Article Title: ARCHIVE | Criteria | Corporates | General: Companies Owned By Financial Sponsors: Rating Methodology Data: (EDITOR'S NOTE: — This criteria article is no longer current. It has been superseded by the articles titled, "Corporate Methodology," published on Nov. 19, 2013, for issuers within the scope of that criteria; and "Project Finance Framework Methodology," published on Sept. 16, 2014, for project finance entities, master limited partnerships, and general partnerships of master limited partnerships.) 1. Standard & Poor's Ratings Services is updating its criteria for rating companies owned by financial sponsors. This article relates to our criteria article "Principles Of Credit Ratings," which we published on Feb. 16, 2011, on RatingsDirect on the Global Credit Portal. SCOPE OF THE CRITERIA 2. This methodology applies to credit ratings on nonfinancial corporate entities owned by financial sponsors globally. It excludes equipment leasing and rental companies, as well as real estate investment trusts, due to the different nature of their financial structures. SUMMARY OF THE CRITERIA 3. The article updates our criteria for rating companies owned by financial sponsors, and should be read in conjunction with "Credit FAQ: Knowing The Investors In A Company's Debt And Equity," published April 4, 2006. It addresses how we evaluate these companies' financial policies, our estimations of their leverage, and how we assess their financial risk profiles. The article indicates the likely rating outcomes based on our assessment of these companies' financial and business risk profiles. IMPACT ON OUTSTANDING RATINGS 4. We expect a limited number of rating changes. EFFECTIVE DATE AND TRANSITION 5. These criteria are effective immediately for all new and outstanding issuer ratings on applicable companies. METHODOLOGY 6. Financial sponsors often dictate company policies regarding risk-taking, financial management, and corporate governance for the companies that they control. There is a common pattern of these investors extracting cash in ways that increase the companies' financial risk. Accordingly, the ratings we assign to companies on their acquisition by financial sponsors ordinarily reflect our presumption of some deterioration in credit quality. It is very unlikely for us to rate financial sponsor-owned companies above the 'B' category. This reflects our view that such companies' leverage will increase and credit quality will deteriorate over time, even if the companies' balance sheets indicate otherwise at the time the deal is financed. In light of this assumption, we typically assess financial sponsor-owned companies as having "highly leveraged" financial risk profiles. This is because we incorporate the risk of subsequent leveraging even if the company balance sheet indicates otherwise. FREQUENTLY ASKED QUESTIONS How does Standard & Poor's define a financial sponsor and a financial sponsor-owned company for the purposes of these criteria? 7. For the purposes of these criteria, we define a financial sponsor as an entity that follows an aggressive financial strategy in using debt and debt-like instruments to maximize shareholder returns. Typically, these sponsors dispose of assets within a short to intermediate time frame. Financial sponsors include private equity firms, but not infrastructure and asset-management funds, which maintain longer investment horizons. We define financial sponsor-owned companies as companies that are owned 40% or more by a financial sponsor or a number of financial sponsors, or where we consider that the sponsor(s) exercise control of the company. Are there any circumstances in which you could rate a financial sponsor-owned company with a "highly leveraged" financial risk profile above the 'B' category? 8. Yes. We could rate financial sponsor-owned companies with a "highly leveraged" financial risk profile above the 'B' category if we assess their business risk profiles as "strong" or "excellent." Such assessments of business risk would reflect the inherent stability of the companies' earnings. This inherent stability is a characteristic for example of regulated monopolies that provide essential services. Our business and financial risk profile matrix indicates a rating outcome (indicative rating) of between, but not including, 'BB-' and 'BBB' for companies with a combination of an "excellent" business risk profile and "highly leveraged" financial risk profile. We could assign a financial sponsor-owned company with a combination of a "strong" business risk profile and "highly leveraged" financial risk profile a rating as high as 'BB-'. (See table 1 below for our business and financial risk profile matrix, taken from "Methodology: Business Risk/Financial Risk Matrix Expanded," published Sept. 18, 2012.) Table 1 Business And Financial Risk Profile Matrix BUSINESS RISK PROFILE --FINANCIAL RISK PROFILE-- Minimal Modest Intermediate Significant Aggressive Highly leveraged Excellent AAA/AA+ AA A A- BBB -- Strong AA A A- BBB BB BB- Satisfactory A- BBB+ BBB BB+ BB- B+ Fair -- BBB- BB+ BB BB- B Weak -- -- BB BB- B+ B- Vulnerable -- -- -- B+ B B- or below These rating outcomes are shown for guidance purposes only. Actual rating should be within one notch of indicated rating outcomes. Which conditions must be present for us to assess a financial sponsor-owned company as having an "aggressive" or "significant," as opposed to a "highly leveraged," financial risk profile? 9. In a large majority of cases, financial sponsor-owned companies will have a "highly leveraged" financial risk profile. This is because the rating incorporates the risk of subsequent leveraging, even if the company balance sheet indicates otherwise. 10. In a small minority of cases, we could assess a financial sponsor-owned entity as having an "aggressive," rather than a "highly leveraged," financial risk profile if it meets all of the following conditions: Standard & Poor's-adjusted debt to EBITDA is less than 5x and our estimation is it will remain less than 5x; We perceive that the risk of releveraging is low, such that fully adjusted debt to EBITDA will remain less than 5x, based on the company's financial policy and our view of the financial risk appetite of the financial sponsor owners; and We assess liquidity as "adequate," with adequate covenant headroom. 11. In even rarer cases, however, a financial sponsor-owned entity could have a "significant" financial risk profile (see possible rating outcomes in table 1) if the company is publicly listed and it meets all of the following conditions: Other shareholders own a material stake. The materiality of the stake is a minimum of 20%, but it can be higher, depending on local legal or regulatory requirements that trigger minority rights based on shareholder thresholds; We anticipate that the sponsor will relinquish control over the medium term; Fully-adjusted debt to EBITDA is less than 4x, and we estimate that it will remain less than 4x; The company has indicated a financial policy stipulating a level of leverage consistent with a "significant" or better financial risk profile (that is, debt to EBITDA of less than 4x); and We assess liquidity as "adequate," with adequate covenant headroom. Could Standard & Poor's rate a financial sponsor-owned company with an "aggressive" financial risk profile above the 'B' category? 12. Yes. If we assess a financial sponsor-owned company as having an "aggressive" financial risk profile, we could rate it above the 'B' category in the following cases: We could assign a financial-sponsor-owned company with an "aggressive" financial risk profile a rating as high as 'BBB' for an "excellent" business risk profile; We could assign a financial-sponsor-owned company with an "aggressive" financial risk profile a rating as high as 'BB' for a "strong" business risk profile; and We could assign a financial sponsor-owned company with an "aggressive" financial risk profile a rating as high as 'BB-' for a "satisfactory" business risk profile. 13. We could assign a financial sponsor-owned company with a combination of an "aggressive" financial risk profile and "fair" business risk profile a rating as high as 'BB-', if the company is publicly listed and meets the following conditions: Other shareholders own a material stake. The materiality of the stake is a minimum of 20%, but it can be higher, depending on local legal or regulatory requirements that trigger minority rights based on shareholder thresholds; The sponsor has indicated its intention to reduce its stake over the medium term; and The company has indicated a financial policy stipulating a level of leverage consistent with an "aggressive" or better financial risk profile (that is, debt to EBITDA of less than 5x). 14. Additionally, we could assign a financial sponsor-owned company with a combination of an "aggressive" financial risk profile and "fair" business risk profile a rating as high as 'BB-' if there are two or more factors present that combine to partly insulate the company from its financial-sponsor owner. These factors could include: The presence of significant minority shareholders with an active economic interest; Independent directors on the board that have an effective influence on decision-making; Security and restrictive covenants in key borrowing arrangements; and Strong legislative or regulatory restrictions, coupled with active regulatory oversight, which would inhibit the financial sponsor owner's ability to unduly impair the subsidiary's stand-alone creditworthiness. 15. Apart from such exceptions, we cap the ratings on all other financial sponsor-owned companies with an "aggressive" financial risk profile and a "fair" or "weak" business risk profile at 'B+'. How does Standard & Poor's differentiate between financial sponsor-owned companies with "highly leveraged" financial risk profiles? 16. In order to differentiate between financial sponsor-owned companies with "highly leveraged" financial risk profiles, we notch up from the indicative rating for companies with comparatively lower leverage and stronger cash interest coverage, and notch down for companies with extremely high leverage or weak liquidity. (For indicative ratings, see table 1 above for our business and financial risk profile matrix.) For example, the combination of a "fair" business risk profile and "highly leveraged" financial risk profile would normally yield a 'B' rating, but the actual rating could range between 'B+' and 'B-', depending on the company's leverage, and on the strength of its cash flow and cash interest coverage. RELATED CRITERIA AND

RESEARCH Management and Governance Credit Factors for Corporate Entities and Insurers, Nov. 13, 2012 Principles Of Credit Ratings, Feb. 16, 2011 Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009 2008 Corporate Criteria: Analytical Methodology, April 15, 2008 Credit FAQ: Knowing The Investors In A Company's Debt And Equity, April 4, 2006 These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.