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Research Update:

Luxembourg-Based Investment HoldCo JAB 'BBB+' Rating On Watch Positive On Expected Improved Portfolio Characteristics

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Overview

- Keurig Green Mountain Inc., one of JAB Holding's investee companies, and Dr Pepper Snapple Group Inc. today announced they have entered into a definitive merger agreement to create Keurig Dr Pepper (KDP), which will become the third-largest beverage company in the U.S.
- We believe the proposed transaction will positively affect JAB's investment portfolio because the share of listed assets in its portfolio will materially increase. This will improve its ability to sell assets quickly if needed.
- We do not expect JAB's loan-to-value (LTV) ratio to weaken significantly as a result of the merger, but we think it will temporarily be at the upper end of our rating expectations (around 20%) at closing. However, we expect JAB to manage its LTV toward its medium-term targeted threshold of 15% through asset disposals, if needed, or recurring dividend inflows.
- We are placing our ratings on JAB Holding Company S.a.r.l. and JAB Holdings B.V. on CreditWatch with positive implications.
- We aim to resolve the CreditWatch in the next 90 days as the transaction details are finalized and we have assessed the immediate impact on JAB's investment portfolio and financial risk profile.

Rating Action

On Jan. 29, 2018, S&P Global Ratings placed its 'BBB+' long-term corporate credit rating on Luxembourg-based investment holding company JAB Holding Company S.a.r.l. on CreditWatch with positive implications. At the same time, we placed the senior unsecured debt issued by JAB Holdings B.V. on CreditWatch with positive implications.

Rationale

We expect the merger between Keurig Green Mountain (KGM) Inc. (BB+/Stable) and Dr Pepper Snapple Inc. will improve JAB Holdings' investment portfolio quality because it will strengthen the underlying asset quality (we expect the merged entity to be rated investment grade) and materially increase the share of listed assets in JAB Holding's portfolio. In addition, we understand that JAB Holding's financial leverage (as measured by its loan-to-value ratio; LTV) will not materially deteriorate because the equity piece to fund the transaction will be shared with related partners such as the JAB Consumer Fund

(managed by three senior JAB partners). As a result, we believe its LTV will remain around or below 20%, which would support a one-notch upgrade (if the transaction closes as expected).

The combined business deriving from the merger between KGM (not listed) and Dr Pepper Snapple Inc. will be a public company with pro forma combined annual revenues of US\$11 billion. JAB Holding currently controls KGM via an intermediary holding company (Acorn Holdings), in which we expect it to hold approximately 47% of shares. Moreover, we understand Acorn will control 72% of the merged Keurig Dr Snapple group. As a result, we expect the share of listed assets in JAB's portfolio to increase materially, to above 60%. This is up from 35% before the transaction, which takes into account the reduction of its shares in Reckitt Benckiser Group to 5.1% from 8.1% and the increase of its ownership in Coty Inc. We believe the transaction, as currently proposed, would be positive for JAB Holding's business risk profile as it results in a material increase in the liquidity of its portfolio, given that a larger share of its assets will be listed and traded. This, we believe, strongly increases its financial flexibility because listed assets are typically easier to liquidate on short notice than unlisted equity investments.

Despite a US\$9 billion equity investment to complete the merger, we believe the transaction will not materially weaken JAB Holding's financial leverage. This is because JAB Holding will only partly fund the equity investment, as its partners--including JAB Consumer Fund and BDT Capital Partners--are likely to co-fund the transaction. This reflects JAB Holding's commitment to manage its LTV ratio so that it averages around 15%, although the ratio could increase temporarily following large transactions such as the KGM and Dr Pepper merger. In addition, we believe that the improving underlying liquidity of JAB Holding's investment portfolio would allow it to more easily manage the LTV ratio so as to prevent sustained deviations from its 15% target. The announcement of a USD 0.60 dividend per share at Keurig Dr Pepper is expected to improve cash flow coverage at JAB, which supports our financial risk profile assessment.

CreditWatch

We expect to resolve CreditWatch as the transaction nears completion and we understand the final details of the funding structure. We expect an upgrade would be limited to one notch.

Although less likely, we could affirm the rating at 'BBB+' with a stable outlook if JAB Holding's LTV were to materially exceed 20% on a sustained basis, or if the company unexpectedly deviates from its target to maintain its LTV around 15%. Moreover, we would review our ratings on JAB Holding if the transaction does not close and the share of listed assets within the portfolio remains below 40% on a sustained basis, as this could weigh on our assessment of its portfolio quality.

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings , Sept. 21, 2017
- 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: Ratios And Adjustments, Nov. 19, 2013
- 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: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Placed On CreditWatch

	To	From
JAB Holding Company S.a r.l. Corporate Credit Rating Senior Unsecured	BBB+/Watch Pos/-- BBB+/Watch Pos	BBB+/Stable/-- BBB+
JAB Holdings B.V. Senior Unsecured*	BBB+/Watch Pos	BBB+

*Guaranteed by JAB Holding Company S.a r.l.

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm

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