

Research Update:

Global Coffee Maker Jacobs Douwe Egberts Ratings Placed On CreditWatch Positive On Announced IPO

May 20, 2020

Rating Action Overview

- On May 19, 2020, Netherlands-domiciled coffee maker JDE Peet's B.V., parent of Netherlands-Based Jacobs Douwe Egberts (JDE) and U.S.-based Peet's Coffee Inc., announced that it has started the formal process for an initial public offering (IPO) on the Amsterdam Stock Exchange.
- The group has indicated that it intends to raise €700 million in primary proceeds from the listing to pay down existing debt, with a starting financial net leverage of about 3.6x, and a commitment to delever further to below 3.0x by mid-year of fiscal 2021 (Dec. 31).
- We are therefore placing our 'BB' ratings on JDE and its senior secured facilities on CreditWatch with positive implications.
- We expect to resolve the CreditWatch in the next three months, once the transaction completes and we gain further information on the group's overall strategic direction and business plan.

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Rating Action Rationale

The CreditWatch placement follows the announcement of the planned listing of JDE Peet's B.V.

On May 19, JDE Peet's announced that it has formally started the process for listing the combined group on the Amsterdam Stock Exchange. This followed the European Commission's formal approval in March of the group's new governance structure between the current JDE shareholders, JAB Holdings B.V. (JAB; A-/Negative/--), and Mondelez. We understand that JAB intends to retain a controlling stake in the group (about 67% equity stake at JDE stand-alone as of Dec. 31, 2019), while Mondelez will also retain a stake in the combined group. Post-completion of the listing, the perimeter of our issuer credit rating will reflect that on the parent of the group, JDE Peet's.

There is a commitment to maintain leverage well below 4x, with the long-term aim of maintaining leverage below 3x.

JDE's S&P Global Ratings-adjusted debt to EBITDA stood at 3.1x in 2019 (4.0x in 2018), as the company continued to use discretionary cash flow to pay down debt (about €650 million; about €450 million in 2018). JDE has made a solid start to 2020, with reported

margins strengthening markedly by 380 basis points (to 23.6%) as the aluminium capsules roll-out gathers pace. Meanwhile, the decline in revenues in the out-of-home channel was offset by a strong increase in the retail channel. Although we think stockpiling has played a role in JDE's strong growth in the quarter, we note that coffee consumption has previously exhibited very low cyclicalities and the COVID-19 pandemic is unlikely to change this dynamic. We think that top-line growth could be supported by commodity price increases this year, with little to no effect on margins, as price movements are typically passed through to the customers through the retail channel.

Peet's Coffee adds diversity, but is not transformative to the overall group. According to the group disclosure, it boasts revenues of about €7 billion, implying a moderate increase in scale relative to JDE's stand-alone business (just over €6 billion in 2019). The transaction creates the world's largest pure coffee and tea player. The group operates in a large and growing global hot drinks category (€118 billion in 2019 according to Euromonitor International data). Through the business combination of Peet's, JDE is gaining entry to the large U.S. market, where it has historically not been present, while also further diversifying its distribution channel in own coffee stores.

CreditWatch

We expect to resolve the CreditWatch in the next three months, once the transaction completes and we gain further information on the group's overall strategic direction and business plan.

Related Criteria

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; CreditWatch Action

	To	From
JACOBS DOUWE EGBERTS International B.V.		
Issuer Credit Rating	BB/Watch Pos/--	BB/Positive/--
Senior Secured	BB/Watch Pos	BB
Recovery Rating	3(60%)	3(60%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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