Article Title: Criteria | Corporates | General: Mid-Market Evaluation Rating Methodology Data: (EDITOR'S NOTE: —On July 14, 2022, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.) 1. This article presents S&P; Global Ratings' criteria for mid-market evaluation ratings (MME ratings). The scope includes corporate entities that issue a public bond and financial sponsor-owned companies. 2. This paragraph has been deleted. 3. The methodology aims to transparently articulate the steps we use in determining a mid-market evaluation rating (MME rating). We determine MME ratings using our corporate rating methodology, but with a customized analytical process and framework. This involves assessing a company's overall business and financial credit profile, capital structure, financial policy, liquidity, and management and governance. I. SCOPE OF THE CRITERIA 4. The criteria apply to companies with annual group-level revenues below €1.5 billion and total reported group debt facilities (drawn and undrawn) below €500 million, or the local currency equivalents. The criteria also apply to financial sponsor-owned companies with annual group-level revenues below €1.5 billion but with total debt facilities (drawn and undrawn) below €250 million, or the local currency equivalents. Financial sponsors include private equity firms. For the purposes of these criteria, we define financial sponsor-owned entities as companies where 40% or more of the capital is owned by a financial sponsor or a number of financial sponsors, and where we consider that the sponsor(s) exercise control of the company. The MME rating criteria do not apply to financial firms; project finance, project development, commodities trading, and investment holding companies; corporate securitizations; or subsidiaries or holding companies that have a general purpose issuer rating. Short-term debt instruments and hybrid debt instruments are not rated under the MME rating criteria. 5. We provide MME ratings to corporate entities that issue private debt or public bonds if they meet the conditions defined in paragraph 4. 6. If a company with an MME rating subsequently decided to issue new debt leading its debt to durably exceed the €500 million threshold for nonfinancial sponsor-owned companies and €250 million threshold for financial sponsor-owned companies by more than 10%, or if its revenues increased durably by more than 30% above the €1.5 billion threshold, we would withdraw the existing MME rating and, if the issuer requested it, we would assign a corporate credit rating on S&P; Global Ratings' global ratings scale. II. METHODOLOGY Definition 7. An MME rating is S&P; Global Ratings' forward-looking opinion about the creditworthiness of a mid-market company relative to other mid-market companies. It assesses a mid-market company's relative capacity and willingness to meet its financial obligations as they come due. We assign the MME rating at an obligor level, but can assign it at a debt instrument level as well. In cases where we assign an MME rating to a particular debt instrument, we may modify the MME rating with the symbols '+' or '-' to indicate our opinion about recovery prospects in case of default (including our opinion of the collateral security and structural or contractual subordination). Scale 8. MME ratings are derived from a specific MME methodology and use a specific credit rating scale ranging from 'MM1' (highest) to 'MM8' and 'MMD' (default). We apply the MME rating scale and definitions to assign an obligor level MME rating with respect to a company's overall capacity to meet its financial commitments, or to assign an issue level MME rating with respect to a company's capacity to meet its financial commitment on a debt instrument (see table 1). Use of the MME rating scale on the issue level is only for long-term debt instruments, those with an original tenor of 365 days or longer. The symbols '+' and '-' apply only to debt instruments (chart 1). For instance, a debt instrument could receive an evaluation of 'MM1+' or 'MM1-' according to our expectations of particularly high or low recovery. Table 1 The Mid-Market Evaluation Rating Scale MM1 The company has a very strong capacity to meet 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 companies 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 company 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 rating. MM5 The company has 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 company to meet its financial commitments. MM6 The company has a weak capacity to meet financial commitments, although it is less vulnerable relative to other mid-market companies with a lower MME rating. 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 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 defaulting and is dependent upon favorable business and financial conditions to meet financial commitments. We expect default to be a virtual certainty, either through a missed payment, a distressed exchange, or 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. NR An issuer designated 'NR' is not rated. For an obligation, an NR designation indicates that no rating has been requested, or that there is insufficient information on which to base a rating, or that Standard & Poor's does not rate a particular obligation as a matter of policy. 9. MME ratings are also subject to S&P; Global Ratings' general definition of default (see "S&P; Global Ratings Definitions") with a few exceptions. These differences are as follows: The MME rating scale does not distinguish between default and selective default, as our general purpose ratings scale does. An entity is assessed 'MMD' either if it fails to pay one or more of its financial obligations when due, or if it has been placed into bankruptcy or it has completed a distressed exchange or similar debt restructuring. When applying our debt exchange criteria (see "Rating Implications Of Exchange Offers And Similar Restructurings"), we generally consider an offer as distressed, rather than purely opportunistic, if we assess the company as 'MM6' or below. 10. MME ratings consider a company to be in default when payments on an obligation are not made on the due date, unless S&P; Global Ratings believes that such payments will be made within any stated grace period of no more than 90 days. We also consider a company to be in default when only one instrument selectively defaults (SD) without cross-defaulting the remaining instruments in its capital structure. 11. For an MME rating at the obligor level, we do not distinguish between a local currency and a foreign currency MME rating. However, such an MME rating would be constrained by our view of the transfer and convertibility (T&C;) risk as applicable with respect to the obligor. For an MME rating on a debt instrument, we apply potential constraints related to T&C; risk for issues in foreign currency, but not for issues in local currency. 12. MME ratings do not have outlooks. We may place an MME rating on CreditWatch when S&P; Global Ratings' monitoring reveals facts, trends, or events that deviate from our expectations and when we believe additional information is necessary to evaluate the current MME rating; or when we have not fully determined the magnitude of the impact of developments on the MME rating and we believe that an MME rating change is likely in the short term. CreditWatch highlights our opinion regarding the potential direction of an MME rating. A CreditWatch listing, however, does not mean an MME rating change is inevitable. The "positive" designation means that a rating may be raised; "negative" means a rating may be lowered; and "developing" means that a rating may be raised, lowered, or affirmed (see "S&P; Global Ratings Definitions"). Recovery 13. If we evaluate an instrument as having particularly high recovery prospects in the event of a default and the instrument is secured, we assign a '+' to the instrument. If we evaluate an instrument as having particularly low recovery in the event of default, for example, if the debt is subordinated, we assign a '-' to the instrument. We define high recovery when we expect lenders to recover 70% of principal and above, and low recovery when we expect them to recover 30% of principal and below. 14. These recovery evaluations are a customized version of S&P; Global Ratings' methodology for assigning recovery ratings to corporate debt (see "Recovery Rating Criteria For Speculative-Grade Corporate Issuers"). To express our opinion about recovery for mid-market companies, we use three broad categories: high, medium, or low. These are denoted by either '+', no identifier, or '-'. The more granular scale of our recovery ratings, which range from '1+' to '6', and the jurisdiction-specific adjustments that we apply to our recovery and issue ratings do not apply to our MME ratings. 15. For our recovery analysis, we refer to standardized assumptions. We conduct a more detailed review of the assumptions and documentation only if we believe that structural and/or legal features on the corporate and capital instruments are factors affecting the recovery outcome. For companies with MME ratings of 'MM1' or 'MM2', we modify an MME rating on a debt instrument with the addition of a minus (-) sign if in our view there is significant priority debt ahead of the rated debt instrument (that is debt that ranks contractually or structurally senior to the rated debt) (see "Reflecting Subordination Risk In Corporate Issue Ratings"). Mid-Market Evaluation Rating Framework 16. The MME rating framework follows the fundamental approach of the analytical process based on our corporate rating criteria "Corporate Methodology," as well as the following related criteria articles: Rating Government-Related Entities: Methodology And Assumptions; Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers; Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers; Corporate Methodology: Ratios And Adjustments; Recovery Rating Criteria For Speculative-Grade Corporate Issuers; Reflecting Subordination Risk In Corporate Issue Ratings; Methodology: Industry Risk; Country Risk Assessment Methodology And Assumptions; Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings; If applicable, we incorporate assessments of likely extraordinary group support or negative group intervention factors into the MME rating on an entity that is a member of an unrated group in line with "Group Rating Methodology" (for more details, see question 3 in Appendix I); and The final MME ratings are subject to "Ratings Above The Sovereign--Corporate And Government Ratings" (for more details, see question 4 in Appendix I). III. THE MID-MARKET EVALUATION RATING PROCESS EXPLAINED 17. The MME rating methodology follows several discrete steps that are similar to those in "Corporate Methodology" (see chart 2 below). In Step 1A, we analyze a company's country risk, industry risk, and competitive position to determine the business credit profile. In Step 1B, we analyze cash flow/leverage metrics to determine the financial credit profile. In Step 2, we then combine the business and financial credit profile assessments to determine an issuer's anchor MME rating. 18. In Step 3, we analyze four factors that could potentially modify the anchor. These factors are: capital structure, management and governance, financial policy, and liquidity. The assessment of each factor can have a positive, neutral, or negative effect on the anchor assessment. Depending on the relative outcome for each factor, we adjust the anchor accordingly to derive the MME rating's stand-alone credit profile (SACP). We adjust the SACP for government or group influence, if applicable, to produce the issuer MME rating. From that we derive an issue or debt instrument evaluation, and indicate our opinion about recovery as high, medium, or low with either a '+' identifier, no identifier, or a '-' identifier. Business Credit Profile Step 1A: Country risk, industry risk, and competitive position Country risk 19. The analysis of country risk addresses the major factors that S&P; Global Ratings believes affect the operating conditions in the country where entities operate. Country risk encompasses the general institutional setting of a country, including its relative economic position; financial system; political, governmental, and legal framework; and payment culture. The range of country risk assessments is: '1' (very low risk); '2' (low risk); '3' (intermediate risk); '4' (moderately high risk); '5' (high risk); and '6' (very high risk) (see "Country Risk Assessment Methodology And Assumptions"). Corporate entities operating within a single country will receive a country risk assessment for that jurisdiction. For entities with exposure to more than one country, we measure the proportion of exposure to each country based on forecast EBITDA, revenues, fixed assets, or other appropriate financial measures if EBITDA, revenues, or fixed assets do not accurately reflect the exposure to that jurisdiction. Arriving at a company's blended country risk assessment involves multiplying its weighted-average exposures for each country by each country's risk assessment and then adding the respective scores for each country. For the weighted-average calculation, we consider countries where the company generates more than 5% of its EBITDA or sales. If a company does not disclose its country-level or regional-level exposure, we will estimate individual country risk or regional exposures. Industry risk 20. Industry risk captures major factors related to cyclicality, competition, and growth for a certain industry (see "Methodology: Industry Risk"). The range of industry risk assessments is: '1' (very low risk); '2' (low risk); '3' (intermediate risk); '4' (moderately high risk); '5' (high risk); and '6' (very high risk). Corporate entities operating within a single industry will receive an industry risk assessment for that industry. For entities with exposure to more than one industry, we measure the proportion of exposure to each industry based on forecast EBITDA, revenues, or fixed assets, or other appropriate financial measures if EBITDA, revenues, or fixed assets do not accurately reflect the exposure to that industry. The industry risk criteria are complemented by industry-specific criteria called Key Credit Factors (KCFs). The KCFs describe the industry risk assessments associated with each sector, identify the specific factors relevant for assessing competitive position and cash flow/leverage for companies operating in a given industry, and may identify sector-specific criteria that supersede certain sections of these criteria. 21. Industry risk and country risk are combined in an issuer's Corporate Industry and Country Risk Assessment (CICRA) as per table 2. Table 2 Determining The CICRA --COUNTRY RISK ASSESSMENT-- INDUSTRY RISK ASSESSMENT 1 (VERY LOW RISK) 2 (LOW RISK) 3 (INTERMEDIATE RISK) 4 (MODERATELY HIGH RISK) 5 (HIGH RISK) 6 (VERY HIGH RISK) 1 (very low risk) 1 1 1 2 4 5 2 (low risk) 2 2 2 3 4 5 3 (intermediate risk) 3 3 3 3 4 6 4 (moderately high risk) 4 4 4 4 5 6 5 (high risk) 5 5 5 5 5 6 6 (very high risk) 6 6 6 6 6 6 Competitive position 22. The evaluation of an enterprise's competitive position identifies entities that are best positioned to take advantage of key industry drivers or to mitigate associated risks more effectively--and achieve a competitive advantage and a stronger business credit profile than that of entities that lack a strong value proposition or are more vulnerable to industry risks. A competitive position assessment ranges from '1 and 2' (well above peers); '3' (above peers); '4' (in line with peers); '5' (below peers); and '6' (well below peers). 23. Factors influencing the overall competitive position of a company are a) competitive advantage; b) scale, scope, and diversity; c) operating efficiency; and d) profitability. The range of assessments for the first three factors is '1' or "strong", '2' or "strong/adequate", '3' or "adequate", '4' or "adequate/weak", and '5' or "weak". The profitability range is '1 and 2', '3', '4', '5', and '6'. (See tables 20-23 in Appendix III republished from "Corporate Methodology.") A. Competitive advantage 24. Companies with a "strong" competitive advantage typically focus on certain technological advantages and capabilities in a specific product or service area. Together with a strong brand reputation and corporate history, these companies are able to develop market leadership, while barriers to entry and customer switching costs are substantial. Typically, the largest mid-market companies could develop and successfully defend expertise for products and services in a business niche over multiple family generations. Resilience against economic downturns and competitive and technological threats typically translate into sustainable and profitable revenue growth. We consider a company's competitive advantage as "adequate" to the extent that the company is not seen as a market leader in its respective industry; product pricing or cost leadership is less prevalent; or its product and service differentiation and customer loyalty and satisfaction are more in line with the average industry standard. A "weak" profile results if the company lacks strategic direction, has slow innovation cycles and low product pricing power, and customer satisfaction or the quality of products and services are at risk from adverse market or competitive developments. (See table 21 in Appendix III republished from "Corporate Methodology.") B. Scale, scope, and diversity 25. In a given industry, mid-market companies with a broad mix of business activities are typically lower risk, and those with a narrow mix are higher risk. High concentration of business volumes by product, customer, or geography, or a concentration in the production or supplier base can lead to less stable and predictable revenues and profits. Comparatively broader diversity helps a mid-market company withstand economic, competitive, or technological threats better than its peers. (See table 22 in Appendix III republished from "Corporate Methodology.") 26. There is no minimum company size criterion, although size often provides a measure of diversity. We measure the size and scope of a company's operations relative to its industry, although not in absolute terms. While mid-market companies can enjoy a high degree of diversity, they will likely be more concentrated in terms of products, number of customers, or geography than their larger peers in the same industry. That said, we consider geographic diversification in the context of the industry and the size of the local or regional economy. For instance, mid-market companies operating in local industries (such as food retailers) may benefit from a well-entrenched local position. In addition, we consider superior market share within a certain industry--irrespective of some potential limitations on geographic diversification--as positive, since it may indicate a broad range of operations, products, or services. 27. A company with "strong" scale, scope, and diversity typically has leading market shares for its products and services across several locations and regions compared to its industry peers. It also shows low customer and supplier concentrations and dependencies. Overall, a strong position supports stable revenue and profit generation in spite of potential economic, regional, competitive, and technological threats. 28. We recognize that many mid-market companies tend to be more vulnerable to cyclicality and volatility than larger and more diversified industry peers 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. In such instances we assess their scale, scope, and diversity as "adequate" or "weak". A mid-market company's scale, scope, and diversity is "adequate" when it has market shares and global penetration in line with the industry average, and the concentration of its key customers and suppliers is no higher than the industry average. Negative factors leading to a "weak" assessment are narrow product and service lines with limited overall market share and penetration; high dependence on certain suppliers or customers; limited regional scope if the industry exhibits a global reach; or local or regional concentration of production assets constituting specific investments that are more difficult to replace without incurring high costs relative to profits. C. Operating efficiency 29. A company exhibiting "strong" operating efficiency typically demonstrates very efficient working capital management with a high cash conversion cycle and low swings outside the typical pattern in its industry. It also shows lower costs or more effective fixed and variable cost management through cycles than industry peers. Other signs of strong operating efficiency are the ability to pass on increases in production costs to customers; high flexibility in cost structures depending on demand; and strong supplier relationships that allow the company to adapt its operating processes without compromising product or service quality. A company with "adequate" operating efficiency exhibits a combination of cost structure and efficiency that supports sustainable profits with average volatility relative to its peers. "Weak" operating efficiency results if the cost base is higher or more volatile than peers' in the face of changing industry and demand cycles; investments into necessary technology or processes are limited, weakening the ability to streamline operations relative to peers; or capacity utilization is constrained and only reasonably high in sustained peak industry conditions. Because mid-market companies are typically smaller than larger established peers, achieving "strong" operating efficiency is exceptional, especially for companies with low-margin, high-volume products and high operating gearing. (See table 23 in Appendix III republished from "Corporate Methodology.") 30. The preliminary competitive position assessment could fall into the intermediate categories of "strong/adequate" or "adequate/weak". Where a component is not clearly strong or adequate, we may assess it as "strong/adequate". Similarly, we may assess a component that is not clearly adequate or weak as "adequate/weak". 31. After assessing competitive advantage; scale, scope, and diversity; and operating efficiency, we determine a company's preliminary competitive position assessment by ascribing a specific weight to each component. The weightings depend on the company's competitive position group profile (CPGP). The nature of competition and key success factors are generally based on industry characteristics. Where service, product quality, or brand equity are important competitive factors, we will give the competitive advantage component of our overall assessment a higher weighting. Conversely, if the company produces a commodity product, differentiation comes less into play, and we will more heavily weight scale, scope, and diversity, as well as operating efficiency. Table 3 explains the respective definitions and characteristics of different CPGPs and provides examples. Table 4 provides the respective category weightings for competitive advantage; scale, scope and diversity; and operating efficiency for different CPGPs. Table 3 Competitive Position Group Profile (CPGP) DEFINITION AND CHARACTERISTICS EXAMPLES Services and product focus Brands, product quality or technology, and service reputation are typically key differentiating factors for competing in the industry. Capital intensity is typically low to moderate, although supporting the brand often requires ongoing reinvestment in the asset base. Typically, these are companies in consumer-facing light manufacturing or service industries. Examples include branded drug manufacturers, software companies, and packaged food. Product focus/scale driven Product and geographic diversity, as well as scale and market position are key differentiating factors. Sophisticated technology and stringent quality controls heighten risk of product concentration. Product preferences or sales relationships are more important than branding or pricing. Cost structure is relatively unimportant. The sector most applicable is medical device/equipment manufacturers, particularly at the higher end of the technology scale. These companies largely sell through intermediaries, as opposed to directly to the consumer. Capital or asset focus Sizable capital investments are generally required to sustain market position in the industry. Brand identification is of limited importance, although product and service quality often remain differentiating factors. Heavy manufacturing industries typically fall into this category. Examples include telecom infrastructure manufacturers and semiconductor makers. Commodity focus/cost driven Cost position and efficiency of production assets are more important than size, scope, and diversification. Brand identification is of limited importance Typically, these are companies that manufacture products from natural resources that are used as raw materials by other industries. Examples include forest and paper products companies that harvest timber or produce pulp, packaging paper, or wood products. Commodity focus/scale driven Pure commodity companies have little product differentiation, and tend to compete on price and availability. Where present, brand recognition or product differences are secondary or of less importance. Examples range from pure commodity producers and most oil and gas upstream producers, to some producers with modest product or brand differentiation, such as commodity foods. National industries and utilities Government policy or control, regulation, and taxation and tariff policies significantly affect the competitive dynamics of the industry (see paragraphs 72-73). An example is a water-utility company in an emerging market. Table 4 Competitive Position Group Profiles (CPGPs) And Category Weightings --(%)-- Component Services and product focus Product focus/scale driven Capital or asset focus Commodity focus/cost driven Commodity focus/scale driven National industries and utilities 1. Competitive advantage 45 35 30 15 10 60 2. Scale, scope, and diversity 30 50 30 35 55 20 3. Operating efficiency 25 15 40 50 35 20 Total 100 100 100 100 100 100 Weighted-average assessment* 1.0-5.0 1.0-5.0 1.0-5.0 1.0-5.0 1.0-5.0 1.0-5.0 *1 (strong), 2 (strong/adequate), 3 (adequate), 4 (adequate/weak), 5 (weak). 32. We expect mid-market companies to fall mainly within three major CPGPs that exhibit different weights for each subfactor: 1) Asset light: services and product focus; 2) Asset light: product focus/scale driven; and 3) Asset heavy: capital or asset focus. If mid-market companies operate in commodities industries, we apply the commodity focus/cost-driven or the commodity focus/scale-driven CPGP. 33. As table 4 clarifies, operating efficiency receives a lower relative weight in asset-light industries than in asset-heavy industries. Scale, scope, and diversity receive a higher relative weight in asset-light industries focusing on scale. And competitive advantage is of more importance in asset-light industries than in asset-heavy industries. An assessment of all the relevant subfactors therefore takes into account a company's specific situation within its industry. If a company operates in an industry where the relevant industry KCF article identifies different competitive position components or weightings (such as for utilities or real estate), we apply these weightings accordingly. 34. The weighted-average assessment translates into the preliminary competitive position assessment. Table 5 describes the matrix we use to translate the weighted-average assessment of the three components into the preliminary competitive position assessment. We have labeled the categories for this assessment from '1 and 2' to '6'. Table 5 Translation Table For Converting Weighted-Average Assessments Into Preliminary Competitive Position Assessments WEIGHTED AVERAGE ASSESSMENT RANGE PRELIMINARY COMPETITIVE POSITION ASSESSMENT 1.00 – 2.25 1 and 2 >2.25 – 3.00 3 >3.00 – 3.75 4 >3.75 – 4.50 5 >4.50 – 5.00 6 D. Profitability 35. We modify the preliminary competitive position further depending on a company's profitability profile. We assess profitability on the same scale of '1 and 2' to '6' as the preliminary competitive position assessment. The profitability assessment consists of two subcomponents that we assess separately: level of profitability and volatility of profitability. D.1. Level of profitability 36. We assess the level of profitability in the context of the company's industry. We most commonly measure profitability using return on capital (ROC) and EBITDA margins, but we also use sector-specific ratios in line with our published industry KCF articles and Corporate Methodology Guidance. Importantly, as with the other components of competitive position, we review profitability in the context of the industry in which the company operates. We assess level of profitability on a three-point scale: above average, average, and below average (see table 6). Industry KCF articles may establish numeric guidance, for instance by stating that a ROC above 12% is considered above average, between 8%-12% is average, and below 8% is below average for the industry, or by differentiating between subsectors in the industry. In the absence of numeric guidance, we compare a company against its peers across the industry. D.2. Volatility of profitability 37. We base the volatility of profitability on a company's historical EBITDA, EBITDA margins, or ROC. The KCF articles provide guidance on which measures are most appropriate for a given industry or set of companies. However, for mid-market companies we do not base the volatility of profitability on the standard error of the regression (SER) for a company's EBITDA, EBITDA margins, or ROC. The reason for this is that we would not expect mid-market companies to have seven years of historical annual financial data available, which is the minimum we require to calculate the SER. Instead, we assess expected volatility based on a comparison of volatility of profitability metrics with the respective industry average. 38. We assess volatility of profitability in five categories, low, neutral, moderate, high, and very high. We perform an assessment of expected volatility based on the following rules: An assessment of neutral if we expect the company's profitability to exhibit a volatility pattern in line with, or somewhat less volatile than, the industry average, supported by available historical evidence. An assessment of low if we are confident that the company will exhibit lower volatility in profitability metrics than the industry average, supported by available historical evidence. An assessment of moderate or high if we expect that the company's profitability metrics will exhibit somewhat higher (moderate), or meaningfully higher (high) volatility than the industry, supported by available historical evidence. An assessment of very high is rarely assigned and can only be achieved on the basis of evidence and very high confidence tests. For an assessment of very high we require strong evidence of very high volatility in profitability metrics compared with the industry. 39. The typical time horizon for a volatility assessment encompasses at least three years of historical audited financial statements, and our expectation for the current year. Table 6 Profitability Assessment --VOLATILITY OF PROFITABILITY ASSESSMENT-- LEVEL OF PROFITABILITY ASSESSMENT LOW NEUTRAL MODERATE HIGH VERY HIGH Above average 1 and 2 1 and 2 3 4 5 Average 1 and 2 3 4 5 6 Below average 3 4 5 6 6 40. In order to arrive at the final competitive position assessment, we combine the preliminary competitive position assessment with the profitability assessment as per table 7. The profitability assessment can confirm, strengthen, or weaken (by up to one category) the overall competitive position assessment. Table 7 Deriving The Competitive Position COMBINING THE PRELIMINARY COMPETITIVE POSITION ASSESSMENT AND PROFITABILITY ASSESSMENT --PRELIMINARY COMPETITIVE POSITION ASSESSMENT-- PROFITABILITY ASSESSMENT 1 AND 2 3 4 5 6 1 and 2 1 and 2 3 3 4 5 3 1 and 2 3 4 4 5 4 3 3 4 5 5 5 3 4 4 5 6 6 3 4 5 5 6 41. We generally expect a company with a strong competitive advantage to demonstrate stronger and more stable operating margins than its mid-market peers, and a company with weaker market advantages to exhibit weaker and potentially more volatile profitability. 42. We categorize business credit profile as well above peers, above peers, in line with peers, below peers, and well below peers to reflect the specific focus of the company's business credit profile relative to its respective peer group. 43. We determine the overall business credit profile by combining the respective CICRA and competitive position assessment as per table 8. Table 8 Determining The Business Credit Profile --CICRA-- COMPETITIVE POSITION ASSESSMENT 1 2 3 4 5 6 1 and 2 (Well above peers) Well above peers Well above peers Well above peers Above peers In line with peers Below peers 3 (Above peers) Well above peers Above peers Above peers Above peers In line with peers Well below peers 4 (In line with peers) Above peers In line with peers In line with peers In line with peers Below peers Well below peers 5 (Below peers) In line with peers Below peers Below peers Below peers Below peers Well below peers 6 (Well below peers) Below peers Well below peers Well below peers Well below peers Well below peers Well below peers Financial Credit Profile Step 1B: Cash flow/leverage 44. The pattern of cash flow generation, current and future, in relation to cash obligations is often the best indicator of a company's financial risk. The criteria assess a variety of credit ratios, predominately cash flow-based, which complement each other by focusing on the different levels of a company's cash flow waterfall in relation to its obligations (i.e., before and after working capital investment, before and after capital expenditures, before and after dividends), to develop a thorough perspective. Moreover, the criteria identify the ratios that we think are most relevant to measuring a company's credit risk based on its individual characteristics and its business cycle. Core ratios 45. In assessing a company's ability to generate cash flows and cover debt-related payments, we focus on certain core ratios. For each company, we calculate two core credit ratios--funds from operations (FFO) to debt and debt to EBITDA--in accordance with our ratios and adjustments criteria (see "Corporate Methodology: Ratios And Adjustments"). We compare these payback ratios against benchmarks to derive the preliminary cash flow/leverage assessment for a company. Table 9 provides benchmark ranges for various ratios that we associate with different cash flow/leverage assessments for standard volatility industries. We label these ranges as minimal, modest, intermediate, significant, aggressive, and highly leveraged. The core ratios result in an initial financial credit profile assessment. Table 9 Cash Flow/Leverage Analysis Ratios--Standard Volatility --CORE RATIOS-- --SUPPLEMENTARY COVERAGE RATIOS-- --SUPPLEMENTARY PAYBACK RATIOS-- FFO/DEBT (%) DEBT/EBITDA (X) FFO/CASH INTEREST (X) EBITDA / INTEREST (X) CFO/DEBT (%) FOCF/DEBT (%) DCF/DEBT (%) Minimal 60+ Less than 1.5 More than 13 More than 15 More than 50 40+ 25+ Modest 45-60 1.5-2 9-13 10-15 35-50 25-40 15-25 Intermediate 30-45 2-3 6-9 6-10 25-35 15-25 10-15 Significant 20-30 3-4 4-6 3-6 15-25 10-15 5-10 Aggressive 12-20 4-5 2-4 2-3 10-15 5-10 2-5 Highly leveraged Less than 12 Greater than 5 Less than 2 Less than 2 Less than 10 Less than 5 Less than 2 FFO--Funds from operations. CFO--Cash flow from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow. Supplemental ratios 46. These criteria also consider one or more supplemental ratios in addition to the core ratios, to help develop a fuller understanding of a company's financial credit profile and fine-tune our cash flow/leverage analysis (see table 9). Supplemental ratios could adjust our preliminary cash flow/leverage assessment if they provide an additional useful indication of the results of the core ratios. Certain ratios receive more weight for the overall assessment depending on the specific profile of the company (for example, working capital intensity, capital intensity, high growth, or high leverage). Depending on the respective industry, we will use additional supplemental relevant ratios based on our published respective industry KCF articles and Corporate Methodology Guidance, where available. 47. If the cash flow/leverage assessment(s) indicated by the supplemental ratio(s) differs from the preliminary cash flow/leverage assessment, we may adjust the preliminary cash flow/leverage assessment by one category in the direction of the cash flow/leverage assessment indicated by the supplemental ratio(s) to derive the adjusted cash flow/leverage assessment. We will make this adjustment if, in our view, the supplemental ratio provides the best indicator of a company's future leverage. If there is more than one important supplemental ratio and the ratios result in different directional deviations from the preliminary cash flow/leverage assessment, we will select the supplemental ratio that in our opinion provides the best indicator of a company's future leverage. 48. Depending on the assessment for supplemental ratios, which may vary based on certain company characteristics such as high leverage, working-capital intensity, capital intensity, or high growth, the impact on the preliminary cash flow/leverage assessment is positive (+1), neutral, or negative (-1). 49. If an industry exhibits low volatility, the threshold levels for the applicable ratios to achieve a given cash flow/leverage assessment are less stringent than for medial or standard volatility industries, although the range of the ratios is narrower. Conversely, if an industry exhibits medial or standard levels of volatility, the threshold for the applicable ratios to achieve a given cash flow/leverage assessment is elevated, albeit with a wider range of values. (See Appendix I, question 5 for further guidance.) 50. In line with "Corporate Methodology," our analysis is forward looking, but we also place emphasis on historical credit ratios when assessing the cash flow/leverage strength. The MME rating criteria generally consider the company's credit ratios for the previous one to two years, current-year forecast, and the two subsequent forecasted financial years. There may be situations where longer--or even shorter--historical results or forecasts are appropriate. The length of the time series is dependent on the relative credit risk of the company and other qualitative factors and the weighting of the time series varies according to transformational events. A transformational event is any event that could cause a material change in a company's financial profile, whether caused by changes to the company's capital base, capital structure, earnings, cash flow profile, or financial policies. Transformational events can include mergers, acquisitions, divestitures, management changes, structural changes to the industry or competitive environment, and/or product development and capital programs. 51. The MME rating criteria generally place greater emphasis on forecasted years than historical years in the time series of credit ratios when calculating the indicative credit ratio. For companies where we have five years of ratios, generally we calculate the indicative ratio by weighting the previous two years, the current year, and the forecasted two years as 10%, 15%, 25%, 25%, and 25%, respectively. The weighting changes to place even greater emphasis on the current and forecast years when: The issuer meets the characteristics described in paragraph 50, and either shorter- or longer-term forecasts are applicable. The weights applied will generally be quite forward weighted, particularly if a company is undergoing a transformational event and there is moderate or better cash flow certainty. The issuer is forecast to generate negative cash flow available for debt repayment, which we believe could lead to deteriorating credit metrics. Forecast negative cash flows could be generated from operating activities as well as capital expenditures, share buybacks, dividends, or acquisitions, as we forecast these uses of cash based on the company's track record, market conditions, or financial policy. The weights applied will generally be 30%, 40%, and 30% for the current and two subsequent years, respectively. The issuer is in an industry that is prospectively volatile or that has a high degree of cash flow uncertainty. Industries that are prospectively volatile are industries whose competitive risk and growth assessments are either high risk (5) or very high risk (6) or whose overall industry risk assessments are either high risk (5) or very high risk (6). The weights applied will generally be 50% for the current year and 50% for the first subsequent forecast year. 52. For further guidance on cash flow/ leverage, ratios and benchmark tables, refer to "Corporate Methodology: Ratios And Adjustments" and "Corporate Methodology." Volatility of cash flows 53. In order to assess a company's exposure to volatility of cash flows, we estimate the change in its cash flow/leverage ratios during periods of stress based on its business credit profile. We classify companies as stable if cash flow/leverage ratios are expected to move up by one category during periods of stress based on their business risk profile. The final cash flow/leverage assessment for these companies will not be modified from the adjusted cash flow/leverage assessment (i.e., the assessment will remain neutral). We classify companies as volatile if cash flow/leverage ratios are expected to move one or two categories worse during periods of stress based on their business credit profiles. Typically, this is equivalent to EBITDA declining about 30% from its current level. The final cash flow/leverage assessment for these companies will be modified to one category weaker than the adjusted cash flow/leverage assessment (-1 negative); the adjustment will be eliminated if cash flow/leverage ratios, as evaluated, include a moderate to high level of stress already. We classify companies as highly volatile if cash flow/leverage ratios are expected to move two or three categories worse during periods of stress, based on their business credit profiles. Typically, this is equivalent to EBITDA declining about 50% from its current level. The final cash flow/leverage assessment for these companies will be modified to two categories weaker (-2 negative); the adjustment will be eliminated or reduced to one category if cash flow/leverage ratios, as evaluated, include a moderate to high level of stress already. 54. The resulting financial credit profile ranks from "minimal" to "highly leveraged". Deriving The Anchor Step 2: Combining business and financial credit profile assessment 55. Table 10 below illustrates how the respective business and financial credit profiles are combined to derive an issuer's anchor. The anchor is not weaker than 'mm6' unless an issuer's capital structure is unsustainable; its obligations are vulnerable to nonpayment; or it is dependent on favorable business, financial, and economic conditions to meet its commitments on its obligations. 56. When two anchor outcomes are listed for a given combination of business credit profile assessment and financial credit profile assessment, we determine an issuer's anchor as follows: When a company's financial credit profile is significant or stronger, its anchor is based on the comparative strength of its business credit profile. When a company's financial credit profile is aggressive or highly leveraged, its anchor is based on the comparative strength of its financial credit profile. Issuers with stronger cash flow/leverage ratios for the range of anchor outcomes will be assigned the higher anchor. Issuers with weaker cash flow/leverage ratios for the range of anchor outcomes will be assigned the lower anchor. We rank the resulting MME anchors from 'mm1' to 'mm6'. Table 10 Combining The Business And Financial Credit Profiles To Determine The Anchor Of 'mm1' to 'mm6' --FINANCIAL CREDIT PROFILE-- BUSINESS CREDIT PROFILE MINIMAL MODEST INTERMEDIATE SIGNIFICANT AGGRESSIVE HIGHLY LEVERAGED Well above peers mm1 mm1 mm1 mm1/mm2 mm2/mm3 mm3 Above peers mm1 mm1 mm1/mm2 mm2/mm3 mm3/mm4 mm4/mm5 In line with peers mm1/mm2 mm2 mm3 mm3 mm4 mm5 Below peers mm3 mm3 mm3 mm4 mm5 mm5/mm6 Well below peers mm4 mm4 mm4/mm5 mm5 mm5 mm6 57. As a general rule, we evaluate issuers that face at least a one-in-two likelihood of default in the 'MM7' category. The 'MM7' category may also be appropriate--even with an approximately one-in-three likelihood of default--if we expect a default within the next 12 months. We evaluate an issuer or issue 'MM8' when we expect default to be a virtual certainty, regardless of the time to default. We use the MME rating of 'MM8' when one of the following applies: An entity has announced that it will miss its next interest or principal payment, but is still current on these payments. An entity has announced its intention to file a bankruptcy petition or take similar action and payments on an obligation are jeopardized, but the entity has not yet entered into receivership protection. An entity has announced its intention to undertake an exchange offer or similar restructuring that we classify as distressed, but has not yet completed the transaction (see "S&P; Global Ratings Definitions"). We expect the default of an issue to be a virtual certainty based on either: the specific default scenarios that are envisioned over the next 12 months, or the expectation of default even under the most optimistic collateral performance scenario over a longer period of time. In addition, we assign an MME rating of 'MM8' to an issuer when we expect default to be a virtual certainty, unless it receives extraordinary support from a parent or government. 58. For further clarification about when we assign an MME rating of 'MM7' or 'MM8' refer to "Criteria For Assigning ‘CCC+’, ‘CCC’, ‘CCC-‘, And ‘CC’ Ratings." Anchor Modifiers Step 3: Capital structure, management and governance, financial policy, and liquidity 59. In Step 3, we analyze four factors that could potentially modify our anchor conclusion. These factors are capital structure, management and governance, financial policy, and liquidity. The assessment of each factor can have a positive (+), neutral, or negative (-) effect on the MME rating anchor, and we use specific assessments and descriptors to determine the number of categories by which a modifier would move the anchor. The impact of each modifier score on the MME rating anchor is cumulative. The modifiers in aggregate cannot bring the MME rating below 'MM6'. 60. We present an indicative correspondence between the MME rating scale and the global rating scale in Appendix I (question 1 of the Frequently Asked Questions). In order to ensure consistency of the MME rating scale with the global corporate rating scale, the following guidance applies in deciding a modifier's impact on the anchor at 'mm3' and 'mm5'. The impact will be based on whether the company is more strongly or weakly positioned within those two categories. A company is more strongly positioned if we believe that, in aggregate, its relative ranking across the business and financial credit profiles is at the higher end of the range. A company is more weakly positioned if we believe that, in aggregate, its relative ranking across the business and financial credit profiles is at the lower end of the range. A. Capital structure 61. We generally use the methodology as described in "Corporate Methodology" with the following adjustment: The assessment of capital structure is positive, neutral, negative, or very negative. The key components influencing the capital structure modifier are currency risk, debt maturity profile, interest rate risk, and investments. Any of these subfactors can influence a firm's capital structure assessment, although some carry greater weight than others, based on a tiered approach that we explain in more detail in Appendix I (see tables 17 and 18), along with guidance on how we evaluate those subfactors. A.1. Currency risk of debt 62. Currency risk of debt arises when a company borrows without hedging in a currency other than the currency in which it generates revenues. Such an unhedged position makes the company potentially vulnerable to fluctuations in the exchange rate between the two currencies, in the absence of mitigating factors. We determine the materiality of any mismatch by identifying situations where adverse exchange rate movements could weaken cash flow and/or leverage ratios. In general, unhedged exposure to currency risk of debt in a company's procurement, revenue, and cash flow streams poses a further potential risk. A.2. Debt maturity profile 63. A firm's debt maturity profile shows when its debt needs to be repaid, or refinanced if possible, and helps determine the firm's refinancing risk. Lengthier and more evenly spread out debt maturity schedules reduce refinancing risk, compared with front-ended and compressed ones, since the former give an entity more time to manage business- or financial market-related setbacks. A.3. Interest rate risk of debt 64. The interest rate risk of debt subfactor analyzes the company's mix of fixed-rate and floating-rate debt. Generally, a higher proportion of fixed-rate debt leads to greater predictability and stability of interest expense and therefore cash flows. The mix of fixed versus floating-rate debt is usually not a significant risk factor for companies with intermediate or better financial profiles, strong profitability, and high interest coverage. However, we consider a large percentage of floating-rate debt in conjunction with low profitability and constrained cash flow generation as a significant risk factor. A.4. Investments 65. Investments refer to investments in unconsolidated equity affiliates, other assets where the realizable value isn't currently reflected in the cash flows generated from those assets (e.g. underutilized real estate property). We aim to assess nonstrategic financial investments that could provide a degree of asset protection and financial flexibility in the event they are monetized. These investments must be noncore and separable, meaning that a potential divestiture, in our view, has no impact on the company's existing operations. 66. The impact on the anchor is positive (+1), neutral, negative (-1), or very negative (-2), but the conditions in paragraphs 59 and 60 apply. We only consider very negative in rare circumstances. In line with "Corporate Methodology," such circumstances include either a simultaneous negative assessment of the currency risk and maturity profile of debt, or a negative assessment of currency risk or maturity profile of debt, in conjunction with a negative view about the interest rate risk of debt. B. Management and governance 67. We generally use the methodology described in "Methodology: Management And Governance Credit Factors For Corporate Entities" but adjust the assessments of management and governance to strong, satisfactory/fair, or weak. 68. In applying our management and governance methodology to mid-market companies, we bear in mind 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 company's characteristics. 69. When assessing the 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. We analyze all the management and governance factors listed in our management and governance criteria, but we adopt a customized approach in the following five areas: Depth and breadth of management, board effectiveness, entrepreneurial or family-bound ownership, management culture, financial reporting, and transparency. The analysis of those areas is evidence-based, i.e., an enterprise receives a neutral assessment for any subfactor for which there is insufficient evidence to assign either a positive or negative assessment. However, some subfactors may receive a negative score if an enterprise fails to disclose key management and governance information. B.1. Depth and breadth of management 70. 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. The 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. B.2. Board effectiveness 71. The effectiveness of a board of directors to independently scrutinize operational management is in our view an important governance issue for companies. 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. 72. 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 expect the main shareholders to 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. B.3. Entrepreneurial or family-bound ownership 73. An entrepreneurial or family-owned company can act swiftly and decisively. This can be either 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. B.4. Management culture 74. 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, 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 culture of the founder(s), of setting sustainable goals and incentives, and of compensating management. They also tend to retain longer tenures of management and executive board members. B.5. Financial reporting and transparency 75. Financial reporting and transparency represents an additional important subfactor for mid-market companies. Financial statements and related disclosures are the primary source of information regarding an enterprise's current and earlier period financial condition and performance. This analysis starts with a review of accounting principles applied (in particular, any unusual practices) and the underlying assumptions used. The analysis of disclosures--such as detailed schedules of reserves, contingent liabilities, and ranges of assumptions used--can provide a better understanding of an enterprise's risks. The purpose is to determine whether the ratios and statistics derived from the financial statements can serve as meaningful measures of an enterprise's performance and position relative to both its peer group and the larger universe of enterprises. 76. The assessment for the financial reporting and transparency subfactor is neutral if an enterprise's accounting practices and transparency are at least adequate. When alternatives are available, the enterprise's accounting choices are usually reflective of the economics of the business. Enterprises that have weak accounting practices or that lack financial transparency receive negative scores. For example, a negative score may be warranted if the financial statements are insufficient to allow users of the statements to understand the intent and the economic drivers. Further, financial reporting has a negative impact if disclosures are contradictory to information provided to investors through other means (e.g., investor presentations) or if financial reporting is consistently delayed and lacking sufficient details compared to peers. 77. There is up to a one-category positive impact on the anchor for a strong assessment of the management and governance factor if the MME rating anchor is 'mm3', 'mm4', 'mm5', or 'mm6', and if we have not already captured benefits of strong management and governance in the analysis of the issuer's competitive position; a neutral impact for a satisfactory/fair assessment; or a negative impact of one or more categories for a weak assessment, but the conditions in paragraphs 59 and 60 apply. C. Financial policy 78. We generally use "Corporate Methodology" with the following adjustments: The assessment of financial policy is positive, neutral, negative, or financial sponsor ownership. We further identify financial sponsor-owned companies as "FS-4 (Significant)", "FS-5 (Aggressive)", "FS-6 (Highly Leveraged)", "FS-6 (minus) (Highly Leveraged minus)". This modifier captures short- to medium-term event risk by analyzing a management's willingness, ability, and historical track record to stay within certain defined leverage and risk boundaries, typically defined as part of a company's financial policy. A company's financial policy generally covers areas related to leverage tolerance, acquisition strategy and financing, shareholder returns, or principles on assessing and financing organic growth strategies. We capture these areas under our financial policy modifier if the cash flow and leverage assessments of a two-to-three year business plan do not already explicitly incorporate events related to the aforementioned factors. Examples of events already captured in a business plan could be recurring ordinary dividends or regular bolt-on acquisitions with a predefined maximum size and means of financing from cash, or revolving credit or acquisition facilities. Examples of unexpected events analyzed under this modifier could be large ad hoc acquisitions that require significant additional financing, or one-time shareholder payments from cash reserves. 79. The analysis for financial policy is split into two subfactors: 1) financial policy framework and 2) financial discipline. The company's financial policy framework assesses the comprehensiveness, transparency, and sustainability of the entity's financial policies. This helps determine whether there is a satisfactory degree of visibility into the issuer's future financial credit profile. We assess a company's financial policy framework as supportive or non-supportive based on evidence that supports the characteristics listed below. In order for an entity to receive a supportive assessment for financial policy framework, there must be sufficient evidence of management's financial policies to back that assessment. 80. A company assessed as supportive generally exhibits the following characteristics: Management has a comprehensive set of financial policies covering key areas of financial risk, including debt leverage and liability management. Financial targets are well defined and quantifiable. Management's financial policies are clearly articulated and disclosed to at least a limited number of key stakeholders such as main creditors or to the credit rating agencies. Management's articulated financial policies are achievable and sustainable. This assessment takes into consideration existing financial credit profile, capacity to sustain capital structure through nonorganic means, demands of key stakeholders, and the stability of financial policy parameters over time. 81. A company receives a non-supportive assessment if it does not meet all the conditions for a supportive assessment. We expect a non-supportive assessment to be uncommon. 82. The financial discipline subfactor measures management's potential appetite to incur unforeseen, higher financial risk over a prolonged period and the associated impact on credit measures. We also assess management's capacity and commitment to rapidly decrease debt leverage to levels consistent with its credit ratio targets. This assessment is based on the leverage tolerance of a company's management, as typically reflected in its financial policy and history of acquisitions, shareholder remuneration, and organic growth strategies. To the extent management shows the willingness, commitment, and capacity to reduce leverage through the rapid implementation of credit enhancing measures, such as asset disposals, rights issues, or reductions in shareholder returns beyond what we can confidently include in our base-case assumptions, we assess financial discipline as positive. A negative assessment acknowledges a significant degree of event risk of increased leverage relative to the level commensurate with the indicative anchor. If we assess event risk as moderate and do not expect leverage to deviate materially from the level commensurate with the indicative anchor assessment, financial discipline is neutral. We assess the overall financial policy modifier as positive only if financial discipline is positive, and the financial policy framework is supportive. A non-supportive financial policy framework cannot positively influence the overall financial policy assessment and would constrain the financial policy modifier to neutral at best. 83. 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. 84. We differentiate between financial sponsors and other types of controlling shareholders and companies that do not have controlling shareholders based on our belief that short-term ownership--such as exists in private equity sponsor-owned companies--generally entails financial policies aimed at achieving rapid returns for shareholders typically through aggressive debt leverage. 85. Financial sponsors often dictate 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 by utilizing debt or debtlike instruments. Accordingly, the financial credit profile we assign to companies that are controlled by financial sponsors ordinarily reflect our presumption of some deterioration in credit quality or steadily high leverage in the medium term. 86. We assess the influence of financial sponsor ownership as "FS-4 (Significant)", "FS-5 (Aggressive)", "FS-6 (Highly leveraged)", and "FS-6 (minus)(Highly leveraged minus)" depending on how aggressive we assume the sponsor will be and assign a financial credit profile accordingly (see table 11). 87. Generally, financial sponsor-owned issuers will receive an assessment of "FS-6 (Highly leveraged)" or "FS-6 (minus) (Highly leveraged minus)", leading to a financial credit profile assessment of "Highly leveraged", under the criteria. A "FS-6 (Highly leveraged)" assessment indicates that, in our opinion, forecasted credit ratios in the medium term are likely be to be consistent with a "Highly leveraged" financial credit profile, based on our assessment of the financial sponsor's financial policy and track record. A "FS-6 (minus) (Highly leveraged minus)" will likely be applied to companies that we forecast to have near-term credit ratios consistent with a "Highly leveraged" financial credit profile, but we believe the financial sponsor to be very aggressive and that leverage could increase materially even further from our forecasted levels. In such a case, the anchor would be reduced further by up to one notch (unless this results in a final assessment below 'MM6'). 88. In a small minority of cases, a financial sponsor-owned entity could receive an assessment of "FS-5 (Aggressive)". This assessment will apply only when we project that the company's leverage will be consistent with an 'aggressive' financial credit profile (see tables 9, 10, 14 and 15), we perceive that the risk of releveraging is low based on the company's financial policy and our view of the owner's financial risk appetite, and liquidity is at least adequate. 89. In even rarer cases, we could assess the financial policy of a financial sponsor-owned entity as "FS-4 (Significant)". This assessment will apply only when all of the following conditions are met: other shareholders own a material (generally, at least 20%) stake, we expect the sponsor to relinquish control over the intermediate term, we project that leverage is currently consistent with a 'significant' financial credit profile (see tables 9, 10, 14 and 15), the company has said it will maintain leverage at or below this level, and liquidity is at least adequate. Table 11 Financial Credit Profile Implications For Sponsor-Owned Issuers ASSESSMENT WHAT IT MEANS GUIDANCE FS-4 (Significant) Financial credit profile set at 'significant' Issuer must meet all of the following conditions: • Other shareholders must own a material (no less than 20%) stake; • We anticipate that the sponsor will relinquish control over the medium term;• For issuers subject to the standard volatility table, debt to EBITDA is less than 4x, and we estimate that it will remain less than 4x. For issuers that are subject to the medial volatility table, debt to EBITDA is below 4.5x and we forecast it to remain below that level. Or for issuers subject to the low volatility table, debt to EBITDA is less than 5x and our estimation is it will remain below that level; • The company has indicated a financial policy stipulating a level of leverage consistent with a significant or better financial credit profile (that is, debt to EBITDA of less than 4x when applying standard volatility tables, 4.5x when applying medial volatility tables, or less than 5x when applying low volatility tables) and • We assess liquidity to be at least adequate, with adequate covenant headroom. FS-5 (Aggressive) Financial credit profile set at 'aggressive' Issuer meets all of the following conditions: • For issuer subject to the standard volatility table, debt to EBITDA is less than 5x, and we estimate that it will remain less than 5x. For issuers that are subject to the medial volatility table, debt to EBITDA is below 5.5x and forecast it to remain below that level. For issuers subject to the low volatility table, debt to EBITDA is less than 6x and our estimation is it will remain below that level; • We believe the risk of releveraging beyond 5x (standard volatility issuer), 5.5x (medial volatility issuer), or 6x (low volatility issuer) is low; and • We assess liquidity to be at least adequate, with adequate covenant headroom. FS-6 (Highly Leveraged) Financial credit profile set at 'highly leveraged' Standard & Poor's debt for EBITDA is greater than 5x (when applying the standard volatility table), greater than 5.5x (when applying the medial volatility table), or greater than 6x (when applying the low volatility table). However, we believe leverage is unlikely to increase meaningfully beyond these levels. FS-6 (minus)(Highly Leveraged minus) Financial credit profile set at 'highly leveraged', and anchor reduced by one notch (unless this results in a final MME Rating below mm6) In determining the anchor the financial credit profile is 'higly leveraged', but we believe the track record of the financial sponsor indicates that leverage could increase materially from already high levels. 90. As per table 12, depending on the factor assessment and the initial MME rating anchor, the impact on the anchor is positive (+1), neutral, or negative (-1 to -2) subject, in the case of financial sponsor-owned companies, to paragraphs 85-89. Table 12 Financial Policy: Impact on Anchor ANCHOR MM1-MM2 MM3-MM4 MM5 AND LOWER FACTOR/ASSESSMENT Positive +1 if M&G; is at least satisfactory +1 if M&G; is at least satisfactory +1 if liquidity at least adequate and M&G; at least satisfactory Neutral Neutral Neutral Neutral Negative -1 to -2* 0 to -1* 0 to -1* FS-4 (significant), FS-5 (aggressive), FS-6 (highly leveraged), FS-6 (minus) (highly leveraged minus) N/A† N/A† N/A† †Depending on assessment of financial credit profile. M&G--Management; and governance. *Number of notches depends on potential incremental leverage. D. Liquidity 91. We use the methodology described in "Corporate Methodology" with the following adjustments: The assessment of liquidity is strong, adequate, less than adequate, or weak. We do not assign the liquidity descriptor "exceptional" to mid-market companies. Our corporate ratings methodology for assessing a company's liquidity ("Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers") uses a series of quantitative and qualitative factors to establish liquidity descriptors for companies. 92. The key indicators of a company's liquidity cushion are: A/B: Liquidity sources (A) divided by uses (B). A-B: Liquidity sources (A) minus uses (B). 93. For this purpose, monetary flows within sources and uses of cash refer to amounts generated or used over the next six to 12 months, with the timeframes identified by each of the liquidity descriptors. (The timeframe for exceptional is 24 months, but we do not assign that descriptor to mid-market companies.) The amounts used in the calculations conform to an anticipated base case, assuming no refinancing for the company in question, and include both internal and external components. 94. The criteria consider the following main liquidity sources: Cash and liquid investments. Forecasted FFO, if positive. Forecasted working capital inflows, if positive. Proceeds of asset sales (when confidently predictable). The undrawn, available portion of committed bank lines maturing beyond the next 12 months. 95. The criteria consider the following main uses of cash: Forecasted FFO, if negative. Expected capital spending. Forecasted working capital outflows, if negative. All debt maturities (either recourse to the company or which it is expected to support). Any required cash-based, postretirement employee benefit top-up needs. Contracted acquisitions and expected shareholder distributions under a stress scenario. 96. To receive an MME rating of 'MM1' or 'MM2', a company's liquidity must be either strong or adequate, as defined in our liquidity methodology. This demonstrates that we consider its liquidity to be sufficiently robust to absorb a moderate level of stress. Adequate liquidity has a neutral impact on the MME rating, while strong liquidity raises an MME rating anchor by one notch at 'MM5' or lower, as long as we expect liquidity to remain strong and we assess financial policy as positive or neutral. 97. A company with less than adequate liquidity has an MME rating no higher than 'MM3'. A weak liquidity descriptor generally translates into an MME rating of 'MM6' or lower, unless the company meets certain offsetting conditions, according to paragraph 98. In our view, whatever a company's underlying performance, a lack of liquidity could precipitate a default. 98. The offsetting conditions that allow a mid-market company with otherwise weak liquidity to be evaluated at as high as 'MM5', are a credible plan to: Address a material deficit of A/B or A-B over the next 12 months. Avert a potential covenant breach in a timely fashion, or obtain a covenant waiver or amendment (assuming that the related facilities are material). 99. To further assess the quality and credibility of such a plan, we consider the company's banking relationships. Solid relationships are important to determine whether a bank will support its client. 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. A company could demonstrate this through a track record of arranging renewals of its existing credit lines, even during periods of general capital market stress and company-specific financial difficulties. 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 not provide funds. Table 13 Liquidity: Impact On Anchor ANCHOR MM1-MM4 MM5 AND LOWER FACTOR/ASSESSMENT Strong Neutral +1 if financial policy is positive or neutral Adequate Neutral Neutral Less than adequate Not above mm3/ -1* Neutral Weak mm6† mm6† *If the issuer MME is ‘mm3’ due to the cap, there is no further notching. †Could be as high as 'mm5' if criteria in paragraph 98 is met. 100. As per table 13, depending on the liquidity assessment and anchor, the impact on the anchor is positive (+1), neutral, or negative (-1), or caps the outcome at a certain MME rating. APPENDIX I: FREQUENTLY ASKED QUESTIONS 1. What mapping does S&P; Global Ratings use between the mid-market evaluation scale and the scale for issuer credit ratings? 101. The purpose of the MME rating scale is to give an indication of the creditworthiness of a mid-market company relative to other mid-market companies. We have calibrated our MME rating scale by mapping each MME rating against a corresponding spectrum of ratings on our global scale for issuer credit ratings and the historical cumulative default rate associated with each rating on that scale. Our indication is based on: a) our testing of data from mid-market companies in Europe; b) our analysis of small and midsize enterprises (SMEs) in European collateralized loan obligations (for further details, see "European SME CLO Methodology And Assumptions"); and c) the current public ratings of similarly sized companies in the U.S. 102. Table 14 gives an indicative correspondence between the MME rating scale and the global rating scale. The calibration of the MME rating scale is broadly comparable with the global rating scale. The MME rating criteria use a customized approach in applying the corporate rating methodology and a slightly different definition of default regarding timing. These different factors could, in our view, potentially lead to minor differences in default and transition behavior for companies on the mid-market scale in comparison with the global rating scale. Table 14 Indicative Correspondence Of S&P;'s Mid-Market Evaluation Rating Scale To Global Scale Foreign Currency Issuer Credit Rating MID-MARKET EVALUATION RATING SCALE ISSUER CREDIT RATING

(FOREIGN CURRENCY) MM1 BBB and above MM2 BBB- MM3 BB+ MM3 BB MM4 BB- MM5 B+ MM5 B MM6 B- MM7 CCC+ MM7 CCC MM7 CCC- MM8 CC 2. Does the mid-market evaluation rating constitute a final assessment? 103. The MME rating process (see chart 2) results in an MME rating, which is the final assessment in most cases. We consider a further modification of the MME rating in cases where a) the company is member of an unrated group, b) the company is subject to government influence, c) the company is supported by a credit substitution guarantee, or d) the company is constrained by the relevant sovereign rating or currency T&C; restrictions. See questions 3 and 4 for details on these specific topics. While not a modification, we identify positive or negative recovery expectations for an MME issue rating by affixing the identifiers '+' or '-'. 3. What is the methodology for determining an MME rating for a company that is a member of a group? 104. We use the building blocks of "Group Rating Methodology" (GRM) in determining an MME rating on an entity that is a member of a group. 105. After we determine the MME rating stand-alone credit profile (SACP) of the relevant group member (based on the MME rating methodology), we map the assigned MME rating of the group member back to the global scale (see table 14 above). We then follow the steps outlined in GRM. The final rating result for the group member is then mapped back to the MME rating scale based on the indicative mapping in table 14. [Chart 2 has been deleted.] 4. How do the "Rating Above The Sovereign" methodology and "Criteria For Determining Transfer And Convertibility Assessments" apply to MME ratings? 106. MME ratings are subject to the criteria for the "Ratings Above The Sovereign--Corporate And Government Ratings." We factor in any sovereign-related rating constraints into the MME rating on a company due to a sovereign rating link or T&C; risk, in line with the indicative mapping between the MME rating scale and the global rating scale (see table 14). For an MME rating on a debt issue, we apply potential constraints related to T&C; risk for issues in foreign currency, but not for issues in local currency, in line with the same indicative mapping. This means that in certain rare cases, an MME rating on a debt issue in local currency may be stronger than an MME rating on a debt issue in foreign currency for a company, where T&C; constrains the latter, but not the former. In these rare cases, the MME rating on the debt issue in local currency would exceed the MME rating on the company. 5. How does S&P; Global Ratings assess cash flow/leverage based on medial and low volatility? 107. Tables 15 and 16 provide benchmark ranges for various cash flow ratios that we associate with different cash flow/leverage assessments for medial and low volatility industries. The tables of benchmark ratios differ for a given ratio and cash flow/leverage assessment along two dimensions: the starting point for the ratio range and the width of the ratio range. 108. For an industry with standard volatility (table 9) the outcomes for the core and supplemental ratios need to fall into a certain range to qualify for a certain cash flow/leverage assessment. For example, to qualify for an intermediate cash flow/leverage assessment for the core ratio FFO/debt, the ratio must be between 30%-45%. 109. If an industry exhibits low volatility (table 15), the threshold levels for the applicable ratios for a given cash flow/leverage assessment are less stringent, but fall into narrower ranges, than those in the medial or standard volatility tables. For example, to qualify for an intermediate cash flow/leverage assessment for the core ratio FFO/debt, the ratio must be between 13%-23%. 110. Conversely, if an industry exhibits medial or standard levels of volatility, the threshold for the applicable ratios for a given cash flow/leverage assessment are elevated, albeit with a wider range of values. For example, to qualify for an intermediate cash flow/leverage result for the core ratio FFO/debt, the ratio must be between 23%-35% (using the medial volatility table 16). 111. The relevant benchmark table for a given company is based on our assessment of the company's associated industry and country risk volatility, or the CICRA (see table 2). The low volatility table (table 15) will generally apply when a company's CICRA is 1, unless otherwise indicated in a sector's KCF criteria. The medial volatility table (table 16) will be used under certain circumstances for companies with a CICRA of 1 or 2. Those circumstances are described in the respective sectors' KCF criteria. The standard volatility table (table 9) serves as the relevant benchmark table for companies with a CICRA of 2 or worse, and we will always use it for companies with a CICRA of 1 or 2 and whose competitive position is assessed 5 or 6. Although infrequent, we will use the low volatility table for companies with a CICRA of 2 that exhibit or are expected to exhibit low levels of volatility. The choice of volatility tables for companies with a CICRA of 2 is addressed in the respective sector's KCF article. Table 15 Cash Flow/Leverage Analysis Ratios--Low Volatility --CORE RATIOS-- --SUPPLEMENTARY COVERAGE RATIOS--

--SUPPLEMENTARY PAYBACK RATIOS-- FFO/DEBT (%) DEBT/EBITDA (X) FFO/CASH INTEREST (X) EBITDA / INTEREST (X) CFO/DEBT (%) FOCF/DEBT (%) DCF/DEBT (%) Minimal 35+ Less than 2 More than 8 More than 13 More than 30 20+ 11+ Modest 23-35 2-3 5-8 7-13 20-30 10-20 7-11 Intermediate 13-23 3-4 3-5 4-7 12-20 4-10 3-7 Significant 9-13 4-5 2-3 2.5-4 8-12 0-4 0-3 Aggressive 6-9 5-6 1.5-2 1.5-2.5 5-8 (10)-0 (20)-0 Highly leveraged Less than 6 Greater than 6 Less than 1.5 Less than 1.5 Less than 5 Less than (10) Less than (20) FFO--Funds from operations. CFO--Cash flow from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow. Table 16 Cash Flow/Leverage Analysis Ratios--Medial Volatility --CORE RATIOS-- --SUPPLEMENTARY COVERAGE RATIOS-- --SUPPLEMENTARY PAYBACK RATIOS-- FFO/DEBT (%) DEBT/EBITDA (X) FFO/CASH INTEREST (X) EBITDA / INTEREST (X) CFO/DEBT (%) FOCF/DEBT (%) DCF/DEBT (%) Minimal 50+ less than 1.75 10.5+ 14+ 40+ 30+ 18+ Modest 35-50 1.75-2.5 7.5-10.5 9-14 27.5-40 17.5-30 11-18 Intermediate 23-35 2.5-3.5 5-7.5 5-9 18.5-27.5 9.5-17.5 6.5-11 Significant 13-23 3.5-4.5 3-5 2.75-5 10.5-18.5 5-9.5 2.5-6.5 Aggressive 9-13 4.5-5.5 1.75-3 1.75-2.75 7-10.5 0-5 (11)-2.5 Highly leveraged Less than 9 Greater than 5.5 Less than 1.75 Less than 1.75 Less than 7 Less than 0 Less than (11) FFO--Funds from operations. CFO--Cash flow from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow. 6. How are subfactors for the capital structure modifier assessed? 112. There are tier one and tier two risk subfactors for capital structure. Tier one risk subfactors: Currency risk of debt and debt maturity profile, and Tier two risk subfactor: Interest rate risk of debt. Currency risk of debt 113. In evaluating currency risk of debt we also recognize that even if an entity generates insufficient same-currency cash flow to meet foreign currency-denominated debt obligations, it could have substantial other currency cash flows it can convert to meet these obligations. Therefore, the relative amount of foreign denominated debt as a proportion of total debt is an important factor in our analysis. If foreign denominated debt, excluding fully hedged debt principal, is 15% or less of total debt, we assess the company as neutral on currency risk of debt. If an entity's foreign-denominated debt in a particular currency represents more than 15% of total debt, and if its debt-to-EBITDA ratio is greater than 3.0x, we identify whether a currency-specific interest coverage ratio indicates potential currency risk of debt. Our assessment of this subfactor is negative if we believe any appropriate interest coverage ratio will fall below 1.2x over the next 12 months. Debt maturity profile 114. In evaluating refinancing risk, we consider risks in addition to those captured under the 12-month to 24-month time horizons factored in our liquidity criteria (see "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers"). We view a company with a shorter maturity schedule as having greater refinancing risk compared to a company with a longer one. In all cases, we assess a company's debt maturity profile in conjunction with its liquidity and potential funding availability. Thus, a short-dated maturity schedule alone is not a negative if we believe the company can maintain enough liquidity to pay off debt that comes due in the near term. In evaluating debt maturity profiles, we measure the weighted average maturity (WAM) of bank debt and debt securities (including hybrid debt) within a capital structure, and make simplifying assumptions that debt maturing beyond year five matures in year six. The WAM profile of bank debt and securities within the capital structure provides, in conjunction with liquidity and potential funding sources, a meaningful indicator of refinancing risk. We consider significant constraints on the funding side, lumpy short-term repayments, or a remaining WAM below two years as having a potentially negative impact on the anchor. Interest rate risk of debt 115. In evaluating interest rate risk of debt, the interest rate environment at a given point in time will play a role in determining the impact of interest rate movements. Our assessment of this subcategory will be negative if a 25% upward shift (e.g., from 2.0% to 2.5%) or a 100 basis point upward shift (e.g., 2% to 3%) in the base interest rate of the floating-rate debt will result in a breach of interest coverage covenants or interest coverage rating thresholds identified in the cash flow/leverage criteria. 116. The preliminary capital structure assessment is based on the first three subfactors (see table 17). We may then adjust the preliminary assessment based on our assessment of the fourth subfactor, investments. Table 17 Preliminary Capital Structure Assessment SUBFACTOR ASSESSMENTS Neutral No tier one subfactor is negative. Negative One tier one subfactor is negative, and the tier two subfactor is neutral. Very negative Both tier one subfactors are negative, or one tier one subfactor is negative and the tier two subfactor is negative. 117. Tier one subfactors carry the greatest risks, in our view, and, thus, could have a significant impact on the capital structure assessment. This is because, in our opinion, these factors have a greater likelihood of affecting credit metrics and potentially causing liquidity and refinancing risk. The tier two subfactor is important in and of itself, but typically less so than the tier one subfactors. In our view, in the majority of cases, the tier two subfactor in isolation has a lower likelihood of leading to liquidity and default risk than do tier one subfactors. Investments 118. The fourth subfactor, investments, quantifies the impact of a company's investments on its overall financial credit profile. Although not directly related to a firm's capital structure decisions, certain investments could provide a degree of asset protection and potential financial flexibility if they are monetized. We assess this subfactor as positive or very positive if three key characteristics are met. First, an estimated value can be ascribed to these investments based on the presence of an existing market value for the firm or comparable firms in the same industry. Second, there is strong evidence that the investment can be monetized over an intermediate timeframe--in the case of an equity investment, our opinion of the marketability of the investment would be enhanced by the presence of an existing market value for the firm or comparable firms, as well as our view of market liquidity. Third, monetization of the investment, assuming proceeds would be used to repay debt, would be material enough to positively move existing cash flow and leverage ratios by at least one category, and our view on the company's financial policy, specifically related to financial discipline, supports the assessment that the potential proceeds would be used to pay down debt. This subfactor is assessed as positive if debt repayment from the investment sale has the potential to improve cash flow and leverage ratios by one category. We assess investments as very positive if proceeds upon sale of the investment have the potential to improve cash flow and leverage ratios by two or more categories. If the three characteristics are not met, this subfactor will be assessed as neutral and the preliminary capital structure assessment will stand (see table 18). Table 18 Final Capital Structure Assessment --INVESTMENTS SUBFACTOR ASSESSMENT-- PRELIMINARY CAPITAL STRUCTURE ASSESSMENT NEUTRAL POSITIVE VERY POSITIVE Neutral Neutral Positive Positive Negative Negative Neutral Positive Very negative Very negative Negative Negative 7. How is the financial policy modifier applied to mid-market companies? 119. The financial policy for mid-market companies is influenced to some extent by the respective ownership structure. We consider the following observations of a family-owned company's financial policy as positive indicators in our analysis: Some family-owned companies might be keen to remain independent not only in terms of ownership but also funding. If those mid-market companies primarily rely on internally generated cash flows for funding, they tend to be less leveraged consistently over a long time period compared to companies owned by financial sponsors. Sometimes family-owned mid-market companies also clearly communicate their commitment to their stakeholders. Some companies that have been in family ownership through several generations might display longer-term strategic thinking and do not pursue aggressive ad hoc acquisition or shareholder pay-out strategies. Typically, family-owned companies typically represent a large concentration of the family's wealth. To preserve this wealth, some of them are inherently more risk-adverse compared to private equity groups that own a wider portfolio of companies and manage the financial policy of their portfolio more aggressively. 120. The aforementioned points indicate that such a company shows financial discipline and adheres to a certain financial policy that could lead to a neutral or positive financial policy assessment. A neutral assessment indicates that, in our opinion, future credit ratios won't differ materially over the time horizon beyond what we have projected, based on our assessment of management's financial policy, recent track record, and operating forecasts for the company. A neutral financial policy assessment effectively reflects a low probability of "event risk," in our view. A positive financial assessment indicates that we expect management's financial policy decisions to have a positive impact on credit ratios over the time horizon, beyond what can be reasonably built in our forecasts on the basis of normalized operating and cash flow assumptions. An example would be when a credible management team commits to dispose of assets or raise equity over the short to medium term in order to reduce leverage. 8. What are the other important areas for liquidity analysis of mid-market companies? 121. In addition to the reliability of bank funding, we also seek to ascertain if the company relies on non-banking services or financing solutions for its liquidity needs. These could include trade or working capital finance, credit insurance, supplier guarantees, or invoice credit facilities. We review the dependence of the mid-market company on these services and seek to establish if the company has regular and reliable access to these financing facilities. If we can reasonably assume that those financing facilities might be at risk, we adjust the financing uses in our liquidity assessment accordingly to reflect the potential higher financing need for the company. 9. What are the key changes to the MME rating criteria since the initial version? 122. The main changes to the version of the MME rating methodology ("Mid-Market Evaluation: Definition And Scale") reflect the revision of "Corporate Methodology." The differences relate to the now more transparent evaluation process. The expanded descriptive sections now cover 1) business credit profile, 2) financial credit profile, 3) indicative anchor assessment, and 4) anchor modifiers. APPENDIX II: KEY ANALYTICAL DIFFERENCES BETWEEN THE MME RATING AND CORPORATE RATING METHODOLOGIES 123. We conduct the general assessment of a company's business credit profile, financial credit profile, and modifiers in a similar way to the "Corporate Methodology," but we also compare a mid-market company's assessments with its mid-market peers. In addition, certain key credit risk factors receive particular attention in our assessment of mid-market companies. Those factors relate to a detailed understanding of the company's competitive position within its overall industry and relative to other mid-market peers (and the associated risks); 2) financial policy; 3) liquidity position; and 4) the impact of family ownership on our assessment of corporate governance. Due to the importance of a mid-market company's competitive position and business risk assessment in relation to the respective industry and other mid-market peers, we reflect the respective relative ranking of the mid-market companies as new factor outcomes. We label the outcomes as well above peers, above peers, in line with peers, below peers, and well below peers to allow for a clearer distinction between them. Regarding the financial credit assessment, we use the same labels as in "Corporate Methodology" owing to the consistency of mid-market companies' financial statements with those of other corporate entities. In addition, table 5 of "Corporate Methodology" (Modifier Step 2: Impact Of Remaining Modifier Factors On The Anchor) is superseded by the changes described in table 19. Where possible, we have also combined categories for credit factors in certain tables to make the references more applicable to mid-market companies. 124. Table 19 summarizes the major differences between the MME rating criteria and the "Corporate Methodology." Table 19 Differences Between The Mid-Market And Corporate Rating Methodologies MID-MARKET EVALUATION RATING METHODOLOGY CORPORATE RATING METHODOLOGY DIFFERENCES IN MID-MARKET RATING METHODOLOGY Table 5, Translation Table For Converting Weighted-Average Assessments Into Preliminary Competitive Position Assessments Table 14, paragraph 77. Translation Table For Converting Weighted-Average Assessments Into Preliminary Competitive Position Assessments The first two categories 1 and 2 of the Preliminary Competitive Position Assessment have been combined into one category called ‘1 and 2’ which is equivalent to an assessment of 2 under the Corporate Methodology. Table 6, Profitability Assessment Table 15, paragraph 93. Profitability Assessment The first two categories 1 and 2 of the Volatility of Profitability Assessment have been combined into one category called ‘Low’ which is equivalent to an assessment of 2 under the Corporate Methodology. The other categories 3-6 for this assessment have been renamed to ‘Neutral’, ‘Moderate’, ‘High’, and ‘Very high’. We do not use the Standard Error of Regression for volatility of profitability. Table 7, Deriving the Competitive Position. Combining The Preliminary Competitive Position Assessment And Profitability Assessment Table 16, paragraph 94. Combining The Preliminary Competitive Position Assessment And Profitability Assessment The first two categories 1 and 2 have been combined into one category ‘1 and 2’ which is equivalent to an assessment of 2 under the Corporate Methodology. Table 8, Determining The Business Credit Profile Table 2, paragraph 25. Determining The Business Risk Profile The first two categories of the competitive positions assessment have been combined into one category ‘1 and 2’ which is equivalent to a score of 2 under the Corporate Criteria. For the results, the assessments of 1 and 2 have been combined into one category ‘Well above peers’ which is equivalent to an assessment of 2 under the Corporate Methodology. The categories 3-6 have been renamed to ‘Above peers’, ‘In line with peers’, ‘Below peers’, and ‘Well below peers’. Table 10, Combining The Business And Financial Credit Profiles To Determine The Anchor Table 3, paragraph 29. Combining The Business And Financial Credit Profiles To Determine The Anchor For the Business Credit Profile, the assessments of 1 and 2 have been combined into one category ‘Well above peers’ which is equivalent to an assessment of 2 under the Corporate Methodology. The categories 3-6 have been renamed to ‘Above peers’, ‘In line with peers’, ‘Below peers’, and ‘Well below peers’. The anchor outcome allows additional flexibility for the following combinations: 1. ‘well above peers’ and ‘significant’, 2. ‘well above peers’ and ‘aggressive, 3. ‘above peers’ and ‘aggressive’, 4. ‘above peers’ and ‘highly leveraged’. MODIFIERS Capital Structure Table 5, paragraph 33. Modifier Step 2: Impact of Remaining Modifier Factors On The Anchor The first two categories 1 (Very positive) and 2 (Positive) of the modifier have been combined into one category called ‘Positive’ which is equivalent to an assessment of 2 under the Corporate Methodology. Management And Governance Table 5, paragraph 33. Modifier Step 2: Impact of Remaining Modifier Factors On The Anchor The categories 2 (Satisfactory) and 3 (Fair) have been combined into one category ‘Satisfactory/Fair’ covering both outcomes. Table 11, Financial Policy Table 5, paragraph 33. Modifier Step 2: Impact of Remaining Modifier Factors On The Anchor No fundamental changes. Adjustment of maximum for negative notching impact to reflect calibration to MME scale. Table 12, Liquidity Table 5, paragraph 33. Modifier Step 2: Impact of Remaining Modifier Factors On The Anchor The first two categories 1 (Exceptional) and 2 (Strong) have been combined into one category called ‘Strong’ which is equivalent to an assessment of 2 under the Corporate Methodology. Diversification Paragraphs 126-135. Diversification/Portfolio Effect The modifier ‘diversification’ has been excluded from the Mid-Market Methodology Comparable Ratings Analysis Paragraph 187. Comparable Ratings Analysis The modifier ‘comparable ratings analysis’ has been removed from the Mid-Market Methodology. APPENDIX III: COMPETITIVE POSITION – CORPORATE CRITERIA OVERVIEW TABLES 125. Tables 20-23 summarize details about the competitive position as described in paragraphs 22-34 of this methodology. Table 20 Competitive Position Components And Subfactors COMPONENT EXPLANATION SUBFACTORS 1. Competitive advantage {see Appendix B, section 1} The strategic positioning and attractiveness to customers of a company's products or services and the fragility or sustainability of its business model • Strategy • Differentiation/uniqueness/product positioning/building • Brand reputation and marketing • Product and/or customer's switching costs • Technological advantage and capabilities and vulnerability to/ability to drive technological displacement • Asset base characteristics 2. Scale, scope, and diversity {see Appendix B, section 2} The concentration or diversification of business activities • Diversity of products or services • Geographic diversity • Volumes, size of markets and revenues, and market share • Maturity of products or services 3. Operating efficiency {see Appendix B, section 3} The quality and flexibility of a company's asset base and its cost management and structure • Cost structure • Manufacturing processes • Working capital management • Technology 4. Profitability • Level of profitability (historical and projected return on capital, EBITDA margin, and/or sector-relevant measure) • Volatility of profitability IV. REVISIONS AND UPDATES This article was originally published on Nov. 20, 2014. These criteria became effective on the date of publication. Sectors that now fall in the scope of this criteria article since its original publication include: Transportation equipment leasing and car rental companies following publication of "Key Credit Factors For The Operating Leasing Industry" on Dec. 14, 2016. Changes introduced after original publication: Following our periodic review completed on Nov. 19, 2015, we made nonsubstantive clarifying changes to paragraph 53 and tables 3, 4, and 12. Following our periodic review completed on Nov. 18, 2016, we updated contact information and criteria references. Following our periodic review completed on Nov. 1, 2017, we updated paragraph 15 to reflect the recent publication of "Recovery Rating Criteria For Speculative-Grade Corporate Issuers" and "Reflecting Subordination Risk In Corporate Issue Ratings." We also updated contact information and criteria references that were outdated. On Dec. 11, 2018, we republished this criteria article to make nonmaterial changes. We updated the contact information and criteria references. We also deleted paragraph 2, which was related to the original publication of the criteria and no longer relevant. On July 1, 2019, we republished this criteria article to make nonmaterial changes. We made edits to paragraphs 104 and 105, where we removed references to specific sections and charts that appear in the superseded GRM published in 2013. Instead, we refer readers to the revised GRM that we published on July 1, 2019. We also made edits to criteria references and updated the "Related Criteria And Research" section. On Sept. 4, 2019, we republished this criteria article to make nonmaterial changes. We updated criteria references throughout the article as well as in the "Related Criteria" section. On Aug. 25, 2020, we republished this criteria article to make nonmaterial changes. We updated criteria references throughout the article as well as in the "Related Criteria" section. On July 27, 2021, we republished this criteria article to make nonmaterial changes.

We updated several criteria and guidance references throughout the article, as well as in the "Related Criteria And Research" section. On July 14, 2022, we republished this criteria article to make nonmaterial changes. We updated references in the "Related Criteria And Research" section. V. RELATED CRITERIA AND RESEARCH Superseded Criteria Mid-Market Evaluation Methodology, June 25, 2014 Related Criteria Group Rating Methodology, July 1, 2019 Corporate Methodology: Ratios And Adjustments, April 1, 2019 Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018 Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016 Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015 Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014 Corporate Methodology, Nov. 19, 2013 Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013 Methodology: Industry Risk, Nov. 19, 2013 Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013 Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012 Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012 Principles of Credit Ratings, Feb. 16, 2011 Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010 Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009 Related Research S&P; Global Ratings Definitions, Nov. 10, 2021 Also see the series of Key Credit Factors criteria articles for different industries, as well as sector-specific guidance in our "Guidance: Corporate Methodology", published July 1, 2019.