



# How Moody's assesses Financial Viability

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## Expertise

A comprehensive view of the global markets through our ratings and research

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## Credibility

Over 100 years of experience delivering forward-looking, independent, stable and transparent opinions

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## Engagement

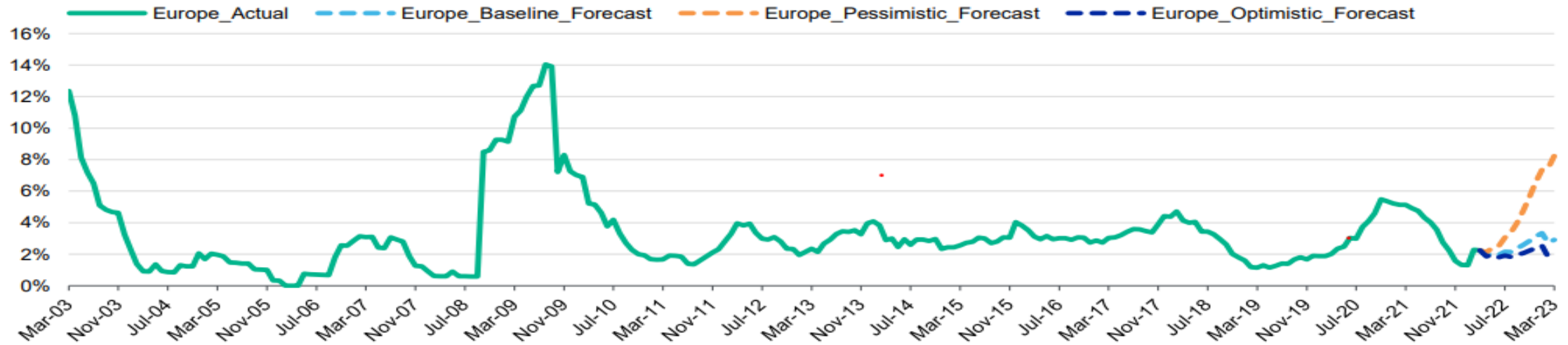
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# Default Rate in Europe to remain moderate

European speculative-grade default rates (actual and forecast)



European companies rated B3 and below increasingly challenged to fund rising interest payments

Decline in interest coverage for companies under rate increases of 200 bps and 400 bps

Rating	Current	+200 bps	+400 bps
Ba3	5.3	4.7	4.5
B1	4.0	3.6	3.4
B2	3.1	2.7	2.4
B3	2.1	1.8	1.6

Source: Moody's Investors Service

# Moody's Corporate Rating Process



## Foundational Information

- » Moody's Macro-Economic Projections
- » Company Financials and Projections
- » Quantitative Information and Moody's Models
- » Transaction Structure and Documents



## In-depth Analysis

- » Fundamental Credit and Liquidity Analysis
- » Moody's Industry Methodologies
- » Peer Comparisons



## Rating Committee

- » Outcome, expressed through Moody's ratings



## Ongoing Review

- » Published research for the debt community
- » Potentially, a new committee recommendation

## The Rating Process

- » Moody's credit ratings are opinions of future relative creditworthiness, derived by fundamental credit analysis.
- » Moody's ratings are determined through the rating committee process.
- » The rating committee process is designed to foster consistency and efficiency across Moody's and to ensure that the integrity of the ratings process is maintained.
- » The committee focuses on the specific issuer and is not formulaic.

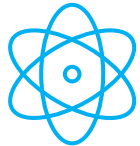
# Ratings are based on dedicated methodologies

Final rating assignment is made by Rating Committee



## Scorecard outcome.

Scorecard from Industry Rating Methodology includes key factors to assess for any given industry and usually includes a combination of Business and Financial Profile as well as Financial Policy



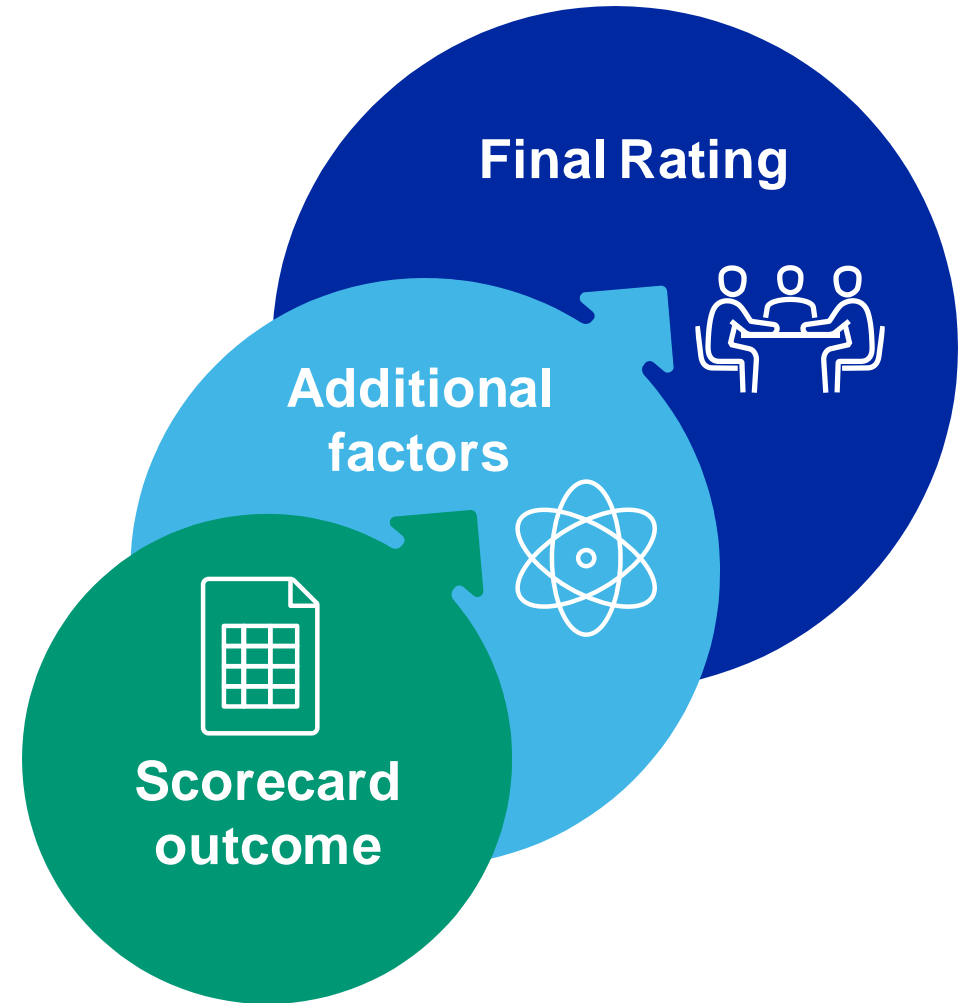
## Additional considerations assessed outside the grid.

Those factors' credit importance varies widely among the issuers and are assessed qualitatively. These include items such as Liquidity, ESG, Macroeconomic backdrop, parental/government support as well as other factors



## Rating committee vote.

The rating committee is responsible to assign the final rating based on analytical discussion and analysis provided by the lead analyst. **Ratings are prospective in nature** and reflect Moody's expected positioning rather than historical performance.



# Methodology Scorecard for Real Estate Firms

## REITs and other commercial real estate firms' scorecard

### Scorecard focuses on REITs' most relevant quantitative and qualitative considerations

The application of the REIT methodology increases transparency, consistency and comparability across rated issuers.

- » Qualitative factors account for 40% of total scorecard outcome
- » Scorecard is based on
  - Historical financials
  - Forward-looking projections

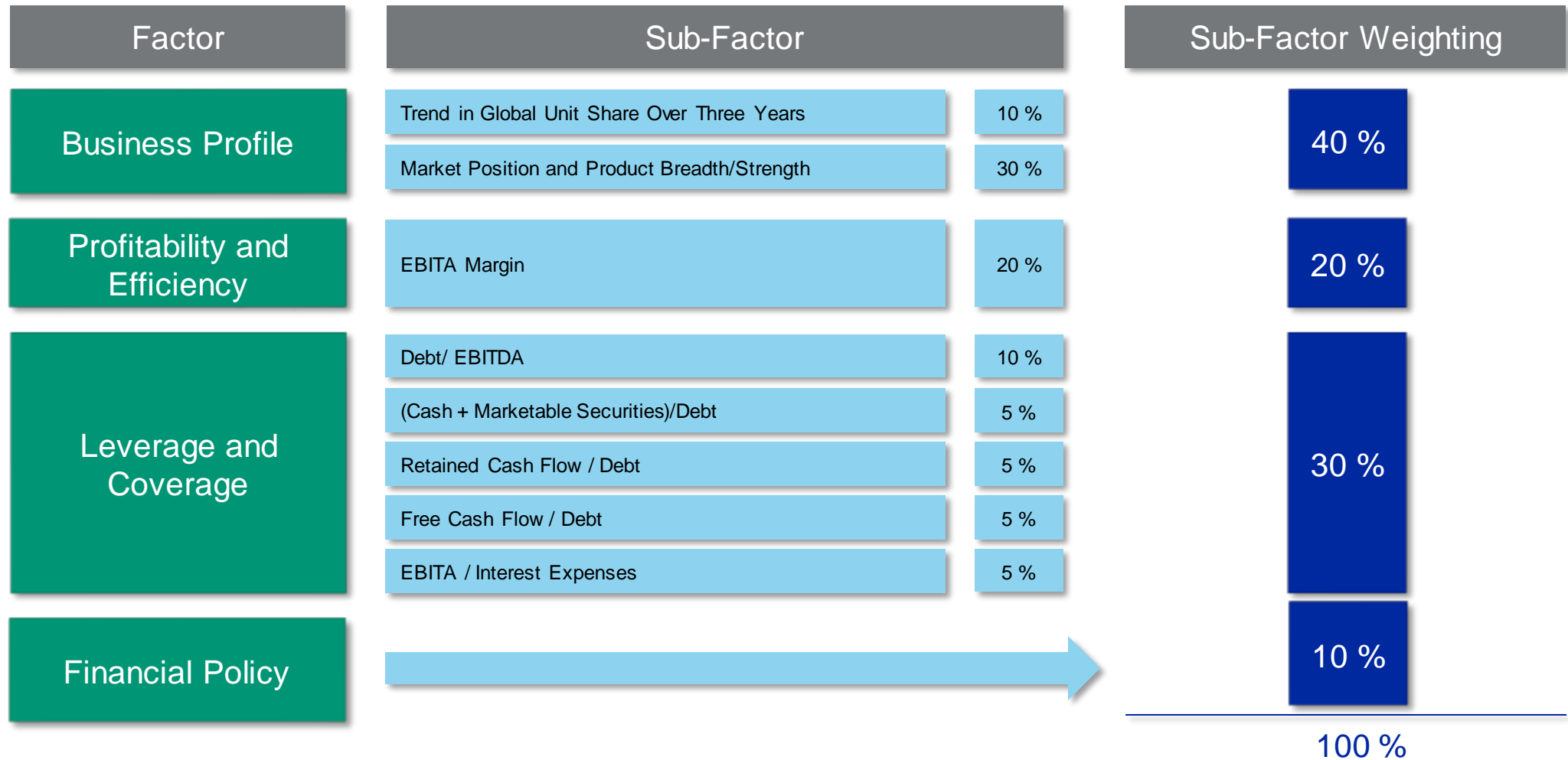
Rating Factors	Factor Weighting	Sub-factors	Sub-factor Weighting
Scale	5%	Gross Assets	5%
Business Profile	25%	Market Positioning and Asset Quality*	15%
		Operating Environment*	10%
Liquidity and Access to Capital	25%	Liquidity and Access to capital*	15%
		Unencumbered Assets/ Gross Assets	10%
Leverage and Coverage	45%	Total Debt + Preferred Stock/ Gross Assets	15%
		Net Debt/ EBITDA	10%
		Secured Debt/ Gross Assets	10%
		Fixed- Charge Coverage	10%
<b>Total</b>	<b>100%</b>		<b>100%</b>

\* Qualitative Sub-factors

Source: [Moody's Global Rating Methodology for REITs and Other Commercial Property Firms \(2021\)](#)

# Auto OEMs Methodology Scorecard – A Reference Tool

Moody's Global Automobile Manufacturer Industry Methodology, updated on 21 June 2017



# Deeper Dive into Financial Statements Analysis



Awareness on underlying accounting standards. Local GAAP vs. IFRS vs. US GAAP can drive significant differences in financial metrics.



Standardisation of metrics calculation to allow for comparability of metrics – across industries, countries and accounting standards



Sector specifics may require focus on different financial metrics.

Other considerations can override predictive power of financial metrics (eg liquidity squeeze, governance events)

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## CROSS-SECTOR RATING METHODOLOGY

### Table of Contents:

INTRODUCTION	1
DEFINED BENEFIT PENSION PLANS	5
LEASES	7
PRESENTATION OF RESTRICTED CASH	12
ACQUISITION-RELATED DEFERRED AND CONTINGENT CONSIDERATION LIABILITIES	13
CAPITALIZED INTEREST	14
CAPITALIZED DEVELOPMENT COSTS	15
CASH FLOW PRESENTATION OF INTEREST AND DIVIDENDS	16
INTEREST EXPENSE RELATED TO DISCOUNTED LONG-TERM LIABILITIES OTHER THAN DEBT	17
FINANCIAL STATEMENTS	17

## Financial Statement Adjustments in the Analysis of Non-Financial Corporations Methodology

This rating methodology replaces the *Financial Statement Adjustments in the Analysis of Non-Financial Corporations* methodology published in August 2018. We have made standard certain adjustments that we previously made as non-standard adjustments. With the adoption of these new standard adjustments, we will exclude restricted cash from cash and cash equivalents where it is not available to pay debt and include restricted cash when it is

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## Moody's Basic Definitions for Credit Statistics (User's Guide)

June 2011

This report collects into a single document the definitions for the most common financial terms our Corporate Finance analysts use across the global franchise. These are the building blocks for most of Moody's financial analysis outside of specialized areas such as financial institutions and project finance.

Moody's has changed its practice of adjusting financial data through the definition of ratios. Our basic ratios no longer contain complicated add backs to the numerators and denominators but are instead simpler constructs based on fully adjusted sets of financial statements. In



# Median Analysis can help – but only as a starting point

Ratio Name	Aaa (<5 issuers)	Aa (18 issuers)	A (140 issuers)	Baa (423 issuers)	Ba (394 issuers)	B (355 issuers)	Caa (64 issuers)	Ca (<5 issuers)
EBITA / Average Assets	21.46%	16.18%	11.07%	9.16%	9.77%	7.21%	4.49%	12.48%
EBIT Margin %	35.78%	22.59%	14.57%	13.74%	11.65%	8.57%	4.35%	11.90%
EBITA Margin %	38.75%	23.18%	16.43%	15.15%	12.64%	11.90%	7.81%	11.90%
EBITDA Margin %	43.66%	29.30%	22.52%	19.84%	17.25%	17.94%	13.63%	24.08%
EBIT / Interest Expense	53.62x	35.38x	16.40x	7.72x	4.33x	1.62x	0.49x	39.97x
EBITDA / Interest Expense	67.67x	44.38x	21.69x	11.34x	6.86x	3.12x	1.71x	80.88x
(FFO + Interest Expense) / Interest Expense	59.60x	40.56x	19.83x	10.70x	6.40x	3.13x	1.61x	79.88x
(EBITDA-CAPEX) / Interest Expense	56.86x	35.52x	16.23x	7.85x	4.43x	2.00x	0.83x	64.87x
Net Debt / EBITDA	0.26x	0.62x	1.30x	2.09x	2.73x	4.44x	6.03x	14.24x
Debt / EBITDA	1.17x	1.20x	1.99x	2.73x	3.36x	5.29x	6.66x	14.56x
Debt / (EBITDA - CAPEX)	1.44x	1.45x	2.69x	3.99x	4.57x	6.87x	11.05x	18.15x
RCF / Debt	57.26%	53.34%	32.48%	23.45%	20.32%	10.07%	4.64%	2.30%
FCF / Debt	34.26%	23.83%	12.51%	8.47%	7.83%	1.30%	-1.30%	1.18%
RCF / Net Debt	-62.70%	27.18%	32.83%	25.80%	23.09%	11.24%	4.96%	2.35%
FCF / Net Debt	-39.75%	16.95%	15.43%	8.19%	8.43%	1.28%	-1.34%	1.21%
(RCF - CAPEX) / Debt	39.04%	26.66%	16.72%	11.95%	10.74%	3.27%	-2.10%	0.94%
CAPEX / Revenue	9.05%	5.36%	5.25%	5.08%	4.90%	5.20%	6.99%	4.77%
(Cash + Marketable Securities and Short-term Investments) / Debt	106.21%	60.12%	48.40%	22.80%	17.27%	12.37%	11.94%	2.19%

Source: Moodys Financial Metrics

# Financial metrics need to be seen in context of Business Profile and Industry

## Global REITs Methodology

Sub-factor	Sub-factor Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
Net Debt / EBITDA <sup>2</sup>	10%	≤ 2.0x	2.0x - 3.5x	3.5x - 4x	4x - 6x	6x - 8x	8x - 10x	10x - 13x	> 13x

## Global Automaker Methodology

Debt/EBITDA	10%	< 0.5x	0.5x - 1.0x	1.5x - 2.5x	2.5x - 3.5x	3.5x - 4.75x	4.75x - 6.0x	6x - 8x	> 8x
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## Global Manufacturing Methodology

Sub-factor	Sub-factor Weight	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
EBITA Margin	5%	> 35%	25% - 35%	17% - 25%	12% - 17%	7% - 12%	2.5% - 7%	0% - 2.5%	< 0%
EBITA Margin	5%	> 25%	20% - 25%	15% - 20%	10% - 15%	7% - 10%	4% - 7%	1% - 4%	< 1%

# Key Takeaways

- » Moody's ratings are based on a fundamental credit analysis
- » Credit Ratings are forward-looking
- » Financial Metrics a key input into the analysis
  - Need to consider reporting issues incl difference in GAAP, adjustments necessary to achieve comparability
  - Need to reflect industry characteristics to be meaningful
- » Additional considerations such as Liquidity, ESG, parental/government support can have meaningful impact on credit quality