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## Research Update:

# JAB Holding Co. Upgraded To 'A-' On Closing Of Dr Pepper Reverse Takeover; Outlook Stable; Off Watch Pos

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## Research Update:

# JAB Holding Co. Upgraded To 'A-' On Closing Of Dr Pepper Reverse Takeover; Outlook Stable; Off Watch Pos

## Overview

- JAB Holding Co. S.A.R.L.'s (JAB's) portfolio has materially improved from the merger of its unlisted investee companies Keurig Green Mountain Inc. and Dr Pepper Snapple Group Inc. into listed Keurig Dr Pepper Inc. (BBB/Stable/A-2).
- We consider that JAB's strategy of acquiring control of assets in partnership with equity fund JAB Consumer Fund, is a unique advantage, and supports its commitment to return leverage (as measured by the loan-to-value [LTV] ratio) to 15%-20%.
- We are therefore upgrading JAB to 'A-' from 'BBB+'.
- The stable outlook reflects our unchanged view that JAB's LTV will return to its long-term target of below 20%.

## Rating Action

On Aug. 2, 2018, S&P Global Ratings raised its long-term issuer credit rating on Luxembourg-based investment holding company JAB Holding Company S.a.r.l. (JAB) to 'A-' from 'BBB+'. The outlook is stable.

At the same time, we raised our long-term issue credit rating on the senior unsecured debt issued by JAB Holdings B.V. to 'A-' from 'BBB+'.

We removed both ratings from CreditWatch, where we placed them with positive implications on Jan. 29, 2018 (see "Luxembourg-Based Investment HoldCo JAB 'BBB+' Rating On Watch Positive On Expected Improved Portfolio Characteristics," published on RatingsDirect).

## Rationale

We upgraded JAB given our view that its portfolio has materially improved following the closing of the Dr Pepper reverse takeover, which resulted in the merger of unlisted Keurig Green Mountain Inc. and Dr Pepper Snapple Group Inc. into listed Keurig Dr Pepper Inc. (KDP; BBB/Stable/A-2). The transaction increased the share of listed assets in JAB's portfolio to approximately 60% from approximately 35% previously--a factor that previously constrained the rating. The revised base case for JAB also takes into account the gradual

reduction of its shares in Reckitt Benckiser Group (now 3.1% down from 6% in October 2017), and its increased ownership in Coty Inc. (39% after the share repurchase during the first half of 2018 from 38% at end-2017). We believe that JAB's current business risk profile is supported by the improved asset liquidity and, to a lesser extent, solid credit quality, which outweighs its limited asset diversity (KDP currently represents more than 40% of JAB's total portfolio). We believe asset concentration is partly mitigated by the increasing value of Beech IGP (€3.8 billion), which indirectly holds the participation of JAB in Peet's Coffee & Tea Inc., Caribou Coffee Co. Inc., Krispy Kreme Doughnuts, Inc., and Panera Bread Co. Once the acquisition closes, this will include Pret A Manger Ltd. (PAM) as well.

The KDP transaction has resulted in a significant pickup in JAB's portfolio value, which benefitted from a stronger U.S. dollar than in our previous base case in January. At a U.S. dollar to euro exchange rate of 1.16, we estimate JAB's portfolio value at around €24 billion--twice its 2012 value.

JAB's strategy has been made possible through the JAB Consumer Fund (JCF), an equity fund that allows investors to align with JAB's investments and which is managed by JAB's management team. Through such partnership, JAB is able to undertake large and transformative transactions, such as the reverse takeover of Dr Pepper, while maintaining control over the dividend streams, and limiting the total leverage at JAB. In our base case, we believe that JCF represents not only an investment partner, but also an opportunity to address temporary market weaknesses and manage JAB's long-term LTV target (below 20%) without losing control over its assets. We see this as a unique advantage for JAB compared with other peers, and reflect this in the rating on JAB.

We estimate JAB's LTV ratio at around 24% as of June 30, 2018, and pro forma the recently announced investment in PAM and the initial purchase of a minority equity stake in Acorn Holdings B.V of \$268 million. Acorn Holdings has an obligation to repurchase a further €1.6 billion of equity, to be paid over five years in four instalments. We do not adjust for this obligation at the holding company level, however, but assume that JAB will have to relinquish dividends from Acorn Holdings, as long as the obligation is outstanding. We believe that the deviation of the LTV from its long-term target of 15%-20% is temporary, and we expect management will address this with asset sales over the next 6-12 months. We estimate that JAB's LTV ratio at year-end 2018 will hover around 18%, which we deem commensurate with JAB's current financial risk profile.

## **Liquidity**

We assess JAB's liquidity as exceptional, given there are no debt maturities upcoming in the next two years. In liquidity sources, we include the large committed revolving credit facility (RCF; €2.6 billion undrawn as of June 2018), and we estimate that its liquidity sources exceed needs by 12x for the 12 months from March 31, 2018. We consider that JAB's strong ties with banks support its ability to quickly obtain bank financing, if needed. We also believe it is likely that JAB would be able to absorb a high-impact events

with limited need for refinancing. For JAB, such a scenario would likely be a severe correction of market values for its listed shares, which we consider manageable in view of its relatively low LTV ratio.

For the 12 months from June 30, 2018, pro forma acquisitions and divestments in the year to date, we estimate that principal liquidity sources comprise:

- Cash and cash equivalents of €200 million-€300 million;
- Dividend inflow of about €400 million per year on average; and
- Access to a €2.6 billion of a committed RCF maturing beyond one year, currently undrawn.

For the same period, we estimate that liquidity uses comprise:

- Operating expenses in the €30 million-€40 million range;
- Interest expense in the €110 million-€120 million range; and
- Dividends of about €100 million.

## Outlook

The stable outlook reflects our expectation that JAB will manage to return its LTV ratio to below 20% in the next 6-12 months.

### Downside scenario

We would lower the rating if we believed the LTV would be sustainably above the management commitment of 20%. This could occur if JAB was to undertake further portfolio acquisitions without the sale of other portfolio assets.

### Upside scenario

We see an upgrade as unlikely in the near to medium term, unless we see major changes to JAB's portfolio, such as a substantial increase in underlying investee credit quality or a material increase in asset diversity.

## Ratings Score Snapshot

Issuer Credit Rating: A-/Stable/--

Business risk: Satisfactory

- Country risk: Low
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Modest

- Cash flow/Leverage: Modest

Anchor: bbb+

#### Modifiers

- Liquidity: Exceptional
- Management and governance: Satisfactory
- Comparable rating analysis: Positive

Stand-alone credit profile: a-

## Issue Ratings--Subordination Risk Analysis

### Capital structure

JAB Holdings B.V. is the financing subsidiary of JAB, which is 100% owned through an intermediate holding company. On a consolidated group level, gross debt totaled €6.0 billion at June 30, 2018, represented by bonds.

### Analytical conclusions

JAB has a relatively low level of gross debt, and we assess its financial risk profile as modest. The syndicated RCF and unsecured bonds rank pari passu. As a result, there are no significant elements of subordination risk present in the capital structure, in our view, and we rate the senior unsecured debt 'A-', in line with the issuer credit rating.

## Related Criteria

- 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: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, 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

## Related Research

- Luxembourg-Based Investment HoldCo JAB 'BBB+' Rating On Watch Positive On Expected Improved Portfolio Characteristics, Jan. 29, 2018

## Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
JAB Holding Company S.a r.l. Issuer Credit Rating	A-/Stable/--	BBB+/Watch Pos/--
JAB Holdings B.V. Senior Unsecured[1]	A-	BBB+/Watch Pos

[1]Guaranteed by JAB Holding Company S.a r.l.

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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 (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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