



Answers to the questions raised by the Vereniging van Effecten Bezitters (VEB)

17 June 2021

Agenda item 2a. Report of the Board for the financial year 2020

1. Leverage, as measured by debt-to-adjusted ebitda, stood at 3.2 at the end of FY20. Could JDE Peet's comment on its progress in further de-leveraging, including a target range for FY21?

When JDE and Peet's were combined to create JDE Peet's at the end of 2019, our pro-forma leverage (net debt over adjusted EBITDA) was 4.2x. Since then, we lowered our leverage by one full turn to 3.2x at the end of 2020. We target to bring our leverage down to below 3x in the course of 2021 and will subsequently strive to reach our optimal leverage level of 2.5x.

2. The coffee and tea market is relatively fragmented, providing M&A opportunities for JDE Peet's. Could JDE Peet's give some color on the criteria used to evaluate M&A?

M&A is currently our third priority within our capital allocation policy, after investing in organic growth and deleveraging, while above our optimal leverage. When assessing potential M&A opportunities, we look at, among other things, strategic fit, quality of the business model & organisation, ease of integration as well as a broad set of financial/value creation criteria.

3. On the face of it, JDE Peet's lacks scale in China compared to peers such as Nestlé. What does JDE Peet's believe is its prime competitive advantage in China that will enable the company to generate returns in excess of the cost of capital over the long term?

We believe China is a very attractive market to develop the coffee category. The per capita consumption of coffee in China is estimated between 9 and 11 cups, which compares to more than 330 cups per capita per year in the US, and more than 550 cups per capita per year in Western Europe. At the same time, there are 'hotspots' within China which show that Chinese consumers are substantially increasing their coffee consumption. In Shanghai, for instance, the average per capita consumption is around 100 cups of coffee. Considering this huge opportunity in China, it implies there is room for various industry players and, like in many other markets, we can develop and transform the coffee category in China alongside our main competitors.

We also believe we have a strong starting position in China with the right assets, capabilities and partnerships to successfully capture a meaningful part of the opportunity. Like in most other markets, we are playing on all fronts in China: with Peet's stores in the away-from-home channel, which have been very successful to educate and introduce coffee to the Chinese consumer. While next to that, we drive in-home consumption with a broad set of premium technologies using other powerful brands such as Moccona and L'OR. All with the support of Hillhouse capital, our experienced partner in China.

4. During the pandemic, consumer demand has shifted from Out-of-home to in-home. Could JDE Peet's give elaborate on the impact of this shift on the company's supply chain and (future) capex requirements?

Pre-pandemic, 75% of our revenues was related to in-home consumption and, historically, our in-home business grew, on average, faster than the away-from-home business. Since the start of the pandemic, the growth in the in-home business accelerated. We have announced some recent investments in capacity, such as our EUR 110 million investment to expand our France manufacturing facility to support the growth of single-serve offerings.

Other than some capacity needs to continue to support our growth, we have had no (meaningful) impact on our supply chain and we expect our capex requirements as a percentage of sales to remain, on average, broadly similar to pre-pandemic levels

5. CEO Fabien Simon noted in the FY20 earnings call that 'technology has become an interesting barrier to entry'.
- Could the company elaborate on this comment?
 - Could JDE Peet's explain if and why technology provides a structural competitive advantage to the company that is hard to copy by (larger) competitors?

One to two decades ago, most consumers basically drank one type of coffee at home: either a cup based on roast & ground or a cup based on instant. And within each household, everybody consumed the same coffee across the various occasions during the day. It was therefore relatively easy to participate in basic instant or roast & ground coffee categories .

Today, consumers are after a more individualised, better quality and more convenient cup of coffee through different brewing technologies, new coffee formats, new blends, new packaging etc. which requires a lot of innovation capabilities and accumulated knowledge, scale and expertise about all the technologies required to be able to successfully offer this wide range of coffee SKUs. All these technology-led capabilities are required to address a broader range of consumer segments, with more varied and contemporary product offerings, leading to deeper market penetration and value growth.

6. JDE Peet's group was formed by combining legacy businesses. In its key audit matters paragraph Deloitte remarks that two former components (Jacobs Douwe Egberts and Peet's) each had their own 'systems, processes and controls – with different levels of maturity'. Does JDE Peet's believe that the control framework is currently at a satisfactory level, and in which area is there room for improvement?

The internal control framework is and has been at a satisfactory level at both JDE and Peet's. However, given the size and origin of the Peet's business, the internal controls were less formally designed and documented, which is being addressed.

7. Is JDE Peet's willing to share the quantitative outcomes of its sensitivity analysis concerning goodwill – in particular the impact of the 'downside scenario' on the headroom of the cash-generating unit Out-of-Home?

The estimated recoverable amount for the Out-of-Home segment decreased strongly compared to the pre-COVID estimates. Also, due to the uncertainty of the depth and duration of COVID-19 (including longer-term adverse effects on e.g. working-from-home, hotels, bars, cafés and travel), estimating future cash flows involved a higher degree of judgement in 2020 compared to prior years. However, both the base and the downside case did not result in an indication of impairment.

8. With respect to board independence, it is mentioned in the annual report that JDE Peet's 'remains committed to make further progress on compliance with the Dutch Corporate Governance Code'. Could JDE Peet's elaborate on what it means with 'further progress' and give an indication when this will be realized?

We believe it is important to strive for a well-balanced Board composition that incorporates the right experience, competencies and capabilities, and is equipped with a strategic vision that will ultimately benefit the company and its stakeholders. We endorse the principle that the Board composition shall ensure that members can act critically with a focus on long term value creation for the company and its stakeholders. Therefore, we will aim to improve the gender diversity as well as independency over time and in particular as the company's free float increases.



Questions for the external auditor Deloitte

8. Due to the Covid-19 pandemic the audit design and audit procedures performed were different compared to normal circumstances. What compensating measures were required to ensure the audit evidence was comprehensive and sufficiently detailed?

Answer provided by Deloitte:

“Our audit procedures before the start of the pandemic were already enabled through online collaboration tools. For that reason Covid-19 did not pervasively alter exchange of information and the gathering of audit evidence. Due to travel restrictions we were not able to visit our overseas audit teams; alternative oversight was conducted through virtual video meetings with local audit teams, and technology-enabled remote reviews of their working papers. It should be noted that physical visits are only one of many elements of our group auditor oversight. Our attendance of inventory counts (to the extent required) was conducted either in person or through virtual means.”

9. In the key audit matter concerning goodwill (goodwill impairment analysis out-of-home) Deloitte observes that the ‘realizability of the associated goodwill balance (EUR 2,163 million) is critically dependent on the (pace of) recovery of the relevant markets after COVID-19, and on the effectiveness of management’s initiatives (including cost reductions)’.
- a. Could the auditor elaborate on the discussions with management on this matter?

Answer provided by Deloitte:

“Deloitte dedicated significant attention to the key assumptions by, for example, multiple interviews with various senior managers in relevant domains (not just finance, but also e.g. commerce and strategy) to corroborate assertions made. Such assertions were in the area of, for example, when relevant markets would recover again after COVID-19, and what the future effect of existing and new initiatives would be. We also gathered other audit evidence to evaluate those assumptions, such as for example results of initiatives undertaken so far, industry expectations, and discount rates applied (for the latter, we engaged fair value specialists to support in our analysis).”

- b. How would the auditor qualify the assumptions made by JDE Peet’s concerning the goodwill impairment test for Out-of-Home?

Answer provided by Deloitte:

“Deloitte did not (need to) conclude on each individual assumption but considered the assumptions made by management in their entirety. On that basis, Deloitte concurred with management that no impairment was required. Our specific observations are in the Observations section of our audit opinion (as referred to in the question).”

2b. Advisory vote on the 2020 remuneration report (voting item)

10. Could JDE Peet’s explain why it is appropriate to award direct cash compensation to outgoing CEO Keller for forgone potential future LTI-compensation?

This one-off payment was made to meet the contractual obligations in place prior to the IPO and takes into account i) Casey Keller’s tenure prior to becoming CEO of JDE Peet’s, ii) his contribution to the successful IPO of JDE Peet’s as well as iii) the fact that his departure was correlated with mobility, health and safety implications related to the pandemic.

11. The remuneration plan mentions a total multiplier outcome but does not disclose the multiplier for individual targets as this is considered 'commercially sensitive information'. Could JDE Peet's elaborate on why the ex-post disclosure of last year's achievement level and (high level) targets are considered commercially sensitive information?

We consider the target setting, and the subsequent disclosure of the realisation versus targets, as commercially sensitive due to the competitive nature of the industry in which we operate.

Agenda item 6c. Proposal to designate the Board to issue up to 40% ordinary shares in connection with a rights issue

12. It is unusual seeking shareholders' approval for the authorization to issue shares in excess of 20 percent of the current outstanding shares.
- a. Could JDE Peet's confirm that if the mandate to issue new shares is used, it will give existing shareholders pre-emptive rights under all circumstances (without any exceptions)?

We confirm that, in accordance with market standards, all shareholders will be able to participate in the rights issue under this agenda item 6c, except those in jurisdictions where the offering of the rights would be burdensome for the company (for example, if it requires the preparation and approval of an additional prospectus in a local jurisdiction). Shareholders who are not allowed to, do not elect to, or are unable to subscribe to a rights offering, are entitled to sell their rights in the market or receive any net financial benefit upon completion of a rump offering after the exercise period has ended.

- b. Should investors expect JDE Peet's to engage in big-ticket M&A over the next 18 months, or will this be a recurring agenda item in future years?

JDE Peet's intends to have this item as a recurring agenda item moving forward.