MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Keurig CFR to Ba2; outlook stable

Global Credit Research - 24 Jan 2017

Approximately $5 billion of debt instruments affected

New York, January 24, 2017 --

Moody's Investors Service ("Moody's") has upgraded ratings of Keurig Green Mountain, Inc. ("Keurig"), including its Corporate Family Rating to Ba2 from Ba3, Probability of Default Rating to Ba3-PD from B1-PD and senior secured bank debt ratings to Ba2 from Ba3. The ratings outlook is stable.

The ratings upgrade reflects significant improvement in profitability and cash flow that Keurig has achieved since being acquired by JAB Holdings in March 2016. At closing, financial leverage was high -- debt/EBITDA was approximately 5.5x. Keurig has since repaid approximately $750 million, or 13%, of its debt and increased trailing-twelve-months EBITDA by about 20%. As a result, Moody's expects that Keurig will reduce and sustain debt/EBITDA comfortably below 4.0x in fiscal 2017 and beyond.

Keurig continues to expand profit margins even in a competitive pricing environment through improvements in operating processes and organizational streamlining. The company also avoided around $250 million in net operating losses and capital investments related to the first-generation Keurig Kold system that the new senior management discontinued shortly after taking the helm. Keurig's debt reduction has been fueled in part by significant working capital reductions, a core element of parent company JAB Holdings' investment thesis. Moody's estimates that these reductions alone will contribute up to $1 billion to the company's operating cash flow this year.

RATINGS RATIONALE

Keurig's Ba2 Corporate Family Rating reflects the company's expanding base of category-leading Keurig single-cup brewers, which in turn drive sales of high-margin single-serve portion packs that generate the company's earnings and cash flows. The ratings also are supported by the company's moderate financial leverage and a balanced financial policy that has allocated most of free cash flow to debt reduction. These credit strengths are balanced against growing competitive pressures in the single-serve coffee portion pack business that has led to a gradual decline in the company's growth rate and category profit margins. However, as the overall US single serve coffee segment continues to grow, albeit at a slowing rate, we expect that Keurig will continue to maintain over 80% segment market share through its strong portfolio of over 75 owned and licensed coffee bands. This along with ongoing operational improvements should allow Keurig to sustain sales and earnings growth for the foreseeable future.

Keurig Green Mountain

Ratings upgraded:

Corporate Family Rating to Ba2 from Ba3;

Probability of Default Rating to Ba3-PD from B1-PD;

Senior secured bank credit facilities to Ba2 (LGD3) from Ba3 (LGD3).

The rating outlook is stable.

Keurig's all-secured debt capitalization consists of approximately $4.8 billion of term loans due in 2021 and 2023 and $300 million drawn under a $500 million revolving credit facility expiring in 2021.

The Ba2 senior secured bank debt instrument ratings reflect an above-average mean family recovery estimate of 65% in line with our LGD Methodology and typical treatment for an all-first-lien bank senior secured debt capital structure.

The bank facilities are secured by a first priority lien on substantially all of the assets of Keurig and domestic subsidiaries and by 65% of the capital stock of Keurig's non-US subsidiaries (principally, the Canadian operations). The domestic subsidiaries, which are guarantors under the agreement, generate approximately 80% of total revenues and EBITDA.

Ratings could be upgraded if Keurig sustains stable operating performance and is likely to sustain debt/EBITDA below 3.0x. Ratings could be downgraded if liquidity erodes significantly and/or Keurig faces deteriorating operational performance such that debt/EBITDA is sustained above 4.0 times.

The principal methodology used in these ratings was Global Packaged Goods published in January 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Keurig Green Mountain, Inc., based in Waterbury, Vermont, is a manufacturer of Keurig® single serve brewing systems and beverages, including specialty coffee, tea and other beverages, in single serve packs for use with its brewers. The company generated annual sales of approximately $4.5 billion. Keurig is wholly-owned by JAB Holding Company S.a.r.l. ("JAB Holding"), which acquired the company in March 2016 for $13.9 billion.

JAB Holding (Baa1 negative) is a privately held investment holding company, focused on long-term investments in consumer goods and retail companies with premium brands. JAB's key investments in terms of market value include: Reckitt Benckiser Group Plc (A1 stable), in consumer health and hygiene products; Coty Inc. (Ba1 stable), in fragrances, cosmetics and body care; and Jacobs Douwe Egberts International B.V. (Ba3 positive) in coffee and tea.

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