MOODY'S
INVESTORS SERVICE

ISSUER COMMENT
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JDE Peet's N.V.

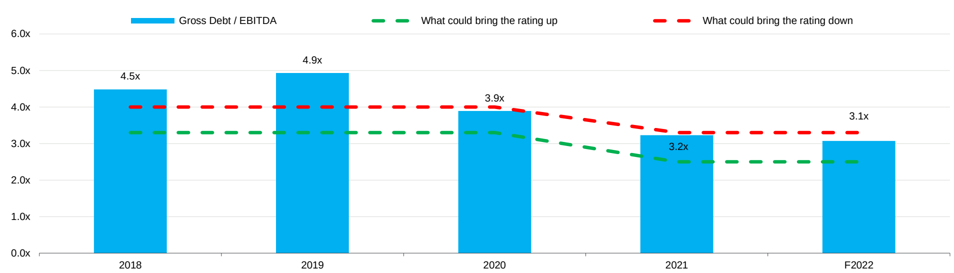
Share buyback is credit negative but can be accommodated within the current rating

On 9 May 2022, JDE Peet's N.V. (Baa3 stable) announced an agreement with Mondelez International, Inc. (Mondelez, Baa1 stable) to buy back €500 million worth of its shares owned by Mondelez. The share buyback is credit negative as we estimate it will increase JDE Peet's financial leverage by 0.1x, moving it temporarily close, or slightly above, the 3.3x maximum tolerance level for the rating.

JDE Peet's Baa3 rating with a stable outlook remains unaffected by the transaction as we expect the company to continue to generate solid free cash flow this year allowing leverage to reduce again before year end. However, the current commodity price volatility and macroeconomic slowdown, particularly in Europe, reduce visibility over the company's performance over the next six to 12 months.

The €500 million share repurchase, which we understand will be largely, or fully, financed with existing cash, will result in the company's gross leverage increasing by around 0.1x as measured by Moody's on a gross adjusted debt to EBITDA basis. Although we expect the company will reduce leverage over the next 6 months so that it will remain within the 3.3x maximum tolerance level for the rating, any deleveraging will rely on improving operating performance and ongoing solid free cash flow, which today might be challenged by the general spike in commodity prices, including both coffee beans and energy and logistic costs. Prices for both Arabica and Robusta coffee beans are at the highest levels for the past eight years, even though they have moderately come down on a year-to-date basis.

Exhibit 1
Gross leverage to reduce during 2022 albeit with a degree of uncertainty
Moody's-adjusted gross debt/EBITDA



All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-FinancialCorporations. Moody's Forecasts (F) are Moody's opinion and do not represent the views of the issuer
Source: Moody's Financial Metrics™

Although the company has a relatively good track record in passing through coffee beans price volatility, albeit with a time lag at times, the current high prices might put pressure on cash generation over the next six months. Over the last eight years, however, the company has benefited from generally low bean prices, making for easier negotiations with key customers, while higher bean prices might also require higher working capital needs.

On top of high commodity and logistic costs, predictability of operating results in 2022 is hindered by the general macroeconomic slowdown following the Russia-Ukraine conflict, particularly across Europe, which represented 61% of JDE Peet's 2021 revenue. Prolonged inflation, financial and business disruption and geopolitical risks will dent consumer purchasing power and consumer confidence.

We positively note that the company continued its deleveraging trajectory during 2021, repaying more than €700 million of gross debt, reducing its financial leverage to 3.2x as of December 2021 from 3.9x a year earlier, both on a Moody's adjusted basis. In addition, the company's cash balance at December was relatively high at €662 million and last year it generated almost €1 billion of free cash flow, as defined by Moody's, i.e. after interests and dividend payments.

We also understand that the company's capital allocation priority has not changed. In particular, additional share buybacks will be assessed in the context of the company's financial policy and to the extent that this will be within its optimal leverage of around 2.5x as defined by the company on a net debt to EBITDA basis.

However, following this buyback, Mondelez will still own around 19% stake in the company, worth around €2.56 billion based on 6 May closing prices, and any further purchase by JDE Peet's within the next six to 12 months might put pressure on the rating if not financed with existing cash or compensated by increasing earnings.

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