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JAB Holding Co. S.a r.l.

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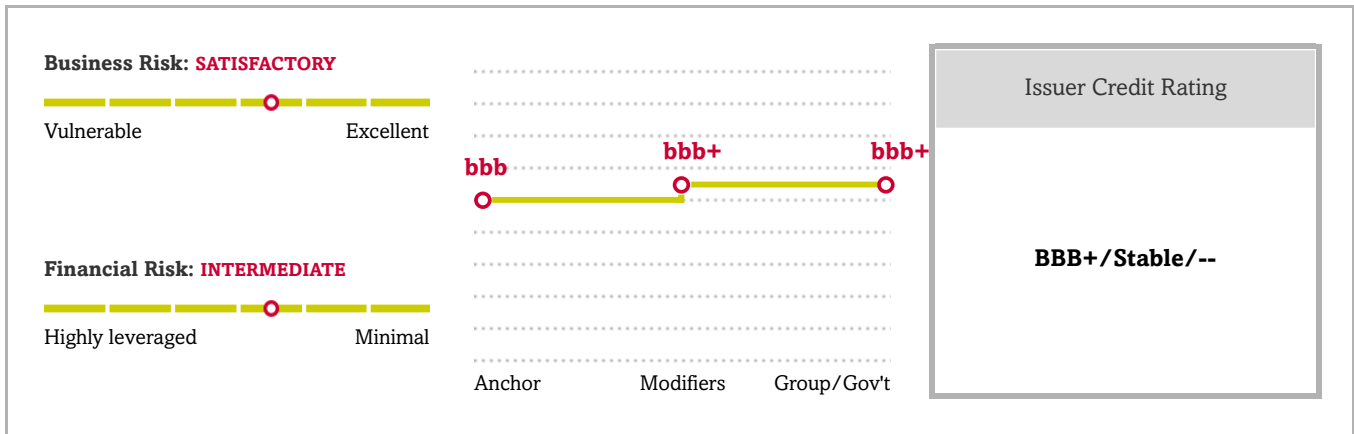
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JAB Holding Co. S.a r.l.



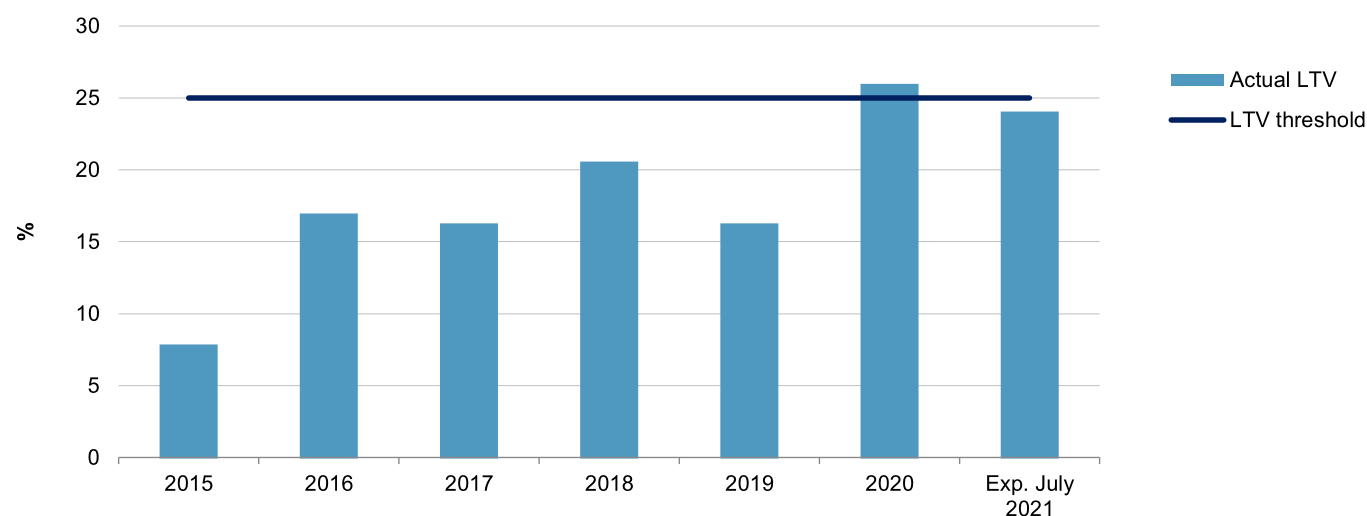
Credit Highlights

Overview	
Key strengths	Key risks
A portfolio of about \$30 billion, of which 70%-75% is represented by listed assets.	Limited financial flexibility with S&P Global Ratings-adjusted loan-to-value (LTV) ratio currently estimated at slightly below 25%, against our LTV ceiling of 25%.
Established track record in listing private assets.	Limited asset diversity with the largest three assets representing about 70% of the portfolio value.
Comfortable liquidity and smooth debt maturity profile.	Complex holding structure, with the presence of debt at intermediate holding level, which the management has started to address.
JAB Consumer Fund (JCF) as a passive co-investor allows JAB to directly manage equities of about €55 billion-€65 billion.	

Still high, but gradually declining LTV. In 2020, JAB's leverage was burdened by significant nonrecurring events, including unwinding the Cottage special-purpose vehicle (SPV) in April 2020, which resulted in JAB repaying a €1.8 billion loan, as well as the redemption of about €890 million of redeemable shares. This resulted in JAB's LTV spiking at about 28% as of Sept. 30, 2020. Over the remainder of 2020 and in 2021, JAB's management took a series of actions to de-risk the holding's capital structure. For example, 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 those shares that previously had a put option out of JAB's control. Therefore, the redeemable shares in the amount of \$1.7 billion were classified as equity at the end of 2020. Additionally, the recent listing of Krispy Kreme Inc. together with a divided recap, generated about \$200 million-\$250 million cash proceeds for JAB, which allowed the holding to reduce its LTV to slightly below 25% at the end of July 2021, from 25.9% at the end of December 2020.

Chart 1

JAB Holding Company S.a r.l.--LTV Evolution



Source: S&P Global Ratings.

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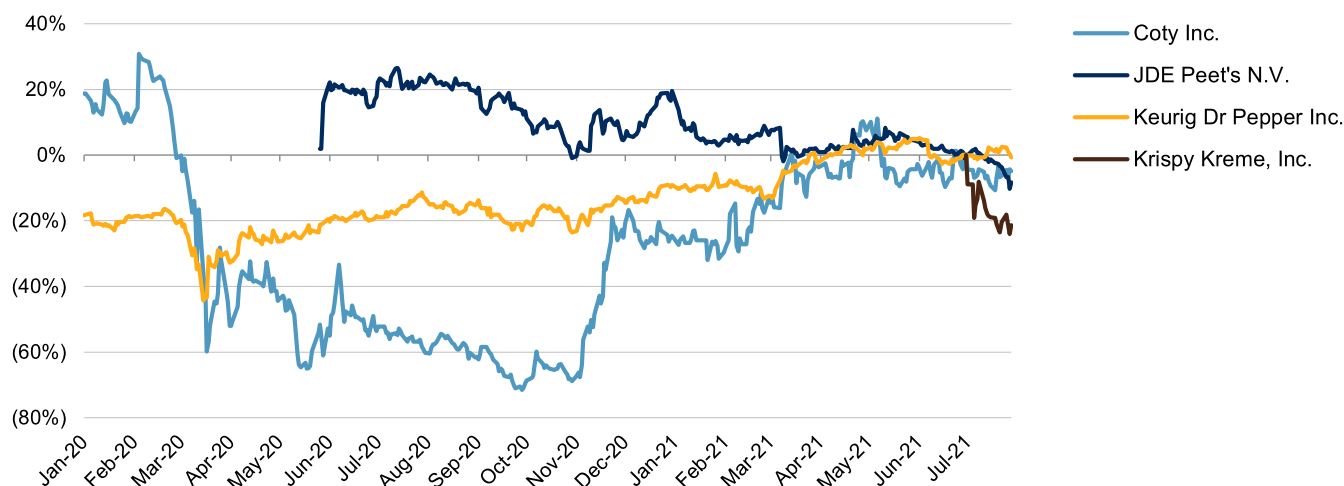
JAB's commitment to reduce leverage below 20% by year-end 2021 requires further portfolio transactions. Last year JAB's management committed, for the first time publicly, its intention to take all the necessary measures to reduce the LTV below 20% by the end of 2021. We note that markets have substantially stabilized during the first half of 2021. Krispy Kreme's listing was in our view a partial success, reflecting that the \$17 per share price at the IPO date was below the range indicated for pricing at \$21-\$24 per share.

Based on that, assuming no increase in the value of investment portfolio, we believe that to reach the 20% LTV target by the end of 2021, JAB's management would need to take additional measures, which could include further asset sales.

JAB's portfolio value over the past two years continued its steady growth. As of Dec. 31, 2020, JAB's portfolio valuation stood at \$30.9 billion, compared with about \$29 billion at year-end 2019. We currently estimate that JAB's portfolio is worth about \$32 billion–\$33 billion. Part of the improvement is driven by KDP's share price, which has increased by about 6% to \$34 since the beginning of 2021. Moreover, Coty's share price improved to \$8.8 per share from \$6.7 at the end of 2020. We also expect some value accretion for JAB's unlisted assets, reflecting solid underlying operating results and relatively stable trends experienced by the stock market as well as the less cyclical nature of JAB's portfolio. At the same time, we note that JDE Peet's is currently trading at about the IPO price or \$28.3 per share, while Krispy Kreme is actually trading below at \$16.5 per share.

Chart 2

JAB Holding Company S.a r.l.--Listed Asset's Share Price (Jan. 1, 2020 - July 30, 2021)



Source: S&P Global Ratings.

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Outlook: Stable

The outlook is stable, reflecting our expectation that management will substantially reduce its LTV in the next 12-15 months, maintaining it below 25% on a sustained basis.

Downside scenario

We could lower the rating on JAB by one notch over the next six to 12 months if its LTV does not stay well below 25%.

Upside scenario

An upgrade is unlikely in the near term. However, we would consider raising the ratings on JAB if management builds a track record of adhering to a more conservative financial policy, with more prudent risk management resulting in LTV well below 20% during the economic cycle. An upgrade would also depend on JAB further improving its portfolio diversity and reducing the complexity of its holding structure.

Our Base-Case Scenario

Assumptions

- Continuous prudent investment policy and proactive management actions aimed at curbing the LTV under 25%.
- Ordinary cash dividend income for 2021 in the range of \$380 million-\$400 million, further boosted by about \$200 million-\$250 million one off dividends from Krispy Kreme before its IPO. This compares with more than \$500 million recorded in 2020.
- For 2022, we expect ordinary dividends in the range of \$420 million-\$450 million.
- No material increases in operating costs, which we expect will be in the range of \$50 million-\$55 million per year.
- Interest expense of about \$190 million-\$220 million per year, in line with 2020.
- Ordinary distributions to shareholders of about \$150 million-\$200 million per year, up from \$147 million in 2020.

Key metrics

JAB Holding Company S.a r.l.--Key Metrics*				
--Fiscal year ended Dec. 31, 2020--				
	2019a	2020a	2021e	2022f
Loan to value (%)	16.1	25.9	<25.0	<25.0
Cash flow adequacy (x)	1.4	2.1	2.0-2.5	1.7-2.2

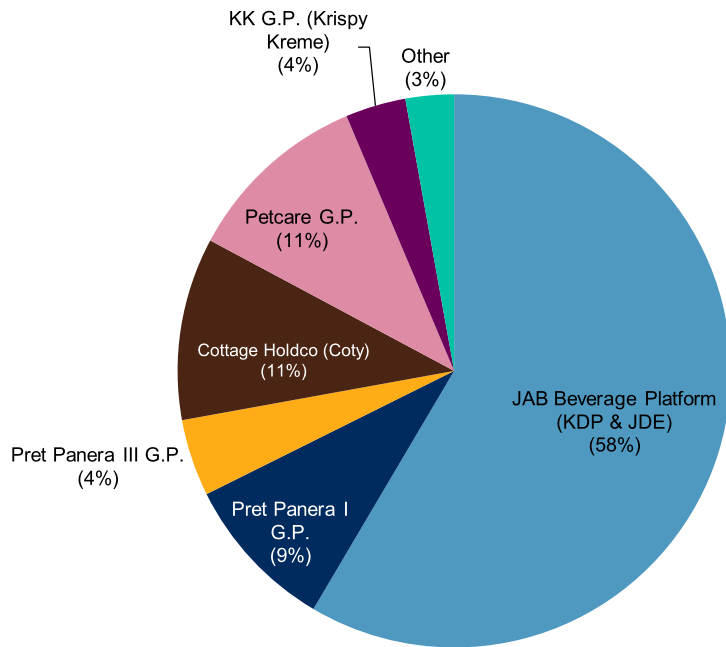
*Fully S&P Global Ratings-adjusted. LTV--Loan to value. a--Actual. e--Estimate f--Forecast.

Company Description

JAB Holding Company S.à.r.l. is an investment holding company with a focus on defensive and fast-moving consumer goods and services, consumer retail assets, and, following the acquisition of National Veterinary Associates (NVA), veterinary health care services. JAB seeks to build global leader and challenger companies. Unlike other holding companies, it focuses on actively managing most assets, with significant control and influence over their capital structure and dividend flows.

Chart 3

JAB Holding Company S.a r.l.--Reported Portfolio As of Dec. 31, 2020

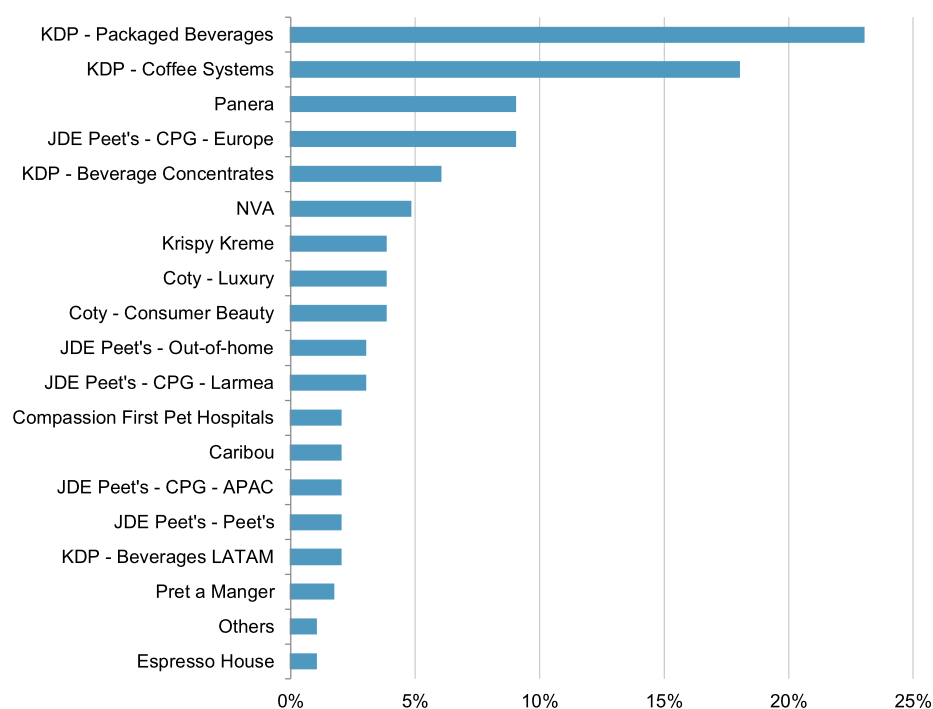


Source: S&P Global Ratings.

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Chart 4

JAB Holding Company S.a r.l.--Reported Portfolio As of Dec. 31, 2020



Source: S&P Global Ratings.

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JAB is a privately held company. All shares are fully paid and are not listed on any stock exchange. Agnaten SE and Lucesca SE hold an approximate 90% stake in JAB through the wholly owned subsidiary Joh. A. Benckiser B.V. (formerly Donata Holdings B.V.). Management and other investors hold the remaining stake of approximately 10%.

Peer Comparison

Table 1

JAB Holding Company S.à r.l.--Peer Comparison				
	JAB Holding Co. S.a r.l.	EXOR N.V.	Investor AB	Groupe Bruxelles Lambert SA
Rating as of April 21, 2021	BBB+/Stable	BBB+/Stable/A-2	AA-/Stable/A-1+	A+/Stable/--
Business profile	Satisfactory	Satisfactory	Excellent	Strong
Portfolio data as of	31-Jul-21	31-Dec-20	31-Mar-21	31-Mar-21
Portfolio size (adjusted; mil. \$)	32,000-33,000	29,143	77,360	28,175
Weight of listed assets (%)	71.4	70.8	71.2	76.2
Largest asset (% of portfolio)	37.7	21.9	16.2	15.2
Three largest assets (% of potfolio)	68.3	73.1	38.9	42.9
Financial risk profile	Intermediate	Modest	Modest	Modest

Table 1

JAB Holding Company S.à r.l.--Peer Comparison (cont.)				
	JAB Holding Co. S.a r.l.	EXOR N.V.	Investor AB	Groupe Bruxelles Lambert SA
Loan to value ceiling (%)	25	20	20	20
Loan to value (%)	<25	10.9	5.7	12.2

JAB is one of the largest holding companies we rate in Europe, the Middle East, and Africa, measured by portfolio size. JAB's portfolio valuation is comparable to peers EXOR N.V. and GBL S.A.; yet is smaller than Investor AB.

JAB's asset concentration, its largest asset being Keurig Doctor Pepper Inc., is comparable with Exor's reliance on Ferrari. JAB lags more diversified peers such as Investor AB and GBL.

JAB's structure is more leveraged, as reflected by our LTV ceiling of 25% in contrast with 20% for other peers and it has the lowest rating headroom. At the same time, JAB has the unique ability of co-investing with the JAB Consumer Fund, whereby it is essentially managing an equity value of about €55 billion - €65 billion.

Business Risk: Satisfactory

We see JAB's recent portfolio developments as supportive for its rating. In June 2021, JAB took public Krispy Kreme Inc. for \$17 per share. Currently we estimate that JAB retains about 41.5% of its free float. At the same time, we acknowledge that Krispy Kreme's current market value does not materially differ from the pre-ipo evaluation. As of year-end 2020 Krispy Kreme value stood at \$2.2 billion.

In May 2020, JAB orchestrated JDE-Peet's N.V.'s IPO. This was the first IPO globally since the COVID-19 pandemic began, and the largest European consumer and retail IPO since 2006. Prior to this, in 2018, JAB successfully listed Keurig Dr Pepper (KDP).

JAB has a high share of listed assets representing about 70%-75% of its portfolio value following Krispy Kreme's IPO. We understand that JAB's unlisted asset portfolio is in relatively mature phase, with the petcare platform getting momentum. Therefore, we expect JAB to continue actively managing its portfolio in the medium term, favoring new business combinations and IPO processes, among other ventures.

JAB' portfolio has average portfolio credit quality in the 'bb' category. This is largely sustained by Keurig Dr Pepper Inc. (BBB/Stable/A-2) and JDE Peet's N.V., which we recently upgraded to investment grade (BBB-/Stable/--). The average credit risk of JAB's portfolio is currently below that of GBL or Exor. Both holdings have portfolios where the average portfolio credit quality is investment grade. Over the past few years, JAB's appetite for leverage on its investee assets was markedly higher than that of its peers. In our view, this reflects both the private nature of part of its portfolio, where JAB is not shy to leverage companies to increase returns, as well as the difficult operating environment in which, for example, Coty Inc. (B-/Negative/--) has been operating over the past couple of years. We note that Coty's management has put in place some strategic measures to turn the business around and improve its profitability and cash generation. Moreover, recently Coty refinanced its debt, pushing the next maturity to 2026 from 2023. At the same time, we forecast leverage of about 10x in 2021 (8.5x excluding preferred stock) and EBITDA interest coverage of about 2x.

The company's continued high exposure to the food and beverage industry is 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. The company has

undertaken efforts to improve its industry diversity, namely the acquisition of NVA, one of the largest independent operators of independent veterinary hospitals. We view these changes positively, but not significant enough at this stage to alter our overall business risk assessment. Any material benefit in terms of diversity will take time or likely require more acquisitions.

We continue to see JAB Consumer Fund (JCF) as a positive rating factor. JCF is a separate equity portfolio that solely invests in JAB's proposed investments. JCF acts as passive investor, with JAB's management proposing the investment strategy and possessing the mandate to execute. Moreover, we understand the JCF board comprises JAB's partners. We therefore think JCF's portfolio roughly mimics JAB's investments, essentially doubling JAB's portfolio size and influence. We estimate that the total investments that JAB manages therefore reaches about €55 billion-€65 billion. JCF recently raised commitments for about \$6 billion that it will deploy along with JAB in the coming few years. Additionally, thanks to the co-investment strategy with JCF, JAB retains control of all its assets, meaning it can influence dividend streams and future investee asset policies.

Financial Risk: Intermediate

JAB has a complex holding structure with intermediate holding company debt. The management has started taking actions to address the complexity as well as the leveraged structure of its intermediate holding companies, which are used as investment vehicles to invest together with the JCF. At the same time, we continue to view JAB's structure as still very complex and more opaque than that of other investment holding companies. According to management, the contingent liabilities and debt within the intermediate holding structure decreased to about \$4.5 billion currently from more than \$11.6 billion at the end of 2019. As of the end of 2019, JAB had about \$2.9 billion redeemable shares at the time on its accounts, about \$2.0 billion debt for Cottage SPV, which was without recourse to JAB, and \$6.7 billion liabilities at Acorn Holding B.V.

Following several actions that management has since undertaken, we understand that currently the unique intermediate holding company liability of about \$4.5 billion pertaining to Acorn Holdings B.V. We currently take this liability into account in our evaluation of JAB Beverage Platform's portfolio value, which as of the end of December 2020 reached \$17.7 billion.

Acorn Holdings B.V. is a private holding company and is indirectly majority-owned by the JAB Group. In September 2020, JAB transferred its shares in Acorn Holdings into JAB Beverage Platform B.V., formerly Acorn Top Holding B.V., a new legal entity, that became the ultimate parent of the JAB's investment in Acorn Holdings. As of Dec. 31, 2020, JAB held 100% of the ordinary shares in JAB Beverage Platform. JAB Beverage Platform owns 69.2% of the shares in Acorn Holdings. JAB Beverage Platform through Acorn Holdings indirectly owns participations in Keurig Dr Pepper Inc. and JDE Peet's N.V.

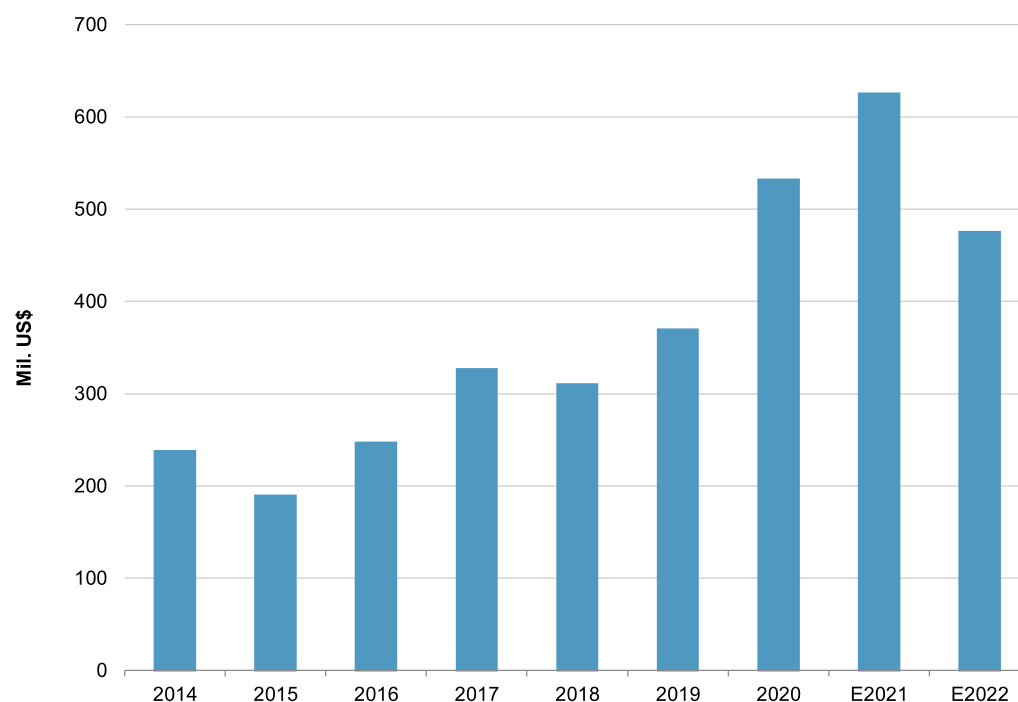
On March 18, 2021, Acorn Holdings converted a portion of the interest of its minority partners into directly held shares of JDE Peet's share capital. Following the distribution, JAB holds 35.6% of the outstanding shares in JDE Peet's as of March 31, 2021. We also understand that JAB is aiming to progressively reduce the amount of the liability pertaining to Acorn Holding B.V.

Thanks to effective control of its assets, with support from JCF JAB has a track record of generating a steady flow of dividend income, which will support cash-flow adequacy. Despite a pandemic-struck year, JAB's dividend income rose to \$531.6 million in 2020, compared with \$373 million in 2019. We expect JAB will continue to receive dividends in the range of \$600 million-\$650 million in 2021 and \$450 million-\$500 million in 2022. With operating expenses and

interest expenses that we expect to be around same level as 2020, we anticipate the cash-flow adequacy ratio to be 2.0x-2.5x over 2021-2022.

Chart 5

JAB Holding Company S.a r.l.--Dividend Income



Source: S&P Global Ratings.

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Financial summary

Table 2

JAB Holding Company S.a r.l.--Financial Summary						
(Mil. \$)	2020	2019	2018	2017	2016	2015
Adjusted portfolio value*	30,896.0	28,672.6	25,111.3	254.3	224.2	194.6
Adjusted net debt	8,002.0	4,649.6	5,136.4	4,121.0	3,789.5	1,521.7
Loan to value (%)	25.9	16.2	20.5	16.2	16.9	7.8
Dividend and fees income	531.6	370.9	432.6	362.7	243.2	189.1
Operating charges and tax expenses	53.5	46.5	38.8	41.2	40.0	41.3
Net interest expenses/ (income)	197.2	161.6	146.1	122.5	90.5	43.5
Cash flow coverage (x)	2.1	1.8	2.3	2.2	1.9	2.2
Dividend paid	146.8	110.7	114.1	76.5	68.4	70.7

*Includes our adjustments on asset valuation.

Liquidity: Strong

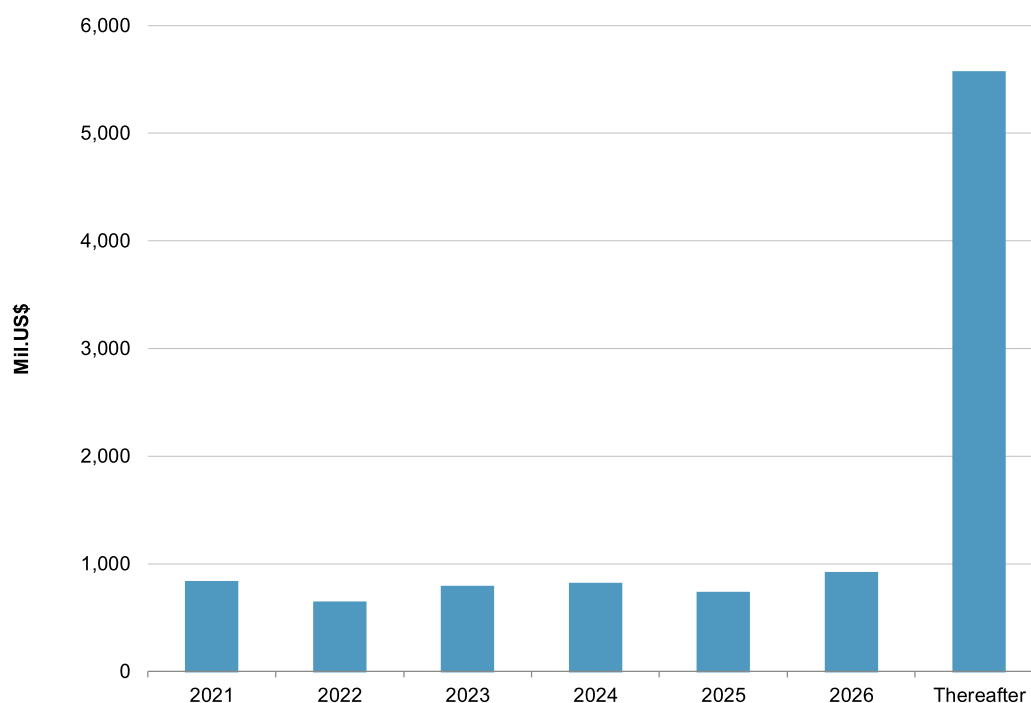
We assess JAB's liquidity as strong. We estimate that JAB's liquidity sources will exceed its needs by 5.9x for the 12 months from July 1, 2021, and by 3.6x for the subsequent 12 months. JAB's strong ties with banks and open access to debt market, support the company's liquidity. We think management 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 JAB, 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	Principal liquidity uses
<ul style="list-style-type: none"> • Our expectation of cash and cash equivalents of approximately \$2.7 billion as of June 30, 2020; • Cash proceeds of about \$200 million-\$250 million as a one-off dividend from Krispy Kreme; • Ordinary dividend inflows of about \$300 million-\$350 million in for the next 12 months and \$350 million - \$400 million for the following 24 months; • Access to its €3.0 billion committed revolving credit facility (RCF) maturing in November 2025 with a one-year extension option, currently undrawn; and • €500 million notes issued in July due in 2031. 	<ul style="list-style-type: none"> • Operating expenses of about \$50 million-\$55 million per year; • Interest expenses of about \$190 million-\$220 million per year; • Debt maturities of about \$800 million over the next 12 months, and \$1.4 billion over the subsequent 12 months; and • Dividend payments of \$150 million per year.

Debt maturities

Chart 6

JAB Holding Company S.a r.l.--Debt Maturity Profile As Of Dec. 31, 2020



Source: S&P Global Ratings.
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Environmental, Social, And Governance

We believe that ESG credit factors have no material influence on our rating analysis on JAB. JAB's portfolio is exposed to the consumer goods sector, with a prominent exposure to beverage company KDP, representing about 40% of its portfolio value. While KDP is exposed to soft drinks we believe that its coffee exposure mitigates the health risks related to soft drinks.

Since JAB also has exposure restaurants, through its investments in Pret A Manger Group, Panera Group, Caribou Coffee Group and Espresso House Group, we see the holding exposed to social risks such as health care and safety, as currently evidenced by the closure of outlets or reduced consumption during the COVID-19 pandemic. Currently Pret Panera I G.P. and Pret Panera III G.P. make up about 12% of JAB's total portfolio value.

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, pro forma the recent bond transaction, totals about \$11 billion at the end of July 2021. JAB does not have any debt on a stand-alone basis. 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 issuer credit rating.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/--

Business risk: Satisfactory

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

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

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 : bbb+

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: Principles Of Credit Ratings, Feb. 16, 2011

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 August 9, 2021)*

JAB Holding Co. S.a r.l.

Issuer Credit Rating BBB+/Stable/--

Issuer Credit Ratings History

29-Oct-2020	BBB+/Stable/--
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/--

*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.

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