

ISSUER COMMENT

5 April 2017

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RATINGS

JAB Holding Company S.A R.L.

| | |
|------------------|---|
| Domicile | Luxembourg |
| Long-Term Rating | Baa1 |
| Type | Long-Term Issuer Rating - Fgn Currency |
| Outlook | Stable |

Source: Moody's

KEY METRICS:

JAB Holding Company S.A R.L.

| | 31/12/2016 | 31/12/2015 | 31/12/2014 |
|---|------------|------------|------------|
| Portfolio Value (In €m) | 20,982 | 18,138 | 14,733 |
| Net Market Value Leverage | 17% | 8% | 10% |
| (FFO + Interest Expense)/Interest Expense | 2.2x | 2.9x | 2.8x |

Source: Moody's Investors Service

Contacts

Jeanine Arnold 49-69-70730-789
VP-Senior Analyst
jeanine.arnold@moody's.com

Anke Rindermann 49-69-70730-788
Associate Managing Director
anke.rindermann@moody's.com

JAB Holding Company S.A R.L.

JAB's Acquisition of Panera Bread Will Substantially Increase Leverage

The Panera Transaction

Today [JAB Holding Company S.A R.L.](#) (JAB, Baa1 stable) announced that it had entered into a definitive merger agreement under which it will acquire Panera Bread Company (Panera, unrated) for \$315 per share in cash in a transaction valued at approximately \$7.5 billion including the assumption of approximately \$340 million of net debt. This acquisition is credit negative as it will materially increase leverage metrics, namely net market value leverage (MVL) to in excess of 20%.

The acquisition share price represents a 30% increase to the 30-day volume-weighted average stock price as 31 March 2017. The transaction is expected to close in the third quarter of 2017.

JAB has not publicly disclosed how much of the \$7.5 billion it will finance and has only confirmed that Panera will be acquired by JAB B.V., an investment vehicle of JAB and of the JAB Consumer Fund (JCF), which is backed by private investors and not by funds provided by JAB. This finance structure resembles the finance structure that JAB has used in the past to acquire [Keurig Green Mountain, Inc](#) (Keurig, Ba2 stable) and help finance the merger of D.E. MASTER BLENDEERS 1753 N.V. (DEMB, unrated) and [Mondelez International, Inc.](#)'s (Mondelez, Baa1 stable) coffee business to form [JACOBS DOUWE EGBERTS Holding B.V.](#) (JDE, Ba2 stable). Consequently, we assume that JAB's contribution to the acquisition of Panera will be no more than 25% of the overall \$7.5 billion consideration.

Credit Implications For JAB

This acquisition is credit negative as it will materially increase leverage, namely net market value leverage (MVL) to in excess of 20%. This leverage is higher than the 15% net MVL we consider to be commensurate with the company's Baa1 rating - the net MVL as at 31 December 2016 (Dec-16) was already considered to be high at around 17%. In the absence of any additional debt raising, the acquisition will also lead to weaker liquidity as we calculate that cash and undrawn committed credit facilities as at Dec-16 totaled around €2 billion.

At the same time, until the transaction closes in Q3-17, JAB's portfolio strength provides it with the capacity to manage leverage metrics back towards a net MVL of 15% and ensure that liquidity (cash and available credit facilities) continues to exceed €500 million. This may be achieved through continued growth in the market values of its investments as well as asset disposals to reduce net debt. [Reckitt Benckiser Group plc](#) (Reckitt Benckiser, A1 RUR-Down) for example has historically proven to be a strong-performing asset in terms

of increasing asset values¹ and JAB has evidenced its willingness to monetise its holdings to manage leverage down after the debt-funded acquisition of Keurig.

Among JAB's options are further sales of its stake in Reckitt Benckiser, which as a listed stake could be undertaken relatively quickly. However, we believe it is important that JAB maintains a sizeable stake in Reckitt Benckiser as this strongly-performing asset, both from a cash flow and market value perspective, is a key factor in support of JAB's rating. Other options may be to sell its stakes in [Coty Inc.](#) (Coty, Ba1 stable) or Jimmy Choo plc. (unrated), which are also both listed. Monetisation of its stakes in privately-owned assets such as Keurig and/or JDE may be achieved through further sales to the JCF. Panera is cash generative and is expected to pay dividends from the outset. This should further support an increase in JAB's interest cover towards 3.0x, a complementary source liquidity.

The Panera acquisition also makes strategic sense and is a further step in the strengthening of the company's business profile. It is consistent with JAB's investment policy, namely its focus on defensive and fast-moving consumer goods and consumer retail assets but equally its intentions to establish a third, solid business focus in retail coffee. Over the last 18-24 months JAB has visibly begun to transform itself from a company dependent on Reckitt Benckiser into a more balanced investment holding company with three key businesses: i) Beauty and Fine Fragrance (Coty); ii) Wholesale Coffee (JDE and Keurig) and iii) Retail Coffee (Panera and JAB Beech) - with Reckitt Benckiser remaining as a strong financial asset. Sizeable acquisitions over the last 18-24 months have heightened the risk of asset value declines as these are largely reliant on the smooth and successful generation of synergies. For example, there continue to be significant execution challenges at Coty following the P&G beauty acquisition - see [FAQ on the Prospects for an Investment Grade Rating](#) - although we recognise headway made in the generation of synergies and cost-savings at JDE and Keurig. This is evidenced by positive rating action we have taken over the last three months on both names.

Exhibit 1

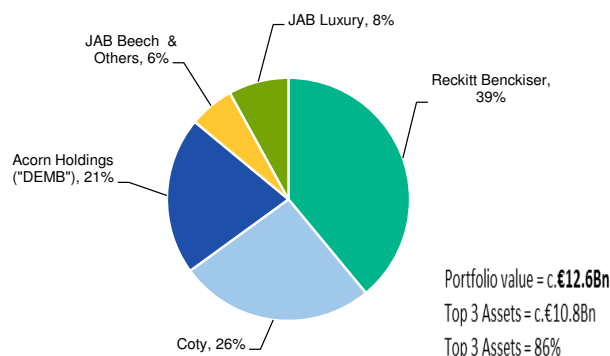
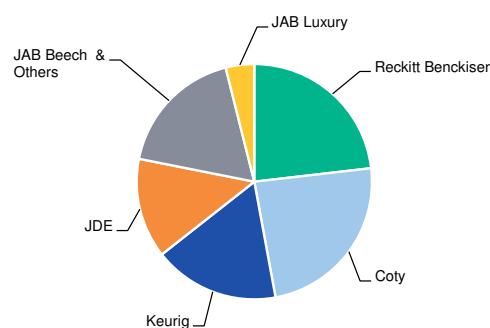
JAB's Portfolio Composition (Proforma June -14)

Exhibit 2

JAB's Portfolio Composition End- 2016 (Proforma Panera Transaction)

JAB's 2016 proforma portfolio composition is based on Moody's assumptions
Source: Moody's Investors Services, JAB

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody.com for the most updated credit rating action information and rating history.

Moody's Related Research

JAB

- » [JAB Holding Company S.A R.L. Credit Opinion Following Outlook Change to Stable \(February 17\)](#)
- » [Lower Execution & Valuation Risk: Key to Stabilising JAB's Rating Outlook \(July 16\)](#)

Investments

- » [Reckitt Benckiser Group plc: Stronger Business Profile After Mead Johnson Acquisition Not Enough to Offset Higher Leverage \(March 17\)](#)
- » [Coty Inc: FAQ On the Prospects of an Investment Grade Rating \(February 2017\)](#)
- » [Keurig Green Mountain: Credit Opinion Update Following Upgrade to Ba2 \(January 17\)](#)
- » [JACOBS DOUWE EGBERTS Holdings B.V: Press Release - Moody's Upgrades JDE's Ratings to Ba2, Stable Outlook \(March 2017\)](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

- 1 Reckitt Benckiser's share price has continued to increase by around 5% since Dec-16 (adding around €250 million to JAB's overall portfolio value) following its announcement to acquire [Mead Johnson Nutrition Co.](#) (Mead Johnson, Baa1 Developing) and to dispose of its food business.

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