S&P Global Ratings

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Research Update:

JAB Holding Outlook Now Negative On Limited Loan-To-Value Headroom, Low Percentage Of Listed Assets; 'BBB+' Affirmed

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Rating Action Overview

- Luxembourg-based investment holding company JAB Holding Co. S.a.r.l. (JAB) agreed to buy Mondelez's 86 million shares in JDE Peet's N.V. (JDEP) for about €2.2 billion, which it will finance with the sale of Keurig Dr Pepper Inc. (KDP)'s shares.
- While the proposed transactions are neutral to JAB's loan-to-value (LTV) ratio, given subdued consumer sentiment, the company's S&P Global Ratings-adjusted LTV ratio as of June 30, 2024, (pro forma these transactions) stood at 24%, indicating only limited leeway under our 25% LTV ratio.
- We also note that JAB's share of listed assets remains low, accounting for about 55% of the total portfolio as of June 30, 2024, slightly down from about 57% as of Dec. 31, 2023, pro forma KDP's shares sale in March 2024.
- Therefore, we revised our outlook on JAB to negative and affirmed our 'BBB+' long-term issuer credit rating, as well as our 'BBB+' issue rating on JAB Holdings B.V.'s senior unsecured debt.
- The negative outlook indicates that we could lower our rating on JAB within the next six to 12 months if prospects for increasing the share of listed assets to above 70% fade due to unsupportive equity markets or if its LTV ratio exceeds 25%.

Rating Action Rationale

We see the proposed transactions as broadly neutral to JAB's LTV, although its currently high LTV offers limited headroom. On Oct. 21, 2024, JAB announced it would acquire Mondelez's 19% shareholding in JDEP for about €2.2 billion. At the same time, JAB announced that it distributed 43 million of JDEP's shares to more than 70 partners of JAB Consumer Partners, the affiliated investment fund, thereby increasing JDEP's free float. The acquisition of Mondelez's stake will close by the end of November 2024. As a result, JAB will increase its control over JDEP's cash flow. We understand the mandate of the newly appointed CEO of JDEP will revolve around maximizing returns to shareholders through organic growth and cost discipline. JAB will fund the purchase of Mondelez's shares with a block sale of KDP's shares, leading to a dilution of its ownership in KDP to about 16% from about 21%.

JAB's LTV has increased to about 24% in the first half of 2024 from about 20% on Dec. 31, 2023 (including the sale of KDP's shares executed in March 2024 to offset investments in the pet insurance business). JAB's LTV is close to our 25% threshold for the rating, evidencing a deterioration in the valuation of all its assets, excluding its pet care and pet insurance businesses. The share prices of Coty Inc., Krispy Kreme (not rated), and JDEP displayed downward trends in the first half of 2024, declining by about 16%, 27%, and about 25%, respectively. In addition, the valuation of Panera, its private fast casual restaurant business, decreased by about 35%, reflecting subdued multiples as sharp inflation in the past couple of years drove away consumers with lower disposable incomes. We highlight that JAB's LTV level currently deviates from its own financial policy of maintaining its stand-alone LTV to below 20%. Its LTV level offers limited headroom to accommodate further deterioration in portfolio valuation without any cure, in our view.

Our assessment of JAB's business risk could weaken if the share of its listed assets remains low for longer. JAB's share of listed assets stands at about 55% based on June 2024 figures, remaining materially below the 70% level we consider commensurate for the rating. The impact of the increased stake in JDEP will be offset by the sale of KDP's shares, leaving the share of listed assets after transactions broadly unchanged. We will monitor progress and evaluate the likelihood of JAB's ability to list some of its private assets within the next six to 12 months. JAB has publicly communicated its intention to float a couple of times, for Panera, and it has also announced plans to explore IPO opportunities for the two veterinary businesses that are part of its pet care platform, National Veterinary Association (NVA) and Ethos. Although JAB has had a solid track record of getting its private assets listed, such as Krispy Kreme in 2021 and KDP and JDEP in 2020, and has achieved good returns on its investments, the current softness in demand for fast food restaurants could delay JAB's willingness to float Panera in the short term. We estimate that JAB's pro forma share of listed assets would increase to more than 85% if both assets are listed.

JAB's portfolio credit quality remains noninvestment grade, in the high 'bb' range. 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 the private nature of part of its portfolio, where JAB is prone to higher leverage to increase returns. We see the unlisted assets--and notably Panera and the pet care platform--as having a relatively weaker credit profile than its listed assets.

We note, however, that management's efforts to turn around Coty and improve its profitability have yielded results. On Sept. 18, 2024, we upgraded Coty to 'BB+' with a stable outlook (from BB/Positive/--) mainly on account of continued deleveraging and improved operating efficiency. Coty's S&P Global Ratings-adjusted debt to EBITDA is expected to improve to around 3.5x by the end of fiscal 2025 (June 30, 2025) from 4.7x at the end of fiscal 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 on RatingsDirect. In addition, we note that, despite softer demand in the food and beverage segments, JAB's portfolio has been increasing operating margins and cash generation in first nine months 2024.

Outlook

The negative outlook indicates that we could lower our rating on JAB within the next six to 12 months if prospects for increasing the share of listed assets to above 70% fade due to unsupportive equity markets or if its LTV ratio exceeds 25%.

Downside scenario

support a timely IPO of Panera or the pet care platform, resulting in the portfolio liquidity staying low at below 70%. We could also consider a downgrade if JAB fails to maintain its LTV below 25%.

Upside scenario

We could revise our outlook on JAB to stable if the company increases the headroom under its LTV ratio and if it successfully executes the listing of Panera or its pet care platform, such that the share of listed assets in its portfolio increases to above 70%.

Company Description

JAB focuses on defensive and fast-moving consumer goods and services, and consumer retail assets. Following the acquisition of NVA, the company also has veterinary health care services. In 2022, it 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 Lucresca SE hold about 90% of JAB through wholly owned subsidiary Joh. A. Benckiser B.V. (formerly Donata Holdings B.V.). The management team and other investors hold the remaining stake of approximately 10%.

Our Base-Case Scenario

Assumptions

- 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 with the $107 million in 2023, due to lower advisory costs.
- Interest expense 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 Co. 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.

Liquidity

We assess JAB's liquidity as strong. We estimate that its liquidity sources will exceed liquidity uses by more than 1.5x over the next 24 months. This is thanks to a long-term debt maturity profile and large cash holdings and revolving credit facilities (RCFs). The company's strong ties with banks and access to debt markets support 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.

Liquidity sources include:

- Cash and cash equivalents of approximately $4.1 billion as of June 30, 2024;
- Full availability of $3.2 billion in RCFs with maturities longer than 12 months and $3.1 billion RCFs for the following 24 months; and
- Unstressed dividend inflows of $650 million-$750 million over the next 12 months, normalizing to about $650 million thereafter.

Liquidity uses include:

- 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.

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 $10.6 billion as of June 30, 2024. JAB 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.

Ratings Score Snapshot

Issuer Credit Rating	BBB+/Negative/--
Business risk:	Satisfactory
Country risk	Low
Industry risk	Intermediate
Investment position	Satisfactory
Financial risk:	Intermediate
Cash flow/leverage	Intermediate
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: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, 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

Ratings List

Outlook Action

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

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.