

Rating Action: Moody's places all ratings of JAB Holding under review for downgrade

13 Feb 2019

Frankfurt am Main, February 13, 2019 -- Moody's Investors Service ("Moody's") has today placed all ratings of JAB Holding Company S.a r.l. ('JAB') and its subsidiary JAB Holdings B.V. under review for downgrade. The outlook has been changed to under review for downgrade from stable.

RATINGS RATIONALE

The review was prompted by JAB's announcement of its proposal to tender up to 150 million Coty shares for a stock price of \$11.65 per share in cash. The shares will be purchased by a special purpose vehicle and fully financed with debt with a 3-year maturity. JAB will contribute its 40% stake in Coty to the special purpose vehicle. The term loan will be serviced from the dividend stream of Coty, which won't be available to JAB as long as the term loan remains outstanding. The shares of Coty will also be pledged for as long as the term loan is outstanding and won't be available for debt repayments at JAB during that time. The special purpose vehicle will have to comply with a maximum LTV ratio of 70% at all times either through selling shares in Coty or through equity contribution from JAB. The decision to sell shares or to contribute equity will be at JAB's discretion and we would expect JAB to continue supporting the SPV as long as they see long term value in the Coty stock price in excess of the LTV threshold.

The proposed tender offer and the creation of the proposed special purpose vehicle to fund the tender is seen as a shift towards more aggressive financial policies. The 70% LTV ratio for the proposed transaction contrasts markedly with JAB's much lower historical market value leverage. Also this comes at a time when JAB's market value leverage of around 20% at year-end 2018 has been above our threshold of 15% on a pro forma basis since the announcement of the Keurig Dr Pepper transaction. JAB's market value leverage ratio would be even more misaligned with our requirement for the current rating if we were to adjust JAB's net debt for the SPV's debt as we have done for other similar transactions executed by other investment holding companies in the past.

Beyond the proposed transaction, the review for downgrade is also prompted by JAB's aggressive growth strategy in recent years, its complex organisational structure as well as a concentrated ownership and management structure, that reduce our tolerance for market value leverage deviations from our expectations for the current rating.

We would expect the review for downgrade to be limited to one notch.

The review will be focused on:

- (i) A review of the final terms and conditions of the tender offer and its related financing
- (ii) An assessment of JAB's action plan to bring down its MVL closer to our 15% threshold in an acceptable time frame
- (iii) A review of JAB's future financial policies including its appetite for further debt financed acquisitions

WHAT COULD CHANGE THE RATING UP / DOWN

In light of the review for downgrade an upgrade is unlikely in the short term. Longer term positive rating pressure could build if JAB's net MVL would drop sustainably below 15%, the interest cover would increase sustainably to around 3.0x and JAB would achieve a good balance in terms of its exposure to listed versus private assets and an improved diversity of end markets exposure of its investments.

Prior to the review for downgrade we have highlighted that the ratings could come under pressure if the net MVL would exceed significantly and sustainably 15%, interest cover would fail to rise to in excess of 2.0x, the company's liquidity would materially weaken, 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.

LIST OF AFFECTED RATINGS:

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

On Review for Downgrade:

... LT Issuer Rating, Placed on Review for Downgrade, currently Baa1

Outlook Actions:

...Outlook, Changed To Rating Under Review From Stable

..Issuer: JAB Holdings B.V.

On Review for Downgrade:

...BACKED Senior Unsecured Notes, Placed on Review for Downgrade, currently Baa1

...Senior Unsecured Notes, Placed on Review for Downgrade, currently Baa1

Outlook Actions:

...Outlook, Changed To Rating Under Review From Stable

The principal methodology used in these ratings was Investment Holding Companies and Conglomerates published in July 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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