

ISSUER COMMENT

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JAB Holding Company S.a r.l.

Acquisition of Pret will have limited impact on JAB's Market Value Leverage

On Tuesday, JAB Holding Company S.à r.l. (Baa1, stable) ('JAB') has announced that it has reached an agreement to acquire Pret A Manger from Bridgepoint for an undisclosed amount. Valuations of up to GBP1.5 billion have been mentioned in the press. The transaction is expected to close during the summer 2018.

Pret is a leading company in the ready-to-eat food market operating 530 stores worldwide albeit with a focus on the UK market. Pret generated 2017 revenues of GBP879 million. The company has posted nine consecutive years of like-for-like sales growth. Pret will be very complementary to the broad portfolio of retail coffee and ready-to-eat food brands that JAB has built over the years under its sub holding JAB Beech and will to some extent rebalance the geographical profile of JAB Beech's portfolio currently fairly concentrated on the US market. We also believe that Pret can bring best practices to JAB's portfolio of brands and in turn benefit from some of the innovative concepts of other JAB brands. JAB will also be able to provide capital for the international expansion of Pret, which has just started.

The credit implications of the proposed transaction on the credit profile of JAB will be relatively limited. Even assuming that the GBP1.5 billion valuation being floated in the press is accurate JAB has highlighted in its press release that it will invest in Pret alongside JAB Consumer Fund. The equity contribution from JAB to this transaction will be significantly lower than the GBP1.5 billion highlighted in the news. Overall we believe that the impact of the acquisition on the market value leverage of JAB will be relatively limited notwithstanding that JAB will dilute its equity stake into JAB Beech as a result of the participation of JAB Consumer Fund to the funding of the equity portion of the transaction. We also note that JAB plans to maintain a capital structure at Pret relatively similar to the current setting, i.e. a leverage profile typical of a private equity owned company. The usage of leverage at Pret will also reduce the equity contribution that JAB and JAB Consumer Fund need to make to fund the enterprise value rumored in the press.

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