

## CREDIT OPINION

30 April 2021

### Update

✓ Rate this Research

#### RATINGS

##### JAB Holding Company S.a r.l.

Domicile	Luxembourg
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## JAB Holding Company S.a r.l.

### Update of credit analysis

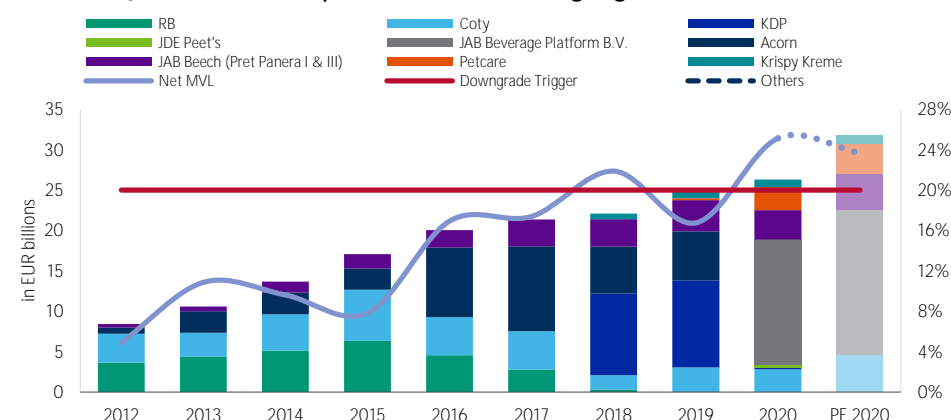
#### Summary

JAB's Baa2 rating is supported by the company's strong investment portfolio comprising cash-generative and typically defensive global consumer goods and services. Its investments in JDE Peet's and KDP, which accounted for approximately 56% (including direct shares) of JAB's portfolio value at year-end 2020, should continue to protect the group's credit quality. JAB's coffee and beverage business as well as the petcare platform exhibited resilience in 2020 under turbulent market conditions, whereas the valuation of Coty and Pret Panera declined in 2020.

JAB has started simplifying its corporate structure through the partial repayment of contingent liabilities at Acorn Holdings level from IPO proceeds of JDE Peet's and through the amendment of the contractual terms of the long term incentive plans that are now accounted for as equity in JAB Holding's accounts. However JAB's rating remains held back by the company's levered capital structure above its own financial policy target of net MLV of 15 to 20%. JAB's net MVL has increased materially during 2020 as a result of the unwinding of the Cottage SPV (that was related to JAB's additional purchase of shares in Coty) and pressure on valuations. The group's net MVL has however dropped materially between June 2020 and December 2020. We expect further deleveraging as valuations continue to improve supported by improving operating performance of underlying investments and increasing valuation multiples in the broader market.

Exhibit 1

The unwind of the Cottage SPV has led to a sharp increase in net MVL but the net MVL has come down since June 2020 and is expected to further reduce going forward



In 2018, JDE and Peet's were managed through Acorn. In 2020, JAB small amount of direct shares in KDP and JDE Peet's.  
Source: Company Information; Moody's Investors Service

## Credit Strengths

- » Clearly-defined and largely successful investment strategy
- » Investments in defensive global consumer businesses limit market value volatility to a certain extent
- » Highly experienced management team
- » Good liquidity

## Credit Challenges

- » Relatively elevated MVL due to unwinding of Cottage SPV
- » Leveraged capital structure at intermediate holding companies despite simplification of the structure in 2020

## Rating Outlook

JAB's net MVL at year-end 2020 was still outside of our expectations for the current rating although we expect the group's net MVL to improve over the next 6 to 12 months. The stable outlook is supported by the issuer's commitment to restore swiftly and forcefully credit metrics in line with the current rating.

## Factors that Could Lead to an Upgrade

- » MVL to drop sustainably to around 15%
- » Interest cover sustainably around 3.0x

## Factors that Could Lead to a Downgrade

- » MVL not brought back below 20% in due course
- » Interest cover falling below 2.0x
- » Weakening liquidity profile

## Profile

JAB Holding Company S.à r.l. (the Guarantor) together with JAB Holdings B.V. (the Issuer) and five wholly owned holding companies (JAB Cosmetics B.V., Labelux Group GmbH, JAB Forest B.V., JAB Investments S.à r.l and JAB Holding Sao Paulo Ltda.) form the JAB Group (JAB). JAB is majority-owned by Agnaten SE and Donata Holdings B.V. (together the Family Office).

JAB is a privately held investment holding company focused on long-term investments in consumer goods and retail companies with premium brands. JAB's key investments in terms of market value as at 31 December 2020 include:

- i) [JDE Peet's N.V.](#) (Baa3 stable ~62%) and [Keurig Dr Pepper](#) (Baa2 stable ~34%), which are held via JAB Beverage Platform B.V. (100%);
- ii) [Coty Inc.](#) (Caa1, stable ~50%), a global leader in fragrances and expanding position in cosmetics and body care;
- (iii) Pret A Manger, Panera Bread Company, Caribou Coffee Company and Espresso House, which are all held via Pret Panera I GP and Pret Panera III GP (49% indirect voting rights in Pret Panera)
- (iv) Krispy Kreme Doughnuts, Inc. (~50%) and Petcare GP (~39%)

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## Detailed Credit Considerations

### The coronavirus and the unwind of the Cottage SPV has put pressure on JAB's MVL

In 2020, JAB's net MVL has been negatively impacted by both pressure on valuations from the weak sentiment in global equity markets resulting from the coronavirus pandemic and the unwind of the Cottage SPV for an amount of €1.8 billion. The Cottage SPV was established during the course of 2019 to tender shares of Coty Inc. and was funded through a €1.8 billion term loan. The repayment of the term loan was funded through cash on balance sheet of JAB Holding Company S.a r.l. As of December, JAB's MVL stood at 25%, which is outside of the range that we have set for Baa2 rating category. JAB's net MVL has already dropped from around 32% in June 2020 and we expect a further reduction in net MVL from both operational performance improvements at portfolio companies and increasing valuation multiples in line with the broader equity market.

The Baa2 rating remains weakly positioned at year-end 2020 but encompasses the expectation that JAB will swiftly and forcefully restore metrics that would be in line with the current rating even in a market environment earmarked by declining asset values.

### Underlying investments are held through levered intermediate holding companies

Given that JAB Holding holds its stakes through intermediate holding companies, which are co-owned by JAB Holding and JAB Consumer Fund, it is important to assess the credit quality of the intermediate holding companies. Too much leverage at the intermediate holding company level would impair JAB Holding's ability to recover the value of the underlying investments. Hence the analyses of the MVL at JAB Holding level is not enough to assess its credit quality.

JAB Beverage Platform B.V. is JAB Holding's largest intermediate holding company. JAB Beverage owns around 34% in Keuring Dr Pepper (Baa2 stable) and 62% in JDE Peet's (Baa3 stable). JAB Beverage Platform B.V. is 100% owned by JAB Holdings BV. In September 2020 JAB Holdings contributed all its shares in Acorn Holdings (€17.2 billion) to the newly created entity JAB Beverage Platform BV. Acorn Holding BV was levered, especially if we included preferred shares and equity warrants on its balance sheet in its leverage calculation. Acorn Holding has reduced its liabilities by around 60% in 2020 to €4.5 billion and completely eliminated its contingent liabilities.

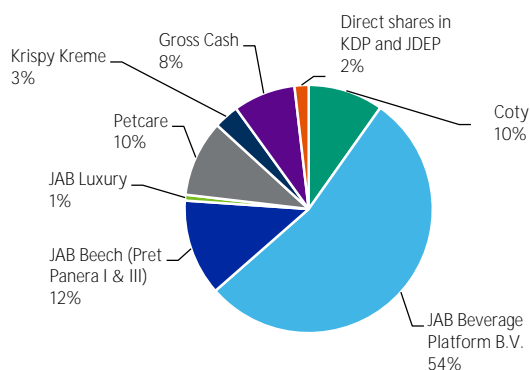
Pret Panera I GP has recently redeemed its contingent liabilities through senior unsecured bank debt.

As a mitigant to the remaining unsecured liabilities, the intermediate structures also have some equity cushion from JAB Consumer Fund, an investment fund managed by partners of JAB. JAB Consumer Fund invests alongside JAB Holding in most of its investments. As of 31 December 2020, JAB Consumer Fund had USD15 billion of invested capital and has distributed more than USD8 billion to its limited partners."

### Successful IPO of JDE Peet's improved investment transparency and liquidity of the investment portfolio

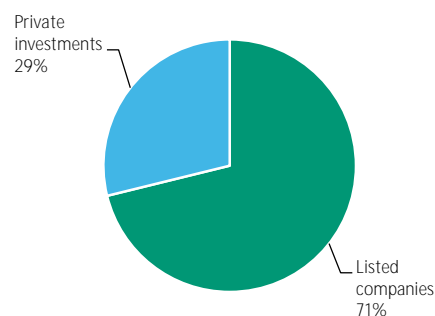
The successful IPO of JDE Peet's in a very difficult market environment during the course of 2020 has led to an improvement in portfolio transparency with around 70% of JAB's portfolio being publicly listed. JAB's portfolio of investment is now much more liquid with around €17 billion of portfolio value invested in large cap and liquid investments. We also note that JAB has increased the free float of KDP over the years, leading to a more liquid stock although JAB has reduced its stake as a result.

Exhibit 2

**JAB's portfolio composition as of December 2020**

Source: Company Information, Moody's Investors Service

Exhibit 3

**Proportion of listed and unlisted assets as of December 2020**

Source: Company Information, Moody's Investors Service

**Long-term incentive plan have been restructured into equity**

In December 2020, JAB Holding has restructured its long term incentive plan. As a result the company has reclassified €1.6 billion of LTIP from long term liabilities to equity. However, €1.2 billion of shares were redeemed for cash, which has increased JAB's net debt. The reclassification to equity followed the restructuring of the contractual terms of the LTIP so that JAB Holding no longer has the obligation to repurchase shares or otherwise settle the LTIP agreements in cash. In addition, the share option schemes have been amended so that options can only be settled by issuing shares.

LTIP liabilities were excluded from the rating agency's leverage metric calculations but were always considered qualitatively in our analysis and were taken into account for our leverage tolerance at JAB Holding level. The conversion of the LTIP into equity like instruments with no potential cash calls for JAB Holding is seen as a credit positive.

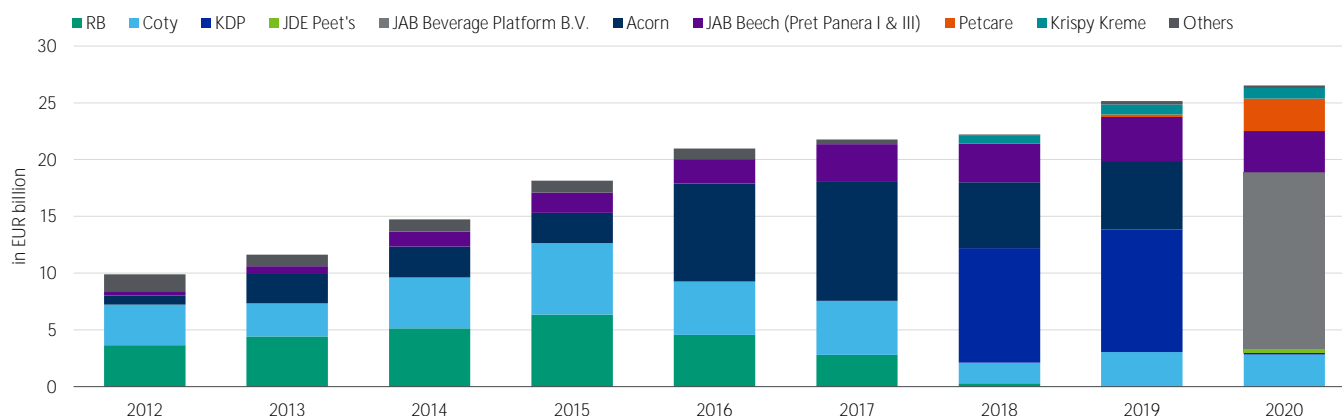
**Clearly-defined and successful investment strategy; investments in defensive global consumer businesses**

JAB's strategy is focused on long-term investments in companies with premium brands in the consumer goods and retail sector. Consumer goods and retail are sectors in which the company considers itself to have a strong working knowledge as well as networking advantage. These are deemed less cyclical and more cash generative relative to other industries and they tend to benefit from product portfolio breadth and strong market positions. This all tends to limit the impact of customers switching products in a downturn, or changes in customer preference.

JAB acquires and integrates companies or brands in a particular sub-sector, as evidenced by its past acquisitions in household goods, cosmetics and coffee brands with a view to listing these once operations have been sufficiently consolidated and optimised. The most recent example of this strategy is the IPO of JDE Peet's, Keurig that merged into Dr Pepper. Sales and cost synergies are achieved through R&D, factory scale and the development of distribution channels. Ultimately JAB intends to replicate the Reckitt Benckiser success story in cosmetics via Coty as well as in non alcoholic beverages via JDE Peet's, Keurig and Dr Pepper.

The global diversification of JAB's investments also appears to add a greater degree of stability to performance and market values. However, due to JAB's strategy to acquire businesses domiciled in the US and Europe and then expand into emerging markets, there is a greater concentration in Western markets.

Exhibit 4

**JAB's growth in portfolio value since 2012**

2017 and 2018 values are pro-forma of the disposal of ⅓ of Bally; 2018 is pro-forma tender offer for Coty (301 million shares at \$11.65 per share); "Others" include JAB Luxury and other investments.

Source: Company information; Moody's Investors Service

We continue to gain comfort from the growth in value of the overall portfolio notwithstanding that valuation multiples have expanded alongside market multiples for comparable peers in recent years. The expansion in multiples is only partly mitigated by the "low beta nature" of JAB's investments, which would ensure a lower retreat in valuation in case of a severe market correction than for more cyclical investments.

## Liquidity Analysis

JAB's liquidity is solid. As of 31 December 2020, JAB had access to €2.3 billion of cash on balance sheet and to €3 billion availability under a committed revolving credit facility (maturity: 2025 with one 1-year extension option).

JAB has a well spread maturity profile. JAB has ca. €700 million bond and bank loan due in 2021 and ca. €500 million bonds due in 2022. JAB's access to listed investments (around 71% as of 31 December 2020) further supports the company's financial flexibility in the short to medium-term.

## Structural Considerations

Excluding the guarantor, the intermediate holding companies within the JAB Group and JAB's investments do not provide guarantees to the Issuer of the bonds. The payment of interest and debt at the Issuer is therefore dependent on (i) timely reception of dividends from its investments, which are mostly controlled and gives JAB the ability to declare the dividend levels, (ii) the ability to monetize its investments via a disposal or an IPO and, where possible, (iii) the upstreaming of cash from majority-owned investments. All debt is held and raised by the Issuer.

## ESG considerations

The environmental risks for JAB Holding are mainly centered on its underlying assets. JAB Holding is focused on improving the sustainability of its underlying businesses with a focus on the coffee value chain, where improvements can probably still be made.

JAB has established a framework to ensure limited social risks including good labor relations, strong gender diversity and health and safety management both at the holding company level and amongst its portfolio companies. As for environmental risks, the coffee value chain probably still has potential for social improvements through the implementation of responsible farming frameworks.

JAB Holding is a privately owned company with a concentrated ownership structure. AS highlighted in this report the organisation structure of the group remains complex although JAB has made first inroads in simplifying the structure over the last 12 months.

## Rating Methodology and Scorecard Factor

In assessing the credit quality of JAB, we apply Moody's Investment Holding Companies and Conglomerates methodology published in July 2018. The current scorecard-indicated rating outcome is one notch lower than the currently assigned rating of Baa2. This reflects our view that the company still has flexibility to bring back its MVL back to a level commensurate with the Baa2 rating category in an acceptable time frame.

The scorecard-indicated rating outcome is mainly weighted down by JAB's relatively high asset concentration and low business diversity although this is partly mitigated by JAB's exposure to defensive end industries. The current rating is supported by a forward-looking conservative market value leverage of below 25% ('A' grid score) although the company's MVL has deteriorated recently.

Exhibit 5

### Investment holding company methodology grid applied to JAB

Investment Holding Companies Industry	Current FY 12/31/2020		Moody's 12-18 Month Forward View As of 4/29/2021	
Factor 1 : Investment Strategy (10%)	Measure	Score	Measure	Score
a) Investment Strategy	Baa	Baa	Baa	Baa
Factor 2 : Asset Quality (40%)				
a) Asset Concentration	Caa	Caa	Caa	Caa
b) Geographic Diversity	A	A	A	A
c) Business Diversity	Ba	Ba	Ba	Ba
d) Investment Portfolio Transparency	A	A	A	A
Factor 3 : Financial Policy (10%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Factor 4 : Estimated Market Value-based Leverage (MVL) (20%)				
a) Estimated Market Value-Based Leverage	Baa	Baa	A	A
Factor 5 : Debt Coverage and Liquidity (20%)				
a) (FFO + Interest Expense) / Interest Expense	2.3x	Ba	2x - 2.5x	Ba
b) Liquidity	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa3		Baa2
b) Actual Rating Assigned				Baa2

As of 12/31/2020

This represents Moody's forward view; not the view of the issuer and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Investors Service

## Ratings

Exhibit 6

Category	Moody's Rating
<b>JAB HOLDING COMPANY S.A R.L.</b>	
Outlook	Stable
Issuer Rating	Baa2
<b>JAB HOLDINGS B.V.</b>	
Outlook	Stable
Bkd Senior Unsecured	Baa2

Source: Moody's Investors Service

## Appendix

Exhibit 7

### Peer group comparison

#### INVESTMENT HOLDING COMPANIES PEER GROUP

	Investor AB	Groupe Bruxelles Lambert	JAB Holding S.a.r.l	CaixaCriteria	Wendel SE
Rating & Outlook	Aa3 Stable	A1 Stable	Baa2 Stable	Baa2 Stable	Baa2 Stable
Country of Domicile	Sweden	Belgium	Luxembourg	Spain	France
	As of Dec 2020	As of June 2020	As of Dec 2020	As of Dec 2020	As of June 2020
Total Portfolio Value (in €m)	45,496	18,796	26,534	18,446	6,513
Cash (in €m)	2,065	1,564	2,346	935	1,293
Asset Concentration (Top 3 Assets)	38%	45%	76%	56%	63%
Proportion of Listed Assets	84%	79%	71%	80%	48%
Company Guidance / Financial Target	MVL in the range of 5% - 10%	MVL below 10%	MVL in the range of 15% - 20% in mid/long term	Target MVL ~20%	€2.5 billion of net debt
Net Market Value Leverage (MVL)	4%	7%	25%	23%	5%
(FFO + Interest Expense) / Interest Expense	5.2x	26.7x	2.3x	7.3x	0.4x

Note: Interest coverage for Wendel SE is as of December 2019

Source: Company Information, Moody's Investors Service

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