S&P Global Ratings

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JAB Holding Company S.a r.l.

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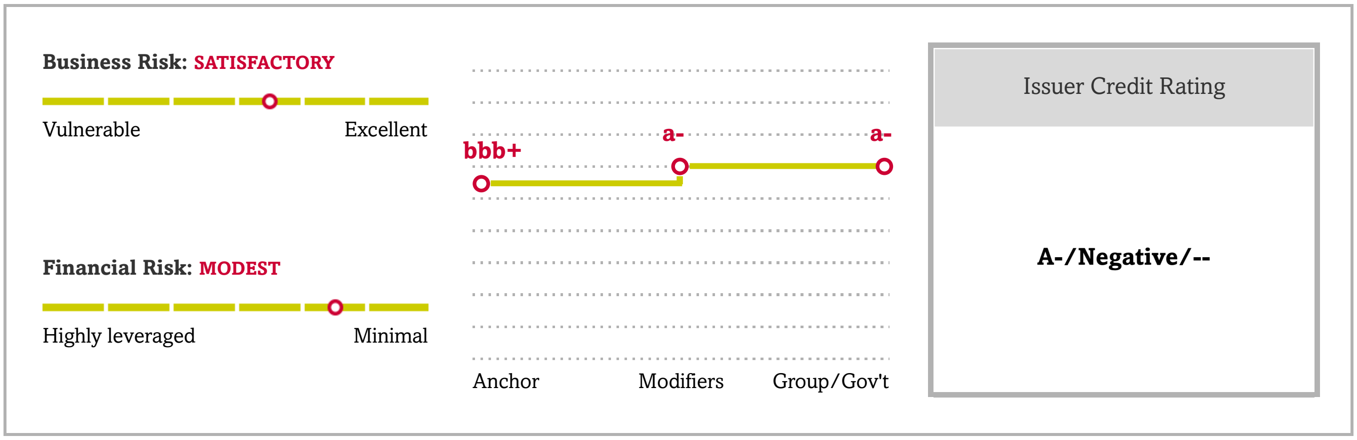


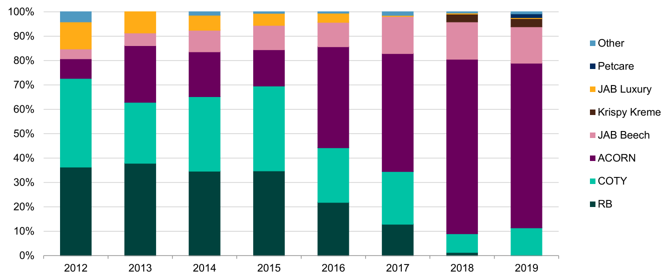
Credit Highlights

Overview	
Large portfolio size exceeding $20 billion, mainly focused on relatively resilient investee companies in the beverage sector	Weak portfolio diversity, with the largest three assets--Keurig Dr. Pepper (KDP), JDE, and Coty representing more than 80% of the portfolio
Strong performance of key assets in particular KDP and Jacobs Douwe Egberts (JDE)	Moderate asset quality, with average portfolio credit quality in the sub- investment grade category
Superior financial flexibility thanks to a joint investment strategy with fully equity funded JCF, which allows JAB to take control of investee companies while limiting the holding company's leverage	Poor evidence of equity and credit revival at Coty, JAB's second-most important listed asset
Comfortable liquidity and smooth debt maturity profile	Complex group structure

The unwinding of the special-purpose vehicle (SPV) Cottage is positive but Coty's equity and credit story remains weak. The unwinding prompted S&P Global Ratings to reconsider JAB Holding Company S.a.r.l.'s 60.2% share in Coty as a liquid asset in JAB's portfolio (see charts 1 and 2). With the repayment of the $1.78 billion used to purchase 150 million shares at $11.65 per share, the company takes back the acquisition on its own balance. Originally, the loan should have been repaid out of, at least to some degree, the shares' value gains. At the time, we noted that Coty's shares were trading at about $5.00, which corresponds to a loss of about $1.0 billion (excluding interest costs) on the transaction. JAB's efforts to revive the Coty's equity have not delivered to date, as further indicated by us downgrading the latter to 'B' and placing the rating on CreditWatch with negative implications on March, 24 2020.

Chart 1

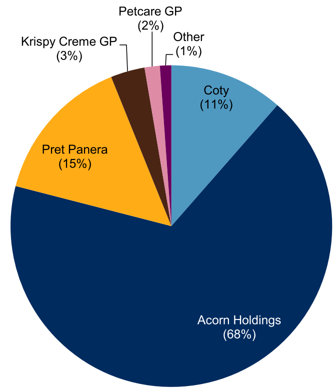
JAB Holding Company S.a r.l.--Portfolio
Reported values in bil. €



Source: S&P Global Ratings.

Chart 2

JAB Holding Company S.a r.l.--Portfolio Breakdown
At year-end 2019



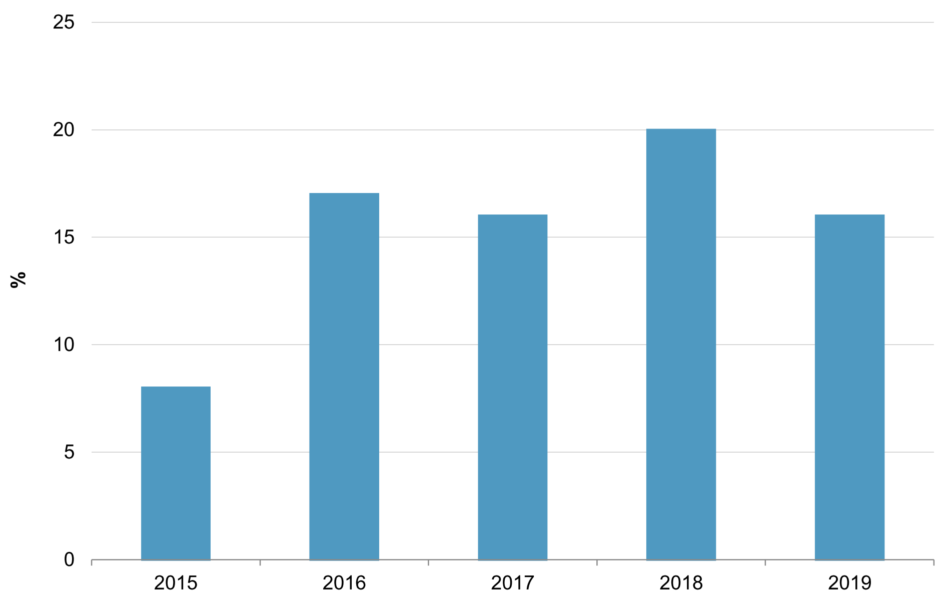
Source: S&P Global Ratings.

The JDE-Peet Coffee's IPO has been held back by market volatility, but JAB expects it to proceed. The proposed combination recently inched closer toward merger and IPO, with all regulatory obligations cleared. The benefits of a higher share of listed assets will be rating neutral because it will not improve the asset diversity in JAB's portfolio, which we assess as weak. This is because the three largest assets in the company's portfolio, including KDP, JDE, and Coty together constitute more than 80% of the total portfolio, which in our view compares weakly to peers with such as LE Lundbergforetagen AB or Investor AB.

JAB's financial policy is unchanged but headroom for the loan-to-value (LTV) threshold is tight. Management maintains its commitment of an LTV below 20% (see chart 3). Nevertheless, market volatility, coupled with the JAB's dynamic portfolio management indicates that the headroom to the 20% threshold could come under pressure, which is reflected in our current negative outlook on the company. We estimate the LTV in the 20%-25% range at April 2020. If pressure on the LTV endured, we might consider revising our LTV threshold toward 25%. This would trigger a change in the financial risk profile of the holding, which would lower the rating.

Chart 3

JAB Holding Company S.a r.l.--LTV Ratio
Reported at year-end



LTV--Loan-to-value. Source: S&P Global Ratings.

The support from JAB Consumer Fund (JCF) is a distinguishing ratings factor compared with peers. JCF invests along the same lines of JAB and allows it to take control of investee companies while mitigating the financial impact on the holding company's leverage. JCF can also provide financial support useful to manage LTV during market turmoil, via the takeover of JBA's stake in unlisted assets.

Outlook: Positive

The negative outlook reflects our view that JAB's LTV is above our 20% threshold as well as the recent material downward revision of our economic forecasts for the U.S. and Europe.

We would downgrade JAB if we expect that the company is unlikely to reduce its LTV well below the 20% threshold by year-end 2020, or we conclude that the group's portfolio management strategy is unlikely to maintain an LTV ratio below 20% at all times--such as during the current market turmoil.

We could revise the outlook to stable if JAB reduces its LTV toward 15% in 2020. We could raise the rating if we observed a significant improvement in the diversity of the portfolio, which we assess as weak. We deem this scenario unlikely in the near term, however.

Our Base-Case Scenario

Assumptions

- Proactive management actions to support maintenance of the LTV ratio below the 20% target
- JDE and Peet's combination IPO to be completed in 2020
- Stable dividend inflows of €400 million per year
- No material increase in JAB's operating costs, which we expect will be stable at about €40 million in 2020 and 2021
- Interest expense of about €150 million per year
- Dividend payments of €100 million-€150 million, over the next two years

Key Metrics

	2019A	2020E	2021F
Cash flow adequacy (x)	2.5	Above 2.0	Above 2.0
LTV (%)	16.1	Below 20	Below 20

*A--Actual. E--Estimate. F--Forecast. LTV--Loan to value.

Base-case projections

Cash flow adequacy ratios in 2020 will remain near 2019 levels. We forecast cash-flow adequacy ratio to remain above 2x in 2020, supported by sound dividend inflows of about €400 million, and relatively stable operating costs and interest expense, in line with 2019 levels.

Company Description

JAB is an investment holding company with a focus on defensive and fast-moving consumer goods, consumer retail assets, and following the Compassion-First and NVA acquisition, veterinary health care services. The company pursues an active management approach to build global champion and challenger companies. In contrast to other holding companies, JAB focuses on actively managing most of its assets, allowing it significant control and influence over their capital structure and dividend flows.

Another distinguishing factor is the company's access to JCF, a separate equity portfolio managed by JAB executives that approximately mimics JAB's investments and provides third-party equity. Through such a partnership, the company undertakes large and transformative transactions, such as the reverse takeover of KDP, while maintaining control over the dividend streams, and limiting the total leverage at JAB. We believe that JCF represents not only an investment partner, but also an opportunity for JAB to address temporary market weaknesses and maintain its long-term LTV target below 20% without losing control over its assets. We see this as a unique advantage for the company over its peers, and reflect this in the rating.

Business Risk: Satisfactory

JAB's business risk assessment in underpinned by a large portfolio, unique strategy of acquiring control of assets in partnership with equity fund JCF, and management's investment discipline. These factors are partially offset by weak portfolio diversity and moderate asset credit quality.

Coty's turnaround remains a challenge for JAB. We estimate JAB's portfolio value at over $20 billion, which compares positively with that of other European investment holding companies, such as Wendel and EXOR N.V. Despite the large portfolio, JAB's portfolio has weak diversity, which is holding back any material improvement in the holding company's business risk profile. At the time of the tender offer on Coty and the setup of the Cottage SPV, we considered the stake in Coty as unavailable to JAB's lenders and de facto non-liquid. With the SPV unwinding, we are reversing this assumption, so Coty shares represent again a liquid asset in our assessment. The positive impact from stronger liquidity of assets in JAB's portfolio is largely offset by Coty's poor operating performance since the tender offer in 2019. Coty's shares trade now at about $5.00, compared with the tender price of $11.65. The repayment of the loan out of JAB's liquidity is now integrated in our estimate of the company's LTV, which is above the assigned rating threshold of 20%. Failure to revive Coty marks a flaw in JAB's undisputed value creation since 2012.

The portfolio has average portfolio credit quality in the speculative grade area. The company's average portfolio credit quality is well positioned in the 'bb' category, largely stemming from Keurig Dr Pepper Inc. (BBB/Stable/A-2), Jacobs Douwe Egberts International B.V. (BB/Positive/--), and Coty Inc. (B/Watch Neg/--). We recently downgraded Coty by a notch, factoring in theimpact from COVID-19, and higher leverage.

Continued high exposure to the food and beverage industry, partially offset by recent investments in diversified industries such as consumer goods and Petcare. The company's portfolio exposure to the food and beverage industry includes assets such as KDP, JDE, Peet's Coffee, Panera, and Krispy Kreme. However, the company has undertaken efforts to address the weaker industry diversity relative to higher rated peers, namely the acquisition of NVA, one of the largest independent operators of independent veterinary hospitals. We view these changes positively, but not significant at this stage. Any material benefit in terms of diversity will take time or likely require more acquisitions.

Peer comparison

Table 1

JAB Holding Company S.a r.l.--Peer comparison

	JAB Holding Company S.a r.l.	EXOR N.V.	Wendel	Investor AB	Industrivarden AB
Rating as of April 2020	A-/Negative/--	BBB+/Positive/A-2	BBB/Stable/A-2	AA-/Stable/A-1+	A+/Stable/A-1
Portfolio data as of:	Dec. 31, 2019	Nov. 30, 2019	Jan. 22, 2019	Sept. 30, 2019	June 30, 2019
Business profile	Satisfactory	Satisfactory	Fair	Excellent	Strong
Portfolio size (adjusted; mil. $)	29,100	27,633	8,059	41,926	11,858
Weight of listed assets (%)	54	68	49	79	100

Table 1

JAB Holding Company S.a r.l.--Peer comparison (cont.)					
	JAB Holding Company S.a r.l.	**EXOR N.V.**	**Wendel**	**Investor AB**	**Industrivarden AB**
Largest asset (% of portfolio)	54	28	43	15	25
Three largest assets (% of potfolio)	89	76	74	37	63
Three largest assets	Keurig Dr Pepper (BBB/Stable/A-2), JACOBS DOUWE EGBERTS International B.V (BB/Stable/--), Coty Inc. (B/Watch Neg/--)	PartnerRE (A-/Stable/--), Ferrari, FCA (BB+/Watch Pos/B)	Bureau Veritas, Stahl, IHS	Atlas Copco (A+/Stable/A-1), ABB (A/Stable/A-1), AstraZeneca PLC (BBB+/Stable/A-2)	Sandvik AB (A-/Stable/A-2), AB Volvo (A-/Stable/A-2), and Svenska Handelsbanken AB (AA-/Stable/A-1+)
Cash flow leverage	Modest	Modest	Modest	Modest	Minimal
Loan to value (%)	16	11	7	7	3
Loan to value ceiling (%)	20	20	20	20	10

Financial Risk: Modest

As of Dec. 31, 2019, JAB's LTV was 16.1%, which compares favorably with the 20% threshold we have for the company. We acknowledge no change in the holding company's financial policy, namely the commitment to maintain LTV in the 15%-20% range, but we observe that the room to manoeuver can tighten significantly at times of market volatility or because of material investments (we don't expect any in the next 12 months). In our recent review of JAB we have taken a conservative stance on the valuation of unlisted assets based on listed peers, and have integrated the planned repayment of the Cottage loan on the company's liquidity. This leads us to an estimated LTV above 20% as of April 2020. We continue to believe that JAB has options to address its LTV commitments, including the support from JCF, so we expect LTV to fall below threshold by the end of 2020. If for any reason we came to the conclusions that the headroom to a 20% threshold would remain too tight for JAB's dynamic investment strategy, we could consider to relax it to 25%, which would trigger the reassessment downward of its financial risk profile and rating.

Financial summary

Table 2

JAB Holding Company S.a r.l.--Financial Summary					
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted portfolio value*	25,900	22,000	216	213	179
Adjusted net debt	4,200	4,500	3,500	3,600	1,400
Loan to value (%)	16.2	20.5	16.2	16.9	7.8
Dividend and fees income	335	379	308	231	174
Operating charges and tax expenses	42	34	35	38	38
Net interest expenses/ (income)	146	128	104	86	40

Table 2

JAB Holding Company S.a r.l.--Financial Summary (cont.)

(Mil. €)	2019	2018	2017	2016	2015
Cash flow coverage (x)	1.78	2.34	2.22	1.86	2.23
Dividend paid	100	100	65	65	65

*Includes our adjustments on asset valuation.

Liquidity: Strong

We assess JAB's liquidity as solid. We estimate that the company's liquidity sources exceed its needs by 1.5x for the 12 months from Dec. 31, 2019, and by almost 3x for the following 12 months. We believe that JAB's strong ties with banks support its ability to quickly obtain bank financing, if needed. We also believe the company is likely able to absorb a high-impact event with limited need for refinancing. For JAB, such a scenario would likely be a severe correction of market values for its listed shares, such as that seen in current conditions.

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and cash equivalents of approximately €2.58 billion as of year-end 2019 • Dividend inflows of about €400 million per year on average • Access to approximately half of the €3.0 billion committed revolving credit facility (RCF) maturing in 2024 • The recent €1 billion bond issuance	• Operating expenses of about €40 million • Interest expenses of about €150 million per year • Dividends in the €100 million-€150 million range • Repayment of the Cottage loan ($1.77 billion) • Cash out for the acquisition of the PET business (NVA) in first-quarter 2020 • Potential capital injections to support, on a selective basis, smaller assets in JAB's portfolio in the low-to-mid hundreds of millions of euros

Debt maturities

JAB's debt maturity profile as of December 2019 was:

- 2020: $1.7 billion (Cottage loan)
- 2021: €538 million
- 2022: €524 million
- 2023: €700 million
- 2024: €750 million
- Thereafter: €4.35 billion

Environmental, Social, And Governance

As a holding company with material ownership in the food and beverage industry, we see JAB as exposed to risk in the social area with specific reference to healthcare and safety, as currently evidenced by the COVID-19 outbreak. While the performance of assets like KDP, JDE, Krispy Kreme, and NVA has been resilient to date, we acknowledge that the above and other assets will be affected by lockdowns. Transformative investments will be needed to face a new era of social distancing, which will likely continue until contagion risk is mitigated. This could limit earnings and ultimately dividend distribution capacity at investee companies, although this was not a specific credit risk at the time of publication.

Issue Ratings - Subordination Risk Analysis

Capital structure

JAB Holdings B.V. is the financing subsidiary of JAB, and is 100% owned by JAB through an intermediate holding company. On a holding company basis, gross debt, represented by bonds, totaled €6.8 billion at year-end 2019.

Analytical conclusions

JAB has relatively low gross debt, and we assess its financial risk profile as modest. The syndicated RCF and unsecured bonds rank pari passu. As a result, there are no significant elements of subordination risk in the capital structure, in our view, and we rate the senior unsecured debt 'A-', in line with the issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating

A-/Negative/--

Business risk: Satisfactory

- **Country risk:** Low
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

Financial risk: Modest

- **Cash flow/leverage:** Modest

Anchor: bbb+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)

- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : a-

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- JAB Holding Company S.a r.l. Outlook Revised To Negative; 'A-' Rating Affirmed, April 22, 2020
- Coty Inc. Issuer Credit Rating Lowered To 'B', Placed On CreditWatch Negative Due To Impact Of The Spread Of COVID-19, March 24, 2020
- Keurig Dr Pepper Inc. Maintains Strong Operating Performance In Line With Expectations And Continues To Deleverage, Nov. 12, 2019
- Jacobs Douwe Egberts Outlook Revised To Positive On Accelerated Deleveraging; 'BB' Ratings Affirmed, May 14, 2019

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	**bbb+**	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of May 13, 2020)*

JAB Holding Company S.a r.l.	
Issuer Credit Rating	A-/Negative/--
Issuer Credit Ratings History	
22-Apr-2020	A-/Negative/--
23-Dec-2019	A-/Positive/--
17-Jun-2019	A-/Stable/--
12-Feb-2019	A-/Negative/--
02-Aug-2018	A-/Stable/--
29-Jan-2018	BBB+/Watch Pos/--
10-May-2016	BBB+/Stable/--
17-Dec-2015	BBB+/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.