S&P Global
Ratings

RatingsDirect®

## Research Update:

# Luxembourg-Based Investment HoldCo JAB 'BBB+' Ratings Remain On Watch Positive Pending Keurig And Doctor Pepper Merger

**Primary Credit Analyst:**
Vittoria Ferraris, Milan (39) 02-72111-207; vittoria.ferraris@spglobal.com

**Secondary Contact:**
Per Karlsson, Stockholm (46) 8-440-5927; per.karlsson@spglobal.com

## Table Of Contents

Research Update:

# Luxembourg-Based Investment HoldCo JAB 'BBB+' Ratings Remain On Watch Positive Pending Keurig And Doctor Pepper Merger

## Overview

- We continue to expect that the merger of Keurig Green Mountain Inc. and Dr Pepper Snapple Group Inc. will improve JAB Holding's investment portfolio because it will strengthen the underlying asset quality and materially increase the share of listed assets.
- We also believe the proposed transaction will not weigh on the group's loan-to-value (LTV) ratio, because the equity investment to fund the transaction will be shared with related partners.
- Therefore we are maintaining our 'BBB+' ratings on JAB Holding Company S.a.r.l. and JAB Holdings B.V. on CreditWatch with positive implications.
- We aim to resolve the CreditWatch after the transaction closes. The positive implications indicate that we could upgrade JAB Holding by one notch if we observed a material increase of the share of listed assets on the portfolio coupled with a strengthening of the portfolio's average credit quality.

## Rating Action

On April 26, 2018, S&P Global Ratings maintained its 'BBB+' long-term issuer credit ratings on Luxembourg-based investment holding company JAB Holding Company S.a.r.l. (JAB) on CreditWatch with positive implications. The 'BBB+' rating on the senior unsecured debt issued by JAB Holdings B.V. also remains on CreditWatch positive.

## Rationale

We continue to believe that the merger between Keurig Green Mountain Inc. (KGM; BB+/Watch Pos/--) and Dr Pepper Snapple Inc. will improve JAB's investment portfolio quality because it will strengthen the underlying asset quality (we expect the merged entity to be rated investment grade) and materially increase the share of listed assets in JAB Holdings' portfolio. In addition, we understand that JAB Holdings' financial leverage (as measured by its loan-to-value ratio; LTV) will not materially deteriorate because the equity piece to fund the transaction will be shared with related partners such as the JAB Consumer Fund (managed by three senior JAB partners). As a result, we believe its LTV could remain around or below 20%.

The combined business deriving from the merger between KGM (not listed) and Dr Pepper Snapple Inc. will be a public company with pro forma combined annual revenues of US$11 billion. JAB Holdings currently controls KGM via an intermediary holding company (Acorn Holdings), in which we expect it to own approximately 50%. Moreover, we understand Acorn will control 73% of the merged Keurig Dr Snapple group. As a result, we expect the share of listed assets in JAB's portfolio to increase materially, to above 60%. This is up from approximately 35% before the transaction, which takes into account the gradual reduction of its shares in Reckitt Benckiser Group, now just below 5%, and the increase of its ownership in Coty Inc. at end of 2017. We believe the transaction, as currently proposed, would be positive for JAB Holdings' business risk profile since it results in a marked increase in the liquidity of its portfolio, given that a larger share of its assets will be listed and traded. In our opinion, this strengthens the group's financial flexibility because listed assets are typically easier to liquidate on short notice than unlisted equity investments. Furthermore, JAB has the flexibility to reduce its share in the combined entity after closing without relinquishing control of the investee company.

Despite a US$9 billion equity investment to complete the merger, we believe the transaction will not materially weaken JAB Holdings' financial leverage. This is because JAB Holdings will only partly fund the equity investment, because its partners--including JAB Consumer Fund and BDT Capital Partners--are likely to co-fund the transaction. This reflects JAB Holdings' commitment to manage its LTV ratio so that it averages around 15%, although the ratio could increase temporarily following large transactions such as the KGM and Dr Pepper merger. In addition, we believe that the improving underlying liquidity of JAB Holdings' investment portfolio would enable it to more easily manage the LTV ratio so as to prevent sustained deviations from its 15% target. The announcement of a US$0.60 dividend per share at Keurig Dr Pepper is expected to improve cash flow coverage at JAB, which supports our financial risk profile assessment.

## CreditWatch

We expect to resolve the CreditWatch after the closing of the transaction, which will likely occur around mid-2018. We continue to expect an upgrade would be limited to one notch.

We could affirm the ratings at 'BBB+' if we believed that the portfolio's improved liquidity compares unfavorably with JAB's peers with stronger business risk profiles, usually featuring listed assets typically above 75% of the portfolio and low concentration on individual investments. We could also affirm the ratings if we were to observe a weakening of the overall credit quality of the portfolio versus our current expectations.

Although less likely, we would review our ratings on JAB Holdings if the transaction does not close and the share of listed assets within the portfolio remains below 40% on a sustained basis, as this could weigh on our assessment of its portfolio quality.

## Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria - Corporates - Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Luxembourg-Based Investment HoldCo JAB 'BBB+' Rating On Watch Positive On Expected Improved Portfolio Characteristics, Jan. 29, 2018

## Ratings List

CreditWatch Update

| | |
|---|---|
| JAB Holding Company S.a r.l. | |
| Corporate Credit Rating | BBB+/Watch Pos/-- |
| | |
| JAB Holdings B.V. | |
| Senior Unsecured | BBB+/Watch Pos |

**Additional Contact:**
Industrial Ratings Europe; Corporate_Admin_London@spglobal.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.