FitchRatings

Criteria Essentials - Corporate Ratings

Scan QR code or visit https://www.fitchratings.com/criteria/corporate-finance to view detailed relevant criteria: (A) Corporate Rating Criteria; (B) Sector Navigators - Addendum to the Corporate Rating Criteria; (C) Parent and Subsidiary Linkage Rating Criteria; (D) Corporates Recovery Ratings and Instrument Ratings Criteria; (E) Country-Specific Treatment of Recovery Ratings Criteria; (F) Corporate Hybrids Treatment and Notching Criteria (G) Government-Related Entities Rating Criteria

Operating Environment (OE) A

- **Economic environment** for countries where the issuer's assets are located and where the economic value is created, derived from Fitch's Sovereign Rating Model
- **Financial Access:** strength of local financial system and of the corporate's ability to access local and international funding
- **Systemic governance:** derived from the Word Bank's governance indicators , generally for the corporate's headquarter location

*The Country Ceiling indicates Fitch's view of the likelihood of transfer and convertibility restrictions being imposed to a country's domestic private sector.

CAPTURED IN SECTOR NAVIGATORS

Operating Environment

Sector Risk Profile

Business Profile

Financial Profile

→ Group Structure

Capped by Country Ceiling*

Long-Term Issuer Default Rating (IDR) → **Short-Term IDR**

Vulnerability to default on senior financial obligations

In accordance with LT/ST Rating correspondence table (see next page)

Recovery and Instrument Ratings

(see next page)

Senior secured and unsecured debt

Subordinated and hybrid debt

Group Structure

1 When there is a parent/subsidiary relationship, linkage strength determines the relative importance of consolidated or standalone credit profiles to derive IDRs C

Parent-subsidiary linkage relationship
Is there sufficient control by the parent?

NO

YES

Compare standalone credit profile of parent and subsidiary

Same

Stronger Subsidiary

Legal ring-fencing
Access & control

Stronger parent

Legal, strategic, operational incentives

Separate IDRs

Subsidiary IDR derived from linkage factors assessment

Parent IDR typically at consolidated group level; may be below if limited access to group

2 Entities directly owned by government sponsors are assessed under the Government-Related Entities (GRE) Rating Criteria. G

Government IDR

Equalised or notched down

GRE IDR

Equalised or notched up

Typically constrained by government IDR

GRE Standalone Credit Profile

Number of notches down/up

GRE Support Score

Assesses likelihood of exceptional support

- Responsibility to support
- Incentives to support

Distance between GRE standalone credit profile and Government IDR

Sector Navigators B

50+ sector navigators define sector-specific factors, sub-factors, financial ratios and related benchmark values.

Several sector navigators may be used for issuers straddling several sectors

Qualitative business risks tailored to each sector

- **Forward-looking:** ratings case defines 3 to 5-year projections
- **Through the cycle:** trends assessed over 3+ years of operating history and 3 to 5-year ratings case projections
- **Adjustments** applied to financial statements data (see next page)

SECTOR RISK PROFILE	OPERATING ENVIRONMENT		BUSINESS PROFILE 5 Factors		FINANCIAL PROFILE 3 Factors		
Impact of the wider context the issuer operates in, irrespective of its sector	Sector's fundamentals; represents the typical issuer standalone rating range in the sector	**FACTORS** Assessed as a 3-notch range. Weights vary: higher, moderate, lower relative importance	**Management and Corporate Governance**	**4 Sector-Specific Factors,** such as competitive intensity, industry profile, diversification	**Profitability** Earnings stability, continuing cash-flow	**Financial Structure** Leverage and level of dependence on external financing	**Financial Flexibility** Capitalisation, coverage, funding sources, liquidity
		SUB-FACTORS Assessed at rating category level (without modifiers). Up to 5 sub-factors per factor	Management strategy; Governance structure; Financial transparency	Defined in sector navigators	Defined in sector navigators, incl. financial ratios such as: (financial ratios and benchmark values vary across sectors) EBITDAR margin; EBIT margin; FFO margin; FCF margin	EBITDAR leverage; EBITDA net leverage; FFO leverage; (CFO-Capex)/Debt	coverage; EBITDAR fixed-charge coverage

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Highly Speculative Credits: Additional Factors on Top of Sector Navigators

	Business model	Execution risk	Cash flow	Leverage	Financial policy	Refinancing risk	Liquidity
B+	Robust	Limited	Positive	Clear deleveraging	Committed	Limited	Comfortable
B	Sustainable	Moderate	Neutral to positive	Deleveraging capacity	Some deleveraging	Manageable	Satisfactory
B-	Intact	Meaningful	Volatile	High	Aggressive	High	Limited
CCC	Compromised	Uncertain	Negative	Unsustainable	Uncommitted	Excessive	Poor

Fitch Financial Adjustments (A)

1. Leases
- Lease costs treated as an operating expense
- Lease liabilities: not classified as debt for most sectors; For airlines and shipping, as reported; For retail, hotel and leisure, multiple of rent approach applied

2. Hybrids purchased by unaffiliated investors expected to exercise all available remedies may be assigned 0%, 50% or 100% equity credit for Fitch financial analysis (impact of leverage ratios)

3. Defined-benefit pension schemes: not viewed as a debt obligation and impact reflected in CF modelling.

4. Debt factoring: typically added back to debt

5. Cash adjustments
- Restricted cash, blocked cash not included in readily available cash
- Haircut applied to the value of certain marketable securities

6. Consolidated profile for group structures
- Weak legal, operational or strategic linkages may result in deconsolidation of subsidiaries
- Re-consolidation of debt likely to be serviced by issuer
- Proportional consolidation of JVs

7. HoldCo PIK and shareholder loans: treated as debt or non-debt depending on the assessed instrument impact on the probability of default of the rated entity debt.

8. Debt fair-value adjustments: debt is reflected at the amount payable on maturity: impact of fair value adjustments and derivatives are eliminated from debt

9. Adjustments for financial services activities
Financial services deconsolidated and capital re-allocated to create a self-sustained capital structure

Short-Term IDR and Senior Unsecured ST Debt (Initial maturity <13 months) (A)

Correspondence table between Long- and Short-Term Ratings

Long-Term Rating		AAA to AA-	A+	A	A-	BBB+	BBB	BBB-	BB+ to B-	CCC+ to C
Short-Term Rating	Lower option	F1+	F1	F1	F2	F2	F3	F3	B	C
	Higher option		F1+	F1+	F1	F1	F2			
Min financial flexibility factor for higher option			aa-	aa-	a	a	bbb+			

Financial Flexibility is key rating driver to determine which of the two short-term options is assigned

Subject to
- Not materially weak financial structure
- Minimum OE of 'a-'

Recovery Ratings and Instrument Ratings (Approach applied depends on IDR) (D) (E)

IDR	Approach	Instrument Recovery Rating (RR)	Instrument Rating typical notching from IDR
AAA to BBB-	**Generic approach:** Generic recovery assumptions	RR not assigned	See table below
BB+ / BB / BB-	**Generic approach:** Generic recovery assumptions	RR may be assigned if there is market demand	See table below
B+ and Below	**Bespoke approach:** Estimated recovery for each debt class	RR assigned drives IDR notching to derive instrument rating	See table below

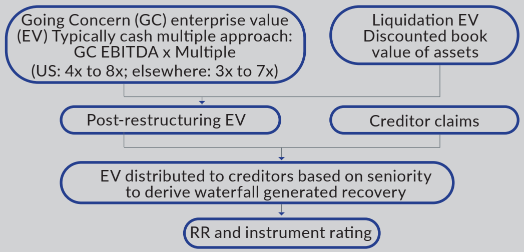
AAA to BBB-:

Secured debt	+1 (0 if poor collateral)
Senior unsecured debt	0
Subordinated debt	-1

BB+ / BB / BB-:

IDR	BB+	BB	BB-
Super senior revolving credit facility	+1	+2	+2
Asset-backed loan facility	+1	+2	+2
Cat 1 first lien (US only)	+1	+2	+2
Cat 2 first lien	+1	+1	+2
Second lien/unsecured	0	0	0
Subordinated	-1	-1	-1
Deeply subordinated	-2	-2	-2

B+ and Below:



RR	Description	Estimated Recovery	Notching from IDR
RR1	Outstanding	91 – 100	+3
RR2	Superior	71 – 90	+2
RR3	Good	51 – 70	+1
RR4	Average	31 – 50	0
RR5	Below average	11 – 30	-1
RR6	Poor	0 – 10	-2 / -3

RR caps apply for: unsecured/second lien instruments, Native American gaming, country-specific predictability of recovery considerations

Uplift sectors, regulated utilities and REITs, may benefit from above-average recovery assumptions and receive an uplift.

Hybrid Instruments (F)

1. **If issuer rated BB- or above,** hybrid instrument ratings notched from IDR of issuer based on table below

2. **If issuer rated B+ or below,** bespoke approach applies as detailed above

Typical notching relative to IDR in going concern	
Hybrids subordinated or with deferral option	-1 at least
Hybrids that qualify for equity credit (deeply subordinated)	-2 at least
Hybrids with ability to write-down principal	-3 at least

When loss-absorption triggered, instrument rated between 'CCC' to 'C', depending on severity of economic losses