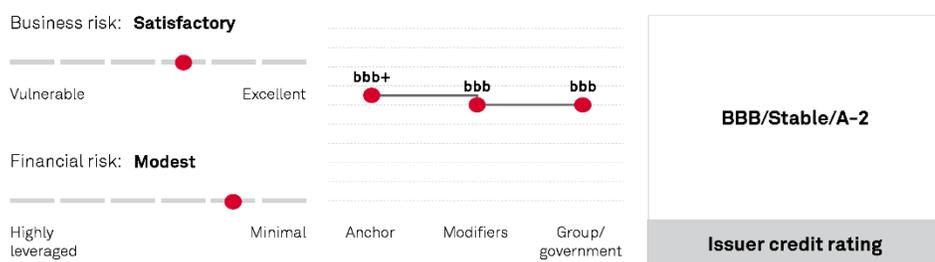


# Bertelsmann SE & Co. KGaA

October 4, 2022

## Ratings Score Snapshot



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## Credit Highlights

Overview	
Key strengths	Key risks
Diversified operations across media (broadcasting, publishing, printing, and music rights) and business services, with exposure to fast-growing online education business.	Exposure to structural shift of media consumption toward digital channels and to economic cycles in advertising.
Strong, established market positions in its main markets in Europe and North America.	Modest profitability compared with peers in the media sector in light of lower operating margin in the group's business services activities.
Track record of execution and adapting businesses to industry trends.	Potential for significant investments to support growth ambitions that could constraint cash flow and increase leverage.
Financial policy and commitment to keep the group's adjusted leverage at a maximum or below 2.5x, translating into S&P Global Ratings-adjusted leverage in the 2.0x-2.5x range	

Bertelsmann has ample financial flexibility and leeway for funding growth initiatives under the current 'BBB' rating. We forecast adjusted leverage of 1.7x-2.0x for 2022-2023, slightly below our upgrade threshold of 2x. However, this remains substantially below

Bertelsmann's leverage guidance for the next two to three years, and we understand Bertelsmann's financial policy allows it to increase leverage beyond 2x, which constrains our rating on the group at 'BBB'. Its guidance assumes a maximum group-adjusted leverage of up to 2.5x, which translates into about 2.3x S&P Global Ratings-adjusted debt to EBITDA. The group has not committed to a stricter financial policy that would assume maintaining lower leverage. In addition, Bertelsmann plans to invest €5 billion-€7 billion across its businesses by 2025, and we assume the group will continue to ramp up investments in organic business growth and mergers and acquisitions (M&A) in the next 18 months. We believe this could constrain cash flow and prevent leverage remaining sustainably below 2.0x in the next 12-18 months.

**The TF1 and M6 and Majorel and Sitel mergers were abandoned and the acquisition of U.S. publisher Simon & Schuster (S&S) is pending regulatory approval, but we don't expect these transactions to change our view of Bertelsmann's credit quality in the next 12-18 months.** The proposed merger between broadcasters TF1 and M6, in which Bertelsmann owns 48.3% through RTL Group, was called off by Bouygues and RTL on Sept. 16. This followed the French competition authority's concerns that the proposed transaction would have raised significant competition issues on the advertising market. While we previously did not factor in the transaction as part of our base case until its final approval, we estimate it would not have a material impact on credit metrics. We continue to include the earnings of M6 as part of our base case because we understand that RTL Group is not looking to sell M6 to another buyer or reduce its shareholding. The group also announced that Majorel will not merge with Sitel as previously announced, and Bertelsmann will continue to fully consolidate Majorel in its credit metrics. At the same time, the acquisition of U.S. publisher S&S for \$2.175 billion, announced by Bertelsmann in 2020, is being currently challenged by the U.S. Department of Justice and at the earliest might close in the fourth quarter of 2022. It is uncertain whether the deal will be approved, however, and we expect a decision in October 2022. For now we include S&S pro forma in our forecast from 2023.

**Business diversification and exposure to strong revenue growth prospects across multiple segments will support Bertelsmann's resilience, in our view, notwithstanding a potential slowdown in European TV advertising spending.** We anticipate Bertelsmann will report revenue growth of 5.5%-7.5% in 2022 amid significant strategic investments and acquisitions, and we forecast 3%-4% organic growth in 2023. We think its outsourcing service provider Arvato, music publisher BMG, and content producer Fremantle, recently bolstered by five acquisitions, along with Bertelsmann's online education segment, will continue to benefit from strong fundamentals in their respective industries and improved market positions. We anticipate this to offset the decline in revenue in European TV advertising markets likely to affect traditional TV broadcasters RTL Deutschland, RTL Netherlands, and M6. This should also help offset stable to slightly declining markets for printed books in the U.S. and the U.K., along with the structural decline in its European printing activities.

## Outlook

The stable outlook reflects our view that, over the next 24 months, Bertelsmann will achieve strong revenue growth following significant strategic investments and recent acquisitions, and maintain adjusted EBITDA margins within 14.5%-15.5%, with adjusted leverage below 2.5x. This incorporates our assumption that the group will use its existing financial flexibility to invest in growth and increase shareholder distributions. While we forecast S&P Global Ratings-adjusted leverage will remain at 1.7x-2.0x over the next two years, the rating and outlook consider some uncertainty around several large M&A and disposal transactions completing as planned, and our view that the group's current financial policy allows for higher leverage compared with our base case.

## Downside scenario

We could lower the rating over the next 24 months if Bertelsmann's adjusted leverage increases above 3x, for example, if:

- Its organic revenue growth and profitability weaken due to weaker macroeconomic conditions or an inability to adjust its business to intensifying structural challenges; or
- It pursues large debt-funded acquisitions, increases investments, or shareholder remuneration beyond what we incorporate in our base case.

## Upside scenario

We could upgrade Bertelsmann if it performs in line with our base case and absorbs ramp-up costs associated with its streaming businesses, such that it maintains solid adjusted EBITDA margins and cash flows, and commits to a financial policy that would, in our view, support S&P Global Ratings-adjusted leverage sustainably below 2x.

## Our Base-Case Scenario

### Assumptions

- Real GDP growth in the eurozone of 2.7% in 2022 and 2.2% in 2023, with inflation reaching 6.4% in 2022 and 3.0% in 2023.
- U.S. growth of 2.4% in 2022 and 2.0% in 2023, with headline inflation to reach 6.7% in 2022 and 2.6% in 2023.
- Bertelsmann's revenue growth of 5.5%-7.5% in 2022 on a reported basis and of 3%-4% organically in 2023. This follows a 6.9% increase in revenue to €9.3 billion (+3.8% organically) in the first half of 2022, largely due to acquisitions. Our forecast reflects the solid growth dynamics and recent acquisitions in its outsourcing services Arvato, music publisher BMG, education business and content producer Fremantle. At linear TV broadcaster RTL Group, we expect slowing TV advertising markets to weigh on revenue in the second half of 2022 and potentially into 2023, after being down 4.1% over the second quarter of 2022.
- We assume the acquisition of S&S will close by the end of 2022 and incorporate it in our 2023 forecast, assuming incremental revenue of €900 million and a pro forma EBITDA contribution of about €160 million. We expect the integration of S&S to provide cost synergies and a healthy pipeline of new book titles that will support ongoing growth in publishing and the group's profitability.
- We continue consolidating M6 within RTL and have not factored into our base case its potential disposal. We understand that various investors have recently expressed their interest for M6 but that RTL Group is not considering a sale or reduction of its 48.3% shareholding in Group M6.
- We assume that customer experience provider Majorel, in which Bertelsmann will retain a 39% stake following its failed merger with Sitel Group, will continue to be fully consolidated.
- Broadly stable to moderately improving EBITDA margins of 14.5%-15.5% in 2022 and 14.5%-16.0% in 2023, sustained by growth and cost efficiencies across the different segments, partly offset by cost inflation and investments in content production. We note S&P Global Ratings-adjusted EBITDA margin decline to 14.5% over the first half of 2022, from 15.5% reported in 2021, with significant contribution from the music, services and education businesses, offsetting higher paper and energy costs in printing activities, and various supply chain constraints at Penguin Random House (PRH). This also reflects continued investments into the RTL+ streaming platform with an anticipated €250 million start-up loss investment in 2022.

## Key metrics

### Bertelsmann SE & Co. KGaA -- Key Metrics\*

Mil. €	2020a	2021a	2022e	2023f	2024f
Revenue	17,289	18,696	19,700- 20,100	21,500- 22,000	22,000- 22,500
EBITDA	2,608	2,906	2,900- 3,100	3,100- 3,300	3,400- 3,600
EBITDA margin (%)	15.1	15.5	14.5-15.5	14.5-16.0	15.0-16.5

**Bertelsmann SE & Co. KGaA**

Capex	627	778	800-950	900-950	900-950
Changes in working capital	486	(68)	(250)-(150)	(150)-(100)	(150)-(100)
Acquisitions, net of disposals	279	581	(2,014)	(750)-(600)	(750)-(600)
Dividends	30	430	430-480	430-450	430-450
Free operating cash flow (FOCF)	2,096	782	800-1,100	900-1,100	1,200-1,400
Debt to EBITDA (x)	1.8	1.1	1.7-1.9	1.7-2.0	1.6-2.0
FOCF to debt (%)	44.2	24.2	15-20	15-20	20-25
DCF to debt (%)	28	10.9	5-10	c.10	c.15

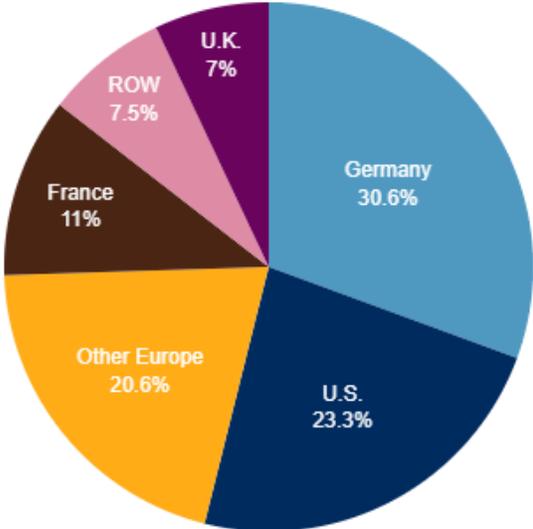
\*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast. FOCF--Free operating cash flow. DCF--Discretionary cash flow.

**Company Description**

Germany-based Bertelsmann is a diversified global media group with €18.7 billion of revenue and €2.9 billion adjusted EBITDA in 2021. It operates through several business units, including a 76.3% stake in broadcaster RTL Group that has merged with magazine publisher Gruner + Jahr, book publisher PRH, music publisher BMG, media-related and outsourcing services Arvato, Bertelsmann Printing Group, Bertelsmann Education Group, and Bertelsmann Investments.

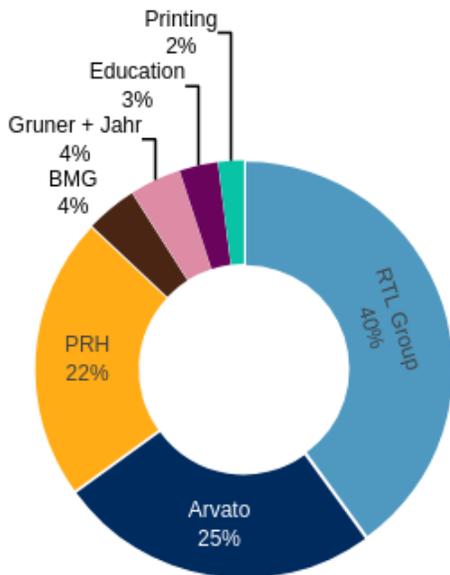
Bertelsmann is a privately held partnership limited by shares and ultimately controlled by the Mohn family. Three foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung, and BVG-Stiftung) indirectly hold 80.9% of Bertelsmann, with the remaining 19.1% held indirectly by the Mohn family.

Bertelsmann Revenue Breakdown By Geography



Source: 2021 Results, as reported.

**Bertelsmann Adjusted Operating EBITDA Per Segment**



Source: 2021 Results, as reported before Other and Consolidation adjustments. PRH--Penguin Random House.

## Peer Comparison

We believe that Bertelsmann lacks scale of peers such as Paramount Global. However, the group's reach is increasing thanks to acquisitions and its multiple-platform strategy, including multiple channels on YouTube where most online videos are viewed, and its new streaming platform RTL+. Bertelsmann has relatively lower profitability compared with media peers that have globally leading market positions in their respective segments. This is partially attributable to its lower-margin business services and outsourcing segment, albeit that segment exhibits strong growth prospects and low capital intensity.

Compared with European media peers, we believe that Bertelsmann greatly benefits from its diversification in different segments and geographically into North America, for example through its subsidiary PRH being the largest publisher in the English language, or thanks to its operations in online education globally. We see RELX as stronger compared with Bertelsmann thanks to its higher share of recurring and subscription revenue.

### Bertelsmann SE & Co. KGaA--Peer Comparisons

	Bertelsmann SE & Co. KGaA	ITV PLC	Paramount Global	Omnicom Group Inc.	RELX PLC
Foreign currency issuer credit rating	BBB/Stable/A-2	BBB-/Stable/A-3	BBB/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2
Local currency issuer credit rating	BBB/Stable/A-2	BBB-/Stable/A-3	BBB/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2

**Bertelsmann SE & Co. KGaA--Peer Comparisons**

Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-12-31	2021-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	18,696	4,111	25,134	12,564	8,625
EBITDA	2,906	856	4,335	2,395	2,779
Funds from operations (FFO)	1,870	651	3,169	1,767	2,230
Interest	175	57	924	219	160
Cash interest paid	229	63	910	229	142
Operating cash flow (OCF)	1,560	204	1,006	1,920	2,055
Capital expenditure	778	54	311	585	32
Free operating cash flow (FOCF)	782	150	695	1,335	2,023
Discretionary cash flow (DCF)	352	149	29	251	914
Cash and short-term investments	4,673	817	5,510	4,675	135
Gross available cash	4,673	817	5,510	4,675	135
Debt	3,238	832	12,769	2,199	7,417
Equity	14,199	1,807	20,805	3,318	3,838
EBITDA margin (%)	15.5	20.8	17.2	19.1	32.2
Return on capital (%)	12.3	28.2	10.7	36.5	19.7
EBITDA interest coverage (x)	16.6	15.0	4.7	10.9	17.4
FFO cash interest coverage (x)	9.2	11.3	4.5	8.7	16.7
Debt/EBITDA (x)	1.1	1.0	2.9	0.9	2.7
FFO/debt (%)	57.8	78.3	24.8	80.3	30.1
OCF/debt (%)	48.2	24.5	7.9	87.3	27.7
FOCF/debt (%)	24.2	18.0	5.4	60.7	27.3
DCF/debt (%)	10.9	17.9	0.2	11.4	12.3

**Business Risk**

Bertelsmann benefits from strong market positions, brand recognition, and a diversified business portfolio. Bertelsmann is one of the most diversified among the media companies we rate, and we think it translates into stability of the group's earnings and, ultimately, its credit ratios. It has presence in multiple services segments across various countries. The group's latest acquisition of Afya within online education in the health care and technology sectors, along with the addition of iconic music catalogs within BMG, have also enabled it to diversify from advertising-dependent revenue streams and printing activities. We believe Bertelsmann's online education and music content businesses, in addition to its service provider Arvato, offer positive growth prospects and a resilient profile under a more cyclical macroeconomic environment.

Bertelsmann holds strong market positions in its main markets of operation. RTL Group is the No.1 entertainment network in Europe through RTL's TV and radio channels. M6 is one of the leading privately owned linear TV broadcasters in France, and for now we assume RTL Group retains its ownership of M6. It also owns one of leading global content producers Fremantle. We believe the five recent acquisitions announced in 2022 will continue to support Fremantle's full-year revenue targets of €3 billion by the end of 2025. RTL's continued investments in its streaming service RTL+, which now boasts over 4.5 million paying subscribers across Germany and the Netherlands, will also support the group's growth prospects.

Bertelsmann's service provider Arvato, provides a variety of business services and processes, such as customer management supply chain, financial and IT support globally. This segment holds top positions across a variety of services and most notably in the strongly growing e-commerce outsourcing solutions segment. Furthermore, PRH is the world's leading publishing group, with more than 16,000 titles published and 700 million print, audio, and e-books sold annually. Lastly, BMG holds the No.4 position in the music publishing market worldwide, representing more than 3 million songs and recordings, with leadership in producing German music content.

The group plans to invest €5 billion to €7 billion across its businesses by 2025, which we think will support its solid operating performance over the next few years and make it more resilient to macroeconomic changes. In particular, we expect the music, education, outsourcing services, and publishing businesses (together generating about 65% of group revenue in 2021) to support growth and reduce its exposure to advertising.

While the disposal of broadcasters RTL Belgium and RTL Croatia, completed in 2022, help mitigate Bertelsmann's exposure to cyclical advertising revenue and ongoing structural changes in the media sector, we believe that the group is still exposed to the structurally decreasing TV and magazine segments. As media consumption becomes more fragmented, we expect global demand for high quality content will remain strong. This will benefit Fremantle, which has a strong pipeline of scripted and unscripted shows. However, we believe that increasing production costs and need to attract and retain creative talent could weigh on Fremantle's margins.

## Financial Risk

We expect Bertelsmann to maintain S&P Global Ratings-adjusted debt-to-EBITDA of about 1.7x-1.9x in 2022 and 1.7x-2.0x in 2023. The group's financial policy commitment assumes a maximum company-adjusted leverage of up to 2.5x, which translates into about 2.3x S&P Global Ratings-adjusted debt to EBITDA. As such, we forecast Bertelsmann's leverage will remain below its medium-term leverage guidance and slightly below our upgrade threshold of 2x.

However, we think leverage could increase, given that the group plans significant capital investment, and has not committed to a stricter financial policy that would assume maintaining such low leverage on a sustained basis.

We forecast Bertelsmann will generate free cash flows of about €1 billion in 2022-2023, such that the free operating cash flow (FOCF)-to-debt ratio will remain around 15%-20%. We forecast that its internal cash flow will continue to be absorbed primarily by investment in organic growth and bolt-on acquisitions, as well as dividends.

## Debt maturities

As of Aug. 31, 2022:

- 2024: €476 million.
- 2025: €667 million.
- 2026: €518 million.
- Thereafter: About €2.96 billion (including all hybrid capital).

## Bertelsmann SE & Co. KGaA--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a

**Bertelsmann SE & Co. KGaA--Financial Summary**

Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	16,950	17,190	17,673	18,023	17,289	18,696
EBITDA	2,563	2,635	2,524	2,615	2,608	2,906
Funds from operations (FFO)	2,074	1,971	1,738	1,951	2,116	1,870
Interest expense	211	198	201	172	200	175
Cash interest paid	255	230	252	240	278	229
Operating cash flow (OCF)	1,923	1,622	1,446	1,833	2,723	1,560
Capital expenditure	638	647	575	594	627	778
Free operating cash flow (FOCF)	1,285	975	871	1,239	2,096	782
Discretionary cash flow (DCF)	679	(625)	256	776	1,330	352
Cash and short-term investments	1,373	1,440	1,398	1,629	4,564	4,673
Gross available cash	1,373	1,440	1,398	1,629	4,564	4,673
Debt	6,283	6,202	6,652	6,080	4,744	3,238
Common equity	10,520	9,744	10,463	11,070	11,350	14,199
<b>Adjusted ratios</b>						
EBITDA margin (%)	15.1	15.3	14.3	14.5	15.1	15.5
Return on capital (%)	11.1	10.8	9.0	9.7	9.9	12.3
EBITDA interest coverage (x)	12.1	13.3	12.6	15.2	13.1	16.6
FFO cash interest coverage (x)	9.1	9.6	7.9	9.1	8.6	9.2
Debt/EBITDA (x)	2.5	2.4	2.6	2.3	1.8	1.1
FFO/debt (%)	33.0	31.8	26.1	32.1	44.6	57.8
OCF/debt (%)	30.6	26.2	21.7	30.2	57.4	48.2
FOCF/debt (%)	20.5	15.7	13.1	20.4	44.2	24.2
DCF/debt (%)	10.8	(10.1)	3.9	12.8	28.0	10.9

**Liquidity**

We view Bertelsmann's liquidity as strong because we expect sources of liquidity will exceed uses by about 1.6x over the next 12 months. The group benefits from sufficient committed credit facilities, a large cash balance, and our expectation of continued positive FOCF generation. We also consider that Bertelsmann has a strong relationship with banks and high standing in the credit markets.

## Principal liquidity sources

- Our assumption of unrestricted cash on the balance sheet of €3.7 billion as of June 30, 2022;
- Fully undrawn €1.2 billion revolving credit facility due in 2026; and  
Our forecast of cash funds from operations of €1.6 billion–€1.8 billion.

## Principal liquidity uses

- Debt maturities of about €598 million;
- Seasonal and structural working capital outflow of up to €250 million;
- Capex of approximately €950 million–€975 million;
- Dividends of about €400 million–€430 million; and
- Contracted acquisitions of €1.8 billion, considering the acquisition of S&S, which we assume could close by the end of 2022.

## Environmental, Social, And Governance

### ESG Credit Indicators



ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

ESG factors have an overall neutral influence on our credit rating analysis of Bertelsmann. We factor in management's good track record of strategic planning and execution, including effective monitoring and managing of social risks that media companies are facing.

## Issue Ratings--Subordination Risk Analysis

### Capital structure

Almost all debt of the group is unsecured and is issued at the Bertelsmann SE & Co. KGaA level. All senior notes rank pari passu and are senior to the €413 million debt-like profit participation notes and the group's €1.3 billion hybrid capital, which is also issued at the parent level.

### Analytical conclusions

There is no structural or contractual subordination, and we therefore rate the senior unsecured debt at 'BBB', the same level as our issuer credit rating on Bertelsmann. The hybrid capital is rated 'BB+', two notches below our issuer credit rating, due to:

- Its subordination in the capital structure; and
- The payment flexibility, reflecting that the deferral of interest on the notes is optional.

## Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>BBB/Stable/A-2</b>
<b>Local currency issuer credit rating</b>	<b>BBB/Stable/A-2</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Very Low
Industry risk	Intermediate
Competitive position	Satisfactory
<b>Financial risk</b>	<b>Modest</b>
Cash flow/leverage	Modest
<b>Anchor</b>	<b>bbb+</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Negative (-1 notch)
Liquidity	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
<b>Stand-alone credit profile</b>	<b>bbb</b>

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 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

- Bertelsmann Ratings Affirmed At 'BBB/A-2' On Expectation Of Strong Earnings And Continued Investments; Outlook Stable, April 26, 2022

## Ratings Detail (as of October 04, 2022)\*

### Bertelsmann SE & Co. KGaA

Issuer Credit Rating	BBB/Stable/A-2
Junior Subordinated	BB+
Senior Unsecured	BBB

### Issuer Credit Ratings History

14-Oct-2020	BBB/Stable/A-2
27-Mar-2020	BBB+/Negative/A-2
23-May-2011	BBB+/Stable/A-2

\*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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