

Research Update:

JAB Holding Downgraded To 'BBB' On Lower Asset Liquidity; Outlook Stable

March 10, 2025

Rating Action Overview

- Luxembourg-based investment holding company JAB Holding Co. S.a.r.l.'s block sale of Keurig Dr Pepper Inc.'s (KDP) shares, for close to \$3 billion in cash, demonstrates the company's commitment to its financial policy to keep its loan-to-value (LTV) ratio below 20%.
- At the same time, the recent disposals of assets and delayed listing of some of its private investee companies moves JAB away from keeping a high proportion of listed assets in its portfolio.
- In addition, while we see positively the planned acquisition of U.S.-based insurance company Prosperity Life Group from a diversification standpoint, as JAB will incrementally dilute its consumer and retail exposure to a relatively uncorrelated sector, we view negatively that Prosperity will further increase the share of unlisted assets in JAB's portfolio.
- We therefore lowered our long-term issuer credit rating on JAB as well as our issue rating on the company's unsecured debt to 'BBB' from 'BBB+'.
- The stable outlook reflects JAB's commitment to operate within its financial policy of maintaining its LTV ratio at or below 20% while it looks to increase portfolio diversification away from consumer products and retail.

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Rating Action Rationale

We think the diversification into insurance with the planned acquisition of Prosperity Life amplifies the shift in JAB's portfolio towards more private assets. By acquiring U.S.-based Prosperity Life Group, whose parent holding company is Prosperity Group Holdings L.P. (BBB-/Watch Neg/--) with operating companies National Western Life Insurance Co. and S.USA Life Insurance Co. Inc. (both A-/Watch Neg/--), JAB will improve its asset diversification away from the consumer products and retail industry. Some of the company's investee assets, including JDE Peets (BBB-/Stable/--), Krispy Kreme (not rated), and Coty (BB+/Stable/--) have been subject to volatile market conditions, resulting in share price falls in the past 12 months by about 13%, 53%, and 54% respectively. Still, the acquisition of Prosperity will increase the weight of unlisted assets within JAB's portfolio. The company's share of listed assets was

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already well below our 70% threshold for a 'BBB+' rating as of June 30, 2024, and will likely decrease to below 40% according to our estimate as of year-end 2024 pro forma the acquisition of Prosperity, which is set to close in second-half 2025.

JAB is committed to its financial policy, as seen by the recent new block sale of KDP's shares.

The company is monetizing its stake in KDP with a block sale worth close to \$3 billion announced end of February 2025, reducing its stake in KDP to about 10% from about 16% previously. This will help preserve its LTV ratio and demonstrates JAB's commitment to manage its portfolio within its publicly stated financial policy of keeping the ratio below 20%.

JAB's portfolio credit quality remains speculative grade, in the 'bb' range.

This is below that of Exor, whose average portfolio credit quality is investment-grade, and closer to that of Wendel, with average portfolio credit quality in the high 'bb' range. In our view, this reflects the private nature of part of its portfolio. We see the unlisted assets as having a relatively weaker credit profile than its listed assets. However, management's efforts to turn Coty around and improve its profitability have yielded results. On Sept. 18, 2024, we upgraded Coty to 'BB+' from 'BB' mainly on account of continued deleveraging and improved operating efficiency. We expect its S&P Global Ratings-adjusted debt to EBITDA to improve to about 3.5x by fiscal year-end 2025 (June 30, 2025) from 4.7x at fiscal year-end 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+' On Revised Business Risk; Outlook Stable," published Sept. 18, 2024, on RatingsDirect. In addition, despite softer demand in the food and beverage segments, JAB's portfolio has increased operating margins and cash generation in 2024. We also see the addition of Prosperity increasing the overall credit quality of JAB's unlisted portfolio.

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 managed equities and ability to influence decision-making at its assets, including their dividend policies. As of June 30, 2024, JAB's consolidated portfolio was about \$43 billion, including JCP's equity portfolio of directly owned investments. The consolidated portfolio is materially larger than JAB's stand-alone portfolio of about \$27 billion. Based on the consolidated portfolio, the company's portfolio value is only moderately smaller than those of Investor AB (AA-/Stable/A-1+).

Outlook

The stable outlook reflects JAB's commitment to operate within its financial policy of maintaining its LTV ratio below or at 20% while it looks to increase the diversification of its portfolio away from consumer products and retail.

Downside scenario

We see the risk of a negative rating action as limited in the next 12 months, but we could lower our ratings on JAB if it deviates from its financial policy, leading to an LTV ratio well above 20% without prospects for a rapid deleveraging.

Upside scenario

We could raise our ratings on JAB if the company rebalances the share of listed assets through the listing of some of its private assets or other investments, such that its share of readily

available for sale listed assets increased to above 60% and at the same time maintains its LTV below or at 20% on a sustainable basis.

Company Description

Investment holding company JAB focuses on defensive and fast-moving consumer goods and services, as well as consumer retail assets and insurance. Following the acquisition of the National Veterinary Association, the company also has veterinary health care services. In 2022, it started investing in the pet insurance business. With the Prosperity Life Group transaction expected to close in second-half 2025, JAB is expanding its investments into individual annuity and life insurance markets. The company actively manages most of its assets, with significant control and influence over the assets' capital structure and dividend flows.

JAB is privately held. All shares are fully paid and are not listed on any stock exchange. Together, Agnaten SE and Lucesca 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.

Our Base-Case Scenario

Assumptions

- S&P Global Ratings-adjusted inflows of \$400 million-\$500 million in 2024 and \$400 million-\$600 million in 2025, against \$659 million in 2023.
- Operating costs of \$50 million-\$75 million per year, moderately lower than 2023's \$107 million, due to lower advisory costs.
- Interest expense of \$220 million-\$240 million per year, in line with 2023 levels.
- Distributions to shareholders of about \$175 million per year.

Key metrics

JAB Holding Company S.a r.l.--Forecast summary

Period ending	2020a	2021a	2022a	2023a	2024f	2025f
Loan to value (%)	25.9	18.1	20.3	26.7 (20.1*)	~20*	<20
Cash flow adequacy (x)	2.1	1.7	2.5	2.0	1.0-2.0	1.0-2.0

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

Liquidity

We assess JAB's liquidity as strong. We estimate that its liquidity sources will exceed its needs more than 3x over the next 12 months and more than 2x 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 further 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 \$4.1 billion as of June 30, 2024;
- Proceeds from the sale of its stake in KDP for about \$5.0 billion, including both the completed sale of stake in October 2024 as well as the as the further sale of the stake in February 2025.
- 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; and
- Unstressed dividend inflows of \$400 million-\$500 million over the next 12 months, and \$400 million-\$600 million annually thereafter.

Principal liquidity uses

- Operating expense of \$50 million-\$75 million per year.
- Interest expense of \$220 million-\$240 million per year.
- Acquisitions of an additional stake in JDE Peets of about \$2.3 billion in October 2024 , and the planned acquisition of Prosperity at \$3.1 billion over the subsequent 12 months.
- Debt maturities of about \$600 million over the next 12 months, and \$1.0 billion over the following 12 months.
- Distributions to shareholders of about \$175 million per year.

Issue Ratings--Subordination Risk Analysis

Capital structure

JAB Holdings B.V. is the financing subsidiary of JAB, where all the group's debt is issued. It is 100% owned by JAB through an intermediate holding company. JAB's gross debt totals about \$10.6 billion as of June 30, 2024. The company does not have any stand-alone debt. It guarantees in full all the debt issued by JAB Holdings. The syndicated RCF and 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

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Rating Component Scores

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

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

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- Bulletin: Keurig Dr Pepper Inc.'s Proposed Senior Unsecured Notes Rated 'BBB', March 4, 2024
- Tear Sheet: Coty Inc., Feb. 14, 2024
- Keurig Dr Pepper Inc., Nov. 9, 2023
- JAB Holding Co. S.a.r.l., Oct. 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 List

Ratings list

Downgraded; Outlook Action

	To	From
JAB Holding Co. S.a r.l.		
Issuer Credit Rating	BBB/Stable/--	BBB+/Watch Neg/--
JAB Holdings B.V.		
Senior Unsecured	BBB	BBB+/Watch Neg

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