MOODY'S
INVESTORS SERVICE

CREDIT OPINION
6 April 2020

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.

Credit Opinion update following Issuer rating downgrade to Baa2

Summary

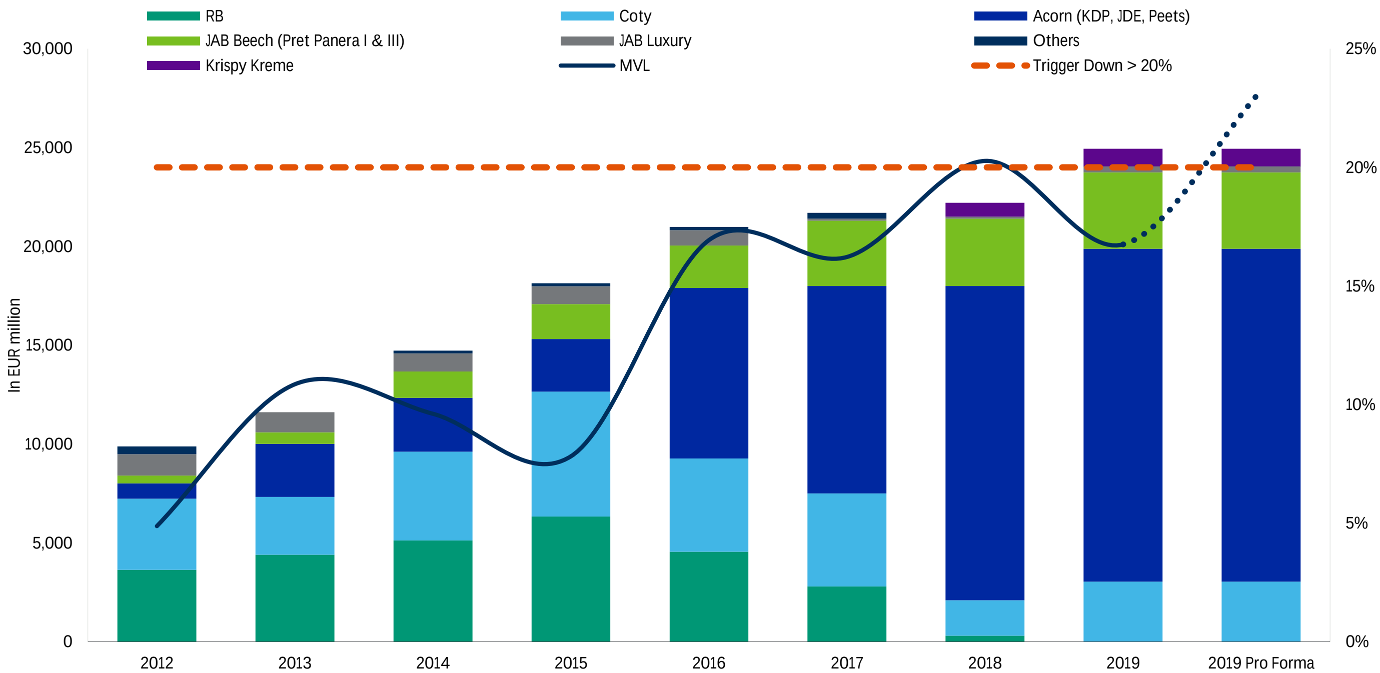
On March 31, 2020, we downgraded JAB Holding Company S.a r.l.'s (JAB) long term issuer rating to Baa2 from Baa1. The downgrade was primarily prompted by JAB's decision to unwind the wholly owned Special Purpose Vehicle it has established during the course of 2019 to tender shares of Coty Inc. and to repay the term loan B that funded the purchase of the tendered shares at a time when asset values are under pressure due to the outbreak of the coronavirus. Pro-forma of the unwind and based on asset values as per 31st December 2019, the pro forma MVL of JAB stood at around 23%, a level that is not commensurate with the Baa1 rating anymore.

JAB's Baa2 rating remains supported by the company's strong investment portfolio comprising cash-generative and typically defensive global consumer businesses. Its investments in JDE/Peets and KDP, which accounted for approximately 65% of JAB's portfolio value at year-end 2019, should continue to protect the group's credit quality. We expect trading conditions and valuations of these two businesses to remain more resilient than other assets in the portfolio during the coronavirus outbreak notwithstanding that valuations will certainly come under pressure in a protracted market downturn.

While JAB has started to simplify its intermediate structures with the removal of the Cottage SPV, JAB's rating remains held back by the company's complex organisational structure and leveraged capital structure at intermediate holding companies, an elevated point-in-time market value leverage and a history of aggressive financial policies.

Exhibit 1

The unwind of the Cottage SPV has brought JAB's MVL above our previous downgrade triggers



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 and successful management team

» Good liquidity even pro forma of the Cottage SPV unwind

Credit Challenges

» Relatively elevated MVL pro forma of the Cottage SPV unwind

» Pressure on valuations due to the coronavirus outbreak

» Complex organisational structure and leveraged capital structure at intermediate holding companies

» Long-term incentive plan for management with put features to some degree constitutes an event risk

Rating Outlook

JAB will initially be weakly positioned in its rating category pro forma of the unwind of the Cottage SPV. The stable outlook is supported by the issuer's commitment to restore swiftly and forcefully credit metrics in line with the current rating. While some of the measures JAB is working on bear material execution risk at the current juncture, JAB has several options at its disposal to improve its MVL in due course.

Factors that Could Lead to an Upgrade

» MVL to drop sustainably to around 15%

» Interest cover sustainably around 3.0x

» A more transparent corporate structure and less aggressive financial policies

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

» Failure to list JDE/Peets well before preference shares, equity warrants or other debt instruments would have to be purchased or redeemed

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 Cosmetics B.V., Labelux Group GmbH, JAB Forest B.V. and JAB Investments S.à r.l) 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 2019 include: i) Coty Inc. (B2, negative ~60%), a global leader in fragrances and expanding position in cosmetics and body care; ii) JACOBS DOUWE EGBERTS Holdings B.V. (Ba1 stable), Keurig Dr Pepper (Baa2 negative) and Peet's Coffee in beverage, which are all held via Acorn Holdings B.V. (57% voting rights); (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) as well as (iv) its investment in Krispy Kreme Doughnuts, Inc.

Detailed Credit Considerations

The coronavirus and the unwind of the Cottage SPV will dent JAB's MVL

The rapid and widening spread of the coronavirus outbreak, deteriorating global economic outlook, falling oil prices, and asset price declines are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. The investment holding company sector has been one of the sectors most significantly affected by the shock given its exposure to asset values and sensitivity to consumer demand and sentiment. We see two transmission mechanism of the coronavirus outbreak on JAB. The first transmission is through lower asset prices that will mechanically weaken the issuer's market value leverage even if the company's net debt remains unaffected by the economic consequences of the outbreak. The second transmission mechanism remains more subject to uncertainty. It would be related to a potential reduction in dividend flows from investments that need to curtail their dividends to protect their balance sheets in a rapidly deteriorating macroeconomic environment.

Beyond the impact of falling market values, JAB's MVL will be negatively impacted by the issuer's decision to unwind the wholly owned Special Purpose Vehicle it has established during the course of 2019 to tender shares of Coty Inc. and to repay the term loan B that funded the purchase of the tendered shares. The repayment of the term loan will be funded through cash on balance sheet of JAB Holding Company S.a r.l. Pro forma MVL of JAB ranged between around 25% and more than 30% over the last 30 days to 24th March based on the variations in price of JAB's listed assets (assuming year-end 2019 valuations for private assets, which is an optimistic assumption). We note that even based on valuations of JAB's portfolio as per 31st December 2019, the MVL of JAB pro forma of the Cottage SPV unwind stood at around 23%, a level that is not commensurate with the Baa1 rating anymore.

We also believe that JAB might have to support some of its levered private assets such as Pret a Manger, Panera Bread or Bally through equity injections. Due to severe trading disruptions and high leverage even before the coronavirus outbreak has hit them those companies might be in need of equity as a result of the coronavirus outbreak. This will add to the pressure on JAB's MVL. Lastly the cash dividend flow to JAB might reduce during the course of 2020 as a result of challenging trading conditions in some assets of the group. In this respect Coty has announced that it will offer its dividend in scrip and JAB has opted to take the dividend in shares.

While JAB remains committed to the maintenance of a strong investment grade rating some of the options that the issuer has in order to delever its balance sheet bears execution risks and might be weakening the group's overall business profile. More specifically we see material execution risk on the IPO of JDE/Peets and on the sale of Coty's professional beauty business and Brazilian operations at least in the short term. The potential postponement of the IPO will also delay the partial repayment of preference shares that have been issued by Acorn Holding to investors including JAB Holding, the JAB Consumer Fund and other investors. Acorn Holding is an intermediate holding company that owns JAB's shares in key companies such as Keurig Dr Pepper or JDE. The repayment of these preference shares has been one of the key pre-requisite for the maintenance of the Baa1 rating in the past. The Baa2 rating will be weakly positioned at the outset 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.

Acorn Holdings (AHBV) is JAB Holding's largest intermediate holding company. AHBV is the majority owner of Keuring Dr Pepper, with a stake of about 67%; JACOBS DOUWE EGBERTS Holdings B.V. (JDE, Ba1 stable), with a stake of about 73%; and Peet's Coffee & Tea, with a stake of about 98%. AHBV is highly levered, especially if we include the preferred shares and equity warrants on its balance sheet in its leverage calculation. At 31 December 2018, AHBV had around €3 billion of preferred shares and around €3 billion of equity warrants outstanding. There were another €1.7 billion of other contingent liabilities on AHBV's balance sheet at the end of 2018. This compares with an equity value of AHBV of roughly €35 billion before the value of the preference shares and equity warrants is deducted. Acorn Holdings 2018 pro forma reported net leverage, measured as 4.7x as at 31 December 2018, would increase further if we added these preference shares and equity warrants to its net debt. However, JAB Holding adequately subtracts all the preference shares and equity warrants from the calculation of its gross and net asset values, which underpin the calculation of our MVL at JAB Holding level.

Other intermediate holding companies such as Pret Panera I GP and Krispy Kreme GP also have contingent liabilities on their balance sheets but these are less material to the overall group. These contingent liabilities also have longer maturity dates, which gives JAB much more time to address the potential contingent liabilities that could arise from these instruments.

JCF has told investors it will list JDE/Peets, consolidated under Acorn Holdings, as soon as practically possible. A successful listing of JDE/Peets and an associated clean up of the Acorn Holding structure would be credit positive for JAB Holdings as it would avert a crystallisation of some of the contingent liabilities such as the equity warrants.

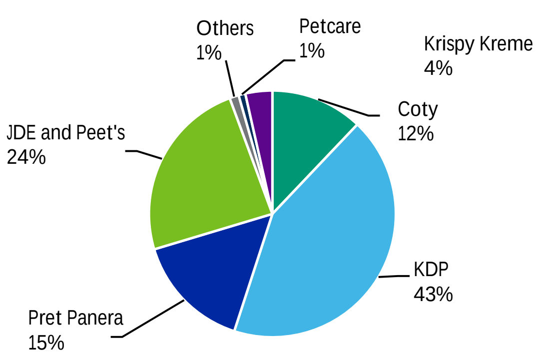
Merger of Keurig and Dr Pepper has strengthened JAB's investment portfolio but disposal of Reckitt Benckiser shares has canceled exposure to a highly rated investment

The merger of Keurig and Dr Pepper in July 2018 has created an integrated beverage company with $11 billion of pro forma revenues and exposure to a wide range of nonalcoholic packaged beverage market categories and a broad distribution network. The new group is the only global soft beverage company with exposure to all beverage categories apart from milk (milk is less profitable than other categories). Dr Pepper has brought a large scale, stable, profitable and cash flow generative portfolio of brands focused on carbonated soft drinks and juices. Keurig has brought a single serve and ready to drink coffee and tea business with stronger growth prospects.

The new group accounts for a relatively material portion of the overall value of JAB's investment portfolio, providing a significant lift to its overall creditworthiness by improving its breadth and sector diversification. It is also one of the main contributors of cash flows/ dividends for JAB.

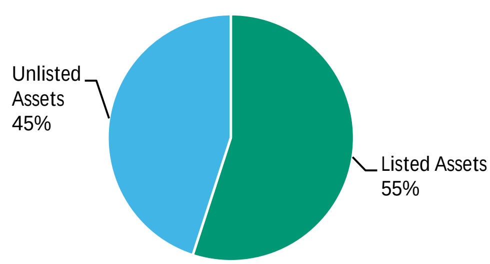
On a more mixed note we highlight JAB's complete exit from Reckitt Benckiser Group Plc (RB) (A3, negative) during the course of 2019. While the share price performance of RB has been weak since mid 2017 the stake had been seen as an anchor of credit quality of the overall investment portfolio of JAB since the initial rating assignment back in 2014.

Exhibit 2
JAB's portfolio composition as of December 2019



Source: Company Information, Moody's Investors Service

Exhibit 3
Proportion of listed and unlisted assets as of December 2019



Source: Company Information, Moody's Investors Service

Long-term incentive plan with put options continues to constitute event risk in the future

As at 31 December 2019 JAB had liabilities of around €2.8 billion in respect of the company's LTIP. LTIP liabilities are excluded from the rating agency's leverage metric calculations, but if they were, net MVL would increase to around 34% (pro forma of the Cottage SPV unwind and based on year-end 2019 valuations). They are important as the majority of the share options have started to vest beginning of 2017, prior to the maturity of JAB's credit facilities and bonds in 2021-2025 and 2028.

The first options that vested in 2017 were exercised for shares or proceeds were reinvested in shares with less than $100 million of cash proceeds used for other purposes.

Moody's has distinguished between JAB's financial debt and the LTIP liabilities given the uncertainty regarding crystallisation of the shares and associated options, including the precise timing and amount which will crystallise. JAB has also always maintained that management would exercise their options and convert these. Moody's considers there to be sufficient conditionality to limit when management may exercise its shares and when the company is obligated to make any payment. This provides the company with sufficient time to manage the company's liquidity. Moody's also draws some comfort from the positive correlation between the value of the LTIP liabilities and the value of the company's investments as well as the Advisory Committee Members' minimum share ownership requirements.

This scheme enables Advisory Committee members as well as the operational management team (together “the Management Team”) to purchase company shares, which are then matched with three options, subject to a vesting period of five years. Both the shares purchased and the associated share options contain put features, which provide the Management Team the right to sell these back to the company for cash. The LTIP liabilities reflect the fair value and potential redemption price of the shares and share options, and, in particular, cash potentially owing to the Advisory Committee members.

The LTIP was structured to allow the Management Team to sell their shares and protect the interests of the majority owners, but Moody's understands that the Advisory Committee Members have the intention to convert their options to shares with a view to increasing their shareholding in JAB and remaining long-term shareholders. The liabilities are deeply subordinated in the event of a bankruptcy and there is no servicing of the liability (coupon or dividend) or cross-default with other debt. The share and option liabilities are not considered as financial debt for the purpose of bank covenants. Nevertheless, the rating captures the financial risk one or more of the Advisory Committee Members leave and exercise their right to have shares and options paid to them in cash.

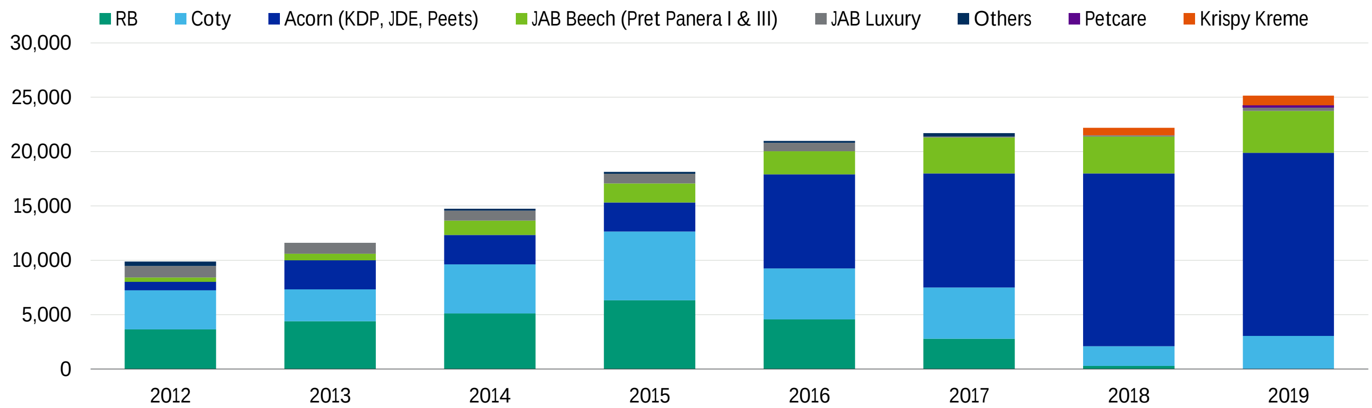
Clearly-defined and successful investment strategy; investments in defensive global consumer businesses

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 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, 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 ⅔ of Bally; 2018 is pro-forma tender offer for Coty (301 million shares at $11.65 per share)
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 deemed solid pro forma of the SPV unwind. Pro forma of the term loan repayment JAB will have access to €800 million of cash on balance sheet and to €3 billion availability under a committed revolving credit facility (maturity: 2024 with two 1-year extension options).

JAB has a well spread maturity profile. JAB has no upcoming maturities in 2020 and only approximately €1.1 billion of cumulative maturities evenly spread over 2021/2022. JAB's access to listed investments (around 53% as per 31 December 2019) 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 timely reception of dividends from its investments, the ability to monetize its investments via a disposal or an IPO and, where possible, the upstreaming of cash from majority-owned investments.

All debt is held and raised by the Issuer. The LTIP liabilities are, however, subordinated to the bond and bank debt as these reside at the guarantor, which is the top holding company of the JAB group.

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 forward view 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 grid 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 still conservative market value leverage of 20% ('A' grid score) although the company's MVL has deteriorated recently.

Exhibit 5

Investment holding company methodology grid applied to JAB

Rating Factors				
JAB Holding Company S.a r.l.				
Investment Holding Companies Industry Grid	Current FY 12/31/2019		Moody's 12-18 Month Forward View As of 4/02/2020	
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	A	A	Baa	Baa
Factor 5 : Debt Coverage and Liquidity (20%)				
a) (FFO + Interest Expense) / Interest Expense	2.0x	Ba	1.3x	B
b) Liquidity	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Rating from Grid		Baa2		Baa3
b) Actual Rating Assigned		Baa2		Baa2

As of 12/31/2019

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 Financial Metrics, Moody's Investors Service

Appendix

Exhibit 6

Peer group comparison

INVESTMENT HOLDING COMPANIES PEER GROUP	Investor AB	JAB Holding Company S.a r.l.	CriteriaCaixa	Wendel SE	Franz Haniel & Cie. GmbH
Rating & Outlook	**Aa3 Stable**	**Baa2 Stable**	**Baa2 Stable**	**Baa2 Stable**	**Baa3 Stable**
Country of Domicile	Sweden	Luxembourg	Spain	France	Germany
	As at December 2019	**As at December 2019**	**As at December 2019**	**As at June 2019**	**As at June 2019**
Total Portfolio Value (in €m)	40,857	25,163	21,398	7,993	5,198
Cash (in €m)	2,351	2,585	454	1,800	263
Asset Concentration (Top 3 Assets)	40%	94%	60%	59%	62%
Proportion of Listed Assets	80%	55%	78%	43%	33%
Company Guidance / Financial Target	MVL in the range of 5% - 10%	MVL between 15%-20% in mid/long term	Target MVL ~20%	€2.5 billion of net debt	€1 billion of net debt
Market Value Leverage (MVL)	3%	17%	20%	7%	13%
(FFO + Interest Expense) / Interest Expense	2018: 6.2x	2019: 2.0x	2019: 7.8x	2018: 0.8x	2018: 5.9x

Source: Company Information, Moody's Investors Service

Ratings

Exhibit 7

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 -Dom Curr	Baa2

Source: Moody's Investors Service

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