



S&P Global Ratings Corporate Methodology Overview

Webinar with AIR

S&P Global
Ratings

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This report does not constitute a rating action

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Introduction to S&P Global Ratings

S&P Global Reach




>1400 analysts

>150 years in business



>1.1 million ratings outstanding

25 countries with an off network



ESG perspective on a company's creditworthiness

What is a Rating?



S&P Global Ratings opinion on the ability and willingness of an obligor to meet its debts as they fall due, or the ability and willingness of an obligor to respect the financial terms of a particular debt security or other financial obligation.



What A Credit Rating Is And What It Is Not



What It Is

Forward-looking opinions about relative credit risk, i.e., the creditworthiness of an entity or its securities that:

- Strive to be globally comparable across sectors
- Incorporate views on relative likelihood of default that:
 - Refer to the timely payment of interest and principal and,
 - Are applied to entities and securities



And What It Is Not

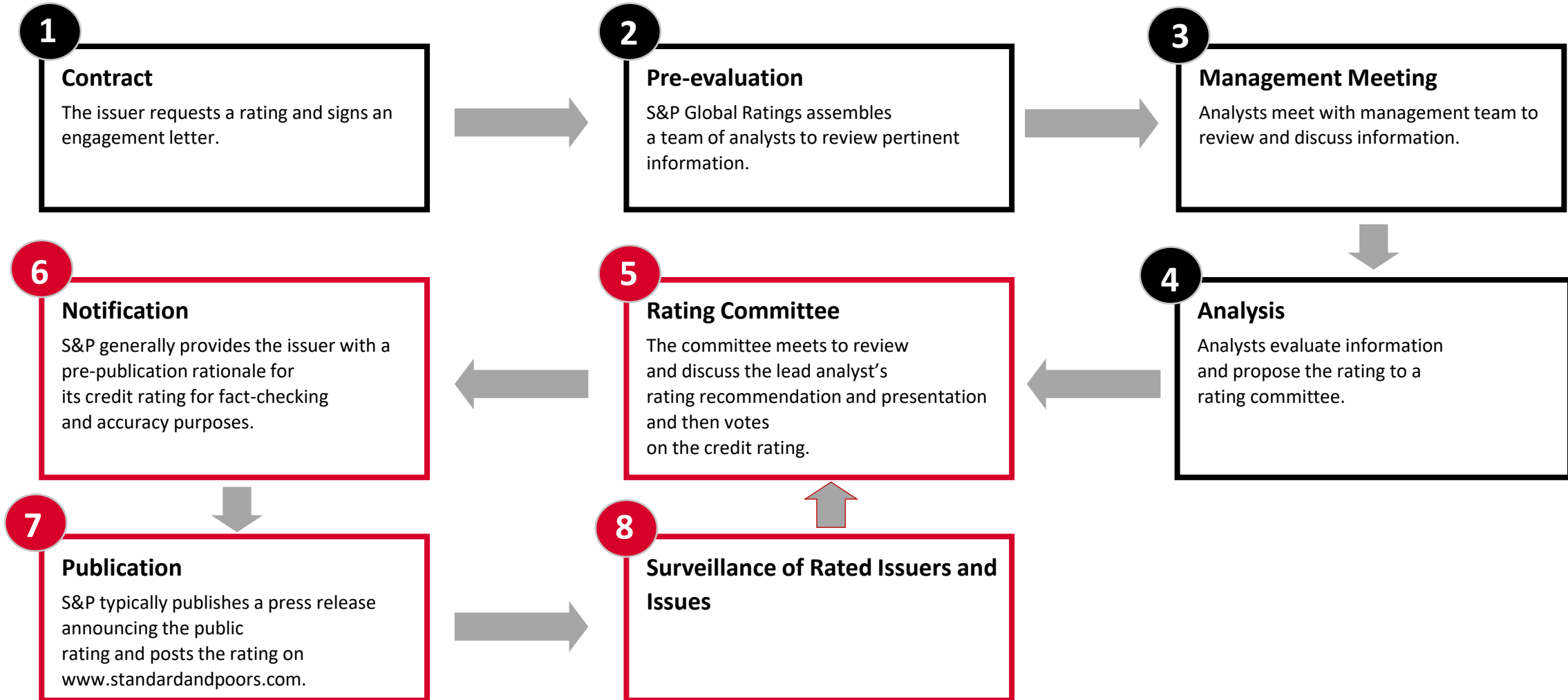
- Absolute measures of default probability
- Investment advice, a recommendation to purchase, sell or hold securities, or a comment as to market price or suitability for an investor
- A measure of liquidity or market value
- A way of defining “good” or “bad” companies, or a direct assessment of corporate governance
- An audit of the company or its auditors
- A guarantee of credit quality or of future credit risk

Ratings Categories

Investment Grade	AAA	Extremely strong capacity to meet financial commitments. Highest rating
	AA	Very strong capacity to meet financial commitments
	A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
	BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
	BBB-	Considered lowest investment grade by market participants
Speculative Grade	BB+	Considered highest speculative grade by market participants
	BB	Less vulnerable in the near term, but faces major ongoing uncertainties to adverse business, financial and economic conditions
	B	More vulnerable to adverse business, financial and economic conditions, but currently has the capacity to meet financial commitments
	CCC	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments
	CC	Currently highly vulnerable
	C	A bankruptcy petition has been filed or similar action taken, but payments of financial commitments are continued
	D	Payments default on financial commitments

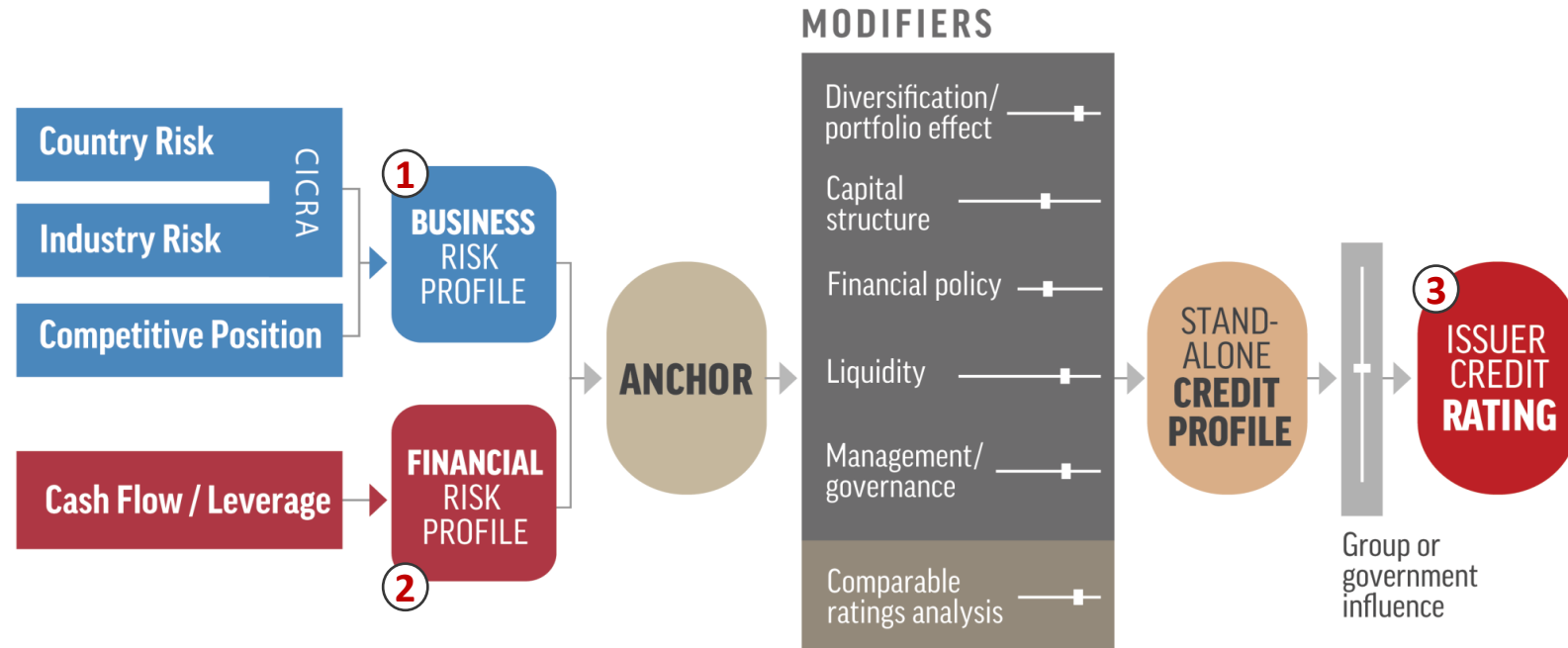
Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

The Rating Process



Corporate Rating Methodology Overview

Corporate Methodology | Key Analytical Considerations



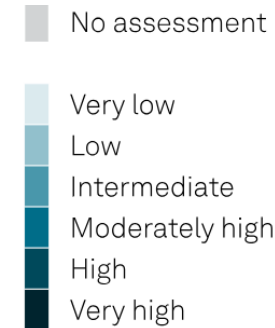
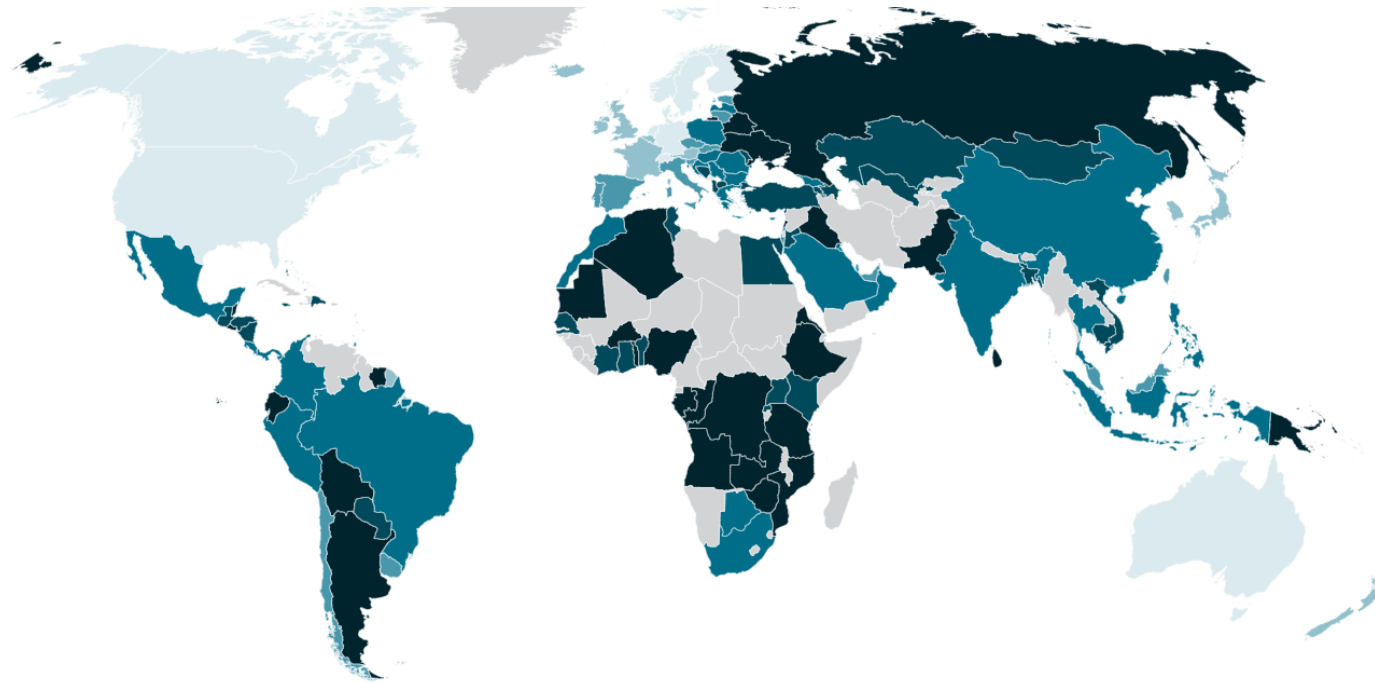
- ① Industry risk and country risk are important to the business risk profile of corporates, but **competitive position (incl. profitability)** is the key component.
- ② The financial risk profile assessment is driven by S&P's financial forecast as well **management's guidance** regarding capex, dividends, etc.
- ③ Bond/loan ratings are derived from the issuer credit rating and take into account **structural and contractual subordination**.

Source: S&P Global Ratings.

Corporate Methodology | Business Risk Profile – CICRA (1/2)

Country Risk (scale 1-6, Very Low-Very High) is a pre-defined score and is the same for all companies operating in a specific country. The assessment takes into account:

- Economic risk
- Institutional and governance effectiveness risk
- Financial system risk
- Payment culture and rule-of-law risk



Examples:

- Germany, 1, Very Low
- France, 2, Low
- Italy, 3, Intermediate
- Greece, 4, Moderately High
- Turkey, 5, High
- Ukraine 6, Very High

Source: S&P Global Ratings.

Corporate Methodology | Business Risk Profile – CICRA (1/2)

Industry Risk (scale 1-6, Very Low-Very High) is the same for all companies in a given industry. It takes into account the industry's (1) cyclicity and (2) competitive risk and growth assessments. The analysis of a sector's overall competitive risk and growth environment addresses on an industry-aggregate level the: effectiveness of industry barriers to entry; level and trend of industry profit margins; risk of secular change and substitution of products, services, and technologies; and risk in growth trends.

Examples:

Industry	--Cyclicity assessment--	--Competitive risk and growth environment assessment--	--Global industry risk assessment--
Regulated utilities	Low risk, 2	Very low risk, 1	Very low risk, 1
Health care equipment	Low risk, 2	Low risk, 2	Low risk, 2
Capital Goods	Intermediate risk, 3	Intermediate risk, 3	Intermediate risk, 3
Auto OEM	High risk, 5	Intermediate risk, 3	Moderately high risk, 4
Transportation cyclical	High risk, 5	Moderately high risk, 4	High risk, 5

Source: S&P Global Ratings.

Corporate Methodology | Business Risk Profile – CICRA (2/2)

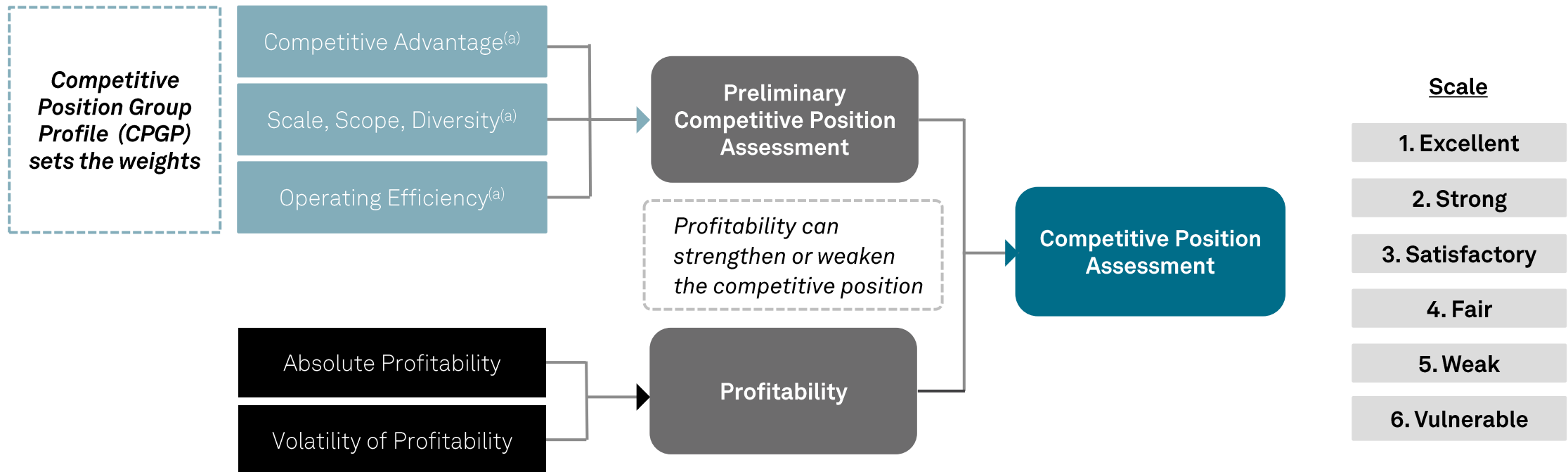
Determining the CICRA

Industry Risk Assessment	Country Risk Assessment					
	1 Very Low	2. Low	3. Intermediate	4. Moderately High	5. High	6. Very High
1. Very low	1	1	1	2	4	5
2. Low	2	2	2	3	4	5
3. Intermediate	3	3	3	3	4	6
4. Moderately High	4	4	4	4	5	6
5. High	5	5	5	5	5	6
6. Very High	6	6	6	6	6	6

Corporate Industry and Country Risk Assessment, CICRA, is the result of the combination of an issuer's **Country Risk assessment** and **Industry Risk assessment**.

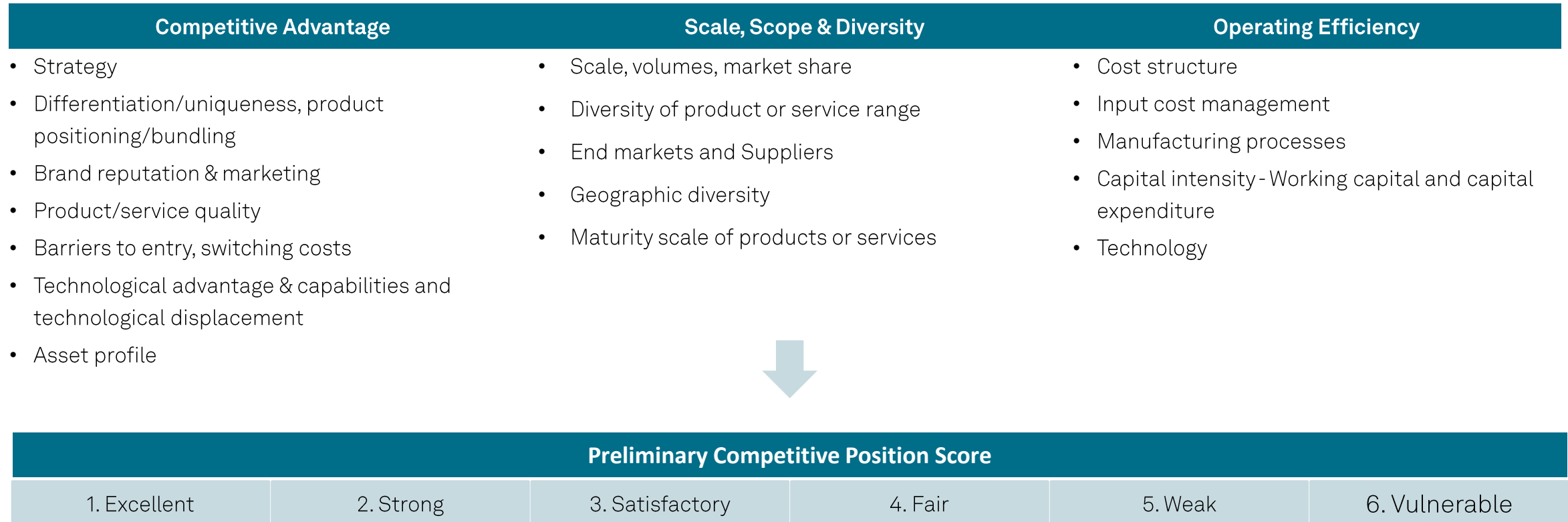
Source: S&P Global Ratings.

Corporate Methodology | Business Risk Profile – Competitive Position



Source: S&P Global Ratings.

Corporate Methodology | Business Risk Profile – Determining The Preliminary Competitive Position



Source: S&P Global Ratings

Corporate Methodology | Business Risk Profile – Profitability Assessment

Absolute Profitability:

- Assessed on a three-point scale: "above average," "average", and "below average".
- The company-specific ratios are compared to the thresholds for the pertaining industry. Refer to "[Sector Specific Corporate Methodology](#)" published in April 2024.

Example of Thresholds (Cap Goods)

	Below average	Average	Above average
EBITDA Margin	<11%	11%-18%	>18%
Return on Capital	<10%	10%-18%	>18%

Example of Thresholds (Professional services)

	Below average	Average	Above average
EBITDA Margin	<20%	20%-30%	>30%

Volatility Of Profitability:

- Assessed using the standard error of regression (SER) of our chosen profitability metric, provided we have at least seven years of historical annual data.
- If we believe nonrecurring events distort the historical data, we may make adjustments.
- We may also adjust the assessment if a company operates in a high-risk country or is of limited size and scope.

Profitability Assessment

Level of profitability	Volatility of profitability					
	1	2	3	4	5	6
Above average	1	1	2	3	4	5
Average	1	2	3	4	5	6
Below average	2	3	4	5	6	6

Source: S&P Global Ratings.

Corporate Methodology | Business Risk Profile – Determining The Competitive Position And The BRP Assessment

Competitive Position Assessment						
	--Preliminary competitive position assessment--					
Profitability assessment	1	2	3	4	5	6
1	1	2	2	3	4	5
2	1	2	3	3	4	5
3	2	2	3	4	4	5
4	2	3	3	4	5	5
5	2	3	4	4	5	6
6	2	3	4	5	5	6



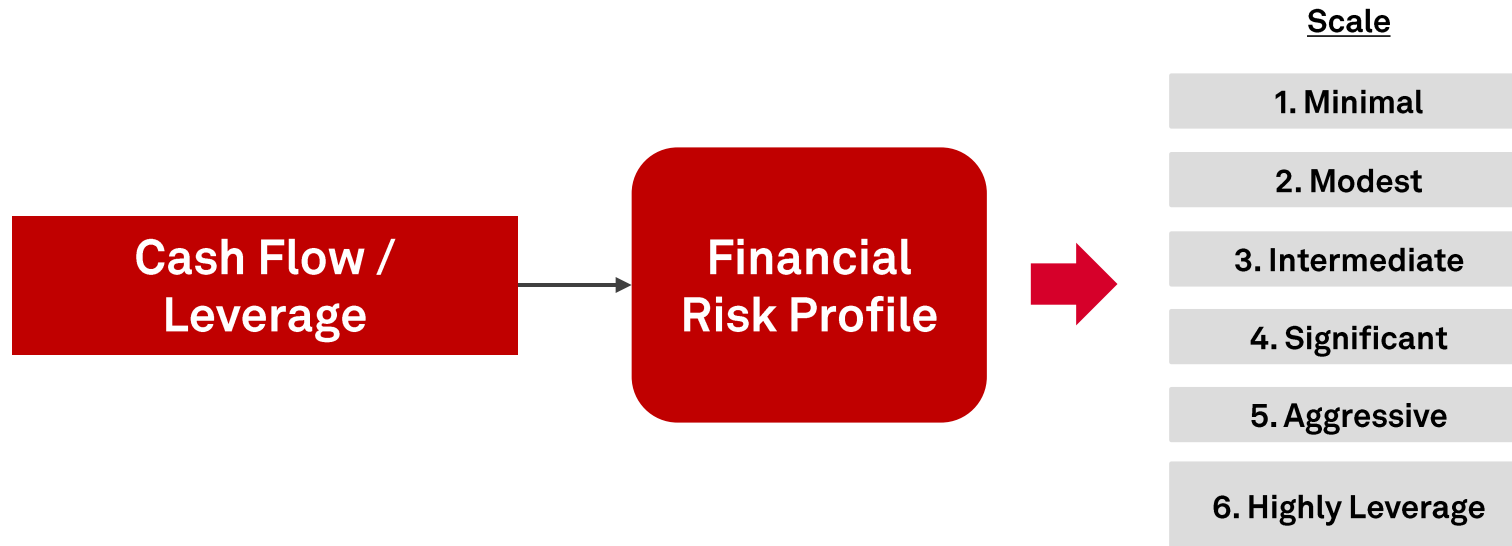
Business Risk Profile Assessment						
	--CICRA--					
Competitive position assessment	1	2	3	4	5	6
1 (excellent)	1	1	1	2	3*	5
2 (strong)	1	2	2	3	4	5
3 (satisfactory)	2	3	3	3	4	6
4 (fair)	3	4	4	4	5	6
5 (weak)	4	5	5	5	5	6
6 (vulnerable)	5	6	6	6	6	6



Business Risk Profile					
1. Excellent	2. Strong	3. Satisfactory	4. Fair	5. Weak	6. Vulnerable

Source: S&P Global Ratings. *A small number of companies with a CICRA of 5 may be assigned a business risk profile assessment of 2 if all of the following conditions are met: (i) The company's competitive position assessment is 1, (ii) The company's country risk assessment is no riskier than 3. (iii) The company produces significantly better-than-average industry profitability, as measured by the level and volatility of profits. (iv) The company's competitive position within its sector transcends its industry risks due to unique competitive advantages with its customers, strong operating efficiencies not enjoyed by the large majority of the industry, or scale/scope/diversity advantages that are well beyond the large majority of the industry.

Corporate Methodology | Financial Risk Profile



- S&P develops its “base-case” including our main assumption on the business and some key elements after a discussion with the company.
- In order to enhance comparability across industries and countries we adjust company’s reported figures in our Cash Flow / Leverage analysis.

Source: S&P Global Ratings.

Corporate Methodology | S&P EBITDA & FFO Definitions

Profit & Loss Metrics

Revenue

- Operating expenses

+ Depreciation

+ Amortization

+ Non-current asset impairment

+ Cash dividend from equity accounted investments

+ Equity settled stock compensation

+/- applicable adjustments

Adjusted EBITDA

- Interest paid

- Tax paid

+/- applicable adjustments

Adjusted FFO

Cash Flow Metrics

Reported Operating Cash Flows

inclusive of

+/- Interest received and Interest paid

+ Dividends received

+/- applicable adjustments

Adjusted Cash flow from Operations (CFO)

- Capital expenditures

+/- applicable adjustments

Adjusted Free Operating Cash Flow (FOCF)

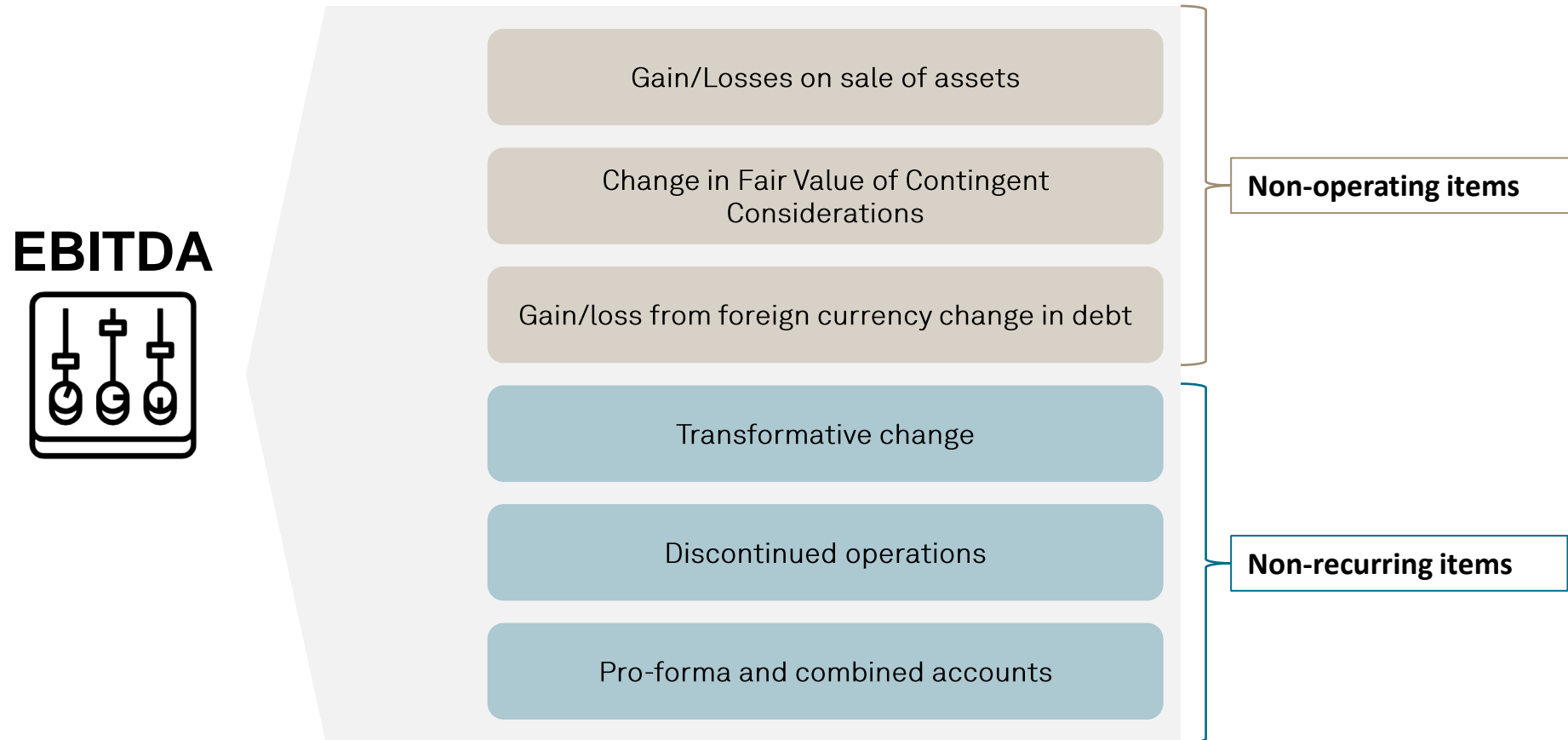
- Dividends paid & Share buy backs

+/- applicable adjustments

Adjusted Discretionary Cash Flow (DCF)

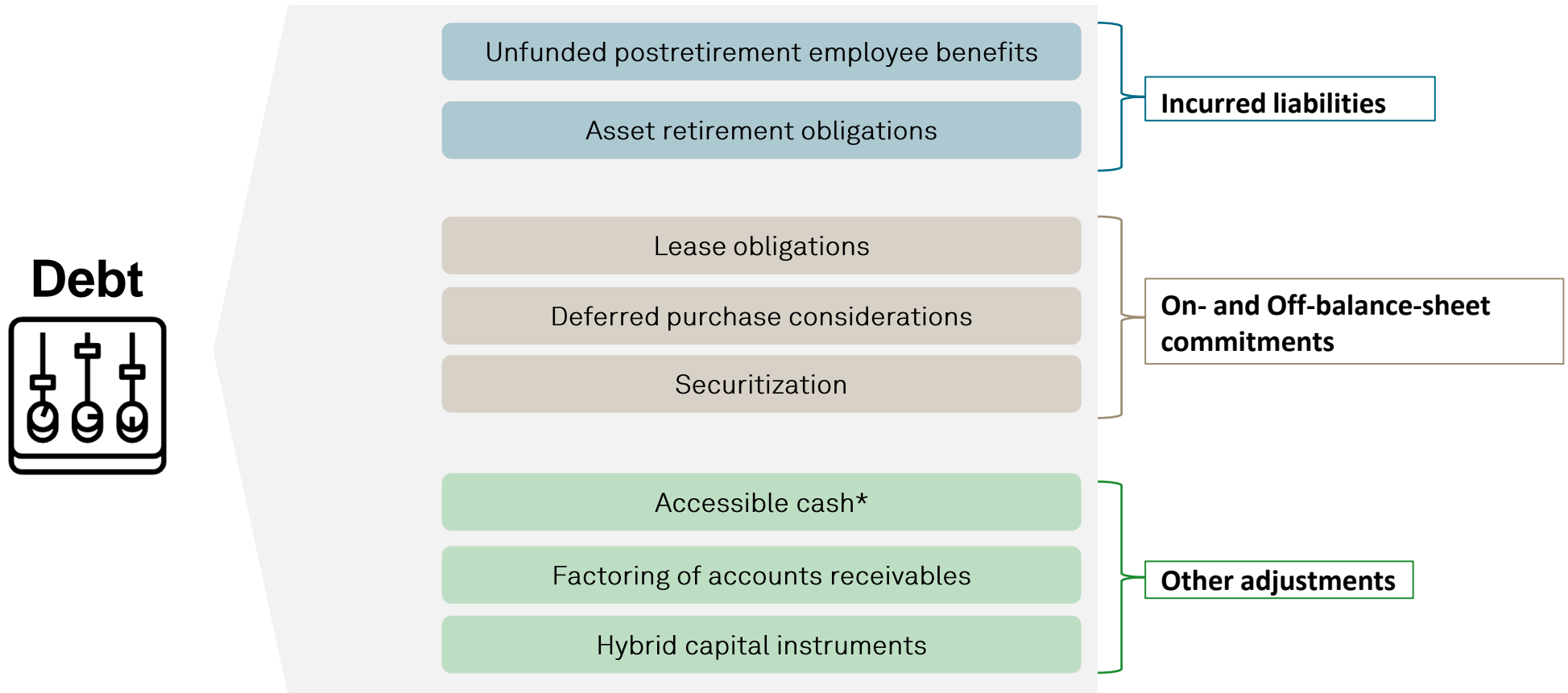
Source: S&P Global Ratings.

Corporate Methodology | Typical Adjustments On EBITDA



Source: S&P Global Ratings.

Corporate Methodology | Common Adjustments to Debt



Source: S&P Global Ratings. *In situations where we determine that a company's weaker business characteristics or its ownership by financial sponsors do not support this adjustment, we do not net accessible cash against debt.

Corporate Methodology | Preliminary Financial Risk Profile – Core And Supplemental Ratios

There are 3 tables providing benchmark ranges for various cash flow ratios we associate with different cash flow/leverage assessments for: **1) standard volatility, 2) medial volatility, and 3) low volatility industries.**

- The standard volatility table ([table below](#)) serves as the relevant benchmark table for all CICRA scores other than '1', but we will always use it for companies with a CICRA of '1' or '2' whose competitive position is assessed as '5' or '6'.
- The low volatility table will generally apply when a company's CICRA is '1' but can infrequently also apply to a company with a CICRA of '2' if the company exhibits or is expected to exhibit low levels of volatility.
- The medial volatility table will generally apply for a company with a CICRA of '2' but can infrequently also apply to a company with a CICRA of '1' if the company exhibits or is expected to exhibit medial levels of volatility.

Cash Flow Leverage Analysis Ratios* (Standard Volatility Table)

	-- Core ratios--		-- Supplementary coverage ratios--		-- Supplementary payback ratios--		
	FFO / debt (%)	Debt / EBITDA (x)	FFO / cash interest (x)	EBITDA / interest (x)	OCF / debt (%)	FOCF / debt (%)	DCF / debt (%)
Minimal	>60	<1.5	>13.0	>15.0	>50	>40	>25
Modest	45 – 60	1.5 – 2	9.0 – 13.0	10.0 – 15.0	35 – 50	25 – 40	15 – 25
Intermediate	30 – 45	2 – 3	6.0 – 9.0	6.0 – 10.0	25 – 35	15 – 25	10 – 15
Significant	20 – 30	3 – 4	4.0 – 6.0	3.0 – 6.0	15 – 25	10 – 15	5 – 10
Aggressive	12 – 20	4 – 5	2.0 – 4.0	2.0 – 3.0	10 – 15	5 – 10	2 – 5
Highly Leveraged	<12	>5	<2.0	<2.0	<10	<5	<2

Source: S&P Global Ratings. *The indicative ratios are calculated using standard weights (10% and 15% respectively for the past two fiscal years, 25% each for current year and two forecasted years). However, different weightings are often used depending on the circumstances.

Corporate Methodology | Anchor

Business and Financial Risk Profile Matrix

Business Risk Profile	Financial Risk Profile					
	1 (Minimal)	2 (Modest)	3 (Intermediate)	4 (Significant)	5 (Aggressive)	6 (Highly Leveraged)
1 (Excellent)	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
2 (Strong)	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
3 (Satisfactory)	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
4 (Fair)	bbb/bbb-	bbb-	bb+	bb	bb-	b
5 (Weak)	bb+	bb+	bb	bb-	b+	b/b-
6 (Vulnerable)	bb-	bb-	bb-/b+	b+	b	b-

When two anchor outcomes are listed for a given combination of business risk profile assessment and financial risk profile assessment:

- If the FRP is 4 or stronger the anchor will be based on the comparative strength of its business risk profile.
- If the FRP is 5 or 6, the anchor is based on the comparative strength of its financial risk profile.

Source: S&P Global Ratings.

Corporate Methodology | **Modifiers**

Impact Of Modifiers			
Modifier	Score		Impact
Diversification / Portfolio Effect	1. Significant diversification 2. Moderate Diversification 3. Neutral		Applicable to conglomerates with at least three uncorrelated and diversified business lines. This factor could improve the anchor score of a corporate entity based on its diversity.
Capital Structure	1. Neutral 2. Negative 3. Very Negative		Assesses risks in the firm's capital structure that may not arise in the review of its cash flow / leverage. Includes 4 sub-factors: Currency risk of debt, Debt maturity profile, Interest rate risk of debt, and Investments.
Liquidity	1. Exceptional 2. Strong 3. Adequate 4. Less than Adequate 5. Weak		Critical assessment. Key factor is the ratio of liquidity sources over uses over the next 12 - 24 months. This is complemented by an analysis of whether the difference of sources and uses would remain positive for certain stress levels applied to EBITDA, as well as an analysis of covenant headroom. In addition, liquidity analyzes 4 qualitative factors, including the ability to absorb low-probability, high-impact events without/with limited refinancing, the standing in credit markets, banking relationships and risk management.
Financial Policy	1. Positive 2. Neutral 3. Negative		The financial policy assessment is a measure of the degree to which owner / managerial decision-making can affect the predictability of the company's financial risk profile.
Management & Governance	1. Positive 2. Neutral 3. Moderately Negative 4. Negative		Governance considers the system of rules, procedures, statutory frameworks, and practices by which entities are directed and controlled, how they make decisions, comply with the law, and strike a balance between the interests of the company and those of its stakeholders, with emphasis on creditors. Management relates to how effectively an entity's executive management team responds to strategic risks and opportunities, as well as management's depth and the reliability of its communications with stakeholders.
Comparable Rating Analysis	1. Positive 2. Neutral 3. Negative		The assessment can be positive, neutral or negative depending on the ranking of the issuer at the higher/ middle/ lower end of its BRP/ FRP category (compared to its peers) or on additional factors not already covered.

Source: S&P Global Ratings.

Corporate Rating Methodology

Case Study – Compagnie de Saint-Gobain Rating Construction

Compagnie de Saint-Gobain

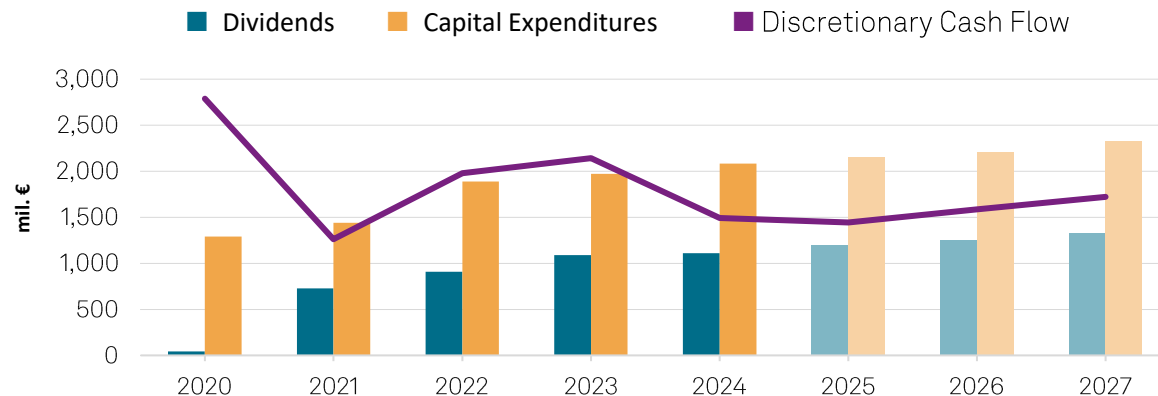
Issuer Credit Rating: BBB+/Stable/A-2

Key Takeaways

- Saint-Gobain has a track record of solid free cash flow despite the challenging environment.
- The company is continuing targeting high growth markets of North America, Asia-Pacific, and emerging countries, as well as focus on construction chemicals through series of acquisitions. Higher acquisition spending will lead to re-leveraging.
- FFO to debt dropped to 46% in 2024 compared with 54.1% in 2023, mainly reflecting higher acquisition spending. However, the ratio will remain well above our rating threshold of 30%.

Outlook

- The stable outlook reflects our expectation that adjusted FFO to debt will moderate to about 35%-40% over the next three years, from 54.1% in 2023.
- This factors in a slight contraction in absolute EBITDA in 2024 that will mainly result from a decline in volumes, notably in new construction in Europe. Yet the decline will be mitigated by more resilient renovation markets.
- Saint-Gobain has rating headroom for acquisitions and shareholder returns, while maintaining its net leverage target of 1.5x-2.0x.



Rating changes

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB+	BBB+	BBB+

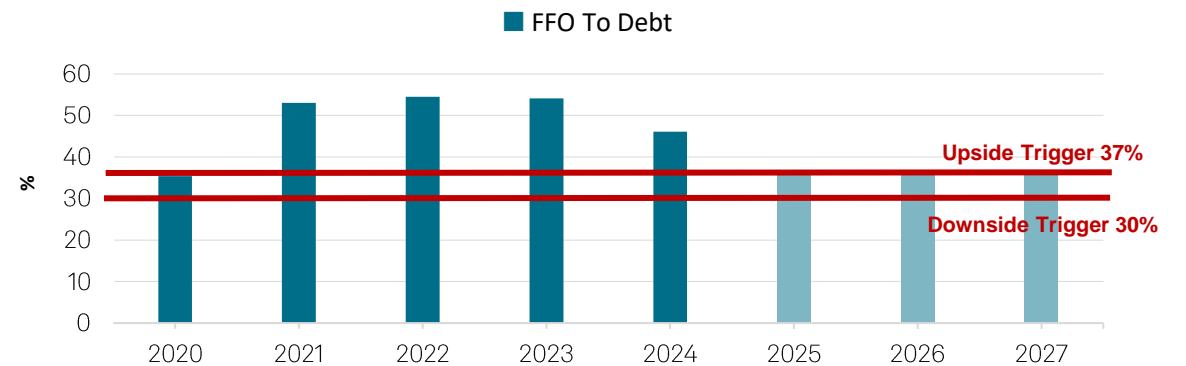
Business Risk Profile

Strong

Financial Risk Profile

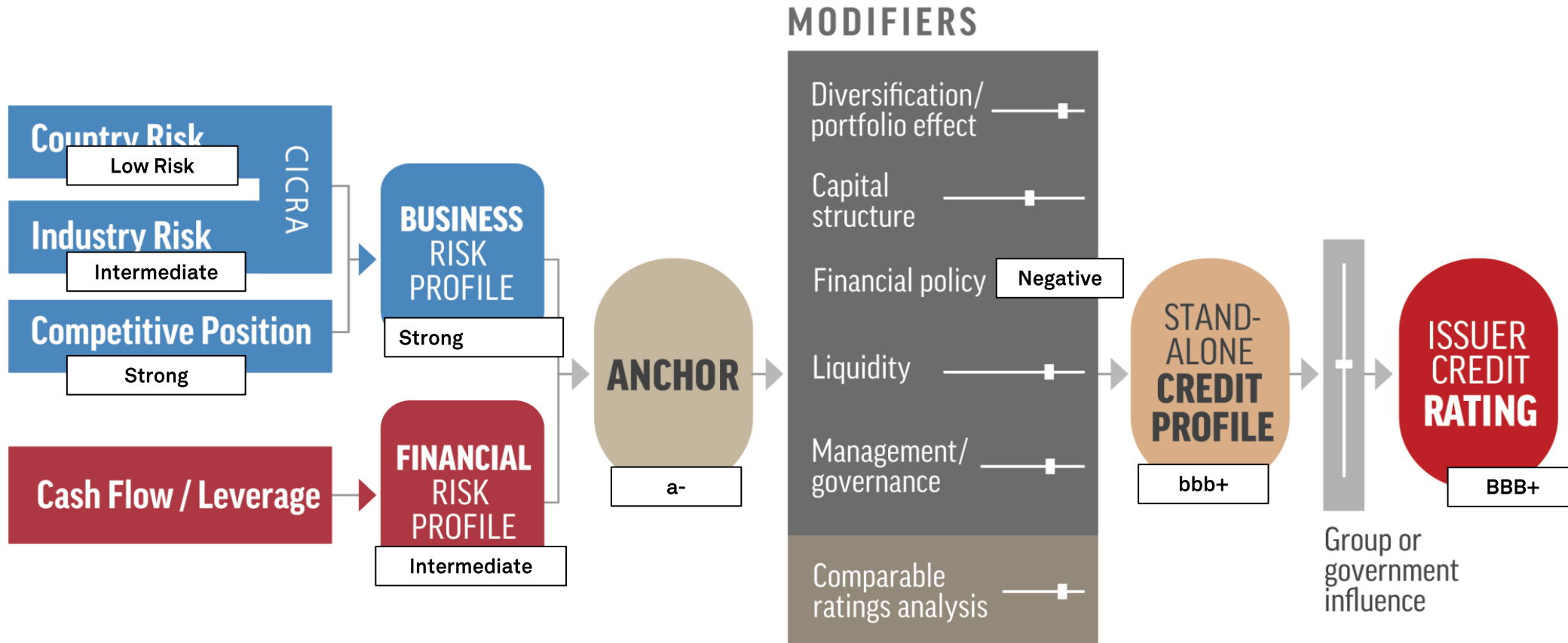
Intermediate

Rating headroom



Source: S&P Global Ratings.

S&P's Rating On Compagnie de Saint-Gobain | Rating Construction Overview



Source: S&P Global Ratings

Compagnie de Saint-Gobain Rating Construction | Anchor

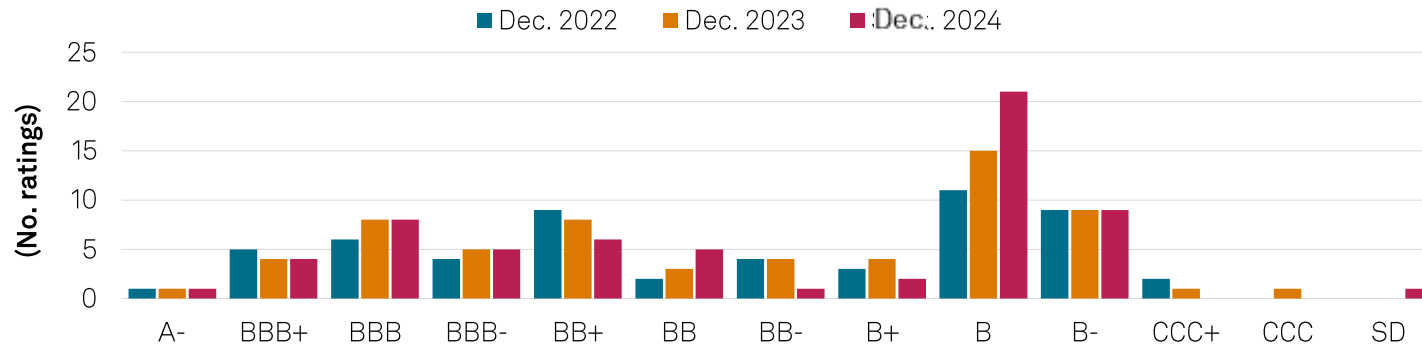
Business and Financial Risk Profile Matrix						
Business Risk Profile	Financial Risk Profile					
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1 (Excellent)	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
2 (Strong)	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
3 (Satisfactory)	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
4 (Fair)	bbb/bbb-	bbb-	bb+	bb	bb-	b
5 (Weak)	bb+	bb+	bb	bb-	b+	b/b-
6 (Vulnerable)	bb-	bb-	bb-/b+	b+	b	b-

Source: S&P Global Ratings. = indicates Compagnie de Saint-Gobain assessment

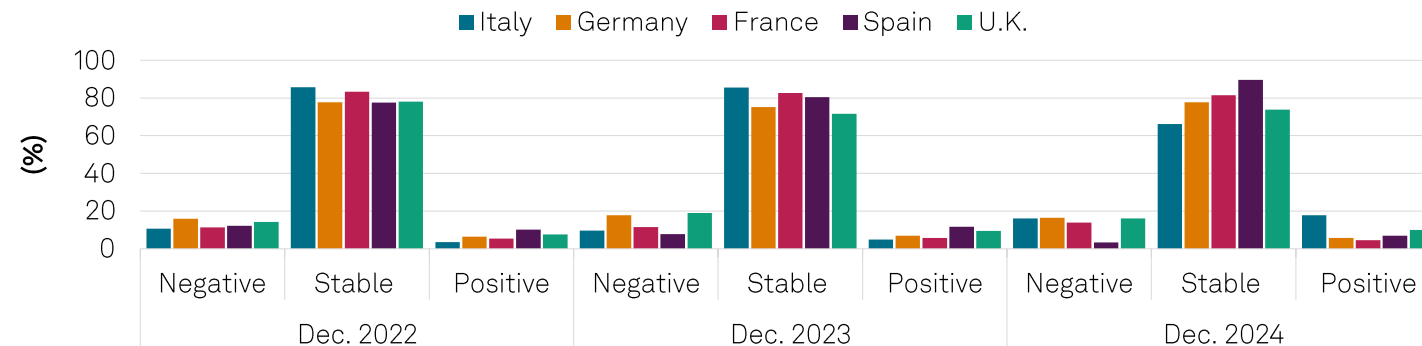
Italian Corporate Outlook and Key Themes for 2025

Italian Corporate Outlook Distribution | A Resilient Credit Quality In The Context Of A Weak Domestic Environment

Italian companies rating distribution



Outlook distribution: Italy versus peer countries



Data as of Jan 7, 2025. SD--Selective default. Source: S&P Global Ratings.

- Italian companies' credit quality is broadly on par with that of European peer countries. Compared with 2023, both positive and negative outlooks have increased.
- About 66% of Italian companies have a stable outlook as of Dec 2024, pointing to credit resilience ahead of a slowing economy. This level is down from 2023 and lower than peer countries.
- Positive outlooks, at 18% of rated companies, are bit higher than peer countries and largely fuelled by company-specific issues or improved business prospects in some sectors, such as defence and infrastructure construction.
- Negative outlooks increased to 16%, above December 2023 levels. Most negative outlooks are in the 'B' category and reflect decreasing business and higher interest rates.

European Credit Outlook | Top Risks Q2 2025

Expanding trade conflict engulfs Europe

Risk level Moderate Elevated High **Very high** **Risk trend** Improving **Unchanged** Worsening

The U.S. imposition of punitive and uniform trade tariffs, factoring in certain non-tariff barriers, and 25% sectoral tariffs on steel, aluminum, and autos (with potentially further measures to be announced on pharmaceuticals, semiconductors, and lumber) severely complicates efforts to negotiate new agreements. The EU, and to a lesser extent the U.K., are preparing measured and targeted retaliation, if required, that could extend to services. This burgeoning trade conflict and policy uncertainty are undermining the economic outlook, and, if extended, risk damping/shifting investment, disrupting complex supply chains, and raising working capital, all to the detriment of corporate earnings and credit quality.

Transatlantic security rift

Risk level Moderate Elevated **High** Very high **Risk trend** Improving **Unchanged** Worsening

The lack of collaboration between the U.S. and Europe over securing Ukraine's future has broader implications for trust in the transatlantic relationship and the U.S. commitment to NATO's deterrence capability in Europe. The risks center around a potential new Cold War with Russia, Europe materially ramping up defense expenditure over the longer term, requiring difficult expenditure decisions for fiscally constrained governments. In the Middle East, the status of Iran's nuclear program remains an issue where any military action would risk potentially severe disruption in the global oil market.

Tighter financing conditions in Europe

Risk level Moderate **Elevated** High Very high **Risk trend** Improving Unchanged **Worsening**

Underlying financing conditions in Europe remain sound, with European banks still well placed to continue lending, although U.S. trade uncertainties and heightened market volatility have eroded risk appetites and raised risk premiums in public markets. Tighter credit conditions could result from an increase in long-term yields, further material widening of credit spreads, unexpected increases in margin calls, and (potentially most damaging of all) U.S. policy action that disrupts or limits banks' and investors' access to U.S. dollar liquidity and markets. Weakened cooperation between public authorities during a material market event would be a potential risk to financial stability. These conditions could be credit negative for borrowers needing to refinance and for vulnerable issuers exhibiting weak cash flows and excessive leverage.

U.S. hard landing amid policy uncertainty creating a strong headwind for Europe

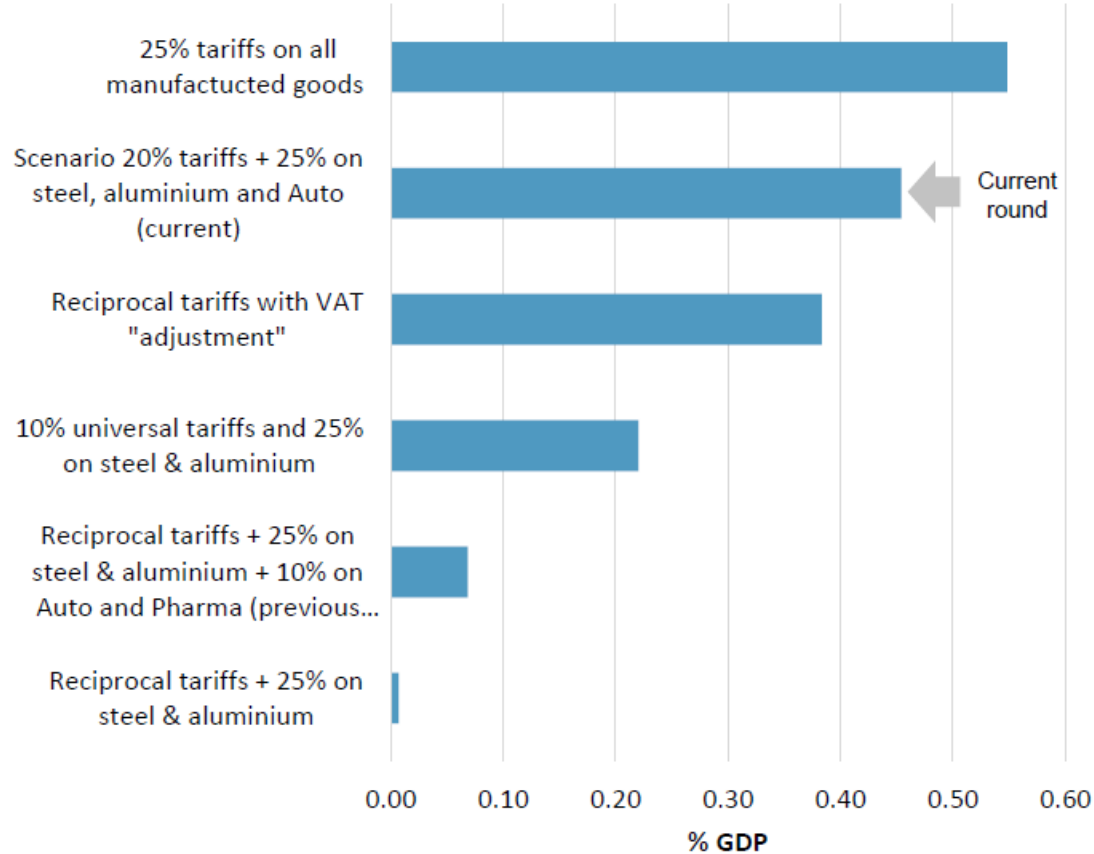
Risk level Moderate **Elevated** High Very high **Risk trend** Improving Unchanged **Worsening**

The challenges presented by the U.S. trade and security stance have triggered a significant fiscal policy response, led by Germany following its recent election. The fiscal boost to growth announced by Germany and the European Commission (which is factored into our baseline) supports a steeper growth path compared to the U.S., yet that growth impulse will take time to materialize. In the meantime, the European economy remains sensitive to U.S. trade uncertainty and contagion spreading through financial market channels, particularly in the event of policies that results in a hard-landing scenario in the U.S.

US Tariffs | 20% tariffs on all manufactured goods + 25% on steel, aluminum and auto would shave 0.4% of Eurozone GDP via the trade channel

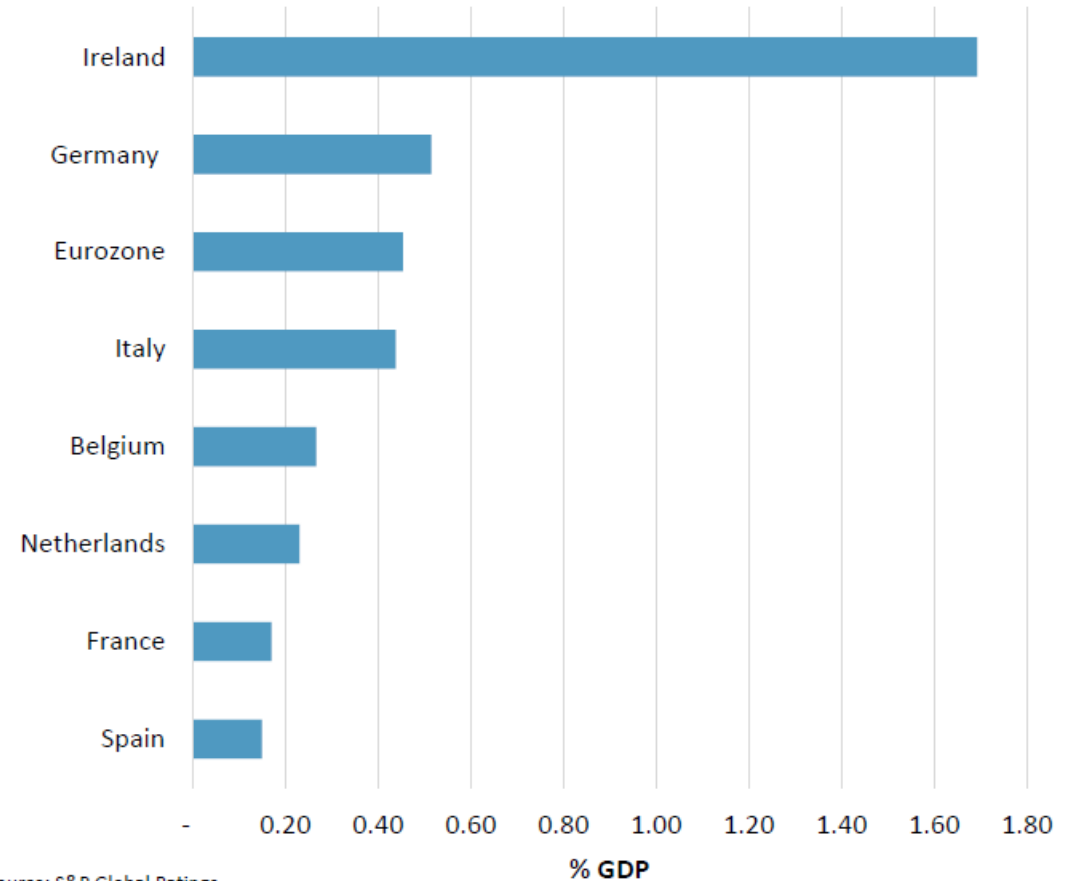
Trade impact on EU GDP of different tariffs scenarios

Percentage points of EU GDP



Trade impact of current US tariffs on selected EU countries

Percentage points of GDP

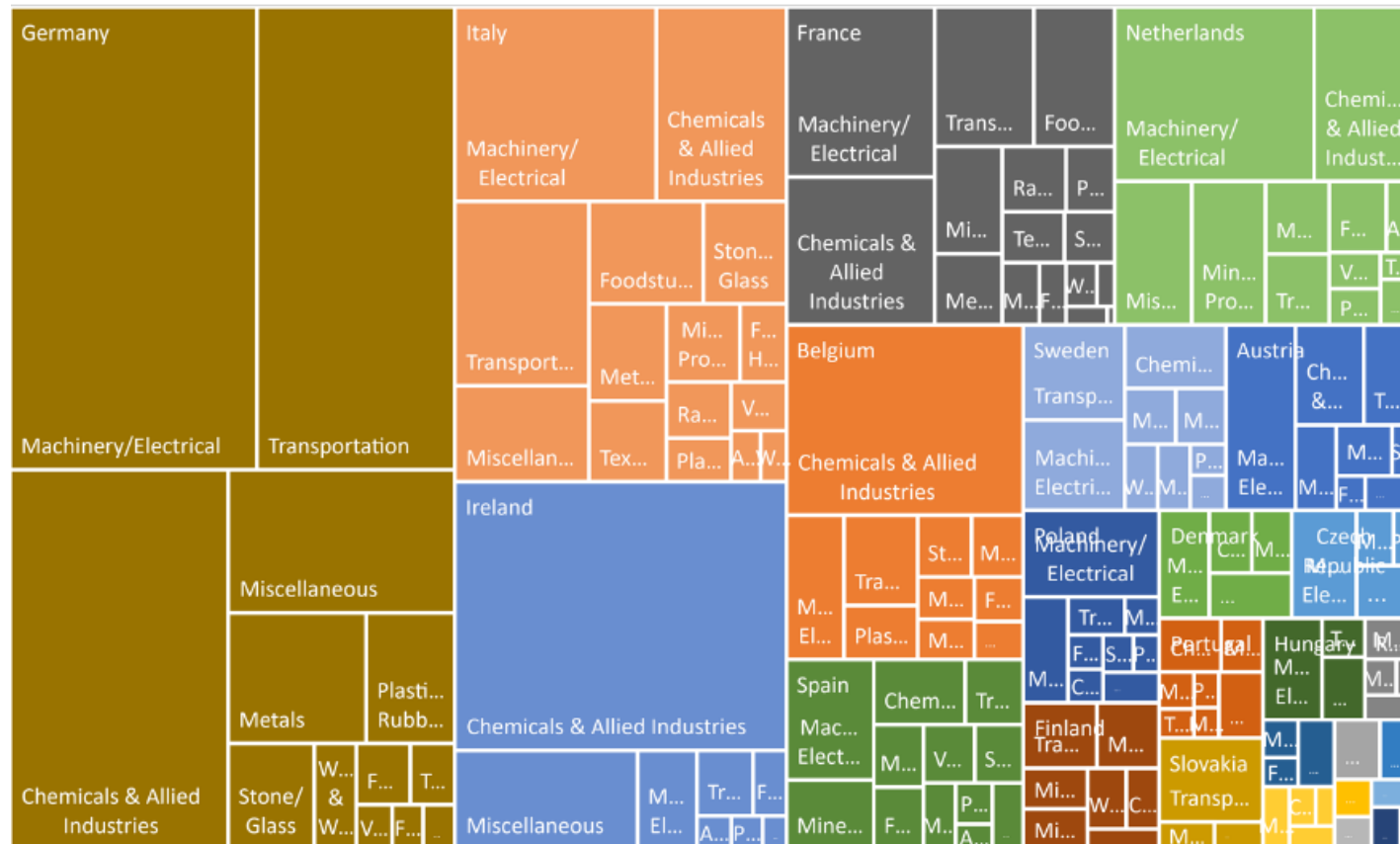


Source: S&P Global Ratings.
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European Corporates | Germany and Italy Are Largest Exporters To The U.S.

European exports to the U.S.



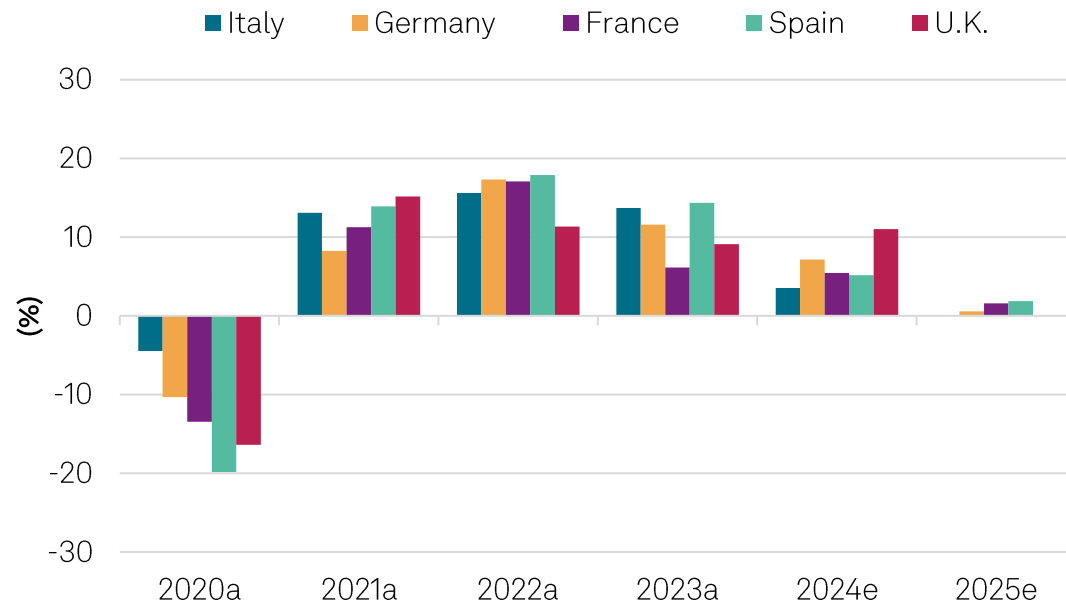
- Germany is the largest exporter to the U.S. with about €158 billion (4% of 2023 GDP). Main industries are machinery, vehicles and pharmaceuticals.
- Italy is the second largest exporter to the U.S. with about €67 bill (3.3% of GDP). Main industries are machinery, vehicles, pharmaceuticals and agrifood.
- At European Level, pharmaceuticals, vehicles, machinery and electrical equipment display the largest trade balance surplus (exports – imports)

As of Nov 2024.
Source: S&P Global Ratings, Eurostat.

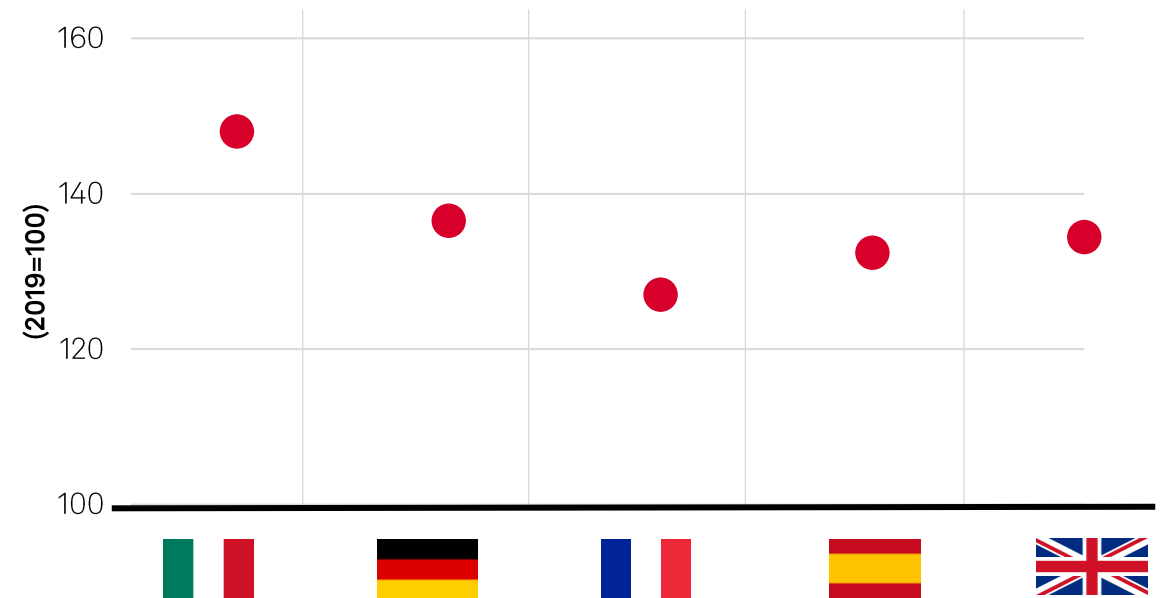
Italian Corporates | Capex Growth Decreases But Remains High

- Italian companies' investment growth moderated significantly in 2024-2025, in line with most peer countries, reflecting economic uncertainty and increased geopolitical risks.
- Capex does not show signs of falling and remains well above pre-pandemic levels for all peer countries, pushed by digitalization and climate transition spending.

Rated companies' capex growth



Rated companies' reported capex, average for 2024e-2025e

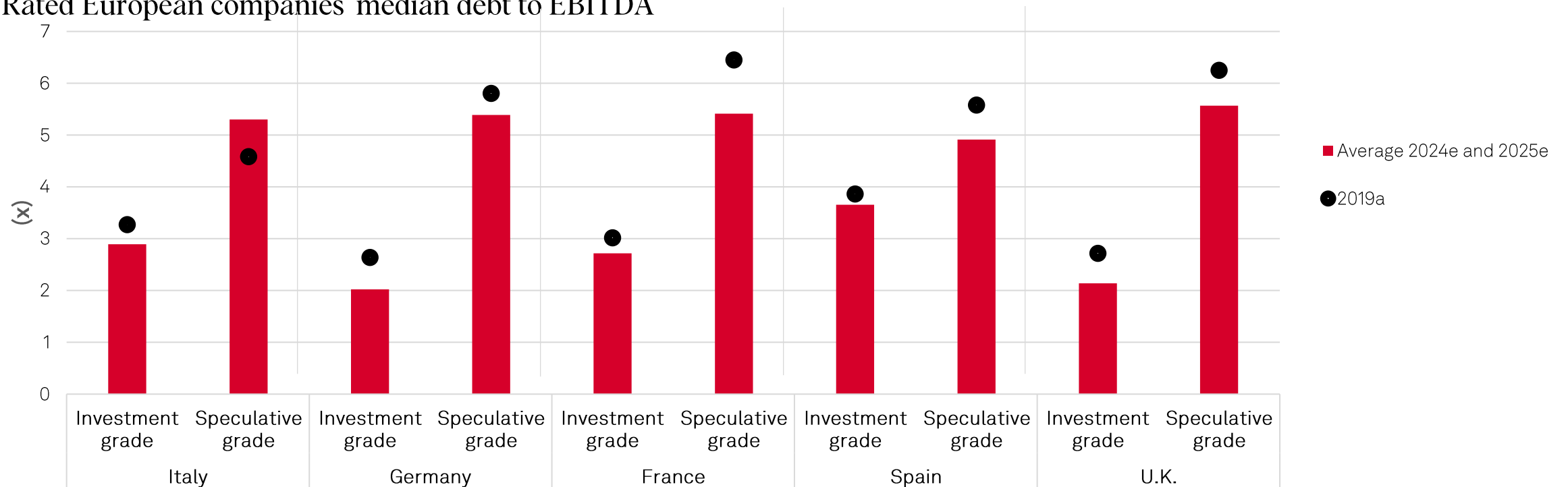


Capex--Capital expenditure. a--Actual. e--Estimate. Source: S&P Global Ratings.

Italian Corporates | Speculative-Grade Leverage Is Above Pre-Pandemic Levels

- Italian companies' debt to EBITDA in the speculative-grade category remains above pre-pandemic levels, largely fueled by higher debt in leverage finance transactions.
- Debt to EBITDA in the investment-grade category is modestly below pre-pandemic levels, in line with European peer countries.

Rated European companies' median debt to EBITDA



a--Actual. e--Estimate. Source: S&P Global Ratings.

Appendix

S&P Analytical Framework | S&P Global Ratings Corporate And Infrastructure Finance Criteria

PRINCIPLES

- [Principles Of Credit Ratings](#), Feb. 16, 2011

GENERAL CRITERIA

Refer to "[Table Of Contents: S&P Global Ratings General Criteria](#)"

- [Hybrid Capital: Methodology And Assumptions](#), March 2, 2022
- [Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [Group Rating Methodology](#), July 1, 2019
- [Rating Government-Related Entities: Methodology And Assumptions](#), March 25, 2015
- [Methodology: Industry Risk](#), Nov. 19, 2013
- [Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#), Nov. 19, 2013

CORPORATE - General Methodologies

- [Sector-Specific Corporate Methodology](#), April 4, 2024
- [Corporate Methodology](#), Jan. 7, 2024
- [Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities](#), April 29, 2014

Thank you!

Q&A

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