MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook on JAB's ratings to stable from negative

Global Credit Research - 03 Feb 2017

Frankfurt am Main, February 03, 2017 -- Moody's Investors Service (Moody's) has today changed the outlook on JAB Holding Company S.a r.l. (JAB) ratings to stable from negative. At the same time, Moody's has affirmed all the ratings of JAB, including the Baa1 Issuer Rating.

"Our decision to change the outlook on JAB's Baa1 rating to stable from negative reflects our view that there is reduced valuation risk associated with the sizeable number of M&A transactions that JAB and its investments have made over the last 12-24 months, especially with regards to the largely debt-funded acquisition of Keurig Green Mountain, Inc. (Keurig, Ba2 stable). This reduced valuation risk provides Moody's with more certainty that key credit metrics will remain commensurate with our expectations for the rating level, including net Market Value Leverage (MVL) of around 15%" says Jeanine Arnold, a Moody's Vice President -- Senior Analyst and lead analyst for JAB.

A full list of affected entities and ratings can be found at the end of this press release.

RATINGS RATIONALE

Moody's rating action follows our expectations that the risk of any material deterioration in the valuation of JAB's asset portfolio is now at a level we deem to be more appropriate for JAB's Baa1 rating. This lower risk provides Moody's with more certainty that JAB will continue to maintain substantial headroom in terms of the overall value of its portfolio relative to debt raised -- namely net MVL of around 15%. A significant deterioration in market values had been a concern after a series of sizeable M&A transactions over the last 12-24 months, and in particular the sizeable premium, which was paid for the largely debt-funded acquisition of Keurig in December 2015.

The reduced valuation risk is mainly driven by the continued robust operating and cash flow performances of many of JAB's key investments, but especially Keurig over the last 12 months, including the three months to 31 December 2016 (Q1-17), Keurig's most important quarter given the Christmas period. In fact, Keurig's operating and cash flow performance has tracked ahead of Moody's expectations and we believe this now provides some justification for the material premium, which JAB paid for Keurig. Under the ownership of JAB, Keurig has been successful in expanding gross margins through productivity gains and boosting cash flow through working capital initiatives - a hallmark of JAB's operating and investment strategy. This has led to a significant deleveraging, which should also support valuation. While there is no direct linkage between the credit ratings of JAB's investments, the upgrade of Keurig's rating to Ba2 stable from Ba3 stable within a year is testament to JAB's strategy and its execution -- (see Keurig Press Release - Jan 2017: https://www.moodys.com/research/Moodys-upgrades-Keurig-CFR-to-Ba2-outlook-stable--PR_361071).

Moody's also considers valuation risk to be lower as JAB successfully closed the highly complex merger between Coty Inc. (Coty, Ba1 stable) and The Procter & Gamble Company's (P&G, Aa3 stable) beauty business in October 2016. Coty's share price has fared less well over the last six months, partly because of the weaker than expected performance, especially from a topline perspective and the fact that synergies will take some time to be realized. But, over the medium to longer-term, we expect that the experience and proven track record of JAB's management should help support Coty's operating and cash flow performance, and ultimately its share price. In H1 2016 the valuation of JAB's stake in Acorn Holdings B.V. increased by approx. €200 million which is assumed to be mainly related to a value increase of JACOBS DOUWE EGBERTS Holdings B.V. (JDE, Ba3 positive), as the stake in Keurig was still valued at acquisition cost. This is providing greater comfort that the merger of DEMB and Mondelez International, Inc. (Mondelez)'s coffee business will be value-enhancing.

OUTLOOK -- STABLE

The stable outlook reflects our view that JAB's asset portfolio is strengthening and that reduced valuation risk associated with material M&A over the last 12-24 months should allow for greater stability of market values. We expect this, combined with the company's financial policy to maintain strong credit metrics, should support a net MVL of around 15% improving interest cover metrics to in excess of 2.0x. In the context of JAB's strengthening asset portfolio JAB's net MVL may temporarily exceed 15%, but we would expect it to at least remain below 20%.

M&A forms the cornerstone of JAB's investment strategy and the risk is to some degree factored into the rating, but the stable outlook assumes that i) JAB will not engage in any further material debt-funded acquisitions in the near term and ii) any M&A activity at the level of JAB's investments does not lead to a notable deterioration in market values or forecast dividend income.

A possible acquisition by Reckitt Benckiser Group plc (Reckitt Benckiser, A1 stable; JAB's stake 8%) of Mead Johnson Nutrition Co. (Mead Johnson, Baa1 stable) could lead to an increase of leverage at Reckitt Benckiser. This is credit negative for JAB, given the lower credit quality of one of its main stakes, but we do not expect this to be sufficient enough to have an effect on JAB's rating.

WHAT COULD CHANGE THE RATING -- UP

Positive rating action is possible if credit metrics strengthen such that net MVL is more comfortably below 15% and interest cover rises more sustainably to around 3.0x.

Aside from maintaining a good balance in terms of its exposure towards its four key assets (Reckitt Benckiser; Coty; JDE and Keurig) we would expect sizeable M&A transactions such as the Coty and P&G beauty business merger to be fully integrated and for there to be evidence of a further strengthening in JDE's, Keurig's and Coty's financial profiles. This should allow for more stable market values and dividend income more commensurate with an "A" rating.

We would also expect to have a clear understanding of JAB's investment strategy, including any additional significant M&A and IPOs to monetize assets, as well the company's expectations with regards to further debt issuances.

WHAT COULD CHANGE THE RATING -- DOWN

Negative rating action is likely if credit metrics deteriorate such that JAB's net MVL significantly exceeds 15% and interest cover fails to rise to in excess of 2.0x. This would suggest a higher leverage than currently envisaged and/or an inability to receive cash from its investments. A negative rating action could also follow where there is a material weakening in the company's liquidity, either in terms of (1) the proportion of its available listed assets; (2) cash and available credit facilities which fall below €500 million; and/or (3) weaker dividend income due to a deterioration in Reckitt Benckiser's and Coty's performance, a change in JAB's dividend policy or further material acquisitions.

List of affected ratings:

Affirmations:

..Issuer: JAB Holding Company S.a r.l.

.... Issuer Rating, Affirmed Baa1

..Issuer: JAB Holdings B.V.

....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

Outlook Actions:

..Issuer: JAB Holding Company S.a r.l.

....Outlook, Changed To Stable From Negative

..Issuer: JAB Holdings B.V.

....Outlook, Changed To Stable From Negative

The principal methodology used in these ratings was Investment Holding Companies and Conglomerates published in December 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

CORPORATE PROFILE

JAB Holding Company S.à r.l. (the Guarantor) together with JAB Holdings B.V. (the Issuer) and four wholly owned holding companies, (JAB Cosmetics B.V., Labelux Group GmbH, JAB Forest B.V. and JAB Investments S.à r.l) form the JAB Group (JAB). JAB is majority-owned by Agnaten SE and Donata Holdings B.V. (together the Family Office).

JAB is a privately held investment holding company, focused on long-term investments in consumer goods and retail companies with premium brands. JAB's key investments in terms of market value include: i) Reckitt Benckiser Group Plc (Reckitt Benckiser, A1 stable: c.8% voting rights), a global leader in consumer health and hygiene; ii) Coty Inc. (Coty, Ba1 stable: 36% voting rights post the merger with The Procter & Gamble Company's fine fragrance, color cosmetics and hair color business), a global leader in fragrances and expanding position in cosmetics and body care; and iii) JACOBS DOUWE EGBERTS Holdings B.V.(JDE, Ba3 positive) and Keurig Green Mountain, Inc. (Keurig, Ba2 stable) in coffee and tea, which are both held via Acorn Holdings B.V. (58% voting rights).

Besides JDE and Keurig, JAB's coffee and tea business is complemented by its ownership of Peet's Coffee and Tea and Caribou Coffee (both held via JAB Beech Inc., 58% voting rights). JAB also has investments in luxury brands, including listed Jimmy Choo PLC (not rated, 68% of voting rights).

JAB's portfolio value has increased consistently since 2012 from € 9.9 billion to €18.1billion as at 2015 and is expected to be around EUR20.2 billion as at H1-16.

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For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.