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ALD S.A.

Primary Credit Analyst:
Philippe Raposo, Paris + 33 14 420 7377; philippe.raposo@spglobal.com

Secondary Contact:
Nicolas Malaterre, Paris + 33 14 420 7324; nicolas.malaterre@spglobal.com

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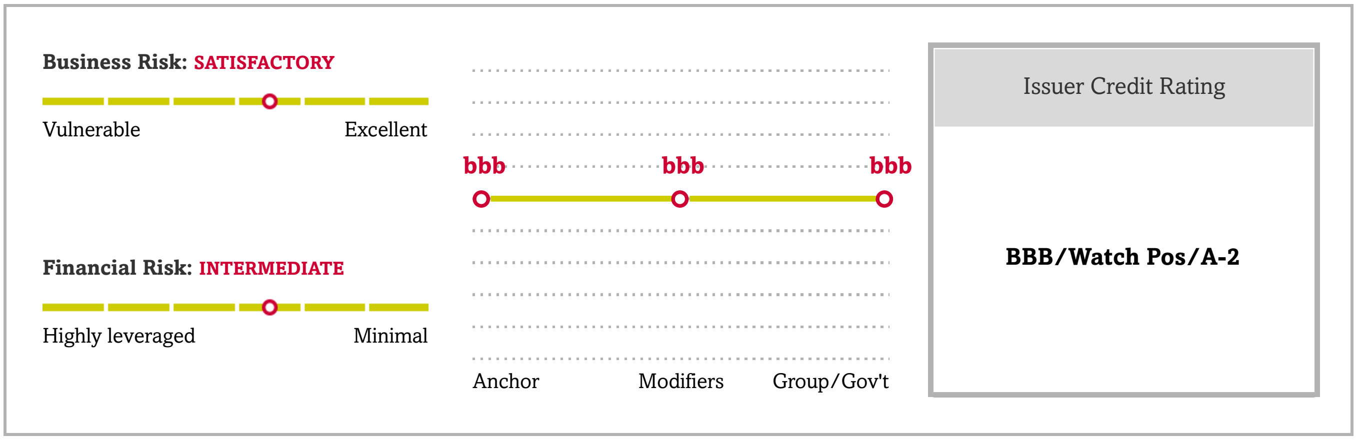


Credit Highlights

Overview

Key strengths	Key risks
Leading fleet-leasing franchise globally.	Integration risks associated with the potential merger with LeasePlan Corp N.V.
Stable and predictable cash flows.	Deteriorating macroeconomic conditions, which may pressure revenue growth and increase credit losses.
Ownership by the Societe Generale group, which provides synergies between ALD and SG's corporate segment and distribution network, and which also supports ALD's funding profile.	

ALD's proposed acquisition of LeasePlan could improve our view of the credit strength of the French-based fleet leasing company. Although not yet confirmed, we expect that post-merger ALD (NewALD) could be brought inside the resolution perimeter of Société Générale (SG), which is to maintain at least 51% ownership in NewALD. This reflects NewALD's expected new regulatory status, material size for the SG group, and funding linkages with the parent. Our expectation would be further supported by the future prepositioning of bail-in-able instruments in NewALD. This gives more potential rating uplift for ALD from SG's group support because of additional loss-absorbing capacity support.

ALD will likely remain a strategically important subgroup of SG, although we expect to change our rating approach to NewALD. We see SG's support for the LeasePlan acquisition as a confirmation that it sees NewALD as important to meeting the group's strategic objectives. Nevertheless, the deal is unlikely to change our view of NewALD as a strategic important subgroup of SG in the short term. This is because we do not see its leasing activity as core to SG's identity as a French banking group, compared with its retail and corporate and investment banking businesses. We currently rate ALD under our corporate rating methodology; post-transaction, we consider that our financial institution rating methodology would better capture NewALD's creditworthiness. We already rate LeasePlan as a bank and we understand that, as a condition of the merger, NewALD would have to obtain European Central Bank regulated status as a financial holding company.

Over the previous year, ALD's performance has been strong driven by record-high used car sales income and leasing contract margin growth. As of mid-year 2022, ALD's funded fleet reached 1.45 million vehicles (+5.4% year-on-year) supporting growth in operating margin. Moreover, exceptionally high used car prices were a key contributor to solid performance, with used car sales revenues reaching €432.7 million in first-half 2022 versus €125.3 million in first-half 2021 and additional income coming from fleet revaluation (€40.5 million) and a reduction in depreciation costs (€62.7 million). Currently, we observe similar earnings' dynamics for other market players.

We expect the current favorable conditions in the used car market will remain for at least several more quarters and support ALD's profitability and relatively high interest coverage ratio this year. After that, we expect a gradual normalization of the market in 2023-2024, driven by the cost-of-living crisis and higher cost of capital across the world. Under our base-case, organic fleet growth will be close to 2%-4% over the next two years and key leverage ratios, including interest expenses coverage by EBIT, will be broadly commensurate with our current assessment of ALD's financial risk. The possible acquisition of LeasePlan will make ALD the largest fleet leasing company in the world. Nevertheless, we will unlikely change our view of the stand-alone credit profile (SACP) of the merged entity once the deal completes because the integration will take several quarter to complete and will bring integration risks.

CreditWatch

We expect to resolve the CreditWatch when the transaction completes, likely by end-2022, or sooner if the deal falls apart.

If the deal completes, we expect to raise our long-term rating by up to two notches to 'A-' to indicate that, post-transaction, ALD will be a material part of the SG group and included within the parent's resolution perimeter.

If there are no other developments and the deal fails to complete, we could affirm the ratings and remove them from CreditWatch.

Our Base-Case Scenario

Assumptions

- We project the eurozone economy, where ALD receives most of its revenues, to contract in fourth-quarter 2022 and first-quarter 2023 and stagnate through 2023 mainly because of lower consumer spending.
- Monetary conditions in the eurozone will remain somewhat restrictive until next year, with a deposit rate of about 2.0% the end of first-quarter 2023.
- High supply-demand imbalances in the vehicle market will continue at least until the end of 2022, with used car prices remain elevated. The situation could start normalizing by mid-year 2023.
- ALD's organic fleet growth of around 2% this year and 3%-5% in the next years few as waiting times for new vehicles will gradually reduce, dissolving ALD's elevated order backlog.
- Leasing revenues (net of non-operating items) will grow by about 4%-6% in 2022-2023 underpinned by repricing leasing contracts and the shift to higher value vehicles.
- Servicing revenues will grow in line with fleet growth.
- Operating costs will increase by 15%-20% this year mainly driven by preparation costs to acquire LeasePlan. Growth in costs will slow to 5%-7% next year but remain elevated due to continuing integration expenditures and high inflation. Of note, ALD communicated on a potential €475 million restructuring charge, mostly concentrated in 2022-2024, if the LeasePlan deal closes successfully.
- Nevertheless, profitability will be boosted this year by record used car sales, reduced depreciation costs, and fleet revaluations with EBIT margin exceeding 15% in 2022, and gradually normalizing to 13%-15% next year, excluding deal impact.
- Cost of risk will remain broadly stable at around 20 basis points.
- Dividend payout ratio of 50%-60% over 2022-2023.

Key metrics

ALD S.A.--Key Metrics*

(Mil. EUR)	2020a	2021a	2022f	2023f
EBIT margin (%)	12.0	18.6	17.0-20.0	13.0-15.0
EBIT interest coverage (x)	4.4	9.3	8.0-10.0	4.0-6.0
Debt/debt and equity (%)	80.5	79.0	77-79	78-80
FFO/debt (%)	23.9	23.6	23.5-24.5	23.5-24.5

*All figures adjusted by S&P Global Ratings. Projections do not include the impact of LeasePlan acquisitions. FFO--Funds from operations. a--Actual. f--Forecast.

Company Description

ALD is the world's second-largest fleet leasing company with a total fleet under management of 1.76 million vehicles at mid-year 2022. It operates in more than 40 countries, predominantly in Europe, where it provides full-service leasing (82% of the fleet as of mid-year 2022) and fleet management services (18%). It works mainly with corporates (more than 85% of contracts as of mid-year 2022) of generally high credit quality (more than half being investment grade). It operates as a subsidiary of French banking group SG, which owns 80% of ALD, down from 100% following the company's partial IPO in June 2017. On Jan. 6, 2022, SG and LeasePlan shareholders announced the signing of a memorandum of understanding for ALD to acquire 100% of LeasePlan. As part of the deal, ALD's parent, SG, would retain majority ownership, initially of 53%. We understand that SG's ownership of the enlarged ALD group (NewALD) will not be diluted to less than 51%. After the acquisition, New ALD will become the largest fleet leasing company in the world with unparallel scale and total fleet exceeding 3.5 million vehicles.

Rated peers operating in the same industry (see chart 2) include Arval Service Lease S.A. (A-/Stable/A-2); U.K.-based Motability Operations Group plc (A/Stable/A-1); U.S.-based Wheels Inc. (BBB+/Stable/A-2) and Enterprise Fleet Management Inc. (BBB+/Stable/--).

Table 1

ALD S.A.--Peer Comparison**

	ALD S.A.	Arval Service Lease S.A.	Motability Operations Group PLC	Enterprise Fleet Management
Ratings as of Sept. 22, 2022	BBB/WathPos/A-2	A-/Stable/A-2	A/Stable/A-1	BBB+/Stable/-
Revenues (mil. EUR)	6,615.9	8,176.3	2,486.1	4,691.9
EBIT (mil. EUR)	1,231.7	1,127.0	1,211.5	539.6
EBIT margin (%)	18.6	13.8	48.7	11.5
EBIT/interest expenses (x)	9.3	5.2	6.1	5.3
Debt/debt+equity (%)	79.0	90.3	65.0	75.0

**Motability fiscal year ended as of Sept. 30, 2021, Enterprise Fleet - as of June 30, 2021 and for other entities as of Dec. 31, 2021.

ALD's EBIT margin of 18.6% at year-end 2021 is high in a fleet leasing context, above that of most peers. It is less so in the wider operating leasing industry where these margins can amount to 30%-60%. We consider the volatility of ALD's profitability, measured by the volatility of our EBIT margin, low but a bit higher than at Wheels and Enterprise Fleet Management who are not exposed to car sales volatility.

Business Risk: Satisfactory

ALD will remain one of the leading players in the full-service fleet leasing industry. ALD is a market leader in the fleet leasing industry, no. 1 in Europe and no. 2 worldwide after LeasePlan (when excluding auto-manufacturer captives). It operates in more than 40 countries (Western Europe predominantly), with top-three positions in nearly 30. As of mid-year 2022, ALD's fleet was close to 1.76 million with its funded fleet increasing by 5.4% versus June 2021.

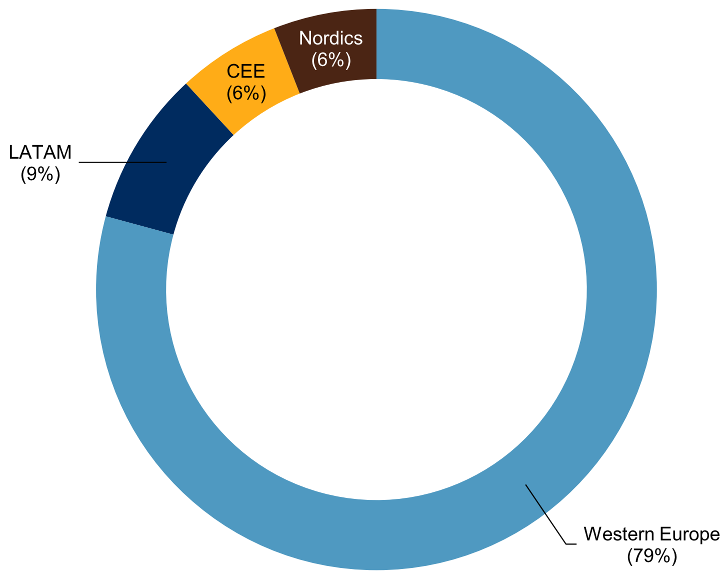
Reflecting the company's scale, ALD benefits from a very good granularity of exposures:

- By customer: The largest 10 accounts represent less than 7% of the fleet;
- By sector: The largest sectoral exposure by far is to pharmaceutical, but its share remains overall limited; and
- By supplier and brand: The company covers a wide range of auto brands, in contrast with captives.

After the acquisition of LeasePlan is complete, NewALD could become the largest fleet leasing company in the world with unparallel scale, geographical diversification, and total fleet exceeding 3.5 million vehicles.

Chart 1

ALD Fleet Will Remain Primarily Concentrated In Western Europe



Breakdown of fleet by region as of year-end 2021. Source: ALD data, S&P Global Ratings.

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Despite the current macroeconomic environment, marked by global supply chain disruptions, we expect that organic fleet growth will continue at around 2% this year and 3%-5% next year supported by new mobility offerings such as ALD Flex and lower waiting times for new vehicle, dissolving ALD's elevated order backlog. We believe that ALD will benefit from several long-term structural factors in the sector: customers' desire for more environmentally friendly mobility solutions, the move toward car usage rather than car ownership, and outsourcing trends at companies.

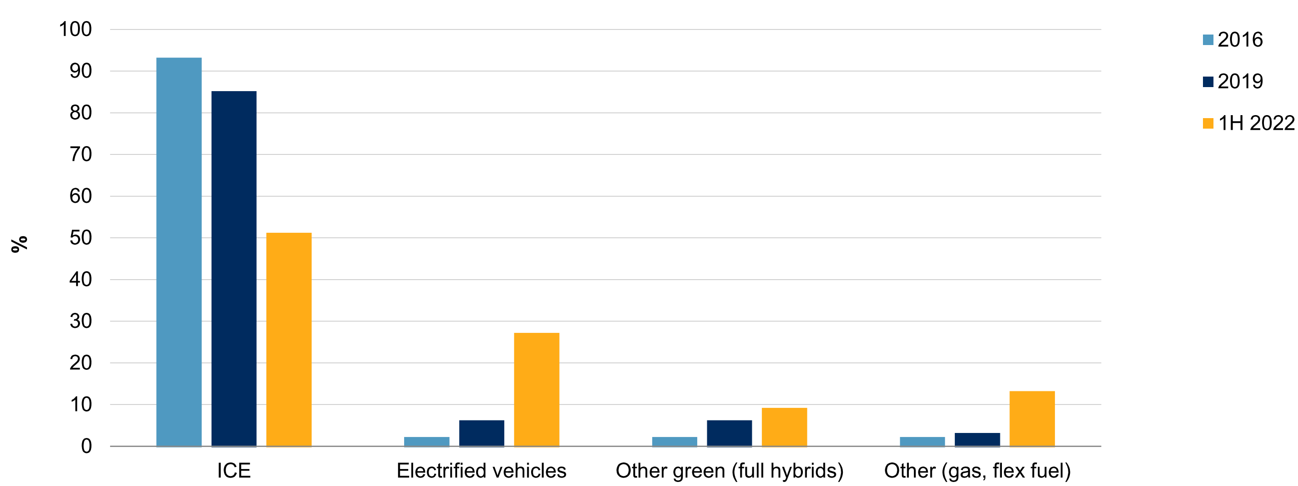
ALD's profitability will gradually normalize from next year after a significant boost from higher vehicle disposal revenues and a positive reassessment of residual value. We expect that the group's EBIT margin could be close to 20% this year but will likely return to a more normalized 13%-15% in the coming quarters. Although current supply-demand imbalances in new and used car markets might take longer to unwind, we are mindful of factors such as lower disposable incomes, persisting high inflation, and the higher cost of capital--all of which could see a rapid market reversal next year. We also note that the LeasePlan integration, which will likely take more than three years, and being an entity regulated by the ECB, will likely push operating costs higher and offset elevated disposal revenues next year. Of note, ALD expects to deliver €380 million in cost savings (from procurement mostly) from the acquisition by 2025.

ALD will continue to benefit from its strong links with the parent, SG. ALD leverages SG's retail network in France and abroad as a distribution network and uses services from SG for a fee (IT, HR, administrative, tax, compliance, and internal audit). This, alongside ALD's organization of middle and back office functions in hubs, explain its relatively low cost-income ratio. ALD's risk management is largely embedded in SG's risk management framework, with files above certain thresholds being reviewed by SG. SG accounts for 68% of ALD's reported funding base (as of mid-year 2022) reducing structural refinancing risk and SG's ownership supports a lower funding cost for ALD. We view SG's support for the LeasePlan acquisition as a confirmation that it sees NewALD as important to meeting the group's strategic objectives. We also expect that NewALD could be brought inside the resolution perimeter of the parent and reduce risk for senior creditors because of additional loss-absorbing capacity support.

Fleet decarbonization will remain an important part of ALD's strategy as the transition toward electric vehicles across Europe accelerates. ALD's key strategic pillars are fleet transition, technological and product innovation, and growth, notably via partnerships. The company is swiftly transitioning from diesel vehicles to alternative powertrain vehicles (electric and hybrid). ALD claims to be leading the industry in this transition. We view it favorably because it highlights the company's preparedness and capacity to anticipate and adapt to changing customer preferences, environmental regulation requirements, and car industry technological standards. In first-half 2022 new deliveries of electric vehicles for ALD's customers reached 27%.

Chart 2

ALD Is Shifting Its Fleet Deliveries Towards A Higher Share Of Electrified Vehicles



1H--First half. Source: ALD data, S&P Global Ratings.

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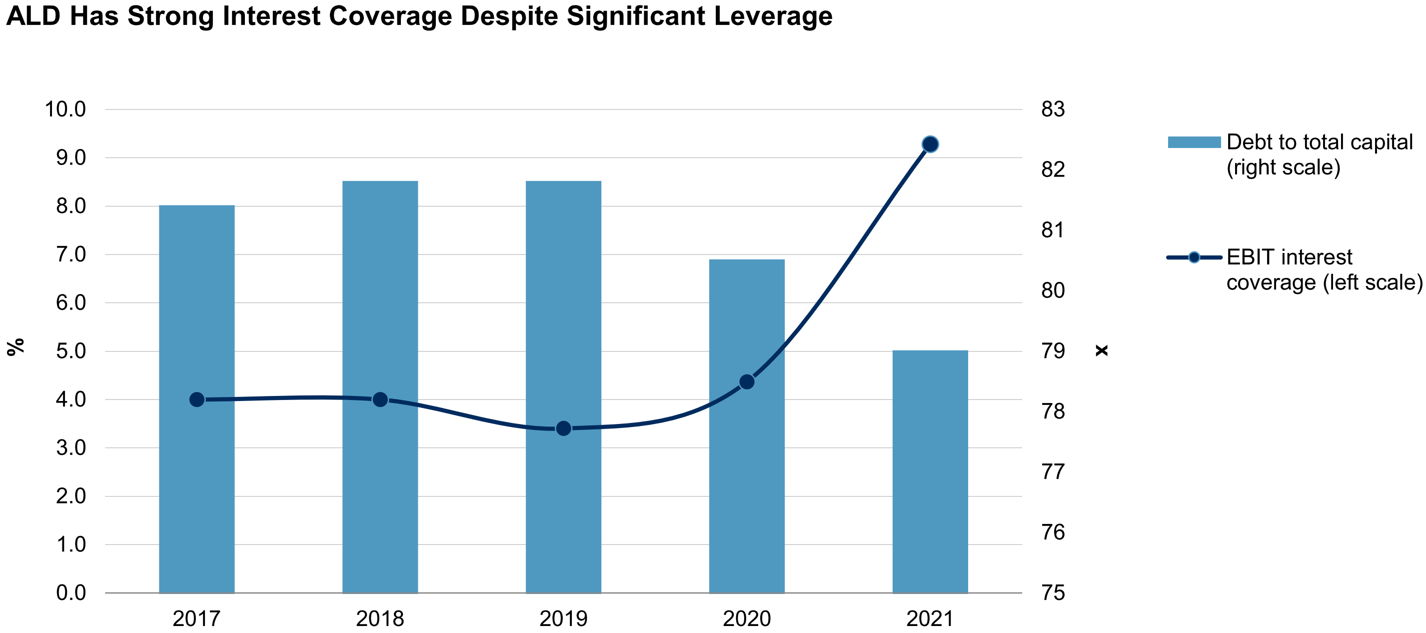
Financial Risk: Intermediate

The capital-intensive nature of the leasing business with high depreciation expenses limits the use of EBITDA-based metrics in assessing financial risk. To gain a more meaningful insight into the business and financial risks of fleet leasing companies, we analyze profitability based on EBIT and EBIT margin. We assess financial risk based on cash flow leverage metrics such as EBIT interest coverage and debt to total capital. We believe that these alternative ratios better measure the risks associated with leasing operations by avoiding the distortion created by typically high depreciation expenses.

ALD's high EBIT interest coverage will remain a rating strength. Supported by significant vehicle disposal revenues and fleet revaluations, ALD's EBIT soared by 57% in 2021 to reaching €1.23 billion. That boosted EBIT interest coverage to 9.3x versus 4.4x a year ago, the highest among rated peers. We expect coverage will remain elevated over 2022 and gradually reduce to 4.0x-6.0x on the back of normalizing earnings and higher interest expenses.

ALD displays relatively high debt to total capital and low FFO to debt, indicating that it operates with structurally high financial leverage. These ratios were 79.0% and 23.9%, respectively, at year-end 2021. Still, our secondary emphasis on these ratios reflects that ALD can operate at a higher leverage than similarly rated companies reflecting the high predictability of its cash flows and relatively low cost of debt. Debt has been growing significantly faster than the fleet in units since 2016. This is a structural trend, in our view, due to the evolution of the fleet mix (for instance the rise of more expensive alternative powertrain vehicles). By contrast, FFO tends to grow more in line with the fleet. We note that both ratios are less sensitive to changes in car sales revenues and cost of debt than the interest coverage ratio and we do not expect these ratios to change materially over 2022-2023.

Chart 3



Core and selected supplemental leverage ratios. Source: S&P Global Ratings.

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ALD's management demonstrates a consistent and prudent approach to managing key financial risks. We believe ALD has a good toolkit to manage residual value risk through fleet diversification, pricing, contractual features, and incentives to price this risk accurately as it does not act in support of vehicle sales. Exposure to this risk differentiates ALD from U.S. peers Wheels and Enterprise Fleet Management, who are not (or are hardly) exposed to this risk due to the open-ended nature of their leases. ALD also hedges its liquidly, interest rate, and foreign exchange risks at a contract's origination, protecting its margin.

Financial summary

Table 2

ALD S.A--Financial Summary

(Mil. EUR)	2018	2019	2020	2021
Revenues	6,157.8	6,680.1	6,555.9	6,615.9
EBIT	948.5	1,004.7	784.6	1,231.7
Funds from operations (FFO)	3,845.0	4,232.1	4,152.6	4,266.5
Capital expenditures	5,700.5	5,123.0	4,029.4	5,326.9
Cash and short-term investments	591.5	514.1	580.4	774.1
Debt	16,463.6	18,153.3	17,352.0	18,062.6
Equity	3,667.9	4,028.8	4,195.2	4,845.6

Reconciliation

Table 3

ALD S.A.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. EUR)

	--Fiscal year ended Dec. 31, 2021--					
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings adjusted EBITDA**
Reported	18,517.3	4811.8	4,517.6	1,273.1	132.7	4,500.5
S&P Global Ratings adjustments						
Cash taxes paid	-	-	-	-	-	(96.5)
Cash interest paid	-	-	-	-	-	(137.5)
Reported lease liabilities	121.3	-	-	-	-	-
Postretirement benefit obligations	4.6	-	-	-	-	-
Accessible cash and liquid investments	(580.6)	-	-	-	-	-
Share-based compensation expense	-	-	2.6	-	-	-
Non-operating income (expense)	-	-	-	(21.7)	-	-
Non-controlling interest	-	33.8	-	-	-	-
EBITDA: Foreign exchange gains/(losses)	-	-	(11.3)	(11.3)	-	-
EBITDA: Derivatives	-	-	(8.4)	(8.4)	-	-
Total adjustment	(454.7)	33.8	(17.1)	(41.4)	-	(234.0)
S&P Global Ratings' adjusted amounts						
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**
Adjusted	18062.6	4,845.6	4,500.5	1,231.7	132.7	4,266.5

Liquidity: Adequate

We view ALD's liquidity as adequate, based on our assessment of sources and uses of liquidity, including SG's ongoing support. We exclude from liquidity uses maturing internal debt because ALD's SACP factors in ongoing support from SG. We expect sources of liquidity will exceed uses by at least 1.2x in 2022 based on the following assumptions:

Principal liquidity sources over the next 12 months are:

- €500 million of cash and liquid investments.
- €4.3 billion of FFO.
- €3.1 billion undrawn borrowing facility from SG.
- €100 million of working capital inflow.
- €2.1 billion of ongoing liquidity support from SG.

Principal liquidity use over the same period are:

- €4.1 billion of capital expenditures.
- €500 million of dividend payments.
- €1.9 billion of external debt maturing.

Debt maturities

- October 2022: €500 million.
- July 2023: €500 million.
- October 2023: €600 million.
- February 2024: €500 million.
- October 2025: €750 million
- March 2026: €700 million.
- July 2027: €500 million.

Group Influence

We view ALD as being strategically important to SG (A/Negative/A-1). This makes the company eligible for ratings uplift (up to three notches) because we believe SG would financially support ALD in case of financial distress. However, we no longer include any notch of group support in our rating on ALD because the 'bbb+' group SACP on SG is now very close to ALD's own intrinsic creditworthiness, which we assess as 'bbb'. In a scenario where we would lower ALD's SACP, we would include a notch of group support from SG, provided SG's group SACP remains at the current level, everything else being equal.

Our assessment of ALD's strategic importance to SG reflects the following:

- Our view that a substantial dilution of SG's stake in ALD that would lead to SG's loss of control of the company is highly unlikely. We view ALD's partial IPO in June 2017 as a way for SG to increase its financial potential in the context of sustained growth and innovation in the mobility sector;
- ALD's important contribution to the group's results and high profitability, supporting SG's profitability. ALD is also an integral part of the corporate banking services SG offers to its large clients; and
- SG's capacity and incentives to help ALD meet its external debt obligations if needed, because we expect SG to remain ALD's main funding source (68% of total funding in 2022).

Ratings Score Snapshot

Issuer Credit Rating

BBB/Watch Pos/A-2

Business risk: Satisfactory

- **Country risk:** Low
- **Industry risk:** Moderately high
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bbb

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Entity status within group:** Strategically important (no impact)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Operating Leasing Industry, Dec. 14, 2016
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- ALD S.A. And LeasePlan Corp. N.V. Ratings Placed On CreditWatch Positive On Proposed Acquisition, Jan. 10, 2022
- Economic Outlook Eurozone Q4 2022: Crunch Time, Sept. 26, 2022

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	**bbb/bbb-**	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of October 20, 2022)*

ALD S.A.	
Issuer Credit Rating	BBB/Watch Pos/A-2
Senior Unsecured	BBB/Watch Pos
Short-Term Debt	A-2
Issuer Credit Ratings History	
10-Jan-2022	BBB/Watch Pos/A-2
04-Jun-2020	BBB/Stable/A-2
23-Apr-2020	BBB+/Negative/A-2
24-Oct-2018	BBB+/Stable/A-2
Sovereign Rating	
France	AA/Stable/A-1+
Related Entities	
Societe Generale	
Issuer Credit Rating	A/Stable/A-1
Resolution Counterparty Rating	A+/--/A-1
Commercial Paper	
Foreign Currency	A/A-1
Local Currency	A-1
Junior Subordinated	BB
Junior Subordinated	BB+
Senior Subordinated	BBB
Senior Unsecured	A
Senior Unsecured	A-1
Subordinated	BBB-

Ratings Detail (As Of October 20, 2022)*(cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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