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## JACOBS DOUWE EGBERTS Holdings B.V.

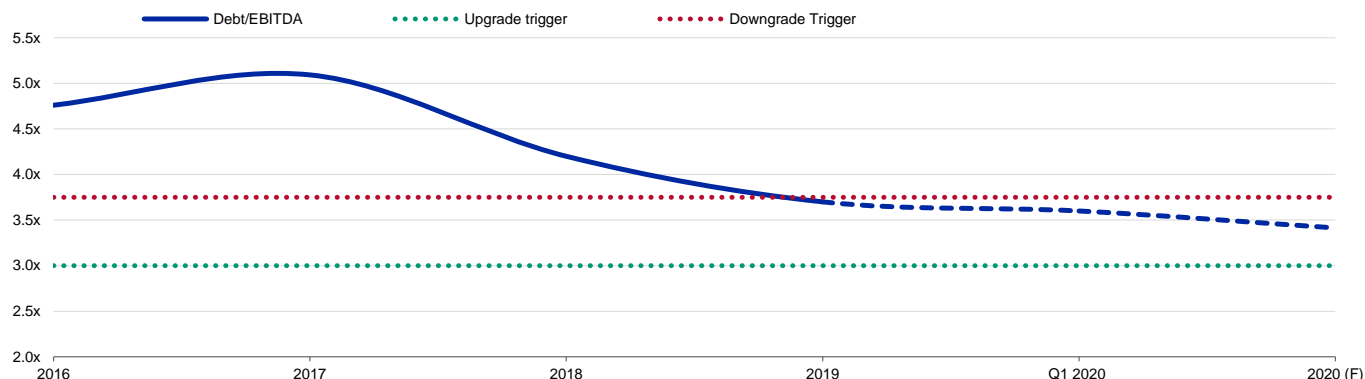
JDE Peet's intention to float is credit positive for subsidiary JDE

On 19 May, JDE Peet's B.V., the parent company of [JACOBS DOUWE EGBERTS Holdings B.V.](#) (JDE, Ba1 stable), announced its intention to launch an initial public offering (IPO) and to list on the Amsterdam Stock Exchange. Although this announcement does not have an immediate effect on JDE's rating, a successful IPO of JDE Peet's would be credit positive for JDE because it would create a more transparent corporate governance structure and predictable financial policy. In addition, we note that the business profile of JDE Peet's will be stronger than JDE's standalone profile thanks to the consolidation of Peet's Coffee and JDE's activities.

JDE Peet's expects to raise approximately €700 million from the issuance of new shares and use the proceeds to repay debt. Although we understand that IPO will not affect JDE's capital structure at this stage, we believe that a publicly listed parent supports stronger governance standards and a more transparent and predictable financial policy than those of JDE today. JDE Peet's has already announced its intention to achieve a net debt to EBITDA leverage ratio of 3.0x by mid-2021, to obtain an investment grade rating from a major rating agency within one to two years from the date of the prospectus, and to target an annual dividend payout ratio of 50%-60%.

JDE Peet's targeted financial leverage compares well with 3.6x pro forma for the planned IPO that the company expects. We expect that part of this deleveraging will come from improving credit metrics at JDE. Indeed, JDE continues its deleveraging path in line with our expectations when we upgraded our rating to Ba1 in November 2019. During 2019, the company's reported EBITDA was €1.41 billion, up 14.6% from the previous year. At the same time, the company's strong and improving free cash flow allowed it to reduce its gross financial debt, on a reported basis, by €480 million. On a Moody's-adjusted basis, JDE's financial leverage, as measured as gross debt to EBITDA, was around 3.7x at year-end 2019. The ratio further improved during the first quarter ending March 2020 towards 3.6x (see Exhibit 1).

Exhibit 1

**JDE's leverage is declining****Moody's-adjusted debt to EBITDA**

Source: Moody's Investors Service

JDE Peet's will also have a one-tier board structure comprising an executive director and 13 non-executive directors, with a balance of seven independent and seven non-independent directors.

JDE might eventually benefit from the stronger business profile of the combined group, albeit at this stage it is difficult to build any support on JDE's rating given that it is unclear whether JDE's debt will benefit from guarantees from JDE Peet's.

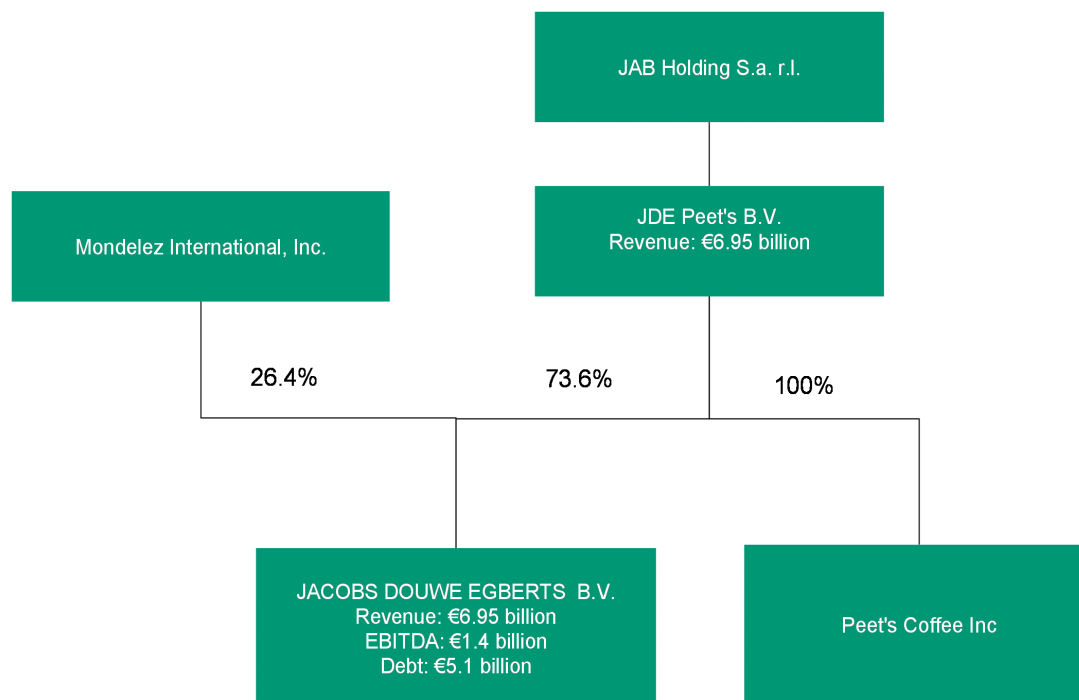
The 2019 combination of JDE and Peet's Coffee created the world's largest pure coffee and tea group by revenue, with approximately a 7% market share in a fragmented market. In 2019, the group generated €6.95 billion of revenue, €6.07 billion (or 87.4%) of which was generated by JDE. Peet's brought to the combined entity a strong presence in the US, with a focus on the premium segment.

JDE Peet's is majority-owned by [JAB Holding Company S.a.r.l.](#) (Baa2 stable), which has indicated its intention to remain a majority shareholder. We also expect [Mondelez International, Inc.](#) (Baa1 stable), which currently owns 26.4% of JDE, to remain a reference shareholder in the combined entity. Exhibit 2 shows JAB's simplified ownership structure.

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## Exhibit 2

## JDE's simplified ownership structure



Source: Moody's Investors Service

There is a degree of execution risk with the IPO given the current equity market volatility because of the coronavirus pandemic. JDE Peet's generates approximately 21% of its revenue in the out-of-home channel, which is currently severely disrupted in both Europe and the US because of coronavirus-driven lockdown measures. More positively, JDE Peet's so far has performed well in the current environment, reporting double-digit growth in EBIT during the first quarter of 2020 from a year earlier. However, it is too early to assess the full effect on the group's performance in a scenario of prolonged social-distancing measures.

Headquartered in the Netherlands, JDE is a leading manufacturer and distributor of coffee and tea products to the retail and out-of-home (markets in more than 80 countries across Europe, Asia, Latin America and Australia). JDE owns more than 50 brands, including some key names such as Douwe Egberts, Jacobs, Tassimo, Moccona, Senseo, L'OR, Super, Kenco, Pilão and Gevalia. Netherlands-based JDE Peet's was created in late 2019 from the combination of JDE and Peet's Coffee.

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