MOODY'S
INVESTORS SERVICE

# Rating Action: Moody's assigns first time Ba1 rating to JDE Peet's; outlook positive

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**JDE's Ba1 ratings affirmed, outlook changed to positive**

Milan, July 07, 2020 -- Moody's Investors Service ("Moody's") has today assigned a first-time corporate family rating (CFR) of Ba1 and a probability of default rating (PDR) of Ba1-PD to JDE Peet's N.V. ("JDE Peet's"), the second largest coffee manufacturer worldwide. The outlook is positive.

The first-time rating assignment follows the successful completion on 29 May of the company's initial public offering (IPO) on the Amsterdam stock Exchange[1].

Concurrently, Moody's has also changed the outlook to positive from stable on the Ba1 ratings of JACOBS DOUWE EGBERTS Holdings B.V. ('JDE') and its financing subsidiary, Jacobs Douwe Egberts International B.V.. All ratings of JDE, including the Ba1 corporate family rating, the Ba2-PD probability of default rating and the Ba1 senior secured rating assigned to the €5.47 billion credit facilities outstanding as of June 2020 (including the €500 million undrawn Revolving Credit Facility) borrowed by Jacobs Douwe Egberts International B.V. were affirmed.

"The Ba1 rating of JDE Peet's is supported by its strong market position and global foothold in the growing coffee industry, and its solid and stable free cash flow generation," says Paolo Leschiutta, a Moody's Senior Vice President and lead analyst for JDE Peet's.

"The rating also reflects its limited product category diversification and some exposure to the coronavirus outbreak. Success in weathering potential demand volatility over the short term, in improving key credit metrics and in executing on the simplification of the capital structure, bringing it more in line with investment grade standards, could support further upward pressure on the ratings," adds Mr. Leschiutta.

The change of outlook to positive from stable on subsidiary JDE reflects Moody's expectation of JDE Peet's eventually refinancing legacy debt of JDE at JDE Peet's level. While JDE Peet's does not currently guarantee JDE's debt, Moody's expects that the credit quality of the two entities will eventually converge and that JDE will benefit from the increased transparency, improved corporate governance structure and more predictable financial policies associated with JDE Peet's listing.

A full list of affected ratings is provided towards the end of the press release.

RATINGS RATIONALE

-- JDE PEET'S FIRST-TIME RATINGS ASSIGNMENT

JDE Peet's Ba1 rating recognizes the strong business profile of the group thanks to the combination of JDE's market two position in the global coffee industry together with Peet's Coffee's strong positioning in the US premium coffee retail segment. In 2019, the combined entity generated €6.9 billion of revenue, €6.1 billion (or 87%) of which was generated by JDE. The combined entity benefits from a strong portfolio of brands and good geographic diversification, improved by Peet's strong presence in the important US market, which represented 13% of the combined entity's revenues as of December 2019.

Despite the strong growth momentum in the coffee industry, with significant premiumisation potential supporting revenue and profitability growth, JDE Peet's remains highly concentrated in a single product category, coffee, and its financial leverage is still relatively high for the rating category. The rating is also currently constrained by the uncertainty of the potential negative impact on consumption from the coronavirus outbreak. Albeit the company's exposure to owned store sales is limited and its performance so far has remained relatively resilient to lockdown measures across a number of countries, weak consumer sentiment and the reduction in out-of-home traffic might reduce the company's cash flow generation over the next 6 months. In particular, approximately 16% of the group's revenues derive from the Out of Home channel, which has been disrupted by the outbreak, and a further 5% from directly managed retail coffee stores which have been partially closed during the lockdown restrictions.

JDE Peet's recent IPO resulted in approximately €805 million of primary proceeds, including an over-allotment option, which were retained by JDE Peet's to repay existing indebtedness and transaction fees. Following the IPO, JAB Holding Company S.a r.l. (Baa2 stable) indirectly owns 60.6% of the company, Mondelez International, Inc. (Baa1 stable) 22.9%, while the remaining 16.5% is free float. In Moody's view, the listing will support strong governance standards and a transparent and predictable financial policy. Moody's notes management's public commitment to reduce financial leverage, on a company net debt to EBITDA basis, to 3.0x by mid-2021.

Pro-forma for the IPO, Moody's expects the company's leverage, on a Moody's adjusted gross debt to EBITDA basis to be at around 4.0x. The positive outlook assumes ongoing deleveraging on the back of strong EBITDA and free cash flow generation and Moody's expectations that the company will continue to prioritise debt reduction to potential debt-funded acquisitions or higher shareholder's remuneration. Moody's derives comfort from JDE's track record of debt reduction in recent years.

-- JDE'S Ba1 RATINGS AFFIRMATION; OUTLOOK CHANGED TO POSITIVE

The affirmation of JDE's rating and the outlook change to positive reflects the benefits resulting from the more transparent corporate governance structure and predictable financial policy at its parent, following JDE Peet's listing. While JDE's debt does not benefit from any explicit guarantee from its parent, the positive outlook on JDE's ratings reflects a degree of implicit support from the new parent company JDE Peet's which has a stronger business profile than JDE's standalone profile owing to the consolidation of Peet's Coffee and JDE's businesses.

The positive outlook of JDE also reflects Moody's expectation that its debt will eventually be repaid with new debt to be issued at JDE Peet's level. Debt raised at JDE Peet's level will likely be structurally subordinated to the current remaining debt at JDE's level until the company is able to put in place cross guarantees.

LIQUIDITY

JDE Peet's €1,183 million of liquidity is good consisting of €465 million of unrestricted cash on balance sheet as of June 2020 and €718 million availability under the €500 million JDE's revolving credit facility, due in 2023, which is seldom used, and €218 million availability under the $600 million (€536 million) Peet's Coffee RCF due in 2022. Moody's expects that if these revolvers are eventually refinanced with one single facility, any new line will continue to offer adequate coverage of potential working capital and corporate needs.

The company's liquidity is also supported by positive cash flow generation of around €600 million per annum (as per Moody's definition, that is, after interests and dividend payments) and Moody's expectation that the company will meet its financial maintenance covenant with sufficient capacity (the company has net debt/EBITDA covenant which, compared with the leverage ratio as of December 2019, offered significant headroom). There are no major debt maturities until November 2023, when the company's €3.9 billion Term loan A is due.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

Although environmental and social risks are normally modest for consumer products companies, Moody's believes JDE to be exposed to some environmental risks, given the concentration of coffee beans procurement in certain parts of the world, mainly across emerging markets. Sustainability of raw material sources is a cause of concern and focus from a number of consumers but are not expected to influence the rating at this stage.

Moody's regards the coronavirus outbreak as a social risk under Moody's ESG framework, given the substantial implications for public health and safety. Uncertainty over the duration of the pandemic, its economic impact of the restrictions related to travel and social distancing and impact on short to medium-term consumer behavior and consumption remains high. Prolonged lock down 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.

The company largest shareholder's remains JAB Holding Company S.a r.l. which, in Moody's view has a high tolerance for risk. However, the recent listing provides the associated benefits of increased transparency, improved corporate governance standards and more predictability of financial policies.

RATIONALE FOR POSITIVE OUTLOOK

The positive outlook on JDE Peet's reflects Moody's expectation of sustained and progressive deleveraging over the next 12 to 18 months, as well as the expectation that the company should be able to weather any adverse consequences of the coronavirus outbreak, while implementing a simplified capital structure in line with investment-grade standards.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Positive rating pressure could develop if Moody's adjusted debt/EBITDA reduces towards 3.3x and its adjusted retained cash flow/net debt increases above 17%, both on a sustainable basis. An upgrade to investment grade would also be subject to the company maintaining a prudent financial policy, including conservative leverage targets and by demonstrating a solid liquidity management. The implementation of a more simplified, investment-grade type capital structure could also support a rating upgrade.

Conversely, negative pressure on the ratings could materialise if the company's operating performance deteriorates or if it engages in large debt-financed M&A transactions, such that Moody's adjusted gross debt/EBITDA increases above 4.0x or if Moody's adjusted retained cash flow/net debt declines below 12%, both on a sustainable basis. Deterioration in the company's liquidity profile or a more aggressive shareholders return policy could also result in negative pressure on the ratings.

LIST OF AFFECTED RATINGS

Assignments:

..Issuer: JDE Peet's N.V.

....Probability of Default Rating, Assigned Ba1-PD

....LT Corporate Family Rating, Assigned Ba1

Affirmations:

..Issuer: Jacobs Douwe Egberts International B.V.

....Senior Secured Bank Credit Facility (Foreign and Local Currency), Affirmed Ba1 (LGD3)

..Issuer: JACOBS DOUWE EGBERTS Holdings B.V.

....LT Corporate Family Rating, Affirmed Ba1

....Probability of Default Rating, Affirmed Ba2-PD

Outlook Actions:

..Issuer: Jacobs Douwe Egberts International B.V.

....Outlook, Changed To Positive From Stable

..Issuer: JACOBS DOUWE EGBERTS Holdings B.V.

....Outlook, Changed To Positive From Stable

..Issuer: JDE Peet's N.V.

....Outlook, Assigned Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Consumer Packaged Goods Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1202237. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

Headquartered in the Netherlands, JDE Peet's N.V. was created in late 2019 from the combination of JACOBS DOUWE EGBERTS B.V. and Peet's Coffee. JDE Peet's is the second largest coffee player worldwide and manufactures and distributes coffee and tea products to the retail and out-of-home (OOH) markets and directly to consumer in more than 100 countries across Europe, Africa, Asia, Latin America, Australia and, thanks to the addition of Peet's, the US. JDE Peet's owns more than 50 brands, including some key names like Peet's Coffee, Douwe Egberts, Jacobs, Tassimo, Moccona, Senseo, L'OR, Super, Kenco, Pilão and Gevalia. In 2019, JDE Peet's generated €6.9 billion of revenue and €1.9 billion of company's adjusted EBITDA.

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 across Europe, Africa, Asia, Latin America and Australia. In 2019, JDE generated €6.1 billion of revenue and €1.5 billion of company's adjusted EBITDA.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

REFERENCES/CITATIONS

[1] https://www.jabholco.com/documents/6/PressreleaseJDEPeet 'sIPOPricing.pdf

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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Paolo Leschiutta
Senior Vice President
Corporate Finance Group
Moody's Italia S.r.l
Corso di Porta Romana 68
Milan 20122
Italy
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Ivan Palacios
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Italia S.r.l
Corso di Porta Romana 68
Milan 20122
Italy
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454