

# Criteria Essentials - Corporate Ratings 1/2

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

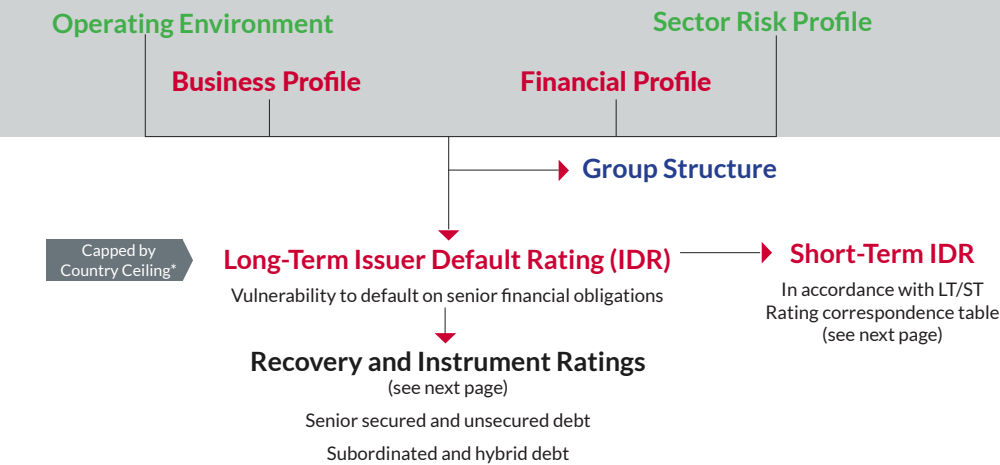


## Operating Environment (OE)

- 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 World 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



## Sector Navigators

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

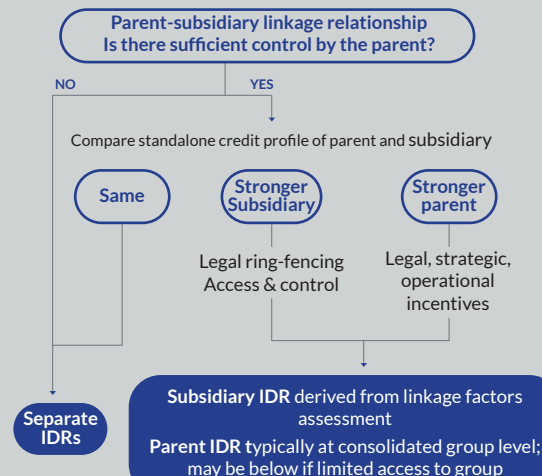
- Forward-looking:** ratings case defines 3 to 5-year projections
- Through the cycle:** trends assessed over 3+ years of operating history and 3 to 5-year ratings case projections
- Adjustments** applied to financial statements data (see next page)

Qualitative business risks tailored to each sector

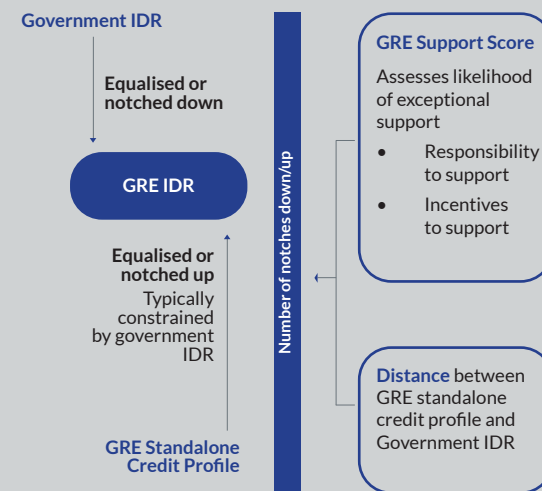
SECTOR RISK PROFILE	OPERATING ENVIRONMENT			BUSINESS PROFILE 5 Factors	FINANCIAL PROFILE 3 Factors			
Impact of the wider context the issuer operates in, irrespective of its sector	Sector's fundamentals; represents the typical issuer standalone rating range in the sector	FACTORS		Management and Corporate 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
		Assessed as a 3-notch range  Weights vary: higher, moderate, lower relative importance						
		SUB-FACTORS		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)		
		Assessed at rating category level (without modifiers) Up to 5 sub-factors per factor				EBITDAR margin EBIT margin FFO margin FCF margin	EBITDAR leverage EBITDA net leverage FFO leverage (CFO-Capex)/Debt	coverage EBITDAR fixed-charge coverage

## Group Structure

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



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



# Criteria Essentials - Corporate Ratings 2/2

## 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	Consistently negative	Unsustainable	Uncommitted	Excessive	Poor

\*Descriptions for CCC+/CCC-/CC are available in the criteria report

## Fitch Financial Adjustments

### 1. Leases

- Lease costs treated as an operating expense
- Lease liabilities: not classified as debt for most sectors; As reported for airlines, shipping, retail, hotel and leisure.

**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)

### 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'

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## Recovery Ratings and Instrument Ratings (Approach applied depends on IDR)

IDR	Approach	Instrument Recovery Rating (RR)	Instrument Rating typical notching from IDR		
AAA to BBB-	Generic approach: Generic recovery assumptions	RR not assigned	Secured debt	+1 (0 if poor collateral)	
			Senior unsecured debt	0	
			Subordinated debt	-1	
BB+ BB BB-	Generic approach: Generic recovery assumptions	RR may be assigned if there is market demand	IDR	BB+	BB
			Super senior revolving credit facility	+1	+2
			Asset-backed loan facility	+1	+2
			Cat 1 first lien (US only)	+1	+2
			Cat 2 first lien	+1	+1
			Second lien/unsecured	0	0
			Subordinated	-1	-1
			Deeply subordinated	-2	-2

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

**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