MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades JDE Peet's to Baa3; stable outlook

26 Apr 2021

Moody's assigns Baa3 issuer rating to JDE Peet's and withdraws subsidiary JDE Holdings B.V. ratings

Milan, April 26, 2021 -- Moody's Investors Service ("Moody's") has today assigned a Baa3 long-term issuer rating to JDE Peet's N.V. ("JDE Peet's" or "the company"), the listed parent company of the second largest coffee manufacturer worldwide. Concurrently, Moody's has upgraded to Baa3 from Ba1 the senior unsecured rating on the outstanding €3.7 billion term loan A borrowed by Jacobs Douwe Egberts International B.V. ("JDE International") and now guaranteed by JDE Peet's. Moody's has also withdrawn the Ba1 corporate family rating (CFR) and the Ba1-PD probability of default rating (PDR) of JDE Peet's. The outlook of both entities has been changed to stable from positive.

Finally, Moody's has also withdrawn the Ba1 CFR and the Ba2-PD PDR of JACOBS DOUWE EGBERTS Holdings B.V. ("JDE Holdings"). The ratings withdrawal follows JDE Peet's decision to put in place a guarantee to support the debt outstanding at JDE International. As a result, the debt instruments at parent company JDE Peet's (€1.3 billion) and at JDE International (€3.7 billion), which constitute most of the debt, benefit from cross guarantees and rank pari passu.

"JDE Peet's Baa3 rating reflects its resilient operating performance during 2020, despite its exposure to the away-from-home channel, its progress in reducing financial leverage and the simplification of its capital structure," says Paolo Leschiutta, a Moody's Senior Vice President and lead analyst for JDE Peet's.

"The upgrade assumes further deleveraging over the next 6 to 12 months, supported by the company's prudent financial policy," adds Mr. Leschiutta.

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

RATINGS RATIONALE

JDE Peet's Baa3 rating reflects its resilient operating performance during a challenging 2020, with overall organic revenue broadly flat compared to 2019 (-0.2%) as strong demand in the in-home channel, which represented 75% of group revenues before the pandemic and was up 9.1%, compensated for a 30% drop in organic revenue in the away-from-home channel. Despite the disruption caused by the coronavirus pandemic, the company benefitted from ongoing premiumization in the coffee category and demand for its in-home products benefitted from increasing penetration in the most attractive categories, namely single serve, beans and teas, strong growth in both developed and emerging markets and strong acceleration in e-commerce activity (+71% during the year).

Although visibility over the next 6 to 12 months remains limited because of the ongoing coronavirus pandemic, Moody's expects the company's top line to grow at low to mid single-digit rates and profit to grow in line with revenues. In this context, although coffee bean prices remain still at relatively low levels, Moody's notes prices have increased recently. Moody's acknowledges the company's track record in reducing the impact of commodity prices on profit even though this could result in revenue volatility.

The away-from-home channel continues to remain disrupted, particularly across Europe as lockdown measures remain in place in a number of countries and full recovery in demand globally will largely depend on the reduction in mobility restrictions, mostly associated with a successful vaccination campaign. A gradual relaxation of mobility restrictions will support demand recovery, while the company will continue to benefit from the strong fundamentals of the coffee industry, with significant premiumisation potential supporting revenue and profit growth.

Moody's has factored into its decision to upgrade JDE Peet's ratings the governance considerations associated with the company's financial strategy and risk management. Following the IPO in 2020, the company has established a prudent financial policy with the target to achieve and maintain a net reported debt to EBITDA ratio of around 2.5x (equivalent to around 3.0x on a Moody's gross adjusted basis) before considering any large acquisition or an increase in shareholders' distributions. Its prudent dividend policy of €0.70 per share (still to be approved by the AGM) would allow the company to generate significant free cash flow generation, that could support further deleveraging.

In the last 12 months, the company has made further progress in reducing its financial leverage and in removing some of the structural subordination issues in its capital structure. The company's Moody's-adjusted debt to EBITDA improved by 1.0x from 4.9x in 2019 to 3.9x as of December 2020. Albeit this is still high for an investment grade rating, Moody's expects further improvement in the ratio over the coming 6 to 12 months with the ratio reducing towards 3.3x by year end and further reducing thereafter. Deleveraging will stem from profit growth and lower restructuring costs than those incurred in 2020 and which Moody's understands should not repeat going forward. Moody's also notes that the company's retained cash flow to net debt ratio, at 19% in December 2020 is well positioned for the rating.

In March 2021, the company amended the outstanding term loan available at JDE International (€3.7 billion due in 2023) releasing the collateral, removing financial covenants and adding JDE Peet's amongst the guarantors. As a result the rating on the facility has become senior unsecured. In addition, the company raised new debt facilities at JDE Peet's N.V. comprising a €1 billion term facility due in 2025 and a €1.5 billion revolving credit facility due in 2026 (plus term out options). Moody's understands that all other material debt of the group has been repaid and the new term loan, the new RCF and the existing term loan at JDE International rank pari passu and constitute most of the financial debt of the company.

The Baa3 issuer rating assumes that any future debt issue will rank pari passu with the existing debt, benefitting from the same cross-guarantees from both parent company JDE Peet's and operating companies, JDE International and Peet's Coffee, and that within the next couple of years the company will transition to a non-guarantee structure with guarantees removed from all debt instruments and no material debt at operating companies.

JDE Peet's rating is supported by 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 solid positioning in the US premium coffee retail segment, benefiting from a strong portfolio of brands and good geographic diversification. The rating is also supported by the company's strong free cash flow generation and good liquidity. Despite the strong growth momentum in the coffee industry, JDE Peet's remains highly concentrated in a single product category, coffee, and its financial leverage is still relatively high for the rating category.

LIQUIDITY

JDE Peet's liquidity is good, consisting of €414 million of unrestricted cash on balance sheet as of December 2020, large availability under the new €1.5 billion revolving credit facility, due in 2026 (plus two years term out options). Moody's expects it to remain largely available to the group, and expects solid free cash flow generation on an ongoing basis, in excess of €600 million, after interests and dividend payments. Available liquidity is deemed sufficient to cover for working capital seasonality, capex needs and dividend payments.

The next debt maturity is the €300 million term loan put in place as part of the recent refinancing which is due in March 2022 (with six months term out options). The new debt instruments do not include maintenance financial covenants.

Moody's also notes that the company's trade payable days outstanding are currently very high. Any reduction in the current level might result in a permanent increase in working capital, slowing down the expected reduction in financial leverage. Although Moody's would expect trade payable days not to increase further, in light of the potential risk of working capital absorption, the key ratios required to maintain the rating are more demanding than for other similarly rated peers.

RATIONALE FOR STABLE OUTLOOK

The stable outlook on JDE Peet's reflects Moody's expectation of further deleveraging over the next 12 to 18 months, as well as the expectation that the company will be able to weather any adverse consequences of the coronavirus outbreak, while continuing to generate substantial positive free cash flow.

The stable outlook also takes into account Moody's expectation that the company will not engage in any large debt financed acquisition or increase shareholder's returns before it reaches a net debt to EBITDA ratio of around 2.5x, based on the company's definition.

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 2.5x and its adjusted retained cash flow/net debt increases above 25%, both on a sustainable basis. An upgrade would also be subject to the company demonstrating prudent financial policy, including conservative leverage targets and a solid liquidity management.

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 remains well above 3.3x or if Moody's adjusted retained cash flow/net debt declines below 17%, both on a sustainable basis. Deterioration in the company's liquidity profile or a more aggressive shareholder remuneration policy could also result in negative pressure on the ratings.

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.

LIST OF AFFECTED RATINGS

Upgrades:

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

....BACKED Senior Unsecured Bank Credit Facility, Upgraded to Baa3 from Ba1

Assignments:

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

....LT Issuer Rating, Assigned Baa3

Withdrawals:

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

....Probability of Default Rating, Withdrawn, previously rated Ba1-PD

....LT Corporate Family Rating, Withdrawn, previously rated Ba1

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

....Probability of Default Rating, Withdrawn, previously rated Ba2-PD

....LT Corporate Family Rating, Withdrawn, previously rated Ba1

Outlook Actions:

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

....Outlook, Changed To Stable From Positive

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

....Outlook, Changed To Stable From Positive

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

....Outlook, Changed To Ratings Withdrawn From Positive

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 away from home 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 2020, JDE Peet's generated €6.7 billion of revenue and €1.3 billion of company's adjusted EBIT.

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.

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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_1243406 .

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

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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