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ISSUER COMMENT
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# 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 cristalise if JAB Holdings fails to publicly list Acorn well ahead of the maturity of those contingent liabilities starting in 2023.

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