

ISSUER COMMENT

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JAB Holding Company S.a r.l.

Jimmy Choo's intention to enter into a formal sale process is credit positive for JAB

On 24 April Jimmy Choo PLC (Jimmy Choo or company, unrated), which is 67.66% indirectly controlled by JAB Holding Company S.A R.L. (JAB, Baa1 stable) via JAB Luxury (unrated), announced that it is seeking offers for the company as part of a strategic review to maximize value for its shareholders. In addition, JAB Luxury also announced that it is considering a possible sale of Bally International AG (unrated), which is 100% owned by JAB Luxury and indirectly owned by JAB.

This is credit positive for JAB because cash proceeds from the sale of both companies, but especially Jimmy Choo, which is already listed and has a higher asset value than Bally, will lower JAB's net market value leverage (MVL – net debt/market value). Prior to today's announcements we had forecast that net leverage would remain elevated and above the 15% net MVL we consider appropriate for a Baa1 rating through 2017. As at year-end 2016, net MVL stood at around 17% and we expected that this would exceed 20% following JAB's announcement on 5 April to enter into a definitive merger agreement to acquire Panera Bread Company (unrated).

We recognize that the level of proceeds to be raised from both transactions is uncertain and there is also no certainty that a sale of all or any of JAB Luxury's shareholding will take place – for example Jimmy Choo reserves the right to alter or terminate the formal sale process at any time. However, Jimmy Choo's share price has performed well over the last six months, owing to strong sales growth and improving market fundamentals for the luxury goods industry as a whole.

Immediately following Jimmy Choo's announcement that it would enter into a formal sale process, the Jimmy Choo share price reached a record high of around 182p per share. This implies potential proceeds of at least £480 million (c.€570 million) from Jimmy Choo. We expect proceeds from Bally to be significantly less given JAB Luxury, which includes JAB's investments in Jimmy Choo and Bally was around €770 million as at 2016, albeit we highlight that Bally was valued at cost rather than market value.

We consider disposals of JAB's luxury business make sense as they do not offer the same cost synergy advantages as the company's other businesses in the fast-moving consumer goods sector, nor have they provided JAB with any dividend income. The sale of these assets is consistent with JAB's investment strategy having been labelled as non-strategic assets for a number of years.

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