![Moody's Investors Service]

Rating Action: Moody's assigns Baa1 rating to JAB's proposed bond issuance

Global Credit Research - 11 May 2017

Frankfurt am Main, May 11, 2017 -- Moody's Investors Service, ("Moody's") has today assigned a Baa1 rating to the proposed benchmark senior unsecured bonds to be issued by JAB Holdings B.V. (the "Issuer"). The rating of the bonds is in line with the JAB Holding Company S.à r.l. ("JAB") Long-Term Issuer rating of Baa1. The outlook on all ratings is stable.

RATINGS RATIONALE

The proposed benchmark bonds will improve JAB's liquidity, debt maturity profile and financial flexibility.

JAB's Baa1 Issuer Rating reflects the company's clearly-defined and successful investment strategy to date, as well as its increasingly more diversified asset portfolio, which is centered on cash-generative assets in the typically more defensive fast-moving consumer goods sector. JAB's assets benefit from broad and well-diversified product portfolios with strong market positions, good geographical diversification and a focus on premium brands. Operating margins and free cash flow have therefore remained consistently strong at these entities, and have allowed an increase in dividends paid, particularly at its stake in Reckitt Benckiser Group Plc (Reckitt Benckiser, 8% stake, rated A1 under review for downgrade). JAB's successful strategy is evidenced by the consistent growth in its portfolio value from EUR11.6 billion in 2013 to around EUR21.0 billion as at year-end 2016, although at the cost of also growing net debt levels from around EUR1.3 billion to EUR 3.6 billion excluding the current issuance.

The rating also reflects Moody's expectations that net market value leverage ("MVL") will return to below 20% and improve towards 15% over the next 12-18 months. This follows the company's announcement to acquire the Panera Bread Company ("Panera" unrated), which will materially increase JAB's net MVL to more than 20% from around 17% as at year-end 2016. The reduction in MVL will be supported by asset sales, prior, or shortly after the closing of the Panera transaction in Q3-17. In April 2017 a review of strategic options including a potential sale of Jimmy Choo plc (Jimmy Choo, unrated) and Bally International AG (Bally, unrated) was announced, but in the event that the proceeds raised from both transactions are less than anticipated or the sale of all, or any of these divestments do not take place - Jimmy Choo for example reserves the right to alter or terminate a formal sale process at any time -- Moody's expects JAB would have to sell other assets in its portfolio and/or raise additional funds from the JAB Consumer Fund to reduce leverage, and, hence, to maintain current ratings.

Moody's also expects that interest cover (FFO + Interest Expense/Interest Expense) will exceed 2.0x and improve towards 3.0x over the next 12-18 months due to higher dividend income from its investments while liquidity (cash and cash equivalents and undrawn credit facilities) will remain comfortably in excess of EUR500 million. Moody's considers that it is important for JAB to maintain strong credit metrics and liquidity due to the highly acquisitive nature of both the company and its investments. This exposes the company to execution risk, which could negatively impact the overall market value of JAB's portfolio.

RATING OUTLOOK

The stable outlook reflects our view that JAB's asset portfolio will continue to strengthen and that the company will remain committed to maintaining strong credit metrics, including a net MVL of below 20% and further improving towards 15% within 12-18 months and interest cover metrics exceeding 2.0x.

WHAT COULD CHANGE THE RATING -- UP

- If credit metrics strengthen such that net MVL is more comfortably below 15% and interest cover rises more sustainably to around 3.0x.

- A good balance in terms of its exposure towards its four key assets - Reckitt Benckiser; Coty Inc. (Ba1 stable); JACOBS DOUWE EGBERTS Holdings B.V. (JDE, Ba2 stable), and Keurig Green Mountain, Inc. (Keurig, Ba2 stable).

- We would expect Coty to successfully integrate the recently acquired beauty business 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

- If credit metrics deteriorate such that JAB's net MVL significantly and sustainably 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.

- If 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 EUR500 million; (3) weaker dividend income due to a deterioration in Reckitt Benckiser's and Coty's performance; and/or (4) a change in JAB's dividend policy or further material acquisitions.

STRUCTURAL CONSIDERATIONS

JAB is formed of 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). JAB is majority-owned by Agnaten SE and Donata Holdings B.V. (together the "Family Office").

The intermediate holding companies within JAB and JAB's investments do not provide guarantees to the Issuer of the bonds. The payment of interest and debt at the level of the issuer is therefore dependent on timely dividends from its investments, the ability to monetise its investments via a disposal or an IPO, or, where possible, the upstreaming of cash from majority-owned investments. All debt of the group is held and raised by the issuer. The liabilities related to the Long Term Incentive Plan of management are, however, subordinated to the bond and bank debt as these reside at the level of the guarantor.

The syndicated RCF (unrated) in the amount of EUR2.6 billion is subject to a financial covenant under which the company currently has ample headroom. The proposed bond and the syndicated bank facility are ranked pari passu.

PRINCIPAL METHODOLOGY

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.

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, a global leader in consumer health and hygiene; ii) Coty (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) JDE and Keurig in coffee and tea, which are both held via Acorn Holdings B.V. (58% voting rights), an intermediate holding company which indirectly owned by JAB.

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, an intermediate holding company which is indirectly owned by JAB). Moreover, on 5 April 2017, JAB announced that it had reached a definitive agreement to acquire Panera Bread Company (unrated). JAB also has investments in luxury brands, including Jimmy Choo (68% of voting rights) and Bally (93% ownership) but, which it intends to sell over the next 6-12 months.

REGULATORY DISCLOSURES

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