

Keurig Dr Pepper

First Quarter 2024 Earnings

April 25, 2024, 8:00am ET

CORPORATE PARTICIPANTS

Jane Gelfand - *Vice President of Investor Relations and Strategic Initiatives*

Bob Gamgort - *Chairman and CEO*

Tim Cofer - *Incoming CEO and Chief Operating Officer*

Sudhanshu Priyadarshi - *Chief Financial Officer and President, International*

PRESENTATION

Operator

Good day, and welcome to the Keurig Dr Pepper first quarter 2024 earnings conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the “*” key followed by “0.”

After today’s presentation, there will be an opportunity to ask questions. To ask a question, you may press “*” then “1” on a touchtone phone. To withdraw your question, please press “*” then “2.” Please note this event is being recorded. I would now like to introduce the company’s Vice President of Investor Relations and Strategic Initiatives, Jane Gelfand. Please go ahead.

Jane Gelfand

Thank you, and hello, everyone. Earlier this morning, we issued a press release detailing our first quarter results, which we will discuss during this conference call. We have also added a slide presentation to our earnings materials. The slides accompany our prepared remarks and can be tracked in real-time on the live webcast. They will be archived on our IR website afterwards.

Before we get started, I’d like to remind you that our remarks will include forward-looking statements, which reflect KDP’s judgment, assumptions, and analysis only as of today. Our actual results may differ materially from current expectations based on a number of factors affecting KDP’s business. Except as required by law, we do not undertake any obligation to update any forward-looking statements discussed today. For more information, please refer to our earnings release and the risk factors discussed in our most recent Forms 10-K and 10-Q filed with the SEC.

Consistent with previous quarters, we will be discussing our Q1 performance on a non-GAAP adjusted basis, which reflects constant currency growth rates and excludes items affecting comparability. Definitions and reconciliations to the most directly comparable GAAP metrics are included in our earnings materials.

Here with us today to discuss our results are Keurig Dr Pepper’s Chairman and CEO, Bob Gamgort; incoming CEO and Chief Operating Officer, Tim Cofer; and Chief Financial Officer and President, International, Sudhanshu Priyadarshi. I’ll now turn it over to Bob.

Bob Gamgort

Thanks, Jane, and good morning, everyone. It has been a busy and exciting start to the year at KDP. First quarter performance was strong with solid consolidated sales growth and double-digit EPS growth. Momentum in our U.S. Refreshment Beverages and International segments remained healthy, and U.S. Coffee results showed meaningful sequential recovery. We invested in marketing and capabilities across the business, while also delivering attractive, broad-based margin expansion. The strong start to the year enhances our visibility to an unchanged, on-algorithm 2024 growth outlook.

In Q1, we also advanced several strategic initiatives that position the company for multi-year success and demonstrate our confidence in the value creation opportunity ahead. First, we unveiled a revolutionary future vision for the Keurig brewing system, that has been years in the making. When launched, our new, proprietary K-Rounds plastic- and aluminum-free pods and Keurig Alta brewers will enable consumers to brew a wide variety of hot and cold barista-style beverages from a single machine, using a pod that can be easily and sustainably disposed. This system has the potential to redefine how consumers brew coffee for decades to come, and we

are excited to begin beta testing, later this year. At the same time, we are committed to growing our pre-eminent, existing K-Cup system, including through a strong slate of innovation in 2024.

Second, in Q1, we also took advantage of a highly compelling and dislocated stock valuation, by executing a \$1.1 billion dollar buyback of 38 million KDP shares. This was our largest quarterly share repurchase in our history. We have progressively increased our buyback activity over the past several years and, with another \$1.8 billion dollars remaining on our authorization, we intend to stay opportunistic, when we see attractive value in our shares.

Third, we introduced our evolved enterprise strategy, which we unveiled at an investor day hosted last month. This strategic framework combines many of the philosophies and practices that KDP has developed over the last five years with new elements intended to drive strong and self-reinforcing growth in our next chapter as a public company. Many elements of this strategy were already evident in our first quarter results.

Finally, this morning we announced that Tim has been appointed KDP CEO and will join our Board effective tomorrow, marking the culmination of a robust transition process that began when he joined us in November. I have worked closely with Tim over the past several months and have seen firsthand how our company is benefiting from his deep and diversified CPG experience, strategic vision, and personification of our Challenger culture. I look forward to continuing to partner with Tim and the broader leadership team in my ongoing capacity as KDP's Executive Chairman and could not be more confident in their stewardship of the company's next chapter. With that, I will turn the call over to Tim.

Tim Cofer

Thanks, Bob, and good morning, everyone. Let me start by once again expressing my appreciation to Bob and our Board of Directors for the honor and privilege of leading this dynamic company into the future. I'm energized to partner with our 28,000 colleagues across the globe to build on KDP's strong track record and to guide our next chapter of growth and value creation.

I see a tremendous amount of upside ahead. At our recent investor day, I shared the many elements behind my conviction and discussed how we intend to unlock this future opportunity. If you've not yet had the chance, I would encourage you to watch the replay of that event.

As Bob mentioned, we recently introduced an evolved strategy, which is anchored by five strategic pillars. These are effectively a roadmap to guide each of our employees' actions every day, and it includes directives to; Champion Consumer Obsessed Brand Building; Shape our Now and Next Beverage Portfolio; Amplify our Route to Market Advantage; Generate Fuel for Growth; and Dynamically Allocate Capital. This strategic framework will guide our company over the next few years and is designed to deliver a sustainable cycle of growth. Each element of this strategy featured in the first quarter, which represented a strong start to the year.

Net sales growth accelerated sequentially, with continued momentum in U.S. Refreshment Beverages and International and meaningful progress in U.S. Coffee. Gross margin expanded significantly, driven primarily by robust net productivity, which funded reinvestment to support our future growth and drove strong earnings growth in the quarter. And we flexed our capital allocation priorities toward direct shareholder returns, taking advantage of a unique opportunity to efficiently repurchase a large number of shares at an attractive valuation. Overall, our first quarter performance demonstrates the health of our business and provides enhanced visibility to our unchanged full year outlook for mid-single digit net sales and high-single digit EPS growth.

Taking a closer look at the intersection of strategy and Q1 results, we were encouraged by the quarter-over-quarter acceleration in net sales growth to nearly 3%. Though top-line momentum remained pricing-led, volume/mix improved to nearly flat, following declines during 2023. Consumer-led innovation, leveraging our comprehensive demand space framework, was an important contributor to this improvement.

Here are two quick examples: In U.S. Refreshment Beverages, we launched Canada Dry Fruit Splash, a flavor extension of our second largest CSD brand. The innovation is performing well during the early launch phase, proving incremental to the Canada Dry franchise and driving market share gains. In International, we introduced Schweppes Mocktails as the first canned mocktail product in Mexico, securing distribution with several large customers and generating very strong initial consumer acceptance. The launch is already exceeding our plan and we have yet to turn on the advertising.

Innovation activity ramps across our portfolio in Q2 and we're excited to build on our initial momentum as we move through 2024. Our top-line growth during the first quarter also reflected the continued successful execution of our partner strategy. Electrolit sales and distribution commenced in the quarter and La Colombe ready-to-drink beverages are now ramping through the system, with smooth distributor handovers and early traction. C4 Energy also continues to grow strongly, and we achieved further key performance milestones in Q1. DSD execution is a key enabler to this success, and we continue to invest to drive greater efficiency throughout the system.

Improving first quarter trends in U.S. Coffee owned & licensed brands, illustrate our commercial and route-to-market effectiveness. Our owned & licensed market share began a recovery, which steadily strengthened throughout the quarter. Distribution growth, increased display activity, price gap management, and increased marketing all contributed, and this better trajectory has sustained quarter-to-date with more high-quality activation to come later this year.

Total KDP gross margin expanded 350 basis points in the first quarter and gross profit dollars grew approximately 10%. This strong performance reflected an enterprise-wide focus on productivity, which yielded meaningful benefits during the quarter and more than offset persistent inflation, as well as the benefit from an additional C4 performance incentive.

Our gross profit progress provided important fuel for growth, funding reinvestment, including a double-digit increase in marketing, and also contributed to the very strong bottom-line results in Q1. Specifically, operating income grew an impressive 17.5% year-over-year and Earnings per Share advanced 12%, ahead of our in-going expectations.

With top-line momentum expected to build from here, I'll now spend a few minutes discussing each of our segments' Q1 net sales performance and why we have confidence in the balance of the year. Let's start with U.S. Refreshment Beverages. Revenue momentum remained healthy, with mid-single-digit net sales growth in the quarter. Our performance was led by solid growth in CSDs and our expansion in energy and sports hydration, partially offset by softer trends in certain still beverage categories.

As anticipated, segment growth moderated from Q4, as we lapped year-ago pricing measures and due to innovation timing, which phases later in 2024, when compared to 2023. In Q1, we anniversaried the launch of Dr Pepper Strawberries & Cream, which was a standout success and went on to become the #1 CSD category innovation of 2023.

Looking ahead, we expect an exciting 2024 innovation and brand activation slate to drive a larger sales contribution in future periods. Our Dr Pepper Creamy Coconut limited time offering is launching as we speak, just in time for the summer season, and it capitalizes on the popular “Dirty Soda” social media trend. The complete restage of Bai Wonder Water is just beginning to roll out, and our Core Hydration partnership with U.S. Gymnastics will be activated during the Summer Olympics. We expect these collective activities will have a larger impact in the back half. In addition, our partnership with C4 should continue to enjoy good momentum and our sales and distribution of Electrolit will build over the course of the year.

While the magnitude of overall U.S. Refreshment Beverage pricing should moderate going forward, as we increasingly anniversary year-ago activity, some modest incremental pricing across CSDs was announced earlier this year and will contribute to growth. We also continue to optimize price pack architecture to fit consumer needs across the portfolio and various channels.

Moving now to U.S. Coffee. As expected, net sales strengthened considerably relative to the fourth quarter and decreased at a more modest low-single-digit rate in Q1. Notably, volume/mix was basically flat, improving from a high-single-digit decline last year. There were a number of “green shoots” in the quarter for U.S. Coffee.

Let me outline five key elements that bolster our confidence in continued top-line recovery in the segment. First, our pod shipment trends improved sequentially. Though at-home coffee category consumption growth remains muted, the trend modestly recovered relative to Q4. More importantly, Keurig’s own volume momentum accelerated throughout the quarter.

Second, our owned and licensed brand market share momentum is building, which is a mix-accretive trend. In Q1, we grew owned and licensed total distribution points at a double-digit rate, we increased display activity, and supported our brands with higher marketing. In addition, we made tactical adjustments to appropriately align our promotion strategy. This is already having an impact and will allow greater innovation, marketing, and activation to shine through in the balance of the year. Owned and licensed share momentum progressively strengthened throughout the quarter, and we expect the trend to continue, supported in part by upcoming price-pack architecture changes to strengthen the value proposition.

Third, within the coffee maker category, Keurig and Keurig-compatible brewers also continued to gain share in Q1, extending a multiyear track record of outperformance. An exciting innovation, like K-Brew + Chill, which has not yet launched and will hit retailer shelves later this year, should further support our performance.

Fourth, as our volume in U.S. Coffee improves, so does our ability to manufacture at a more attractive cost profile. We generated strong productivity during the first quarter, which drove healthy segment margin expansion and funded reinvestment. We’re also beginning to optimize our manufacturing footprint to favor high efficiency locations like Spartanburg, where capacity is ramping and unlocking further network optionality, which should also generate fuel for growth.

And finally, fifth, the Keurig partnership proposition remains very strong, as evidenced by multiple recent brand additions to our ecosystem. Lavazza will transition from a partner to a licensed brand during the second quarter. Also, in Q1, we reached agreements to welcome Brooklyn Roasting Company, Shark Tank-favorite Kahawa 1893 Coffee, and Canadian super-premium brand Kicking Horse to our roster. And, just this morning, we are announcing the addition of Black Rifle Coffee as a new partner. Black Rifle Coffee’s success in the coffee industry is already well-established and their decision to evolve to a Keurig system partner speaks to the full value

proposition of our stewardship of the single-serve category. Our La Colombe ready-to-drink coffee partnership is yet another proof point and is just now beginning to scale. In total, these exciting partnerships will begin to contribute to U.S. Coffee segment volume growth, later in 2024.

Moving on to International, which is becoming an increasingly significant part of our business and is a core part of our strategic agenda. The segment's strong sales performance continued into the first quarter, with high-single-digit growth on a constant currency basis and broad-based strength across categories and markets.

Our cold beverages portfolio performed particularly well in Latin America, reflecting continued strong DSD execution. Performance was led by our powerhouse Peñafiel brand, which continues to enjoy strong base momentum even as we extend the brand into new adjacencies. For instance, we recently launched Peñafiel soft seltzers, which offer sparkling mineral water with a refreshing touch of flavor, no calories, no sugar, and with 100% natural flavors.

We also further grew our segment presence in the low- and no-alcohol alternatives category, with continued share gains for Atypique in Canada and strong retail and consumer reception for our launch of Schweppes Mocktails in Mexico. In our Canadian coffee business, market share grew for Keurig brewers and for our owned and licensed pod portfolio, led by the Van Houtte brand.

As in the U.S., we continue to strengthen our international route to market, and earlier this month we announced a multi-year partnership with the Toronto Blue Jays for pour rights at their ballpark. We're excited to expand Canada Dry, Dr Pepper, Clamato, Crush, and Atypique within the on-premise channel and will continue to seek out opportunities to thoughtfully build the distribution of our brands outside the U.S.

In short, we're pleased with the promising start to the year. We demonstrated sequential top-line progress in the quarter and delivered broad-based growth in Adjusted operating income and margins across our segments. We did this while simultaneously funding high-quality reinvestment in our brands and capabilities. Sudhanshu will speak more about our margin progress and our intention to continue balancing growth and reinvestment in the coming quarters. We're confident this approach will reinforce our 2024 outlook for on-algorithm top-and bottom-line growth, which remains unchanged, while also powering a virtuous cycle of growth over a multi-year timeframe. With that, I'll turn the call over to Sudhanshu.

Sudhanshu Priyadarshi

Thanks, Tim, and good morning, everyone. Our Q1 results were strong, demonstrating sequentially improving net sales growth, continued meaningful gross margin expansion, and incremental investments in marketing and capabilities. With EPS ahead of our plan, we intend to use Q1 upside as additional fuel for reinvestment, to support revenue growth over the balance of the year and as buffer against pockets of reemerging commodity inflation.

First quarter net revenue grew 2.8% in constant currency. Healthy momentum continued in our U.S. Refreshment Beverages and International segments, and we are encouraged by the sequential top-line recovery in U.S. Coffee.

On a consolidated basis, we realized positive net pricing, up 3.1% year over year. This was driven by favorable pricing in our U.S. Refreshment Beverages and International portfolios, balanced against previously flagged targeted price investments in U.S. Coffee. Importantly, consolidated volume/mix improved to nearly flat year-over-year, showing a modest 0.3% decline in the quarter.

Gross margin expanded significantly, up 350 basis points, driven by the favorable combined impact of productivity, pricing, and normalizing inflation. Gross margins also reflected a performance incentive, related to strong commercial execution of our C4 partnership. This benefit contributed slightly over 100 basis points to the gross margin in the quarter and now offers us extra flexibility to drive future reinvestment. SG&A deleveraged 50 basis points in Q1, due in part to a double-digit increase in marketing. All in, total company operating income grew very strongly, up 17.5% year-over-year, with EPS increasing 12%.

Moving to the segments, U.S. Refreshment Beverages net sales grew 4.3%, led by 5.6 percentage points of pricing. Elasticities remain manageable across most categories and volume/mix declined 1.3%, including an initial contribution from our Electrolit partnership. As expected, our relative market share and net sales performance reflected a later innovation cadence relative to 2023, particularly in CSDs.

These calendar differences will normalize as new products get introduced and our innovation gains traction. In other words, segment net sales drivers should rebalance further towards volume/mix, as market share performance improves and as the magnitude of pricing contribution moderates considerably from here.

Segment operating income grew an impressive 22.4% in the quarter and margins expanded 440 basis points. Tailwinds included pricing, strong productivity, and the C4 performance incentive I mentioned earlier. This combination of factors helped fund higher marketing in the quarter. All in, we have good line of sight to continued operating income gains in U.S. Refreshment Beverages over the balance of the year, though not at the same magnitude as we experienced over the last couple of quarters.

U.S. Coffee top-line trends significantly recovered, relative to Q4, as expected. While net sales declined 2.1%, volume/mix was close to flat, down a modest 0.3% year-over-year. Pod shipments continued their multi-quarter improvement trajectory and decreased 1.1%. This progress was driven by a steady recovery in volume and market share momentum across our owned and licensed portfolio during the quarter. With multiple elements underpinning this trend, including greater distribution and display and a more appropriately aligned promotional strategy, we expect innovation and activation to begin having an even greater impact in the balance of the year.

Brewer shipments increased 26% in Q1, due to a combination of improving trends in the coffee maker category, continued Keurig market share gains, and timing benefits. On a rolling 12-month basis, which smooths out some of the inherent quarterly brewer volatility, shipments are still down just under 2%, representing an improving trend versus the double-digit decline we experienced in 2023.

Segment net pricing decreased 1.8%, primarily due to previously discussed promotional adjustments across our owned and licensed portfolio. This is in response to competitive activity that began in Q3 last year and continues today. These recalibrations more than offset the continued benefit of pricing we are realizing through partner contracts, while improving segment mix.

U.S. Coffee operating income advanced 1.4% and margins expanded 110 basis points versus the prior year, driven by productivity savings and easing cost pressures, partially offset by higher marketing spend. As expected, the rate of segment margin expansion moderated versus the back half of 2023, as we are managing towards a more balanced top- and bottom-line outcome in this segment in 2024. We are pleased with the progress we made during Q1.

International segment net sales grew 11.8%. On a constant currency basis, sales increased 7.0%, with very solid volume/mix growth of 4.8% and pricing up 2.2% year-over-year. Our performance included growth across markets and categories, with particular strength in Latin American LRBs.

Segment operating income advanced very strongly, up 25.0% in constant currency terms. Volume/mix growth, pricing, and productivity netted favorably against inflation and higher marketing. We also continue to invest in route to market capabilities, including the on-premise expansion in Canada that Tim mentioned and by strengthening our DSD network in Mexico. Given its outsized growth potential, investing in our international business is a significant priority and should support an increased top- and bottom-line contribution from the segment in 2024 and over time.

Moving to the balance sheet and cash flow. Our Q1 free cash flow represented a use of \$73 million dollars. Cash generation is seasonally lower during the first quarter and the year-over-year difference in free cash flow versus Q1 2023 was largely a function of a front-loaded cadence to our capex investments this year. In absolute terms, free cash flow also remained weighed down by roughly \$400 million of reductions in supplier financing arrangements. We expect the impact of the carryover effects of these changes to moderate over the coming quarters and for free cash flow to accelerate with full year conversion projected considerably ahead of 2023 levels.

This will support our capital allocation agenda. Our priorities include making organic and inorganic investments to further our growth, continuing to strengthen our balance sheet, and returning cash to shareholders through a steadily growing dividend and via opportunistic share buybacks. We will remain dynamic in managing across these priorities at any point in time, with a balanced approach over the long-term. For example, in Q1, we repurchased 38 million shares for a total of \$1.1 billion, taking advantage of an attractive valuation and the liquidity event presented by JAB's secondary offering. Though our management leverage ratio increased modestly as a result, we remain committed to our long-term target of 2 to 2.5x.

Moving now to our 2024 guidance. On a constant currency basis, we continue to expect mid-single-digit net sales and high-single-digit EPS growth in 2024 – both consistent with our long-term financial algorithm. Our plans continue to embed strong top-line momentum in our U.S. Refreshment Beverages and International segments, with a relatively muted growth contribution from U.S. Coffee.

We expect robust productivity savings to help offset a more normal level of inflation. There are, however, pockets of reemerging commodity inflation, for instance in the green coffee price. We will need to monitor and manage these, particularly in the back half. Throughout the balance of the year, we also plan to continue to deploy investment dollars behind brands and capabilities to support our top-line growth.

The incremental flexibility afforded to us by our Q1 outperformance should enable us to balance these considerations. As a result, we continue to anticipate healthy operating profit growth and full year operating margin expansion on a consolidated basis. Consistent with our original guide, we expect some of this operating momentum to be offset by a net headwind from below-the-line items, constraining operating profit flow-through to EPS.

Our '24 outlook embeds the following below-the-line assumptions, which now reflect share repurchase and financing activity from Q1: Interest expense in a \$625 to \$645 million range for

the full year; an effective tax rate of approximately 22-23%; and approximately 1.37 billion diluted weighted average shares outstanding.

In closing, we are pleased with the stronger than anticipated start to the year, which bolsters our confidence in our ability to deliver on our full year guidance while fueling a virtuous cycle for the long-term. With that, I will now turn the call back to Tim to close.

Tim Cofer

Thanks, Sudhanshu. Before we move to Q&A, I want to thank our KDP colleagues for embodying our company's Challenger mindset every day. In Q1, we collectively put the business on an accelerating path in a dynamic macro environment. Strong execution was visible across our results and in every country and market in which we compete. We intend to keep building momentum as the year progresses.

Bob, Sudhanshu, the broader executive team, and I feel the team's energy and enthusiasm for KDP's evolved strategy, which was particularly evident at this month's annual summit of the company's top leaders. Together, we're excited to activate this strategy to unlock considerable future value for our shareholders. Thanks for the time, and we're now happy to take your questions.

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. In the interest of time, please limit yourself to one question and one follow up. If at any time your question has been addressed and you would like to withdraw your question, please press "*" then "2." At this time, we will pause momentarily to assemble our roster. The first question today comes from Bryan Spillane with Bank of America. Please go ahead.

Brian Spillane

Hey. Thanks, Operator. Good morning, everyone. Tim, congratulations on the new role. And Bob, hopefully, it sticks this time, right? I don't want you to come back.

Robert Gamgort

I'm confident it will, Brian.

Tim Cofer

Thank you, Brian.

Brian Spillane

So Sudhanshu, I just wanted to pick up on the comment you made about inflation and understand green coffee cost. If you could also give us a perspective on aluminum, just there's -- given the headlines about the sanctions and just the potential increases in aluminum cost, how we should be thinking about that.

And Tim, maybe just on the coffee point, if we're going to see green coffee inflation, but we've also been discounting to get price points in line with where consumers see value, how do we just think about managing margins in coffee if we do see a sustained increase in green coffee costs?

Sudhanshu Priyadarshi

Good morning, Brian. Let me take the first inflation question, and then Tim will take— take the next question. So, our inflation, we continue to expect some inflation in 2024 overall, but at a more moderate level than in recent year. We talked about green coffee. We're also seeing inflation in aluminum. But as you know, we manage it within our guidance, within our range of outcomes, and we have factored all of these inflation and commodity, and we also hedge some stuff for six to nine months in our guidance. So, our overall guidance for the year, which is mid-single-digit top line and high single-digit EPS factors in all of these scenarios.

Tim Cofer

Yeah, Brian, I'll take the second part of your question. I mean, stepping back on coffee, obviously, as the pioneers of single-serve coffee here in the U.S. and the steward of the category, with almost 80% share of manufactured pods, our primary focus is on growing the entire ecosystem. And that's quite honestly more important than maximizing market share of any given brand.

We aren't particularly interested in competing on price. But at the same time and to your point, we did make some decisions of late to protect, particularly our owned and licensed brand portfolio, when we felt that our competitive positioning was impacted based on some competitive movement that we saw in the back half of last year. So, we did make the decision to adjust the pricing really a couple of points around price gaps.

Having said that, Brian, I would say when you look at our first quarter results, yes, there were some tactical promotional adjustments. But we also grew our owned and licensed distribution points at a double-digit rate. We increased display activity. We also increased brand support, brought some innovation, and I think all of these factors contributed to important strengthening of our business on owned and licensed.

And I expect going forward, other activity around the innovation agenda, you've heard us talk about, both on pods and brewers, accelerated marketing and activation will help us drive continued strength in -- or I would say, improving sequential strength in coffee for the balance of the year.

Operator

The next question is from Lauren Lieberman with Barclays. Please go ahead.

Lauren Lieberman

Great. Thanks. Good morning. I wanted to talk a little bit about marketing in coffee, because one of the things that I've been thinking about recently is that the messaging that you've shared with the Street, the messaging on affordability, some of the advertising you've shared, all feels very spot on. And yet, perhaps over the last 12 months, you haven't had the reach to consumers or the impact to consumers that you might have hoped on some communication messages.

And so as we're thinking about affordability still being very much a concern and I would think a selling point of single-serve Keurig coffee and also the launch of iced, or sorry, the chill machine, I want to hear a little bit more about maybe how you're targeting or approaching marketing differently, key channels to reach the consumer, and what you might be doing to kind of turn up the volume or do things a bit differently than you did in 2023, to get better reach with those messages. Thank you.

Tim Cofer

Absolutely. So we are seeing and we saw this quarter an increase in our total marketing investment on coffee. And I think as we've realigned, back to the question that Brian asked,

making sure that from a price point standpoint, we feel good about our owned and licensed brand. It's an opportunity now for our marketing and innovation to work even harder.

I think there's -- we're employing what we characterize as a bit of a barbell strategy, reflecting both the opportunity to reinforce value on our pod business, as well as drive on the premium side. When you look at the consumer broadly, you do see at the higher income levels a really robust participation in the Keurig ecosystem and actually growing sales. Where we see a little bit more pressure of late is on the lower and mid income.

And to that end, you will see new marketing or in coming -- starting in the second quarter that is more sharply focused on a value message, particularly against a broader frame of away-from-home coffee. While at-home coffee represents three-quarters of the volume, away-from-home coffee is the larger dollar ring. And we think in today's economic environment and given the quality and variety that we're providing, a sharper, value-based message will be one that's well received. And we -- you will see that activated as of Q2 this year. So that's yet to come.

Another one is around our iced and cold platform. And indeed launching the refreshers that we've done, which is obviously a big part of away-from-home coffee shop experience as well as new iced pods and the new Brew + Chill brewer that will be launching in the fall, that will also be incremental and new marketing against that platform, which I think is a big source of growth opportunity for us.

And then, finally, on the premium, on premium and super premium, we've really rounded out our roster. I made reference to a number of new partners into the Keurig ecosystem at the premium and super premium level. You will see marketing against that. And I'd be remiss if I didn't mention as well from a total coffee consumption standpoint the big opportunity around ready-to-drink and single-serve with our La Colombe partnership. And you'll see marketing against that. So, I think we've got a stacked series of new news, both in terms of innovation and marketing messaging. Most of that is yet to come as we go through the year.

Operator

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

Christopher Carey

Hi. Good morning.

Tim Cofer

Good morning, Chris.

Christopher Carey

So, two quick questions. First on the coffee business. So, adding Black Rifle, very interesting development. Can you just talk about how that partnership came to be and whether this makes you more confident on your ability to continue to see sequential improvement in your coffee volumes into the back half of the year and perhaps into 2025, just given the momentum around that business? And then, if I could, just on the cold side, Sudhanshu mentioned some of the innovation timing dynamics of the underlying cold business. Would you expect those to start looking better as innovation comes to market? And can you just remind us on timing of the innovation suite, specifically with Creamy Coconut? Thanks so much.

Tim Cofer

Sure. So, first on Black Rifle, as I mentioned in my prepared remarks, we are excited to welcome Black Rifle into the Keurig ecosystem. I think Black Rifle's coffee success, I'm sure you know it, Chris, is already well established in the coffee industry. And I think their decision to evolve to a Keurig system partner really reinforces our full value proposition and our stewardship as the single-serve category leader. So pleased with that development.

Bigger picture, and I referenced it in the prepared remarks, we partner with a broad range of coffee brands nationwide and we're about offering consumers choice and variety and a great high-quality cup of coffee and really providing consumers the diversity of their preferences. And Black Rifle Coffee is the newest addition, but it's one of many and one that we feel good joining our system.

As it relates to cold and refreshment beverage, indeed, we have a slightly different phasing of the major innovation on our refreshment beverage this year versus last year. We mentioned this in our February call. But when you look at our relative market share here in Q1, we're under a little bit of pressure right now. We expected that. It reflects that later innovation cadence.

And the one I draw your attention to was really a blockbuster for us last year, and that was Dr Pepper Strawberries & Cream. It launched early in the first quarter of last year. It enjoyed a very strong start. And in fact, it became the #1 CSD category innovation in the industry in 2023. This year, we're seeing a slightly later phasing of that. So, as we speak, we're launching Dr Pepper Creamy Coconut. You can find it in your local store. It's a great product. We're also rolling out a complete restage of our Baistill portfolio under the banner of Bai Wonderwater in partnership with Sydney Sweeny.

We're launching, or I would say, reinvigorating our Core water business, hydration business, with U.S. gymnastics partnership. So, we've got a lot of activity that really is starting now in Q2 and will ramp into the back half of the year. On top of that, I would mention what you know as well, which is continued strong C4 contribution and a continuing distribution ramp of our Electrolit partnership. Therefore, you see more of the firepower hitting in the back half of '24 versus '23.

Operator

The next question comes from Peter Grom with UBS. Please go ahead.

Peter Grom

Thanks, Operator. And good morning, everyone. So maybe building on the partner brands, I was hoping to get some color on C4. Maybe first, I would just love to get your perspective on kind of what you're seeing from the category more broadly. Trends have moderated quite a bit across the board. So just any thoughts on what you think could be driving that.

And then just on C4 specifically, continued strong growth, some share gains here. Do you have visibility on where you're sourcing these share gains from? Do you think it's coming from kind of the legacy brands like Monster or Redbull? Or do you really think it's coming at the expense of maybe some of the other performance energy drink brands? Thanks.

Timothy Cofer

Yeah. Yeah, absolutely. Well, hey, we continue to be really pleased with our partnership with C4. I think I shared at Investor Day as of that moment with since KDP took the distribution partnership with C4 and we made that minority investment stake, TDPs are up close to 60%, sales are up 65%, and we continue to see growth potential for C4. C4 has got some exciting innovation this year around flavor extensions and around sizing and packaging configurations as well.

Indeed, the Energy segment broadly, as you mentioned, Peter, has seen some softening versus what was a multiyear run. I think energy remains very much a resilient category and one that, particularly among GenZennials, will continue to play a huge role in daily beverage choice. As it relates to sourcing, we see sourcing broadly. I'm not going to get into specifics around any given competitors, but I think it's both sourcing from other large players in energy as well as broader liquid refreshment beverage, particularly among youth, as they make various choices on their caffeine carrier.

Operator

The next question comes from Steve Powers with Deutsche Bank. Please go ahead.

Stephen Powers

Hey, great. Good morning. Thank you. And congrats, Tim and Bob as well from me. Tim, I wanted to play back what you said just a couple of minutes ago on the cadence of sequential improvement in underlying refreshment beverage performance. It sounds like with the innovation you're launching now in CSDs and then the Bai relaunch, et cetera, it sounds like we should see sequential improvement in market share this quarter as we're looking at consumption data, but the full financial impact is going to be more skewed to the second half. I just want to make sure I got that right.

Tim Cofer

That's correct.

Stephen Powers

Okay. Great. And then if I could take a longer-term perspective with respect to the Alter, I'm sorry, the Alta brewer system. As you pursue that, I was just curious as to the engagement you expect from some of your partners. And as you beta test and scale, do you expect to do that with a relatively full brand assortment? Or is that more of a longer-term endeavor?

Bob Gamgort

Yeah, Steve, it's Bob. On the Alta system, obviously, we're excited about its potential to continue to drive growth in the total single serve category. And as Tim, I think, nicely said earlier, that is our top priority. We previewed the system with all of our partners, and they've been involved every step of the way. And our decision on how we roll out the system, which brands are in initially, and how we continue to execute that over time, we're still very much in the early stages of that, but it's an active conversation with the partners.

Operator

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

Robert Ottenstein

Great. Thank you. Two kind of follow-ups. First, on the pod business, could you remind us or maybe update us, just in terms of what the business mix looks like between own, license, partner, private label so we just kind of level set where we are on that? And then, you know, and related to that, is there any change in strategy in terms of how you're looking at those categories and your emphasis? Or is it just pretty much as it has been?

And then second question, great to see all the share buybacks. Does the commitment to the share buybacks, is it purely opportunistic? Or does it, in any way reflect even a slight philosophical

change from where you were three or four years ago, let's say, in terms of use of excess cash flow, maybe a slight pivot towards share buybacks versus inorganic growth. Thank you.

Tim Cofer

Yeah. I'll take the first question on pods, and then I'll defer to Sudhanshu on the second part of your question. I mean, broadly, and you see this in the syndicated data when you look at the full estate around pods, you're looking at roughly, I'll do round numbers here, around 50% is our partners, 25% owned and licensed, 25% -- well, 20% private label. So that's the broad makeup of the mix.

And I, you know, our strategy hasn't changed. As I said at the beginning, we are stewards of the entire category. Our responsibility is to grow the category and grow the entire ecosystem. Obviously, owned and licensed brand give us an additional mix benefit and one that we keep an eye on and want to be sure that they continue to stay robust. I made some comments both in the prepared remarks and an earlier Q&A on what we've done to not only protect that franchise but also to grow it. And I think we've got a great innovation slate and a series of marketing initiatives year to go -- to keep our owned and licensed business robust, but very much view ourselves as stewards of the entire category. And then I'll pass to Sudhanshu.

Sudhanshu Priyadarshi

Yeah. So, regarding the share buyback, as you know, we had \$4 billion worth of authorization, and it is opportunistic for us. Our number one priority in capital allocation is investment in our own business, organic and inorganic growth. Number 2 is maintaining the strong balance sheet, our long-term leverage target of 2x to 2.5x. But we keep it very dynamic in terms of how we manage quarter after quarter, year after year.

So, you saw us, we saw opportunistic pricing with JAB secondary sales, and we purchased 38 million shares in 2024. 2023, we purchased close to 22 million shares. And in 2022, we purchased 11 million shares. We still have \$1.8 billion remaining on our share repurchase, but we will continue to be opportunistic. When we see value in our stock price, we will go and buy back shares.

Operator

The next question comes from Andrea Teixeira with JPMorgan. Please go ahead.

Andrea Teixeira

Thank you, and good morning, everyone. So my question is on consumption. First on coffee, can you comment on the exit rate of pod consumption? And how should we think about the cadence of innovation? You had a lot of, in this call, in terms of that cadence, in particular.. And also, with Alta, I understand this is beta testing, but when we should expect that to conclude and to start commercializing. And for cold refreshments, on the Creamy Coconut Dr Pepper, how can we pretty much eclipse with the Strawberry Cream lap and how we should be thinking about that? And if I can squeeze the marketing commentary that you had about the A&P investments, how we should be thinking in the cadence of the quarters. Thank you.

Tim Cofer

Good morning, Andrea. Thanks. Let me make sure I can get through all these. I think first on pod shipments and consumption, as referenced, we saw sequential improvement in our pod shipment trend during Q1, and that was underpinned by better trends at POS. So, we've seen both a modest improvement in the at-home coffee category broadly. And then as mentioned, a real acceleration in KDP specific volume driven by the recovering share trends, particularly on owned and licensed.

So, feel good overall that that minus 1%, near flat, pod shipment performance in Q1 is obviously significantly above what we saw in Q4 and the back half of last year.

In terms of consumption versus shipments, we're comfortable overall with the pod inventory levels and didn't see any unusual changes. So, it's really consumption-driven and continuing. While not perfectly linear, I would say we expect a gradual recovery in pod volumes and consumption through the balance of the year, underpinned by the initiatives that we've talked about already on this call.

You then asked about Alta. We're doing a beta test in the fall with limited consumer, really to get the learning around what's working, how we can optimize, et cetera. At this point, there isn't already a predetermined path. Obviously, we have various scenarios and plans. But we're going to take the time to learn from that and then scale it up afterwards based on those learnings. So, more specificity to come following the beta test that starts this fall.

Then as it relates to CSD innovation, indeed, as I said earlier, we're lapping in Q1 just a blockbuster number one innovation in the entire CSD category last year. So that's what you're seeing in some of the share pressure. Year to go, I think we've got a stacked innovation plan, including Dr Pepper Creamy Coconut and many of the others. Canada Dry Fruit Splash is already doing well and we're only at, I would say, less than half ACV. So that's yet to ramp fully, including in some of the biggest markets. So, you will see that phased more to the back half. And then was that it? Good. Thank you, Andrea. And obviously, happy to follow up with you further, the IR team or me, on more questions.

CONCLUSION

Operator

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

Jane Gelfand

Thank you, Betsy. And thank you, everyone, for participating this morning. As Tim said, we are available all day to answer any follow-up questions and look forward to continued engagement. Thank you.

Operator

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