MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades JDE's rating to Ba1; stable outlook

14 Nov 2019

Milan, November 14, 2019 -- Moody's Investors Service, ("Moody's") has today upgraded JACOBS DOUWE EGBERTS Holdings B.V.'s ('JDE' or 'the company') corporate family rating (CFR) to Ba1 from Ba2. JDE is an intermediate parent entity of the JDE Group, a global coffee manufacturer and retailer based in the Netherlands. Concurrently, Moody's has upgraded to Ba2-PD from Ba3-PD JDE's probability of default rating (PDR) and to Ba1 from Ba2 the senior secured rating on the €5.6 billion bank credit facilities outstanding as of December 2018 (€5.3 billion outstanding as of September 2019) and on the €500 million undrawn Revolving Credit Facility borrowed by Jacobs Douwe Egberts International B.V. The outlook on both entities has changed to stable from positive.

"The rating upgrade follows JDE's strong operating performance over the last 18 months and reflects our expectation that the company will maintain a prudent financial policy, prioritizing debt repayment to shareholder remuneration or debt-financed acquisitions, which will lead to further strengthening of its credit metrics over the next year," says Paolo Leschiutta, a Moody's Senior Vice President and lead analyst for JDE. "Currently favourable market dynamics will support the company's organic growth and further margin improvements, allowing for ongoing strong free cash flow generation," added Mr Leschiutta.

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

RATINGS RATIONALE

Moody's expects JDE's operating results to continue to benefit from strong demand for coffee, the company's increasing presence in emerging markets and the ongoing premiumisation in the coffee industry with customers trading up to more expensive products like single-serve capsules. These factors will support further operating margin improvements and ongoing strong free cash flow generation. The Ba1 rating assumes further strengthening in the company's credit metrics with the company maintaining a Moody's adjusted debt to EBITDA below 4.0x on a sustained basis.

In the nine months period to September 2019, the company's top line grew by 3% on a reported basis, mainly thanks to the contribution of acquisitions completed in 2018. Organic growth in 2019 was broadly flat mainly due to softening in coffee bean prices that the company had to pass through to customers and to softer business performance in Asia. During the same period, JDE's adjusted EBIT, as reported by the company (excluding some restructuring one offs), grew by 8%. Profit growth was above Moody's expectations and was supported by a more favourable product mix, better cost management and the full benefit of cost synergies from past M&A and by the reduction in the company's integration and restructuring costs.

Going forward, excluding volatility in coffee bean prices, the rating agency expects organic top-line growth to continue at low to mid-single digit rate and profit to grow slightly ahead of revenues. Operating margin improvements will be slower than in the recent past, as most of the cost synergies have been already achieved and inorganic profit improvements will be more limited. Restructuring costs in 2019 will still be sizeable (€39 million up to September 2019), but at a level well below 2018 (€107 million), and a more normalized level starting from 2020.

During 2018, the company generated free cash flow in excess of €600 million, as defined by Moody's, i.e. after interests and dividend payments. Moody's expects JDE's cash generation to remain strong over the next 12 to 18 months and that JDE will complement its good organic growth with bolt-on acquisitions, without compromising its deleveraging pattern. The rating agency also understands that the company will prioritize debt reduction ahead of increasing shareholder's remuneration and large acquisitions, which will support further improvements in credit metrics. As of September 2019, JDE's financial leverage, measured as Moody's adjusted gross debt to EBITDA, was 3.8x and its Moody's adjusted retained cash flow to net debt was 17%. Although JDE's key financial ratios have improved significantly over the last two years, the rating assumes further strengthening in key ratios over the next year for the rating to be more solidly positioned.

JDE's ratings continue to be supported by its strong market position and global scale, its track record of achieving operating performance that exceeds Moody's expectations and its good operating margins, as well as Moody's expectation that the company will continue to generate robust free cash flow generation. JDE's rating is also supported by its good liquidity, supported by €500 million of unrestricted cash on balance sheet as of 30 September 2019 and an undrawn €500 million revolving credit facility due in 2023. Although debt maturity are modest over the next three years, JDE's main term loan A amounting to €4.3 billion outstanding is due in November 2023.

Despite the strong growth momentum in the coffee industry, with significant premiumisation potential supporting revenue and profitability growth, the rating is constrained by JDE's high product category concentration in coffee, and still relatively high financial leverage for the rating category. In addition, Moody's cautions that large acquisitions or a change in shareholders' remuneration policy which might slow down the expected improvements in credit metrics could cause a revision of the ratings.

Moody's would like to draw attention to certain environmental, social and governance (ESG) considerations with respect to JDE. Although environmental and social risks are normally modest for consumer products companies, Moody's believes JDE to be exposed to 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. In terms of governance, we note that the company is tightly controlled by JAB Holding Company S.a r.l. (JAB, Baa1 negative) which, in Moody's view has a high tolerance for risk and governance is comparatively less transparent. Moody's notes nonetheless the company has been quite successful in recent years at improving its free cash flow generation and reducing its financial leverage. At the same time the rating agency notes JDE's relatively high trade payable days outstanding and warns that any reduction of the current level might result in permanent increase in working capital.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation of steady growth in the company's operating performance, resulting in solid free cash flow generation which the rating agency expects will be prioritised for gross debt reduction. The stable outlook does not assume any material debt-financed acquisitions.

WHAT COULD CHANGE THE RATING UP/DOWN

Positive rating pressure could develop if Moody's adjusted debt/EBITDA reduces below 3.0x and its adjusted retained cash flow/net debt increases well above 20%, 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 solid liquidity management.

Conversely, negative pressure on the ratings could materialise if Moody's adjusted debt/EBITDA increases above 3.75x or if Moody's adjusted retained cash flow/net debt declines below the high-teens in percentage terms. 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

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

Upgrades:

.... LT Corporate Family Rating, Upgraded to Ba1 from Ba2

.... Probability of Default Rating, Upgraded to Ba2-PD from Ba3-PD

Outlook Actions:

....Outlook, Changed To Stable From Positive

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

Upgrades:

....Senior Secured Bank Credit Facility, Upgraded to Ba1 from Ba2

Outlook Actions:

....Outlook, Changed To Stable From Positive

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Packaged Goods published in January 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY 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 80 countries across Europe, 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. The company is private and was formed in 2015 as a joint venture between Mondelez International, Inc. (Baa1 stable) and Acorn Holdings B.V. (AHBV). AHBV is owned by an investor group led by JAB Holding Company S.a r.l. (JAB, Baa1 negative). In 2018, JDE generated €5.9 billion of revenue and €1.3 billion of adjusted EBITDA. During the nine months to September 2019, revenues and adjusted EBITDA stood at €4.37 billion and €1.03 billion respectively (all figures as reported by the company).

REGULATORY DISCLOSURES

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.

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