

Rating Action: Moody's upgrades JDE's CFR to Ba2, stable outlook

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London, 31 March 2017 -- Moody's Investors Service, ("Moody's") has today upgraded corporate family rating (CFR) to Ba2 from Ba3 and probability of default rating (PDR) to Ba3-PD from B1-PD of JACOBS DOUWE EGBERTS Holdings B.V. ('JDE' or 'the company'), an intermediate parent entity of JDE group, global coffee manufacturer and retailer based in the Netherlands. Moody's has also upgraded the rating of the EUR5.8 billion currently outstanding credit facilities (including EUR500 million RCF) raised by Jacobs Douwe Egberts International B.V. (previously Charger Opco B.V.) to Ba2 from Ba3. The outlook on all ratings is stable.

Today's rating action primarily reflects the following drivers:

- JDE's strong financial performance and cash flow generation since its formation due to higher and faster synergies rollout
- The company's policy to deleverage via regular debt prepayments

RATINGS RATIONALE

The Ba2 CFR reflects JDE's (i) scale and strong market position in key countries of operation; (ii) geographical and segmental diversification within the defensive coffee segment; (iii) further synergies potential and expectation of debt prepayments leading to deleveraging expectation; and (iv) good liquidity profile. The ratings also reflect (i) exposure to low volume growth in Europe, mitigated by premiumisation trend and growing presence in emerging markets; ; (ii) Moody's adjusted gross leverage remaining high at around 4.8x at year-end 2016; and (iii) short-term volatility of earnings due to coffee price fluctuations.

The company reported EUR5,206 million sales and EUR952 million adjusted EBIT during financial year ended December 2016 (FY16) leading to 18.2% adjusted EBIT margin. Cash generation was strong, supported by c. EUR400 million inflow from working capital initiatives. Moody's gross adjusted leverage at year-end 2016 was 4.8x (based on EBITDA excluding some integration costs), which is ahead of the rating agency's expectation of 5.4x. JDE is in the process of acquiring Super Group Ltd, a leading Pan-Asian branded manufacturer of primarily instant coffee and tea, instant tea mixes and other instant beverage and food products, for approximately 1.45 billion SGD (funded primarily out of cash on balance sheet).

Moody's deleveraging expectation below 4.5x (Moody's adjusted) within the next 12-18 months reflects not only EBITDA growth but also voluntary debt repayment out of cashflow generation. Moody's note that leverage may be volatile, affected by fluctuations in mark-to-market of derivatives related to hedging of green coffee purchases, included in Moody's adjusted EBITDA.

The company is on track with its supply chain and procurement initiatives such as warehouse consolidation and manufacturing footprint rationalization, with most of the synergies achieved. The company has already closed two out of three manufacturing facilities (in Germany, Belgium and China) announced in September and completed the majority of IT integration during 2016.

JDE's liquidity profile is good, supported by EUR860 million cash on balance sheet as of 31 December 2016 and an undrawn EUR500 million RCF. Proforma for Super Group acquisition (partially financed by RCF drawdown) the company is expected to generate solid positive cash flow and maintain good liquidity notwithstanding projected dividend payments from 2017 onwards.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation of steady growth of the company producing solid free cash flow used for deleveraging. The stable outlook does not include any material debt-financed acquisitions.

WHAT COULD CHANGE THE RATING UP/DOWN

Positive rating pressure could develop if (1) Moody's adjusted debt/EBITDA reduces sustainably below 4.0x; and (2) adjusted retained cash flow (RCF)/net debt increases to high-teen digits.

Negative pressure could materialise if (1) Moody's anticipates that adjusted debt/EBITDA rises above 5.0x, or if adjusted RCF/net debt declines to high-single digits.

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.

Corporate Profile

Headquartered in the Netherlands, JACOBS DOUWE EGBERTS Holdings B.V. ("JDE") is a JV formed on 2 July 2015 between Mondelez International, Inc. (Baa1, stable) ("Mondelez") and Acorn Holdings B.V. ("AHBV"). AHBV is owned by an investor group led by JAB Holding Company S.a r.l. (Baa1, Stable) ("JAB") in partnership with BDT Capital Partners, Quadrant Capital Advisors and Société Familiale d'Investissements. JDE manufactures and sells coffee and tea products in retail and out-of-home markets in more than 80 countries across Europe, Latin America and Australia. JDE's key brands include Douwe Egberts, Jacobs, Tassimo, Moccona, Senseo, L'OR, Kenco, Pilão and Gevalia.

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