

Rating Action: Moody's changes outlook on JAB's ratings to stable from negative

Global Credit Research - 03 Feb 2017

Frankfurt am Main, February 03, 2017 -- Moody's Investors Service (Moody's) has today changed the outlook on JAB Holding Company S.a r.l. (JAB) ratings to stable from negative. At the same time, Moody's has affirmed all the ratings of JAB, including the Baa1 Issuer Rating.

"Our decision to change the outlook on JAB's Baa1 rating to stable from negative reflects our view that there is reduced valuation risk associated with the sizeable number of M&A transactions that JAB and its investments have made over the last 12-24 months, especially with regards to the largely debt-funded acquisition of Keurig Green Mountain, Inc. (Keurig, Ba2 stable). This reduced valuation risk provides Moody's with more certainty that key credit metrics will remain commensurate with our expectations for the rating level, including net Market Value Leverage (MVL) of around 15%" says Jeanine Arnold, a Moody's Vice President -- Senior Analyst and lead analyst for JAB.

A full list of affected entities and ratings can be found at the end of this press release.

RATINGS RATIONALE

Moody's rating action follows our expectations that the risk of any material deterioration in the valuation of JAB's asset portfolio is now at a level we deem to be more appropriate for JAB's Baa1 rating. This lower risk provides Moody's with more certainty that JAB will continue to maintain substantial headroom in terms of the overall value of its portfolio relative to debt raised -- namely net MVL of around 15%. A significant deterioration in market values had been a concern after a series of sizeable M&A transactions over the last 12-24 months, and in particular the sizeable premium, which was paid for the largely debt-funded acquisition of Keurig in December 2015.

The reduced valuation risk is mainly driven by the continued robust operating and cash flow performances of many of JAB's key investments, but especially Keurig over the last 12 months, including the three months to 31 December 2016 (Q1-17), Keurig's most important quarter given the Christmas period. In fact, Keurig's operating and cash flow performance has tracked ahead of Moody's expectations and we believe this now provides some justification for the material premium, which JAB paid for Keurig. Under the ownership of JAB, Keurig has been successful in expanding gross margins through productivity gains and boosting cash flow through working capital initiatives - a hallmark of JAB's operating and investment strategy. This has led to a significant deleveraging, which should also support valuation. While there is no direct linkage between the credit ratings of JAB's investments, the upgrade of Keurig's rating to Ba2 stable from Ba3 stable within a year is testament to JAB's strategy and its execution -- (see Keurig Press Release - Jan 2017: https://www.moodys.com/research/Moodys-upgrades-Keurig-CFR-to-Ba2-outlook-stable--PR_361071).

Moody's also considers valuation risk to be lower as JAB successfully closed the highly complex merger between Coty Inc. (Coty, Ba1 stable) and The Procter & Gamble Company's (P&G, Aa3 stable) beauty business in October 2016. Coty's share price has fared less well over the last six months, partly because of the weaker than expected performance, especially from a topline perspective and the fact that synergies will take some time to be realized. But, over the medium to longer-term, we expect that the experience and proven track record of JAB's management should help support Coty's operating and cash flow performance, and ultimately its share price. In H1 2016 the valuation of JAB's stake in Acorn Holdings B.V. increased by approx. €200 million which is assumed to be mainly related to a value increase of JACOBS DOUWE EGBERTS Holdings B.V. (JDE, Ba3 positive), as the stake in Keurig was still valued at acquisition cost. This is providing greater comfort that the merger of DEB and Mondelez International, Inc. (Mondelez)'s coffee business will be value-enhancing.

OUTLOOK -- STABLE

The stable outlook reflects our view that JAB's asset portfolio is strengthening and that reduced valuation risk associated with material M&A over the last 12-24 months should allow for greater stability of market values. We expect this, combined with the company's financial policy to maintain strong credit metrics, should support

a net MVL of around 15% improving interest cover metrics to in excess of 2.0x. In the context of JAB's strengthening asset portfolio JAB's net MVL may temporarily exceed 15%, but we would expect it to at least remain below 20%.

M&A forms the cornerstone of JAB's investment strategy and the risk is to some degree factored into the rating, but the stable outlook assumes that i) JAB will not engage in any further material debt-funded acquisitions in the near term and ii) any M&A activity at the level of JAB's investments does not lead to a notable deterioration in market values or forecast dividend income.

A possible acquisition by Reckitt Benckiser Group plc (Reckitt Benckiser, A1 stable; JAB's stake 8%) of Mead Johnson Nutrition Co. (Mead Johnson, Baa1 stable) could lead to an increase of leverage at Reckitt Benckiser. This is credit negative for JAB, given the lower credit quality of one of its main stakes, but we do not expect this to be sufficient enough to have an effect on JAB's rating.

WHAT COULD CHANGE THE RATING -- UP

Positive rating action is possible if credit metrics strengthen such that net MVL is more comfortably below 15% and interest cover rises more sustainably to around 3.0x.

Aside from maintaining a good balance in terms of its exposure towards its four key assets (Reckitt Benckiser; Coty; JDE and Keurig) we would expect sizeable M&A transactions such as the Coty and P&G beauty business merger to be fully integrated and for there to be evidence of a further strengthening in JDE's, Keurig's and Coty's financial profiles. This should allow for more stable market values and dividend income more commensurate with an "A" rating.

We would also expect to have a clear understanding of JAB's investment strategy, including any additional significant M&A and IPOs to monetize assets, as well the company's expectations with regards to further debt issuances.

WHAT COULD CHANGE THE RATING -- DOWN

Negative rating action is likely if credit metrics deteriorate such that JAB's net MVL significantly 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. A negative rating action could also follow where 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 due to a deterioration in Reckitt Benckiser's and Coty's performance, a change in JAB's dividend policy or further material acquisitions.

List of affected ratings:

Affirmations:

..Issuer: JAB Holding Company S.a r.l.

.... Issuer Rating, Affirmed Baa1

..Issuer: JAB Holdings B.V.

....BACKED Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

Outlook Actions:

..Issuer: JAB Holding Company S.a r.l.

....Outlook, Changed To Stable From Negative

..Issuer: JAB Holdings B.V.

....Outlook, Changed To Stable From Negative

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.

CORPORATE PROFILE

JAB Holding Company S.à r.l. (the Guarantor) together with JAB Holdings B.V. (the Issuer) and four wholly owned holding companies, (JAB Cosmetics B.V., Labelux Group GmbH, JAB Forest B.V. and JAB Investments S.à r.l) form the JAB Group (JAB). JAB is majority-owned by Agnaten SE and Donata Holdings B.V. (together the Family Office).

JAB is a privately held investment holding company, focused on long-term investments in consumer goods and retail companies with premium brands. JAB's key investments in terms of market value include: i) Reckitt Benckiser Group Plc (Reckitt Benckiser, A1 stable: c.8% voting rights), a global leader in consumer health and hygiene; ii) Coty Inc. (Coty, Ba1 stable: 36% voting rights post the merger with The Procter & Gamble Company's fine fragrance, color cosmetics and hair color business), a global leader in fragrances and expanding position in cosmetics and body care; and iii) JACOBS DOUWE EGBERTS Holdings B.V.(JDE, Ba3 positive) and Keurig Green Mountain, Inc. (Keurig, Ba2 stable) in coffee and tea, which are both held via Acorn Holdings B.V. (58% voting rights).

Besides JDE and Keurig, JAB's coffee and tea business is complemented by its ownership of Peet's Coffee and Tea and Caribou Coffee (both held via JAB Beech Inc., 58% voting rights). JAB also has investments in luxury brands, including listed Jimmy Choo PLC (not rated, 68% of voting rights).

JAB's portfolio value has increased consistently since 2012 from € 9.9 billion to €18.1 billion as at 2015 and is expected to be around EUR20.2 billion as at H1-16.

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.

Jeanine Arnold
Vice President - Senior Analyst
Corporate Finance Group
Moody's Deutschland GmbH
An der Welle 5
Frankfurt am Main 60322
Germany
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Anke Rindermann
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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



© 2017 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.

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.

MJKK 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 MJKK or MSFJ (as

applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

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