

**Rating Action: Moody's confirms JAB's issuer rating at Baa1, outlook negative**

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03 May 2019

Frankfurt am Main, May 03, 2019 -- Moody's Investors Service ("Moody's") has today confirmed the long term issuer rating of JAB Holding Company S.a r.l. ("JAB") at Baa1. Concurrently the agency has confirmed the senior unsecured ratings of JAB Holdings B.V. at Baa1. The outlook for both entities changed to negative from rating under review. Today's rating action concludes the review process initiated by Moody's on 13 February 2019.

**RATINGS RATIONALE**

The confirmation of JAB Holding Company S.a r.l.'s long term issuer rating at Baa1 was prompted by JAB's commitment to manage its Market Value Leverage at the lower end of its financial policy corridor of 15% to 25% following the initiation of our review for downgrade. JAB has also established an action plan to get back towards 15% by year-end 2019 (excluding the debt from the SPV used to fund the tender offer of Coty shares). The commitment to manage its MVL at a level of around 15% is important in light of the fact that the creation of a fully debt financed SPV to fund the tender offer of Coty shares at a time when the MVL of JAB was above our downgrade trigger for the current rating was interpreted by Moody's as a move towards more aggressive financial policies. The debt of the SPV continues to pressure the overall capital structure of JAB Holdings in our view hence the need to manage JAB's MVL at a low level as long as the debt of the SPV has not been redeemed. Moody's will continue to monitor JAB's MVL both including and excluding the SPV debt but will exclude the SPV debt when tracking JAB's performance against its commitment to manage its MVL at around 15%.

JAB has also committed itself to maintain an interest cover of at least 2.0x, an important commitment at a time when the dividend stream from Coty will be fully dedicated to the service payment of the SPV debt. The future dividend stream going forward will most rely on KDP and JDE, two profitable and cash flow generative investments. JAB can also rely on smaller dividend streams from its retail assets under the Pret-Panera and Krispy Kreme platform.

As part of its review process, Moody's has thoroughly reviewed the complexity and the interplay between the JAB Consumer Fund and JAB Holding as well as the capital structure of the intermediate holding companies owning the underlying investments of JAB Holding with a particular focus on Acorn Holdings. JAB Consumer Fund and co-investors owns 42% in Acorn, whilst JAB owns 57%. Acorn Holdings is holding stakes in KDP (72%), in JDE (73%) and Peet's Coffee (91%). Part of Acorn's capital structure consists of contingent liabilities, such as equity warrants and preference shares.

Under the JAB Consumer Fund, JAB is providing investors an exit route through a public listing at the latest by the maturity date of the fund (10 years for each investment compartment) whilst investors in the fund are bearing the price risk at the time of the listing. The key risk for creditors of JAB Holding is that fund investors could sell large amounts of shares post public listing thereby negatively impacting the value of JAB's stake in the underlying investments or platforms and hence its market value leverage.

The instruments identified at Acorn Holdings level are in the form of perpetual preference shares and equity warrants. Perpetual shares do bear a fixed rate coupon and they have no maturity. Equity warrants have a repurchase obligation from 2023 to 2028 at a certain agreed minimum valuation of Acorn Holdings. It is the intention of JAB to convert the preference shares and equity warrants in common shares at the time of the public listing of Acorn. It is probably in the interest of preference share and equity warrants holders to accept the conversion as they are also common shareholders of Acorn especially if the valuation is above the certain agreed minimum valuation. Importantly the value of the preference shares and equity warrants are taken into account by JAB Holding in the calculation of the value of its stakes in the underlying investments and of its market value leverage. The presence of those contingent liabilities at Acorn Holdings level also make a public listing of this investment platform in due course a key requirement to protect the credit quality of JAB Holdings and its current rating.

**RATIONALE FOR THE OUTLOOK**

The negative outlook reflects the execution risk in bringing back JAB's MVL to around 15% by the end of 2019 (excluding the debt of the SPV used to fund the tender offer of Coty shares) at a time when the MVL is around 20% and valuation multiples have come under pressure. The negative outlook also reflects the risk that some of the contingent liabilities at Acorn Holdings (and also at other investment platforms at a later stage) might crystallise if JAB Holdings fail to publicly list Acorn well ahead of the maturity of those contingent liabilities starting in 2023.

## LIQUIDITY

We positively recognize JAB's commitment to maintaining minimum liquidity (cash and undrawn credit lines) of at least EUR500 million. As at 31 December 2018, JAB had EUR4.0 billion in available liquidity (EUR1.4 billion cash on balance sheet pro-forma disposal 2/3 of Bally and EUR2.6 billion availability under the group's fully undrawn credit facilities maturing in 2023).

This level of liquidity is strong given there are no material debt maturities until 2021, when a EUR750 million bond becomes due, and available liquidity can sufficiently cover anticipated interest costs. JAB's access to listed investments (around 55% as per 31 December 2018) further supports the company's financial flexibility in the short to medium-term. The contribution of the listed assets to the overall value of the portfolio has increased since the closing of Keurig Dr Pepper transaction. This has improved the liquidity of JAB's investment portfolio because it is much easier to sell a stake in a listed asset than it is in a private asset.

## WHAT COULD CHANGE THE RATING UP / DOWN

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.

Negative pressure would build on the current rating if the net MVL would exceed significantly and sustainably 15%, interest cover would fall below 2.0x, the company's liquidity would materially weaken. Failure to list Acorn Holdings B.V. well before the warrants would have to be repurchased or to make very tangible progress towards a listing could also exert negative pressure on the rating of JAB Holding.

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](http://www.moodys.com) for a copy of this methodology.

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