

ISSUER COMMENT

17 June 2019



Contacts

Stanislas Duquesnoy +49.69.70730.781
Senior Vice President
 stanislas.duquesnoy@moody's.com

Taisiia Alieksieienko +49.69.70730.707
Associate Analyst
 taisiia.alieksieienko@moody's.com

Matthias Hellstern +49.69.70730.745
MD-Corporate Finance
 matthias.hellstern@moody's.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

JAB Holding Company S.a r.l.

JAB acquires National Veterinary Associates in leveraged buyout transaction, a credit negative

On 17 June, [JAB Holding Company S.à r.l.](#) (Baa1 negative) announced that it has agreed to buy National Veterinary Associates (NVA) for an undisclosed amount. JAB Holding will contribute around €1.1 billion equity consideration for the acquisition while JAB Consumer Fund, a closed-end fund managed by JAB Holding personnel, and NVA management will contribute the remainder.

The acquisition is credit negative for JAB Holding because it will slow the deleveraging path JAB management committed to after the [Coty Inc.](#) (B2 stable) tender offer announced in February 2019. In addition, JAB will invest in a levered private asset and fund the majority of the equity consideration with proceeds from the sale of shares in [Keurig Dr. Pepper](#) (Baa2 negative) and [Reckitt Benckiser Group Plc](#) (A3 stable), two investments in public companies with strong credit profiles.

NVA is the second-largest vet clinic operator in the US behind Mars Veterinary. NVA owns and operates 466 general practitioner vet clinics and 35 specialty care clinics in the US. The acquisition will add to the 38 specialty clinics JAB Holdings owns through its wholly owned specialty care clinic chain, Compassion-First. NVA posted a compound annual growth rate (CAGR) in revenue of 23% over 2003-18 and EBITDA CAGR of 24% over the same period. Organic growth over the period was around 5% per year.

The US pet care industry is characterized by strong growth. It has grown 5%-6% in value between 2010 and 2018 and industry consultancies expect it to continue growing above GDP in the next 12 months at least. Growth is driven by increasing pet ownership and owners' higher spend per pet. The vet service and medication segments of the pet care market are more profitable than the mainstream food segment. The US vet clinic operator market is highly fragmented with the four largest general practice clinic chain controlling around 10% of the market and the five largest specialty clinic operator controlling around 40% of the market.

The acquisition of NVA will be JAB's second acquisition in the pet care market after the acquisition of specialty vet clinics operator Compassion-First earlier this year. It will be consolidated under JAB's new pet care platform. The strategic rationale for the acquisition is to gain access to a fast-growing and profitable pet care market. The market's highly

THIS REPORT WAS REPUBLISHED ON 18/06/2019 WITH A CORRECTED SECOND SENTENCE OF THE FIRST PARAGRAPH. THE EQUITY CONTRIBUTION OF JAB HOLDING FOR THE ACQUISITION IS €1.1 BILLION AND NOT ONE THIRD OF €1.1 BILLION AS STATED IN THE INITIAL REPORT.

fragmented structure also offers consolidation scope and JAB's strong access to capital makes it a natural consolidator of this market, alongside Mars Veterinary.

The investments in pet care are adding an additional platform to JAB's portfolio, which is positive because it broadens its diversification, but this is more than offset by the slowdown in deleveraging to levels that we consider more appropriate for the Baa1 rating category. It also adds an asset that requires management attention at a time when JAB has its hands already full with the restructuring of Coty.

JAB Holding will fund its equity contribution from the recent sale of Keurig Dr. Pepper shares (around €800 million proceeds) and of Reckitt Benckiser shares (around €400 million proceeds). We expect the pro-forma market value leverage of JAB Holding to be around 17% pro forma of the acquisition (based on our 30th June 2019 estimated values and excluding the special purpose vehicle debt) based on conservative valuation assumptions for JAB's private assets at 30 June 2019. This compares to a year-end 2018 Market Value Leverage (MVL) of around 20% and a June 2019 estimated MVL of 16% prior to the acquisition. The improvement in the MVL prior to the acquisition mainly reflects a reduction in net debt through the sale of Keurig Dr. Pepper and Reckitt Benckiser shares and a good value development of both Keurig Dr. Pepper and Coty year-to-date as of June 2019.

The negative outlook on JAB Holding's Baa1 long-term issuer rating is unchanged and continues to factor a somewhat elevated MVL especially if including the SPV debt used to fund the tender offer for Coty shares and the risk that some of the contingent liabilities at Acorn Holdings might crystallise if JAB Holdings fails to publicly list Acorn well ahead of the maturity of those contingent liabilities starting in 2023.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

Contacts

Stanislas Duquesnoy +49.69.70730.781
Senior Vice President
stanislas.duquesnoy@moodys.com

Taisiia Alieksieienko +49.69.70730.707
Associate Analyst
taisiiia.alieksieienko@moodys.com

Matthias Hellstern +49.69.70730.745
MD-Corporate Finance
matthias.hellstern@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454