

Rating Action: Moody's affirms JAB Holding's Baa1 Issuer rating; outlook stable

Global Credit Research - 30 Jan 2018

Frankfurt am Main, January 30, 2018 -- Moody's Investors Service, ("Moody's") has today affirmed JAB Holding Company S.a.r.l's ('JAB') long term issuer rating at Baa1. Moody's has also affirmed all senior unsecured instrument ratings assigned to debt issuances of JAB Holdings BV at Baa1. The outlook on all ratings is stable.

"Our affirmation of JAB's ratings reflects both the sound strategic rationale of the proposed Keurig Dr Pepper merger and the improvement that the transaction will bring to JAB's portfolio of investments," said Stanislas Duquesnoy, Vice President -- Senior Credit Officer at Moody's and lead analyst for JAB.

RATINGS RATIONALE

The affirmation of JAB's long term issuer rating follows JAB's announcement that it has agreed alongside other shareholders to merge Keurig Green Mountain, Inc. (Ba2, under review for upgrade) ('Keurig') into Dr Pepper Snapple Group, Inc. (Baa1, under review for downgrade) ('Dr Pepper') to form Keurig Dr Pepper, a new beverage company with \$11 billion of pro-forma revenues and a portfolio of brands across soft beverage, tea and coffee. Under the terms of the agreement, which is supported by the management board of Dr Pepper, the shareholders of Dr Pepper will receive a cash dividend of \$103.75 per share (\$18.7 billion in cash) at closing of the transaction. Subsequently Keurig will be merged into Dr Pepper to form Keurig Dr Pepper. Existing shareholders of Dr Pepper will retain a 13% stake in the combined group.

The affirmation of JAB's long term issuer rating reflects both the sound strategic rationale of the proposed merger and the improvement that this transaction will bring to JAB's portfolio of investments. This mitigates the increase in market value leverage that will result from the funding of JAB's equity contribution to the transaction as we expect this contribution to be funded from cash on balance sheet and drawings under the group's revolving credit facility.

The merger of Keurig and Dr Pepper will create an integrated beverage company with exposure to a wide array of nonalcoholic packaged beverage market categories and a broad distribution network. The new business will have a good split between low growth carbonated soft drinks and juices, where scale is very important, and faster growing categories such as ready to drink coffee, coffee and tea. JAB and Dr Pepper expect \$600 million of cost synergies as a result of the merger. The access to Dr Pepper's distribution system in the US market will improve the distribution capabilities of JAB's coffee assets consolidated under JDE and JAB Beech.

On a more negative note ratings of Dr Pepper have been placed under review for downgrade considering the execution risk of achieving relatively large working capital improvements, synergies and cost reductions planned over the next few years, that are necessary to reduce leverage quickly at Dr Pepper. Moody's will also consider the potential for business disruption as changes and cost cuts are implemented as part of its review process.

Beyond the strong strategic rationale of the transaction and the stronger creditworthiness of the new pro-forma investment (Dr Pepper was rated Baa1, stable before the announcement whilst Keurig was rated Ba2, positive), the merger will improve the liquidity of JAB's portfolio through a higher share of listed assets in the portfolio. The contribution of the listed assets to the overall value of the portfolio will increase pro-forma of the transaction although the final share of listed / unlisted assets will ultimately depend on the market's assessment of the value of Keurig Dr Pepper. The higher share of listed assets will also improve the transparency of the valuation. Lastly the transaction will improve the breadth of JAB's investment portfolio and diversify its sector exposure.

The proposed transaction will lead to an increase in market value leverage at JAB as the issuer will fund the equity contribution (between €1.5 billion and €2 billion) to the transaction from cash on balance sheet, and drawings under the group's revolver. This will initially result in an increase in market value leverage (MVL) to at least 18% pro-forma of the closing of the transaction from 17% as per 31st December 2017 (assuming €1 billion of asset disposals to bring down leverage swiftly after the closing of the transaction) notwithstanding that the increase will depend on the share price development of Dr Pepper until closing of the transaction. We

expect JAB's interest cover to improve pro-forma of the closing of the transaction supported by the expected strong dividend stream stemming from Dr Pepper. Another positive factor is JAB's commitment to reduce market value leverage to its 15% target over the next 12 to 18 months.

WHAT COULD CHANGE THE RATING UP / DOWN

Moody's would consider an upgrade if credit metrics were to strengthen such that net MVL would be comfortably below 15% and interest cover rises sustainably to around 3.0x.

A good balance in terms of its exposure to listed versus private assets and an improved diversity of end markets exposure of its investments would also support a higher rating over time.

Negative pressure on the ratings would build if credit metrics deteriorate such that JAB's net MVL significantly and sustainably exceeds 15% and interest cover fails to rise to in excess of 2.0x. This would suggest a higher leverage than currently envisaged and/or an inability to receive cash from its investments.

If there is a material weakening in the company's liquidity, either in terms of (1) the proportion of its available listed assets; (2) cash and available credit facilities which fall below €500 million; and/or (3) weaker dividend income.

The principal methodology used in these ratings was Investment Holding Companies and Conglomerates published in December 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Stanislas Duquesnoy
VP - Senior Credit Officer
Corporate Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Matthias Hellstern
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454



© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services

Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJJK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.