

Bulletin:

JAB Holding's On Track For Deleveraging But Without Rating Leeway

March 8, 2021

MILAN (S&P Global Ratings) March 8, 2021--S&P Global Ratings today said that high leverage continues to hamper the credit profile of JAB Holding Co. S.a r.l. (BBB+/Stable/--). At the same time, the company has taken steps to reduce risks and publicly committed to reduce its loan-to-value (LTV) ratio below 20% by year-end 2021. However, we estimate that, at year-end 2020, our adjusted LTV metric stood at 25.9%, slightly above our rating threshold of 25% but in line with our deleveraging expectations (see "JAB Holding Company S.a r.l. Downgraded To 'BBB+' On Increased Leverage; Outlook Stable," published Oct. 29, 2020). We continue to see significant risks for JAB's creditworthiness in the absence of further deleveraging in the next six months.

We view as positive that, in December 2020, JAB amended the terms and conditions of its redeemable shares, which in our view reduced event risks for the company's leverage and cash flow metrics. As a result of the amendment, JAB is no longer obliged to repurchase shares that previously had a put option out of JAB's control. As a result of these amendments, redeemable shares in the amount of \$1.7 billion are classified as equity.

Over 2020, JAB's LTV was burdened by significant nonrecurring events, such as the unwinding of the Cottage special purpose vehicle (€1.8 billion net cash outflow) and the redemption of about €890 million of redeemable shares. Positively, we recognize that in May 2020 JAB successfully listed JDE Peet's, and together with JCF divested \$5.2 billion of KDP shares. Additionally, we understand that JAB is simplifying the structure of its intermediate holding companies (mainly Cottage and Acorn Holding B.V.) to derisk the overall structure. In March 2020, KDP announced its intention to increase the dividend payout to 75 cents per share, up 25% from the last dividend.

Our adjusted LTV ratio of 25.9% at year-end 2020 takes into account the investment commitment of \$402 million that JAB plans to contribute in 2021 to develop its pet-care platform. Excluding that commitment, leverage would have been 24.9%. JAB's cash adequacy ratio was 2.1x in 2020, up from 1.4x in 2019, and we forecast it at 1.5x-2.0x in 2021.

Related Research

- JAB Holding Company S.a r.l. Downgraded To 'BBB+' On Increased Leverage; Outlook Stable, Oct. 29, 2020

This report does not constitute a rating action.

PRIMARY CREDIT ANALYST

Marta Bevilacqua
Milan
+ (39)0272111298
marta.bevilacqua
@spglobal.com

SECONDARY CONTACT

Vittoria Ferraris
Milan
+ 390272111207
vittoria.ferraris
@spglobal.com

ADDITIONAL CONTACT

Industrial Ratings Europe
Corporate_Admin_London
@spglobal.com

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