

Rating Action: Moody's changes JDE's rating outlook to positive; Ba2 ratings affirmed

Global Credit Research - 17 Apr 2018

Milan, April 17, 2018 -- Moody's Investors Service, ("Moody's") has today changed the outlook to positive from stable on the Ba2 ratings of JACOBS DOUWE EGBERTS Holdings B.V. ('JDE' or 'the company'). JDE is an intermediate parent entity of JDE group, a global coffee manufacturer and retailer based in the Netherlands. All ratings of JDE, including the Ba2 corporate family rating (CFR), the Ba3-PD probability of default rating (PDR) and the Ba2 senior secured rating assigned to the €5.9 billion credit facilities outstanding as of December 2017 (including €500 million undrawn Revolving Credit Facility as of December 2017) borrowed by Jacobs Douwe Egberts International B.V. were affirmed. The outlook on Jacobs Douwe Egberts International B.V. was also changed to positive from stable.

"Today's change of outlook to positive reflects our expectation that growing demand for coffee, JDE's innovation capability and a robust organic growth will be complemented by bolt on acquisitions only resulting in gradual strengthening in credit metrics over the next 12 to 18 months towards parameters which could support a higher rating", says Paolo Leschiutta a Moody's Senior Vice President and lead analyst for JDE. "Albeit 2017 metrics were still at the lower end of our expectations for the Ba2 rating category and any improvements will be gradual, the positive outlook factors in the strong market position of the company, its track record in performing in line with our expectations and the ongoing premiumisation in the coffee industry which should support operating margin improvements", added Mr Leschiutta.

RATINGS RATIONALE

Moody's expects JDE's metrics to improve over the next 12-18 months towards the rating agency's requirement for a higher rating i.e. a debt/EBITDA ratio sustainably below 4.0x and a retained cash flow/net debt in the high-teens in percentage terms (both adjusted by Moody's). At the end of 2017 JDE's credit metrics were still weak for the Ba2 rating with debt/EBITDA at 5.1x and retained cash flow/net debt at 4.8%. These were however hit by a number of one off elements including the deposit in an escrow account of the amount to finance the OldTown acquisition in early 2018, which inflated the gross debt amount with no corresponding pro forma EBITDA contribution. The company's funds from operations, as adjusted by Moody's, was also weighed down by an unusually high current tax expenses which the rating agency does not expect to be repeated going forward.

Credit metrics improvement should stem from ongoing, although modest, top-line growth and further operating margin improvements owing to increasing presence in emerging markets and ongoing premiumisation in the coffee industry with customers trading up to more expensive products. Moody's also acknowledges the company's success in achieving all the expected synergies since the merger with Mondelez' International, Inc. (Baa1 stable)'s coffee business in 2015 and the significant working capital efficiencies achieved in 2016.

Moody's expects JDE will complement its good organic growth with bolt-on acquisitions only and understands that the company targets a reduction in financial leverage. The rating agency also acknowledges that the acquisitions of Super Group Ltd and OldTown for a sizeable total consideration of approximately €1.3 billion were financed predominantly with existing cash on balance sheet, with modest impact on the group's gross debt. Although it will take time for JDE to achieve synergies, these acquisitions will contribute to the company's EBITDA and to its deleveraging efforts, starting from 2018.

JDE's ratings continue to be supported by its strong market position and global scale, and relatively good operating margins, as well as Moody's expectations that the company will continue to generate positive and robust free cash flow generation. JDE's rating is also supported by the good liquidity profile of the company thanks to €451 million of unrestricted cash on balance sheet as of 31 December 2017 and an undrawn €500 million revolving credit facility. 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 high financial leverage for the rating category. In addition Moody's cautions that larger acquisitions which might slow down the expected improvements in credit metrics could cause a revision of the positive outlook and/or ratings.

POSITIVE OUTLOOK

The positive outlook reflects Moody's expectation of steady growth in the company's operating performance, resulting in solid free cash flow generation which Moody's expects will be applied to reduce financial leverage. The positive outlook does not include any material debt-financed acquisitions.

WHAT COULD CHANGE THE RATING UP/DOWN

Positive rating pressure could develop if Moody's-adjusted debt/EBITDA reduces towards 4.0x or if adjusted retained cash flow/net debt increases in the high-teens in percentage terms. Conversely, negative pressure on the ratings could materialise if Moody's adjusted debt/EBITDA rises above 5.0x or if Moody's adjusted retained cash flow/net debt declines to high-single digit in percentage terms.

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.

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 stable). In 2017, JDE generated €5.78 billion of revenue and €1.2 billion of adjusted EBITDA (as reported by the company).

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