MOODY'S INVESTORS SERVICE

CREDIT OPINION
13 July 2020

Update

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RATINGS

JACOBS DOUWE EGBERTS Holdings B.V.

Domicile	Netherlands
Long Term Rating	Ba1
Type	LT Corporate Family Ratings
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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JACOBS DOUWE EGBERTS Holdings B.V.

Update following change in outlook to positive

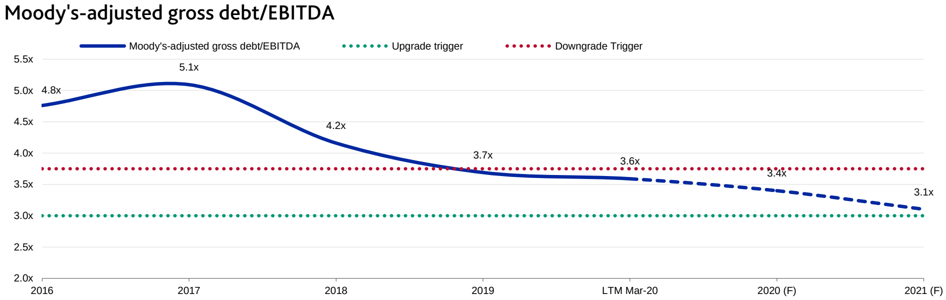
Summary

The Ba1 corporate family rating (CFR) of JACOBS DOUWE EGBERTS Holdings B.V. (JDE), with a positive outlook, reflects the benefits resulting from the more transparent corporate governance structure and predictable financial policy at its parent, JDE Peet's N.V. (JDE Peet's, Ba1 positive), following its listing in late May 2020. While JDE's debt does not benefit from any explicit guarantee from its parent, the positive outlook on JDE's rating reflects a degree of implicit support from the new parent JDE Peet's, which has a stronger business profile than JDE on a standalone basis because of the consolidation of the businesses of Peet's Coffee, Inc. and JDE. JDE's rating and outlook also reflect our expectations that its credit quality will eventually converge with that of JDE Peet's.

JDE's rating is also supported by its strong market position, global scale, relatively good operating margin and solid track record, as well as our expectation that its ongoing free cash flow (FCF) generation will result in a further reduction in financial leverage over time. Furthermore, we recognise the strong growth momentum in the coffee industry, with significant premiumisation potential supporting revenue and profitability growth, which compensates for the company's narrow category diversification.

We expect JDE to focus mainly on organic growth with a potential for only modest bolt-on acquisitions, so that its financial leverage, measured as Moody's-adjusted debt/EBITDA, remains below 3.75x on a sustained basis.

Exhibit 1
We expect JDE's financial leverage to remain below 3.75x on a sustained basis
Moody's-adjusted gross debt/EBITDA



All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Moody's Forecasts (F) are Moody's opinion and do not represent the views of the issuer. Leverage for 2017 was affected by the pre-funding of an acquisition for €317 million, which was completed in early 2018.
Source: Moody's Financial Metrics™

Credit strengths

» Strong market position and portfolio of leading coffee brands

» Premiumisation trend within the global coffee category, which provides an opportunity to grow the top line and increase margins

» Strong track record of positive FCF generation and reduction in financial leverage, further supported by its parent company's public commitment to reduce financial leverage

» Good liquidity despite very high trade payable days and improved governance at its parent company's level

Credit challenges

» Exposure to low volume growth in Europe, mitigated by the premiumisation trend, and strong competition, which might dampen further margin improvements

» Potential short-term volatility in earnings because of coffee price fluctuations, albeit compensated by strong track record of stable gross margin and cash flow

» Acquisition risk, which might slow the expected deleveraging

» High level of trade payables, which if reduced might result in working capital absorption

Rating outlook

The positive outlook on JDE's rating reflects a degree of implicit support from the new parent company, JDE Peet's, and our expectation that JDE's debt will eventually be repaid with new debt issued at JDE Peet's level. The outlook also reflects our expectation over the next 12 to 18 months of steady growth in the company's operating performance, resulting in solid FCF generation, the use of which will likely be prioritised for gross debt reduction.

Factors that could lead to an upgrade

Positive rating pressure could develop if JDE's Moody's-adjusted debt/EBITDA declines below 3.0x and its Moody's-adjusted retained cash flow (RCF)/net debt rises well above 20%, both on a sustained basis. An upgrade to an investment-grade rating would also be subject to the company maintaining a prudent financial policy, including conservative leverage targets and solid liquidity management.

An upgrade of the parent company JDE Peet's' rating, following the implementation of a more simplified, investment-grade type capital structure, could also support a rating upgrade at JDE.

Factors that could lead to a downgrade

Negative pressure on the ratings could materialise if JDE's Moody's-adjusted debt/EBITDA rises above 3.75x or if its Moody's-adjusted RCF/net debt declines below the high-teens in percentage terms. A deterioration in the company's liquidity profile or a more aggressive shareholder return policy could also result in negative pressure on the ratings.

Key indicators

Exhibit 2
JACOBS DOUWE EGBERTS Holdings B.V.

EUR Millions	Dec-15	Dec-16	Dec-17	Dec-18	Dec/19	LTM Mar-20	Dec-20 F	Dec-20 F
Revenue	3,955	5,206	5,779	5,895	6,072	6,099	6,210	6,410
EBITA Margin %	10.9%	18.0%	17.2%	20.3%	20.3%	20.8%	20.3%	20.3%
Debt / EBITDA	10.8x	4.8x	5.1x	4.2x	3.7x	3.6x	3.4x	3.1x
RCF / Net Debt	-1.3%	11.9%	4.8%	13.6%	18.5%	17.8%	19.9%	22.2%
EBITA / Interest Expense	1.3x	3.7x	4.2x	4.9x	6.8x	7.3x	10.5x	10.8x

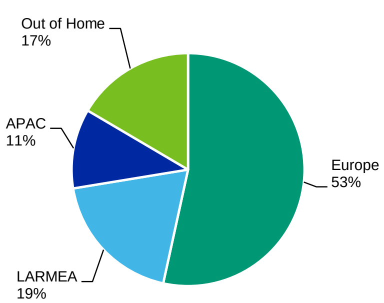
[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Moody's Forecasts (F) are Moody's opinion and do not represent the views of the issuer. [2] 2017 leverage was affected by the pre-funding of the OldTown acquisition for €317 million, which was completed in early 2018.
Source: Moody's Financial Metrics™

Profile

Headquartered in the Netherlands, JACOBS DOUWE EGBERTS Holdings B.V. (JDE) is a leading manufacturer and distributor of coffee and tea products to the retail and out-of-home (OOH) markets in more than 100 countries across Europe, Africa, Asia, Latin America and Australia. JDE owns more than 50 brands, including some key names like Douwe Egberts, Jacobs, Tassimo, Moccona, Senseo, L'OR, Super, Kenco, Pilão and Gevalia.

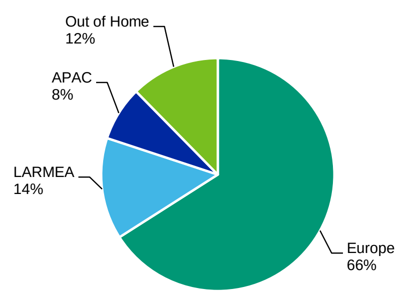
JDE was merged with Peet's Coffee, Inc. in late 2019 to form JDE Peet's N.V. As of the end of May 2020, JDE Peet's listed on the Amsterdam stock exchange with a market capitalisation of €15.6 billion. Following the IPO, JAB Holding Company S.a.r.l. (Baa2 stable) indirectly owns 60.6% of JDE Peet's and Mondelez International, Inc. (Baa1 stable) holds another 22.9%.

Exhibit 3
Europe remains the largest region, while the presence in Asia is growing
Revenue split by region and category for 2019



Excludes non-allocated costs, currency and scope adjustments. LARMEA stands for Latin America, Russia, Middle East and Africa.
Source: Company's Q4 2019 banking report

Exhibit 4
Higher EBIT contribution from Europe indicates premium positioning
EBIT split by region and category for 2019



Excludes non-allocated costs, currency and scope adjustments. LARMEA stands for Latin America, Russia, Middle East and Africa.
Source: Company's Q4 2019 banking report

Detailed credit considerations

For detailed credit considerations please refer to JDE Peet's credit opinion (available here).

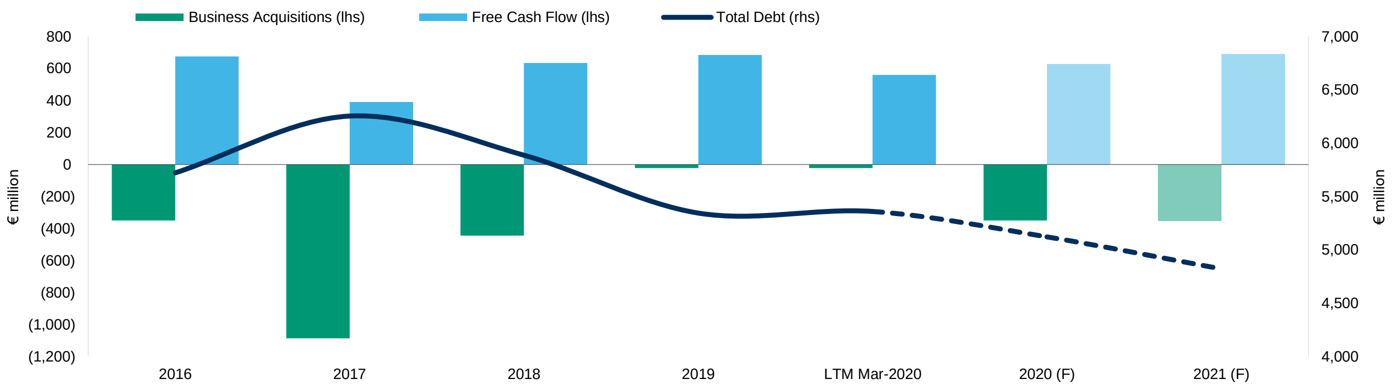
JDE's financial leverage to reduce further

JDE's financial leverage, measured as Moody's-adjusted debt/EBITDA, was 3.6x and its Moody's-adjusted RCF/net debt was 17.8% for the 12 months ended March 2020. These metrics showed a significant improvement from those as of year-end 2018 and 2017 (4.2x and 14.8% and 5.1x and 4.8%, respectively). The improvement came on the back of strong growth in EBITDA and the company's use of excess cash to repay debt. Although improvements in credit metrics will be slower, we still expect the company's financial leverage to strengthen over the next 12-18 months.

A further improvement in metrics should stem from the ongoing, although modest, top-line growth, further operating margin improvements and continued FCF generation. In 2019, the company generated FCF in excess of €600 million (as per our definition, that is, after interests and dividend payments). We expect the company to prioritise debt reduction over increasing shareholder remuneration and making large acquisitions. In our forecast, we assumed only bolt-on acquisitions for a maximum amount of €350 million per year, which should not disrupt the company's deleveraging progress.

We positively note that JDE's parent, JDE Peet's, announced its intention to achieve its leverage target of 3.0x net debt/EBITDA by mid-2021 (from around 3.6x pro forma for the IPO in mid-2020). We expect a large part of this leverage reduction to stem from further deleveraging at the subsidiary, JDE.

Exhibit 5
The company has reduced debt over the past few years



Moody's Forecasts (F) are Moody's opinion and do not represent the views of the issuer.
Source: Company's reports and Moody's Investors Service estimates

However, leverage may be volatile, affected by fluctuations in the mark-to-market of derivatives related to hedging of green coffee purchases, included in JDE's Moody's-adjusted EBITDA. Furthermore, the debt documentation incorporates substantial capacity to incur additional debt and a single net leverage financial covenant tested on a quarterly basis, which was renegotiated in 2016 to remain flat at 5.95x (2.89x as of March 2020).

Following the merger in 2015, the company has been able to improve significantly its working capital, which supported its FCF generation. This improvement was also supported by a relevant increase in trade payable days outstanding that are currently at a very high level. Any reduction from the current level might result in a permanent increase in working capital, slowing the expected reduction in financial leverage. Although we would expect trade payable days to remain stable, in light of the potential risk of working capital absorption, we are slightly more demanding on the key ratios required to maintain the rating.

Environmental, Social, and Governance considerations

Although environmental and social risks are normally modest for consumer products companies and we score the consumer goods sector as having low environmental risk in our environmental heat map, we believe JDE is exposed to environmental risks, given the concentration of coffee beans supply in certain parts of the world, mainly across emerging markets. Sustainability of raw material sources is a cause of concern for a number of consumers but will not likely influence the rating at this stage.

Consumer goods sector has moderate social risk according to our social risk heat map. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Uncertainties over the duration of the pandemic, the economic impact of the restrictions related to travel and social distancing, and the impact on consumer behaviour and consumption over the next 12 to 18 months remain high. Prolonged lockdown measures, together with the potential for a second wave of cases globally, might affect the company's cash generation over the coming six to 12 months.

JAB Holding Company S.a r.l. remains the company largest shareholder, with a high tolerance for risk. However, the recent listing of JDE's parent provides the associated benefits of increased transparency, improved corporate governance standards and higher predictability of financial policies. We also note that JDE has been quite successful in recent years in improving its FCF generation and reducing its financial leverage. At the same time, however, JDE has relatively high trade payable days outstanding and any reduction in the current level might result in a permanent increase in working capital.

Liquidity analysis

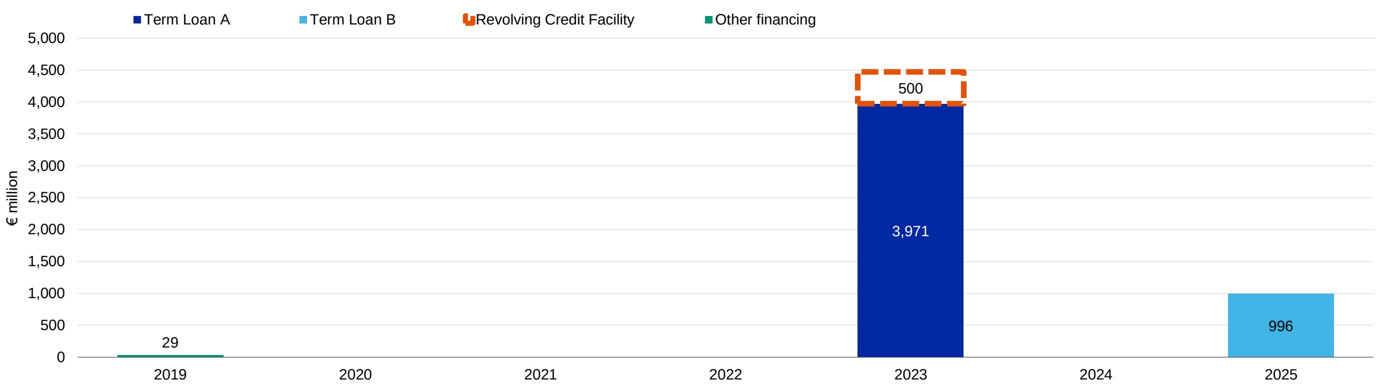
JDE's liquidity is good, supported by €456 million of unrestricted cash on balance sheet as of March 2020 and a fully undrawn €500 million revolving credit facility due in 2023, which is hardly drawn. We expect the company to generate solid positive cash flow on an ongoing basis and maintain good liquidity.

We expect the company to meet its financial maintenance covenant with sufficient capacity (the company has a net debt/EBITDA covenant, which, compared with the leverage ratio as of March 2020, offered plenty of margin). There are no major debt maturities until November 2023, when the company's €3.97 billion of Term loan A comes due.

Exhibit 6

No major debt maturities until November 2023

Debt maturity profile



The revolving credit facility was fully undrawn as of the end of September 2019.
Source: Company financial statements

Structural considerations

After the latest refinancing of the main bank facility executed in late 2018, JDE's debt structure consists of around €5.0 billion of term loans (as of March 2020) due between 2023 and 2025, borrowed by Jacobs Douwe Egberts International B.V. (Ba1 positive), a subsidiary of JDE. The company's credit facilities also include a €500 million revolving credit facility due November 2023, undrawn as of June 2020.

The Ba1 rating assigned to the bank debt, in line with the CFR, reflects the single-tier nature of the capital structure, the pari passu ranking and the upstream guarantees from the operating subsidiaries. The bank facilities are secured by share pledges and do not benefit from asset security. The probability of default rating of Ba2-PD, one notch below the CFR, reflects the all-bank debt capital structure and our assumption of a family recovery rate of 65%.

While JDE's debt does not benefit from any explicit guarantee from its parent, JDE Peet's, the positive outlook on JDE's ratings reflects a degree of implicit support from the new parent company and our expectation that JDE's debt will eventually be repaid with new debt issued at JDE Peet's level. Debt raised at JDE Peet's level will likely be structurally subordinated to any remaining debt at JDE's level until the company is able to put in place cross guarantees. The implementation of a simplified capital structure in line with investment-grade standards could support a rating upgrade.

Methodology and scorecard

In assessing the credit quality of JDE, we apply the Consumer Packaged Goods Methodology, published in February 2020. The scorecard-indicated outcome, based on data for the 12 months ended March 2020, is Baa3, one notch above the current Ba1 rating.

The scorecard-indicated outcome is supported by good business fundamentals in light of JDE's solid market share, good geographical diversification and high profitability. However, key credit metrics such as financial leverage and RCF/net debt remain weak for the rating category, but are expected to improve over the next 12 to 18 months.

Exhibit 7

Rating factors

JACOBS DOUWE EGBERTS Holdings B.V.

Consumer Packaged Goods Industry Scorecard [1][2]	Current LTM 3-31-2020		Moody's 12-18 Month Forward View As of July 2020 [3]	
Factor 1 : Scale (20%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$6.8	Baa	$7 - $7.2	Baa
Factor 2 : Business Profile (30%)				
a) Geographic Diversification	Ba	Ba	Ba	Ba
b) Segmental Diversification	B	B	B	B
c) Market Position	A	A	A	A
d) Category Assessment	Baa	Baa	Baa	Baa
Factor 3 : Profitability (10%)				
a) EBITA Margin	20.8%	A	20.3%	A
Factor 4 : Leverage and Coverage (25%)				
a) Debt / EBITDA	3.6x	Ba	3.1x - 3.4x	Baa
b) RCF / Net Debt	17.8%	Ba	19.9% - 22.2%	Baa
c) EBITA / Interest Expense	7.3x	Baa	10.5x - 10.8x	A
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa3
b) Actual Rating Assigned				Ba1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] Forward view represents Moody's view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 8

Peer comparison

	JDE Peet's N.V. Ba1 Positive			JACOBS DOUWE EGBERTS Holding Ba1 Positive			Keurig Dr Pepper Baa2 Negative			Barry Callebaut AG Baa3 Stable			Froneri International Limited Ba3 Stable		
(US millions)	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-18	FYE Dec-19	LTM Mar-20	FYE Dec-18	FYE Dec-19	LTM Mar-20	FYE Aug-18	FYE Aug-19	LTM Feb-20	FYE Dec-17	FYE Dec-18	FYE Dec-19
Revenue	$7,378	$7,870	$7,775	$6,961	$6,798	$6,778	$7,442	$11,120	$11,229	$7,124	$7,359	$7,473	$2,839	$3,074	$4,800
EBITDA	$1,447	$1,749	$1,709	$1,672	$1,621	$1,657	$2,207	$3,578	$3,543	$787	$825	$843	$344	$513	$707
Total Debt	$9,438	$7,581	$8,460	$6,730	$6,000	$5,881	$17,049	$15,783	$15,752	$2,144	$2,571	$2,756	$1,241	$2,138	$5,834
Cash & Cash Eq.	$614	$847	$892	$637	$740	$484	$83	$75	$197	$420	$565	$161	$245	$363	$269
EBIT Margin	13.1%	16.1%	16.0%	18.3%	18.3%	18.8%	23.0%	25.4%	24.7%	8.2%	8.3%	8.2%	4.8%	9.4%	7.7%
EBIT / Int. Exp.	3.2x	3.4x	4.6x	4.5x	6.1x	6.6x	3.7x	4.3x	4.2x	5.3x	5.0x	5.4x	2.6x	3.2x	1.4x
Debt / EBITDA	6.1x	4.5x	4.9x	4.2x	3.7x	3.6x	7.7x	4.4x	4.4x	2.7x	3.1x	3.2x	3.4x	4.3x	8.3x
RCF / Net Debt	-1.5%	14.4%	15.7%	13.6%	18.5%	17.8%	5.8%	8.4%	9.0%	32.5%	25.4%	18.4%	20.7%	15.3%	1.7%
FCF / Debt	0.6%	11.2%	13.1%	10.8%	12.8%	10.4%	7.2%	8.0%	6.3%	14.1%	7.2%	-2.7%	-4.5%	2.2%	-3.8%

All figures and ratios calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months. RUR* = Ratings under review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics™

Exhibit 9

Reconciliation of Moody's-adjusted leverage (gross debt/EBITDA)
JACOBS DOUWE EGBERTS Holdings B.V.

(in EUR Millions)	Dec/2014	Dec/2015	Dec/2016	Dec/2017	Dec/2018	Dec/2019	LTM Mar-2020
As Reported Debt	**2,878**	**6,307**	**5,458**	**5,932**	**5,569**	**5,098**	**5,115**
Pensions	180	268	232	183	178	245	245
Operating Leases	66	120	30	129	138	-	-
Unusual	-	-	-	-	-	-	-
Non-Standard Adjustments	-	-	2	10	2	2	-
Moody's-Adjusted Debt	**3,124**	**6,695**	**5,722**	**6,254**	**5,887**	**5,345**	**5,360**

(in EUR Millions)	Dec/2014	Dec/2015	Dec/2016	Dec/2017	Dec/2018	Dec/2019	LTM Mar-2020
As Reported EBITDA	**444**	**386**	**1,174**	**1,101**	**1,316**	**1,450**	**1,504**
Pensions	(8)	-	(64)	(10)	5	(4)	(4)
Operating Leases	22	40	3	43	46	-	-
Unusual	135	197	89	94	49	-	(11)
Non-Standard Adjustments	-	-	-	-	-	2	2
Moody's-Adjusted EBITDA	**592**	**623**	**1,202**	**1,228**	**1,416**	**1,448**	**1,491**

Moody's-Adjusted Debt/EBITDA	**5.3x**	**10.7x**	**4.8x**	**5.1x**	**4.2x**	**3.7x**	**3.6x**

Source: Moody's Financial Metrics™

Exhibit 10

Selected historical and projected Moody's-adjusted financials and data (2015-20)
JACOBS DOUWE EGBERTS Holdings B.V.

Eur (Millions)	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	LTM Mar-20	Dec-20 (F)	Dec-21 (F)
INCOME STATEMENT								
Net sales	3,955	5,206	5,779	5,895	6,072	6,099	6,210	6,410
EBITDA	623	1,202	1,228	1,416	1,448	1,491	1,507	1,554
EBITA	429	937	996	1,194	1,234	1,271	1,263	1,302
EBIT	323	819	874	1,081	1,111	1,148	1,095	1,129
Interest expense	338	255	236	243	182	174	120	120
BALANCE SHEET								
Cash and cash equivalents	857	860	451	557	659	441	666	707
Total Debt	6,695	5,722	6,254	5,887	5,345	5,360	5,122	4,822
CASH FLOW								
Funds From Operations (FFO)	(78)	580	415	949	1,110	1,162	1,147	1,185
Retained Cash Flow (RCF)	(78)	580	280	724	865	877	887	915
Cash Flow From Operations (CFO)	436	865	761	1,134	1,197	1,121	1,127	1,165
Capital Expenditure (CapEx)	(172)	(190)	(234)	(275)	(267)	(276)	(240)	(205)
Cash Dividends	-	-	(135)	(225)	(245)	(285)	(260)	(270)
Free Cash Flow (FCF)	264	675	392	634	685	560	627	690
KEY CREDIT METRICS								
% Sales in Sales (YoY)	n.a.	31.6%	11.0%	2.0%	3.0%	0.4%	2.3%	3.2%
EBITA margin %	10.9%	18.0%	17.2%	20.3%	20.3%	20.8%	20.3%	20.3%
EBITA / Interest Expense	1.3x	3.7x	4.2x	4.9x	6.8x	7.3x	10.5x	10.8x
Debt / EBITDA	10.7x	4.8x	5.1x	4.2x	3.7x	3.6x	3.4x	3.1x
Net Debt / EBITDA	9.4x	4.0x	4.7x	3.8x	3.2x	3.3x	3.0x	2.6x
Debt / (EBITDA - CAPEX)	14.9x	5.7x	6.3x	5.2x	4.5x	4.4x	4.0x	3.6x
RCF / Net Debt	-1.3%	11.9%	4.8%	13.6%	18.5%	17.8%	19.9%	22.2%
FCF / Debt	3.9%	11.8%	6.3%	10.8%	12.8%	10.4%	12.2%	14.3%

Moody's Forecasts (F) are Moody's opinion and do not represent the views of the issuer.
Source: Moody's Financial Metrics™

Ratings

Exhibit 11

Category	Moody's Rating
JACOBS DOUWE EGBERTS HOLDINGS B.V.	
Outlook	Positive
Corporate Family Rating	Ba1
PARENT: JDE PEET'S N.V.	
Outlook	Positive
Corporate Family Rating	Ba1
JACOBS DOUWE EGBERTS INTERNATIONAL B.V.	
Outlook	Positive
Sr Sec Bank Credit Facility	Ba1/LGD3

Source: Moody's Investors Service

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