



# Credit Market Pulse

- *Global Credit Risk Trends*
- *Credit Trends Behind Major Market Indexes*
- *Best, Worst and Top Movers*

NOVEMBER 2013

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ISSUE 1

## Editors' Note

Welcome to this newest market research publication from S&P Capital IQ. Produced with the busy investment management, credit officer and financial risk reporting audience in mind, S&P Capital IQ's Credit Market Pulse is the first publication for the credit risk industry that provides a holistic overview of the health and trends of global credit capital markets leveraging the extensive analytical intelligence and depth of data from our own institution. The benchmarks, trends and individual company analyses examined in this, our inaugural issue, are intended to provide financial professionals with a better understanding of the risks and opportunities underlying their investment or lending decisions as well as how their portfolios perform against the market.

At the core of Credit Market Pulse is S&P Capital IQ's proprietary probability of default (PD) model, 'Market Signals', a unique analytical model which provides daily changing, 1-year forward looking PDs of publicly listed companies based on a cutting-edge econometric framework. In addition, this model generates more than 37,000 company-specific PDs every day, covering 99.9% of global market capitalization across developed economies, frontier and emerging markets.<sup>[1]</sup>

This issue of Credit Market Pulse has three core sections, providing different views of credit risk. These include the quarterly evolution of the median PD; monthly evolution of the credit risk for constituents of the S&P 500 equity index and its various industry sub-indices and PD tables of individual companies that merit special attention.

In the first section, the quarterly evolution of the median PD is shown for the last three years with a monthly blow-out for the last year. Our charts depict all listed companies headquartered in North America, Western Europe, Asia Pacific Mature and BRIC countries with revenues over \$500M USD.<sup>[2]</sup>

**“ We expect Credit Market Pulse to become an important industry benchmark for credit risk. ”**

In the second section, the PDs of all constituents of the S&P 500 equity index and its various industry sub-indices are generated and aggregated into median PDs and the monthly evolution of the credit risk is shown for the last year with a weekly blowout for the most recent five weeks.<sup>[3]</sup> This is the first time that a holistic view of credit risk of the iconic S&P 500 equity index is provided to the market. This process can be replicated for any other index and this will be explored in future editions. Please note that for S&P Capital IQ subscribers, an Excel® template is available for users to replicate this section with other indices.

Finally, the third section shows a table of individual companies that merit special attention. For each of the four regions identified in section 1, the companies with over \$5B USD in revenues with the worst individual PDs as of October 30, 2013 as well as biggest deteriorations or greatest improvement of credit risk since August 30, 2013 are singled out.<sup>[4]</sup>

We hope Credit Market Pulse will become an important tool for credit risk officers, investment managers, the debt capital market community and others looking to bring additional credit risk metrics and forecasting capabilities into their financial decision making. At present, we plan to publish bi-monthly and focus on trends occurring locally, regionally and globally. We look forward to receiving your feedback and suggestions for additional comparative analysis or regions and industries of your interest. To subscribe to the Credit Market Pulse, visit [www.spcapitaliq-credit.com/creditmarketpulse](http://www.spcapitaliq-credit.com/creditmarketpulse).

## Authors\*



**Silvana Aldeco-Martinez**  
Managing Director,  
Product & Market Development  
EMEA,  
S&P Capital IQ



**Marcel Heinrichs**  
Director,  
Market Development Americas,  
S&P Capital IQ



**Thomas Yagel**  
Director,  
Credit Market Development,  
S&P Capital IQ

<sup>[1]</sup> PD Market Signals enables different views for almost 250 countries and territories, more than 140 different industries and has coverage for companies of all sizes.

<sup>[2]</sup> The median PD is preferred over the average PD because it is less sensitive to outliers. The revenue threshold is utilized because North America has a much higher concentration of small and micro-cap companies that negatively skew the credit view of the region (if they are included) when compared to the other regions. The total number of daily observations for this analysis still exceeds 7,000 and counts across regions are fairly even. For reference, the table below the graph shows the PD median values and their mapped credit scores as lower case letter grades.

<sup>[3]</sup> Weightings are adjusted for companies that do not produce a PD value as a small handful of companies may be lacking data and we are not scoring most financial institutions at this time.

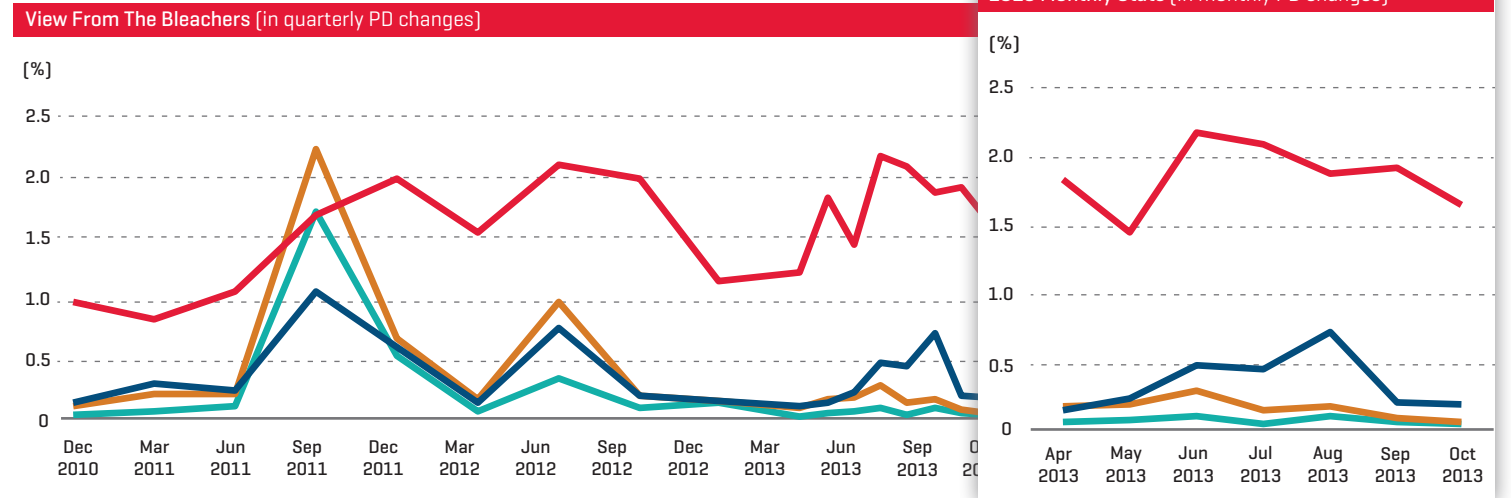
<sup>[4]</sup> Their PDs and mapped with credit scores shown and improvements and deteriorations are calculated based on biggest changes in credit scores, not PD percentage change, as small PD values can produce outsized percentage changes that aren't extremely significant (ties are broken with PD percentage change).

\* Authors listed in alphabetical order.

# Credit Market Pulse

## Global Credit Risk Trends

### Market Signals Probability of Default Regional Averages



### REGIONAL COMMENTARY

- PD trend lines across the last 3 years show a similar pattern across US, Europe and Asia Mature with relatively low median PDs, and also sharp rises during crisis periods. This is exemplified by the spike in the second half of 2011 following the downgrade of US from AAA to AA+ by Standard & Poor's Ratings Services reflecting the interdependence of global markets.
- In contrast, while the BRIC markets seem much less interrelated, the aggregated PD level is highest. The elevated credit risk in those countries is mainly a consequence of sustained greater systemic risk factors such as inconsistent application of rules of law or a high degree of corruption, which determines a much less business-friendly environment for corporations. The stickiness of the median PD around 2% over the last two years can be explained by structural problems in all four countries that remain unresolved and have led to slower GDP growth than expected and rising inflation rates in Brazil, Russia and notably India.
- While Western Europe mid-large cap corporations show a higher credit risk than North America, the gap has narrowed substantially since mid-2013 to the 0.05 PD level, as a sign that markets perceive the Euro crisis to be under control – at least momentarily in spite of sluggish economic growth, and low domestic consumption, partly as a consequence of significant austerity measures.
- On average North American counterparts have been the safest credit group, evidencing the lowest and decreasing PD levels since 2012. The on-going stimulus program by the FED and continuously low inflation rates have helped to reduce unemployment rates and bring the US economy back on track reflected in the median 0.03% PD for mid-to-large caps as of Oct 30<sup>th</sup>.
- For Asia Pacific Mature countries, PD levels have slightly decoupled from the other developed countries since mid-2013 peaking at 0.7% at the end of August 2013. These economies suffer most from the interdependence with slowing growth rates of China and India and rising uncertainty of the emerging market economies in Asia overall.

	DEC. 31, 2010	MAR. 31, 2011	JUN. 30, 2011	SEP. 30, 2011	DEC. 30, 2011	MAR. 30, 2012	JUN. 29, 2012	SEP. 28, 2012	DEC. 31, 2012	MAR. 29, 2013	APR. 30, 2013	MAY 31, 2013	JUN. 28, 2013	JUL. 31, 2013	AUG. 30, 2013	SEP. 30, 2013	OCT. 30, 2013
<b>North America (1728*)</b>	0.03%	0.07%	0.11%	1.71%	0.52%	0.07%	0.33%	0.09%	0.13%	0.02%	0.05%	0.06%	0.09%	0.04%	0.09%	0.04%	0.03%
	a+	a	a-	bb-	bbb-	a	bbb	a-	bbb+	aa-	a	a	a-	a+	a-	a+	a+
<b>Western Europe (1196*)</b>	0.11%	0.20%	0.20%	2.23%	0.67%	0.17%	0.97%	0.19%	0.15%	0.10%	0.17%	0.18%	0.27%	0.14%	0.16%	0.08%	0.05%
	a-	bbb+	bbb+	bb-	bb+	bbb+	bb	bbb+	bbb+	a-	bbb+	bbb+	bbb	bbb+	bbb+	a-	a
<b>APAC Mature (2657*)</b>	0.13%	0.29%	0.23%	1.05%	0.59%	0.14%	0.75%	0.19%	0.15%	0.10%	0.13%	0.21%	0.47%	0.43%	0.70%	0.18%	0.18%
	bbb+	bbb	bbb	bb	bb+	bbb+	bb+	bbb+	bbb+	a-	bbb+	bbb	bbb-	bbb-	bb+	bbb+	bbb+
<b>BRIC (1523*)</b>	0.97%	0.83%	1.05%	1.69%	1.99%	1.54%	2.10%	1.99%	1.14%	1.21%	1.83%	1.44%	2.17%	2.09%	1.88%	1.92%	1.64%
	bb	bb+	bb	bb-	bb-	bb-	bb-	bb-	bb	bb	bb-	bb-	bb-	bb-	bb-	bb-	bb-

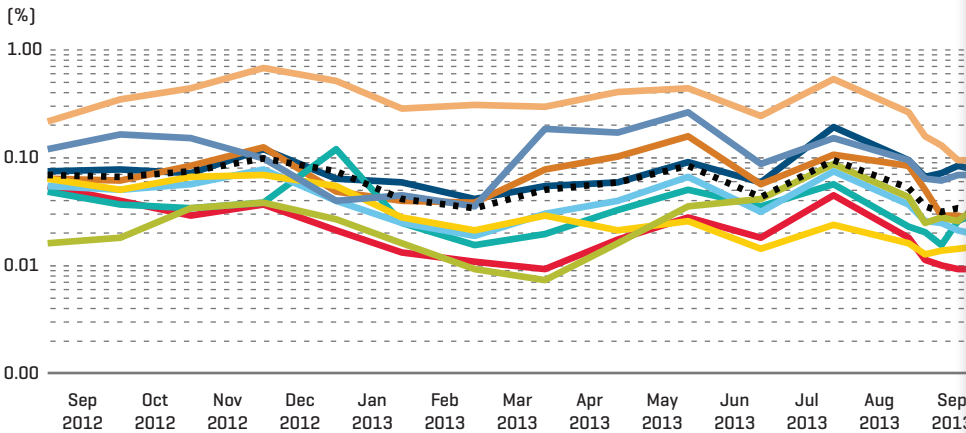
\*Counts as of October 30, 2013

## Credit Trends Behind Major Market Indexes

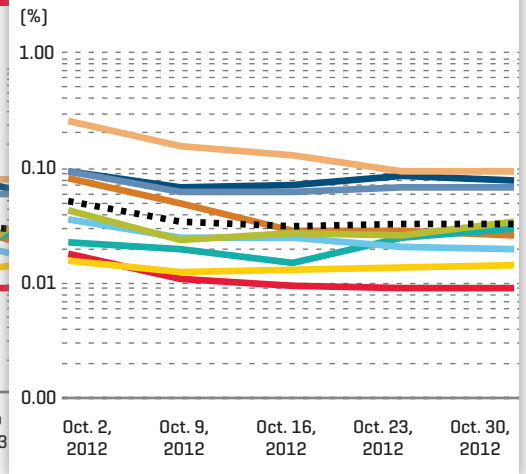
### S&P 500 Average PD Market Signal by Sector\*\*

Consumer discretionary Consumer staples Energy Healthcare Industrials  
 Information technology Materials Telecom services Utilities S&P 500

2-year Flux [in monthly PD changes]



5-week Focus [in weekly PD changes]



### INDEX COMMENTARY

- On average, the credit risk of the S&P 500 index remains low and stable over the course of the last year well below a medium PD of 0.1%. This also holds for most of the S&P 500 sector constituents.
- Most stark view is that Telecommunication Services companies continue to be the highest contributors to the credit risk behind S&P 500. With a PD near 5%, Sprint Corp was one of the heaviest credit risk holdings through July, when it was removed from the index following the acquisition by Softbank. The late September more moderate spike was primarily explained by the underlying short term credit risk of Frontier Communications Corp. most likely linked with the difficulties of coping with the customer loss in the first half and rising costs.
- Along with Telecommunications currently the weighted average PD for S&P 500 companies in Consumer discretionary, Materials, Energy and companies are all above the index average. These sectors suffered from several bankruptcies in 2013 including Exide in June as the most prominent case. Notable is the PD spike of JC Penny that reached an unprecedented 39.6% PD on October 26 and remains at a high level as a consequence of continuous store sale declines and equity dilution coupled with a highly leveraged financial profile and low liquidity.

	SEP. 2012	OCT. 2012	NOV. 2012	DEC. 2012	JAN. 2013	Feb. 2013	Mar. 2013	Apr. 2013	May. 2013	Jun. 2013	Jul. 2013	Aug. 2013	Oct. 2013
<b>Consumer Discretionary (83*)</b>													
Value	0.07%	0.08%	0.07%	0.12%	0.06%	0.06%	0.04%	0.05%	0.06%	0.09%	0.06%	0.19%	0.08%
Credit Score	a	a	a	a-	a	a	a+	a	a	a-	a	bbb+	a
<b>Consumer Staples (40*)</b>													
Value	0.05%	0.04%	0.03%	0.04%	0.02%	0.01%	0.01%	0.01%	0.02%	0.03%	0.02%	0.04%	0.01%
Credit Score	a	a+	aa-	a+	aa-	aa	aa+	aa+	aa	aa-	aa	a+	aa+
<b>Energy (44*)</b>													
Value	0.06%	0.06%	0.08%	0.13%	0.05%	0.04%	0.04%	0.08%	0.10%	0.16%	0.06%	0.11%	0.03%
Credit Score	a	a	a-	a-	a+	a+	a+	a	a-	bbb+	a	a-	aa-
<b>Healthcare (55*)</b>													
Value	0.05%	0.04%	0.03%	0.04%	0.12%	0.02%	0.02%	0.02%	0.03%	0.05%	0.03%	0.06%	0.03%
Credit Score	a	a+	a+	a+	a-	aa-	aa	aa-	a+	a	a+	a	a+
<b>Industrials (63*)</b>													
Value	0.05%	0.05%	0.06%	0.08%	0.04%	0.02%	0.02%	0.03%	0.04%	0.07%	0.03%	0.07%	0.02%
Credit Score	a	a	a	a	a+	aa-	aa	aa-	a+	a	a+	a	aa-
<b>Information Technology (66*)</b>													
Value	0.06%	0.05%	0.07%	0.07%	0.05%	0.03%	0.02%	0.03%	0.02%	0.03%	0.01%	0.02%	0.01%
Credit Score	a	a	a	a	a	aa-	aa-	aa-	aa-	aa-	aa	aa-	aa
<b>Materials (31*)</b>													
Value	0.12%	0.16%	0.15%	0.10%	0.04%	0.04%	0.04%	0.19%	0.17%	0.26%	0.09%	0.15%	0.07%
Credit Score	a-	bbb+	bbb+	a-	a+	a+	a+	bbb+	bbb+	bbb	a-	bbb+	a
<b>Telecommunication Services (6*)</b>													
Value	0.22%	0.35%	0.43%	0.68%	0.52%	0.29%	0.31%	0.29%	0.40%	0.44%	0.24%	0.53%	0.09%
Credit Score	bbb	bbb-	bbb-	bb+	bbb-	bbb	bbb	bbb	bbb-	bbb-	bbb	bbb-	a-
<b>Utilities (31*)</b>													
Value	0.02%	0.02%	0.03%	0.04%	0.03%	0.02%	0.01%	0.01%	0.02%	0.03%	0.04%	0.09%	0.03%
Credit Score	aa	aa	a+	a+	aa-	aa	aa+	aa+	aa	a+	a+	a-	a+
<b>S&amp;P 500 (419**,*)</b>													
Value	0.07%	0.07%	0.07%	0.10%	0.07%	0.04%	0.03%	0.05%	0.06%	0.08%	0.04%	0.10%	0.03%
Credit Score	a	a	a	a-	a	a+	a+	a	a	a-	a+	a-	a+

	OCT. 2, 2013	OCT. 9, 2013	OCT. 16, 2013	OCT. 23, 2013	OCT. 30, 2013
Value	0.09%	0.07%	0.07%	0.08%	0.08%
Credit Score	a-	a	a	a	a
Value	0.02%	0.01%	0.01%	0.01%	0.01%
Credit Score	aa	aa+	aa+	aa+	aa+
Value	0.08%	0.05%	0.03%	0.03%	0.03%
Credit Score	a-	a	aa-	aa-	aa-
Value	0.02%	0.02%	0.02%	0.03%	0.03%
Credit Score	aa-	aa-	aa	aa-	a+
Value	0.04%	0.03%	0.02%	0.02%	0.02%
Credit Score	a+	aa-	aa-	aa-	aa-
Value	0.02%	0.01%	0.01%	0.01%	0.01%
Credit Score	aa	aa	aa	aa	aa
Value	0.09%	0.06%	0.06%	0.07%	0.07%
Credit Score	a-	a	a	a	a
Value	0.26%	0.16%	0.13%	0.09%	0.09%
Credit Score	bbb	bbb+	bbb+	a-	a-
Value	0.04%	0.02%	0.03%	0.03%	0.03%
Credit Score	a+	aa-	aa-	aa-	a+
Value	0.05%	0.03%	0.03%	0.03%	0.03%
Credit Score	a	a+	a+	a+	a+

\*Counts as of October 30, 2013

\*\*S&P 500 is inclusive of all S&P 500 Index constituents that have S&P Capital IQ PD Market Signal coverage and excluding GICS (trade mark) Financial Sector (GICS code 40). Industries are not S&P 500 sub-indices, but rather, GICS 2-digit Sector groupings within the S&P 500 Index.

## Best, Worst and Top Movers

REGION	HIGHEST	IMPROVEMENT	DETERIORATION
Western Europe	<b>XTRA:AB1</b> Air Berlin PLC & Co. Luftverkehrs KG [b-] [6.74%]	<b>ENXTPA:ORA</b> Orange bb- ▶ aa- 1.46% ▶ 0.02%	<b>SWX:PWTN</b> Panalpina World Transport Holding Ltd. aa+ ▶ a 0.01% -> 0.07%
	<b>DB:LHA</b> Deutsche Lufthansa Aktiengesellschaft [bb-] [1.97%]	<b>BIT:IT</b> Italcementi SpA ccc+ ▶ bbb 12.63% ▶ 0.26%	<b>ENXTPA:UG</b> Peugeot S.A. a ▶ bbb- 0.06% ▶ 0.36%
	<b>HLSE:OUT1V</b> Outokumpu Oyj [bb-] [1.87%]	<b>DB:SZU</b> Suedzucker AG bb- ▶ a+ 1.82% ▶ 0.04%	<b>XTRA:WCH</b> Wacker Chemie AG bbb+ ▶ bb+ 0.14% ▶ 0.56%
North America	<b>NasdaqGS:NIHD</b> NII Holdings Inc. [ccc-] [28.32%]	<b>NYSE:LUV</b> Southwest Airlines Co. bb ▶ aa 1.18% -> 0.01%	<b>NYSE:UNH</b> UnitedHealth Group Incorporated aa+ ▶ bbb+ 0.01% ▶ 0.15%
	<b>NYSE:JCP</b> J. C. Penney Company, Inc. [ccc-] [27.10%]	<b>NYSE:FCX</b> Freeport-McMoRan Copper & Gold Inc. bbb- ▶ aaa 0.44% ▶ 0.01%	<b>NYSE:WLP</b> WellPoint Inc. aa- ▶ bbb 0.03% ▶ 0.25%
	<b>OTCPK:SPGZ</b> Spectrum Group International Inc. [b-] [8.12%]	<b>NYSE:HUN</b> Huntsman Corporation bb+ ▶ aa 0.81% ▶ 0.02%	<b>NasdaqGS:ESRX</b> Express Scripts Holding Company aa ▶ a- 0.01% ▶ 0.10%
BRIC	<b>BSE:500368</b> Ruchi Soya Industries Limited [ccc-] [25.92%]	<b>BSE:500104</b> Hindustan Petroleum Corporation Limited ccc- ▶ b+ 27.31% ▶ 3.07%	<b>BOVESPA:MRFG3</b> Marfrig Alimentos SA b ▶ ccc 4.36% ▶ 17.97%
	<b>SEHK:1070</b> TCL Multimedia Technology Holdings Ltd. [ccc] [18.13%]	<b>SHSE:600694</b> Dashang Group Co., Ltd. ccc+ ▶ bb 9.81% ▶ 1.22%	<b>NYSE:ERJ</b> Embraer SA bbb ▶ bb 0.31% ▶ 1.25%
	<b>BOVESPA:MRFG3</b> Marfrig Alimentos SA [ccc] [17.97%]	<b>BOVESPA:CZLT33</b> Cosan Ltd. b+ ▶ bbb 2.31% ▶ 0.31%	<b>SEHK:338</b> Sinopec Shanghai Petrochemical Co. Ltd. bbb ▶ bb 0.32% ▶ 1.01%
APAC Mature	<b>TSE:6753</b> Sharp Corporation [ccc+] [12.53%]	<b>ASX:LLC</b> Lend Lease Group bb- ▶ a+ 1.69% ▶ 0.03%	<b>TSEC:2301</b> Lite-On Technology Corp. a- ▶ bb 0.11% ▶ 1.31%
	<b>ASX:QAN</b> Qantas Airways Limited [ccc+] [10.17%]	<b>TSE:1878</b> Daito Trust Construction Co. Ltd. bb+ ▶ aa 0.81% ▶ 0.02%	<b>TSE:2730</b> EDION Corp. bb ▶ b 1.31% ▶ 4.97%
	<b>TSEC:3673</b> TPK Holding Co., Ltd. [b-] [9.60%]	<b>TSE:8088</b> Iwatani Corporation bb ▶ aa- 1.12% ▶ 0.03%	<b>TSEC:2356</b> Inventec Corp. a ▶ bbb 0.07% ▶ 0.23%

## COMPANY PERFORMANCE SPOTLIGHT

Companies over \$5B USD in revenues, changes over two-month period prior to and including October 30, 2013

- The companies with the two highest Probability of Defaults on Oct 30<sup>th</sup> were both in North America—NII Holdings Inc. [28.32%] and J.C. Penny [27.10%]. The fact that J.C. Penny is highlighted comes as no surprise as we have seen executive changes, record CDS spreads and important investors selling stakes over this period. Closely following NII and JCP was Ruchi Soya Industries Limited with a PD of 25.92% from the BRIC region. Several companies with the highest PDs Oct. 30 were also topping the charts two months ago [Aug. 30] including Air Berlin PLC in Western Europe, J.C. Penny and NII Holdings from North America, Ruchi Soya Industries Limited from the BRIC region and Qantas Airways Ltd for APAC Mature. Airlines are a common theme in the highest PD category with multiple regions represented by Air Berlin, Lufthansa and Qantas Airways.
- In terms of highest PD deteriorations over the last two months [Aug. 30 to Oct. 30] Panalpina World Transport Holding was the largest in Western Europe. Negative factors include the recent US antitrust lawsuit for anticompetitive industry practices which has been filed against the company. In North America, all three of the companies experiencing biggest deteriorations are in the healthcare sector [United Health Group, WellPoint and ExpressScripts]; affected by reverberations coming from Washington as the Affordable Healthcare Act debate rages on. Biggest deteriorations in BRIC and APAC Mature respectively are Marfrig Alimentos SA [Food Products] from Brazil and Lite-On Technologies [Computers and Peripherals] from Taiwan. We also see airline related stresses showing up again in the BRIC space with Brazilian airplane manufacturer Embraer dropping the equivalent of three notches to a PD over 1% during this period.
- As shown by biggest improvers, not all is gloomy. Orange not only improved the most in the Western Europe region, but the most out of all the regions with a 9 notch increase from bb- to aa-. This seems to be in part from the announcement back in July that France Telecom will change its name to Orange, providing even more goodwill to the already well-established Orange brand. Even though some airlines featured in the Highest PDs, Southwest Airlines had the best improvement in the North American region. Hindustan Petroleum Corp had the best improvement in BRIC, and Lend Lease Group improved the most in APAC Mature.

**CONTACT US:**      **The Americas** | +1 212 438 7280      **Asia-Pacific** | +852 2533 3588      **Europe, Middle East and Africa** | +44 [0] 20 7176 1233

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