1,045	$ (33)	(3.2) %
Income from operations	**293**	272	21	7.7
Operating margin	**29.0 %**	26.0 %		300 bps

Sales Volume. K-Cup pod volume decreased 8.1% in the third quarter of 2023 compared to the prior year period, primarily reflecting at-home coffee category trends as well as the exit of certain private-label contracts and an unfavorable comparison to trade inventory builds in the year-ago period. Brewer volume increased 8.1% compared to the prior year period, driven by the resumption of seasonal shipping patterns and increased brewer shipments ahead of the holiday season.

Net Sales. Net sales decreased 3.2% to $1,012 million for the third quarter of 2023 compared to net sales of $1,045 million in the prior year period, reflecting volume/mix declines of 6.3%, partially offset by favorable net price realization of 3.1%.

Income from Operations. Income from operations increased $21 million, or 7.7%, to $293 million for the third quarter of 2023, compared to $272 million for the prior year period, reflecting the benefits of pricing actions, productivity, and reductions in other operating costs, partially offset by unfavorable volume/mix. Operating margin improved 300 bps versus the year ago period to 29.0%.

INTERNATIONAL

The following table provides selected information about our International segment's results:

(in millions)	Third Quarter 2023	Third Quarter 2022	Dollar Change	Percentage Change
Net sales	**$ 523**	$ 433	$ 90	20.8 %
Income from operations	**139**	97	42	43.3
Operating margin	**26.6 %**	22.4 %		420 bps

Sales volume. The following table provides the percentage change in sales volumes for the International segment compared to the prior year period:

	Percentage Change
LRB	8.7 %
K-Cup pods	8.2
Brewers	15.9

Net Sales. Net sales increased 20.8% to $523 million in the third quarter of 2023, compared to $433 million for the prior year period, reflecting volume/mix growth of 9.0%, favorable FX translation impacts of 7.9% and higher net price realization of 3.9%.

Income from Operations. Income from operations increased $42 million, or 43.3%, to $139 million for the third quarter of 2023 compared to $97 million in the prior year period. This performance reflected the benefits of higher net pricing realization, volume/mix growth, and productivity, partially offset by broad-based inflation. Operating margin increased 420 bps versus the year ago period to 26.6%.

First Nine Months of 2023 Compared to First Nine Months of 2022

Consolidated Operations

The following table sets forth our unaudited condensed consolidated results of operations for the first nine months of 2023 and 2022:

	First Nine Months			
($ in millions, except per share amounts)	2023	2022	Dollar Change	Percentage Change
Net sales	**$ 10,947**	$ 10,254	$ 693	6.8 %
Cost of sales	**5,051**	4,927	124	2.5
Gross profit	**5,896**	5,327	569	10.7
Selling, general and administrative expenses	**3,654**	3,418	236	6.9
Impairment of intangible assets	**2**	311	(309)	NM
Gain on litigation settlement	**—**	(299)	299	NM
Other operating income, net	**(9)**	(35)	26	NM
Income from operations	**2,249**	1,932	317	16.4
Interest expense	**432**	570	(138)	(24.2)
Loss on early extinguishment of debt	**—**	217	(217)	NM
Gain on sale of equity method investment	**—**	(50)	50	NM
Impairment of investments and note receivable	**—**	12	(12)	NM
Other (income) expense, net	**(41)**	22	(63)	NM
Income before provision for income taxes	**1,858**	1,161	697	60.0
Provision for income taxes	**370**	179	191	106.7
Net income including non-controlling interest	**1,488**	982	506	51.5
Less: Net loss attributable to non-controlling interest	**—**	(1)	1	NM
Net income attributable to KDP	**$ 1,488**	$ 983	505	51.4
Earnings per common share:				
Basic	**$ 1.06**	$ 0.69	$ 0.37	53.6 %
Diluted	**1.05**	0.69	0.36	52.2
Gross margin	**53.9 %**	52.0 %		190 bps
Operating margin	**20.5 %**	18.8 %		NM
Effective tax rate	**19.9 %**	15.4 %		450 bps

Sales Volume. The following table provides the percentage change in sales volumes compared to the prior year period:

	Percentage Change
LRB	0.2 %
K-Cup pods	(4.7)
Brewers	(7.4)

Net Sales. Net sales increased $693 million, or 6.8%, to $10,947 million for the first nine months of 2023 compared to $10,254 million in the prior year period. This performance reflected favorable net price realization across all segments totaling 7.8% and favorable FX translation impacts of 0.6%, slightly offset by unfavorable volume/mix of 1.6%.

Gross Profit. Gross profit increased $569 million, or 10.7%, to $5,896 million for the first nine months of 2023 compared to $5,327 million in the prior year period. This performance primarily reflected the benefits of net sales growth, productivity and a favorable change in unrealized commodity mark-to-market activity, partially offset by broad-based inflation. Gross margin increased 190 bps versus the year ago period to 53.9%.

Selling, General and Administrative Expenses. SG&A expenses increased $236 million, or 6.9%, to $3,654 million for the first nine months of 2023 compared to $3,418 million in the prior year period. The increase was driven by broad-based inflation, higher marketing expense, an unfavorable comparison to the stock award forfeiture accounting policy change in the prior year period of $40 million, and increases in other operating costs, partially offset by the favorable comparison to restructuring and integration expenses in the prior year period.

Impairment of Intangible Assets. Impairment of intangible assets primarily reflected the favorable comparison to the non-cash impairment charge of $311 million in the prior year period for Bai, an indefinite lived brand asset.

Gain on Litigation Settlement. Gain on litigation settlement reflected the portion of the settlement payment from BodyArmor which was allocated to the gain on the full settlement of the existing claims against BodyArmor in the first quarter of 2022.

Other Operating Income, net. Other operating income, net decreased $26 million for the first nine months of 2023 compared to the prior year period, primarily driven by a $32 million reduction in year-over-year asset sale-leaseback activity relating to our strategic asset investment program.

Income from Operations. Income from operations increased $317 million, or 16.4%, to $2,249 million for the first nine months of 2023 compared to $1,932 million in the prior year period, primarily driven by increased gross profit, partially offset by increased SG&A expenses. Other factors included the favorable comparison to the non-cash impairment charge in the prior year period, which was mostly offset by the unfavorable comparison to the gain on the litigation settlement in the prior year period.

Interest Expense. Interest expense decreased $138 million, or 24.2%, to $432 million for the first nine months of 2023 compared to $570 million for the prior year period, primarily driven by the favorable change in unrealized mark-to-market activity on interest rate contracts of $173 million, partially offset by increased use of our commercial paper facility during the current year period.

Loss on Early Extinguishment of Debt. Loss on early extinguishment of debt reflected a loss of $217 million in the prior year period associated with our 2022 Strategic Refinancing and our early retirement of our 2038 Notes, the 2021 364-Day Credit Agreement and the KDP Revolver.

Gain on Sale of Equity Method Investment. Gain on sale of equity method investment reflected the portion of the settlement payment from BodyArmor in the first quarter of 2022 which was allocated to the satisfaction of the holdback amount owed to us in association with the sale of our equity interest in BodyArmor in 2021.

Other Non-operating (Income) Expense, net. Other (income) expense, net reflected a favorable change of $63 million from the prior year period, driven by gains on the Company's investments in equity securities, primarily led by Nutrabolt's preferred dividend and mark-to-market on our Vita Coco investment.

Effective Tax Rate. The effective tax rate increased 450 bps to 19.9% for the first nine months of 2023, compared to 15.4% in the prior year period, primarily driven by the unfavorable comparison to the benefit from the revaluation of state deferred tax liabilities due to state legislative changes in the prior year period. Refer to Note 11 of the Notes to our Unaudited Condensed Consolidated Financial Statements for further information.

Net Income Attributable to KDP. Net income attributable to KDP increased $505 million, or 51.4%, to $1,488 million for the first nine months of 2023 as compared to $983 million in the prior year period, primarily driven by increased income from operations, the favorable comparison to the loss on extinguishment of debt in the prior year, reduced interest expense, and gains on our investments in equity securities, partially offset by the unfavorable comparison to the gain in the prior year period for the sale of our equity method investment in BodyArmor and the increase in our effective tax rate.

Diluted EPS. Diluted EPS increased 52.2% to $1.05 per diluted share as compared to $0.69 in the prior year period.

Results of Operations by Segment

The following tables provide net sales and income from operations for our reportable segments for the first nine months of 2023 and 2022, as well as the other amounts necessary to reconcile our total segment results to our consolidated results presented in accordance with U.S. GAAP.

(in millions)	First Nine Months	
Net sales	**2023**	**2022**
U.S. Refreshment Beverages	**$ 6,607**	$ 6,009
U.S. Coffee	**2,913**	3,017
International	**1,427**	1,228
Total net sales	**$ 10,947**	$ 10,254
Income from operations		
U.S. Refreshment Beverages	**$ 1,795**	$ 1,554
U.S. Coffee	**775**	822
International	**331**	259
Unallocated corporate costs	**(652)**	(703)
Total income from operations	**$ 2,249**	$ 1,932

U.S. REFRESHMENT BEVERAGES

The following table provides selected information about our U.S. Refreshment Beverages segment's results:

	First Nine Months			
(in millions)	**2023**	**2022**	**Dollar Change**	**Percentage Change**
Net sales	**$ 6,607**	$ 6,009	$ 598	10.0 %
Income from operations	**1,795**	1,554	241	15.5
Operating margin	**27.2 %**	25.9 %		130 bps

Sales Volume. Sales volumes for the first nine months of 2023 decreased approximately 0.9% compared to the prior year period, as growth in Dr Pepper, as well as C4 Energy as a result of our sales and distribution partnership, was more than offset by softness in our still portfolio.

Net Sales. Net sales increased 10.0% to $6,607 million in the first nine months of 2023, compared to $6,009 million in the prior year period, driven by favorable net price realization of 10.4%, which was partially offset by unfavorable volume/mix impacts of 0.4%.

Income from Operations. Income from operations increased $241 million, or 15.5%, to $1,795 million for the first nine months of 2023 compared to $1,554 million for the prior year period, primarily driven by the benefits of net sales growth and productivity, partially offset by broad-based inflation, higher marketing expense, increases in other operating costs, and a reduction in year-over-year asset sale-leaseback activity of $32 million. Other one-time drivers included the favorable comparison to the $311 million non-cash impairment charge for Bai in the prior year period, which was almost fully offset by the unfavorable comparison to the gains on the settlement of litigation with BodyArmor of $271 million.

U.S. COFFEE

The following table provides selected information about our U.S. Coffee segment's results:

	First Nine Months			
(in millions)	**2023**	**2022**	**Dollar Change**	**Percentage Change**
Net sales	**$ 2,913**	$ 3,017	$ (104)	(3.4) %
Income from operations	**775**	822	(47)	(5.7)
Operating margin	**26.6 %**	27.2 %		(60) bps

Sales Volume. K-Cup pod volume decreased 5.9% for the first nine months of 2023 compared to the prior year period, reflecting at-home coffee category trends, which was impacted by greater consumer mobility versus the prior year period. Brewer volume decreased 8.5% in the first nine months of 2023, driven by category softness in small appliances and retailer inventory shifts.

Net Sales. Net sales decreased 3.4% to $2,913 million for the first nine months of 2023 compared to $3,017 million in the prior year period, driven by volume/mix declines of 6.6% which were partially offset by favorable net price realization of 3.2%.

Income from Operations. Income from operations decreased $47 million, or 5.7%, to $775 million for the first nine months of 2023, compared to $822 million in the prior year period, as a result of broad-based inflation, declines in volume/mix, and higher marketing expense. These decreases were partially offset by the benefits of pricing actions and productivity. Operating margin declined 60 bps versus the year ago period to 26.6%.

INTERNATIONAL

The following table provides selected information about our International segment's results:

	First Nine Months			
(in millions)	**2023**	**2022**	**Dollar Change**	**Percentage Change**
Net sales	**$ 1,427**	$ 1,228	$ 199	16.2 %
Income from operations	**331**	259	72	27.8
Operating margin	**23.2 %**	21.1 %		210 bps

Sales Volume. The following table provides the percentage change in sales volumes for the International segment compared to the prior year period:

	Percentage Change
LRB	5.1 %
K-Cup pods	5.2
Brewers	5.4

Net Sales. Net sales increased 16.2% to $1,427 million in the first nine months of 2023, compared to $1,228 million in the prior year period, reflecting higher net price realization of 6.2%, volume/mix growth of 5.7%, and favorable FX translation effects of 4.3%.

Income from Operations. Income from operations increased $72 million, or 27.8%, to $331 million for the first nine months of 2023 compared to $259 million in the prior year period. This performance reflected the benefits of higher net pricing realization, volume/mix growth, and productivity, partially offset by broad-based inflation. Operating margin increased 210 bps versus the year ago period to 23.2%.

NON-GAAP FINANCIAL MEASURES

To supplement the consolidated financial statements presented in accordance with U.S. GAAP, we have presented for certain constant currency adjusted or adjusted financial measures for the third quarter and first nine months of 2023 and 2022, which are considered non-GAAP financial measures. The non-GAAP financial measures provided should be viewed in addition to, and not as an alternative for, results prepared in accordance with U.S. GAAP. The non-GAAP financial measures presented may differ from similarly titled non-GAAP financial measures presented by other companies, and other companies may not define these non-GAAP financial measures in the same way. The non-GAAP financial measures are not substitutes for their comparable U.S. GAAP financial measures, such as income from operations, net income, diluted EPS or other measures prescribed by U.S. GAAP, and there are limitations to using non-GAAP financial measures. We use these non-GAAP financial measures, in addition to U.S. GAAP financial measures, to evaluate our operating and financial performance and to compare such performance to that of prior periods and to the performance of our competitors. Additionally, we use these non-GAAP financial measures in making operational and financial decisions and in our budgeting and planning process. We believe that providing these non-GAAP financial measures to investors helps investors evaluate our operating performance, profitability and business trends in a way that is consistent with how management evaluates such performance and consistent with guidance previously provided by us. The non-GAAP measures are defined as follows:

Adjusted: Defined as certain financial statement captions and metrics adjusted for certain items affecting comparability.

Items affecting comparability: Defined as certain items that are excluded for comparison to prior year periods, adjusted for the tax impact as applicable. Tax impact is determined based upon an approximate rate for each item. For each period, management adjusts for (i) the unrealized mark-to-market impact of derivative instruments not designated as hedges in accordance with U.S. GAAP that do not have an offsetting risk reflected within the financial results, as well as the unrealized mark-to-market impact of our Vita Coco investment; (ii) the amortization associated with definite-lived intangible assets; (iii) the amortization of the deferred financing costs associated with the DPS Merger; (iv) the amortization of the fair value adjustment of the senior unsecured notes obtained as a result of the DPS Merger; (v) stock compensation expense and the associated windfall tax benefit attributable to the matching awards made to employees who made an initial investment in KDP; (vi) transaction costs for significant business combinations (completed or abandoned); (vii) non-cash changes in deferred tax liabilities related to goodwill and other intangible assets as a result of tax rate or apportionment changes; (viii) impairments recognized on certain intangible assets; and (ix) other certain items that are excluded for comparison purposes to prior year periods.

For the third quarter and first nine months of 2023, the other certain items excluded for comparison purposes include (i) productivity expenses, (ii) restructuring expenses associated with the 2023 CEO Succession and Associated Realignment, and (iii) costs related to significant non-routine legal matters, specifically the antitrust litigation. Additionally, during the first nine months of 2023, the non-cash changes in deferred tax liabilities related to goodwill and other intangible assets included an immaterial non-cash true-up of the valuation of foreign deferred tax liabilities related to a prior period.

For the third quarter and first nine months of 2022, the other certain items excluded for comparison purposes include (i) restructuring and integration expenses related to significant business combinations; (ii) productivity expenses; (iii) costs related to significant non-routine legal matters, specifically the antitrust litigation; (iv) the loss on early extinguishment of debt related to the redemption of debt; (v) incremental costs to our operations related to risks associated with the COVID-19 pandemic, which were incurred to either maintain the health and safety of our front-line employees or temporarily increase compensation to such employees to ensure essential operations continue during the pandemic; (vi) the gain on the sale of our investment in BodyArmor as a result of the settlement of the associated holdback liability; (vii) the gain on the settlement of our prior litigation with BodyArmor, excluding recoveries of previously incurred litigation expenses which were included in our adjusted results; (viii) losses recognized with respect to our equity method investment in Bedford as a result of funding our share of their wind-down costs; and (ix) foundational projects, which are transformative and non-recurring in nature.

Constant currency adjusted: Defined as certain financial statement captions and metrics adjusted for certain items affecting comparability, calculated on a constant currency basis by converting our current period local currency financial results using the prior period foreign currency exchange rates.

For the third quarter and first nine months of 2023 and 2022, the supplemental financial data set forth below includes reconciliations of adjusted and constant currency adjusted financial measures to the applicable financial measure presented in the unaudited condensed consolidated financial statements for the same period.

KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
(Unaudited, in millions, except per share and percentages)

	Cost of sales	Gross profit	Gross margin	Selling, general and administrative expenses	Impairment of intangible assets	Income from operations	Operating margin
For the Third Quarter of 2023							
Reported	$ 1,694	$ 2,111	55.5 %	$ 1,217	$ 2	$ 896	23.5 %
Items Affecting Comparability:							
Mark to market	13	(13)		21	—	(34)	
Amortization of intangibles	—	—		(34)	—	34	
Stock compensation	—	—		(4)	—	4	
Restructuring - 2023 CEO Succession and Associated Realignment	—	—		(27)	—	27	
Productivity	(25)	25		(27)	—	52	
Impairment of intangible assets	—	—		—	(2)	2	
Non-routine legal matters	—	—		(2)	—	2	
Transaction costs	—	—		(1)	—	1	
Adjusted	$ 1,682	$ 2,123	55.8 %	$ 1,143	$ —	$ 984	25.9 %
Impact of foreign currency			— %				— %
Constant currency adjusted			55.8 %				25.9 %
For the Third Quarter of 2022							
Reported	$ 1,721	$ 1,901	52.5 %	$ 1,196	$ 311	$ 394	10.9 %
Items Affecting Comparability:							
Mark to market	(51)	51		(55)	—	106	
Amortization of intangibles	—	—		(33)	—	33	
Stock compensation	—	—		(5)	—	5	
Restructuring and integration costs - DPS Merger	—	—		(33)	—	33	
Productivity	(30)	30		(27)	—	57	
Impairment of intangible assets	—	—		—	(311)	311	
Non-routine legal matters	—	—		(2)	—	2	
COVID-19	(3)	3		(2)	—	5	
Foundational projects	—	—		(1)	—	1	
Adjusted	$ 1,637	$ 1,985	54.8 %	$ 1,038	$ —	$ 947	26.1 %

Refer to page 43 for reconciliations of reported net sales to constant currency net sales and adjusted income from operations to constant currency adjusted income from operations.

KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
(Unaudited, in millions, except per share and percentages)

	Interest expense	Other (income) expense, net	Income before provision for income taxes	Provision for income taxes	Effective tax rate	Net income attributable to KDP	Diluted earnings per share
For the Third Quarter of 2023							
Reported	$ 237	$ (5)	$ 664	$ 146	22.0 %	$ 518	$ 0.37
Items Affecting Comparability:							
Mark to market	(114)	(2)	82	20		62	0.04
Amortization of intangibles	—	—	34	9		25	0.02
Amortization of fair value debt adjustment	(5)	—	5	1		4	—
Stock compensation	—	—	4	3		1	—
Restructuring - 2023 CEO Succession and Associated Realignment	—	—	27	6		21	0.01
Productivity	—	—	52	12		40	0.03
Impairment of intangible assets	—	—	2	—		2	—
Non-routine legal matters	—	—	2	—		2	—
Transaction costs	—	—	1	—		1	—
Change in deferred tax liabilities related to goodwill and other intangible assets	—	—	—	3		(3)	—
Adjusted	$ 118	$ (7)	$ 873	$ 200	22.9 %	$ 673	$ 0.48
Impact of foreign currency					(0.2) %		
Constant currency adjusted					22.7 %		
For the Third Quarter of 2022							
Reported	$ 207	$ 4	$ 183	$ 4	2.2 %	$ 180	$ 0.13
Items Affecting Comparability:							
Mark to market	(113)	2	217	54		163	0.11
Amortization of intangibles	—	—	33	8		25	0.02
Amortization of fair value of debt adjustment	(5)	—	5	1		4	—
Stock compensation	—	—	5	2		3	—
Restructuring and integration costs - DPS Merger	—	—	33	8		25	0.02
Productivity	—	—	57	10		47	0.03
Impairment of intangible assets	—	—	311	77		234	0.16
Non-routine legal matters	—	—	2	—		2	—
COVID-19	—	—	5	1		4	—
Foundational projects	—	—	1	1		—	—
Change in deferred tax liabilities related to goodwill and other intangible assets	—	—	—	31		(31)	(0.02)
Adjusted	$ 89	$ 6	$ 852	$ 197	23.1 %	$ 656	$ 0.46
Change - adjusted	32.6 %					2.6 %	4.3 %
Impact of foreign currency	— %					(0.8) %	— %
Change - constant currency adjusted	32.6 %					1.8 %	4.3 %

Diluted earnings per common share may not foot due to rounding.

KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED SEGMENT MEASURES
TO CERTAIN NON-GAAP ADJUSTED AND CURRENCY NEUTRAL ADJUSTED SEGMENT MEASURES
(Unaudited)

(in millions)	Reported	Items Affecting Comparability	Adjusted
For the third quarter of 2023:			
Income from operations			
U.S. Refreshment Beverages	**$ 676**	**$ 19**	**$ 695**
U.S. Coffee	**293**	**40**	**333**
International	**139**	**6**	**145**
Unallocated corporate costs	**(212)**	**23**	**(189)**
Total income from operations	**$ 896**	**$ 88**	**$ 984**
For the third quarter of 2022:			
Income from operations			
U.S. Refreshment Beverages	$ 322	$ 333	$ 655
U.S. Coffee	272	43	315
International	97	7	104
Unallocated corporate costs	(297)	170	(127)
Total income from operations	$ 394	$ 553	$ 947

	Reported	Impact of Foreign Currency	Constant Currency
For the third quarter of 2023:			
Net sales			
U.S. Refreshment Beverages	5.9 %	— %	5.9 %
U.S. Coffee	(3.2)	—	(3.2)
International	20.8	(7.9)	12.9
Total net sales	5.1	(1.0)	4.1

	Adjusted	Impact of Foreign Currency	Constant Currency Adjusted
For the third quarter of 2023:			
Income from operations			
U.S. Refreshment Beverages	6.1 %	— %	6.1 %
U.S. Coffee	5.7	—	5.7
International	39.4	(7.7)	31.7
Total income from operations	3.9	(0.8)	3.1

	Reported	Items Affecting Comparability	Adjusted	Impact of Foreign Currency	Constant Currency Adjusted
For the third quarter of 2023:					
Operating margin					
U.S. Refreshment Beverages	29.8 %	0.8 %	30.6 %	— %	30.6 %
U.S. Coffee	29.0	3.9	32.9	—	32.9
International	26.6	1.1	27.7	0.3	28.0
Total operating margin	23.5	2.4	25.9	—	25.9

CONSTANT CURRENCY ADJUSTED RESULTS OF OPERATIONS

Third Quarter of 2023 Compared to Third Quarter of 2022

The following discussion of our results for the third quarter of 2023 is presented on a constant currency adjusted basis. These adjusted financial results are calculated on a constant currency basis by converting our current-period local currency financial results using the prior-period foreign currency exchange rates.

Consolidated Operations

Constant Currency Net Sales. Constant currency net sales increased 4.1% in the third quarter of 2023 compared to the prior year period, driven by favorable net price realization of 5.5%, partially offset by decreased volume/mix of 1.4%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations increased 3.1% compared to the prior year period. This increase primarily resulted from the benefits of strong net sales growth and productivity, partially offset by the impacts of broad-based inflation, higher marketing expense, and increases in other operating costs.

Constant Currency Adjusted Interest Expense. Constant currency adjusted interest expense increased 32.6% compared to the prior year period, primarily driven by increased use of our commercial paper facility in the current year period.

Constant Currency Adjusted Effective Tax Rate. The constant currency adjusted effective tax rate was relatively flat, with a rate of 22.7% for the third quarter of 2023 compared to 23.1% for the prior year period.

Constant Currency Adjusted Net Income Attributable to KDP. Constant currency adjusted net income attributable to KDP increased 1.8% compared to the prior year period, driven primarily by the increase in constant currency adjusted income from operations and gains from our investments in equity securities, partially offset by increased constant currency adjusted interest expense.

Constant Currency Adjusted Diluted EPS. Constant currency adjusted diluted EPS increased 4.3% in the current year period.

Results of Operations by Segment

U.S. REFRESHMENT BEVERAGES

Constant Currency Net Sales. Constant currency net sales increased 5.9%, reflecting higher net price realization of 7.1%, partially offset by unfavorable volume/mix of 1.2%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations for the third quarter of 2023 increased 6.1% compared to the prior year period, primarily driven by the benefits of strong net sales growth and productivity, partially offset by broad-based inflation and increased marketing expenses.

U.S. COFFEE

Constant Currency Net Sales. Constant currency net sales decreased 3.2%, reflecting unfavorable volume/mix of 6.3%, partially offset by favorable net price realization of 3.1%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations for the third quarter of 2023 increased 5.7% compared to the prior year period, reflecting the benefits of productivity, pricing actions, and reductions in other operating costs, partially offset by unfavorable volume/mix.

INTERNATIONAL

Constant Currency Net Sales. Constant currency net sales increased 12.9%, reflecting higher net price realization of 3.9% and volume/mix growth of 9.0%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations for the third quarter of 2023 increased 31.7% compared to the prior year period. This performance reflected the benefits of higher net pricing realization, volume/mix growth, and productivity, partially offset by broad-based inflation.

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KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
(Unaudited, in millions, except per share and percentages)

	Cost of sales	Gross profit	Gross margin	Selling, general and administrative expenses	Impairment of intangible assets	Gain on litigation settlement	Other operating income, net	Income from operations	Operating margin
For the First Nine Months of 2023									
Reported	$ 5,051	$ 5,896	53.9 %	$ 3,654	$ 2	$ —	$ (9)	$ 2,249	20.5 %
Items Affecting Comparability:									
Mark to market	18	(18)		14	—	—	—	(32)	
Amortization of intangibles	—	—		(103)	—	—	—	103	
Stock compensation	—	—		(13)	—	—	—	13	
Restructuring - 2023 CEO Succession and Associated Realignment	—	—		(27)	—	—	—	27	
Productivity	(89)	89		(99)	—	—	—	188	
Impairment of intangible assets	—	—		—	(2)	—	—	2	
Non-routine legal matters	—	—		(5)	—	—	—	5	
Transaction costs	—	—		(1)	—	—	—	1	
Adjusted	$ 4,980	$ 5,967	54.5 %	$ 3,420	$ —	$ —	$ (9)	$ 2,556	23.3 %
Impact of foreign currency			— %						0.1 %
Constant currency adjusted			54.5 %						23.4 %
For the First Nine Months of 2022									
Reported	$ 4,927	$ 5,327	52.0 %	$ 3,418	$ 311	$ (299)	$ (35)	$ 1,932	18.8 %
Items Affecting Comparability:									
Mark to market	(130)	130		(29)	—	—	—	159	
Amortization of intangibles	—	—		(100)	—	—	—	100	
Stock compensation	—	—		(3)	—	—	—	3	
Restructuring and integration costs - DPS Merger	—	—		(89)	—	—	(2)	91	
Productivity	(86)	86		(73)	—	—	—	159	
Impairment of intangible assets	—	—		—	(311)	—	—	311	
Non-routine legal matters	—	—		(9)	—	—	—	9	
COVID-19	(10)	10		(4)	—	—	—	14	
Gain on litigation	—	—		—	—	271	—	(271)	
Transaction costs	—	—		(1)	—	—	—	1	
Foundational projects	—	—		(3)	—	—	—	3	
Adjusted	$ 4,701	$ 5,553	54.2 %	$ 3,107	$ —	$ (28)	$ (37)	$ 2,511	24.5 %

Refer to page 48 for reconciliations of reported net sales to constant currency net sales and adjusted income from operations to constant currency adjusted income from operations.

KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
(Unaudited, in millions, except per share and percentages)

For the First Nine Months of 2023	Interest expense	Loss on early extinguishment of debt	Gain on sale of equity method investment	Impairment of investments and note receivable	Other (income) expense, net	Income before provision for income taxes	Provision for income taxes	Effective tax rate	Net income attributable to KDP	Diluted earnings per share
Reported	$ 432	$ —	$ —	$ —	$ (41)	$ 1,858	$ 370	19.9 %	$ 1,488	$ 1.05
Items Affecting Comparability:										
Mark to market	(74)	—	—	—	16	26	6		20	0.01
Amortization of intangibles	—	—	—	—	—	103	25		78	0.06
Amortization of deferred financing costs	(1)	—	—	—	—	1	—		1	—
Amortization of fair value debt adjustment	(14)	—	—	—	—	14	3		11	0.01
Stock compensation	—	—	—	—	—	13	6		7	—
Restructuring - 2023 CEO Succession and Associated Realignment	—	—	—	—	—	27	6		21	0.01
Productivity	—	—	—	—	—	188	45		143	0.10
Impairment of intangible assets	—	—	—	—	—	2	—		2	—
Non-routine legal matters	—	—	—	—	—	5	1		4	—
Transaction costs	—	—	—	—	—	1	—		1	—
Change in deferred tax liabilities related to goodwill and other intangible assets	—	—	—	—	—	—	28		(28)	(0.02)
Adjusted	$ 343	$ —	$ —	$ —	$ (25)	$ 2,238	$ 490	21.9 %	$ 1,748	$ 1.24
Impact of foreign currency								(0.1) %		
Constant currency adjusted								21.8 %		

Diluted earnings per common share may not foot due to rounding.

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KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED ITEMS TO CERTAIN NON-GAAP ADJUSTED ITEMS
(Unaudited, in millions, except per share and percentages)

For the First Nine Months of 2022	Interest expense	Loss on early extinguishment of debt	Gain on sale of equity method investment	Impairment of investments and note receivable	Other (income) expense, net	Income before provision for income taxes	Provision for income taxes	Effective tax rate	Net income attributable to KDP	Diluted earnings per share
Reported	$ 570	$ 217	$ (50)	$ 12	$ 22	$ 1,161	$ 179	15.4 %	$ 983	$ 0.69
Items Affecting Comparability:										
Mark to market	(247)	—	—	—	—	406	101		305	0.21
Amortization of intangibles	—	—	—	—	—	100	25		75	0.05
Amortization of deferred financing costs	(2)	—	—	—	—	2	—		2	—
Amortization of fair value of debt adjustment	(14)	—	—	—	—	14	3		11	0.01
Stock compensation	—	—	—	—	—	3	(1)		4	—
Restructuring and integration costs - DPS Merger	—	—	—	—	—	91	22		69	0.05
Productivity	—	—	—	—	—	159	32		127	0.09
Impairment of intangible assets	—	—	—	—	—	311	77		234	0.16
Impairment of investment	—	—	—	(12)	—	12	—		12	0.01
Loss on early extinguishment of debt	—	(217)	—	—	—	217	54		163	0.11
Non-routine legal matters	—	—	—	—	—	9	2		7	—
COVID-19	—	—	—	—	—	14	3		11	0.01
Gain on litigation	—	—	—	—	—	(271)	(68)		(203)	(0.14)
Gain on sale of equity-method investment	—	—	50	—	—	(50)	(12)		(38)	(0.03)
Transaction costs	—	—	—	—	—	1	—		1	—
Foundational projects	—	—	—	—	—	3	1		2	—
Change in deferred tax liabilities related to goodwill and other intangible assets	—	—	—	—	—	—	81		(81)	(0.06)
Adjusted	$ 307	$ —	$ —	$ —	$ 22	$ 2,182	$ 499	22.9 %	$ 1,684	$ 1.18
Change - adjusted	11.7 %								3.8 %	5.1 %
Impact of foreign currency	— %								(0.6) %	(1) %
Change - constant currency adjusted	11.7 %								3.2 %	4.2 %

Diluted earnings per common share may not foot due to rounding.

KEURIG DR PEPPER INC.
RECONCILIATION OF CERTAIN REPORTED SEGMENT MEASURES
TO CERTAIN NON-GAAP ADJUSTED AND CURRENCY NEUTRAL ADJUSTED SEGMENT MEASURES
(Unaudited)

(in millions)	Reported	Items Affecting Comparability	Adjusted
For the first nine months of 2023:			
Income from operations			
U.S. Refreshment Beverages	**$ 1,795**	**$ 54**	**$ 1,849**
U.S. Coffee	**775**	**135**	**910**
International	**331**	**14**	**345**
Unallocated corporate costs	**(652)**	**104**	**(548)**
Total income from operations	**$ 2,249**	**$ 307**	**$ 2,556**
For the first nine months of 2022:			
Income from operations			
U.S. Refreshment Beverages	$ 1,554	$ 103	$ 1,657
U.S. Coffee	822	136	958
International	259	20	279
Unallocated corporate costs	(703)	320	(383)
Total income from operations	$ 1,932	$ 579	$ 2,511

	Reported	Impact of Foreign Currency	Constant Currency
For the first nine months of 2023:			
Net sales			
U.S. Refreshment Beverages	10.0 %	— %	10.0 %
U.S. Coffee	(3.4)	—	(3.4)
International	16.2	(4.3)	11.9
Total net sales	6.8	(0.6)	6.2

	Adjusted	Impact of Foreign Currency	Constant Currency Adjusted
For the first nine months of 2023:			
Income from operations			
U.S. Refreshment Beverages	11.6 %	— %	11.6 %
U.S. Coffee	(5.0)	—	(5.0)
International	23.7	(4.3)	19.4
Total income from operations	1.8	(0.5)	1.3

	Reported	Items Affecting Comparability	Adjusted	Impact of Foreign Currency	Constant Currency Adjusted
For the first nine months of 2023:					
Operating margin					
U.S. Refreshment Beverages	27.2 %	0.8 %	28.0 %	— %	28.0 %
U.S. Coffee	26.6	4.6	31.2	—	31.2
International	23.2	1.0	24.2	—	24.2
Total operating margin	20.5	2.8	23.3	0.1	23.4

CONSTANT CURRENCY ADJUSTED RESULTS OF OPERATIONS

First Nine Months of 2023 Compared to First Nine Months of 2022

The following discussion of our results for the first nine months of 2023 is presented on a constant currency adjusted basis. These adjusted financial results are calculated on a constant currency basis by converting our current-period local currency financial results using the prior-period foreign currency exchange rates.

Consolidated Operations

Constant Currency Net Sales. Constant currency net sales increased 6.2% in the first nine months of 2023 compared to the prior year period, driven by favorable net price realization of 7.8%, partially offset by lower volume/mix of 1.6%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations increased 1.3% compared to the prior year period. This increase primarily resulted from the benefits of strong net sales growth and productivity, partially offset by the impacts of broad-based inflation, higher marketing expense, increases in other operating costs, and the unfavorable comparison of a number of prior year benefits. Such prior year benefits included the change in our accounting policy related to the recognition of forfeitures for our stock awards, the asset sale-leaseback activity related to our strategic asset investment program, and the portion of the settlement payment from BodyArmor for the reimbursement of attorney fees.

Constant Currency Adjusted Interest Expense. Constant currency adjusted interest expense increased 11.7% compared to the prior year period, primarily driven by increased use of our commercial paper facility in the current year period.

Constant Currency Adjusted Effective Tax Rate. The constant currency adjusted effective tax rate was 21.8% for the first nine months of 2023 compared to 22.9% for the prior year period, primarily driven by the tax benefit received from favorable adjustments upon foreign tax return filing and excess tax deductions that were generated from the vesting of RSUs during the first quarter of 2023.

Constant Currency Adjusted Net Income Attributable to KDP. Constant currency adjusted net income attributable to KDP increased 3.2% compared to the prior year period, as increased constant currency adjusted income from operations and the decrease in our effective tax rate were partially offset by increased constant currency adjusted interest expense.

Constant Currency Adjusted Diluted EPS. Constant currency adjusted diluted EPS increased approximately 4.2% over the prior year period, driven by lower weighted average shares outstanding compared to the prior year period and the increase in constant currency adjusted net income attributable to KDP.

Results of Operations by Segment

U.S. REFRESHMENT BEVERAGES

Constant Currency Net Sales. Constant currency net sales increased 10.0%, reflecting favorable net price realization of 10.4%, partially offset by unfavorable volume/mix of 0.4%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations for the first nine months of 2023 increased 11.6% compared to the prior year period, driven by the benefits of net sales growth and productivity, partially offset by broad-based inflation, higher marketing expense, the unfavorable comparison to asset sale-leaseback activity in the prior year period, and increases in other operating costs.

U.S. COFFEE

Constant Currency Net Sales. Constant currency net sales decreased 3.4%, driven by unfavorable volume/mix of 6.6%, partially offset by higher net price realization of 3.2%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations decreased 5.0% compared to the prior year period, as a result of inflation in input costs, declines in volume/mix and increased marketing expense. These decreases were partially offset by the benefits of pricing actions and productivity.

INTERNATIONAL

Constant Currency Net Sales. Constant currency net sales increased 11.9%, driven by favorable net price realization of 6.2% and volume/mix growth of 5.7%.

Constant Currency Adjusted Income from Operations. Constant currency adjusted income from operations increased 19.4% compared to the prior year period, driven by the benefits of higher net pricing realization, volume/mix growth, and productivity, partially offset by broad-based inflation.

CRITICAL ACCOUNTING ESTIMATES

The process of preparing our consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. Critical accounting estimates are both fundamental to the portrayal of a company's financial condition and results and require difficult, subjective or complex estimates and assessments. These estimates and judgments are based on historical experience, future expectations and other factors and assumptions we believe to be reasonable under the circumstances. The most significant estimates and judgments are reviewed on an ongoing basis and revised when necessary. These critical accounting estimates are discussed in greater detail in Part II, Item 7 of our Annual Report.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We believe our financial condition and liquidity remain strong. We continue to manage all aspects of our business, including, but not limited to, monitoring the financial health of our customers, suppliers and other third-party relationships, implementing gross margin enhancement strategies through our productivity initiatives, and developing new opportunities for growth such as innovation and agreements with partners to distribute brands that are accretive to our portfolio.

The following summarizes our cash activity for the first nine months of 2023 and 2022:

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Cash, cash equivalents, restricted cash and restricted cash equivalents decreased $275 million from December 31, 2022 to September 30, 2023, primarily driven by the reduction in cash provided by operating activities, which was largely impacted by the reduction in accounts payable, as well as share repurchases and our investment in La Colombe, partially offset by net issuances of commercial paper.

Cash generated by our foreign operations is generally repatriated to the U.S. periodically as working capital funding requirements, where allowed. We do not expect restrictions or taxes on repatriation of cash held outside the U.S. to have a material effect on our overall business, liquidity, financial condition or results of operations for the foreseeable future.

Principal Sources of Capital Resources

Our principal sources of liquidity are our existing cash and cash equivalents, cash generated from our operations and borrowing capacity currently available under our 2022 Revolving Credit Agreement. Additionally, we have an uncommitted commercial paper program where we can issue unsecured commercial paper notes on a private placement basis. Based on our current and anticipated level of operations, we believe that our operating cash flows will be sufficient to meet our anticipated obligations for the next twelve months. To the extent that our operating cash flows are not sufficient to meet our liquidity needs, we may utilize cash on hand or amounts available under our financing arrangements, if necessary. At any time, and from time to time, we may seek additional deleveraging, refinancing or liquidity enhancing transactions, including entering into transactions to repurchase or redeem of outstanding indebtedness, increase the size of our commercial paper program, or otherwise seek transactions to reduce interest expense, extend debt maturities and improve our capital and liquidity structure.

Sources of Liquidity - Operations

Net cash provided by operating activities decreased $1,066 million for the first nine months of 2023, as compared to the first nine months of 2022, driven by the decrease in net income adjusted for non-cash items, led by the unfavorable year-over-year impact of the $349 million gain from BodyArmor in the first nine months of 2022 and changes in our cash conversion cycle.

Cash Conversion Cycle

Our cash conversion cycle is defined as DIO and DSO less DPO. The calculation of each component of the cash conversion cycle is provided below:

Component	**Calculation (on a trailing twelve month basis)**
DIO	(Average inventory divided by cost of sales) * Number of days in the period
DSO	(Accounts receivable divided by net sales) * Number of days in the period
DPO	(Accounts payable * Number of days in the period) divided by cost of sales and SG&A expenses

The following table summarizes our cash conversion cycle:

	September 30,	
	2023	**2022**
DIO	**72**	64
DSO	**32**	39
DPO	**127**	174
Cash conversion cycle	**(23)**	(71)

Our cash conversion cycle increased 48 days to approximately (23) days as of September 30, 2023 as compared to (71) days as of September 30, 2022. The increase in DIO reflects the build up of our inventory of C4, and the decrease in DPO was driven by the reduction of payment terms for certain suppliers.

Accounts Payable Program

As part of our ongoing efforts to improve our cash flow and related liquidity, we work with our suppliers to optimize our terms and conditions, which include the extension of payment terms. Excluding our suppliers who require cash at date of purchase or sale, our current payment terms with our suppliers generally range from 10 to 360 days. We also enter into agreements with third party administrators to allow participating suppliers to track payment obligations from us, and if voluntarily elected by the supplier, sell payment obligations from us to financial institutions. Suppliers can sell one or more of our payment obligations at their sole discretion and our rights and obligations to our suppliers are not impacted. We have no economic interest in a supplier's decision to enter into these agreements and no direct financial relationship with the financial institutions. Our obligations to our suppliers, including amounts due and scheduled payment terms, are not impacted. Refer to Note 13 of the Notes to our Unaudited Condensed Consolidated Financial Statements for additional information on our obligations to participating suppliers.

Sources of Liquidity - Financing

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Refer to Note 2 of the Notes to our Unaudited Condensed Consolidated Financial Statements for management's discussion of our financing arrangements.

We also have an active shelf registration statement, filed with the SEC on August 19, 2022, which allows us to issue an indeterminate number or amount of common stock, preferred stock, debt securities and warrants from time to time in one or more offerings at the direction of our Board.

Sources of Liquidity - Asset Sale-Leaseback Transactions

We have leveraged our strategic asset investment program to create value from certain assets to enable reinvestment in KDP. These transactions are accounted for as sale-leaseback transactions. We received $7 million and $77 million of net cash proceeds from our strategic asset investment program during the first nine months of 2023 and 2022, respectively, which are included in Proceeds from sales of property, plant and equipment in the unaudited Condensed Consolidated Statements of Cash Flows.

Debt Ratings

Our credit ratings are as follows:

Rating Agency	Long-Term Debt Rating	Commercial Paper Rating	Outlook
Moody's	Baa1	P-2	Stable
S&P	BBB	A-2	Stable

These debt and commercial paper ratings impact the interest we pay on our financing arrangements. A downgrade of one or both of our debt and commercial paper ratings could increase our interest expense and decrease the cash available to fund anticipated obligations.

As of September 30, 2023, we were in compliance with all debt covenants and we have no reason to believe that we will be unable to satisfy these covenants.

Principal Uses of Capital Resources

Over the past several years, our principal uses of our capital resources were deleveraging, providing shareholder return to our investors through regular quarterly dividends, and investing in KDP to capture market share and drive growth through innovation and routes to market.

Now that we have met our post-merger goals, we have established a long-term plan to further reduce our leverage ratio. We also plan to invest in inorganic value creation through mergers or acquisitions, which may include portfolio expansion, distribution scale, geographic expansion, and new capabilities. In addition, we have repurchased shares of our outstanding common stock, as described below.

Regular Quarterly Dividends

For the first nine months of 2023, we have declared total dividends of $0.615 per share.

Repurchases of Common Stock

Our Board authorized a four-year share repurchase program, ending December 31, 2025, of up to $4 billion of our outstanding common stock, potentially enabling us to return value to shareholders. We repurchased and retired $457 million of common stock during the first nine months of 2023. As of September 30, 2023, $3,164 million remained available for repurchase under the authorized share repurchase program.

Capital Expenditures

We are investing in state-of-the-art manufacturing and warehousing facilities, including expansive investments in facilities in Spartanburg, South Carolina; and Allentown, Pennsylvania, in 2023 and 2022, in order to optimize our supply chain network.

Purchases of property, plant and equipment were $271 million and $260 million for the first nine months of 2023 and 2022, respectively.

Capital expenditures, which includes both purchases of property, plant and equipment and amounts included in accounts payable and accrued expenses, for the first nine months of 2023 and 2022 primarily related to the manufacturing and warehousing facilities discussed above. Capital expenditures included in accounts payable and accrued expenses were $196 million and $179 million for the first nine months of 2023 and 2022, respectively, which primarily related to these investments.

Investments in Unconsolidated Affiliates

From time to time, we expect to invest in beverage startup companies or in brand ownership companies to grow our presence in certain product categories, or enter into various licensing and distribution agreements to expand our product portfolio. Our investments in beverage startup companies generally involve acquiring a minority interest in equity securities of a company, in certain cases with a protected path to ownership at our future option. Investments in unconsolidated affiliates were $308 million and $48 million for the first nine months of 2023 and 2022, respectively.

Purchases of Intangible Assets

We have invested in the expansion of our DSD network through transactions with strategic independent bottlers or third-party brand ownership companies to ensure competitive distribution scale. From time to time, we additionally acquire brand ownership companies to expand our portfolio. These transactions are generally accounted for as an asset acquisition, as the majority of the transaction price represents the acquisition of an intangible asset. Purchases of intangible assets were $55 million and $41 million for the first nine months of 2023 and 2022, respectively.

Uncertainties and Trends Affecting Liquidity

Disruptions in financial and credit markets, including those caused by inflation, global economic uncertainty and rising interest rates, may impact our ability to manage normal commercial relationships with our customers, suppliers and creditors. These disruptions could have a negative impact on the ability of our customers to timely pay their obligations to us, thus reducing our cash flow, or the ability of our vendors to timely supply materials.

Customer and consumer demand for our products may also be impacted by the risk factors discussed under "Risk Factors" in Part 1, Item 1A of our Annual Report, as well as subsequent filings with the SEC, that could have a material effect on production, delivery and consumption of our products, which could result in a reduction in our sales volume.

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

The Notes are fully and unconditionally guaranteed by certain of our direct and indirect subsidiaries (the "Guarantors"), as defined in the indentures governing the Notes. The Guarantors are 100% owned either directly or indirectly by us and jointly and severally guarantee, subject to the release provisions described below, our obligations under the Notes. None of our subsidiaries organized outside of the U.S., any of the subsidiaries held by Maple Parent Holdings Corp. prior to the DPS Merger or any of the subsidiaries acquired after the DPS Merger (collectively, the "Non-Guarantors") guarantee the Notes. The subsidiary guarantees with respect to the Notes are subject to release upon the occurrence of certain events, including the sale of all or substantially all of a subsidiary's assets, the release of the subsidiary's guarantee of our other indebtedness, our exercise of the legal defeasance option with respect to the Notes and the discharge of our obligations under the applicable indenture.

The following schedules present the summarized financial information for Keurig Dr Pepper Inc. (the “Parent”) and the Guarantors on a combined basis after intercompany eliminations; the Parent and the Guarantors' amounts due from and amounts due to Non-Guarantors are disclosed separately. The consolidating schedules are provided in accordance with the reporting requirements of Rule 13-01 under SEC Regulation S-X for the issuer and guarantor subsidiaries.

The summarized financial information for the Parent and Guarantors were as follows:

(in millions)		For the First Nine Months of 2023
Net sales	**$**	**6,849**
Income from operations		**952**
Net income attributable to KDP		**1,488**

(in millions)		September 30, 2023		December 31, 2022
Current assets	**$**	**1,707**	$	1,712
Non-current assets		**46,442**		45,721
Total assets[(1)]	**$**	**48,149**	$	47,433
Current liabilities	**$**	**6,146**	$	4,797
Non-current liabilities		**16,640**		17,463
Total liabilities[(2)]	**$**	**22,786**	$	22,260

(1) Includes $43 million and $3 million of intercompany receivables due to the Parent and Guarantors from the Non-Guarantors as of September 30, 2023 and December 31, 2022, respectively.
(2) Includes $1,270 million and $1,186 million of intercompany payables due to the Non-Guarantors from the Parent and Guarantors as of September 30, 2023 and December 31, 2022, respectively.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the disclosures on market risk made in our Annual Report.

ITEM 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Based on evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) our management, including our Chief Executive Officer and Chief Financial Officer, has concluded that, as of September 30, 2023, our disclosure controls and procedures are effective to (i) provide reasonable assurance that information required to be disclosed in the Exchange Act filings is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and (ii) ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act are accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) occurred during the quarter ended September 30, 2023 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

We are occasionally subject to litigation or other legal proceedings relating to our business. See Note 14 of the Notes to our Unaudited Condensed Consolidated Financial Statements for more information related to commitments and contingencies, which is incorporated herein by reference.

The Staff of the SEC (the “Staff”) is investigating certain statements by the Company regarding the recyclability of our K-Cup pods, including statements in prior Exchange Act reports. We have been cooperating with this investigation and responding to the Staff’s various requests for information. In the course of cooperating with this investigation, we have reviewed our prior statements about the recyclability of K-Cup pods, and we continue to believe they were appropriate, accurate and in compliance with the securities laws. We cannot predict the timing or eventual outcome of this investigation, but do not expect it to have a material impact on the Company.

ITEM 1A. Risk Factors

There have been no material changes from the risk factors set forth in Part I, Item 1A in our Annual Report.

ITEM 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

On October 1, 2021, our Board authorized a share repurchase program of up to $4 billion of our outstanding common stock, enabling us to opportunistically return value to shareholders. The $4 billion authorization is effective for four years, beginning on January 1, 2022 and expiring on December 31, 2025, and does not require the purchase of any minimum number of shares. We did not repurchase any shares under this program during the third quarter of 2023. As of September 30, 2023, $3,164 million remained available for repurchase under the authorized share repurchase program.

The share repurchase program was authorized prior to the issuance of the Inflation Reduction Act of 2022, which imposes a 1% excise tax on net share repurchases that occur after December 31, 2022. As of September 30, 2023, $3 million was included in additional paid-in capital related to the excise tax associated with shares repurchased during first nine months of 2023.

ITEM 5. Other Information

During the third quarter of 2023, no directors or executive officers of the Company adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement,” as defined in Item 408 of Regulation S-K.

ITEM 6. Exhibits

3.1	Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (filed on May 12, 2008) and incorporated herein by reference).
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. effective as of May 17, 2012 (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q (filed July 26, 2012) and incorporated herein by reference).
3.3	Certificate of Second Amendment to Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. effective as of May 19, 2016 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (filed May 20, 2016) and incorporated herein by reference).
3.4	Certificate of Third Amendment to the Amended and Restated Certificate of Incorporation of Dr Pepper Snapple Group, Inc. effective as of July 9, 2018 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (filed July 9, 2018) and incorporated herein by reference).
3.5	Amended and Restated By-Laws of Keurig Dr Pepper Inc. effective as of July 9, 2018 (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K (filed July 9, 2018) and incorporated herein by reference).
10.1*	Letter Agreement by and between the Company and Timothy Cofer dated September 18, 2023.++
31.1*	Certification of Chief Executive Officer of Keurig Dr Pepper Inc. pursuant to Rule 13a-14(a) or 15d-14(a) promulgated under the Exchange Act.
31.2*	Certification of Chief Financial Officer of Keurig Dr Pepper Inc. pursuant to Rule 13a-14(a) or 15d-14(a) promulgated under the Exchange Act.
32.1**	Certification of Chief Executive Officer of Keurig Dr Pepper Inc. pursuant to Rule 13a-14(b) or 15d-14(b) promulgated under the Exchange Act, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2**	Certification of Chief Financial Officer of Keurig Dr Pepper Inc. pursuant to Rule 13a-14(b) or 15d-14(b) promulgated under the Exchange Act, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
101*	The following financial information from Keurig Dr Pepper Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, formatted in Inline XBRL: (i) Condensed Consolidated Statements of Income, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows, (v) Condensed Consolidated Statement of Changes in Stockholders' Equity, and (vi) the Notes to Condensed Consolidated Financial Statements. The Instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
104*	The cover page from this Quarterly Report on Form 10-Q, formatted as Inline XBRL.

* Filed herewith.
** Furnished herewith.
++ Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Keurig Dr Pepper Inc.	
By:	/s/ Sudhanshu Priyadarshi
Name:	Sudhanshu Priyadarshi
Title:	Chief Financial Officer
	(Principal Financial Officer)

Date: October 26, 2023