

CREDIT OPINION

11 May 2022

Update



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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 to credit analysis

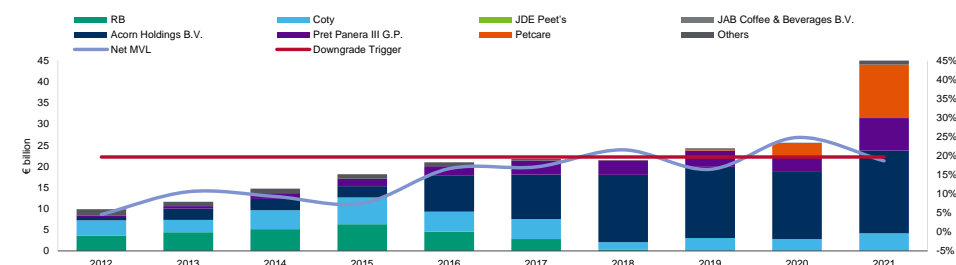
Summary

JAB's Baa2 rating with a stable outlook is supported by the company's strong investment portfolio comprising cash-generative and typically defensive global consumer goods and services. Its investments in Acorn Holdings B.V. (JAB Coffee & Beverages, JDE Peet's and KDP), which accounted for approximately 43% (including direct shares) of JAB's portfolio value at year-end 2021, should continue to protect the group's credit quality. We expect these assets to perform relatively stronger compared with other sectors in a weaker macroeconomic environment with notable inflationary pressures, considering the pricing power of these assets. JAB has simplified its corporate structure over the past three years through the complete repayment of preferred shares and warrants and an around 50% debt reduction at Acorn Holdings level, which is now comprised of only bank debt. JAB has also eliminated redeemable shares from its capital structure.

JAB's capital structure is within its own financial policy target of net MVL of 15% to 20%, which is commensurate with its Baa2 issuer rating. JAB's net MVL improved materially in 2021 as a result of the global economic recovery from the coronavirus pandemic, which has led to significant asset price increases and a respective improvement in global economic sentiment. The group's net MVL has dropped materially to 19% in 2021 from 25.1% excluding debt obligations at Acorn Holdings B.V. in 2020. We expect equity price volatility in 2022 from the impact of the inflationary pressure on global economic sentiment and the Russia-Ukraine conflict, however we anticipate JAB to continue to operate within the leverage requirements of 15-20% net MVL which is commensurate with the Baa2 rating.

Exhibit 1

Net MVL has materially improved resulting from recovery in valuations during 2021



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

- » Volatility in MVL resulting from listed assets
- » Presence of debt at intermediate holding companies despite simplification of the structure

Rating Outlook

JAB's net MVL at year-end 2021 was within our expectations for the current rating. The stable outlook is supported by the issuer's commitment to a leverage target aligned with the current rating level.

Factors that Could Lead to an Upgrade

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

Factors that Could Lead to a Downgrade

- » Net MVL above 20% (which is above company's financial policy) on a sustained basis
- » 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 four wholly owned holding companies (JAB Luxury S.à r.l., 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 Joh. A. Benckiser 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 2021 include:

- i) [JDE Peet's N.V.](#) (Baa3 stable ~55%) and [Keurig Dr Pepper](#) (Baa2 stable ~33%), which are held via Acorn Holdings B.V. (100%);
- ii) [Coty Inc.](#) (B2, stable ~50%), a global leader in fragrances and expanding position in cosmetics and body care, held through Cottage Holdco B.V. (100%);
- (iii) Pret A Manger, Panera Bread Company, Caribou Coffee Company and Espresso House, which are all held via Pret Panera III GP (~50% indirect voting rights in Pret Panera);
- (iv) Krispy Kreme Doughnuts, Inc. (~45%) and Petcare GP (~40%)

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Detailed Credit Considerations

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

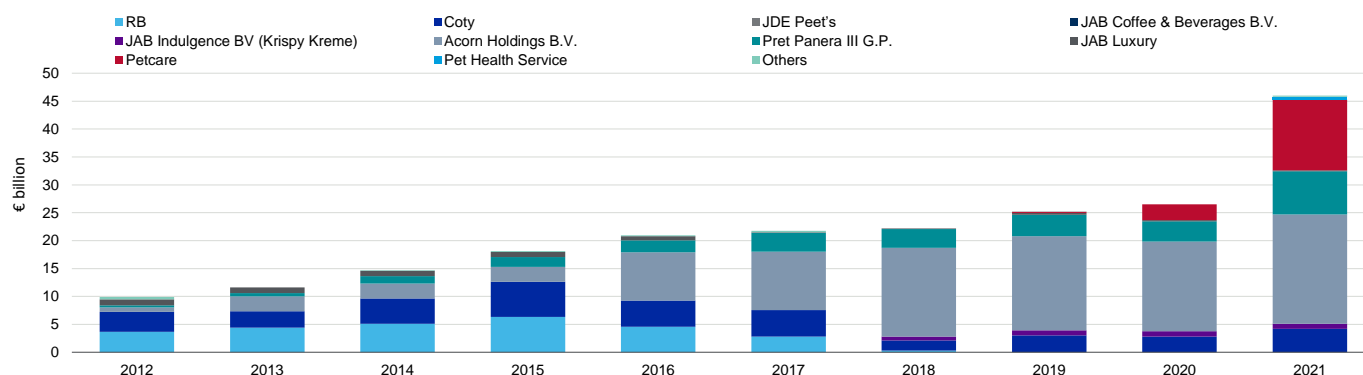
JAB's strategy is focused on long-term investments in companies with premium brands in the consumer goods and retail sector. Consumer goods and retail are sectors in which the company considers itself to have a strong working knowledge as well as networking advantage. These are deemed less cyclical and 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. We expect that JAB's companies mostly have a relatively strong pricing power, which should protect margins in the current inflationary environment.

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 and the IPO of Krispy Kreme. 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 and Keurig 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 2

JAB's growth in portfolio value since 2012



2017 and 2018 values are pro-forma of the disposal of $\frac{2}{3}$ 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.

Improvement in net MVL driven by recovery from the coronavirus pandemic

In 2021, materially higher equity valuations as a result of the economic recovery from the coronavirus pandemic and an accommodative monetary policy had a positive effect on JAB's net MVL. As of December 2021, JAB's net MVL stood at 19%, which is within the range that we have set for the Baa2 rating category. JAB's net MVL has dropped from 25.1% in 2020. We expect equity price volatility in 2022 resulting from the impact of the inflationary pressure on global economic sentiment and the Russia-Ukraine conflict but anticipate JAB to remain within the net MVL range required for the current rating. The Baa2 rating is solidly positioned at year-end 2021 and encompasses the expectation that JAB will maintain metrics that would be in line with the current rating level.

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 Partners, 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 analysis of the net MVL at JAB Holding level is not sufficient to assess its credit quality.

JAB Coffee & Beverages B.V. is JAB Holding's largest intermediate holding company. JAB Coffee & Beverages B.V. owns around 33% in Keurig Dr Pepper and 55% in JDE Peet's. JAB Coffee & Beverages B.V. is 86% owned, with 100% voting rights, by JAB Holdings B.V.. In September 2020 JAB Holdings contributed all its shares in Acorn Holdings (€17.2 billion) to the newly created entity JAB Coffee & Beverages B.V.. 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 20% in 2021 to €3.3 billion and eliminated its contingent liabilities.

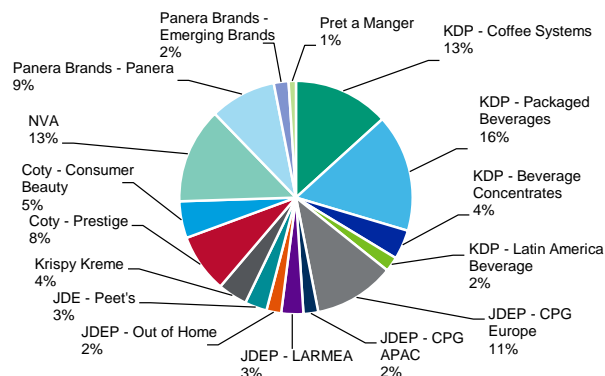
As a mitigant to the remaining unsecured liabilities, the intermediate structures also have some equity cushion from JAB Consumer Partners SCA SICAR (JCP), an investment fund managed by partners of JAB. JAB Consumer Partners invests alongside JAB Holding in most of its investments. As of 31 December 2021, JCP had \$17 billion of invested capital and has distributed more than \$12 billion to its limited partners.

Successful IPO of JDE Peet's Krispy Kreme 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 along with the IPO of Krispy Kreme in July 2021 has led to an improvement in portfolio transparency with around 67% of JAB's portfolio being publicly listed. JAB's portfolio of investment is now much more liquid with around €24 billion of the 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 3

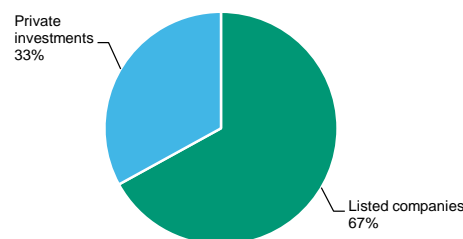
JAB's portfolio composition as of December 2021



Source: Company Information, Moody's Investors Service

Exhibit 4

Proportion of listed and unlisted assets as of December 2021



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 redeemable shares worth €1.6 billion were eliminated and reclassified as 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 our 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.

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 organization structure of the group remains complex although JAB has further simplified the structure during 2021.

Liquidity Analysis

JAB's liquidity is solid. As of 31 December 2021, JAB had access to €3.3 billion of cash on balance sheet and to approximately €3 billion availability under a committed revolving credit facility (RCF) maturing in 2026.

JAB has a well spread maturity profile. JAB has roughly €500 million of maturities due in 2022 and €600 million due in 2023. JAB extended its maturity profile with issuances of 30-year USD and 20-year EUR bonds. JAB's access to listed investments (around 67% as of 31 December 2021) 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.

Rating methodology and scorecard factors

In assessing the credit quality of JAB, we apply Moody's [Investment Holding Companies and Conglomerates methodology](#) published in July 2018. The current and our forward-looking scorecard-indicated outcome is one notch higher than the currently assigned rating of Baa2.

The scorecard-indicated rating outcome is mainly weighted down by JAB's relatively high asset concentration, the low business diversity although this is partly mitigated by JAB's exposure to defensive end industries and a relatively complex group structure. The current rating is supported by a net market value leverage of below 25% ('A' scorecard indication).

Exhibit 5

Investment holding company methodology grid applied to JAB

Investment Holding Companies Industry [1][2]		Current FY 12/31/2021	Moody's 12-18 Month Forward View As of 4/26/2022 [3]
Factor 1 : Investment Strategy (10%)	Measure	Score	Measure Score
a) Investment Strategy	Baa	Baa	Baa Baa
Factor 2 : Asset Quality (40%)			
a) Asset Concentration	B	B	B B
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	A	A	A A
Factor 5 : Debt Coverage and Liquidity (20%)			
a) (FFO + Interest Expense) / Interest Expense	3.7x	Baa	2x - 4x Baa
b) Liquidity	Aa	Aa	Aa Aa
Rating:			
a) Scorecard-Indicated Outcome		Baa1	Baa1
b) Actual Rating Assigned			Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of 12/31/2021

[3] 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
JAB HOLDING COMPANY S.A.R.L.	
Outlook	Stable
Issuer Rating	Baa2
JAB HOLDINGS B.V.	
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	CalxaCriteria	Wendel SE
Rating & Outlook	Aa3 Stable	A1 Stable	Baa2 Stable	Baa2 Stable	Baa2 Stable
Country of Domicile	Sweden	Belgium	Luxembourg	Spain	France
	As of Mar 2022	As of Dec 2021	As of Dec 2021	As of Dec 2021	As of Dec 2021
Total Portfolio Value (in €m)	60,387	23,491	45,240	23,014	9,388
Cash (in €m)	2,437	2,293	3,308	791	650
Asset Concentration (Top 3 Assets)	38%	46%	69%	62%	83%
Proportion of Listed Assets	83%	73%	67%	84%	59%
Company Guidance / Financial Target	MVL in the range of 0% - 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)	2%	4%	19%	21%	10%
(FFO + Interest Expense) / Interest Expense	10.5x	24.3x	2.7x	7.5x	-1.1x

Note: Interest coverage for Wendel SE is as of December 2020

Source: Company Information, Moody's Investors Service

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