S&P Global Ratings

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JAB Holding Co. S.a.r.l.

October 13, 2023

Credit Highlights

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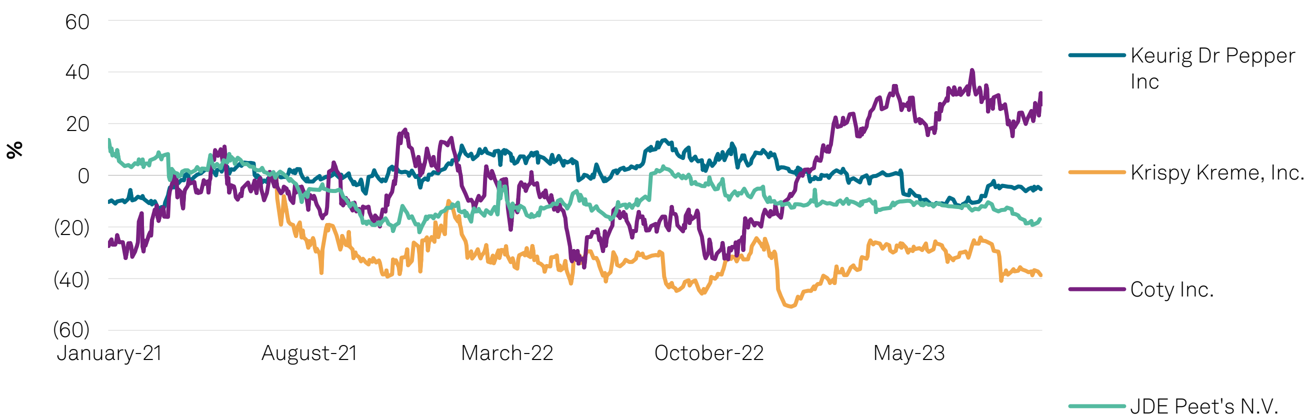
Overview

Key strengths	Key risks
Long-term focus on value creation through IPO processes, and a solid track record in listing private assets.	Elements of concentration in terms of portfolio structure. JAB's top four assets make up 75%-80% of its S&P Global Ratings-adjusted portfolio value.
JAB Consumer Partners' (JCP) passive co-investment, meaning JAB directly manages about $50 billion of equities, as opposed to about $32 billion stand-alone, amplifying investment fire power.	Somewhat complex holding structure, although simplification has reduced material indebtedness, increased transparency, and eliminated the most material complex liabilities. The only remaining liability is at Acorn Holding B.V.
Relative portfolio resiliency to deteriorating economic conditions and stock market volatility. JAB's portfolio value decreased by 8% to about $31.4 billion at year-end 2022, outperforming the MSCI World Index (which was down 20%).	The portfolio's assets having an average credit quality we assess in the middle of our 'bb' category.
Public commitment to maintain the reported loan-to-value (LTV) ratio below 20% on JAB stand-alone.	Exposure to equity market valuations and volatility, which could lead to higher LTV ratios, especially in turbulent markets, coupled with only moderate headroom against the LTV ratio ceiling for the current rating at 25%.

JAB Holding Co. S.a.r.l.'s (JAB) S&P Global Ratings-adjusted portfolio value reached about $32 billion as of June 30, 2023, marginally improving from end-2022, but new IPOs could unlock value in the next two years. Despite the challenges faced throughout 2022, JAB's portfolio remained relatively resilient, with its S&P Global Ratings-adjusted value decreasing to $31.4 billion at end-2022, down about $2.0 billion from end-2021. In its full-year results, JAB disclosed that the investment return on its portfolio was negative 9.4% for 2022. This still outperformed the MSCI World Index by about 800 basis points. In first-half 2023, the investment return as calculated by the company was positive at 3%, compared with 15.1% for the MSCI World Index. However, excluding Apple, Microsoft, Amazon, Google, Nvidia, Tesla, and Meta, the index's return in first-half 2023 was positive 2.4%. JAB announced that it will continue to explore IPO opportunities as some of its unlisted assets have now reached a more mature phase, while also continuing to foster new acquisitions, potentially widening its portfolio. JAB's veterinary business, National Veterinary Association (NVA; not rated), announced plans to form two different veterinary businesses, NVA and Ethos, and to explore IPO opportunities over the next two-to-three years. JAB's restaurant business, Panera, has been preparing its IPO for about 18 months. Recently, its pet insurance platform announced the acquisition of a France-based pet insurance company, HD Assurances. The acquisition price hasn't been disclosed but we do not anticipate a meaningful impact on JAB's S&P Global Ratings-adjusted LTV ratio.

Asset prices stabilization should support JAB's portfolio value. Among the company's listed assets, U.S.-based beauty company Coty Inc. (BB-/Stable/--; about 16% of S&P Global Ratings-adjusted portfolio value as of June 30, 2023) recorded the strongest share price development. In the first six months of 2023, the price rose about 40% to $12.29 per share, which we think reflects the resilient demand of beauty products. The share performance of JAB's soft drink companies was somewhat weaker. U.S. based Keurig Dr Pepper Inc.'s (BBB/Stable/A-2; 25%) share price lost about 12%, to $31.27 per share, due to the exit of one of its historical shareholders. The share performance of coffee company JDE Peet's N.V. (BBB-/Stable/--; 17%) was stable at about €27 per share.

JAB Holding Co. S.a r.l.--Listed asset's share price (Jan. 1, 2021-Sept. 25, 2023)



Source: S&P Global Ratings

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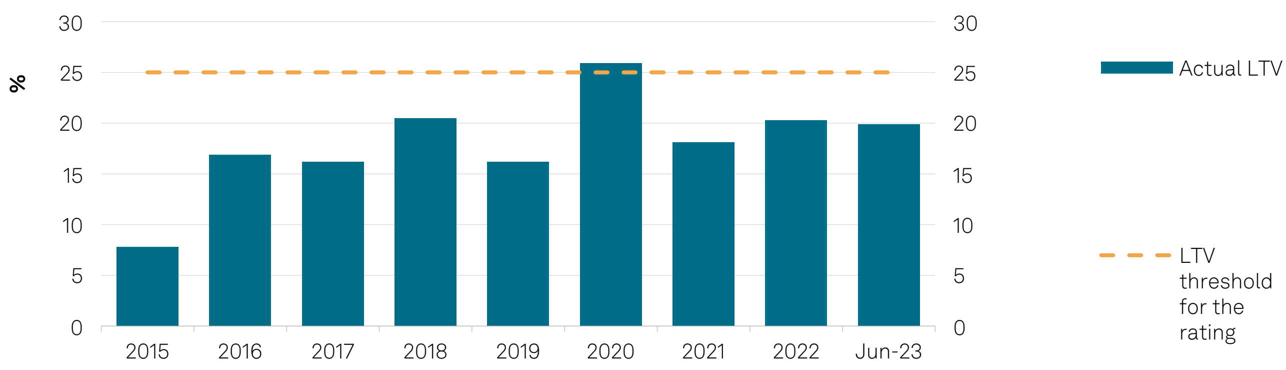
JAB Holding's S&P Global Ratings-adjusted LTV ratio remains below the 25% ceiling for the 'BBB+' rating. The holdco's LTV ratio, as adjusted by S&P Global Ratings, marginally improved since end-2022, to about 19.9% at June 30, 2023, from about 20.3% mainly because of the portfolio value's moderate improvement. We do not anticipate material cash depletion for new acquisitions or investments.

JAB Holding Co. S.a r.l.--LTV evolution



Source: S&P Global Ratings

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Outlook

The stable outlook reflects our expectation that management will sustain its stand-alone LTV below 25%.

Downside scenario

We could lower the rating on JAB by one notch if its LTV surpasses 25%.

Upside scenario

We could consider an upgrade if JAB sticks to a more conservative financial policy from a prolonged period, with more prudent risk management resulting in LTV well below 20%, even at the bottom of the economic cycle. An upgrade would also depend on JAB further diversifying its portfolio assets and reducing debt pertaining to intermediate holding companies (now fully concentrated at Acorn Holdings) that sit outside JAB's new consolidation perimeter.

Our Base-Case Scenario

Assumptions

- Continuous prudent investment policy and proactive management actions aimed maintaining the S&P Global Ratings LTV ratio well below 25%.
- Stable dividend inflows of $750 million-$800 million per year, against $762 million in 2022 (following the changes in consolidation parameters).
- No material increases in operating costs, which we expect at $80 million-$90 million per year.

- Interest expense of $220 million-$240 million per year, in line with 2022 levels.
- Ordinary distributions to shareholders of $100 million-$150 million per year.

Key metrics

JAB Holding Co. S.a r.l.-- Key Metrics*

	2021a	2022a	2023f	2024f
Loan to value (%)	18.1	20.3	<25.0	<25.0
Cash flow adequacy (x)	1.7	2.5	2.0-3.0	2.0-3.0

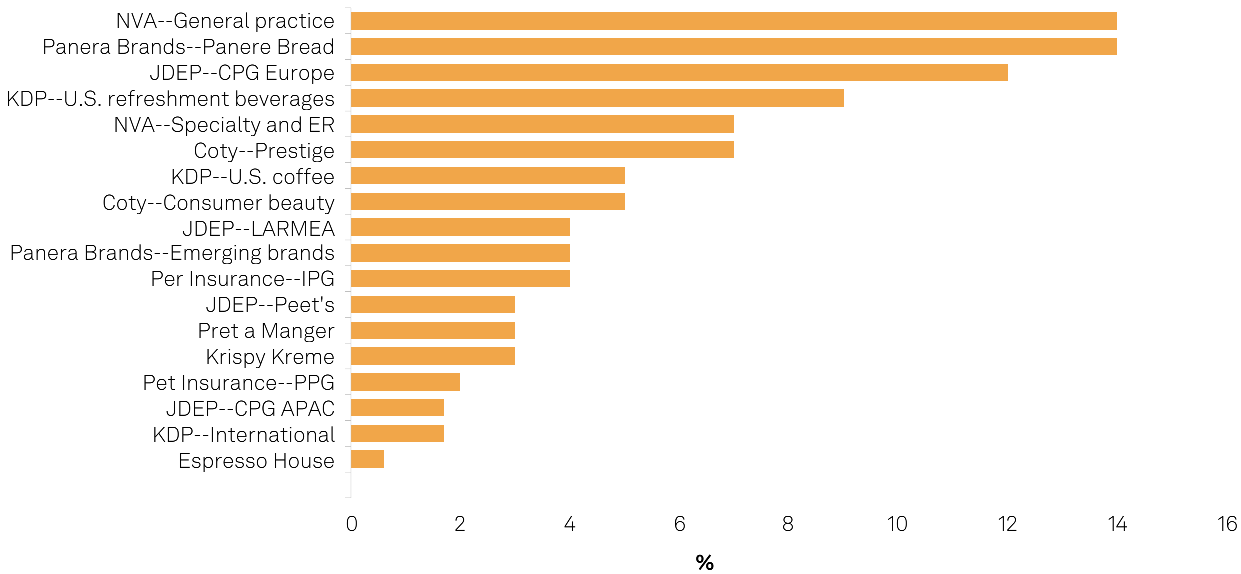
*All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Company Description

Investment holding company JAB focuses on defensive and fast-moving consumer goods and services, and consumer retail assets. Following the acquisition of NVA, the company also has veterinary health care services. JAB actively manages most of its assets, with significant control and influence over the assets' capital structure and dividend flows.

JAB is a privately held company. All shares are fully paid and are not listed on any stock exchange. Together, Agnaten SE and Lucresca SE hold about 90% of JAB through wholly owned subsidiary Joh. A. Benckiser B.V. (formerly Donata Holdings B.V.). JAB's management team and other investors hold the remaining stake of approximately 10%.

A global investment portfolio with good asset diversity



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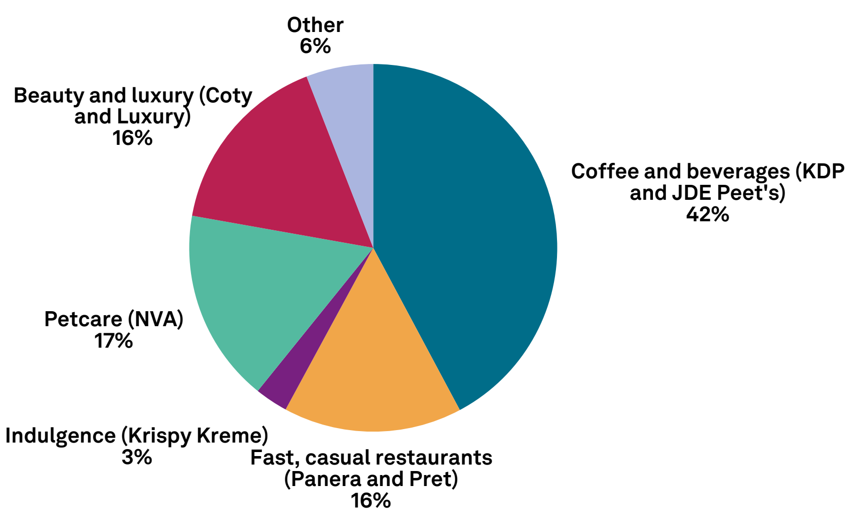
Adjusted portfolio breakdown as of June 30, 2023



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Peer Comparison

JAB is one of the largest holding companies we rate in Europe as measured by portfolio size. Its portfolio is concentrated in fewer key legal entities than peers, including, for example, Group Bruxelles Lambert (GBL), Exor, and Investor AB.

JAB's structure is more leveraged than peers, which is reflected by our LTV ceiling of 25%, versus 20% for some of the other investment holding companies. JAB also has the unique setup to co-invest with JCP, which effectively increases the equity value to about $50 billion, and thereby increases its ability to influence decision-making at its assets.

JAB Holding Co. S.a r.l.--Peer Comparisons

	JAB Holding Co. S.a r.l.	EXOR N.V.	Wendel	Groupe Bruxelles Lambert SA
Rating as of Sept, 27, 2023	BBB+/Stable/--	BBB+/Stable/A-2	BBB/Stable/--	A+/Stable/--
Business risk profile	Satisfactory	Satisfactory	Fair	Strong
Portfolio and LTV data as of	Jun. 30, 2023	Jun. 30, 2023, Pro forma	Mar. 31, 2023, Pro forma	Jun. 30, 2023
Portfolio size (adjusted; mil. $)	31,872	39,771	9,611	22,789
Weight of listed assets (%)	61.4	81.8	53.9	66.9
Largest asset (% of portfolio)	25.3	36.5	53.9	16.7
Three largest assets (% of portfolio)	59.2	69.6	73.2	44.6
Financial risk profile	Intermediate	Modest	Modest	Modest
Loan to value ceiling (%)	25	20	20	20
Loan to value (%)	19.9	8.9	13.1	14.7

Business Risk

JAB's share of listed assets has been decreasing due to a material increase in the value of the veterinary platforms and a relatively weaker share price performance of its listed assets. The share of listed assets as of June 30, 2023, deteriorated towards 60% from about 70% a few quarters ago. The decline is mainly a factor of the increased evaluation of its pet care platform reaching $5.6 billion as of June 30, 2023, up from $4.9 billion; and more importantly by the pet insurance business platform, whose value rose to slightly above $1 billion from about $244 million at year-end 2022.

We expect JAB will solidify its positive track record of doing IPOs for its unlisted portfolio assets. The company has had a solid track record of getting its private assets listed such as Krispy Kreme, KDP and JDE-Peet's in 2021 and 2020 respectively. Also, in 2023, NVA announced plans to form two different veterinary businesses, NVA and Ethos, and to explore IPO opportunities over the next two-to-three years. In addition, JAB's restaurant business, Panera, disclosed publicly it would consider preparing for an IPO. Overall, we believe that JAB's positive track record of IPOs should crystalize a more mature phase of JAB's portfolio evolution and contrasts with several other holdings that are making new investments in unlisted assets. Moreover, the company's unlisted assets, such as the Petcare platform and the Panera brands, have developed meaningfully in terms of size and operations. If JAB lists both its restaurant and pet-care platforms, this in turn will improve its pro forma share of listed assets to more than 90% from about 60% as of June 30, 2023. As a result, a potential marked step-change in the company's listed asset will likely be incrementally credit positive, all else being equal.

We view the average credit quality of JAB's portfolio as within the 'bb' category. This is largely sustained by our investment-grade ratings on KDP and JDE Peet's. The average credit risk of JAB's portfolio is currently below that of GBL or Exor, both of which have portfolios whose average credit quality is investment grade. Over the past few years, JAB's appetite for leverage on its investee assets was markedly higher than that of its peers. In our view, this reflects both the private nature of part of its portfolio, where the company is prone to higher leverage to increase returns, as well as the difficult operating environment.

Coty's operating performance and business turnaround resulted in a recent upgrade. Management's efforts to turn around Coty and improve its profitability have yielded results. We recently upgraded the company to 'BB' with a positive outlook (from BB-/Stable/--) mainly on account of continued deleveraging and improved performance. Coty's S&P Global Ratings-adjusted debt to EBITDA is expected to improve below 4x by the end of fiscal year 2024 from 4.7x at the end of fiscal year 2023. We downgraded Coty to 'B-' in July 2020. For further information on the recent rating action, see "Coty Inc. Upgraded To 'BB' From 'BB-'; Outlook Positive; Debt Rating Raised," published Sept. 29, 2023, on RatingsDirect.

JAB displays some elements of asset concentration. The company's largest stand-alone asset, KDP, represents about 25% of total portfolio, with the three largest assets--namely KDP, Pet care, and Coty--representing about 60% of total portfolio value. JAB's portfolio continues to be dominated by the food and beverages industry, which together represent about 60% of the entire portfolio (KDP, JDE Peet's, Panera, and Krispy Kreme). However, we note the company's effort to improve its industry diversity. This can be seen with the NVA acquisition in 2019, which is one of the largest independent operators of veterinary hospitals, as well as with further diversification toward the pet insurance business.

JCP continues to support JAB's investment opportunities, amplifying the latter's investment potential. JCP's role as a passive investor materially increases JAB's managed equities and its ability to influence decision-making at its assets, including their dividend policies. As of June 30, 2023, JAB's consolidated portfolio was $49.4 billion, including JCP's equity portfolio of $17.5 billion of directly owned investments. That consolidated portfolio is materially larger than JAB's stand-alone portfolio of about $30 billion. Based on the consolidated portfolio, JAB's portfolio value is only moderately smaller than those of Investor AB (AA-/Stable/A-1+).

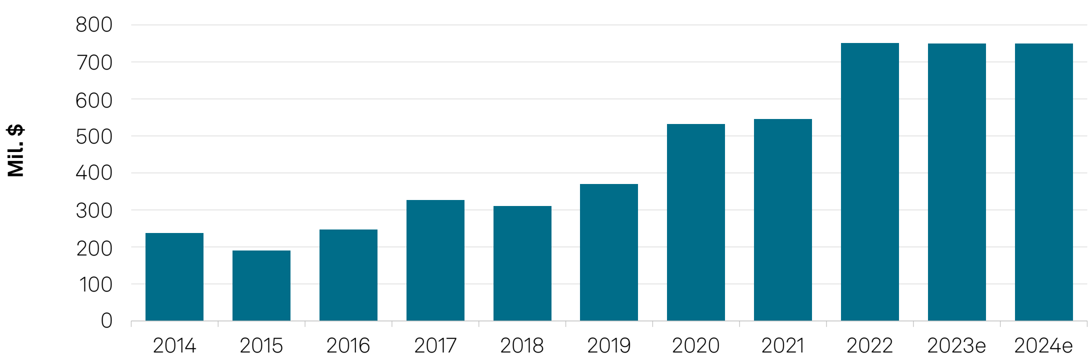
Financial Risk

JAB has a complex holding structure with intermediate holding company debt sitting outside the consolidation perimeter. According to management, the contingent liabilities and debt within the intermediate holding structure has decreased to $3.0 billion-$4.0 billion as of June 30, 2023, from more than $11.6 billion at end-2019. We understand that the only intermediate holding company liability remaining pertains to Acorn. The holding takes this liability into account in its evaluation of JAB Coffee and Beverages Platform's value, which at the end of 2022 had a consolidated value of $15.9 billion. We also understand that JAB aims to progressively reduce the amount of the liability related to Acorn.

Notwithstanding the changes in the consolidation perimeter, we continue to rate JAB on a stand-alone basis. The debt is effectively entirely issued by JAB (on a stand-alone basis). All in all, we continue to believe the stand-alone LTV better reflects the holding company's leverage because the bonds are issued by JAB with no guarantee from JCP. This means, in essence, that the $17.5 billion relating to JCP's invested equity does not support JAB's stand-alone financial liabilities.

Steady dividend income will support cash-flow adequacy. We expect JAB will receive dividends of about $750 million per year in 2023 and 2024 (mainly stemming from KPD), broadly in line with 2022. With our forecast that recurring operating and interest expenses will remain near the same level as 2022, we anticipate JAB's cash-flow adequacy ratio will be 2x-3x over 2023-2024.

JAB Holding Co. S.a r.l.--Dividend income



e--Estimate. Source: S&P Global Ratings

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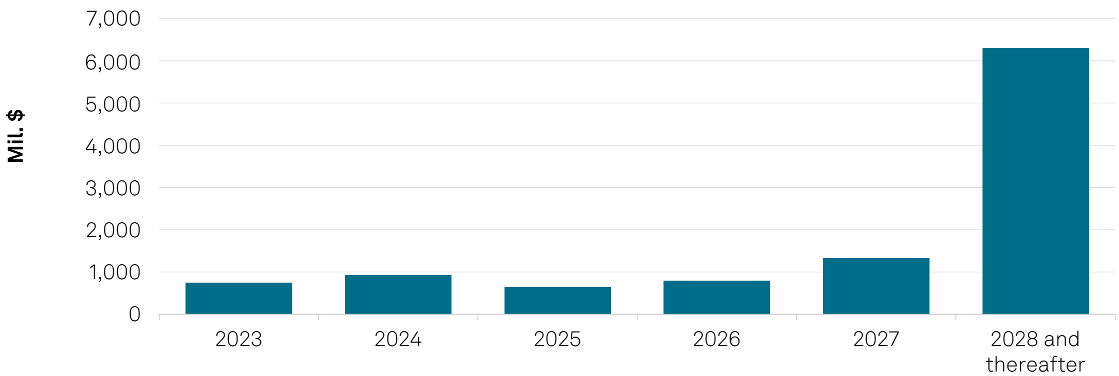
Debt maturities

JAB Holding Co. S.a r.l.--Debt maturity profile as of Dec. 31, 2022



Source: S&P Global Ratings

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JAB Holding Company S.a r.l.--Financial Summary

Mil. $	2020	2021	2022
Adjusted portfolio value*	30,896	34,154	31,381
Adjusted net debt	8,002	6,181	6,359
Loan to value (%)	25.9	18.1	20.3
Dividend and fees income	532	546	787
Net interest expense	197	236	231
Operating charges and tax expense	54	95	84
Cash flow coverage (x)	2.1	1.7	2.5

*All figures adjusted by S&P Global Ratings.

Liquidity

We assess JAB's liquidity as strong. We estimate that JAB's liquidity sources will exceed its needs by about 7x over the next 12 months and about 6.1x over the next 24 months, thanks to a long-term debt maturity profile and large cash holdings and revolving credit facilities. The company's strong ties with banks and access to debt markets supports its liquidity. We think management is committed to supporting strong long-term liquidity. We also think JAB would likely absorb a high-impact event with limited need for refinancing. For the company, such a scenario would likely be a severe correction of market values for its listed shares, such as that seen in COVID-19 market conditions.

Principal liquidity sources

- Cash and cash equivalents of approximately $3.8 billion as of June 30, 2023
- Full availability of a $3.6 billion revolving credit facilities (RCFs) with maturity longer than 12 months, and $3.3 billion RCFs for the following 24 months
- Ordinary dividend inflows of $700 million-$800 million per year

Principal liquidity uses

- Operating expense of $80 million-$90 million per year
- Interest expense of $220 million-$240 million per year
- Debt maturities of about $721 million over the next 12 months, and $758 million over the subsequent 12 months
- Dividend payments of $100 million-$150 million per year

Environmental, Social, And Governance

ESG factors are an overall neutral consideration in our credit rating analysis of JAB. Its portfolio is exposed to the consumer goods sector, with a prominent exposure to beverage company KDP, representing about 25% of its portfolio value; JDE-Peet's (about 17%); and its unlisted pet care platform (about 17%). Although there could be elements of potentially negative social factors, we understand that JAB's key assets have a quite diverse product offer.

Although KDP faces some social risk because of its sugary soft drinks, its portfolio is well diversified, including about 40% of sales from coffee and coffee systems. In addition, its non-coffee beverage portfolio includes several expanding non-sugary offerings such as teas and flavored water that reduces its aggregate portfolio exposure to sugary soft drinks well below 50%.

We note that demand for JDE Peet's coffee benefits from positive global trends, notably thanks to its increasing penetration in new emerging economies and due to different preparation methods (powder, capsules, soluble) and consumption occasions. These presents expansion opportunities but are balanced by risks related to the sustainability of resources. With about 85% of revenue coming from coffee-related products, our assessment must consider potential environmental and social risks related to harvesting.

Issue Ratings--Subordination Risk Analysis

Capital structure

JAB Holdings B.V. is the financing subsidiary of JAB, where all the debt of the group is issued. It is 100% owned by JAB through an intermediate holding company. JAB's gross debt totals about $10 billion at the end of June 30, 2023. The company does not have any stand-alone debt. It guarantees in full all the debt issued by JAB Holdings B.V. The syndicated RCF and the notes rank pari passu.

Analytical conclusions

In our view, there are no significant elements of subordination risk present in the capital structure, and we rate the senior unsecured debt 'BBB+', in line with the issuer credit rating.

Rating Component Scores

Foreign currency issuer credit rating	BBB+/Stable/--
Local currency issuer credit rating	BBB+/Stable/--
Business risk	Satisfactory
Country risk	Low
Industry risk	Intermediate
Investment position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Liquidity	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	bbb+

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Tear Sheet: JDE Peet's N.V., Oct. 3, 2023

- Coty Inc. Upgraded To 'BB' From 'BB-'; Outlook Positive; Debt Rating Raised, Sept. 29, 2023
- Tear Sheet: Coty Inc., Aug. 31, 2023
- JDE Peet's N.V., July 4, 2023
- Tear Sheet: JAB Holding Company S.a.r.l., May 9, 2023
- Bulletin: JAB Holding Keeps Leverage Under Control While Preparing Its Portfolio For Potential IPOs, March 31, 2023
- Research Update: Keurig Dr Pepper Inc. 'BBB' Rating Affirmed On Revised Financial Policy; Outlook Stable, March 29, 2023
- Tear Sheet: JAB Holding Co. S.a r.l., Oct. 7, 2022
- JAB Holding Co. S.a r.l., June 3, 2022

Ratings Detail (as of October 13, 2023)*

JAB Holding Co. S.a r.l.	
Issuer Credit Rating	BBB+/Stable/--
Issuer Credit Ratings History	
29-Oct-2020	BBB+/Stable/--
22-Apr-2020	A-/Negative/--
23-Dec-2019	A-/Positive/--
17-Jun-2019	A-/Stable/--
12-Feb-2019	A-/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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