

JAB Holding Company SARL

July 17, 2024

Credit Highlights

Overview

Key strengths	Key risks
Long-term focus on value creation and a credible track record in listing private assets.	Elements of concentration in terms of portfolio structure. JAB's top four assets make up 70%-75% of its S&P Global Ratings-adjusted portfolio value.
JAB Consumer Partner's role as a passive investor materially increases JAB's equity stakes and hence its ability to influence decision-making at its assets, including their dividend policies.	Somewhat complex holding structure, with consolidated accounts that are relatively complex to analyze for a bondholder.
Relative portfolio resiliency to deteriorating economic conditions and stock market volatility.	JAB's investment communications have proved to be less transparent and frequent compared with publicly traded listed peers. In addition, the holding continues to rely on a few key persons.
Public commitment to maintain the reported loan-to-value (LTV) ratio below 20% on JAB, standalone.	The portfolio's assets have an average credit quality that we assess in the middle of our 'bb' category. At the same time, some of the assets are deleveraging, including Coty.

We expect JAB Holding Co. S.a.r.l.'s (JAB) S&P Global Ratings-adjusted LTV ratio will remain below the 25% ceiling for the 'BBB+' rating. Following the redeployment of about \$2 billion in cash, mainly through investments in its pet insurance platform and restaurant business Panera, JAB's cash balance decreased to \$1.7 billion at the end of December 2023 from \$3.7 billion at the end of June 2023, resulting in a spike in leverage. Its LTV ratio temporarily approached 27% in the second half of 2023. This was offset by subsequent actions taken by the Luxembourg-based investment holding company to sell 100 million shares in U.S.-based soft drink maker Keurig Dr Pepper Inc. (KDP; BBB/Stable/A-2) for total proceeds of \$2.9 billion, which brought its LTV ratio back to 20.1%, more or less in line with the 20.3% at the end of 2022. The holding company remains committed to maintaining its reported leverage below 20%, and for 2024 we only anticipate small capital redeployments.

Primary contact

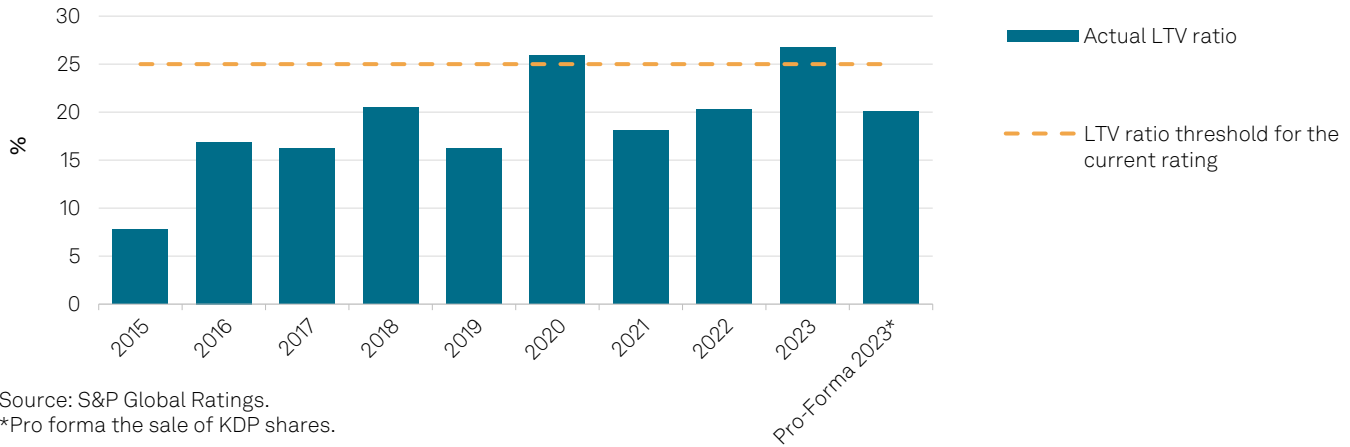
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JAB Holding Co. S.a r.l.--LTV evolution

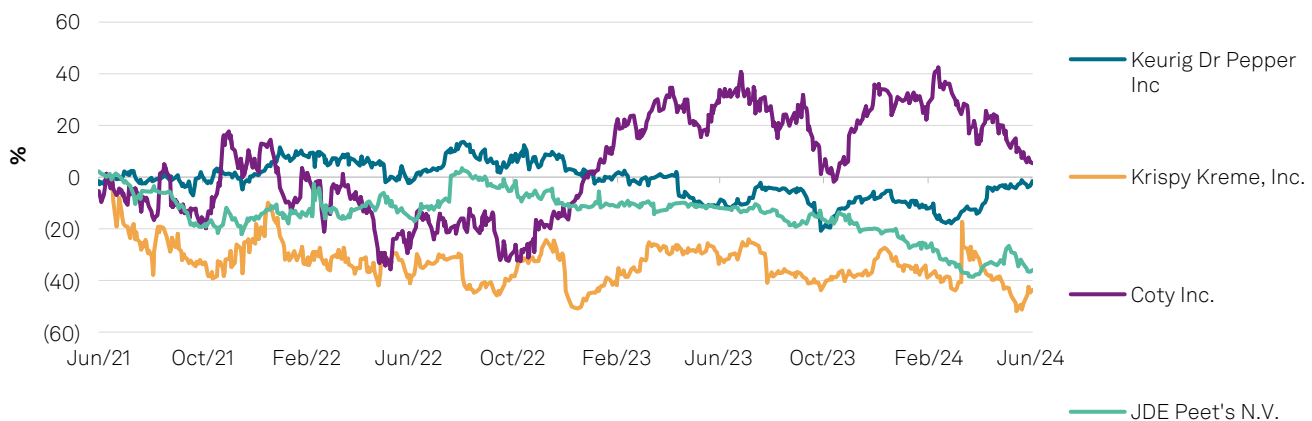


Source: S&P Global Ratings.
 *Pro forma the sale of KDP shares.
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JAB’s S&P Global Ratings-adjusted portfolio value improved marginally in 2023, reaching \$31.8 billion as of Dec. 31, 2023, on a pro forma basis, from about \$31.5 billion at end-2022.

The share price performance of the listed assets was mixed. The portfolio valuation was supported by positive developments in the share prices of Coty Inc. (BB/Positive/--) and Krispy Kreme (not rated), which increased by 41.6% and 44.4% in 2023, respectively, while KDP and JDE Peets (BBB-/Stable/--) displayed downward trends, declining by about 6.3% and 11.2% over 2023. The performance of the private portfolio remained relatively stable. We note that during the second half of 2023 JAB invested of about \$2 billion of new private assets (mainly through investments in its pet insurance platform and restaurant business Panera). In its full-year results, JAB disclosed that the investment return on its portfolio was 3% for 2023, compared with 17% for the MSCI World Index. However, excluding the largest US tech stocks (Apple, Microsoft, Amazon, Google, Nvidia, Tesla, and Meta), the index's return in 2023 was 9%.

JAB Holding Co. S.a r.l.--Listed assets' three-year share price performance



Source: S&P Global Ratings
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We expect JAB will solidify its positive track record of IPOs for its unlisted portfolio assets over the next couple of years. JAB aims to take public its two largest private assets--Panera (17.7% of the total portfolio value or \$5.6 billion) and its pet care platform (14.6%; \$4.9 billion),

both of which have developed meaningfully in terms of size and operations. JAB has publicly communicated its intention to float a couple of times, for Panera, and it has also announced plans to explore IPO opportunities over the next two-to-three years for the two veterinary businesses that are part of its pet care platform, National Veterinary Association (NVA) and Ethos. JAB is also continuing to develop its pet insurance platform, which has recently announced the acquisition of U.S.-based Spot Pet Insurance. JAB has had a solid track record of getting its private assets listed, such as Krispy Kreme, KDP and JDE-Peet's in 2021 and 2020, respectively, and has achieved good returns on its investments. Overall, we believe that this should crystallize a more mature phase of JAB's portfolio evolution and result in a higher share of listed assets. This also compares well with several other holdings that are making new investments in unlisted assets.

Outlook

The stable outlook reflects our expectation that JAB will decide on an IPO of some private assets over the next 12 months and, as such, we anticipate that the share of listed assets in its portfolio will increase to above 70% over the next 12 months. At the same time, we expect that the company will gradually strengthen its transparency and disclosure, while keeping its LTV ratio on a stand-alone basis well below 25%.

Downside scenario

We will lower our rating on JAB if over the next 12 months:

- The share of listed assets on a stand-alone basis does not exceed 70%;
- The company does not establish a positive track record and greater financial discipline in keeping its LTV ratio well below 25% under any market circumstances; or
- We were to observe unanticipated and material cash depletion toward shareholders or related parties, which could signal incremental governance deficiencies and a lack of clear communication to the market.

Upside scenario

We regard rating upside as remote over the next 12-24 months given our assessment of JAB's governance.

Our Base-Case Scenario

Assumptions

- The group follows a prudent investment policy ensuring that its S&P Global Ratings-adjusted LTV ratio stays well below 25%.
- Stable dividend and proactive management actions aimed at maintaining S&P Global Ratings-adjusted inflows of \$750 million-\$800 million in 2024 and \$600 million-\$700 million in 2025, against \$659 million in 2023.
- We expect operating costs of \$90 million-\$100 million per year; moderately lower when compared to the \$107 million in 2023, due to lower advisory costs.

- Interest expenses of \$220 million-\$240 million per year, in line with 2023 levels.
- Distributions to shareholders of \$350 million-\$450 million per year.

Key metrics

JAB Holding Company S.a r.l.—Key Metrics

	2020a	2021a	2022a	2023a	2024f	2025f
Loan to value (%)	25.9	18.1	20.3	26.7 (20.1§)	<25.0	<25.0
Cash flow adequacy (x)	2.1	1.7	2.5	2.0	2.0-3.0	2.0-3.0

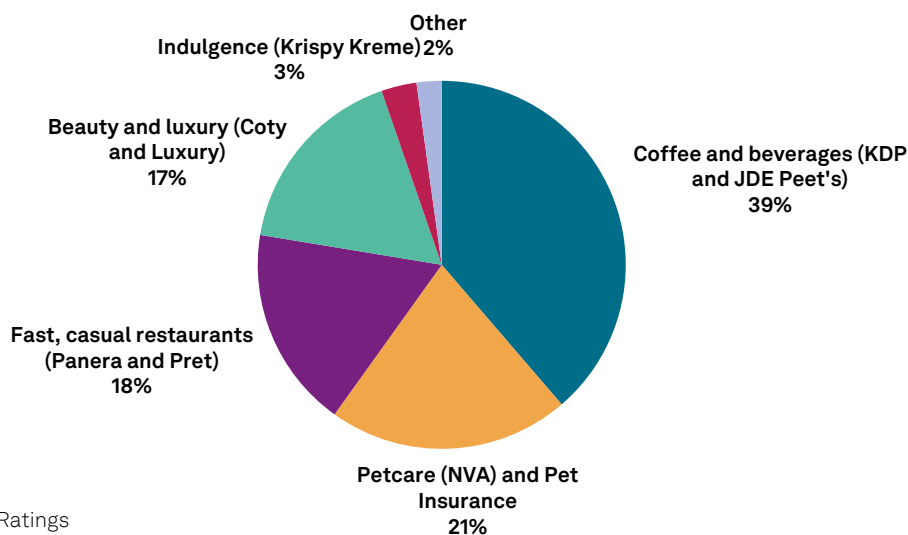
*All figures are adjusted by S&P Global Ratings, unless stated as reported. §Pro forma the sale of 100 million of KDP's shares. a--Actual. f--Forecast.

Company Description

Investment holding company JAB focuses on defensive and fast-moving consumer goods and services, and consumer retail assets. Following the acquisition of National Veterinary Association, the company also offers veterinary health care services. In 2022 the company started investing in the pet insurance business. JAB actively manages most of its assets, with significant control and influence over the assets' capital structure and dividend flows.

JAB is a privately held company. All shares are fully paid and are not listed on any stock exchange. Together, Agnaten SE and Lucreca SE hold about 90% of JAB through wholly owned subsidiary Joh. A. Benckiser B.V. (formerly Donata Holdings B.V.). JAB's management team and other investors hold the remaining stake of approximately 10%.

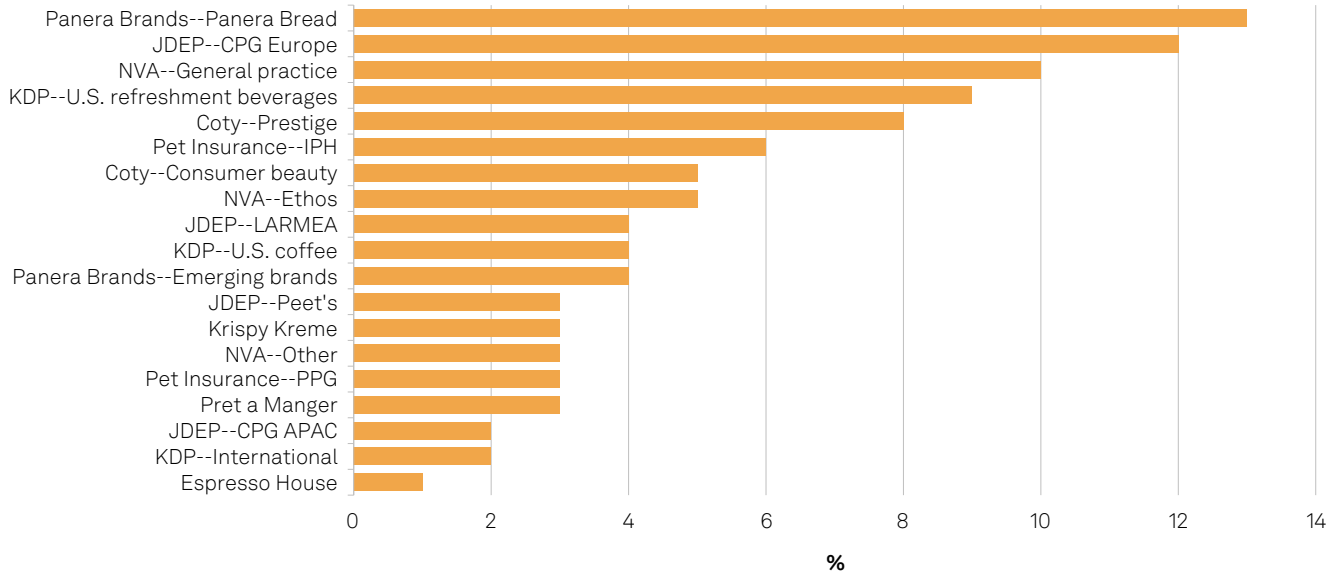
Adjusted portfolio breakdown as of Dec. 31, 2023



Source: S&P Global Ratings

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A global investment portfolio with good asset diversity



Source: S&P Global Ratings.

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Peer Comparison

JAB is one of the largest holding companies we rate in Europe as measured by portfolio size. Its portfolio is concentrated in fewer key assets if compared to higher rated peers, including, for example, Exor and Investor AB.

JAB's structure is more leveraged than peers, which is reflected by our LTV ceiling of 25%, versus 20% for some of the other investment holding companies. JAB also has the unique setup to co-invest with JCP, which effectively increases the equity value to about \$52 billion, and thereby increases its ability to influence decision-making at its assets.

JAB Holding Company S.a r.l.--Peer Comparison

	JAB Holding Co. S.a r.l.	EXOR N.V.	Wendel SE	Investor AB
Issuer credit rating	BBB+/Stable/--	A-/Stable/A-2	BBB/Stable/A-2	AA-/Stable/A-1+
Business risk profile	Satisfactory	Satisfactory	Fair	Excellent
Financial risk profile	Intermediate	Modest	Modest	Modest
Loan to value ceiling (%)	25	20	20	20
Loan to value (%)§	20.1	11.7	5.6	5.3
Anchor	bbb	bbb+	bbb-	aa
Comparable rating analysis	Positive	Positive	Positive	Negative

§As of the date of the last publication.

Business Risk

We expect JAB's share of listed assets to improve in the next few quarters as it moves forward with the announced IPOs of its unlisted assets.

Following the rapid portfolio transformation in the second half of 2023, the share of listed assets fell just shy of 60% of the total portfolio value as of Dec. 31, 2023, from 65% as of Dec. 31, 2022. This mainly reflects the lower stake of KDP in the portfolio after the disposal of 100 million shares and the increase in the value of the pet insurance platform to \$2.1 billion on a JAB stand-alone basis (6.6% of the total adjusted portfolio value) from \$244 million as of end-2022 as a result of several rounds of investments (amounting to about \$1.0 billion in 2023 on a JAB stand-alone basis) and capital appreciation. In addition, the company increased its stake in Panera in 2023, which we view as an unlisted asset. However, we anticipate that JAB will explore IPO opportunities for its restaurant business Panera and pet care platform over the next couple of years, which would materially improve the percentage of listed assets. We estimate that JAB's pro forma share of listed assets would increase to more than 90% from about 60% as of Dec. 31, 2023, if both assets are listed, a change that would likely be incrementally credit supportive for the rating, all else being equal.

JAB has made investments in diversified industries such as consumer goods and pet care but remains concentrated around key investee assets.

The company's exposure to its largest stand-alone asset, KDP, has fallen to about 25% of the total portfolio from 37% in 2022. However, the three largest assets--KDP, Panera, and Coty--still account for about 60% of total portfolio value. JAB's portfolio continues to be dominated by the food and beverages industry, which together represent about 60% of the entire portfolio (KDP, JDE Peet's, Panera, and Krispy Kreme). Nonetheless, the company has made efforts to improve its industry diversity in the recent years with the pet insurance platform as well as the veterinary business. In addition, recently the holding company made explicit it intends to further develop its insurance business as well as establish an asset management company, with the recent hire of Mr. Anant Bhalla, who has joined as Senior Partner and Chief Investment Officer. That said, investment plans and the updated strategy have not yet been disclosed.

We continue to view the average credit quality of JAB's portfolio as falling within the 'bb' category after its capital reallocation. Some of the assets are deleveraging, including Coty.

This is largely sustained by our investment grade ratings on KDP (BBB/Stable/A-2) and JDE Peet's (BBB-/Stable/--). The average credit risk of JAB's portfolio is currently below that of Exor, whose average portfolio credit quality is investment grade, and more in line with that of Wendel, with average portfolio credit quality in the high 'bb' range. Over the past few years, JAB's appetite for leverage on its investee assets has been markedly higher than that of its peers. In our view, this reflects both the private nature of part of its portfolio, where JAB is prone to higher leverage to increase returns, as well as the difficult operating environment for its public assets in the food and beverages segments, where volume recovery has been sluggish due to weak consumer confidence, resulting in slower deleveraging. We note, however, that management's efforts to turn around Coty and improve its profitability have yielded results. In September 2023, we upgraded the company to 'BB' with a positive outlook (from BB-/Stable/--) mainly on account of continued deleveraging and improved performance. Coty's S&P Global Ratings-adjusted debt to EBITDA is expected to improve below 4x by the end of fiscal year 2024 from 4.7x at the end of fiscal year 2023, supported by robust demand in the prestige and consumer beauty segments. For further information on the recent rating action see "Coty Inc. Upgraded To 'BB' From 'BB-'; Outlook Positive; Debt Rating Raised," published Sept. 29, 2023, on

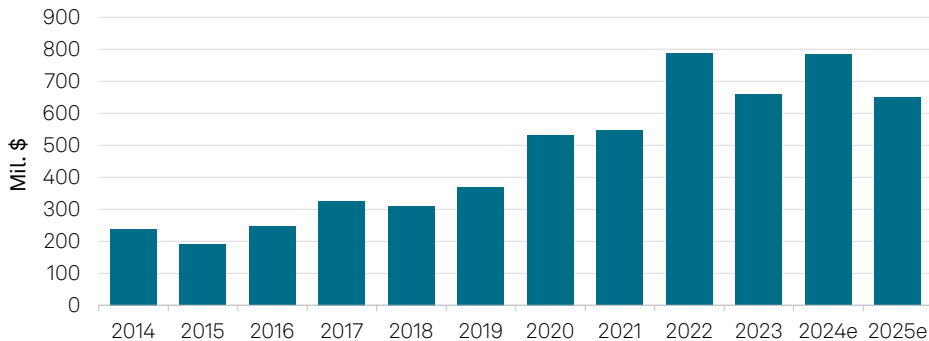
RatingsDirect. We see the unlisted assets and notably Panera or the Petcare platform as having a relatively weaker credit profile than listed assets.

JAB Consumer Partners (JCP), a regulated and affiliated investment fund, supports JAB's investment opportunities, amplifying the latter's investment potential. JCP's role as a passive investor materially increases JAB's equity stakes and hence its ability to influence decision-making at its assets, including their dividend policies. As of Dec. 31, 2023, JAB's consolidated portfolio was \$50 billion, including JCP's equity portfolio of \$17.4 billion of directly owned investments when taking into account the sale of 100 million KDP shares. The consolidated portfolio is materially larger than JAB's stand-alone portfolio of about \$30 billion. Based on the consolidated portfolio, JAB's portfolio value is only moderately smaller than those of Investor AB (AA-/Stable/A-1+).

Financial Risk

Steady dividend income will support cash-flow adequacy. We expect JAB will receive dividends of about \$750 million-\$800 million in 2024 (mainly stemming from KPD, which raised its dividend by 7.5% in 2023), moderating to \$650 million over 2025-2026. With our forecast that recurring operating and interest expenses will remain about the same as 2023, we anticipate JAB's cash-flow adequacy ratio will be 2x-3x over 2024-2025.

JAB Holding Co. S.a r.l.--Dividend income



e--Estimate. Source: S&P Global Ratings.

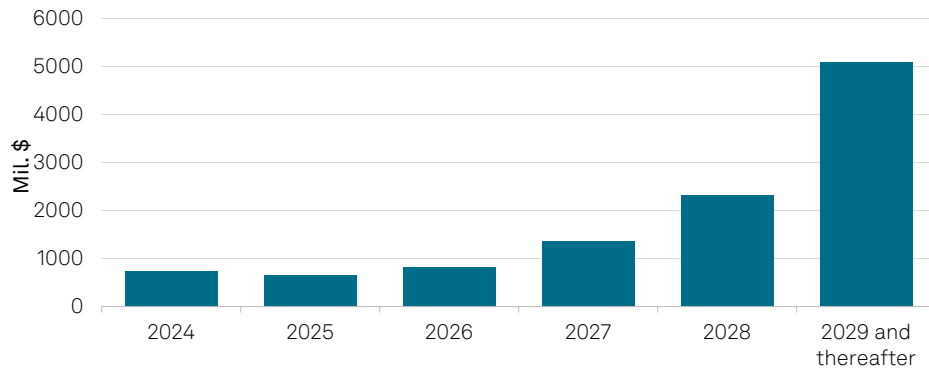
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JAB has a complex holding structure with intermediate holding company debt sitting outside the consolidation perimeter.

We think that JAB's consolidated accounts--which include JCP--are relatively complex to analyze from a bondholder perspective. This is because JCP is not legally part of the corporate structure. In addition, JCP does not provide any guarantee on JAB's debt. As a result, we analyze JAB's creditworthiness on a stand-alone basis, thereby excluding the assets and cash flows attributed to JCP. According to management, the contingent liabilities and debt within the intermediate holding structure has decreased to \$3.0 billion-\$4.0 billion as of Dec. 31, 2023, from more than \$11.6 billion at end-2019. However, we understand that the liabilities amount has remained unchanged over the last two years--although there was an intention to reduce them further. This debt is deducted from the portfolio value in our LTV calculation.

Debt maturities

JAB Holding Co. S.a r.l.--Debt maturity profile as of Dec. 31, 2023



Source: S&P Global Ratings.

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JAB Holding Company S.a r.l.--Financial Summary

Mil. \$	2020	2021	2022	2023
Adjusted portfolio value*	30,896	34,154	31,381	34,718
Adjusted net debt	8,002	6,181	6,359	9,274
Loan to value (%)	25.9	18.1	20.3	26.7
Dividend and fees income	532	546	787	659
Net interest expense	197	236	231	227
Operating charges and tax expense	54	95	84	107
Cash flow coverage (x)	2.1	1.7	2.5	2.0

*All figures adjusted by S&P Global Ratings.

Liquidity

We assess JAB's liquidity as strong. We estimate that its liquidity sources will exceed its needs by about 5.3x over the next 12 months and about 5.8x over the next 24 months. This is thanks to a long-term debt maturity profile and large cash holdings and revolving credit facilities (RCF). The company's strong ties with banks and access to debt markets supports its liquidity. We think management is committed to supporting strong long-term liquidity. We also think JAB would likely absorb a high-impact event with limited need for refinancing. For the company, such a scenario would likely be a severe correction of market values for its listed shares, such as that seen in COVID-19 market conditions.

Principal liquidity sources

- Cash and cash equivalents of approximately \$1.7 billion as of Dec. 31, 2023;
- Proceeds from a divestment of 100 million shares in KDP on a pro forma basis of \$2.9 billion;
- Full availability of \$3.2 billion in revolving credit facilities (RCFs) with maturities longer than 12 months and \$3.1 billion RCFs for the following 24 months;
- Unstressed dividend inflows of \$750 million-\$800 million over the next 12 months, normalizing to about \$650 million thereafter; and
- €750 million new notes due in 2034.

Principal liquidity uses

- Operating expense of \$90 million-\$100 million per year;
- Interest expense of \$220 million-\$240 million per year;
- Debt maturities of about \$1 billion over the next 12 months, and \$661 million over the subsequent 12 months; and
- Distributions to shareholders of \$400 million per year.

Environmental, Social, And Governance

Environmental and social factors are an overall neutral consideration in our credit rating analysis of JAB. Its portfolio is exposed to the consumer goods sector, with a prominent exposure to beverage company KDP, representing about 23% of its portfolio value; JDE Peet's (about 16%); and its unlisted pet care platform (about 15%). Although there could be elements of potentially negative social factors, we understand that JAB's key assets have a quite diverse product offering.

Although KDP faces some social risk because of its soft drinks, its portfolio is well diversified, including about 40% of sales from coffee and coffee systems. In addition, its non-coffee beverage portfolio includes several expanding non-sugary offerings such as teas and flavored water, which reduces its aggregate portfolio exposure to sugary soft drinks well below 50%.

JDE Peet's coffee benefits from positive global trends, notably thanks to its increasing penetration in new emerging economies and due to different preparation methods (powder, capsules, soluble) and consumption occasions. These present expansion opportunities but are balanced by risks related to the sustainability of resources. With about 85% of revenue coming from coffee-related products, we consider potential environmental and social risks related to harvesting in our analysis.

Governance factors are a moderately negative consideration in our analysis of JAB. Following the largely unanticipated recent portfolio changes, we think that JAB's governance is somewhat less articulated when compared to that of listed companies--although for the time being we do not perceive this as detrimental to its credit profile. Our revised assessment also considers the private nature of the business and the role of the management board, which continues to rely on a few key persons.

Issue Ratings--Subordination Risk Analysis

Capital structure

JAB Holdings B.V. is the financing subsidiary of JAB, where all the debt of the group is issued. It is 100% owned by JAB through an intermediate holding company. JAB's gross debt totals about \$11 billion as of Dec. 31, 2023. The company does not have any stand-alone debt. It guarantees in full all the debt issued by JAB Holdings B.V. The syndicated RCF and the notes rank pari passu.

Analytical conclusions

In our view, there are no significant elements of subordination risk present in the capital structure, and we rate the senior unsecured debt 'BBB+', in line with the long-term issuer credit rating.

Rating Component Scores

Foreign currency issuer credit rating	BBB+/Stable/--
Local currency issuer credit rating	BBB+/Stable/--
Business risk	Satisfactory
Country risk	Low
Industry risk	Intermediate
Investment position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb
Liquidity	Strong (no impact)
Management and governance	Moderately negative (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	bbb+

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015

JAB Holding Company SARL

- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- EMEA Investment Holding Companies: Conservative Leverage Underpins Stable Outlooks, July 11, 2024
- Research Update: JAB Holding Co. S.a r.l.'s Ratings Affirmed At 'BBB+' On Expected IPOs Of Portfolio Companies; Outlook Stable, April 24, 2024
- Bulletin: Keurig Dr Pepper Inc.'s Proposed Senior Unsecured Notes Rated 'BBB', March 4, 2024
- Tear Sheet: Coty Inc., February 14, 2024
- Keurig Dr Pepper Inc., November 9, 2023
- JAB Holding Co. S.a.r.l., October 13, 2023
- Tear Sheet: JDE Peet's N.V., Oct. 3, 2023
- Coty Inc. Upgraded To 'BB' From 'BB-'; Outlook Positive; Debt Rating Raised, Sept. 29, 2023
- Tear Sheet: Coty Inc., Aug. 31, 2023
- JDE Peet's N.V., July 4, 2023

Ratings Detail (as of July 02, 2024)*

JAB Holding Co. S.a r.l.

Issuer Credit Rating	BBB+/Stable/--
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Issuer Credit Ratings History

29-Oct-2020	BBB+/Stable/--
22-Apr-2020	A-/Negative/--
23-Dec-2019	A-/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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