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JAB Holding Company S.a r.l.

JAB Holdings Market Value Leverage Would Improve with Jimmy Choo Sale

On Tuesday, Jimmy Choo PLC (Jimmy Choo, unrated), which JAB Holding Company S.a r.l (JAB, Baa1 stable) indirectly owns 67.66% via JAB Luxury (unrated), announced that it will be sold to Michael Kors Holdings Limited (unrated) for approximately £896 million (c. €1,000 million). The sale would be credit positive for JAB because the sale proceeds would help keep net market value leverage (defined as net debt/total market value) below 20% and not materially above the 15% level we consider consistent with a Baa1 rating, taking into consideration JAB's business risk.

Michael Kors agreed to pay £2.30 in cash per Jimmy Choo share, a 43% premium over Jimmy Choo's three-month weighted average share price. The announced acquisition implies an enterprise value/EBITDA multiple of roughly 17.5x, based on Jimmy Choo's adjusted EBITDA in 2016.

Following JAB's announcement in April that it would acquire the Panera Bread Company (unrated), we expected leverage to increase beyond 20%, based on the assumption that JAB would finance no more than 25% of the overall $7.5 billion consideration for Panera.

Leverage below 20% is important in providing the company with sufficient headroom if the market values of JAB's assets decline.

JAB's investments tend to be defensive against market volatility, but the company's portfolio is exposed to various execution risks including acquisitions undertaken by JAB assets Coty Inc. (Ba1 stable) and more recently Reckitt Benckiser Group Plc's (A3 stable) acquisition of Mead Johnson Nutrition Co. (A3 no outlook). Failure to integrate these acquisitions effectively risks reducing the share prices of both Coty and Reckitt Benckiser and increasing JAB's net market value leverage. Our calculation of JAB's net market value leverage reflects Reckitt Benckiser's and Coty's current share prices and the cash proceeds for Jimmy Choo. As of year-end 2016, the company's net market value leverage was around 17%.

A successful sale of Jimmy Choo would demonstrate JAB's commitment to deleveraging through the sale of non-core assets. This is important because JAB is highly acquisitive, and leverage can temporarily exceed our quantitative guidance. A key credit consideration for JAB is the company's track record in proactively and sustainably managing leverage below 20%.

Jimmy Choo's sale to Michael Kors follows an announcement in April that JAB Luxury was considering sales of both Jimmy Choo and Bally International AG (unrated), which JAB luxury owns outright. Although we expect the proceeds from a Bally sale to be significantly less than from the sale of Jimmy Choo, proceeds from a Bally sale would increase headroom under our leverage guidelines.

A disposal of Jimmy Choo and Bally would make strategic sense because neither offer the same cost synergy advantages as the company's other businesses in the fast-moving consumer goods sector, nor have they provided JAB with dividend income. Selling these assets would be consistent with JAB's investment strategy, given that JAB has regarded both assets as non-strategic for a number of years.

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