Article Title: ARCHIVE | Criteria | Corporates | General: Mid-Market Evaluation: Definition And Scale Data: (EDITOR'S NOTE: — This criteria article is no longer current. It has been superseded by the article titled "Mid-Market Evaluation Methodology," published June 26, 2014.) 1. A mid-market evaluation (MME) is Standard & Poor's Ratings Services' opinion about the creditworthiness of a mid-market company relative to other mid-market companies. It assesses the relative likelihood of a mid-market company's capacity and willingness to meet its financial obligations as they come due. We rank that assessment on a specific scale ranging from 'MM1' (highest) to 'MM8' (lowest) and 'MMD' (default) (see table 1 below). MMEs are not credit ratings and they are not substitutes for credit ratings. 2. MMEs are based on Standard & Poor's corporate rating methodology ("2008 Corporate Criteria: Analytical Methodology," published April 15, 2008, on RatingsDirect), but use a simplified analytical process and a customized analytical framework. 3. When applied to a company's specific debt obligation, MMEs incorporate our opinion and expectation regarding recovery in the event of a payment default (including aspects related to collateral security and structural or contractual subordination). Our opinion about recovery is indicated by '+' or '-' modifiers to the MME scale (such as 'MM2+' or 'MM3-'). SCOPE OF THE CRITERIA 4. The mid-market scale is applicable to companies with annual revenues below €1.5 billion and total reported debt facilities (drawn and undrawn) below €500 million, or the local currency equivalents. It is not applicable to financial firms, utilities, leveraged buyouts, project finance, subsidiaries or holding companies of a rated entity, or mid-market companies that issue publicly traded bonds. For the purposes of this scale, we define leveraged buyouts as transactions where 40% or more of the issuer is owned by a private equity firm (sponsor) or a number of private equity firms, or where we consider that the sponsor(s) exercise control of the company. 5. The scope of the mid-market scale is global, but we plan to apply it only in Europe in the first stage. METHODOLOGY 6. The MME criteria is generally based on our corporate rating criteria "2008 Corporate Criteria: Analytical Methodology," published April 15, 2008, as well as these related criteria articles: "Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers," published Nov. 13, 2012; "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," published Sept. 28, 2011; and "Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt," published Aug. 10, 2009. 7. However, we use a simplified analytical process and customize part of the global corporate criteria. Specifically, we follow a modified liquidity methodology and pay particular attention to certain specific characteristics of mid-market companies when applying our corporate criteria (see the Appendix and "Credit FAQ: Standard & Poor's Mid-Market Evaluations Explained," published June 24, 2013.) Definition 8. A Standard & Poor's MME is an opinion about the creditworthiness of a mid-market company relative to other mid-market companies. It assesses the relative likelihood of a company's capacity and willingness to meet its financial obligations as they come due. Scale 9. The MME scale, presented in table 1, applies to an obligor and to a particular debt instrument. In cases where a company asks Standard & Poor's to attribute an MME to a particular debt instrument, the MME may be modified by the symbols '+' or '-', which indicate our opinion about recovery prospects (including aspects related to collateral security and structural or contractual subordination). For instance, a debt instrument could receive an evaluation of 'MM1+' or 'MM3-' according to our expectations for particularly high or low recovery. Table 1 The Mid-Market Evaluation Scale MM1 The company has a very strong capacity to meet its financial commitments relative to other mid-market companies. Companies rated at this level are less susceptible to the adverse effects of changes in circumstances and economic conditions than other mid-market companies. MM2 The company has a strong capacity to meet its financial commitments relative to other mid-market companies. However, the company is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than entities in the higher category. MM3 The company has a good capacity to meet its financial commitments relative to other mid-market companies. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the entity to meet its financial commitments. MM4 The company has an adequate capacity to meet its financial commitments relative to other mid-market companies. However, it is more exposed to adverse economic conditions or changing circumstances than companies with a higher MME. MM5 The company has a reasonably adequate capacity to meet its financial commitments relative to other mid-market companies. It faces ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could result in an inadequate capacity on the part of the entity to meet its financial commitments. MM6 The company has a weak capacity to meet its financial commitments, although it is less vulnerable than mid-market companies with a lower MME. Adverse business, financial, or economic conditions are likely to impair the entity’s capacity or willingness to meet its financial commitments. MM7 The company is currently vulnerable to defaulting and is dependent upon favorable business and financial conditions to meet its financial commitments. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitments. MM8 The company is currently highly vulnerable to nonpayment of its financial commitments. We expect default to be a virtual certainty, either through a missed payment, a distressed exchange, or a similar debt restructuring, or a bankruptcy filing. MMD The company has either failed to pay one or more of its financial obligations when due, or it has been placed into bankruptcy, or it has completed a distressed exchange or similar debt restructuring. Recovery 10. If we evaluate an instrument to have particularly high recovery in the event of a default and the instrument is secured, we assign a '+' to the instrument. If we expect an instrument to have particularly low recovery in the event of default, we assign a '-' to the instrument. High recovery is defined as typically above 70%, and low recovery is typically below 30%. 11. These recovery evaluations are a simplified approach to Standard & Poor's methodology for assigning recovery ratings on corporate debt (see "Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt," published Aug. 10, 2009). To express our opinion about recovery for mid-market companies, we use three broad categories: high, medium, or low. These are denoted by either a '+', no modifier, or a '-'. The more granular scale of our recovery ratings, which range from '1+' to '6', and the jurisdiction-specific adjustments that Standard & Poor's applies to its recovery and issue ratings do not apply to our MMEs. 12. There are two main steps in our assessment. First, we estimate the hypothetical enterprise value of the company at default. Second, we analyze the waterfall of payments to the various secured and unsecured creditors at this hypothetical point of default to determine an estimate of the level of recovery we expect. Default 13. MMEs are also subject to Standard & Poor's general definition of default (see "Standard & Poor's Ratings Definitions," published June 17, 2013) with a few exceptions. These differences are as follows: The mid-market scale does not distinguish between default and selective default, as our global ratings scale does. An entity is rated 'MMD' either if it fails to pay one or more of its financial obligations when due, or if it has been placed into bankruptcy. Mid-market evaluations consider a company to be in default when payments on an obligation are not made on the date due, unless Standard & Poor's believes that such payments will be made within any stated grace period of no more than 90 days (this is more than the five days in Standard & Poor's global rating default definition). When applying debt exchange criteria (see "Rating Implications Of Exchange Offers And Similar Restructurings, Update," published May 12, 2009), our mid-market evaluations would generally consider an offer to be distressed, rather than purely opportunistic, if the company is scored 'MM6' or below. Differences Between MMEs And Global Scale Ratings 14. There are other differences between MMEs and global scale ratings, as follows: MMEs do not have outlooks. However, if Standard & Poor's monitoring reveals facts, trends, or events that are not consistent with the existing MME, we may place the evaluation on CreditWatch (either with negative, positive, or developing implications) during the time we need to gather the necessary information to update the evaluation. Standard & Poor's general definition of CreditWatch applies to MMEs (see "Standard & Poor's Ratings Definitions," published June 17, 2013). We do not apply short-term evaluations to MMEs. MMEs do not address the risk that the sovereign restricts the entity's access to foreign exchange needed to service debt. APPENDIX: SPECIFIC CONSIDERATIONS FOR MID-MARKET EVALUATIONS 15. In applying our corporate ratings methodology to MMEs, we modify our liquidity methodology. We also take into account certain characteristics of mid-market companies, specifically: The impact of revenue size on our assessment of business risk; and The effect of family ownership on our assessment of governance and management, and in our analysis of financial policy. Liquidity 16. Our corporate ratings methodology for assessing a company's liquidity ("Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," published Sept. 28, 2011) uses a series of quantitative and qualitative factors to establish five liquidity descriptors for companies: "exceptional", "strong", "adequate", "less than adequate", and "weak". 17. In applying this methodology to mid-market companies, we have developed a specific framework for associating our assessment of liquidity to our overall evaluation of a company on the mid-market scale, as follows. 18. We score a company 'MM1' (highest), only if its liquidity is viewed to be either "adequate", "strong", or "exceptional", as defined in our liquidity methodology. This demonstrates that we consider its liquidity to be sufficiently robust to absorb a moderate level of stress. An "adequate" liquidity has a neutral impact on the MME, while a "strong" or "exceptional" liquidity can help bolster an MME. 19. We would, in general, not expect to score a company that we assess to have "less than adequate" liquidity higher than 'MM3' unless it had offsetting strengths that we considered allowed for an evaluation of 'MM2'. 20. A "weak" liquidity descriptor generally translates into an MME of 'MM6' or lower, unless it meets certain offsetting conditions. In our view, whatever a company's underlying performance, a lack of liquidity could precipitate a default. 21. Even if we assess a mid-market company's liquidity as "weak", we may nevertheless evaluate it higher than 'MM6' if we assess the following characteristics to be present: Sound relationships with banks. Such a solid relationship is key to determining whether a bank will support its client, in our view. When assessing a company's banking relationships, we consider the history of specific relationships, including periods when the company's credit quality was under stress. Moreover, we believe dependence on just one or a few banks heightens risks. Specific banks may at times not have adequate capacity to lend, or may not be willing to lend to the issuer. Having several banking relationships therefore generally lessens the risk to a company should a single bank lose confidence in the borrower and hesitate to provide funds. Prudent financial risk management. A company could demonstrate this through a track record of arranging renewals of its existing credit lines, even during periods of stress. The term structure of its bank credit facilities would demonstrate this. Reliance on short-term facilities in our view poses obvious risks. We have observed that even multiyear facilities will provide commitments for only a short time as the end of their terms approach. We expect to consider whether a company has a track record of renegotiating its banking facilities well before they mature. Under usual circumstances, we may view bank facility expirations as "soft" maturities because the facilities are routinely renewed. However, in the event that a company is under stress and the banks have lost confidence in its prospects, the banks might use the expiration to demand repayment. Sound liquidity providers. Banks providing issuers with facilities for backup liquidity should themselves be sound. An investment-grade rating ('BBB-' or above) on such a bank indicates sufficient financial strength. Sufficient covenant headroom to ensure a company could not breach its covenant coverage tests if forecast EBITDA were to decline by 10%. Business Risk Assessment 22. In applying our corporate rating methodology, we pay particular attention to the impact of the mid-market company's revenue size on the business risk assessment. In general, our view is that most mid-market companies tend to be more vulnerable than larger and more diversified peers to cyclicality and volatility for a variety of reasons: the scale of their operations is more limited; their activities are less diversified; and their operating margins are more volatile. Nevertheless, some mid-market companies benefit from good competitive advantages and strong margins because they hold dominant market positions. Scale of operations 23. The impact of the scale of operations on a company's overall competitive position varies depending on the industry in which it operates. A larger scale can mitigate above-average industry risks, for example in industries in which products are commoditized or in capital-intensive industries. Large size and high production volumes are key factors that can keep production costs low and maintain operating margins. Competition in these sectors is primarily based on price, so the cost of production is an important competitive factor. Smaller players tend to lack the scale to achieve a cost-of-production advantage to defend their profitability. 24. Conversely, smaller companies operating in industries with value-added products or services can establish a competitive position if, for example, they sell branded products or services with technological or qualitative differentiating factors that enhance barriers to entry, all else being equal. Companies with strong market shares in low-risk and growing niche markets can benefit from a pricing premium, assuming demand exceeds supply and that they have optimized plant capacity utilization. This could translate into a positive track record of consistent revenue growth and strong profitability, and mitigate a certain degree of competition. Degree of diversity 25. The more diversified a company's operations in terms of its geographic presence, end markets, products, and customer or supplier base, the better it can withstand operational or economic threats. The significance of each of these factors varies by industry. 26. Diversified operations also help to reduce exposure to economic or business cycles or to one-off operational issues because conditions in one region or business may be more favorable in some markets than others at a given time. Meanwhile, companies with a diverse customer base are less likely to face pricing squeezes or be vulnerable to a sudden loss of demand. A diverse offering of products or services also considerably reduces substitution and replacement risks. Profitability 27. The analysis of profitability is another component in our assessment of a company's business risk and competitive position. We would generally expect an enterprise benefiting from a strong competitive advantage to demonstrate stronger and more stable operating margins than its peers, while a company with weaker market advantages would exhibit weaker and potentially more volatile profitability. Management And Governance 28. In applying our management and governance methodology ("Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers," published Nov. 13, 2012) to mid-market companies, we take into consideration that most of them are family owned and tend to have less complex legal or governance structures than larger listed companies. Family ownership can have a meaningful influence on a company's management, governance, and financial policy, in our view, and therefore on a company's credit standing. Such an influence may be favorable or unfavorable, depending on the characteristics displayed by the company. 29. When assessing management and governance of mid-market companies, we generally consider whether checks and balances exist within a company to show that the interests of shareholders and creditors are aligned. Of the eight management factors and seven governance factors listed in our management and government methodology, we adopt a customized approach in our evaluations of mid-market companies in the following four areas: Depth and breadth of management 30. This tends to influence an enterprise's ability to respond to challenges and capitalize on opportunities. Enterprises that rely on one or a few managers ("key man risk") face the potential for significant disruption to operations upon the loss of key personnel. Midsize companies may be particularly vulnerable to the sudden loss of an entrepreneurial founder unless succession plans are in place. Shareholders of midsize and family-owned enterprises may also be exposed to taxes (death duties) on passing shares from one generation to another, if estate planning does not mitigate this. The resulting financial burden on the surviving shareholders may threaten the shareholding structure. Therefore, our analysis considers whether or not succession planning exists to withstand loss of key personnel without significant disruption to operations or cash flows in each of its significant business units, or without triggering onerous tax burdens. Board effectiveness 31. The effectiveness of a board of directors to independently scrutinize operational management is in our view an important governance issue. In closely held or family-controlled midsize enterprises, there may be less distinction between shareholders, managers, and directors. Similarly, closely held and family-owned companies are less likely than widely held public corporations to appoint a majority of independent directors to the board. By contrast, inherent risks arising from the separation of ownership and management may be less prominent where owners take an active part in management oversight. 32. Therefore, in assessing a board's effectiveness we look beyond affiliations that inform formal notions of directorial autonomy. We generally consider whether there is evidence that the board provides appropriate oversight of key enterprise risks, compensation, and/or conflicts of interest. We consider a board effective if it is supportive of management but retains control as the final decision-making authority for high-level matters. In contrast, we consider a board ineffective if it provides insufficient oversight and scrutiny of management. Evidence of such ineffective oversight could include, for example, strategies or compensation programs that promote outsize risk-taking or that tolerate unmanaged conflicts of interest and/or inadequate succession planning for senior management. For the board to provide effective oversight, we would anticipate that the main shareholders would generally be in broad agreement regarding strategy. Furthermore, we believe that an effective mechanism of resolution or arbitration of potential shareholder disputes is consistent with effective oversight. Entrepreneurial or family-bound ownership 33. An entrepreneurial or family-owned company can act swiftly and decisively. This can be either a strength or a weakness in terms of governance. It can be a strength if the influence of the controlling shareholder/stakeholder is offset by risk-aware professional management and a board of directors that effectively serves the interests of all stakeholders. It can be a deficiency if controlling ownership negatively influences corporate decision-making to promote the interests of the controlling owners above those of other stakeholders.

Management culture 34. Management culture can be a governance deficiency for any enterprise. We consider it a weakness if, for instance, management's own interests are its primary concern, if dissent in the executive suite is generally not tolerated, if management is responsive only to a narrow group of stakeholders, or if management proves incapable of managing conflicts of interest arising between different stakeholder groups. Excessive management turnover can be an indicator of a deficient management culture. By contrast, a good management is responsive to multiple stakeholders' interests, appropriately balances those interests, and acknowledges that the board of directors is the ultimate decision-making authority. Closely held or family-controlled midsize enterprises are often capable of maintaining the founder(s) culture, setting sustainable goals, incentives, and compensation of professional management. They also tend to retain longer tenures of management and executive board members. Financial Policy 35. We observe that a mid-market company's ownership structure can affect financial policy in ways that can both positively and negatively affect its credit standing. For instance, we observe that most family-owned companies are generally keen to remain independent not only regarding ownership but also funding. Given their primary reliance on internally generated cash flows for funding, they tend to be less leveraged than certain companies owned by financial sponsors. On the other hand, a reluctance to use equity funding and/or more limited access to external financing can also constrain financial flexibility and the ability of these companies to fund growth. 36. Companies that have been in family ownership through several generations often display longer term strategic thinking and are less beholden to the short-term sentiments of the equity markets. Because midsize and family-owned companies typically represent a large concentration of the family's wealth, they can be inherently more risk-adverse than, for instance, private equity groups that own a wider portfolio of companies. RELATED CRITERIA AND RESEARCH Credit FAQ: Standard & Poor's Mid-Market Evaluations Explained, June 24, 2013 Standard & Poor's Ratings Definitions, June 17, 2013 Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012 Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011 Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug., 10, 2009 Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009 2008 Corporate Criteria: Analytical Methodology, April 15, 2008 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.