S&P Global Ratings

RatingsDirect®

JAB Holding Company S.a r.l.

Primary Credit Analyst:
Carole Missoudan, Paris (33) 1-4420-6723; carole.missoudan@spglobal.com

Secondary Contact:
Per Karlsson, Stockholm (46) 8-440-5927; per.karlsson@spglobal.com

Table Of Contents

Rationale

Outlook

Our Base-Case Scenario

Company Description

Business Risk

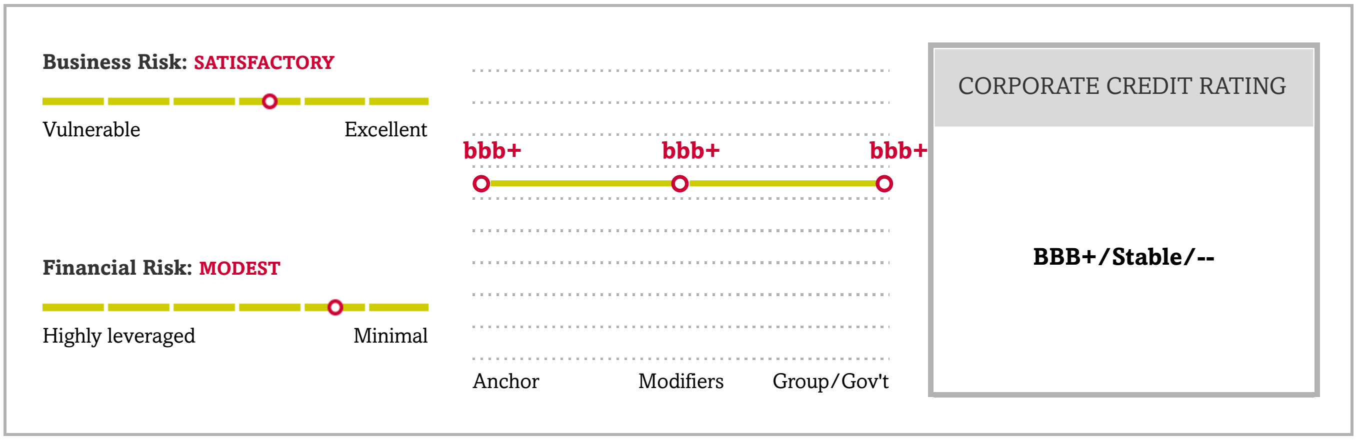
Financial Risk

Liquidity

Covenant Analysis

Related Criteria And Research

JAB Holding Company S.a r.l.



Rationale

Business Risk: Satisfactory

- Second-largest investment portfolio within the rated European sector, with a market value at about €19 billion as of Oct. 27, 2016, as per our estimate.
- Strong portfolio quality stemming from, among other things, the good creditworthiness of the leading consumer goods manufacturer Reckitt Benckiser.
- Portfolio concentration on the resilient, although modestly growing, consumer goods sector.
- Continuously sustained portfolio activity at the level of the operating assets.

Financial Risk: Modest

- Moderate financial policy with a loan-to-value (LTV) ratio sustainably below 20%.
- Strong liquidity supported by long-dated and well-spread debt maturity profile paired with some availability under its €2.1 billion revolving facility.
- Strong and steady dividend streams from core operating assets.
- Nascent track record in divesting equity stakes for deleveraging purposes.
- Erosion in the sound financial flexibility it used to enjoy.

1746429 | 302099878

Outlook: Stable

The stable outlook on Luxembourg-based investment holding company JAB Holding company reflects S&P Global Ratings' expectation that, despite the set-up of a complex structure for the Keurig acquisition, the company will maintain its LTV ratio sustainably below 20%. We think management remains committed to our LTV threshold for the current ratings for the next 12-18 months. Under our base case, bolt-on acquisitions on the level of the different investments (for example Coty's recently announced acquisition of Good Hair Day) are unlikely to hamper JAB's creditworthiness, particularly since we assume no equity injection into Coty.

Upside scenario

We could consider raising the ratings on JAB if its portfolio characteristics improved, including a greater emphasis on asset diversity and higher liquidity of held shares. Assuming broadly unchanged portfolio characteristics, we could raise the ratings if JAB reduced leverage over time, and proved to commit to an LTV ratio sustainably below 10% over our rating horizon.

Downside scenario

We could lower the ratings if JAB's LTV moved above 20% for a prolonged period of time, without management taking actions to reduce it. We could also lower the ratings in case of a material decline in JAB's equity values, or if its listed assets were to stand below 60% of total assets for an extended period of time. Since we consider that the current ratings could accommodate limited leverage, we expect JAB will generally finance significant acquisitions through disposals.

Our Base-Case Scenario

Assumptions

- Despite potential further portfolio activity, LTV ratio to remain sustainably below our 20% threshold;
- Higher operating expenses on account for the strengthening of the U.S. dollar versus the euro;
- Ongoing financial support to the small luxury houses subject to some persistent operating challenges;
- Stable return to shareholders in line with the group's internal target; and
- No expectation for an equity injection from JAB for the ongoing Coty acquisition.

Key Metrics

	2015A	2016E	2017E
Cash flow cover (x)	2.0	1.5-2.5	2.0-3.0
Loan-to-value (%)	9	Less than 20	Less than 20

A--Actual. E--Estimate

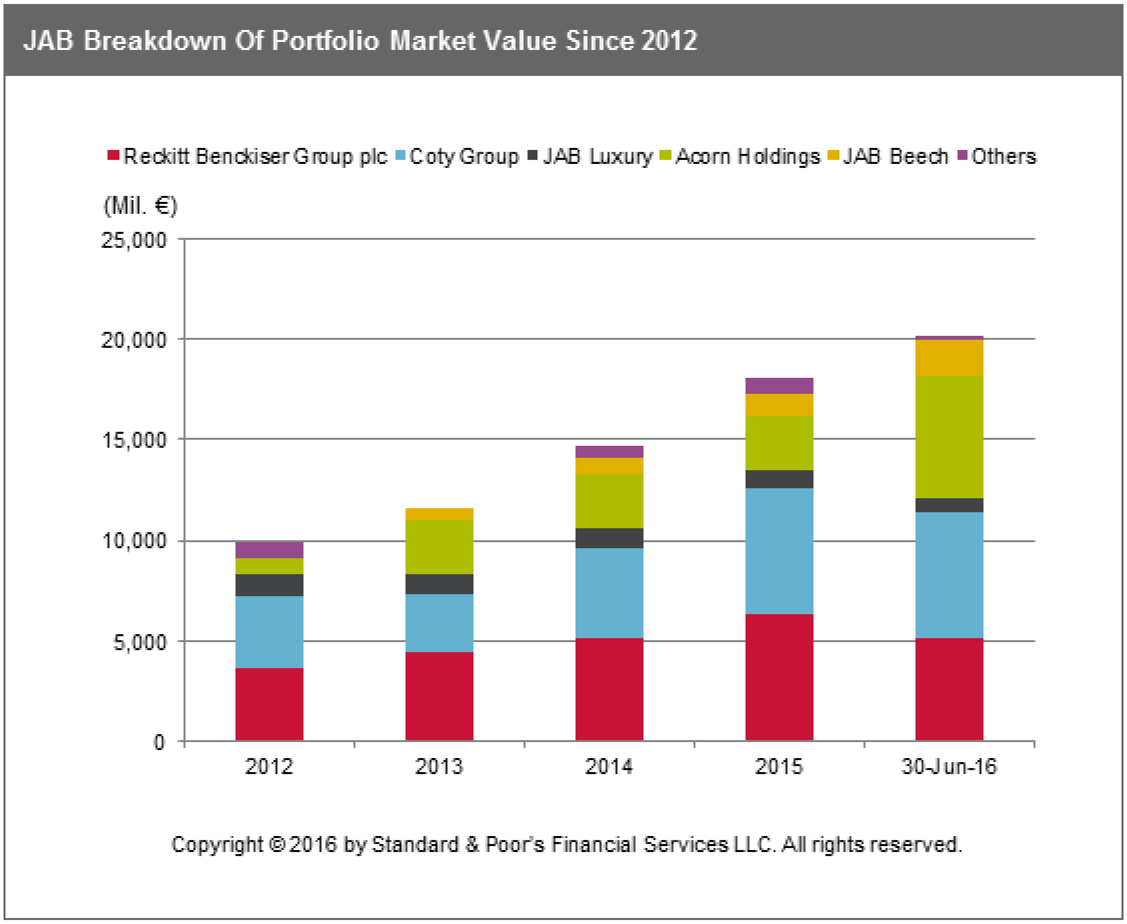
Company Description

JAB Holding Company S.a.r.l. is a Luxembourg-based family-owned investment holding company focusing on the broadly diversified consumer goods sector. Historically, the minority stake in the household and healthcare company Reckitt Benckiser (RB) was the predominant asset of the portfolio, and the main dividend contributor. Since the 5% block disposal in the latter in May 2012, portfolio activity has been relatively sustained and the portfolio's key characteristics have progressively improved. Proforma the merger between Coty Inc. and Procter & Gamble (P&G) Specialty Beauty Business, which closed in early October 2016, JAB's portfolio mainly consists of:

- An 8% minority stake (following successive share divestments) in Reckitt Benckiser (RB) (A+/Stable/A-1).
- A stake in the beauty and personal care company Coty Inc. (BB+/Stable/--), which turned minority to 36%, upon closing of the merger with P&G Specialty Beauty Business.
- A majority ownership (58%) in Acorn Holdings B.V., the umbrella entity for Jacobs Douwe Egberts (JDE) (BB/Stable/--) and the coffee company Keurig Green Mountain (BB-/Stable/--).

A majority ownership in some retail tea and coffee companies (Espresso House, Baresso, Peets, Caribou, and Einstein Noah) complimented by a majority stake in the JAB luxury brands business (JAB Luxury), established in 2008 and currently invested in three leading, high-end retail brands (Bally, Belstaff, and U.K.-listed Jimmy Choo), alongside a minority stake in the brandtech company You&Mr Jones, round up the portfolio.

Chart 1



Business Risk: Satisfactory

Continuous portfolio accretion while maintaining portfolio key characteristics

We think JAB's business risk profile remains primarily supported by the strong quality of its investment portfolio, chiefly stemming from the sound creditworthiness of its core legacy asset, the household and healthcare company Reckitt Benckiser. While Coty, JDE, and the recently acquired coffee company Keurig Green Mountain (KGM) feature well-established credit profiles in the cross-over category, thus further supporting the portfolio's asset credit quality, we consider a portion of JAB Luxury to feature a more leveraged capital structure.

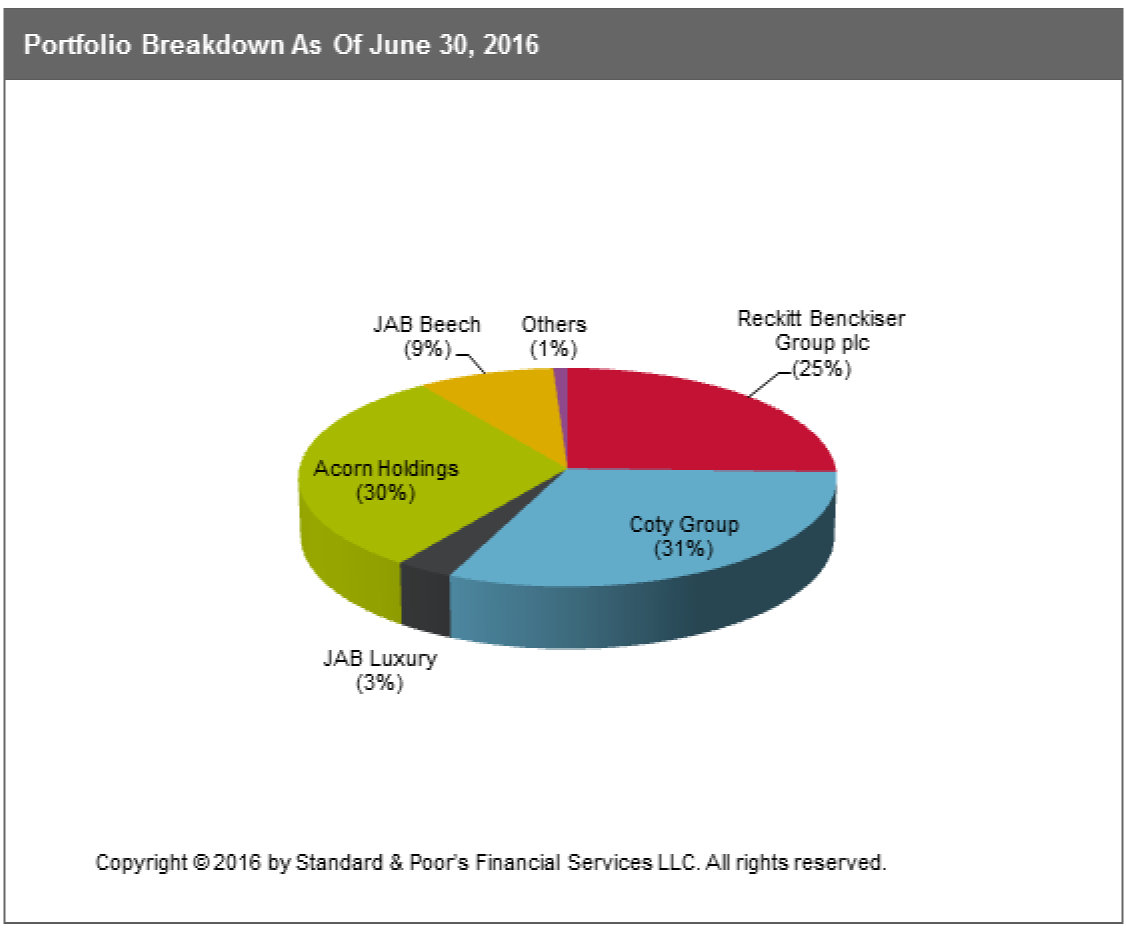
Following a £1.2 billion redeployment of its Reckitt exposure toward the recently acquired coffee company, KGM, portfolio liquidity faded somewhat--by about 10 percentage points since year-end 2015, with stakes in listed assets accounting for broadly 60% of the portfolio market value. The fortunes of Coty's shares over the past 12 months have further accentuated the reduced contribution from listed assets, in our view. Moreover, the company's significant involvement in its core assets JDE, Coty, and, prospectively, KGM further weighs on portfolio liquidity. Although these assets confer strategic benefits, JAB's proximity to them could undermine their immediate tradability.

Conversely, JAB further reduced its portfolio concentration on Reckitt, which was a predominant asset before 2012 at more than 50%. Indeed, with the €3.2 billion integration of KGM under the same umbrella company as JDE, Acorn Holding, JAB's non-retail tea and coffee division has emerged as the largest asset in the investment portfolio, representing about 32% as of Oct. 26, 2016. Further diversification benefits come from the global footprint of JAB's key operating assets, paired with their relatively extended product mix. Coty's ongoing acquisitive stance aimed at enhancing both its geographic spread (Hypermarcas) and product mix (the merger with P&G Specialty Beauty Assets and ongoing acquisition of Good Hair Day) supports this view.

On top of the portfolio rebalancing, we also view positively the relatively large size of the investment portfolio. On the strength of its €19 billion portfolio (estimated as of Oct. 27, 2016) JAB ranks second in terms of size, among the Europe-based investment holding companies we rate, well behind Investor AB (in excess of €30 billion on the same date) and slightly ahead of Exor (€15 billion).

Such strengths are tempered, in our view, by management's only nascent track record in rotating assets for deleveraging. Furthermore, JAB fully owns JAB Luxury--which represents less than 5% of the portfolio--and provides extensive financial support to the unlisted portion, which could remain highly illiquid and unprofitable in the medium term given its current stage of value building.

Chart 2



Our Key Portfolio Developments

We believe that the recent closing of the merger between Coty and Procter & Gamble's beauty business for an estimated $12.5 billion should further improve JAB's portfolio liquidity and quality, given the higher free float and the enhanced creditworthiness stemming from a larger scale and more diversified portfolio of iconic brands. Yet, the group's share price has been subject to severe market fluctuations, falling almost 20% since October 2015 (direct peers L'Oréal and Estée Lauder seem to have weathered this relatively well).

Table 1

JAB--Peer Comparison

	JAB Holding Company	Exor SpA	Industrivarden AB	L E Lundbergforetagen AB	Wendel	Franz Haniel & Cie GmbH
Corporate credit rating as of Oct. 28, 2016	BBB+/Stable/--	BBB+/Negative/A-2	A/Stable/A-1	A+/Stable/A-1	BBB-/Stable/A-3	BBB-/Stable/A-3
Business profile	Satisfactory	Satisfactory	Strong	Strong	Fair	Fair
Date of figures	June 30,2016	June 30,2016	June 30, 2016	June 30, 2016	Aug 26, 2016	June 30, 2016
Portfolio size (US$ mln) as adjusted	22,489	15,504	9,512	7,563	9,798	6,559
Weight of listed assets (%)	58	48	100	71	57	48
Largest asset (% of portfolio)	31	43	25	28	39	38
3 largest assets (% of potfolio)	87	78	55	59	69	69
3 largest assets	Acorn Holdings (composed of KGM (BB-/Stable) and JDE (BB/Stable/--)) Coty (BB+/Stable) Reckitt Benckiser (A+/Stable)	ParnerRE (A-/stable) FCA (BB/stable) CNH (BB+/Stable)	Handelsbanken (AA-/Negative) SCA (A-/Stable) Sandvik (BBB/Negative)	Fastighets L E Lundberg (NR) Industrivarden (A/Stable) Hufvudstaden (NR)	Bureau Veritas (NR) Compagnie de Saint-Gobain (BBB/Stable) IHS (prelim. gcp b+)	Metro AG (BBB-/Stable) CWS Boco (NR) TAKKT AG (NR)
Cash flow leverage	Modest	Modest	Modest	Modest	Intermediate	Intermediate
Net financial debt (US$ mln)	3,759	4,003	1,327	520	2,141	1,063
Loan-to-Value (%)	17	26	12	7	22	16
Loan-to-Value ceiling (%)	20	20	20	15	30	30

Financial Risk: Modest

Given lower financial flexibility, the integration of new lines is expected to be prefunded through asset disposals

Our assessment of JAB's financial risk profile as modest reflects the group's sustainable headroom vis-à-vis our 20% threshold, a level we deem commensurate with the current ratings. We think the group has eroded most of the financial flexibility it used to benefit from as, upon closing of the KGM transaction, LTV escalated to 17% (from 8% at year-end 2015).

Under our calculation, a 15% drop in JAB's current portfolio market value would most likely put the LTV under pressure. Conversely, under current market conditions, we estimate that €600 million in additional debt would translate into a LTV of around 20%. Under either scenario, we would expect management to demonstrate discipline to maintain the LTV in line with the 20% threshold.

Our Base-Case Cash Flow And Capital Structure Scenario

- An increase in dividend streams in 2016 given Coty's greater contribution following its May announcement of its intention to increase shareholder returns to $0.5 per share;
- Finance costs revised up to approximately €100 million annually reflecting higher net debt;
- Dividend distribution of about €70 million per year for the next two years, in line with the group's internal target of dividends close to 0.7% of group net asset value (NAV); and
- Operating expenses in the range of €40 million.

On this basis, we expect cash flow cover of about 2.0x before improving soundly thereafter.

In our view, JAB will pursue its investment strategy in the near term while still demonstrating discipline vis-a-vis our 20% threshold. While we do not expect any equity infusion from JAB for the ongoing acquisition of Good Dry Hair by Coty, we think the holding will financially support the businesses of JAB Luxury.

Financial summary

Table 2

Financial Summary

(Mil. €)	2015	2014	2013	2012
Portfolio as adjusted	18,138.0	14,733.0	7,449.0	6,205.6
Net debt as adjusted	1,418.0	1,416.0	847.8	330.8
Loan to value (%)	7.9	9.6	11.4	5.3
Dividend & fees income	174.0	195.0	170.0	192.0
Operating charges and tax expenses	37.0	23.0	24.0	35.0
Net interest expenses/ (income)	49.0	62.0	54.0	45.0
Cash flow cover	2.0	2.3	2.2	2.4
Dividend paid	64.0	64.0	54.0	79.0
Share buybacks	--	--	--	--

Liquidity

We view JAB's liquidity as strong. We anticipate that the group's sources of liquidity will exceed its needs by more than 1.5x for the 12 months ending June 30, 2017.

<table>
<tr><th>Principal Liquidity Sources</th><th>Principal Liquidity Uses</th></tr>
<tr><td>

Cash and cash equivalents of about €988 million as of June 30, 2016;
€700 million availability under the group's €2.1 billion syndicated loan accessible until 2020;
Expected dividends from portfolio companies of approximately €170 million (primarily stemming from RB and Coty). We will likely see a boost in dividend inflows given Coty's intention to increase shareholder returns to $0.5 per share.

</td><td>

Operating expenses of approximately €40 million;
Potential further equity injection into JAB Luxury net of interest received;
Net interest expenses revised upward to €100 million given the access to capital markets undertaken in May and June 2016; and
About €70 million in returns to shareholders, in line with JAB's internal target.

We expect some further acquisition activity in the coming months (potentially in the range of €500 million in our view). Furthermore, we assume that the recently announced acquisition of Good Hair Day by Coty will not necessitate any equity infusion from JAB.
</td></tr>
</table>

Debt maturities

Debt maturity profile as June 30, 2016, post the €150 million tap on the seven-year €750 million bond issued a month before.

- 2021: €750 million
- 2022: €750 million
- 2023: €900 million
- 2025: €600 million

Covenant Analysis

JAB's financing has a number of maintenance covenants. We believe the group has adequate headroom versus these covenants.

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012

- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Rating Methodology For European Investment Holding And Operating Holding Companies, May 28, 2004

Related Research

- Luxembourg-Based JAB Holding Company 'BBB+' Ratings Affirmed On Proposed Bond; Outlook Stable, Sept. 9, 2015
- Coty Inc. Assigned Preliminary 'BB+' Corporate Credit Rating On Proposed Merger With P&G's Beauty Business, Sept. 22, 2015

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	**bbb+**	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of October 28, 2016)

JAB Holding Company S.a r.l.	
Corporate Credit Rating	BBB+/Stable/--
Corporate Credit Ratings History	
10-May-2016	BBB+/Stable/--
17-Dec-2015	BBB+/Negative/--
21-Apr-2015	BBB+/Stable/--
05-Nov-2014	BBB/Stable/--

*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.

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@spglobal.com