MOODY'S INVESTORS SERVICE

RATING METHODOLOGY

Consumer Durables Industry

This rating methodology replaces "Consumer Durables Industry" last revised on September 30, 2014. We have updated some outdated links and removed certain issuer-specific information.

Table of Contents:

SUMMARY	1
ABOUT THE RATED UNIVERSE	3
ABOUT THIS RATING METHODOLOGY	3
DISCUSSION OF THE SCORECARD FACTORS	5
ASSUMPTIONS, LIMITATIONS AND RATING CONSIDERATIONS THAT ARE NOT COVERED IN THE SCORECARD	12
OTHER RATING CONSIDERATIONS	13
APPENDIX: CONSUMER DURABLES METHODOLOGY FACTOR SCORECARD	14
MOODY'S RELATED PUBLICATIONS	16

Analyst Contacts:

NEW YORK +1.212.553.0300

Kevin Cassidy +1.212.553.1676
Vice President - Senior Credit Officer
kevin.cassidy@moodys.com

Peter Abdill +1.212.553.4024
Managing Director - Corporate Finance
peter.abdill@moodys.com

HONG KONG +852.3551.3077

Annalisa Di Chiara +852.3758.1537
Vice President - Senior Credit Officer
annalisa.dichiara@moodys.com

DUBAI +971.4.401.9536

Douglas Rowlings +971.4.237.9543
Assistant Vice President - Analyst
douglas.rowlings@moodys.com

» contacts continued on the last page

Summary

This rating methodology explains our approach to assessing credit risk for companies in the consumer durables industry globally. This document provides general guidance that helps companies, investors, and other interested market participants understand how qualitative and quantitative risk characteristics are likely to affect rating outcomes for companies in the consumer durables industry. This document does not include an exhaustive treatment of all factors that are reflected in our ratings but should enable the reader to understand the qualitative considerations and financial information and ratios that are usually most important for ratings in this sector.

This report includes a detailed scorecard which is a reference tool that can be used to approximate credit profiles within the consumer durables sector in most cases. The scorecard provides summarized guidance for the factors that are generally most important in assigning ratings to companies in the consumer durables industry. However, the scorecard is a summary that does not include every rating consideration. The weights shown for each factor in the scorecard represent an approximation of their importance for rating decisions but actual importance may vary substantially. In addition, the scorecard uses historical results while ratings are based on our forward-looking expectations. As a result, the scorecard-indicated outcome is not expected to match the actual rating of each company.

THIS RATING METHODOLOGY WAS UPDATED ON OCTOBER 10, 2019. WE HAVE UPDATED SOME OUTDATED REFERENCES AND ALSO MADE SOME MINOR FORMATTING CHANGES.

The scorecard contains five factors that are important in our assessments of ratings in the consumer durables sector:

1. Scale
2. Business Profile
3. Profitability
4. Leverage and Coverage
5. Financial Policy

Some of these factors also encompass a number of sub-factors.

This rating methodology is not intended to be an exhaustive discussion of all factors that our analysts consider in assigning ratings in this sector. We note that our analysis for ratings in this sector covers factors that are common across all industries such as ownership, management, liquidity, corporate legal structure, governance and country related risks which are not explained in detail in this document, as well as other factors that can be meaningful on a company-specific basis. Our ratings consider these and other qualitative considerations that do not lend themselves to a transparent presentation in a scorecard format. The scorecard used for this methodology reflects a decision to favor a relatively simple and transparent presentation rather than a more complex scorecard that might map scorecard-indicated outcomes more closely to actual ratings.

Highlights of this report include:

- » An overview of the rated universe
- » A summary of the rating methodology
- » A description of the scorecard factors
- » Comments on the rating methodology assumptions and limitations, including a discussion of rating considerations that are not included in the scorecard

The Appendix shows the full scorecard.

This methodology describes the analytical framework used in determining credit ratings. In some instances, our analysis is also guided by additional publications which describe our approach for analytical considerations that are not specific to any single sector. Examples of such considerations include but are not limited to: the assignment of short-term ratings, the relative ranking of different classes of debt and hybrid securities, how sovereign credit quality affects non-sovereign issuers, and the assessment of credit support from other entities.[1]

[1] A link to an index of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

About the Rated Universe

Consumer durables companies are an extraordinarily diverse group the primary activities of which include the design, manufacture, and distribution of products that are not consumed or disposed of quickly, and that can be used for several years. The sector includes many sub-sectors such as furniture, mattresses, appliances, musical instruments, floor covering and recreational goods. It includes companies that sell directly to consumers (such as appliance, musical instrument and recreational companies) and companies that sell to other corporations (such as certain floor covering and office furniture companies).

About This Rating Methodology

This report explains the rating methodology for consumer durables in six sections, which are summarized as follows:

1. Identification and Discussion of the Scorecard Factors

The scorecard in this rating methodology focuses on five factors. The five factors are comprised of sub-factors that provide further detail.

EXHIBIT 1

Consumer Durables Industry

Broad Scorecard Factors	Factor Weighting	Sub-Factor	Sub-Factor Weighting
Scale	20%	Total Sales	20%
Business Profile	25%	Competitive Position	15%
		Brand Strength	10%
Profitability	5%	EBIT Margin	5%
Leverage & Coverage	35%	Debt/EBITDA	15%
		RCF/Net Debt	10%
		EBIT/Interest Expense	10%
Financial Policy	15%	Financial Policy	15%
Total	**100%**	Total	**100%**

2. Measurement or Estimation of Factors in the Scorecard

We explain our general approach for scoring each scorecard factor and show the weights used in the scorecard. We also provide a rationale for why each of these scorecard components is meaningful as a credit indicator. The information used in assessing the sub-factors is generally found in or calculated from information in company financial statements, derived from other observations or estimated by our analysts.

Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of a company's performance as well as for peer comparisons. We typically utilize historical data (in most cases, the last twelve months of reported results). All of the quantitative credit metrics incorporate our standard adjustments to income statement, cash flow statement and balance sheet amounts for restructuring, impairment, off-balance sheet accounts, receivable securitization programs, under-funded pension obligations, and recurring operating leases.[2] However, the factors in the scorecard can be assessed using various time periods. Rating committees assess both historical and expected future performance for periods covering several years.[3]

3. Mapping Scorecard Factors to the Rating Categories

After estimating or calculating each sub-factor, the outcomes for each of the sub-factors are mapped to a broad Moody's rating category (Aaa, Aa, A, Baa, Ba, B, Caa, or Ca, also called alpha categories).

4. Assumptions, Limitations and Rating Considerations Not Included in the Scorecard

This section discusses limitations in the use of the scorecard to map against actual ratings, some of the additional factors that are not included in the scorecard but can be important in determining ratings, and limitations and assumptions that pertain to the overall rating methodology.

5. Determining the Overall Scorecard-Indicated Outcome [4]

To determine the overall scorecard-indicated outcome, we convert each of the sub-factor outcomes into a numeric value based upon the scale below.

Aaa	Aa	A	Baa	Ba	B	Caa	Ca
1	3	6	9	12	15	18	20

The numerical score for each sub-factor is multiplied by the weight for that sub-factor with the results then summed to produce a composite weighted-factor score. The composite weighted-factor score is then mapped back to an alphanumeric rating based on the ranges in the table below.

Scorecard-Indicated Outcome

Scorecard-Indicated Outcome	Aggregate Weighted Total Factor Score
Aaa	$x < 1.5$
Aa1	$1.5 \leq x < 2.5$
Aa2	$2.5 \leq x < 3.5$
Aa3	$3.5 \leq x < 4.5$
A1	$4.5 \leq x < 5.5$
A2	$5.5 \leq x < 6.5$
A3	$6.5 \leq x < 7.5$
Baa1	$7.5 \leq x < 8.5$
Baa2	$8.5 \leq x < 9.5$
Baa3	$9.5 \leq x < 10.5$

2 For more information, see our cross-sector methodology that describes our standard adjustments in the analysis of non-financial corporations. A link to an index of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

3 For definitions of our most common ratio terms, please see *Moody's Basic Definitions for Credit Statistics (User's Guide)*. A link can be found in the "Moody's Related Publications" section.

4 In general, the scorecard-indicated outcome is oriented to the Corporate Family Rating (CFR) for speculative-grade issuers and the senior unsecured rating for investment-grade issuers. For issuers that benefit from ratings uplift due to parental support, government ownership or other institutional support, the scorecard-indicated outcome is oriented to the baseline credit assessment. For more information, see our cross-sector methodology that describes our general approach for assessing government-related issuers. Individual debt instrument ratings also factor in decisions on notching for seniority level and collateral. For more information, see our cross-sector methodology that describes principles related to loss given default for speculative grade non-financial companies and also our cross-sector methodology that describes the alignment of corporate instrument ratings based on differences in security and priority of claim. A link to an index of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

Scorecard-Indicated Outcome

Scorecard-Indicated Outcome	Aggregate Weighted Total Factor Score
Ba1	10.5 ≤ x < 11.5
Ba2	11.5 ≤ x < 12.5
Ba3	12.5 ≤ x < 13.5
B1	13.5 ≤ x < 14.5
B2	14.5 ≤ x < 15.5
B3	15.5 ≤ x < 16.5
Caa1	16.5 ≤ x < 17.5
Caa2	17.5 ≤ x < 18.5
Caa3	18.5 ≤ x < 19.5
Ca	x ≥ 19.5

For example, an issuer with a composite weighted factor score of 11.7 would have a Ba2 scorecard-indicated outcome.

6. Appendix

The Appendix presents the full scorecard for the Consumer Durables industry.

Discussion of the Scorecard Factors

The scorecard for consumer durables focuses on five broad factors:

» Scale

» Business Profile

» Profitability

» Leverage and Coverage

» Financial Policy

Factor 1: Scale (20% Weight)

Why it Matters

Limited scale can be a limiting factor in ratings of consumer durables companies. Larger companies may be able to achieve greater economies of scale and be better positioned to leverage fixed costs and the all-important advertising spend that promotes consumer awareness of brands and products. Size may also be an indicator for a consumer durable company's resiliency to changes in product demand and its clout with suppliers and customers. Broad scale will likely reduce a company's exposure to business disruption caused by a problem with a single plant.

How We Assess It for the Scorecard

Scale is measured (estimated in the case of forward-looking expectations) using total reported sales.

FACTOR 1

Scale (20%)

Sub-Factor	Sub-factor Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Total Sales (USD Billions)	20%	≥ \$60	\$20 - \$60	\$10 - \$20	\$4 - \$10	\$1.5 - \$4	\$0.5 - \$1.5	\$0.25 - \$0.5	< \$0.25

Factor 2: Business Profile (25% Weight)

Why It Matters

Our assessment of the business profile factor considers the competitive position of a consumer durables company and the relative strength of its brands. Our assessment of a company's competitive position includes its stability of cash flows, overall market position, product and geographic diversity, barriers to entry, and cost structure characteristics. A company's relative strength in these areas is indicative of its ability to maintain a strong competitive position over time.

Our assessment of a company's brand strength considers the consumer 'pull' for the brand, which is important in producing more stable cash flow. Stronger brands typically generate more loyal and consistent consumer demand which maximizes recurring sales and reduces volatility. In addition, brand strength can expand opportunities for marketing into new categories or product areas. This helps shield companies against changing consumer preferences and the cyclicality/seasonality that is typical in the consumer durables sector.

How We Assess It for the Scorecard

COMPETITIVE POSITION

In scoring this sub-factor, we consider a number of issues that bear on companies' competitive position in the consumer durables industry, including:

STABILITY OF CASH FLOWS

Our assessment of expected cash flow stability across industry and economic cycles is an important consideration in scoring the competitive position sub-factor. Companies whose profile leads us to expect higher levels of volatility in cash flow typically need better liquidity and more robust financial metrics to achieve a similar rating as companies with more stable cash flow profiles.

MARKET POSITION

Large market shares suggest a more sustainable competitive position with greater ability to weather volatile market conditions. In some instances, companies with large market shares will adjust their production volumes to help balance supply and demand conditions as a means to stabilize product pricing. Market share that is protected by patent or unique licensing restrictions, or other technological advantages, can help underpin strong stable cash flows and performance.

PRODUCT DIVERSITY

A breadth of products in a variety of categories often mitigates the impact of obsolescence of a single product caused by changes in consumer habits. Product diversity can also offset the weakening of an individual brand since distinct product lines tend to be sold under separate brands. In cases where a company has only one brand, diversity by geography and by product may be even more important.

GEOGRAPHIC DIVERSITY

Geographic diversification is a positive consideration because it helps mitigate: (i) the impact of a recession or adverse economic shocks affecting specific geographies, (ii) the impact of local changes in consumer habits, (iii) changes in customer relationships, which remain mostly regional, and (iv) the impact of regional regulatory, product liability or safety issues. In scoring this sub-factor, the highest level of geographic diversification that a company can achieve is to have a leading worldwide presence, without major dependence on any one region. Geographic expansion in emerging markets can be an important element in an effective diversification strategy because these markets often offer more growth potential than developed economies. Limited geographic diversification may be offset by favorable characteristics of the markets in which the company competes.

BARRIERS TO ENTRY

Barriers to entry can be high in cases of unique business models or assets, providing a greater degree of revenue stability and sustainability.

COST STRUCTURE

Companies with a flexible and low cost structure will have less volatility in earnings and cash flows, and higher margins, than similar companies with a higher fixed cost structure.

Brand Strength

A broad range of brands is generally credit positive. Companies that pursue multi-brand strategies may forgo some of the benefits of scale of owning larger brands, but a portfolio that reaches a range of consumers and retailers mitigates the risk that a particular brand may experience weak performance for a protracted period.

When assessing a brand, we typically consider the global awareness of the brand with consumers, the brand's track record, revenue generated, market position, the degree of customer loyalty and whether the brand is considered price sensitive or differentiated.

FACTOR 2

Business Profile (25%)

Sub-Factor	Sub-Factor Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Competitive Position	15%	Expected to have highly stable cash flow across industry and economic cycles; supported with dominant market positions and by highly diverse product lines with significant barriers to entry, no concentration of cash flow sources and leading/low cost operations.	Expected to have very stable cash flow across industry and economic cycles; supported with leading market positions and by diverse product lines with very high barriers to entry, low concentration of cash flow sources, and low cost operations.	Expected to have stable cash flow across industry and economic cycles; supported with large market positions and by multiple product lines with high barriers to entry, moderate-to-low concentration of cash flow sources, and predominantly low cost operations.	Expected to have moderate volatility of cash flow generation across industry and economic cycles; supported with significant market positions and by one or two product lines with moderate barriers to entry, moderate concentration of cash flow sources, and predominantly low cost operations.	Expected to have cyclical cash flow across industry and economic cycles; supported with mid-sized market positions with moderate barriers to entry, moderately-high concentration of cash flow sources, and average cost operations.	Expected to have highly cyclical cash flow across industry and economic cycles; modest market positions with minimal barriers to entry, high concentration of cash flow sources, and average-to-high cost operations with limited geographic diversity advantages.	Expected to have highly volatile cash flow across industry and economic cycles; weak market positions with limited barriers to entry, and high cost operations with limited geographic diversity advantages.	Expected to have extremely volatile cash flow; no barriers to entry; an insignificant market position; uncertain demand trends; high cost operations with no geographic diversity advantages.
Brand Strength	10%	Multiple, globally recognized leading and enduring brands that are synonymous with the category. Customer loyalty is unwavering.	Globally recognized leading and enduring brands that are synonymous with the category. Customer loyalty is very high.	Globally recognized brands with long-term track record. High degree of brand loyalty, customer prefers and seeks brand.	Well recognized brands with medium to long-term track record. Customer has loyalty, but not exclusively, to brand.	Brand has medium level of awareness and moderate differentiation to peers; price may be a factor. Brand may have history of inconsistent revenue trends.	Brand has low level of awareness and low differentiation to peers; price is a factor. Brand may have history of inconsistent revenue trends.	Brand has minimal to no level of awareness and minor, if any, differentiation to peers; price is a key differentiating factor. Brand has history of significant volatility in revenue trends.	No brand awareness. Price alone determines consumer purchasing trends.

Factor 3: Profitability (5% weight)

Why It Matters

A consumer durables company needs to sustain adequate margins on a long-term multi-year basis to continue to attract capital and make ongoing investments in research and development that are needed to maintain a technological edge.

Differences in currency and business mix complicate comparability between companies. For example, appliance margins are usually lower than sporting good margins. In instances where companies segment information for different business lines, we may also compare margins across comparable segments.

How We Assess It for the Scorecard

EBIT MARGIN:

The profitability indicator used in the scorecard is earnings before interest, and taxes divided by net sales (EBIT margin).

FACTOR 3

Profitability (5% weight)

Sub-Factor	Sub-Factor Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
EBIT Margin	5%	≥ 27%	22% - 27%	17% - 22%	13% - 17%	10% - 13%	7% - 10%	4% - 7%	< 4%

Factor 4: Leverage and Coverage (35% Weight)

Why It Matters

Financial leverage and coverage measures are indicators for a company's financial flexibility and long-term viability.

LEVERAGE

Debt to Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) is an indicator for debt serviceability and leverage and is commonly used in this sector as a proxy for comparative financial strength.

CASH FLOW

Retained Cash Flow (RCF) / Net Debt is an indicator for a company's ability to repay principal on its outstanding debt. It is a measure or estimate for cash flow generation before working capital movements and after dividends in relation to outstanding debt net of cash.

INTEREST COVERAGE

Earnings before Interest and Taxes (EBIT) / Interest Expense is an indicator for a company's ability to pay interest and other fixed charges from operations.

How We Assess It for the Scorecard:

Debt/EBITDA

We typically measure this as Debt divided by LTM EBITDA.

RCF/Net Debt

We typically measure this as Funds from Operations minus dividends (Retained Cash Flow) divided by Debt net of Cash.

EBIT/Interest Expense

We typically measure this as LTM EBIT divided by LTM Interest Expense.

FACTOR 4

Leverage and Coverage (35%)

Sub-Factor	Sub-Factor Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Debt / EBITDA	15%	<0.5x	0.5x - 1x	1x - 2x	2x - 3x	3x - 4x	4x - 6x	6x - 8x	≥ 8x
RCF / Net Debt	10%	≥ 70%	50% - 70%	33% - 50%	21% - 33%	15% - 21%	7% - 15%	0% - 7%	< 0%
EBIT / Interest Expense	10%	≥ 18x	12x - 18x	7x - 12x	4x - 7x	2.5x - 4x	1x – 2.5x	0.5x - 1x	< 0.5x

Factor 5: Financial Policy (15% Weight)

Why It Matters

Management and board tolerance for financial risk is a key rating determinant as it directly affects leverage levels, credit quality, and the risk of adverse changes in financing and capital structure.

Our assessment of financial policies includes the perceived tolerance of a company's governing board and management for financial risk and the future direction for the company's capital structure. Considerations include a company's public commitments in this area, its track record for adhering to commitments, and our views on the company's ability to achieve its targets.

Financial risk tolerance serves as a guidepost to investment and capital allocation. An expectation that management will be committed to sustaining an improved credit profile is often necessary to support an upgrade. For example, we may not upgrade a company that has built flexibility within its rating category if we believe the company will use that flexibility to fund a strategic acquisition, cash distribution to shareholders, or other leveraging transaction. Conversely, a company's credit rating may be better able to withstand a moderate leveraging event if management places a high priority on returning credit metrics to pre-transaction levels and has consistently demonstrated the commitment to do so through prior actions.

Historically, some consumer durable companies have used acquisitions to spur revenue growth, expand product offerings, consolidate market positions, advance cost synergies or seek to access new technology. The impact of an acquisition on a rating will invariably depend on the company's existing capital structure and the degree to which it is changed by the acquisition.

In the past, many issuers in the consumer durables industry maintained relatively conservative financial policies following an industry downturn. While a number of consumer durable companies have implemented dividend and share repurchase programs, these programs have typically been relatively modest when compared to the industry's improved profitability and liquidity profile.

How We Assess It for the Scorecard

FINANCIAL POLICY

We assess the issuer's desired capital structure or targeted credit profile, history of prior actions and adherence to its commitments. We pay attention to management's operating performance and use of cash flow through different phases of economic cycles. Also of interest is the way in which management responds to key events, such as changes in credit markets and the liquidity environment, legal actions, competitive challenges, and regulatory pressures.

We assess management's appetite for M&A activity, with a focus on the type of transactions (i.e. core competency or new business) and funding decisions. Frequency and materiality of acquisitions and previous financing choices are evaluated. A history of debt-financed or credit-transforming acquisitions will generally result in a lower score for this factor. We also consider a company and its owners' past record of balancing shareholder returns and debt holders' interests.

FACTOR 5

Financial Policy (15%)

Sub-Factor	Sub-Factor Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Financial Policy	15%	Expected to have extremely conservative financial policies; very stable metrics; public commitment to very strong credit profile over the long term.	Expected to have very stable and conservative financial policies; stable metrics; minimal event risk that would cause a rating transition; public commitment to strong credit profile over the long term.	Expected to have predictable financial policies that preserve creditor interests. Although modest event risk exists, the effect on leverage is likely to be small and temporary; strong commitment to a solid credit profile.	Expected to have financial policies that balance the interest of creditors and shareholders; some risk that debt funded acquisitions or shareholder distributions could lead to a weaker credit profile.	Expected to have financial policies that tend to favor shareholders over creditors; above average financial risk resulting from shareholder distributions, acquisitions or other significant capital structure changes.	Expected to have financial policies that favor shareholders over creditors; high financial risk resulting from shareholder distributions, acquisitions or other significant capital structure changes.	Expected to have financial policies that create elevated risk of debt restructuring in varied economic environments.	Expected to have financial policies that create elevated risk of debt restructuring even in healthy economic environments.

Assumptions, Limitations and Rating Considerations That Are Not Covered in the Scorecard

The rating methodology scorecard represents a decision to favor simplicity that enhances transparency and to avoid greater complexity that might enable the scorecard to map more closely to actual ratings. Accordingly, the five factors in the scorecard do not constitute an exhaustive treatment of all the considerations that are important for ratings of companies in the consumer durables industry. In addition, our ratings incorporate expectations for future performance, while the financial information typically used in the scorecard is mainly historical. In some cases, our expectations for future performance may be informed by confidential information that we cannot disclose. In other cases, we estimate future results based upon past performance, industry trends, competitor actions, or other factors. In either case, predicting the future is subject to the risk of substantial inaccuracy.

Assumptions that may cause our forward-looking expectations to be incorrect include unanticipated changes in any of the following factors: the macroeconomic environment and general financial market conditions, industry competition, new technology, and regulatory and legal actions.

Key rating assumptions that apply in this sector include our view that sovereign credit risk is strongly correlated with that of other domestic issuers, that legal priority of claim affects average recovery on different classes of debt sufficiently to generally warrant differences in ratings for different debt classes of the same issuer, and the assumption that access to liquidity is a strong driver of credit risk.

In choosing metrics for this rating methodology scorecard, we did not explicitly include certain important factors that are common to all companies in any industry, such as the quality and experience of management, assessments of corporate governance and the quality of financial reporting and information disclosure. Ranking these factors by rating category in a scorecard would in some cases suggest too much precision in the relative ranking of particular issuers against all issuers that are rated in various industry sectors.

Ratings may include additional factors that are difficult to quantify or that have a meaningful effect in differentiating credit quality only in some cases, but not all. Such factors include possible government interference in some countries. Regulatory, litigation, liquidity, technology and reputational risks as well as changes to consumer spending patterns, competitor strategies, and macroeconomic trends also affect ratings. While these are important considerations, it is not possible precisely to express those in the rating methodology scorecard without making the scorecard excessively complex and significantly less transparent. Ratings may also reflect circumstances in which the weighting of a particular factor will be substantially different from the weighting suggested by the scorecard. Factor 5 on Financial Policy is an example. In some instances, a company's approach is sufficiently extreme with regard to matters such as financial strategy and proclivity towards debt financed acquisitions that the rating effect will be much greater than is suggested by the 15% weighting in the scorecard.

This variation in weighting rating considerations can also apply to factors that we choose not to represent in the scorecard. For example, liquidity is a consideration frequently critical to ratings and which may not, in other circumstances, have a substantial impact in discriminating between two issuers with a similar credit profile. As an example of the limitations, ratings can be heavily affected by extremely weak liquidity that magnifies default risk. For example, a company with a projected covenant breach may be rated lower than a similar company that has ample covenant headroom. However two identical companies might be rated the same if their only differentiating feature is that one has a good liquidity position while the other has an extremely good liquidity position, unless these are very low rated companies for which liquidity can play an outsized role in avoiding default.

Other Rating Considerations

Ratings encompass a number of additional considerations. These include but are not limited to: our assessment of the quality of management, corporate governance, financial controls, liquidity management, event risk and seasonality.

Management Strategy

The quality of management is an important factor supporting a company's credit strength. Assessing the execution of business plans over time can be helpful in assessing management's business strategies, policies, and philosophies and evaluates management performance relative to performance of competitors and our projections.

Once established, a record of consistency provides us with insight into management's likely future performance in stressed situations and can be an indicator of management's tendency to depart significantly from its stated plans and guidelines.

Corporate Governance

Among the areas of focus in corporate governance are audit committee financial expertise, the incentives created by executive compensation packages, related party transactions, interactions with outside auditors, and ownership structure.

Financial Controls

We rely on the accuracy of audited financial statements to assign and monitor ratings in this sector. The quality of financial statements may be influenced by internal controls, including centralized operations and the proper tone at the top and consistency in accounting policies and procedures. Auditors' comments in financial reports and unusual financial statement restatements or delays in regulatory filings may indicate weaknesses in internal controls.

Liquidity Management

Liquidity is a critical rating factor for all consumer durables companies. Liquidity can be particularly important for non-investment grade companies where issuers typically have less operating and financial flexibility. We form an opinion on likely near-term liquidity requirements from both a cash-source and cash-use aspect.

Event Risk

We also recognize the possibility that an unexpected event could cause a sudden and sharp decline in an issuer's fundamental creditworthiness. Typical special events include mergers and acquisitions, leveraged buy-outs, asset sales/spin-offs, capital restructuring programs, litigation and shareholder distributions.

Seasonality

Seasonality (i.e., movements through the year) is a particular concern for some, but not all, consumer durable companies. Higher volatility creates less room for error in product or operational execution.

Appendix: Consumer Durables Methodology Factor Scorecard

Factors	Sub-Factor	Moody's Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
SCALE	Total Sales (USD Billion)	20%	≥ $60	$20 - $60	$10 - $ 20	$4 - $ 10	$1.5 - $ 4	$0.5 - $ 1.5	$0.25 - $ 0.5	< $0.25
BUSINESS PROFILE	Competitive Position	15%	Expected to have highly stable cash flow across industry and economic cycles; supported with dominant market positions and by highly diverse product lines with significant barriers to entry, no concentration of cash flow sources and leading/low cost operations.	Expected to have very stable cash flow across industry and economic cycles; supported with leading market positions and by diverse product lines with very high barriers to entry, low concentration of cash flow sources, and low cost operations.	Expected to have stable cash flow across industry and economic cycles; supported with large market positions and by multiple product lines with high barriers to entry, moderate-to-low concentration of cash flow sources, and predominantly low cost operations.	Expected to have moderate volatility of cash flow generation across industry and economic cycles; supported with significant market positions and by one or two product lines with moderate barriers to entry, moderate concentration of cash flow sources, and predominantly low cost operations.	Expected to have cyclical cash flow across industry and economic cycles; supported with mid-sized market positions with moderate barriers to entry, moderately-high concentration of cash flow sources, and average cost operations.	Expected to have highly cyclical cash flow across industry and economic cycles; modest market positions with minimal barriers to entry, high concentration of cash flow sources, and average-to-high cost operations with limited geographic diversity advantages.	Expected to have highly volatile cash flow across industry and economic cycles; weak market positions with limited barriers to entry, and high cost operations with limited geographic diversity advantages.	Expected to have extremely volatile cash flow; no barriers to entry; an insignificant market position; uncertain demand trends; high cost operations with no geographic diversity advantages.
	Brand Strength	10%	Multiple, globally recognized leading and enduring brands that are synonymous with the category. Customer loyalty is unwavering.	Globally recognized leading and enduring brands that are synonymous with the category. Customer loyalty is very high.	Globally recognized brands with long-term track record. High degree of brand loyalty, customer prefers and seeks brand.	Well recognized brands with medium to long-term track record. Customer has loyalty, but not exclusively, to brand.	Brand has medium level of awareness and moderate differentiation to peers; price may be a factor. Brand may have history of inconsistent revenue trends.	Brand has low level of awareness and low differentiation to peers; price is a factor. Brand may have history of inconsistent revenue trends.	Brand has minimal to no level of awareness and minor, if any, differentiation to peers; price is a key differentiating factor. Brand has history of significant volatility in revenue trends.	No brand awareness. Price alone determines consumer purchasing trends.
PROFITABILITY	EBIT Margin	5%	≥ 27%	22% - 27%	17% - 22%	13% - 17%	10% - 13%	7% - 10%	4% - 7%	< 4%
LEVERAGE AND COVERAGE	Debt / EBITDA	15%	<0.5x	0.5x - 1x	1x - 2x	2x - 3x	3x - 4x	4x - 6x	6x - 8x	≥ 8x
	RCF / Net Debt	10%	≥ 70%	50% - 70%	33% - 50%	21% - 33%	15% - 21%	7% - 15%	0% - 7%	< 0%
	EBIT / Interest Expense	10%	≥ 18x	12x - 18x	7x - 12x	4x - 7x	2.5x - 4x	1x - 2.5x	0.5x - 1x	< 0.5x

Factors	Sub-Factor	Moody's Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
FINANCIAL POLICY	Financial Policy	15%	Expected to have extremely conservative financial policies; very stable metrics; public commitment to very strong credit profile over the long term.	Expected to have very stable and conservative financial policies; stable metrics; minimal event risk that would cause a rating transition; public commitment to strong credit profile over the long term.	Expected to have predictable financial policies that preserve creditor interests. Although modest event risk exists, the effect on leverage is likely to be small and temporary; strong commitment to a solid credit profile.	Expected to have financial policies that balance the interest of creditors and shareholders; some risk that debt funded acquisitions or shareholder distributions could lead to a weaker credit profile.	Expected to have financial policies that tend to favor shareholders over creditors; above average financial risk resulting from shareholder distributions, acquisitions or other significant capital structure changes.	Expected to have financial policies that favor shareholders over creditors; high financial risk resulting from shareholder distributions, acquisitions or other significant capital structure changes.	Expected to have financial policies that create elevated risk of debt restructuring in varied economic environments.	Expected to have financial policies that create elevated risk of debt restructuring even in healthy economic environments.

Moody's Related Publications

Credit ratings are primarily determined by sector credit rating methodologies. Certain broad methodological considerations (described in one or more cross-sector rating methodologies) may also be relevant to the determination of credit ratings of issuers and instruments. An index of sector and cross-sector credit rating methodologies can be found here.

For data summarizing the historical robustness and predictive power of credit ratings, please click here.

For further information, please refer to *Rating Symbols and Definitions*, which is available here.

Moody's Basic Definitions for Credit Statistics (User's Guide) can be found here.

» contacts continued from page 1

Analyst Contacts:

NEW YORK +1.212.553.0300

Brian Silver +1.212.553.1663
Vice President - Senior Analyst
brian.silver@moodys.com

Dominick D'Ascoli +1.212.553.0196
Vice President - Senior Analyst
dominick.d'ascoli@moodys.com

Chedly Milord Louis +1.212.553.4410
Vice President - Senior Analyst
chedly.milordlouis@moodys.com

Raya Sokolyanska +1.212.553.7415
Vice President - Senior Analyst
raya.sokolyanska@moodys.com

Natalia Gluschuk +1.212.553.4121
Assistant Vice President - Analyst
natalia.gluschuk@moodys.com

BUENOS AIRES +54.11.4816.2332

Martina Gallardo Barreyro +54.11.5129.2643
Assistant Vice President - Analyst
martina.gallardobarreyro@moodys.com

FRANKFURT +49.69.70730.700

Oliver Giani +49.69.70730.722
Vice President - Senior Analyst
oliver.giani@moodys.com

Falk Frey +49.69.70730.712
Senior Vice President
falk.frey@moodys.com

MILAN +39.02.9148.1100

Lorenzo Re +39.02.9148.1123
Vice President - Senior Analyst
lorenzo.re@moodys.com

LONDON +44.20.7772.5454

Martin Chamberlain +44.20.7772.5213
Vice President - Senior Analyst
martin.chamberlain@moodys.com

Tanya Savkin +44.20.7772.8630
Vice President - Senior Analyst
tanya.savkin@moodys.com

Donatella Maso +44.20.7772.5244
Vice President - Senior Analyst
donatella.maso@moodys.com

Pieter Rommens +44.20.7772.1346
Vice President - Senior Analyst
pieter.rommens@moodys.com

SOUTH AFRICA +27.11.217.5470

Dion Bate +27.11.217.5472
Vice President - Senior Analyst
dion.bate@moodys.com

Report Number: 1060509

Author
Kevin Cassidy

Production Associate
Dinesh Kumar

MOODY'S
INVESTORS SERVICE