MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms JAB Holding's Baa1 Issuer rating; outlook stable

Global Credit Research - 30 Jan 2018

Frankfurt am Main, January 30, 2018 -- Moody's Investors Service, ("Moody's") has today affirmed JAB Holding Company S.a.r.l's ('JAB') long term issuer rating at Baa1. Moody's has also affirmed all senior unsecured instrument ratings assigned to debt issuances of JAB Holdings BV at Baa1. The outlook on all ratings is stable.

"Our affirmation of JAB's ratings reflects both the sound strategic rationale of the proposed Keurig Dr Pepper merger and the improvement that the transaction will bring to JAB's portfolio of investments," said Stanislas Duquesnoy, Vice President -- Senior Credit Officer at Moody's and lead analyst for JAB.

RATINGS RATIONALE

The affirmation of JAB's long term issuer rating follows JAB's announcement that it has agreed alongside other shareholders to merge Keurig Green Mountain, Inc. (Ba2, under review for upgrade) ('Keurig') into Dr Pepper Snapple Group, Inc. (Baa1, under review for downgrade) ('Dr Pepper') to form Keurig Dr Pepper, a new beverage company with $11 billion of pro-forma revenues and a portfolio of brands across soft beverage, tea and coffee. Under the terms of the agreement, which is supported by the management board of Dr Pepper, the shareholders of Dr Pepper will receive a cash dividend of $103.75 per share ($18.7 billion in cash) at closing of the transaction. Subsequently Keurig will be merged into Dr Pepper to form Keurig Dr Pepper. Existing shareholders of Dr Pepper will retain a 13% stake in the combined group.

The affirmation of JAB's long term issuer rating reflects both the sound strategic rationale of the proposed merger and the improvement that this transaction will bring to JAB's portfolio of investments. This mitigates the increase in market value leverage that will result from the funding of JAB's equity contribution to the transaction as we expect this contribution to be funded from cash on balance sheet and drawings under the group's revolving credit facility.

The merger of Keurig and Dr Pepper will create an integrated beverage company with exposure to a wide array of nonalcoholic packaged beverage market categories and a broad distribution network. The new business will have a good split between low growth carbonated soft drinks and juices, where scale is very important, and faster growing categories such as ready to drink coffee, coffee and tea. JAB and Dr Pepper expect $600 million of cost synergies as a result of the merger. The access to Dr Pepper's distribution system in the US market will improve the distribution capabilities of JAB's coffee assets consolidated under JDE and JAB Beech.

On a more negative note ratings of Dr Pepper have been placed under review for downgrade considering the execution risk of achieving relatively large working capital improvements, synergies and cost reductions planned over the next few years, that are necessary to reduce leverage quickly at Dr Pepper. Moody's will also consider the potential for business disruption as changes and cost cuts are implemented as part of its review process.

Beyond the strong strategic rationale of the transaction and the stronger creditworthiness of the new pro-forma investment (Dr Pepper was rated Baa1, stable before the announcement whilst Keurig was rated Ba2, positive), the merger will improve the liquidity of JAB's portfolio through a higher share of listed assets in the portfolio. The contribution of the listed assets to the overall value of the portfolio will increase pro-forma of the transaction although the final share of listed / unlisted assets will ultimately depend on the market's assessment of the value of Keurig Dr Pepper. The higher share of listed assets will also improve the transparency of the valuation. Lastly the transaction will improve the breadth of JAB's investment portfolio and diversify its sector exposure.

The proposed transaction will lead to an increase in market value leverage at JAB as the issuer will fund the equity contribution (between €1.5 billion and €2 billion) to the transaction from cash on balance sheet, and drawings under the group's revolver. This will initially result in an increase in market value leverage (MVL) to at least 18% pro-forma of the closing of the transaction from 17% as per 31st December 2017 (assuming €1 billion of asset disposals to bring down leverage swiftly after the closing of the transaction) notwithstanding that the increase will depend on the share price development of Dr Pepper until closing of the transaction. We expect JAB's interest cover to improve pro-forma of the closing of the transaction supported by the expected strong dividend stream stemming from Dr Pepper. Another positive factor is JAB's commitment to reduce market value leverage to its 15% target over the next 12 to 18 months.

WHAT COULD CHANGE THE RATING UP / DOWN

Moody's would consider an upgrade if credit metrics were to strengthen such that net MVL would be comfortably below 15% and interest cover rises sustainably to around 3.0x.

A good balance in terms of its exposure to listed versus private assets and an improved diversity of end markets exposure of its investments would also support a higher rating over time.

Negative pressure on the ratings would build if credit metrics deteriorate such that JAB's net MVL significantly and sustainably 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.

If 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.

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.

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