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Research Update:

JAB Holding Co. S.a r.l.'s Ratings Affirmed At 'BBB+' On Expected IPOs Of Portfolio Companies; Outlook Stable

April 24, 2024

Rating Action Overview

- In the second half of 2023, Luxembourg-based investment holding company JAB Holding Company S.a.r.l. (JAB) made several investments on a stand-alone basis for about $2 billion which it financed with cash on its balance sheet. We did not anticipate this significant capital allocation, and it resulted in a leverage spike--with JAB's loan-to-value (LTV) ratio approaching 27% as of Dec. 31, 2023. This level was above the rating's LTV threshold of 25%.
- Subsequently in March 2024, the holding company concluded the sale of 100 million shares in U.S.-based soft drink maker Keurig Dr Pepper Inc. (KDP), decreasing its stake to about 21%, for cash proceeds of $2.9 billion. As a result, pro forma this sale, JAB's LTV ratio declined to about 20% as of Dec. 31, 2023. This also reduces the share of listed assets to about 60%, which weakens our view on the company's business risk.
- JAB is committed to publicly list Panera Brands in the next 12 months, which will increase the share of listed assets to sustainably more than 70%.
- We have revised our view on the company's governance to moderately negative from neutral because its investment communications have proved to be less transparent and frequent compared with publicly traded listed peers. In addition, we note that the holding continues to rely on a few key persons.
- We have therefore affirmed our long-term issuer credit ratings and issue ratings on JAB at 'BBB+'.
- The outlook is stable reflecting our expectation that JAB's share of listed assets will recover to above 70% in the next 12 months. At the same time, the holding will keep the level of its LTV ratio well below 25% and start building a positive track record of more transparent communication.

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Rating Action Rationale

We did not anticipate JAB's leverage increase due to capital allocation strategies in the second half of 2023, but the company sold 100 million shares in KDP realizing about $2.9 billion cash proceeds in March 2024. In the second half of 2023 Luxembourg-based investment holding company JAB Holding Company S.a.r.l. (JAB) invested on a stand-alone basis about $2 billion. This led to its cash depleting from about $3.7 billion as of the end of June 2023 to $1.7 billion as of the end of December 2023. Based on 2023 annual results, in the second half of 2023 JAB on its own merit (excluding Jab Consumer Partner (JCP) as minority shareholder) invested about $700 million in its pet insurance platform and about $340 million to buy JDE Peet's shares in the market. In addition, we understand that JAB increased its stake in Pret Panera Platform from 57.4% to 64.7% and dedicated about $180 million in JAB Luxury.

As a result of these transactions, as of Dec. 31, 2023, its LTV ratio approached 27%. Following an unexpected CEO change in late 2023, the holding company concluded the sale of 100 million shares in U.S.-based soft drink maker KDP(BBB/Stable/A-2) for $29.10 per share in March 2024. As a result, JAB generated proceeds in cash for $2.9 billion. Pro forma the sale we now calculate that the company's LTV ratio reaches about 20%. In our view, this shows commitment to keep the leverage within JAB's financial policy targets and, in turn, below our LTV ratio threshold of 25% for JAB's current rating positioning. The sale price of $29.10 per KDP share is more than 10% below year-end level and well below the share price's peak of close $40 during the second half of 2022.

While the share of listed assets currently falls short of 60% if compared to the total portfolio value, we anticipate that JAB will list new assets within the next few quarters. As of end-2023, we calculate that JAB portfolio valued on a stand-alone basis pro forma the sale of KDP shares at $31.8 billion. We see the total portfolio value as relatively unchanged if compared to the same period in 2022. The portfolio composition and transformation has quickly evolved, and we anticipate that the percentage of listed assets will materially improve over the next 12 months as soon as Panera Brands (17.7% of its adjusted portfolio value or $5.6 billion) is listed. JAB may also decide on an IPO of its pet care platform as envisaged by the company.

The company has a solid track record of getting its private assets effectively listed, as demonstrated by the IPOs of Krispy Kreme, KDP, and JDE Peet's over the last few years. Positively, we note that the company is developing and diversifying its portfolio to new sectors and the holding company's ability to self-fund its growth ambitions despite the time gap between the capital deployment of about $2 billion in the second half of 2023 and the disposal of KDP shares in March 2024. JAB has a positive track record of making good returns on its investments. For example, the holding company is currently focused on developing its pet insurance platform. We understand from JAB that the business has a promising growth trajectory over the next few years especially in the U.S. and in Europe. As of end-2022, the pet insurance business' fair value reached $444 million. Twelve months later, thanks to several rounds of investments (amounting to about $1.0 billion in 2023 on JAB stand-alone basis) and capital appreciation, the platform reached about $2.1 billion on JAB stand-alone basis (6.6% of the total adjusted portfolio value).

The remedial actions to cure the LTV ratio spike leaves JAB's overall rating positioning unchanged, we consider that governance is a moderately negative consideration in our credit analysis on JAB. We view JAB's governance less favorably than before. The company's investments were not immediately publicly disclosed but only with the annual filing in March 2024. This led to a meaningful cash deployment of about $2 billion. In our view, the board set up at

JAB lacks the breadth and depth when compared with listed companies. The decision-making processes at JAB Holding continue to rely on a few key individuals. In addition, we believe that JAB's consolidated accounts--which include JCP--are relatively complex to analyze from a bondholder perspective. This is because JCP is not legally part of the corporate structure. In addition, JCP does not provide any guarantee on JAB's debt. As a result, we analyze JAB's credit worthiness on a stand-alone basis, hereby excluding the assets and cash flows attributed to JCP.

Currently we do not consider JAB's management and governance as negatively influencing the final rating outcome, because we understand that the new management team is committed to improve the transparency in reporting and communication to creditors. Nevertheless, future developments or decisions that we would regard as credit negative and governance-driven, could lead us to lower JAB's rating by one notch (all else being equal).

We regard JAB Holdings' group structure as relatively complex. According to management, the contingent liabilities and debt within the intermediate holding structure have decreased to $3.0 billion-$4.0 billion as of Dec. 31, 2023--from more than $11.6 billion at end-2019. However, we understand that the liabilities amount remained unchanged over the last two years although there was an intention to reduce them further. This debt is deducted from the portfolio value in our LTV calculation.

JCP, a regulated and affiliated investment fund, supports JAB's investment opportunities, amplifying the latter's investment potential. JCP's role as a passive investor materially increases JAB's managed equities and its ability to influence decision-making at its assets, including their dividend policies. As of Dec. 31, 2023, JAB's consolidated portfolio was $52.2 billion, including JCP's equity portfolio of $17.4 billion of directly owned investments. The consolidated portfolio is materially larger than JAB's stand-alone portfolio of about $30 billion. Based on the consolidated portfolio, JAB's portfolio value is only moderately smaller than those of Investor AB (AA-/Stable/A-1+).

Outlook

The stable outlook reflects our expectation that JAB will decide on an IPO of some private assets over the next 12 months and as such we anticipate that the share of listed assets in its portfolio will increase to above 70% over the next 12 months. At the same time, we expect that the company will gradually strengthen its transparency and disclosure, while keeping its LTV ratio on a stand-alone basis well below 25%.

Downside scenario

We will lower our rating on JAB if over the next 12 months:

- The share of listed assets on a stand-alone basis does not exceed 70%;
- The company does not establish a positive track record and greater financial discipline in keeping its LTV ratio well below 25% under any market circumstances; or
- We were to observe unanticipated and material cash depletion toward shareholders or related parties, which could signal incremental governance deficiencies and a lack of clear communication to the market.

Upside scenario

We regard rating upside as remote over the next 12-24 months given our assessment of JAB's governance.

Company Description

Investment holding company JAB focuses on defensive and fast-moving consumer goods and services, and consumer retail assets. Following the acquisition of National Veterinary Association, the company also has veterinary health care services. In 2022 the company started investing in the pet insurance business. JAB actively manages most of its assets, with significant control and influence over the assets' capital structure and dividend flows.

JAB is a privately held company. All shares are fully paid and are not listed on any stock exchange. Together, Agnaten SE and Lucresca SE hold about 90% of JAB through wholly owned subsidiary Joh. A. Benckiser B.V. (formerly Donata Holdings B.V.). JAB's management team and other investors hold the remaining stake of approximately 10%.

Our Base-Case Scenario

Assumptions

- The group follows a prudent investment policy ensuring that its S&P Global Ratings-adjusted LTV ratio stays well below 25%.
- Stable dividend and proactive management actions aimed at maintaining the S&P Global Ratings inflows of $750 million-$800 million in 2024 and $600 million-$700 million in 2025, against $659 million in 2023.
- We expect operating costs of $90 million-$100 million per year. Moderately lower when compared to the $107 million in 2023, due to less advisory costs.
- Interest expense of $220 million-$240 million per year, in line with 2023 levels.
- Distributions to shareholders of $350 million-$450 million per year.

Key metrics

JAB Holding Company S.a r.l.--Key metrics*

	--Fiscal year ended Dec. 31--						
	2020a	2021a	2022a	2023a	2023a Pro-forma**	2024e	2025f
Loan to value (%)	25.9	18.1	20.3	26.7	20.1	<25	<25
Cash flow adequacy (x)	2.1	1.7	2.5	2.0	N/A	1.5-2.5	1.5-2.5

*Fully S&P Global Ratings-adjusted. N/A--Not applicable. a--Actual. e--Estimate f--Forecast.**$2.9 billion proceeds from the sale of KDP.

Liquidity

We assess JAB's liquidity as strong. We estimate that JAB's liquidity sources will exceed its needs by about 5.3x over the next 12 months and about 5.8x over the next 24 months. This is thanks to a long-term debt maturity profile and large cash holdings and revolving credit facilities (RCF). The company's strong ties with banks and access to debt markets supports its liquidity. We think management is committed to supporting strong long-term liquidity. We also think JAB would likely absorb a high-impact event with limited need for refinancing. For the company, such a scenario would likely be a severe correction of market values for its listed shares, such as that seen in COVID-19 market conditions.

Principal liquidity sources:

- Cash and cash equivalents of approximately $1.7 billion as of Dec. 31, 2023;
- Proceeds from a divestment of 100 million shares in KDP on a pro forma basis $2.9 billion;
- Full availability of a $3.2 billion RCF with maturity longer than 12 months, and $3.1 billion RCFs for the following 24 months;
- Unstressed dividend inflows of about $750 million-$800 million over the next 12 months, normalizing to about $650 million thereafter; and
- €750 million new notes due in 2034.

Principal liquidity uses:

- Operating expenses of $90 million-$100 million per year;
- Interest expenses of $220 million-$240 million per year;
- Debt maturities of about $1 billion over the next 12 months, and $661 million over the subsequent 12 months; and
- Distributions to shareholders of $400 million per year.

Environmental, Social, And Governance

Environmental and social factors are an overall neutral consideration in our credit rating analysis of JAB. Its portfolio is exposed to the consumer goods sector, with a prominent exposure to beverage company KDP, representing about 23% of its portfolio value; JDE Peet's (about 16%);

and its unlisted pet care platform (about 15%). Although there could be elements of potentially negative social factors, we understand that JAB's key assets have a quite diverse product offering.

Although KDP faces some social risk because of its soft drinks, its portfolio is well diversified, including about 40% of sales from coffee and coffee systems. In addition, its non-coffee beverage portfolio includes several expanding non-sugary offerings such as teas and flavored water, which reduces its aggregate portfolio exposure to sugary soft drinks well below 50%.

JDE Peet's coffee benefits from positive global trends, notably thanks to its increasing penetration in new emerging economies and due to different preparation methods (powder, capsules, soluble) and consumption occasions. These present expansion opportunities but are balanced by risks related to the sustainability of resources. With about 85% of revenue coming from coffee-related products, our assessment must consider potential environmental and social risks related to harvesting.

Governance factors are a moderately negative consideration in our analysis for JAB. Following the largely unanticipated recent portfolio changes, we think that JAB's governance is relatively less articulated when compared to that of listed companies--although for the time being this is not perceived as detrimental to its credit profile. Our revised assessment also considers the private nature of the business and the role of the management board that is reliant on a few key persons.

Issue Ratings - Subordination Risk Analysis

Capital structure

JAB Holdings B.V. is the financing subsidiary of JAB, where all the debt of the group is issued. It is 100% owned by JAB through an intermediate holding company. JAB's gross debt totals about $11 billion as of Dec. 31, 2023. The company does not have any stand-alone debt. It guarantees in full all the debt issued by JAB Holdings B.V. The syndicated RCF and the notes rank pari passu.

Analytical conclusions

In our view, there are no significant elements of subordination risk present in the capital structure, and we rate the senior unsecured debt 'BBB+', in line with the long-term issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating	BBB+/Stable/--
Business risk:	Satisfactory
Country risk	Low
Industry risk	Intermediate
Investment position	Satisfactory
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Modifiers:	

Issuer Credit Rating	BBB+/Stable/--
Liquidity	Strong (no impact)
Management and governance	Moderately negative (no impact)
Comparable rating analysis	Positive (+1 notch)

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
JAB Holding Co. S.a r.l.	
Issuer Credit Rating	BBB+/Stable/--
JAB Holdings B.V.	
Senior Unsecured	BBB+