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JAB Holding Company S.a r.l.

Proposed Bond Issuance Will Improve JAB's Debt Maturity Profile

On 10 May 2016, JAB Holding Company S.a r.l. („JAB", rated Baa1 negative) launched a benchmark size bond (rated Baa1) with a 7 year maturity. This follows the announcement on 9 May that JAB Beech, a subsidiary of JAB will acquire Krispy Kreme Doughnuts, Inc. (Krispy Kreme, unrated) for a total equity consideration of $1.35bn. JAB's cash equity contribution will be up to $200 million. The remainder of the purchase price will be financed with a standalone bank financing and equity contributions at the level of JAB Beech from existing and new minority investors.

Both the bond issuance and the acquisition of Krispy Kreme are credit positive. The proceeds of the bond issuance will be used to repay amounts outstanding under JAB's revolving credit facility and consequently, this will lead to a more balanced debt maturity profile and support the company's liquidity, which we expect will remain in excess of €500 million. JAB had previously drawn down a large portion of its revolving credit facility due in 2020 to partially finance the acquisition of Keurig Green Mountain (Ba3 stable), which closed during Q1-2016, meaning €1.6bn of debt was due to mature in 2020 before the maturity of JAB's outstanding bonds. We now consider JAB's debt maturity profile to be more long-dated and well-spread.

The acquisition of Krispy Kreme is expected to strengthen the market positions of JAB Beech in the US out-of-home coffee market without increasing JAB's overall leverage. JAB's financial policy is to maintain a maximum net MVL of 25%, but based on discussions with the company, we expect that JAB will continue to maintain a net MVL closer to 15%. Proforma the Keurig and the Krispy Kreme transaction, JAB's net MVL is estimated to be around 17%. This conservative leverage target is considered a key rating factor given JAB's exposure to equity risk.

However, the Krispy Kreme acquisition follows a series of sizeable acquisitions at the level of JAB and its investments. We believe there is still an elevated level of execution risk associated with these. These acquisitions should further improve JAB's asset and geographic diversification, as well as dividend income over the medium-term, but a failure to execute successfully on any of these transactions, could lead to a reduction in the overall market value of JAB's portfolio. This could in turn lead to a further deterioration in the company's still relatively weak credit metrics and is reflected in the negative outlook on JAB's Baa1 ratings. This is especially key as we expect JAB to manage its leverage through continued asset value growth rather than a reduction in the level of gross debt.

JAB's Baa1 Issuer Rating continues to reflect the company's clearly-defined and successful investment strategy to date, and an investment portfolio comprising cash-generative and typically defensive global consumer businesses.

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