



Rating Action: Moody's upgrades JAB Holding Company S.a r.l. to Baa1, stable outlook

23 Nov 2022

Frankfurt am Main, November 23, 2022 -- Moody's Investors Service, ("Moody's") today upgraded the long term issuer rating of JAB Holding Company S.a r.l. (JAB) to Baa1 from Baa2. Concurrently, Moody's has upgraded the backed senior unsecured ratings of JAB Holdings B.V. to Baa1 from Baa2. The outlook on both entities remains stable.

RATINGS RATIONALE

The upgrade of JAB's ratings to Baa1 reflects improvements of the company's business and financial profiles as well as its strengthened governance. While investment valuations have recently somewhat weakened amid increased market volatility, we anticipate a relatively robust operating performance of JAB's consumer product core holdings even in a weaker macroeconomic environment, which should support robust investment valuations of the medium term.

JAB's portfolio today benefits from larger scale, more business diversity and improved financial strength of its investment assets. Furthermore, the higher share of listed assets has improved JAB's financial flexibility following the IPOs of Krispy Kreme Doughnuts, Inc. in 2020 and JDE Peet's N.V. in 2021. The value of JAB's portfolio (JAB's share) has increased to around \$32 billion as of 30 June 2022 from around \$22 billion in 2017 and around \$10 billion in 2012, with the consolidated value including third party investors of around \$47 billion as of 30 June 2022. The higher portfolio value to a large extent reflects more recent investments into veterinary clinics (Petcare platform) and the pet insurance business (Pet Services platform). Moody's considers the veterinary clinics and the pet insurance business as distinct business sectors that results in an improvement of JAB's business diversity.

Financial leverage reflected in Moody's net market-value leverage (MVL) of JAB's portfolio has recovered from 2020 levels and is well in line with the expectations for the Baa1 rating category. Moody's MVL of around 25% (around 19% on a JAB standalone basis when excluding debt at the intermediate holding company level) includes proportional assets and financial debt at intermediate holding company Acorn as of 30 June 2022. The Baa1 rating factors in positively management's conservative financial policy, outlined in a public leverage target of a MVL ratio between 15-20% based on JAB's reported ratio.

At the same time the interest cover strengthened towards 3.0x from 2.2x thanks to higher dividend income. The relative financial performance of JAB's portfolio, -11.4% against the MSCI World Index of -20.2% in the first six months of 2022, also illustrates the defensiveness of investments. In addition, the credit quality of investees has improved with Moody's upgrading the corporate family rating of Coty Inc. (B1 stable) by three notches since September 2021 and the one-notch upgrade of JDE Peet's N.V. (Baa3 stable) in April 2021.

ESG CONSIDERATIONS

JAB has initiated a number of tangible actions that have resulted in reduced complexity, better transparency and stronger governance. JAB has eliminated complexity at its intermediate holding Acorn Holding B.V. by simplifying its capital structure and legal structure. With the stock market listings of Krispy Kreme Doughnuts, Inc. in 2020 and JDE Peet's N.V. in 2021, the transparency of the portfolio has also further enhanced as the valuation of these assets can now be derived from stock markets rather than less frequently available book values. At the same time management has demonstrated that it remains committed to publicly list shares of its holdings. JAB has additionally flagged Panera Brands as a company to list on the stock market. Whilst the decision and readiness to go public are positive, capital markets currently are not receptive for share listings. Moody's, however, expects the Panera Brands listing once capital markets open up again. JAB also appointed Mr. Creus as Vice Chairman and designated successor to Chairman Mr. Harf, thereby reducing key-person risk. Still, a degree of complexity of its organizational structure - foremost the private ownership and the presence of JCP as a co-investor - and opacity, for instance limited financial disclosure of JAB's private investments, remain.

The Baa1 rating takes into account JAB's commitment to a conservative financial policy, a higher share of publicly-listed investments that increases the portfolio transparency and a more diverse (by business sector) portfolio with core investments in the consumer packaged goods, soft beverage, foods & beverage, soft drinks, pet care and pet insurance. While the addition of third party investors increases overall financial flexibility to implement larger scale acquisitions, the presence of an intermediate holding company with debt adds organizational complexity.

RATIONALE FOR THE STABLE OUTLOOK

The outlook is stable and reflects the relative stability of the operating performance of JAB's core investments and management's conservative financial policy. It also takes into consideration further simplification of the structure, either by increasing the transparency through stock market listings of currently private investments or further steps to simplify the complex organizational structure.

LIQUIDITY

JAB's liquidity is solid. As of 30 June 2022 the investment holding company held around \$4.1 billion of cash and cash equivalents and had access to an undrawn €3.0 billion revolving credit facility. The next sizeable maturity is the company's Eurobond due in May 2023, of which €642 million were outstanding as of 30 June 2022. Since 2020 JAB has lengthened its average debt maturity profile by issuing longer-dated debt. These include three \$-denominated backed senior unsecured bonds totaling \$1.5 billion due 2030, 2051 and 2052 as well as three €-denominated backed senior unsecured bonds totaling €1.5 billion due 2031, 2032 and 2035. Moody's expects that higher future refinancing costs will be offset by stable to increasing dividend and interest income.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade ratings if JAB's net MVL as adjusted by Moody's would drop sustainably to below 20% including intermediate holding company debt (equivalent to 15% on a standalone basis when excluding debt at the intermediate holding company level), the interest cover would increase sustainably to above 3.0x supported by higher dividend and interest income. Further transparency on the corporate structure could support positive rating pressure over time if coupled with stronger credit metrics.

Negative pressure would build on the current rating if the net MVL as adjusted by Moody's

approaches the high twenties (%) including proportional intermediate holding company assets and debt (increases to above 20% on a standalone basis when excluding debt at the intermediate holding company level). An interest cover falling below 2.0x, a weakening liquidity profile or a more aggressive financial policy would also exert negative pressure on the rating.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Investment Holding Companies and Conglomerates published in July 2018 and available at <https://ratings.moodys.com/api/rmc-documents/56472>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

JAB Holding Company S.a r.l. (the Guarantor) together with JAB Holdings B.V. (the Issuer) and four wholly-owned holding companies (JAB Luxury S.a r.l., JAB Forest B.V., JAB Investments S.a r.l. and JAB Holding Sao Paulo Ltda.) form the JAB Group. 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 include: JDE Peet's N.V. (Baa3 stable), Keurig Dr Pepper Inc. (Baa2 stable), Coty Inc. (B1, stable), Pret A Manger, Panera Bread Company, Caribou Coffee Company and Espresso House, which are all held via Pret Panera III GP, Krispy Kreme Doughnuts, Inc. and Petcare GP.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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