Creditreform Corporate Issuer / Issue Rating

Heineken N.V.

Creditreform Rating

Rating object	Rating information	
Heineken N.V. Creditreform ID: 400981214 Incorporation: 1864 Based in: Amsterdam, Netherlands Main (Industry): Brewing industry CEO: Dolf van den Brink	Corporate Issuer Rating: **BBB+ / stable**	Type: Initial rating Unsolicited Public rating
	LT LC Senior Unsecured Issues: **BBB+ / stable**	Other: **n.r.**
Rating objects: Long-term Corporate Issuer Rating: Heineken N.V. Long-term Local Currency (LT LC) Senior Unsecured Issues	Rating date: 06 May 2022 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	

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Summary

Company

Heineken N.V. (hereinafter also referred to as "Heineken" or "the Group") is the parent company of the Heineken Group and is headquartered in Amsterdam, Netherlands. The family-owned company is the leading brewing company in Europe and no. 2 worldwide. Led by the Heineken brand, the Group has a portfolio of more than 300 international, regional, local and specialty beers and ciders for sale in more than 190 countries. The main regions in terms of sales and volumes are Europe and the Americas. Due to the intended acquisition of Distell and NBL, the Africa Middle East & Eastern Europe (AMEE) region is becoming increasingly important. Overall, the Group has a solid portfolio of brands and a well-balanced geographic footprint with leadership positions in both developed and developing markets.

In the 2021 financial year, Heineken generated sales of EUR 21.9 billion (previous year: EUR 19.7 billion), EBIT of EUR 3.3 billion (previous year: EUR 1.6 billion) and an EAT of 3. EUR 5 billion (previous year: EUR -0.1 billion). Despite the ongoing pandemic situation, Heineken thus achieved a significant improvement compared to the previous year, which was particularly affected by the COVID-19 pandemic and the measures taken worldwide to contain it. However, Heineken was not able to reach the pre-crisis level in terms of sales and was only able to achieve it in terms of EAT due to positive one-off effects. Further business development remains to be seen due to the Russian war of aggression against Ukraine and the associated distortions and uncertainties, as well as the ongoing situation with regard to the pandemic.

Rating result

With the unsolicited corporate issuer rating of BBB+, Heineken is attested to have a highly satisfactory level of creditworthiness representing a low to medium default risk. The Group's strong product and brand portfolio, geographic diversification and leading market position as one of the top-selling brewery companies worldwide are significant factors for our rating. In addition, positive business development in 2021 as compared to 2020 led to improved cash flow generation, a reduction in financial liabilities and consequently to a recovery in the result of the financial key figure analysis to a solid pre-crisis level, which confirms our rating assessment overall. With the implementation of the EUR 2 billion cost optimization program up to 2023, as well as company acquisitions that have already been implemented or are still planned, Heineken is laying a good foundation for future (profitable) growth. There are, however, risks with regard to

the successful implementation of acquisitions and the integration and exploitation of the desired synergies. In addition, the effects of the Russian war of aggression against Ukraine, and Heineken's announcement that it will completely divest its Russian business, remain to be seen.

Outlook

The one-year outlook for the rating is stable and reflects the overall solid result of the financial key figure analysis, which represents a certain buffer for possible negative developments. These could result from the announced company acquisitions in South Africa and the increasing share of sales in emerging markets, the ongoing pandemic situation, and the current cost inflation, which is being exacerbated by the war in Ukraine. Overall, we assume that Heineken will be able to cope with these burdens without a lasting deterioration in its net assets, financial position and operational results. Heineken's geographic and product diversification, strong global market position and successful implementation of its corporate strategy to date have a stabilizing effect.

Reference:

The relevant rating factors (key drivers) mentioned in this section, are predominantly based on internal analyses, evaluations of the rating process, the derived valuations of the analysts participating in the rating and, if applicable, other rating committee members. The fundamental external sources used, are specified in the section "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Excerpts from the financial key figures analysis 2021:
+ Increased sales and EAT
+ Equity ratio
+ Return on investment
+ EBIT(DA) interest coverage

- Capital lock up period
- Working Capital
- Improvable liquidity ratios

General rating factors summarize the key issues that – according to the analysts as per the date of the rating – have a significant or long-term impact on the rating, whether positive (+) or negative (-).

Current rating factors are the key factors that, in addition to the underlying rating factors, have an impact on the current rating.

Relevant rating factors

Table 1: Financials I Source: Heineken N.V. Annual Report 2021, standardized by CRA

Heineken N.V. Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IFRS)	CRA standardized figures[1]	
	2020	2021
Sales (million EUR)	19,715	21,941
EBITDA (million EUR)	3,519	5,192
EBIT (million EUR)	1,574	3,321
EAT (million EUR)	-88	3,535
EAT w/o non-controlling interests (million EUR)	-204	3,324
Total assets (million EUR)	36,434	42,159
Equity ratio (%)	25.23	35.53
Capital lock-up period (days)	67.82	77.04
Short-term capital lock-up (%)	28.12	25.18
Net total debt / EBITDA adj. (Factor)	6.68	4.71
Ratio of interest expenses to total debt (%)	1.82	1.70
Return on investment (%)	1.04	9.16

General rating factors

+ Strong market position as one of the leading brewing companies in terms of HL sold - no. 1 in Europe and no. 2 worldwide
+ Geographically highly diversified and strong brand portfolio
+ Strong earnings power and internal financing capability
+ Proved access to financial markets
+ Innovation capability

– Highly active in developing markets
– Foreign currencies risk
– Business is basically seasonal and weather-dependent

Current rating factors

+ Positive sales and earnings development in 2021
+ Financial liabilities reduced in 2021
+ Recovery of the result of the financial key figure analysis 2021 to pre-corona level
+ Ongoing cost savings program – EUR 2 billion by the end of 2023 – is on track
+ Additional, one-off cost savings realized in 2021 to compensate for the negative effects of the corona crisis - largely marketing, sales and personnel costs
+ Growth and strengthening of the market position in emerging markets through the acquisition of Distell and Namibia Breweries Ltd. (NBL)
+ Positive business development in Q1 2022

[1] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

- Growing macroeconomic uncertainties, rising costs for raw materials and energy, and the absence of the one-off cost savings in the past financial year, reduce the effect of the ongoing cost savings program in 2022 and put further pressure on Heinekens cost base
- Remaining or increasing uncertainties and risks due to the ongoing pandemic situation and the Russian invasion of Ukraine
- Burdens from the withdrawal from and planned sale of its Russian business
- Unit sales, revenue and operating result before exceptional items still remain below pre-crisis level

Prospective rating factors are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+) or a weakening or negative effect (-) on future ratings, if they occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

Prospective rating factors

+ Successful completion of the planned corporate acquisitions (DELTEL and NBL) and increase of synergies
+ Timely economic recovery after completion of the war in Ukraine and the weakening of the pandemic situation
+ Positive sales and earnings development in connection with further debt reduction and improvement of essential financial ratios
+ Beneficial effects from the implementation of the sustainability strategy
+ Sales and earnings growth through innovative product developments

- Continuing pandemic situation and further impairment in on-trade
- Expansion of the Russia-Ukraine conflict with negative impact on essential target markets, especially with regard to the raw material and energy prices
- Continuing disturbances in the supply chains
- Further increasing inflation and recessive tendencies in essential target markets
- Implementation and integration risks related to the planned acquisitions of Distell and NBL, lower-than-expected synergy effects, deterioration of margins, rising capital requirements and deterioration of essential financial key figures
- Falling levels of social acceptance for the consumption of alcoholic beverages
- Legal and regulatory restrictions

ESG factors are factors related to environment, social issues and, governance. For more information, please see the "Regulatory requirements". CRA generally takes ESG relevant factors into account, when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

ESG-factors

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Heineken N.V. we have not identified any ESG factor with significant influence.

Nevertheless, topics around sustainability and responsibility are central elements of the group strategy in the short term, but especially in the medium to long term.

Heineken's strategy promotes innovation and cooperation with the aim of protecting the environment, supporting local communities and making a positive contribution to society, with a focus on achieving the Sustainable Development Goals set forth by the United Nations. Climate change is a global threat to humanity, which will shape the global economy as well as the business model of Heineken in the coming decades. Against this background, Heineken has committed to take measures to limit global warming to 1.5 degrees Celsius. An essential building block for this is the ambitious goal of eliminating net CO2 emissions in the Group's production (Scope 1 and 2) by 2030 by switching the power supply to 100% renewable energies, among other measures. By 2040, climate neutrality should be achieved throughout the value chain (including Scope 3). The intermediate target by 2030 has been checked and confirmed by the Science Based Target Initiative (SBTI). The validation of the "Net Zero Emission" goal for the entire

value chain is currently being worked on. In the sustainability strategy, maximizing the circular economy (circularity) as well as the reduction of water consumption - in particular in areas where water is scarce - play an important role.
Heineken is active in an industry whose products—in cases of product abuse—can potentially cause dependencies and various health conditions, as well as social damage. Heineken is committed to reducing harmful consumption, identifying best practices on community-based interventions to reduce underage drinking, improve road safety, increase alcohol screening, reduce binge drinking as well as in the form of marketing campaigns, social advertisement, and labelling. Heineken's operating companies invested 10% of their media spending in responsible consumption campaigns, and will continue do so in the future.

With regard to the Group's sustainability strategy and ambitious goals, we see Heineken on the whole on a satisfactory path. Particularly since the previously missing link between the remuneration policy of the Executive Board and the sustainability targets was proposed and approved at the Annual General Meeting (AGM) held in April 2022.

Overall, in our opinion, there are a number of aspects to be observed with regard to the ESG factors, although we cannot derive an effect from them at the moment which would impact the rating. In the future, ESG factors may have an impact on our rating assessment, depending on the company's achievement of self-imposed goals and on regulatory changes.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: A-

In our best-case-scenario for one year, we assume a rating of A-. The prerequisite for this is a significant increase in revenue, earnings growth and a significant improvement in the earnings and internal financing power, which should lead to a further reduction of debt and consequently to a sustainable improvement of the result of the financial ratio analysis. We assume that Heineken succeeds in compensating for the current cost inflation through price adjustments - without significant sales losses - and in implementing both the acquisition of Distell and NBL, as well as a withdrawal from its Russia business, according to plan. Due to the continuing circumstances of the pandemic, as well as the Russian war against Ukraine and the related significant uncertainties and risks, however, we consider this scenario to be less likely.

Worst-case scenario: BBB

In our worst-case scenario for one year, we assume a rating downgrade to BBB. We assume that the pandemic situation will continue and that cost inflation will further intensify as a result of the Russian war of aggression - especially with regard to commodity prices - without Heineken being able to compensate for the cost inflation through corresponding price adjustments and cost savings. These factors would result in a significant drop in sales and earnings, a significant increase in debt, and a significant deterioration in key financial ratios, which in total could lead to a downgrade. Negative effects could also arise in the course of the disposal of the Group's Russian business and the implementation of the acquisition of Distell and NBL, among other things in the form of delays and increased integration costs.

Business development and outlook

The Group's development in the fiscal year 2020 was particularly influenced by the macroeconomic and social upheavals in the wake of the COVID 19 pandemic and the measures implemented in the respective countries to contain it. These included, above all, contact restrictions, quarantine, and travel restrictions, but also the closure of restaurants and bars, which had a massive impact on on-trade. Against this backdrop, consolidated beer volumes decreased by 8.2% from 241.4 million HL in 2019 to 221.6 million HL in 2020, with sales down 17.7% to EUR 19.7 billion (previous year: EUR 24.0 billion) and EAT of EUR -0.1 billion significantly below the previous year's figure of EUR 2.4 billion. It should be noted here that the weak result was also partly due to negative one-off effects, such as pandemic-related write-downs and restructuring expenses in the course of implementing the EverGreen strategy.

Table 2: The development of business of Heineken N.V. I Source: Annual Report 2021, standardized by CRA

Heineken N.V.					
In million EUR	**2019**	**2020**	**Δ %**	**2021**	**Δ %**
Sales	23,969	19,715	-17.7	21,941	11.3
EBITDA	5,567	3,519	-36.8	5,192	47.5
EBIT	3,680	1,574	-57.2	3,321	111.0
EBT	3,284	157	-95.2	4,334	--
EAT	2,374	-88	-103.7	3,535	--

The fiscal year 2021 was also impacted by the negative effects of the ongoing COVID 19 pandemic, although there were clear signs of recovery. Consolidated beer sales increased by 4.6% year-on-year to 231.2 million HL, but were still well below pre-crisis levels. The same applies to the sales achieved of EUR 21.9 billion, which grew by 11.3% but failed to reach the pre-crisis level. The growth in sales was due on the one hand to increased volumes and on the other – more significantly - to a substantial rise in prices.

Adjusted EBITDA increased by 47.5 percent year-on-year to EUR 5.2 billion and EBIT by as much as 111.0 percent to EUR 3.3 billion. It should be noted that in order to improve the comparability of the operating performance, significant non-recurring special effects were reclassified from the operating result to the extraordinary result. While in 2021 mainly an extraordinary gain of EUR 1.3 billion from the revaluation of the equity investment in United Breweries Limited (UBL) was adjusted, in 2020 it was mainly corona-related impairment losses of EUR 0.9 billion which were to be corrected. Including the positive one-time effect in 2021, EBIT was above the pre-crisis level. Operating profit also benefited from the productivity program launched at the end of 2020, which is expected to realize gross savings of roughly EUR 2 billion by the end of 2023 compared to the cost base in 2019. By the end of 2021, Heineken was already able to achieve cost savings of EUR 1.3 billion compared to 2019, largely by streamlining the organization, reducing portfolio complexity, lowering conversion and logistics costs, and not making unproductive, non-consumer-oriented investments. Heineken also implemented further cost-cutting measures, saving an additional EUR 0.5 billion to at least partially compensate for the financial burdens in the wake of the corona pandemic. These cost reductions mainly related to marketing, sales and personnel and are to be regarded as non-recurring. For the current financial year, Heineken expects these costs to recur, if not increase significantly.

EBT amounted to EUR 4.3 billion, well above the previous year and the pre-crisis level. In addition to the one-off effect described above, the improvement in income from investments and financial income had a positive impact. EAT also benefited from a lower tax rate compared with the pre-crisis period, also showing a significant improvement.

In the regional segments reported by Heineken, business performance adjusted for exceptional items (beia; before exceptional items and amortization of acquisition-related intangible assets) was as follows:

Table 3: The development of segments (beia) I Source: Heineken N.V. Annual Report 2021 and Media Release

in million		Europe	Americas	AMEE	APAC	HQ & others	Consolidated
Total cons. volume (HL)	**2021**	91,8	89,4	50,3	30,4	--	**262,0**
	2020	88,8	86,0	45,4	28,7	--	**248,9**
	2019	99,7	94,7	49,9	31,8		**276,1**
Net Revenue (EUR)	**2021**	9,494	7,226	3,159	2,764	-744	**21,901**
	2020	8,631	6,319	2,782	2,707	-716	**19,724**
	2019	10,629	7,429	3,370	3,205	-740	**23,894**
Operating profit (EUR)	**2021**	1,160	1,215	442	753	-155	**3,414**
	2020	447	1,045	264	867	-202	**2,421**
	2019	1,436	1,204	408	1,085	-114	**4,020**

The two main markets of Europe and the Americas—which together account for more than 75% of the Group's revenues—and the Africa, Middle East & Eastern Europe (AMEE) region achieved significant year-on-year growth in revenue and earnings (beia). The Asia Pacific (APAC) region also reported sales growth, but this resulted from the acquisition and first-time consolidation of United Breweries Limited (UBL) in India, so that organic sales development declined. Compared to the pre-crisis year 2019, sales levels in all regions continue to be lower. Overall, operating profit is also significantly below the pre-crisis level, although the Americas and AMEE regions have already reported operating profit above the pre-crisis level in 2021.

Based on the overall positive development in 2021 and the improvement in the result of the financial ratio analysis to a solid basis in line with the rating level, we see Heineken as fundamentally well positioned with regard to further business development. This is confirmed by Heinekens overall positive business performance in Q1 2022, benefitting from the recovery in on-trade in Europe and in particular from an assertive pricing across all regions. The planned acquisition of Distell and Namibia Breweries Limited (NBL) should enable further profitable growth at least in the medium term.

However, risks and uncertainties remain and are increasing against the background of the ongoing pandemic situation, cost inflation—especially for raw materials, energy and transport—and the Russian war of aggression against Ukraine. As a consequence of the war in Ukraine, Heineken has decided to divest its Russia business completely and assumes they will not make a profit on the divesture on its Russian assets. The continued payment of wages and salaries for the 1,800 employees working in Russia has been assured by Heineken until the end of 2022. In addition, Heineken expects an impairment and further non-cash expenses from the discontinuation of the Russian business of roughly EUR 0.4 billion.

Overall, the above-mentioned burden appears to be bearable. However, the consequences of the war cannot be estimated at present. As Russia and Ukraine are among the world's largest exporters of wheat and barley, Heineken could face supply bottlenecks and corresponding cost increases in the short to medium term. Despite the current difficult conditions, we assume for the time being that Heineken will be able to meet the challenges in an appropriate manner thanks to its strong market position and geographical diversification.

Structural risk

Heineken was founded in the Netherlands in 1873 and is the leading brewing company in Europe and the No. 2 in the world in terms of sales volume (in HL). The Heineken Group is headed by Heineken Holding N.V., which has the statutory purpose and supervising and overseeing the management of the Heineken Group and providing services to Heineken N.V. Solely as a holding company, Heineken Holding N.V. does not perform any operating activities within the Heineken Group. Heineken Holdings N.V. holds 50.005% of the shares of Heineken N.V. The main shareholder of Heineken Holding N.V. is L'Arche Green N.V. with 52.599%, which in turn is 88.86% owned by the founding Heineken family. The remaining 11.14% of the shares in L'Arche Green are held by the Hoyer family, which has had a stake in Heineken since its founding year in 1873. Another major shareholder of Heineken N.V. (8.632%) and Heineken Holding N.V. (12.262%) is Fomento Económico Mexicano S.A.B. de C.V. (FEMSA), the largest listed beverage producer in Mexico and Latin America. Apart from minor direct holdings in Heineken Holding N.V., the remaining shares in Heineken N.V. and Heineken Holding N.V. are in free float. The shares of both companies are traded on Euronext Amsterdam, with "only" Heineken N.V. included in the AEX index. Both companies are also traded in the USA via American Depositary Receipts (ADRs).

Heineken has a balanced geographic presence and leading positions in both developed and developing countries/markets. With an average number of employees of 82,257 (2020: 84,394), Heineken operated more than 167 breweries, malteries, cider plants and other production facilities in more than 70 countries in 2021. The lower number of employees is the result of the implementation of restructuring measures to increase productivity as part of the EverGreen strategy. In this context, the organizational structure was also streamlined and unnecessary portfolio complexity reduced.

With the planned acquisition of Distell and NBL in Africa, the organizational structure and portfolio complexity is set to increase again; however, we see this as fundamentally manageable. Heineken plans to reorganize the main businesses of Distell Group Limited, Namibia Breweries Limited and Ohlthaver & List Group of Companies (O&L) in Southern Africa into a new company with its business unit Heineken South Africa (HSA) and other Group-owned export businesses in Africa. Heineken's future share in the new company is expected to be at least 65%, with the remaining shares going to Distell shareholders who decide to reinvest. The transaction is subject to approvals by the authorities; however, finalization is expected in the course of 2022.

Further changes in the corporate structure were seen already in 2021 resulting from the increase in the shareholding in United Breweries Limited (UBL), the market leader in India, and the first-time full consolidation. In addition, further adjustments are expected as a result of the planned sale of business activities in Russia, in response to the Russian war of aggression against Ukraine.

The Executive Board of Heineken N.V. currently consists of two members who assume the functions of CEO and CFO. The Executive Board, together with the four regional Presidents and five Chief Officers, forms the Executive Team, the highest advisory body within Heineken N.V.

Due to the size of the company and its international business activities, Heineken is exposed to numerous internal and external risks, which the company manages with the help of comprehensive risk management and a strong internal control system. Overall, we consider the structural risk of the Heineken Group to be slightly elevated against the background of the Group's complex corporate structure, planned acquisitions and their associated implementation and integration risks, and the planned sale of the business in Russia, but nevertheless manageable.

Business risk

Heineken is an internationally oriented, globally leading brewing company with a strong brand portfolio and balanced geographical diversification. The Group's main business activity is the production and distribution of beer. In addition, beverage distribution and the production of cider, soft drinks and other alcoholic and non-alcoholic products are part of the complementary range of activities, as well as a strong export business, mainly from the Netherlands, Mexico and Singapore. In addition to the main Heineken brand, the Group has a portfolio of more than 300 international, regional, local and specialty beers and ciders sold in more than 190 countries. As all relevant markets have their own dynamics and consumer preferences, we see Heineken's broad and well-known brand portfolio and regional diversification as beneficial to reduce vulnerability to local economic downturns and other local business risks. We believe Heineken is well positioned to meet rapidly changing consumer preferences.

The EverGreen strategy communicated by Heineken aims to future-proof the company, adapt it to new external dynamic developments and emerge stronger from the COVID-19 crisis. The strategy is based on a value creation model (Green Diamont) introduced by Heineken, which puts the goals of growth, profit and capital on an equal footing with sustainability and responsibility. Growth is to be achieved primarily through consumer and customer focus, premiumization, product innovation—in the form of non-alcoholic, flavored and less bitter beer variants and/or beyond beer products with cider and hard seltzer —and the promotion of a digital route to the consumer. With regard to financing growth, sustainability goals and digitalization, Heineken is trying to improve cost efficiency and implement a cost-conscious culture. We consider this necessary, especially against the backdrop of rising cost inflation, even though Heineken intends to compensate for rising costs through targeted price adjustments—which in turn could have a negative impact on sales volume and growth.

Heineken is the second largest brewing company in the world in terms of sales volume, with a market share of 12.2%. The market leader is AB InBev with a market share of 25.7%. Heineken is followed at a relatively large distance by Carlsberg (6.1%) and China Resources Breweries (5.9%), in which Heineken holds an indirect stake. Heineken has a leading market position in both developed and developing markets. It should be noted that in 2021, around 64% of group-wide beer sales and roughly 48% of group sales were generated in developing markets - mainly in Latin America and the Caribbean as well as the Asia Pacific and AMEE regions. Consequently, the Heineken Group is exposed to higher country risks, as doing business in developing countries is associated with increased political, economic, operational, investment, currency and other risks. These factors are partially offset by the Group's strong, diversified global presence, which acts as a natural hedge against local economic and seasonal fluctuations.

The planned acquisition of Distell and NBL in Africa increases Heineken's vulnerability to the risks and volatilities in the emerging markets. On the other hand, the formation of a "regional beverage champion" in the fast growing region of Southern Africa creates significant growth opportunities. In addition, the product portfolio, especially through the acquisition of Distell, the leading producer and marketer of ciders, flavored alcoholic beverages, wines and spirits, would lead to significant product diversification.

The COVID-19 pandemic has so far had a significant negative impact on the global development of economies. As such, the beer and beverage markets in general have suffered a strong decline due to strict measures implemented by governments to curb the spread of the virus. We believe that it will take some years for economies and beverage markets to fully recover from the economic impact and to perform at pre-COVID-19 levels. In particular, cost inflation, disrupted supply chains and the war in Ukraine are further factors that could have a negative impact on global economic development, including a possible recession in key core markets. For Heineken, we see the risk of a bottleneck in the supply of raw materials and a significant increase in costs, in particular in relation to the war in Ukraine, although the effects remain to be seen for the time being.

Overall, we consider Heineken's business risk to be moderate. The Group is exposed to risks related to commodity prices, supply chain disruptions, foreign exchange rates, proprietary rights and various regulations. The industry is generally highly seasonal and weather-dependent, although this is significantly offset by the Heineken Group's strong geographic diversification. The high or increasing share of business in the emerging markets is accompanied by increased risks and volatilities, but at the same time has higher growth potential than the relatively saturated markets in the developed countries. The ongoing pandemic and current cost inflation will continue to negatively impact business development. However, based on the discernible recovery trends in 2021 as well as its leading market position, we believe Heineken is fundamentally capable of meeting these challenges. Although the effects of the Russian war of aggression against Ukraine remain to be seen for the time being, the increasing uncertainties and risks could have a significant impact on the global economy and thus also on Heineken's business development.

Financial risk

For analytical purposes, CRA makes adjustments to the original balance sheet values of companies. The following statements refer to the key figures calculated by CRA according to its methods, unless otherwise stated. Due to these adjustments and generally CRA's own calculation methods of key figures, they may differ from the original values and information provided by Heineken.

Based on the 2021 consolidated financial statements, our analysis of the financial ratios shows Heineken's earnings to be highly satisfactory, which forms the basis for our rating assessment. After a noticeable deterioration in 2020 due to the pandemic, the overall result of the financial ratio analysis is back at the pre-crisis level. The analytical equity ratio on December 31, 2021 was 35.5% (previous year: 25.2%) and can therefore be regarded as solid. This is particularly true in view of the fact that we deduct 50% of recognized goodwill from equity. Despite the increase in total assets, the significant rise in the analytical equity ratio was mainly due to a marked improvement in the total comprehensive income to EUR 4.9 billion (2008: EUR -2.1 billion), which was largely the result of the high net profit compared with the previous year and positive exchange rate effects. The analytical ratio net total debt / EBITDA adj., which relates to total debt less cash and cash equivalents, was 4.7x (2008: 6.7x), which is still satisfactory for the rating level specified here. If net financial debt, which amounted to EUR 13.7 billion as of December 31, 2021 (previous year: EUR 14.2 billion), is related to EBITDA adjusted by Heineken for extraordinary items and amortization of acquisition-related intangible assets (beia), the overall figure is a solid 2.6x (previous year: 3.4x).

We do not expect the financial ratios to deteriorate significantly even if the planned acquisition of Distell and NBL in Africa is successfully implemented. Heineken estimates the investment required to implement the transaction at around EUR 2.5 billion. Of this amount, EUR 1.3 billion will be a cash pay-out and approximately EUR 1.2 billion will be a contribution in kind. The company expects only a slight increase in Heineken's net debt / EBITDA (beia) after completion of the acquisition. According to the company, the long-term target of reducing net debt / EBITDA (beia) to below 2.5x remains unchanged, which represents a stabilizing factor for the rating.

The Heineken Group's financial liabilities totaled EUR 16.9 billion as of December 31, 2021 (previous year: EUR 18.2 billion) and consisted primarily of bonds of EUR 13.5 billion (previous year: EUR 14.4 billion), liabilities to banks of EUR 1.5 billion (previous year: EUR 0.9 billion) and leasing liabilities of EUR 1.1 billion (previous year: EUR 1.2 billion). Of the total financial liabilities, EUR 3.2 billion are due in the short term. Overall, the maturity structure of the financing is relatively balanced and does not reveal any significant cluster risks.

However, it is also worth mentioning the off-balance sheet commitments totaling EUR 15.6 billion (2007: EUR 12.6 billion) reported as of December 31, 2021, which mainly consisted of contractual commitments to purchase raw materials (EUR 12.0 billion; 2007: EUR 9.6 billion) and the other off-balance sheet commitments (EUR 2.5 billion; 2007: EUR 1.8 billion). The latter already include obligations of approximately EUR 0.5 billion in connection with the acquisition of Distell and NBL. For the current financial year 2022, Heineken reported off-balance sheet commitments of roughly EUR 5.6 billion as of December 31, 2021.

The reduction in financial liabilities is mainly the result of the Group’s positive business development and improved cash flow generation. In the financial year 2021, Heineken generated cash flow from operating activities of EUR 4.2 billion, significantly above the prior-year figure (EUR 3.1 billion) but slightly below the pre-crisis level (EUR 4.3 billion). Heineken's reported free operating cash flow (before M&A transactions) amounted to EUR 2.5 billion, a marked increase compared to the previous year (EUR 1.5 billion) and the pre-crisis level (EUR 2.2 billion), although the increase compared to 2019 was mainly due to noticeably reduced CAPEX. Heineken can thus be said to have solid internal financing strength, which we see as being additionally supported by its balanced dividend policy.

Heineken has a EUR 2.0 billion commercial paper program that was undrawn as of the last balance sheet date. In addition, Heineken has a EUR 3.5 billion revolving syndicated credit facility, undrawn as of December 31, 2021, which is granted by 19 banks until May 2024 and has no covenants. With liquidity of EUR 3.2 billion reported in the balance sheet and undrawn bank facilities of roughly EUR 5.0 billion as of December 31, 2021, as well as the solid cash flow generation and the established access to capital markets, Heineken has a sufficiently good liquidity situation.

Against the background of reduced financial liabilities in 2021 and consequently stabilized financial ratios, the Group’s solid internal financing strength, sufficient liquidity position, the balanced maturity structure of its financing and established access to capital markets, we consider the financial risk to be manageable and therefore moderate, despite the planned acquisition of Distell and NBL and the withdrawal from its Russian business, as well as the current cost inflation.

Issue rating

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in euro, issued by Heineken N.V. which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The notes have been issued within the framework of the Euro Medium Term Note (EMTN) programme, of which the latest base prospectus dates from 01. April 2022. This EMTN programme amounts to EUR 20 bn. The notes under the EMTN programme are senior unsecured, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge provision, a change of control clause and a cross default mechanism. The terms of individual Notes or tranches depend on the respective final terms and conditions.

Result corporate issue rating

We have provided the EUR-denominated, unsubordinated and unsecured debt securities issued by Heineken N.V. with an unsolicited corporate issue rating of BBB+. They thus have a strongly satisfactory credit quality and a low to medium risk of default. The outlook is also stable. In consideration of our corporate issue rating methodology, the rating is based on the unsolicited corporate issuer rating of Heineken N.V. The terms and conditions did not give rise to the application of an extraordinary notching to the unsolicited corporate issuer rating.

Other types of debt instruments or issues denominated in other currencies of the issuer have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Overview

Table 4: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date	Rating
Heineken N.V. (Issuer)	06.05.2022	BBB+ / stable
Long-term Local Currency (LC) Senior Unsecured Issues	06.05.2022	BBB+ / stable
Other	--	n.r.

Table 5: Overview of 2022 Euro Medium Term Note Programme I Source: Base Prospectus dated 01.04.2022

Overview of 2022 EMTN Programme			
Volume	EUR 20,000,000,000	Maturity	Depending on respective bond
Issuer	Heineken N.V.	Coupon	Depending on respective bond
Arranger	Credit Suisse	Currency	Depending on respective bond
Credit enhancement	none	ISIN	Depending on respective bond

All future LT LC senior unsecured Notes issued by Heineken N.V., which have similar conditions to the current EMTN programme, denominated in Euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same rating as the current LT LC senior unsecured Notes issued under the EMTN programme. Notes issued under the programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programmes (such as the Commercial Paper Programme) and issues that do not denominate in euro will not be assessed.

Financial ratio analysis

Table 6: Financial key ratios |Source: Heineken N.V. Annual reports 2019-2021, structured by CRA

Asset structure	2018	2019	2020	2021
Fixed asset intensity (%)	72.31	76.88	72.91	74.88
Asset turnover	--	0.64	0.52	0.56
Asset coverage ratio (%)	48.11	45.72	40.73	51.58
Liquid funds to total assets	8.15	4.57	10.98	7.70
Capital structure				
Equity ratio (%)	29.77	30.27	25.23	35.53
Short-term debt ratio (%)	29.28	30.90	29.83	28.69
Long-term debt ratio (%)	5.02	4.88	4.46	3.09
Capital lock-up period (in days)	65.18	71.88	67.82	77.04
Trade-accounts payable ratio (%)	11.28	11.85	10.05	10.98
Short-term capital lock-up (%)	21.77	25.05	28.12	25.18
Gearing	2.09	2.15	2.53	1.60
Leverage	--	3.33	3.59	3.25
Financial stability				
Cash flow margin (%)	--	18.34	12.23	17.53
Cash flow ROI (%)	--	11.04	6.62	9.12
Total debt / EBITDA adj.	5.42	5.05	7.83	5.35
Net total debt / EBITDA adj.	4.79	4.72	6.68	4.71
ROCE (%)	14.07	14.65	7.46	12.37
Total debt repayment period	--	4.41	20.07	5.25
Profitability				
Gross profit margin (%)	37.74	39.12	36.85	38.31
EBIT interest coverage	6.45	6.96	3.17	7.19
EBITDA interest coverage	9.58	10.52	7.08	11.03
Ratio of personnel costs to total costs (%)	16.67	16.19	18.61	15.88
Ratio of material costs to total costs (%)	62.26	60.88	63.15	61.69
Cost income ratio (%)	85.94	84.71	92.04	85.10
Ratio of interest expenses to total debt (%)	1.97	1.90	1.82	1.70
Return on investment (%)	7.03	7.21	1.04	9.16
Return on equity (%)	--	20.95	-0.83	29.25
Net profit margin (%)	9.36	9.90	-0.45	16.11
Operating margin (%)	14.11	15.35	7.98	15.14
Liquidity				
Cash ratio (%)	27.84	14.80	36.81	26.86
Quick ratio (%)	70.55	51.57	67.69	61.42
Current ratio (%)	94.57	74.81	90.83	87.56

Appendix

Rating history

The rating history is available under https://www.creditreform-rating.de/en/ratings/published-ratings.html.

Table 7: Corporate Issuer Rating of Heineken N.V.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	06.05.2022	www.creditreform-rating.de	Withdrawal of the rating	BBB+ / stable

Table 8: LT LC Senior Unsecured Issues issued by Heineken N.V.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	06.05.2022	www.creditreform-rating.de	Withdrawal of the rating	BBB+ / stable

Regulatory requirements

The rating[2] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited public rating. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

A management meeting did not take place within the framework of the rating process.

The documents and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
Corporate Ratings	2.3	29.05.2019
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

[2] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Artur Kapica	Lead-analyst	A.Kapica@creditreform-rating.de
Rudger van Mook	Analyst	R.vanMook@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Philipp Beckmann	PAC	P.Beckmann@creditreform-rating.de

On 6 May 2022, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 6 May 2022. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report

2. Website

3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating

2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

An explanatory statement of the meaning of Creditreform Rating AG’s default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct, which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

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We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

Creditreform Rating AG

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