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Research Update:

Luxembourg-Based JAB Holding Co. Outlook Revised To Stable On Debt Reduction Measures; 'BBB+' Ratings Affirmed

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Overview

- JAB Holding Co. S.a.r.l. (JAB) made further divestitures in Reckitt Benckiser to partially fund its \$3.5 billion cash contribution in the Keurig acquisition.
- As a consequence, we estimate that JAB's debt built-up was contained to the extent that its loan-to-value (LTV) ratio was about 17% upon completion of the transaction.
- We are therefore revising the outlook on JAB to stable from negative and affirming the long-term corporate credit and issue ratings at 'BBB+'.
- The stable outlook reflects our expectation that the company will maintain its LTV ratio sustainably below 20% over the next 12 to 18 months.

Rating Action

On May 10, 2016, S&P Global Ratings revised to stable from negative the outlook on Luxembourg-based investment holding company JAB Holding Company S.a.r.l (JAB). We also affirmed the corporate credit rating at 'BBB+'.

At the same time, we affirmed our 'BBB+' ratings on the group's senior unsecured bonds of €750 million (two different tranches) and €600 million, all issued by JAB Holdings B.V. and guaranteed by JAB. The three bonds are due in 2021, 2022, and 2025, respectively.

In addition, we assigned our 'BBB+' issue rating to the proposed benchmark-size bond, also to be issued by JAB Holdings B.V. and guaranteed by JAB.

Rationale

The outlook revision follows the successive share divestments in JAB's core asset Reckitt Benckiser, the household and health care company, that yielded £1.2 billion to partially fund JAB's ultimate \$3.5 billion equity infusion in the private transaction to take over the coffee company Keurig Green Mountain by a JAB-led consortium (for \$14 billion).

With the remaining portion of the envelop funded through a mix of cash and drawdowns on existing bank lines, upon completion of the transaction, JAB's

net debt escalated to €3.4 billion, translating into a loan-to-value (LTV) ratio of about 17% (including also the smaller and recently announced acquisition of the retailer Krispy Kreme). This was in line with our 20% threshold for the current rating level.

On the closing of the Keurig acquisition, JAB eroded part of its financial flexibility, with its LTV ratio rising to about 17% from our estimate of 11% as of Dec. 15, 2015. However, management has proven its commitment to our 20% LTV threshold following the integration of this new line. As of March 31, 2016, JAB had an investment portfolio estimated at €21 billion, and we assessed that a drop of more than 15% in equity share prices would lead to the LTV ratio increasing beyond 20%.

In our view, the mechanism for the acquisition of a majority stake in Keurig featured some complexities and was also dependent upon key specific individuals, namely the three senior partners of the investment holding company.

The recently announced \$1.35 billion transaction on the branded retailer Krispy Kreme will have limited impact on the portfolio's key components, since we understand that the ultimate cash injection from JAB is unlikely to exceed \$200 million, which represents less than 1% of the portfolio market value as of March 31, 2016. We expect the LTV ratio will inch upward, but remain in line with our 20% threshold.

Our financial risk profile assessment incorporates our view that JAB's financial policy will remain conservative and that debt leverage at its operating subsidiaries will remain nonrecourse to, and not cross-defaulted with, JAB's debt. We also expect JAB will maintain a comfortable cash flow ratio--although to a lower extent than our initial forecasts, given the potential add-in in debt--with dividend inflows to amply cover the group's operating expenses and financial costs. While we anticipate further portfolio activity in the medium term and consider that the portfolio inherently remains exposed to equity market fluctuations, we expect management will take adequate measures to maintain its LTV ratio sustainably below 20%.

We continue to assess JAB's business risk profile as satisfactory, but headroom for this assessment remains low. This is because of a concentration on consumer durables. That said, we acknowledge the enhanced product and geographic diversification benefits of the Keurig transaction and think that the combined platform with Jacobs Douwe Egberts would represent a leading player in the global coffee market.

We think JAB's asset quality has migrated toward the lower end of the investment-grade level on average. Indeed, JAB's business risk profile has been primarily supported by the strong quality of its investment portfolio, chiefly stemming from the sound creditworthiness of its core legacy asset, Reckitt Benckiser (which accounted for more than 34% of the portfolio prior the share divestment and the integration of Keurig in the investment portfolio). But the reduced exposure on the former, alongside Keurig's

creditworthiness, has led to a limited weakening in the portfolio quality.

In our view, the combination of a lesser exposure to Reckitt Benckiser, alongside the integration of an unlisted asset that accounted for 16% of the portfolio as of March 31, 2016, have also altered the portfolio liquidity. More precisely the proportion of listed assets has been hovering at around 59%-62%, depending upon equity market prices conditions, which is 10% points below the levels achieved as of June 2015. In addition, JAB's significant involvement in its core assets further weighs on our liquidity assessments, since this could undermine their immediate tradability, in our view.

We continue to assess JAB's management and governance as satisfactory. This is underpinned by prudent management efforts to unlock value in the company's

Liquidity

We view JAB's liquidity as strong, anticipating that the group's sources of liquidity will exceed its needs by more than 1.5x for the 12 months ending March 31, 2017.

We estimate liquidity sources include:

- €304 million in cash as of March 31, 2016;
- About €500 million available under the group's €2.1 billion syndicated loan due 2020; and
- Expected dividends from portfolio companies of approximately €190 million (primarily from Reckitt Benckiser and Coty). We will likely see a boost in dividend inflows after Coty's merger with the P&G Beauty asset is completed, given that Coty announced its intention to increase shareholder returns to \$0.5 per share;

We estimate liquidity uses include:

- Operating expenses of approximately €35 million-€40 million;
- Interest expenses of €80 million-€90 million, resulting from the debt built-up for the Keurig transaction;
- Potential further equity injection into JAB Luxury of about €100 million; and
- About €65 million-€70 million in returns to shareholders, in line with JAB's internal target.

We do not rule out further acquisition activity in the near term horizon.

On March 31, 2016, the group showed adequate headroom toward its financial covenants.

Outlook

The stable outlook on JAB reflects our expectation that, in spite the set-up of a complex structure for the Keurig acquisition, the company will maintain its LTV ratio sustainably below 20%. We think management remains committed to

our LTV threshold for the current ratings for the next 12-18 months.

Upside scenario

We could consider raising the ratings on JAB if its portfolio characteristics improved, including a greater emphasis on asset diversity and higher liquidity of held shares. Assuming broadly unchanged portfolio characteristics, we could raise the ratings if JAB reduced leverage over time, and proved to commit to an LTV ratio sustainably below 10% over our rating horizon.

Downside scenario

We could lower the ratings if JAB's LTV moved above 20% for a prolonged period of time, without management taking actions to lower it. We could also lower the ratings in case of a material decline in JAB's equity values, or if its listed assets were to stand below 60% of total assets for an extended period of time.

Ratings Score Snapshot

Corporate Credit Rating: BBB+/Stable/--

Business risk: Satisfactory

- Country risk: Very low
- Industry risk: Intermediate
- Investment position: Satisfactory

Financial risk: Modest

- Leverage/Cash flow: Modest
- Funding and capital structure: Neutral

Anchor: bbb+

Modifiers

- Liquidity: Strong (no impact)
- Management and governance: Strong (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria And Research

- Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate

Entities And Insurers, Nov. 13, 2012

- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Outlook Action; Ratings Affirmed

	To	From
JAB Holding Company S.a r.l. Corporate Credit Rating	BBB+/Stable/--	BBB+/Negative/--
JAB Holdings B.V. Senior Unsecured	BBB+	BBB+

New Rating

JAB Holdings B.V. Senior Unsecured	BBB+
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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.globalcreditportal.com and at spcapitaliq.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.

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