

ISSUER COMMENT

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JAB Holding Company S.a r.l.

JAB's acquisition of Compassion-First will have limited impact on its MVL ratio

Yesterday, JAB Holding Company S.a r.l. (Baa1 RUR Down) announced that it will acquire Compassion-First Pet Hospitals '(Compassion)', an operator of specialty, emergency and general practice veterinary hospitals in the US for an enterprise value of \$1.215 billion. The founder and CEO of Compassion will remain significant investor although JAB has not publicly disclosed how much shares he will continue to own in the business.

JAB will invest alongside the JAB Consumer Fund into Compassion. We expect the proposed investment to have only a minor impact on JAB Holding's market value leverage based on the proposed split of the funding of the enterprise value from JAB Holding equity, JAB Consumer Fund equity and financial debt. Given the strong growth prospects of the veterinary hospitals and the good level of profitability of Compassion, JAB will manage the company with a leverage ratio typical of a private equity financed transaction for a relatively defensive and cash flow generative business model.

This investment is also part of a small envelope of equity capital that JAB intends to spend during the course of 2019. With this transaction JAB is entering a completely new business sector. As such the new investment will bring modest diversification to the group's portfolio of investments albeit in a sector that is very fragmented and could lead to further consolidation going forward. However, it is also an additional business segment that needs to be managed by a relatively concentrated management team at JAB in addition to the much larger investment platforms such as coffee & beverage or restaurants or Coty.

The strategic rationale for the investment is to gain access to a fast growing and very large global pet care market, targeting attractive sub segments. The global pet care market is growing by approximately 4%-5% per year. The market is less regulated than other healthcare markets. JAB and its core management team have gained exposure to the US and global pet care markets through their previous experience as managers at Mars. JAB argues that the pet care market is a defensive sector although we would still rank the coffee and beverage markets as more defensive and less discretionary than the pet care market. We also highlight that this new investment will generate no synergies with other investment platforms and is an independent new venture. This would increase the execution risk although the previous experience of JAB partners with the pet care industry is seen as a mitigant.

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