European Consumer & Healthcare Corporates

August 2011

Introduction

Standard & Poor's Ratings Services is pleased to present a new publication on credit trends in the Consumer & Healthcare sectors in Europe. Unlike most Standard & Poor's publications, this one focuses on 30 of the larger, unrated borrowers but uses the same criteria and methodology used by Standard & Poor's to analyse rated companies. As such, we hope to provide a different perspective on credit trends for the benefit of investors and other market participants.

The list of companies is not exhaustive but is ranked by 2010 revenue to give an indication of relative size. The credit comment on each company features an evaluation of its business and financial risk profiles; a summary of key credit strengths and weaknesses; and statistics covering key financial figures and credit ratios drawn from Standard & Poor's Capital IQ database. The publication includes a diagram plotting the unrated companies on a business/ financial risk matrix and includes a sample of rated companies for benchmarking purposes. For readers who would like more information on our approach to assessing both financial and business risk, we have included an article entitled: "Business Risk/Financial Risk Matrix Expanded."

It should be noted that Standard & Poor's has not had any contact with the unrated companies to produce this publication and the information used is in the public domain.

To complete the picture and to provide a broader industry context for the credit comments on the 30 companies, we have included a commentary article on the Consumer Goods sector which both explains our methodology in more detail and provides an outlook for 2011 and beyond.

At Standard & Poor's we look forward to discussing this new publication with market participants as part of a broader dialogue on the future of corporate funding in the European markets.

Chris Dinwoodie
Managing Director & Head of Corporate Ratings
Standard & Poor's Ratings Services
Europe, Middle East & Africa

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Consumer Goods Products—S&P Methodology and 2011 Outlook*

Our ratings methodology for evaluating the global branded nondurable consumer products industry risk and key credit factors, as is the case for other aspects of our rating analysis, is based on fundamental analysis. The key credit factors that are in our view the most relevant are listed below. These factors ordinarily affect the rating outcome in a meaningful way, and in many instances are critical to our rating conclusions:

- Market share, including its market position and the ability to sustain or increase share;
- Strength, breadth, and diversity of brands in the product portfolio;
- Degree of competition from private label and/or house-branded products within each product category and country market;
- Product portfolio life cycle, i.e., the balance of well-established products and new product introductions;
- Degree of operating efficiency, including size and economies of scale, which in turn may translate into greater purchasing power with suppliers;
- Extent of geographic diversification; and
- Management's track record of product innovation and brand building, including efficiency and effectiveness of marketing spend.

The following are major industry dynamics in the global branded nondurable consumer products sector:

- Low cyclicality translating into lower volatility of earnings and cash flow;
- Favorable long-term socio-demographic trends, such as gradually rising incomes in the developed markets, and more rapid income and population growth (including growth in the middle class) in many developing and emerging markets;
- Brand equity acting as a barrier to entry;
- Relatively low capital intensity;
- Low technological risks;
- Moderate operating leverage; and
- Limited customer and supplier concentration. However, customer and supplier concentration is more of a risk for smaller, or more narrowly focused consumer products companies.

By contrast, the branded durable consumer products sector exhibits:

- Higher cyclicality;
- Higher capital intensity;
- Higher customer concentration because of the more narrow channels of distribution; and
- More product and/or geographical concentration.

Our evaluation of market position strength in the sector focuses primarily on the following factors (from most to least important):

- Ability to maintain or increase its market share and to grow revenues profitably;
- Strength of brands, measured through brand loyalty in the face of price changes and economic cycles;
- Degree of competition from private-label (nonbranded) products;
- Product portfolio characteristics in terms of consumer demand trends, organic growth potential and strategy;
- Competitor activity and basis of competition (pricing, quality differentiation or combined product and service offering);
- Negotiating power vis-à-vis large retailers in developed markets; and
- Reach and degree of penetration of distribution network.

In analyzing a branded nondurable consumer products company's diversification, we usually consider the following factors (from most to least important) as part of our ratings process:

- Number and size of brands and brand extensions;
- Diversity of product offerings;
- Geographic diversification (e.g., global without regional concentration; global/regionally concentrated; national; regional; or local);
- Diversity of manufacturing, as well as sourcing; and
- Degree of diversification of customer and distribution channels; usually, the more concentrated the retail distribution, the lower the pricing flexibility.

Having evaluated a branded consumer products company's business risk, we next look at several financial categories. The company's business risk profile generally determines the financial risk we expect to see for any rating category. We assess financial risk largely through quantitative means, particularly by using financial ratios.

Consumer Goods Products—S&P Methodology and 2011 Outlook

Rating Outlook for 2011

Although we anticipate a tough operating environment for 2011, we believe that the European consumer goods companies that we rate will benefit from recent stable operating performances. Major investment-grade rated companies in the sector, meanwhile, should also gain from highly flexible discretionary spending. The credit quality of private label goods producers in particular will depend somewhat on retailers' realignment of products and pricing to meet soft consumer demand, and on producers' ability to resist this. For branded products, on the other hand, this will mean more clearly differentiated quality products. We note, however, that the expected low in consumer sentiment may have already been reached, and similarly, that commodity prices have been consistently high over the past five years. As a result, we believe that many companies have already adapted their operations to weather a challenging next 12 months.

Marginal price increases are central in the operating strategies of most fast moving consumer goods (FMCG) companies for 2011. We believe that in 2011, most of the well-established consumer brand owners should be able to achieve a positive year-on-year value comparison (the contribution to revenue growth that comes from pricing and product mix, as opposed to from volume dynamics). This view is based on our understanding that business development and marketing expenditure remained steady for FMCG companies in 2010. Some smaller companies even increased spending after temporary cuts in 2008-2009. Also, in 2010, "A brand" owners maintained product differentiation based on innovative product extensions and new launches.

On the consumer side, we believe that, despite the sluggish macroeconomic outlook for developed markets in 2011, consumers have largely already adjusted to the weak economic environment and sticky prices. We understand, however, that consumers in most developed EMEA markets have not reduced their quality expectations, which benefits A brand manufacturers. At the same time, consumer goods manufacturers have adapted their product design and distribution channels to fit with the trend toward more local shopping and improved value for money. Investment in production and distribution in emerging markets is still expanding, presenting opportunities for FMCG companies to benefit from selling more of their premium-priced products in these markets.

We believe that a continuing rise in global commodity prices is likely to have only a moderate negative effect on the gross margins and credit quality of consumer goods companies in 2011. In the near term, oil prices consistently exceeding $100 per barrel will likely have a significant effect on margins, given inflationary expectations in developed markets (especially in Europe). In these circumstances, it is conceivable that European interest rates will continue to rise over the next 12 months, despite the fragile economic outlook and seemingly sufficient slack across the national economies, which should help contain wage inflation. Although consumer spending is likely to be constrained by higher interest rates coming at the peak of unemployment (which is widely forecast for 2011 in Europe), we believe that continuing inflation in excess of 3% is a greater mid-term threat to the profitability of consumer goods manufacturers. This is because of the mature and highly competitive nature of European markets, which might cause a more permanent shift toward lower-margin private label goods and generally lower consumption volumes in many categories of branded consumer goods. From an input cost perspective, higher oil prices continue to push up the costs of plastics and packaging, affecting up to one-fifth of the cost base of diversified FMCG producers. We believe that in 2011, however, commodity price increases are unlikely to have an effect in excess of 100 basis points on the margins of companies in our rated portfolio.

This view is backed up by the experience of the past five years, which saw all-time high prices achieved by most globally traded commodities. The European consumer goods industry has responded with a continuous effort to reduce and modify packaging, as well as to gain operating cost efficiencies to cushion shocks to gross margins from the raw materials side. It is also significant that European consumer goods companies generally spend less than one-third of EBITDA on capital expenditures and have been pushed by the volatile credit markets to improve working capital usage in the past two years. These factors bring additional support to credit quality, in our view, helping consumer goods companies to improve translation of their profits into cash.

Related Research

Criteria | Corporates | Industrials: Key Credit Factors: Criteria For Rating The Global Branded Nondurable Consumer Products Industry; 28 April 2011

Industry Report Card: Creditworthiness Of EMEA Consumer Goods Companies Will Run Up Against Difficult Operating Environment As Upturn Ends; 13 April 2011.

**Abridged from Standard & Poor's publications.*

30 Consumer & Healthcare Corporates' Sales Rankings

Rank	Company	Country	2010 Revenue*	2009 Revenue*	Business Risk	Financial Risk
1	Heineken N.V.	Netherlands	16,133	14,701	Strong	Intermediate
2	Adidas AG	Germany	11,990	10,381	Satisfactory	Intermediate
3	Associated British Foods plc	United Kingdom	11,805	10,361	Strong	Modest
4	Carlsberg Breweries A/S	Denmark	8,059	7,981	Strong	Intermediate
5	Beiersdorf AG	Germany	6,194	5,748	Strong	Minimal
6	Bongrain SA	France	3,570	3,279	Fair	Aggressive
7	Smith & Nephew plc	United Kingdom	2,964	2,619	Satisfactory	Modest
8	Rhoen Klinikum AG	Germany	2,704	2,463	Weak	Significant
9	CFAO SA	France	2,676	2,582	Fair	Significant
10	Getinge AB	Sweden	2,472	2,222	Satisfactory	Intermediate
11	Unibel SA	France	2,417	2,221	Fair	Intermediate
12	Dragerwerk AG	Germany	2,177	1,911	Fair	Intermediate
13	Benetton Group S.p.A.	Italy	2,053	2,049	Fair	Intermediate
14	Dairy Crest Group PLC	United Kingdom	1,893	1,845	Fair	Significant
15	Hugo Boss Group AG	Germany	1,729	1,562	Satisfactory	Intermediate
16	Paul Hartmann AG	Germany	1,633	1,564	Fair	Intermediate
17	De'Longhi S.p.A.	Italy	1,612	1,391	Fair	Intermediate
18	Burberry Group plc	United Kingdom	1,603	1,433	Fair	Modest
19	Bonduelle SCA	France	1,560	1,524	Fair	Aggressive
20	Britvic plc	United Kingdom	1,322	1,096	Fair	Aggressive
21	Coloplast A/S	Denmark	1,280	1,185	Satisfactory	Intermediate
22	Marr S.p.A.	Italy	1,174	1,137	Weak	Significant
23	Davide Campari-Milano S.p.A.	Italy	1,163	1,008	Satisfactory	Significant
24	William Demant Holding A/S	Denmark	925	766	Fair	Intermediate
25	Grupa Zywiec SA	Poland	918	907	Satisfactory	Intermediate
26	Sartorius AG	Germany	659	602	Fair	Intermediate
27	Fiberweb plc	United Kingdom	537	508	Weak	Significant
28	VK Muehlen AG	Germany	530	606	Weak	Highly Leveraged
29	Vranken-Pommery Monopole SA	France	364	270	Weak	Highly Leveraged
30	Tom Tailor Holding AG	Germany	352	304	Weak	Aggressive

Euro equivalent at year end 2009 and 2010.

Financial Risk Profile

Business Risk Profile	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	A					
Strong	5	3	1, B, G, 4			
Satisfactory		7, C	21, 15, 2, 10, 25	F, 23		
Fair		18	11, 12, 13, 24, 16, 17, 26	9, 14	6, 20, D, 19	
Weak				8, 27, 22	30	E, 28, 29
Vulnerable						

1. Heineken NV
2. Adidas AG
3. Associated British Foods plc
4. Carlsberg Breweries A/S
5. Beiersdorf AG
6. Bongrain SA
7. Smith & Nephew plc
8. Rhoen Klinikum
9. CFAO SA
10. Getinge AB
11. Unibel SA
12. Dragerwerk AG
13. Benetton Group SpA
14. Dairy Crest Group plc
15. Hugo Boss Group AG
16. Paul Hartmann AG
17. De'Longhi SpA
18. Burberry Group plc
19. Bonduelle SCA
20. Britvic plc
21. Coloplast Group
22. Marr SpA
23. Davide Campari-Milano SpA
24. William Demant Holding
25. Grupa Zywiec SA
26. Sartorius AG
27. Fiberweb plc
28. VK Muehlen AG
29. Vranken-Pommery Monopole
30. Tom Tailor Holding AG

A. Nestlé SA
B. SABMiller PLC
C. Electrolux AB
D. Rémy Cointreau SA
E. Fage Dairy Industry SA
F. Fresenius SE
G. Merck KGaA

NB. Seven rated companies have been included (A to G) to provide benchmarks for the unrated companies in the chart (1 to 30).

Heineken N.V.

Business Activity

Business risk profile: Strong.
Financial risk profile: Intermediate.

Revenue mix: Product: Beer 100%.

Geographic revenue mix: Western Europe 47%, Americas 21%, Central and Eastern Europe 19%, Africa and the Middle East 12%, Asia Pacific 1%.

Key shareholders: L'Arche Green N.V. 25.3%, FEMSA 16.7%, Public 58%.

Credit Analysis

The credit profile of Heineken N.V. reflects the following strengths:

- *Strong market position:* Heineken N.V. is the third largest brewer globally in terms of volume (behind Anheuser-Busch InBev and SABMiller) and the second largest brewer in terms of revenues. The group has a presence in over 175 countries. Its market position is supported by strong international brands such as 'Heineken', which is No. 1 in Europe with 20% market share in the international premium segment (IPS), and 'Amstel', which is No. 3 in Europe with a 3% market share in the IPS. In addition, the group has more than 200 local premium beer brands. Heineken is one of the two largest brewers in all its main markets, which allows for strong distribution platforms and economies of scale in brewing, brand advertising, and distribution.
- *Geographic and product diversity:* Following the acquisition of FEMSA's beer business in Latin America in 2010, geographic diversity has improved. In 2010, Western Europe contributed 47% of total revenues, followed by 21% from the Americas and 19% from Central and Eastern Europe. In terms of product mix, the 'Heineken' brand generated 13% of total beer volume sold in 2010. Volumes from the sale of Amstel generated 2% with the rest coming from the other 200 beer brands. The group also owns numerous wholesalers in Europe, which, in addition to beer, supply a supporting range of spirits.
- *Heineken's balanced exposure to mature and emerging markets:* In terms of the global beer market, we estimate the group has about a 12% share, with 32% of its sales stemming from mature markets. In our view, mature beer markets still have the potential for revenue growth due to a higher share of premium-priced products relative to that of the emerging markets. Within the premium segment, the IPS is expected to expand over 6% annually. In addition, emerging markets could continue to deliver growth in terms of volume and price per hectoliter, which could pave the way for a sustained and profitable expansion for the leading beer brands in those regions.
- *Strong cash flow generation and adequate liquidity position:* Cash conversion has been good in light of significant cost-saving initiatives undertaken over the past two years, synergies from the FEMSA acquisition, and tight controls on capital spending. In 2010, the group generated FOCF of about €2bn and it expects this to continue in fiscal 2011. However, part of this cash flow is to be used to purchase its own shares in the market to pay for the recent acquisition of FEMSA. Heineken's unadjusted total debt was €9.1bn, or about 2.9x EBITDA, as of Dec. 31, 2010; EBITDA coverage of interest was 5.4x and its FFO/total debt ratio was 24%. The group's liquidity position is adequate and there are no significant debt maturities until 2013.
- *Successfully integrated acquisitions:* The group has a good track record in terms of integration of acquisitions and building profitability through improvements in the pricing and sales mix.

These factors are partly offset by the following weaknesses:

- *Brewing is a mature and competitive industry:* Heineken's ability to maintain stable sales volumes and product mix world-wide remains central to continuing a profitable level of growth. Over the longer term, we think the group will continue to rely on product innovation and marketing to retain a competitive edge.
- *Lower profitability:* Although improved over the past three years, the group's profitability at 19.6% remains well below that of its best-performing peers. With volatile agricultural commodity costs, combined with negative currency effects and weak consumer sentiment in certain of its main markets, we expect profitability to be pressured over the short term.
- *Volatile commodity costs:* The group is exposed to volatile commodity prices, especially barley, which tends to track pricing in the broader wheat and cereal markets. It is also exposed to aluminum and oil prices that affect the cost of packaging and distribution. The group partly offsets these risks through operating efficiency initiatives and supply chain risk management globally. Raw materials (commodities) account for about one-third of the group's cost structure.

Heineken N.V.: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	16,133	14,701	14,319
Net income	1,436	1,018	209
EBITDA	3,159	2,672	2,572
Funds from operations (FFO)	2,203	2,159	1,707
CFO	2,657	2,379	1,660
Capex	648	678	1,102
FOCF	2,009	1,701	558
Total debt	9,072	8,702	10,053
Shareholders' equity	10,228	5,351	4,471
Cash and liquid financial assets	627	535	712
Total assets	26,549	20,180	20,587
Operating margin bef D&A (%)	19.6	18.2	18.0
EBITDA interest coverage (x)	5.4	4.2	5.5
FFO/total debt (%)	24.3	24.8	17.0
Return on capital (%)	7.6	7.6	9.4
Total debt/total capital (%)	46.3	60.6	67.9
Total debt/EBITDA (x)	2.9	3.3	3.9

Source: S&P Capital IQ.

Adidas AG

Business Activity

Business risk profile: Satisfactory.
Financial risk profile: Intermediate.

Revenue mix: Footwear 45%, Apparel 45%, Hardware 10%.

Geographic revenue mix: Western Europe 29.5%, Central and Eastern Europe 11.6%, North America 23.4%, Greater China 8.3%, Other Asian market 16.5%, Latin America 10.7%.

Key shareholders: Publicly-held company.

Credit Analysis

The credit profile of Adidas AG reflects the following strengths:

- *Strong market position:* Adidas AG is the world's second largest sports apparel and footwear manufacturer (after its American rival Nike, which holds the No. 1 position in most of its markets). The company operates under four brands: Adidas, Reebok, TaylorMade-Adidas, and Rockport. Additionally, the company produces other products such as bags, shirts, watches, eyewear, and other sports and clothing-related goods. The company sells its products via its retail stores, e-commerce, independent distributors, franchisees, and licensees. As of Dec. 31, 2010, the company operated around 2,270 retail stores (1,712 of which belonged to Adidas and 558 to Reebok). These retails stores enable apparel companies to develop better insight into point-of-sale data and to merchandise their brands more effectively.
- *Broad diversity:* Geographic diversification is good with Western Europe representing 29.5% of total 2010 sales, the emerging markets of Europe 11.6%, North America 23.4%, greater China 8.3%, other Asian markets 16.5%, and Latin America 10.7%. Footwear and apparel are Adidas' largest product categories, representing 45% each of the company's 2010 sales; these categories are followed by Hardware at 10%. Channel diversification is also reasonable, in our view, with wholesale contributing 68%, retail 20%, and the rest coming from other businesses.
- *Strong credit metrics and operating cash flow:* Adidas' credit measures remain in line with an intermediate financial risk profile. For the 12 months ended Dec. 31, 2010, EBITDA interest coverage at 10.2x, the ratio of FFO/debt was 49.2%, and unadjusted total debt/ EBITDA was 1.4x. Over the past couple of years, the company has generated good free cash flow on the back of working capital management and a moderation in capital expenditure. We expect FOCF to remain solid, despite an expected increase in working capital needs, as sales recover and companies increase spending on marketing to support brands and boost sales. The company's liquidity position is good with a cash balance of €1.45bn and undrawn credit lines of about €3.9bn. In addition, its debt maturities are well spread out.
- *Growth prospects are sound:* The company expects the global sporting goods industry to expand in 2011. In mature markets, despite high unemployment rates and modest levels of wage growth, consumer spending increases are forecasted to be higher compared with that of the prior year. Private consumption in emerging markets is likely to continue at robust rates, with increases stemming from discretionary spending in particular. While these trends underpin the opportunity for growth in 2011, inflation in footwear and apparel prices as a result of higher input costs may slightly dampen growth.

These factors are partly offset by the following weaknesses:

- *Intense worldwide competition in the athletic footwear and apparel industry:* Adidas operates in a competitive market that is exposed to changing consumer preferences. In the athletic footwear segment, which is more consolidated, the company faces competition from players like Nike, Puma, Asics, and New Balance. In the relatively fragmented apparel segment, competition comes from smaller and more localized companies, such as China-based Li Ning. Customers have high bargaining power and switching costs are low because they can easily opt for rival products. Therefore, the company needs to continuously offer new products and technical innovations.
- *Concentration of production in the Asian region:* Production is highly concentrated in Asia, a region which accounts for about 97% of total group footwear production, 82% of apparel, and 98% of hardware production. China has emerged as the largest sourcing country, representing about 39% of total group footwear production, 36% of apparel, and 67% of hardware production.
- *Operating margins under pressure:* At 9.5%, operating margins remain well below those of global peers, such as Nike, though levels have improved slightly from fiscal 2009. With a higher cost of cotton, labor, and freight expected in 2011 - as well as less favorable hedging/forward purchase arrangements in place for 2011 compared with a year earlier - we expect operating margins to come under pressure. In addition, almost 95% of production is outsourced to Asia (and to China in particular); a region where we expect to see a significant rise in both labor and freight costs.
- *Foreign currency risk:* Adidas faces foreign currency risk, which might affect reported profits and the level of free cash flow that is available to the company. The biggest single driver behind this risk is the mismatch of the currencies required for sourcing the products (U.S. dollars) and the currency of sales (predominantly the Euro). However, to minimize this risk we note the company has entered into various currency hedges.

Adidas AG : Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	11,990	10,381	10,799
Net income	567	245	642
EBITDA	1,140	803	1,273
Funds from operations (FFO)	798	429	683
CFO	894	1,198	497
Capex	227	195	316
FOCF	667	1,003	181
Total debt	1,621	1,782	2,586
Shareholders' equity	4,616	3,771	3,386
Cash and liquid financial assets	1,453	908	428
Total assets	10,618	8,875	9,533
Operating margin bef D&A (%)	9.5	7.7	11.8
EBITDA interest coverage (x)	10.2	5.8	7.2
FFO/total debt (%)	49.2	24.1	26.4
Return on capital (%)	9.4	5.8	11.7
Total debt/total capital (%)	26.0	32.1	43.2
Total debt/EBITDA (x)	1.4	2.2	2.0

Source: S&P Capital IQ.

Associated British Foods plc

Business Activity

Business risk profile: Strong.
Financial risk profile: Modest.

Revenue mix: Product: Grocery 35%, Sugar 18%, Agriculture 10%, Ingredients 11%, Retail 25%.

Geographic revenue mix: U.K. 43.38%, Europe & Africa 24.54%, Americas 11%, Asia Pacific 20.38%.

Key shareholders: Wittington Investments 54.73%, AXA Investment Managers S.A. 4.99%, Capital Research and Management Company 3.27%.

Credit Analysis

The credit profile of Associated British Foods (ABF) reflects the following strengths:

- *Product diversification:* ABF operates in five segments, namely, grocery, sugar, agriculture, ingredients, and retail, which each have a wide range of products. The end markets for these segments are fairly unrelated. This enables the segments to provide a counterbalance to each other; for example, seasonality in segments such as agriculture and sugar is counterbalanced by grocery and retail, which are non-seasonal in nature.
- *Strength of Primark brand in value retail:* In the mind of the consumer, we think Primark has a strong brand image as a value retailer. Primark has consistently expanded within the retail space by more than tripling the segment's revenues to £2.7bn in 2010 from £858m in 2004. ABF continues to leverage off the thriving value-retail sector by developing its retail segment through dedicated capital expenditure. The retail segment registered a healthy return on capital employed of 23.5% in 2010.
- *Consistent revenue and EBITDA growth:* ABF has successfully increased its revenues and EBITDA over the past several years. Since 2005, the company has achieved a CAGR of 12.6% in revenues and 11.5% in EBITDA. 2010 witnessed a 20% year-on-year increase in EBITDA as capital investments made by the company in sugar and retail started delivering returns; in addition, the company realized benefits from the restructuring of its US and UK grocery businesses.
- *Strong cash flow generation:* Historically, ABF's cash flow has been strong with consistent free operating cash flow generation. In 2010, the company generated FOCF of £478m, of which £271m was used to repay debt.
- *Modest financial risk profile:* Consistent improvements in EBITDA have helped ABF maintain strong credit measures. In 2010, the leverage ratio (total debt/EBITDA) declined to 1.0x from 1.4x in 2009, and the coverage ratio (EBITDA/interest exp.) increased to 13.9x from 10.8x. These improvements also reflect a debt repayment of £271m. The company has adequate liquidity, with cash and equivalents of £378m and undrawn borrowing facilities of about £1.1bn. The debt maturities are manageable as the company has successfully replaced its revolving credit facilities, totaling about £1.5bn and maturing in October 2011, with a new £1.15bn facility.

These factors are partly offset by the following weaknesses:

- *Geographic concentration:* ABF operates across 44 countries, although more than 40% of revenues comes from the UK. This concentration makes the company sensitive to the demand dynamics of the region, along with the risks and business cycles associated with the UK economy.
- *Volatile commodity prices:* Volatility in the prices of three primary commodities - cotton, sugar, and wheat - affects the operating performance of the company. Expected increases in cotton prices, together with an increase in VAT, could cause a degree of erosion in Primark's margins in 2011. Though higher sugar prices will help the sugar segment to realize better selling prices, this would only provide a partial setoff against the impact of higher cotton prices.
- *Highly competitive environment:* ABF's grocery segment faces increasing competition from private-label and value brands. Like its peers, ABF's portfolio has to adapt to the increasing polarization of consumer choice (namely branded premium goods and cut-price basic items) by decreasing the price of its less differentiated offerings and improving the features of its value-added products. We note that Primark is experiencing competition from other value-retail brands.
- *High dependence on supply chain:* The company is significantly reliant on the supply chain. It is further exposed to business interruptions from natural disasters or catastrophes, which include floods, droughts, and poor crop harvests, as well as from changes in local legal and regulatory schemes, labor shortages, and disruptions related to environmental and industrial incidents.

Associated British Foods PLC: Key Financials (Year ended Sept. 30)

(GBP million)	Sept. 2010	Sept. 2009	Sept. 2008
Revenue	10,167	9,255	8,235
Net income	546	359	357
EBITDA	1,220	1,015	885
Funds from operations (FFO)	979	787	663
CFO	1,172	833	553
Capex	694	555	505
FOCF	478	278	48
Total debt	1,161	1,391	1,149
Shareholders' equity	5,293	4,748	4,554
Cash and liquid financial assets	378	395	411
Total assets	9,288	9,033	8,151
Operating margin before D&A (%)	12.0	11.0	10.7
EBITDA interest coverage (x)	13.9	10.8	12.0
FFO/total debt (%)	84.3	56.6	57.7
Return on capital (%)	0.1	0.1	0.1
Total debt/total capital (%)	0.2	0.2	0.2
Total debt/EBITDA (x)	1.0	1.4	1.3

Source: S&P Capital IQ.

Carlsberg Breweries A/S

Business Activity

Business risk profile: Strong.
Financial risk profile: Intermediate.

Revenue mix: Product: Beer 85.5%, Soft Drinks 14.5%.

Geographic revenue mix: Northern & Western Europe 43%, Eastern Europe 41%, Asia 16%.

Key shareholders: Carlsberg Foundation 30%, free float 70%.

Credit Analysis

The credit profile of Carlsberg Breweries A/S reflects the following strengths:

- *Strong market position:* Carlsberg is the fourth largest brewer globally in terms of volume and is present in more than 150 markets. It produces and distributes a wide range of beer brands, including the leading Carlsberg and Tuborg beers, as well as regional brands such as Baltika, Kronenbourg, and Holsten, soft drinks, and bottled water. The group's brand portfolio is strong, with Baltika, Carlsberg, and Tuborg among the six biggest brands in Europe, and Baltika is ranked number one in the Russian market. The group holds leading positions in the beer markets of the Nordic region, France, and Russia; through Baltika Breweries, Carlsberg has a 39.7% market share in Russia, well ahead of Anheuser-Busch InBev (16.2%) and Heineken (11.6%).
- *Geographic and product diversification:* Carlsberg's geographic diversification is reasonable with Northern and Western Europe contributing 43% of 2010 revenues and 46% of operating profit. At the same time, Eastern Europe contributed about 41% of revenues and 45% of operating profit. The fastest growing market, Asia, contributed 16% of 2010 revenues and 9% of operating profit. However, when compared with its global rated peers, this geographic diversification is somewhat tempered by comparatively high revenue concentration in a single market, namely Russia, where 24% of total revenues were generated. Carlsberg has licence agreements to produce soft drinks, and in 2010 this sector represented about 14.5% of the group's total sales volumes.
- *Favorable growth prospects:* Global beer markets showed early signs of recovery in 2010, although they have not reached pre-2008 levels. A global average growth rate of 2.8% is forecast for 2011-2015 while global consumption is forecast to reach 2 billion hectoliters by 2013. Asia is likely to expand faster than the rest of the world and is expected to account for nearly 40% of all global beer consumption by 2015, which is more than Europe and North America combined.
- *Strong cash flow generation:* Since the acquisition of S&N in 2008, Carlsberg has successfully reduced its debt on the back of solid cash flow generation, a moderation in capital expenditure, and improved working capital management. This has been achieved despite challenging trading conditions in the European beer sector and a 200% increase in excise duties for beer in Russia, its largest market. Overall, this has resulted in improved credit metrics. Furthermore, the liquidity position is deemed to be adequate with cash balances of DKK2.7bn and undrawn credit lines of about DKK13.6bn. Set against this, the group's debt maturities are reasonably spread out and manageable.

These factors are partly offset by the following weaknesses:

- *Mature and competitive industry:* The nature of brewing means that the group's ability to maintain stable sales volumes and product mix world-wide is central to maintaining profitable growth. Over the longer term, however, the group will likely continue to rely on continuous investment in product innovation and marketing to retain a competitive edge.
- *Volatile commodity costs:* The group is exposed to volatile commodity prices, especially barley, which tends to follow trends in the broader wheat and cereal markets. It is also exposed to aluminum and oil prices that affect the cost of packaging and distribution. The group partly mitigates these risks through operating efficiency initiatives and supply chain risk management globally. Raw materials (commodities) account for about one-third of the group's cost structure.
- *Above-average country risks:* These exist in some of Carlsberg's regions of operations. The group relies to a material extent on Russia, a market that has experienced severe volatility in 2007-2010 as a result of macroeconomic and regulatory factors. In addition, a concentration of cash flow generation from Russia creates a currency mismatch because group debt is mostly in euros and sterling. However, these risks are offset by the group's strong market position in Russia (39.7%), the resulting pricing power, and a track record of effectively managing the shocks of 2009 and 2010. Moreover, the group fully passed through the 200% excise duty increase that was introduced in January 2010, which points to better prospects for 2011.
- *Lower profitability:* At 21.6%, Carlsberg's operating margins remain well below those of its global rated peers like Anheuser-Busch InBev. Nevertheless, its margins have been catching up over the past three to four years. The lower margin reflects the group's weaker market positions, as well as the competitive conditions across its Western European markets.

Carlsberg Breweries A/S: Key Financials (Year ended Dec. 31)

(DKK million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	60,054	59,382	59,944
Net income	5,351	3,602	2,621
EBITDA	12,967	12,252	10,664
Funds from operations (FFO)	10,304	9,956	6,256
CFO	11,020	13,631	7,812
Capex	3,326	2,767	5,292
FOCF	7,694	10,864	2,520
Total debt	36,546	39,397	48,521
Shareholders' equity	64,248	54,829	54,750
Cash and liquid financial assets	2,769	2,751	2,864
Total assets	144,232	134,515	142,639
Operating margin bef D&A (%)	21.6	20.6	17.8
EBITDA interest coverage (x)	6.0	5.2	4.0
FFO/total debt (%)	28.2	25.3	12.9
Return on capital (%)	5.5	5.1	5.8
Total debt/total capital (%)	34.4	39.8	44.8
Total debt/EBITDA (x)	2.8	3.2	4.5

Source: S&P Capital IQ.

Beiersdorf AG

Business Activity

Business risk profile: Strong.
Financial risk profile: Minimal.

Revenue mix: Skincare 86%, Consumer and Industrial adhesives 14%.

Geographic revenue mix: Europe 62%, Americas 17%, Africa/Asia/Australia 21%.

Key shareholders: Maxingvest AG 50.47%, Beiersdorf AG 9.99%.

Credit Analysis

The credit profile of Beiersdorf AG reflects the following strengths:

- *Strong market position:* With annual revenues of about €6.2bn, Beiersdorf is a leading player in the European and North American global skincare market. The company's brand portfolio caters to a variety of sub-segments in the skin and personal care market; its divisions include Body & Hand, Face Care, Lip Care, Sun Protection, Deodorant, Shower, Bath, Baby, Hair Care, Hair Styling, and Make-up. While the company's Nivea brand - which is the largest skincare brand in the world - caters to the mass market, its Eucerin and La Prairie brands cater to dermo-cosmetics and the premium anti-aging skincare market, respectively. Management estimates that the Nivea product line holds nearly 150 leading positions across various geographies and product markets. Its market position is further strengthened by strong brand loyalty in the body care, hand care, and face care end markets because customers are reluctant to switch brands. In addition, the company has an adhesives business (Tesa) that contributes about 14% of total revenues and provides adhesive solutions to a variety of consumer and industrial markets.
- *Broad level of diversity:* Beiersdorf enjoys good geographic diversity with about 38% of revenues coming from outside Europe. Within Europe, about 28% of revenues are derived from Western Europe - Germany contributes about 15% - with the balance originating from Eastern Europe. The company benefits from strong product diversity thanks to a presence in all major skin and personal care categories; in addition, its brand names continue to enjoy leading positions. We note that Tesa further diversifies the company's revenue streams.
- *Growth over the medium term:* Over the long term, the company plans to focus on its skincare business while gradually deemphasizing the Make-up and Haircare & Styling product categories. By 2015, management estimates that the skincare business will account for 45% of the expected growth across its markets. The skin and personal care businesses are expected to remain flat in 2011, however; the adhesives business is expected to outgrow the overall market. Geographically, the company intends to focus on China, Russia, Brazil, and the U.S.
- *Minimal debt results in strong credit measures:* Credit measures are currently in line with a minimal financial risk profile. Reported debt levels have averaged about €83m during the past three years and the company has modest amounts of other debt-like obligations, such as unfunded pension and post-retirement obligations, as well as operating leases. For the 12 months ended Dec. 31, 2010, EBITDA interest coverage was about 60x, the ratio of FFO/unadjusted debt was 773% and unadjusted total debt/EBITDA was 0.1x. Capital expenditures, free operating cash flow, and dividends have averaged about €127m, €424m, and €174m, respectively, over the past three years. A potential dip in free operating cash flow in 2011 could materialize because the company is expected to spend almost €270m to further strengthen the Nivea brand; however this spend is expected to boost stagnating revenues, especially in the European market.
- *Strong liquidity:* As of Dec. 31, 2010, the company had €973m in cash and cash equivalents. Investments in government bonds, commercial paper, and near money-market retail funds totaled €1,132m. Debt maturities are minimal and we do not expect working capital changes to have a meaningful impact on liquidity in the future.

These factors are partly offset by the following weaknesses:

- *Intense worldwide competition in the consumer and skincare industry:* Despite owning strong brand names, the personal and skincare market is extremely competitive with several strong, niche players operating under a variety of product categories. While the Nivea brand enjoys leading market positions in a number of geographies, it is a mass-market brand with limited price flexibility. The company's revenues, especially in the skincare segment, have stagnated over the past two years as a result of intense competition in areas such as face and body care. We note that the company's largest geographical market, Europe, reported negative growth over a two-year period; however the overall performance was boosted by a strong performance in the North and Latin American markets.
- *Operating margins under pressure:* At 13%, operating margins are below that of other skin and personal care manufacturers, such as Estee Lauder Cos Inc., Avon Products Inc., and Revlon Consumer Products Corp. We expect to see a further squeeze on operating margins as a result of raw material cost pressures.

Beiersdorf AG: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	6,194	5,748	5,971
Net income	318	374	562
EBITDA	791	785	823
Funds from operations (FFO)	518	507	520
CFO	620	566	468
Capex	96	125	161
FOCF	524	441	307
Total debt	67	75	109
Shareholders' equity	2,907	2,626	2,450
Cash and liquid financial assets	2,177	1,813	1,638
Total assets	5,095	4,594	4,468
Operating margin bef D&A (%)	12.8	13.7	13.8
EBITDA interest coverage (x)	60.8	52.3	58.8
FFO/total debt (%)	773.1	676.0	477.1
Return on capital (%)	14.2	15.4	18.8
Total debt/total capital (%)	2.2	2.8	4.2
Total debt/EBITDA (x)	0.1	0.1	0.1

Source: S&P Capital IQ.

Bongrain SA

Business Activity

Business risk profile: Fair.
Financial risk profile: Aggressive

Revenue mix: Cheese products (70%), Other dairy products (30%).

Geographic revenue mix: France (33.6%), Western Europe (35.3%), Central and Eastern Europe (8.3%), Other countries (22.8%).

Key shareholders: Soparind SCA (60.6%), Other shareholders (30.7%), Treasury shares (7.3%), Employees (1.4%).

Credit Analysis

The credit profile of Bongrain reflects the following strengths:

- *Leading position with good geographic diversification:* Bongrain is the second largest cheese group in France and occupies sixth position on a global basis. It is also the leader in Germany for branded cheeses. The company's portfolio covers all families and formats of cheese and dairy products. Some pf the company's products also benefit from superior brand recognition. It is also geographically diversified with presence in 31 countries and its products are sold in 120 countries.
- *Scale of operations and core products help mitigate bargaining power of retailers:* Bongrain is one of the leading producers and sellers of cheese products worldwide. The company's large size and well-known products are favorable factors in its negotiating power with food retailers.
- *Strong cash flow generation and adequate liquidity:* Cash flow generation has been strong and in excess of ongoing needs. Liquidity is adequate with €522 million of cash and free operating cash flow of €71 million. These are adequate to meet its current debt obligation of €381 million.

These factors are partly offset by the following weaknesses

- *Exposure to commodity price swings:* The company is exposed to risks related to increases in the price of milk and its derivatives. In 2010 the price of milk increased by more than 9% in Western Europe and more than 25% in other markets. Also the price of other raw materials and supplies such as energy and packaging increased about 30%. The company expects that trend of increasing milk prices will continue in 2011 which may put pressure on its profitability.
- *Highly competitive market:* The cheese processing industry is highly competitive with low barriers to entry. The market is highly fragmented with large international players (such as Kraft Foods), European milk processors (Lactalis and Hochland) and many local producers. This intense level of competition could negatively affect the company's market shares and pricing power.
- *Significant pricing pressure from food retailers:* The industry is traditionally characterized by the strong negotiating power from food retailers, which could pressure sales volumes and margins. The high degree of customer concentration is partly offset in the case of Bongrain due to its relatively large size and well-known brand portfolio.
- *Aggressive financial risk profile:* As of December 31, 2010 leverage was 3.4x, an improvement from a peak of 4.9x as of December 31, 2008. Leverage has primarily improved due to strong operating performance in the past three years despite an increase in debt levels.

Bongrain SA: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008	Dec. 2007
Revenue	3,570	3,279	3,555	3,419
Net income	81	44	38	162
EBITDA	245	215	183	244
Funds from operations (FFO)	178	201	120	205
CFO	173	259	139	129
Capex	102	112	106	114
FOCF	71	147	33	15
Total debt	839	758	889	804
Shareholders' equity	1,108	1,023	987	997
Cash and liquid financial assets	522	498	514	457
Total assets	2,902	2,701	2,851	2,768
Operating margin (%)	6.9	6.6	5.1	7.1
EBITDA interest coverage (x)	13.5	10.4	3.9	4.9
FFO/total debt (%)	21.2	26.6	13.5	25.5
Return on permanent capital (%)	4.6	3.8	2.8	4.8
Total debt/total capital (%)	41.9	40.9	44.9	42.2
Total debt/EBITDA (x)	3.4	3.5	4.9	3.3

Source: S&P Capital IQ.

Smith & Nephew plc

Business Activity

Business risk profile: Satisfactory.
Financial risk profile: Modest.

Revenue mix: Orthopaedics 55%, Advanced Wound Management 23%, Endoscopy 22%.

Geographic revenue mix: The U.S. 43%, Europe 33%, Africa, Asia, Australia and Other Americas 24%.

Key shareholders: Capital Group of Companies Inc 5.1%, Newton Investment Management Limited 5.0%, Legal and General Group plc 5.0%.

Credit Analysis

The credit profile of Smith & Nephew reflects the following strengths:

➤ *Leading market positions:* Smith & Nephew is organized into three primary segments: Orthopaedics, Endoscopy, and Advanced Wound Management. Orthopaedic products include Knee Implant Systems, Hip Implant Systems, Bearing Surfaces, Trauma Implant Systems, and Clinical Therapies. The market size of this segment is about US$17bn globally, and the company is the fourth largest with an 11% market share. The endoscopy division focuses on the arthroscopy or sports medicine sector; with a market size of over US$3bn, the company is the leader with a 22% market share. Advanced Wound Management business products are targeted at chronic wounds associated with the elderly, for example pressure sores and venous leg ulcers. The global market size of this segment is US$5.2bn and the company is the second largest with an 18% market share.

➤ *Geographically diversified operations:* The company has operations in 32 countries with distribution channels in over 90 countries. It has a worldwide footprint with 43% of revenues generated in the U.S., 33% in Europe, and the balance coming from Africa, Asia, Australia, and other parts of the Americas.

➤ *Improving profitability:* The EBITDA margin for fiscal 2010 was 30%, demonstrating a consistent improvement on the 26% for fiscal 2008. This is primarily on the back of cost management and overall process improvement.

➤ *Modest financial risk profile:* Leverage declined to 0.6x as of Dec. 31, 2010, down from a peak of 1.6x as of Dec. 31, 2007. This is mainly owing to the pay down of US$2.7bn of debt over the past three years and has been supported by improved EBITDA generation. Similarly, free cash flow generation has consistently improved and reached more than US$500m in 2010. However, it is lower compared with that of Zimmer (US$922m) and Stryker (US$1.4bn). The company's leading market position should support stable cash flow generation over the next two to three years. We note the company pays regular dividends, which amounted to US$132m in 2010.

➤ *Adequate liquidity:* The company has US$207m in cash and bank balances, as well as a US$1 billion multi-currency revolving credit facility. The liquidity sources are sufficient to meet its debt maturity obligations over the next two to three years; in addition, they should meet the contributions to its defined benefit plans.

These factors are partly offset by the following weaknesses:

➤ *Concentration in orthopaedics:* A significant portion of revenues comes from the orthopaedics segment, which exposes the company to potential changes in medical protocols, technology obsolescence, pricing pressures, and lessening near-term demand volumes because of a still weak global economy.

➤ *Highly competitive and regulated Industry:* Each market in which the company operates is highly competitive. The orthopaedics market includes global companies such as Zimmer, Stryker, and DePuy/Johnson & Johnson. The international medical device industry is highly regulated: national regulatory authorities administer and enforce a complex series of laws and regulations that govern the design, development, approval, manufacture, labeling, marketing, and sales of healthcare products. This is particularly true in the U.S. and Europe.

➤ *Reimbursement risks and pricing pressure:* The payment for medical devices is governed by reimbursement tariff agencies in various countries. We believe increasing efforts from governments and insurance payors to reduce costs in the healthcare system could lead to pricing pressure.

➤ *New product development:* The medical devices industry has a rapid rate of new product introduction. The company will need to introduce new products in response to the multi-faceted evolution of customer needs, technologies, and industry standards.

Smith Nephew PLC: Key Financials (Year ended Dec. 31)

(USD million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	3,962	3,772	3,801
Net income	615	472	377
EBITDA	1,180	1,063	998
Funds from operations (FFO)	967	727	706
CFO	859	719	566
Capex	315	318	292
FOCF	544	401	274
Total debt	699	1,141	1,487
Shareholders' equity	2,773	2,179	1,699
Cash and liquid financial assets	207	192	145
Total assets	4,733	4,565	4,508
Operating margin bef D&A (%)	29.8	28.2	26.3
EBITDA interest coverage (x)	65.6	25.3	14.1
FFO/total debt (%)	138.3	63.7	47.5
Return on capital (%)	17.0	15.6	14.3
Total debt/total capital (%)	20.1	34.4	46.7
Total debt/EBITDA (x)	0.6	1.1	1.5

Source S&P Capital IQ.

Rhoen Klinikum AG

Business Activity

Business risk profile: Weak.
Financial risk profile: Significant.

Revenue mix: Hospitals 97%, Rehabilitation Hospitals 2%, Medical Care Centers 1%.

Geographic revenue mix: Germany 100%.

Key shareholders: Institutional investors, rest of Europe 30.9%, Free float 25.8%, Institutional investors, North America/Asia 20.4%.

Credit Analysis

The credit profile of Rhoen Klinikum reflects the following strengths:

- *Leading position in Germany:* Rhoen Klinikum is one of the leading providers of acute-care hospital services in Germany with a market share of nearly 4% (based on capacity). In 2010, the company operated 53 hospitals and 33 medical care centers at 43 sites in ten federal states. At certain sites, and for selected medical disciplines, the company also offered rehabilitation services. The portfolio comprises acute in-patient facilities, rehabilitation facilities and day-care treatment.
- *Increasing revenue and stable EBITDA margins:* Revenue growth over the past two years has been strong. Revenues increased by 10% and 9% year on year in 2010 and 2009, respectively. We note the company's EBITDA margins have been stable at slightly more than 11% over the past three years.
- *Adequate liquidity:* As of Dec. 31, 2010, the company had €416 million of cash and cash equivalents and also had available credit lines of roughly €400 million. These liquidity sources are adequate to meet its near-term debt maturities.

These factors are partly offset by the following weaknesses:

- *Highly-regulated industry:* In Germany, the amount of remuneration for - as well as the actual procedure of negotiating with - the payers of the system is regulated by law. Consequently, the state and policymakers in Germany play a major role in the domestic healthcare market. Furthermore, we note that both the inpatient and outpatient sectors are subject to stringent planning and licensing rules.
- *Higher personnel cost ratio:* Hospitals normally have personnel cost ratios of 50%-70%, resulting in dependence on wage developments. In Germany, remuneration structures are formed by the trade unions. Moreover, there remains a material risk that the economy and wages will not necessarily develop in line with revenues generated by the healthcare system.
- *Significant financial risk profile:* As of Dec. 31, 2009, leverage (debt/EBITDA) was 3.3x, up from 3.1x a year earlier. This rise was due to a €284 million increase of debt in 2009 and 2010 combined. The FFO/debt ratio for year-ended Dec. 31, 2010, was 26%, which represented a slight decline from the 28% posted in 2008. Free cash flow generation over the past three years has been negative because of increasing capital expenditure requirements.
- *Technological changes:* For a hospital to remain attractive and fully operational, it has to keep pace with advances in technology, namely in the area of diagnosis, treatment, and nursing. Consequently, the company has to continually invest in and develop new technologies.

Rhoen Klinikum AG: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	2,704	2,463	2,261
Net income	140	126	117
EBITDA	304	283	263
Funds from operations (FFO)	257	231	199
CFO	222	213	187
Capex	324	286	268
FOCF	-102	-73	-81
Total debt	993	870	709
Shareholders' equity	1,459	1,376	846
Cash and liquid financial assets	416	445	87
Total assets	3,058	2,859	2,141
Operating margin bef D&A (%)	11.3	11.5	11.6
EBITDA interest coverage (x)	9.8	10.5	8.1
FFO/total debt (%)	25.9	26.5	28.1
Return on capital (%)	5.1	5.8	7.0
Total debt/total capital (%)	39.9	38.0	44.4
Total debt/EBITDA (x)	3.3	3.1	2.7

Source: S&P Capital IQ.

CFAO SA

Business Activity

Business risk profile: Fair.
Financial risk profile: Significant.

Revenue mix: Automotive 58%, Pharmaceutical 30%, Industrial 8%, Technologies 4%.

Geographic revenue mix: French-speaking Sub-Saharan Africa 42.2%, French Overseas Territories and others 21.3%, Maghreb 19%, English- and Portuguese speaking Sub-Saharan Africa 12.4%, France (export) 5.1%.

Key shareholders: PPR Group 42%, Oppenheimer Funds Inc. 6.52%, Lazard AM LLC 5.53%, Artio GM LLC 5.43%.

Credit Analysis

The credit profile of CFAO reflects the following strengths:

- *Leading market position in key segments:* CFAO's automotive and pharmaceutical segments are the leading importers and distributors in French-speaking Sub-Saharan Africa and French overseas territories. In 2010, its Eurapharma division had a 41.4% market share in Africa and a 52.5% market share in French Overseas Territories. The automotive segment had a 42% market share in French-speaking Sub-Saharan Africa.
- *Product diversification:* CFAO operates in four segments, namely automotive, pharmaceutical, industrials, and technology. The seasonality in segments such as automotive is counterbalanced by pharmaceuticals and industrials, whose demand remains stable. The automotive and pharmaceutical businesses are the company's two main operations, contributing to about 88% of revenues.
- *Consistent revenue growth:* The company has consistently grown its revenue over the past several years. Revenue increased to €2.6bn in 2010 from €678m in 1996, representing an average annual growth rate of 10.3%. It also benefits from stable operating profit margins of about 8%-9%. The Eurapharma division has expanded significantly over the last few years, reaching €809.6m in revenues in 2010 from €639.3m in 2007.
- *Above average credit measures:* CFAO's credit measures are above average for the financial risk profile. In 2010, the ratio of total debt to capital was about 34% and debt to EBITDA was 1.3x. The company has adequate liquidity with cash and cash equivalents of €133.1m and €559m available under a bank overdraft facility, as of full-year 2010. The company's cash flow generation has been good: It has been free cash flow positive over the last four years. Although the company faces debt maturities of €235m over the next 12 months, they primarily consist of bank overdrafts of €219m, which are generally short term and contractually renewed periodically. Given its good financial position, we expect the company to successfully renew or refinance these facilities.
- *Long-term partnerships with major global companies:* CFAO has long-term partnerships with global majors in almost all of its segments for distribution. The automotive segment has long-term tie-ups with Toyota, Nissan, General Motors, Mitsubishi, Peugeot, and Isuzu. Eurapharma has tie-ups with leaders like Novartis, Pfizer, and GSK. Other partners include Heineken, CISCO, IBM and OTIS.

These factors are partly offset by the following weaknesses:

- *Country risk:* CFAO primarily operates in Sub-Saharan Africa and French overseas territories. Countries in these regions may suffer from political or labor unrest, acts of terrorism, infrastructure failure, and so on. Such events could destroy assets or interrupt operations. Moreover, political instability and adverse regulatory trends in these countries may cause a significant decline in CFAO's revenues. Algeria and Morocco - CFAO's prime markets - have geographical proximity with Egypt, Libya, and Tunisia, and may suffer a contagion effect from the region's recent political turmoil.
- *Currency risk:* CFAO purchases products primarily in U.S. dollars, euros and Japanese yen; it sells products in euros, euro-linked currencies, CFA Francs, and other local currencies. About 27% of revenues originate from countries outside the CFA Franc zone and the euro and euro-equivalent zone. Within these zones, it is not possible to hedge the risk that exposes CFAO to the fallout from a potential devaluation of local currency. Also, several of the African countries in which CFAO operates have restrictions on the exchange of local to foreign currencies, as well as on the transfer of funds.
- *Difficult environment for automotive industry:* The recent global financial crisis has severely hampered the auto industry and we expect the business environment to remain difficult over the near term. Recent earthquakes in Japan will further affect the operations of the automotive division because about 40% of the division's purchases are sourced in Japan.
- *Expected rise in competition:* Many manufacturers have shown a renewed interest in Africa and are aiming to expand their footprints on the continent, particularly in the auto segment. Manufacturers' presence in these markets may present challenges to CFAO, whose operations are based entirely on distribution. The company also faces substantial competition from used car-dealers. In the pharma segment, regulatory authorities may stimulate competition by granting licenses to new players and lowering the prices of products. If CFAO fails to respond effectively to this competition, it might lose customers or be forced to lower prices, which would have a knock-on effect for results, in our view.

CFAO SA: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	2,676	2,582	2,875
Net income	100	90	129
EBITDA	266	251	307
Funds from operations (FFO)	274	241	313
CFO	231	203	82
Capex	69	69	80
FOCF	170	139	15
Total debt	334	390	409
Shareholders' equity	493	434	431
Cash and liquid financial assets	134	129	115
Total assets	1,918	1,714	1,900
Operating margin before D&A (%)	9.9	9.7	10.7
EBITDA interest coverage (x)	11.6	11.7	15.3
FFO/total debt (%)	82.0	61.8	76.5
Return on capital (%)	14.0	14.0	19.0
Total debt/total capital (%)	34.0	41.0	42.0
Total debt/EBITDA (x)	1.26	1.55	1.33

Source: S&P Capital IQ.

Getinge AB

Business Activity

Business risk profile: Satisfactory.
Financial risk profile: Intermediate.

Revenue mix: Customer: Hospitals 80%, Elderly Care 13%, Life Science 7%; Divisional: Medical Systems 50%, Extended Care 27%, Infection Control 23%.

Geographic revenue mix: Europe 43%, North America 31%, Emerging markets and rest of the world 26%.

Key shareholders: Carl Bennet AB 18.1%, Swedbank Robur equity funds 5.9%, Alecta 5.8%, others 70.2%.

Credit Analysis

The credit profile of Getinge AB reflects the following strengths:

- *Leading player:* Getinge AB is a leading global medical technology company that holds the No. 1 position in 12 out of 17 product lines and the No. 2 position in a further three product lines. The group is organized in three business areas. Medical Systems, under the Maquet brand, provides equipment and instruments for a variety of surgical disciplines, cardiology, and intensive care. Extended Care, under the ArjoHuntleigh brand, offers products for people with reduced mobility, including medical beds, patient lifters, therapeutic surfaces, and hygiene systems. Infection Control, under the Getinge brand, provides an expansive range of disinfection and sterilization equipment. The group operates through 26 production facilities in 19 countries and has about 12,000 employees in 37 countries.
- *Geographic reach:* Western Europe is the group largest market with 43% of sales, followed by North America (31%), and the emerging markets and the rest of the World (combined 26%). In recent years, the group has made significant investments to increase its presence in major emerging markets - such as Brazil, India, China, Russia - to capture growing market opportunities. Similar investments have been made in North America and Japan, where the group continues to take market share and the potential for growth is substantial, in our view.
- *Improving credit metrics with good operating cash flow:* The group has improved its credit measures thanks to tightly controlled costs, consolidating plants, relocating production, sourcing materials from low-cost countries, and better working capital management. In 2010, unadjusted leverage (total debt/EBITDA) stood at 2.4x, EBITDA interest coverage was 9.2x, and FFO/debt was 31.6%. Operating margins also improved significantly to 23.9%, which is in line with that of its global rated peers. We expect operating margins to remain healthy in the future because of plans to further consolidate (reduce six to eight plants from the current 26) and relocate its production to low-cost countries (from the current level of just under 20% to twice this figure within the next three years). Over the past five years, cash conversion has been good with about 50% of EBITDA being converted to FCF; we expect this trend to continue going forward.
- *Favorable growth trend:* With an increasing elderly population and expanding healthcare coverage for people in the emerging markets, the business segments in which the company operates are expected to grow further.

These factors are partly offset by the following weaknesses:

- *Competitive market:* Getinge operates in a competitive, fragmented, consolidating and non-cyclical market, which consists of a broad range of products and manufacturers. Most of the larger players operate in multiple business segments, and there are many smaller companies focusing on one segment. We note competition is increasing in light of the proliferation of new products and technologies.
- *Product Development:* With the healthcare market currently undergoing consolidation, size - in the form of product range, service, and geographic presence - is becoming increasingly important. As a result, continued investments in the development of products organically or through acquisitions are key to success, in our view. As Getinge competes against large companies with significant resources, it must continue to successfully expand its product lines while defending its current positions in various, competitive markets.
- *Acquisitive growth strategy:* The company's acquisitions have totaled a significant SEK15bn over the past four years, and we understand it plans to make further acquisitions going forward, particularly in the emerging markets. However, this is somewhat offset by the fact that the company has a good track record of successfully integrating acquisitions.
- *Risk related to reimbursement and investment budget of public authorities:* Changes to the healthcare reimbursement system or cuts in the investment budget of public authorities could have a significant impact on company. Since Getinge is active in a large number of geographical markets this risk is slightly offset, however.

Getinge AB: Key Financials (Year ended Dec. 31)

(SEK million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	22,172	22,816	19,272
Net income	2,277	1,911	1,524
EBITDA	5,291	4,608	3,969
Funds from operations (FFO)	3,997	3,532	2,518
CFO	4,124	4,000	1,774
Capex	778	1,156	870
FOCF	3,346	2,844	904
Total debt	12,657	16,052	13,244
Shareholders' equity	13,223	12,538	10,652
Cash and liquid financial assets	1,093	1,389	1,506
Total assets	34,585	37,498	33,032
Operating margin (%)	23.9	20.2	20.6
EBITDA interest coverage (x)	9.2	7.3	5.2
FFO/total debt (%)	31.6	22.0	19.0
Return on capital (%)	8.9	8.0	9.7
Total debt/total capital (%)	48.9	56.1	55.4
Total debt/EBITDA (x)	2.4	3.5	3.3

Source: S&P Capital IQ.

Unibel SA

Business Activity

Business risk profile: Fair.
Financial risk profile: Intermediate.

Revenue mix: Cheese 92%, Non-cheese 8%.

Geographic revenue mix: Western Europe 58%, Eastern Europe 5%, Americas 11%, International 26%.

Key shareholders: Fiévet-Bel family 88.5%, Self control 8.5%, private shareholders 1.7%, Treasury stocks 1.3%.

Credit Analysis

The credit profile of Unibel SA reflects the following strengths:

➤ *High brand recognition with good geographic diversification:* Unibel owns a large portfolio of 30 brand names, some of which benefit from superior brand recognition. The company further benefits from relatively stable market demand in Europe with low exposure to economic downturns. Mature markets are basically price sensitive, which allows for a good level of response from its promotional efforts. We think the main sources of growth for the company will be increased penetration in the Americas and an expansion into emerging countries.

➤ *Scale of operations and core products help mitigate bargaining power of retailers:* Unibel is one of the leading producers and sellers of cheese products worldwide. The company's large size and well-known products are favourable factors in its negotiating power with food retailers. The company also deals with multi-country retailers, which improves its ability to negotiate global contracts that are more favourable than local or national contracts.

➤ *Financial policy focused on low leverage:* Unibel has performed an impressive deleveraging story since the debt-financed acquisition of Boursin in 2008, which cost €400m. In 2008, the company borrowed €670m and since then has paid back €400m. Repayments were mainly financed with cash on hand and generated cash flow. In the meantime, the company maintained a flat working-capital requirement with a low/negative cash conversion cycle and a modest level of capital expenditures (3%-4% of sales). This reflects Unibel's strong ability to manage debt imbalances following a major acquisition. Our adjusted debt figure of €347m takes into account surplus cash of €41m and €33m of after-tax pension obligations. Its debt level is therefore very supportive of credit metrics, with adjusted debt to EBITDA of 1.2x, a ratio of FFO to adjusted debt of over 60%, and a ratio of debt to capital of 26%.

➤ *Strong cash flow generation and adequate liquidity:* Liquidity is considered more than adequate. As of December 2010, the company had a €41m cash balance, and two mainly undrawn syndicated credit lines: a €400m line maturing in July 2012 and a €150m extended to October 2013. We note a €191m private placement will mature in 2014. We are confident that the company can meet these maturities.

These factors are partly offset by the following weaknesses:

➤ *Strong exposure to commodity price swings:* Risks related to increases in the price of milk and its derivatives are, in our view, a serious concern for the company. Global milk production barely increased in recent years, while demand growth has been supported by emerging countries. Empirical evidence shows that margins have materially suffered in recent years - in 2007 in particular - as a result of rising prices for butter, powdered milk and lacto serum. The company expects commodity prices to further increase in 2011, and this will likely weigh on profitability even though the contracts signed with producers reduce the company's exposure to price swings.

➤ *Highly competitive market with large marketing investments:* The cheese market is highly competitive and fragmented with large international players (such as Kraft Foods), European milk processors (such as Lactalis, Bongrain, and Hochland), and many local producers. This intense level of competition could negatively affect the company's market shares and pricing power. As a result, we think this gives the company an incentive to further invest in brand awareness development programs. Marketing and distribution costs account for 15% of sales.

➤ *Significant pricing pressure from food retailers:* The industry is traditionally characterized by the strong negotiating power from food retailers, which could pressure sales volumes and margins. However, the high degree of customer concentration is partly offset in the case of Unibel thanks to its relatively large size and well-known brand portfolio.

Unibel SA: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	2,417	2,221	2,217
Net income	76	55	31
EBITDA	284	269	160
Funds from operations (FFO)	232	236	121
CFO	229	233	195
Capex	64	79	138
FOCF	165	154	57
Total debt	347	453	573
Shareholders' equity	980	892	835
Cash and liquid financial assets	41	30	158
Total assets	2,048	1,980	2,103
Operating margin (%)	7.9	6.6	4.1
EBITDA interest coverage (x)	15.1	10.6	3.6
FFO/total debt (%)	66.8	52.1	21.0
Return on capital (%)	12.8	9.5	5.5
Total debt/total capital (%)	26.2	33.7	40.7
Total debt/EBITDA (x)	1.2	1.7	3.6

Source: S&P Capital IQ.

Dragerwerk AG

Business Activity

Business risk profile: Fair.
Financial risk profile: Intermediate.

Revenue mix: Medical division 66%, Safety division 33%, Others 1%.

Geographic revenue mix: Germany 19.9%, Rest of Europe 38.3%, Americas 20.9%, Asia-Pacific 14.1%, Other 6.7%.

Key shareholders: Drager family 71.46%, and rest free float.

Credit Analysis

The credit profile of Dragerwerk AG reflects the following strengths:

- *Leading player across various markets:* Dragerwerk AG, a leading provider of medical and safety technology solutions worldwide, is organized across two divisions. The Medical division provides medical products for acute point-of-care processes, including emergency care, perioperative care, critical care, perinatal care, and home care. The Safety division provides safety products for personal protection, gas detection, and hazard management. The company holds leading positions in attractive sub and niche markets, including anesthesiology (No. 1 in Europe and No. 2 in the U.S.), respiratory care (No. 1 in Europe and No. 3 in the U.S.), neonatal care (No. 1 in Europe and No. 2 worldwide), alcohol detection (No. 1 worldwide), and integrated breathing protection (No. 2 worldwide).
- *Good geographic reach:* Germany is the company's largest individual market with 20% of sales, followed by the rest of Europe (38.3%). The Americas and Asia-Pacific, both expanding markets, make up 21% and 14% of sales, respectively. The company operates through 14 production facilities (seven in Europe, four in the Americas, two in Asia, and one in Africa) and has about 11,000 employees in 40 countries.
- *Good free cash flow generation and adequate liquidity:* Despite declining profitability in four of the past five years, the company has generated good positive free cash flow of about €100m, on average, for past five years. This was achieved thanks to the company's low capital spending requirement and solid working capital management. Also, the liquidity position is good with a cash balance of €323m and credit lines of about €240m (maturing in 2015). Set against this, debt maturities are spread out and manageable.
- *Significant and stable after-sales business:* A significant portion of total sales originates from the after-sales business. This provides the company with a reliable stream of recurring revenues, which help to enhance sales predictability.
- *High barriers to entry:* The company's technological competency and high quality standards have resulted in leading market positions and high barriers to entry.

These factors are partly offset by the following weaknesses:

- *Competitive market:* Dragerwerk operates in a very competitive and consolidating market, which consists of a broad range of products and manufacturers. Most of the larger players operate in multiple business segments, and there are many smaller companies focusing on one segment. Competition is increasing in light of the proliferation of new products and technologies. New competitors, especially in Asia, have made significant improvements in quality over the past few years and are offering products in the lower-to-middle price group, which is further pressuring the company.
- *Lower operating margins:* In 2010, operating margins improved to 11.3%, owing to significant cost containment measures undertaken in 2009/10, new product launches, a favorable product mix, and increased demand from Asia and the Americas. However, the margin declined from 10.5% in 2006 to 7% in 2009. An EBITDA margin of 11.3% remains well behind those of its global peers.
- *Uncertain outlook for credit measures:* Credit measures have likewise improved with an unadjusted leverage (total debt/ EBITDA) of 1.8x, EBITDA coverage of interest of 7.2x, and an FFO/total debt ratio of 30.8%, as of Dec. 31, 2010. That said, it remains to be seen if the company can sustain this improved performance, given the fact that profitability has declined in four of the past five years.
- *Product liability risk:* Since the company produces medical and safety products - such as ventilators, incubators, breathing equipment, and other emergency-care products - it is exposed to liability claims that could materially affect its operations.
- *New product development:* Dragerwerk's products are vulnerable to technological change and they must compete against large companies with significant resources. Consequently, the company could face pricing pressure and must continue to successfully expand its product lines while defending its positions in already competitive markets. In 2010, the company launched 20 new products (two in the Medical division and 18 in the Safety division). This compares with 27 new launches in 2009 (12 in Medical and 15 in Safety).
- *Dependence on investment budgets of public authorities:* Dragerwerk significantly depends on investment budgets for both divisions because public institutions make up a large portion of their customer base. Customers include public hospitals, fire-fighting services, the military, and disaster management services. There has been public spending cuts across many countries over the past few years (particularly in the U.S. and Europe), and this trend could continue given the current market environment, which in turn could affect the company.

Dragerwerk AG: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	2,177	1,911	1,925
Net income	103	19	35
EBITDA	245	135	162
Funds from operations (FFO)	135	71	129
CFO	219	193	105
Capex	50	43	69
FOCF	170	151	35
Total debt	440	498	412
Shareholders' equity	631	389	375
Cash and liquid financial assets	323	346	128
Total assets	1,977	1,886	1,655
Operating margin bef D&A (%)	11.3	7.0	8.4
EBITDA interest coverage (x)	7.2	5.3	6.5
FFO/total debt (%)	30.8	14.1	31.2
Return on capital (%)	12.3	5.4	6.8
Total debt/total capital (%)	40.9	55.9	42.6
Total debt/EBITDA (x)	1.8	3.7	2.5

Source: S&P Capital IQ.

Benetton Group S.p.A.

Business Activity

Business risk profile: Fair.
Financial risk profile: Intermediate.

Revenue mix: UCB Adult 52%, UCB Kids 30%, Sisley 16%, Playlife 2%.

Geographic revenue mix: Italy 48%, rest of Europe 31%, Asia 16%, Americas 4%, rest of world 1%.

Key shareholders: Edizione S.r.l. 67.08%, Institutional investors and banks 15.98%, others 16.94%.

Credit Analysis

The credit profile of the Benetton Group reflects the following strengths:

- *Leading market position:* Benetton is a leading Italian manufacturer and marketer of fashion apparel in wool, cotton, and woven fabrics. The group caters for men, women, and children, and operates primarily in Europe, Asia, and the Americas. It sells its apparel products under brands that include United Colors of Benetton (UCB), Sisley, Undercolors, Playlife, and Killer Loop. Additionally, the group produces and sells raw materials, such as fabrics, yarns, and labels. Furthermore, it sells semi-finished products and offers industrial services.
- *Geographical diversification:* The group is reasonably diversified and operates a strong network of about 6,300 stores in 120 countries. Italy represents about 48% of the group's total 2010 sales, followed by the rest of Europe (31%) and Asia (16%). There is a degree of channel diversity with the wholesale segment representing 76% of total apparel sales, whereas retail represents about 24%. In addition, the group's exposure to the faster growing emerging markets (such as China, India, Russia, South Korea, Turkey, Mexico, and the Middle East) is increasing; together, these markets now represent about 24% of total sales in 2010, compared with 21% in 2009.
- *Well-recognized brand name:* Benetton is a multi-brand group, of which many are world renowned. The UCB brand remains one of the strongest consumer brands in non-luxury goods clothing. Given the rapid growth of UCB in the late 1980s, it has established a loyal customer base and a high level of brand recognition.
- *Good free cash flow generation despite a drop in profitability:* On the back of efficient working capital management, lower cash interest expense, and a moderation in capital spending, the group has generated good levels of positive free cash flow over the past couple of years. This was achieved despite a continued drop in profitability. We expect FCF to remain sound despite an expected increase in working capital needs as sales recover. The liquidity position is adequate with a cash balance of €195m, undrawn committed credit lines of about €210m, and undrawn uncommitted credit lines of about €424m. Set against this, debt maturities are manageable. Credit measures remain in line with an intermediate financial risk profile. For the 12 months ended Dec. 31, 2010, EBITDA interest coverage was about 23.1x, the ratio of FFO/debt was 36.2%, and unadjusted total debt/EBITDA was 2.4x.
- *Growth expected in 2011:* The group expects the global apparel industry to expand in 2011. Private consumption in the emerging markets is forecast to continue growing at robust rates, with notable increases stemming from discretionary spending. While these trends underpin the potential for growth in 2011, higher input costs could slightly dampen the trend.

These factors are partly offset by the following weaknesses:

- *Highly competitive market:* The Benetton Group operates in a highly competitive and cyclical industry, which is vulnerable to 'fashion risk' and changes in consumer discretionary spending. Furthermore, the market is highly fragmented with numerous small, medium-sized, regional, and local players; in addition, the market is characterized by a retail environment that is reliant on promotional spending. Due to the group's presence in commodity-like markets, we believe it is susceptible to fluctuating commodity costs.
- *Narrow product and brand focus:* The group's product focus is somewhat narrow because about 80% of its sales are generated from the UCB brand. Moreover, about 90% of sales originate from the casual apparel and accessories segment.
- *Declining profitability:* Owing to a difficult market environment, group operating margins of 14.2% have declined over the past couple of years and remain well below that of peers such as Gap Inc, Carter Inc, and Phillips-Van Heusen Corp. With higher costs for cotton, labor, and freight expected in 2011, we believe operating margins could face further pressure.

Benetton Group S.p.A.: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	2,053	2,049	2,128
Net income	102	122	155
EBITDA	292	312	334
Funds from operations (FFO)	259	242	275
CFO	256	296	160
Capex	115	101	186
FOCF	141	195	-26
Total debt	714	714	863
Shareholders' equity	1,480	1,437	1,368
Cash and liquid financial assets	195	135	132
Total assets	2,925	2,827	2,947
Operating margin bef D&A (%)	14.2	15.2	15.7
EBITDA interest coverage (x)	23.1	18.9	8.7
FFO/total debt (%)	36.2	33.9	31.8
Return on capital (%)	5.9	6.5	7.3
Total debt/total capital (%)	32.3	32.9	38.3
Total debt/EBITDA (x)	2.4	2.3	2.6

Source: S&P Capital IQ.

Dairy Crest Group plc

Business Activity

Business risk profile: Fair.
Financial risk profile: Significant.

Revenue mix: Product: Dairies 66.3%, Foods 32.96%, Other 0.6%.

Geographic revenue mix: UK 91.75%, France 5.26%, Rest of the world 2.97%.

Key shareholders: PPM America Inc. 5.02%, J P Morgan Asset MGMT 4.78%, T. Rowe Price Group 3.4%, Theo Muller Group S.E.C.S 3.04%.

Credit Analysis

The credit profile of Dairy Crest Group plc reflects the following strengths:

- *Strong performance of core brands:* Dairy Crest's (DC) branded portfolio achieved impressive revenue growth of 7% in the nine months ending full-year 2011. This has enabled the company to build on its already strong market positions: Cathedral City, Clover, Country Life, St Hubert, and Frijj are brands with No. 1 or No. 2 positions in the foods and dairies segments. DC has benefited from its advertisement and promotional campaigns. The company uses different methods to market its brands, which include adverts on the internet and television, as well as promotions primarily focused on cheese and spreads.
- *Increased focus on innovation:* DC's strategy of innovation has significantly benefited its branded segment and is expected to be a key driver of future growth. The company's innovation is based on functionality and health benefits, which are achieved by developing and establishing healthier products without compromising taste and quality. DC was awarded the best product innovation award by the UK supermarket Sainsbury's, one of DC's customers.
- *Ability to tackle input cost inflation:* DC has been successful in tactically offsetting rising input costs through a combination of cost controls and price increases. Although this has slightly squeezed margins, DC has nevertheless maintained EBITDA margins of about 8.5% over the past couple of years. According to the company, it expects input cost inflation to be about 10% in the non-milk segments, while the expected savings from cost control initiatives are £20m for full-year 2012.
- *Good cash flow generation:* DC has generated robust cash flows over the past several years. A history of positive FOCF has enabled the company to consistently reduce its debt. DC's total debt decreased to £378m as of September 2010, down from £560m as of March 2009. With tight management of working capital, the company also improved its cash conversion cycle in full-year 2010 to 50 days from 59 days a year earlier.

These factors are partly offset by the following weaknesses:

- *Competitiveness in the industry:* DC faces stiff competition in the dairy segment's middle ground market, where volume has decreased. The packaged foods market is also highly competitive. To compete under such conditions, DC has to procure inputs effectively, operate the supply chain efficiently, market and sell its products well, and continually innovate.
- *Increasing bargaining power of customers:* In recent years, DC has increased its proportion of milk sales to major supermarkets. The company is concentrating on major retail contracts to help combat declining middle market revenues. However, supermarkets have strong bargaining power and expect their suppliers to be competitive on price, which could dampen DC's margins in the future.
- *Lack of geographical diversification:* Despite a well-known brand name, DC is mainly concentrated in the UK and to some extent, in France. This contrasts with peers such as Tate & Lyle and Danone, which are much more diversified geographically.
- *Significant financial risk:* DC has a significant financial risk profile with an FFO/debt ratio of about 22% and leverage (debt/EBITDA) of 2.8x. The company's total debt to capital has remained consistently above 50% over the past several years. As of September 2010, the ratio of total debt to capital was 57%.

Dairy Crest Group plc: Key Financials (Year ended March 31)

(GBP million)	Mar 2010	March 2009	March 2008
Revenue	1,630	1,648	1,570
Net income	54	75	54
EBITDA	138	140	148
Funds from operations (FFO)	88	73	94
CFO	113	93	86
Capex	27	49	35
FOCF	87	43	52
Total debt	389	560	499
Shareholders' equity	290	352	383
Cash and liquid financial assets	20	108	40
Total assets	1,148	1,321	1,239
Operating margin before D&A (%)	8.47	8.50	9.43
EBITDA interest coverage (x)	6.1	4.7	5.6
FFO/total debt (%)	22.6	13.0	18.8
Return on capital (%)	0.1	0.1	0.1
Total debt/total capital (%)	0.6	0.6	0.6
Total debt/EBITDA (x)	2.8	4.0	3.4

Source: S&P Capital IQ.

Paul Hartmann AG

Business Activity

Business risk profile: Fair.
Financial risk profile: Intermediate.

Revenue mix: Incontinence management 36.7%, Wound management 27%, Infection management 20.7%, others 15.6%.

Geographic revenue mix: Germany 34.5%, rest of Europe 54.4%, America 4.2%, Africa/Asia/Oceania 6.9%.

Key shareholders: Not available.

Credit Analysis

The credit profile of Paul Hartmann AG reflects the following strengths:

- *Leading European regional player:* Paul Hartmann is one of the leading European providers of medical and hygiene products in a US$250bn global market that is growing 9% annually. North America and Europe make up 45% and 30% of this market respectively. With a share of 6% of the global market, Germany is No. 3 behind the U.S. and Japan. The company operates through three core segments. Incontinence management focuses on absorbent products such as briefs, pants and pads, and underpads. Wound Management provides dressings and bandages for therapy, immobilization, first-aid kits, and diagnostic products such as thermometers and blood pressure monitors. Infection management offers operating theater drapes, clothing, surgical absorbents, and disposable surgical instruments.
- *Improved credit metrics:* Consistent EBITDA improvements over the past three to four years have helped Paul Hartmann to maintain good credit measures with an unadjusted leverage (total debt/EBITDA) of 1.5x and strong cash flow protection measures including EBITDA coverage of interest of 26.2x and FFO/total debt of 52.4%, as of Dec. 31, 2010. The liquidity position is adequate and debt maturities are manageable. However, this is somewhat tempered by the current levels of negative FOCF generation.
- *Favorable growth trend:* With a growing elderly population, increases in chronic medical issues, and expanding healthcare coverage for people in the emerging markets, the business segments in which the company operates are expected to grow further. Moreover, increases in wealth have led to a higher level of spending with regard to healthcare-related issues.
- *Recurring revenues from disposables:* Given the needs to protect staff and patients against infections and provide cost effective medial products, we note there is an increasing trend toward single-use disposable products such as surgical clothing, surgical drapes, and surgical gloves. These provide the company with a reliable stream of recurring revenues that enhances sales predictability.
- *Barriers to entry due to a well-established brand name:* As the quality and reliability of medical products are of key concern to healthcare professionals, well established brand names like Hartmann create high barriers to entry, in our view.

These factors are partly offset by the following weaknesses:

- *Competitive and regulatory risks:* The company operates in a competitive industry and faces fairly fast innovation cycles for certain products. In addition, there are regulatory, pricing, and litigation risks. Pricing pressures result from increasing competition, fostered by a growing number of products and technology developments, as well as by payers (hospitals) and policymakers (government entities) that are increasingly focused on cost containment and product quality.
- *Geographic concentration:* Paul Hartmann is geographically concentrated with 89% of sales generated in Europe. Germany is the largest individual market with 34.5% of total sales, followed by the rest of Europe (54.4%), America (4.2%), and other emerging markets (6.9%). However, the group has selectively targeted other areas, such as Russia and Australia, and made significant investments to increase its presence in certain, expansionary markets.
- *Lower margins:* Although improved over the past two years, operating margins of 9.5% remain well below those of its global peers, such as ConvaTec, Coloplast, Molnlycke, Smith & Nephew, and Teleflex. This lower margin reflects the very competitive and developed market conditions across Europe, as well as the company's marginal exposure to emerging markets.
- *Reimbursement risk:* Changes to the healthcare reimbursement system can have a major impact on individual markets as grants are reduced or deferred. Since the company is mostly active in Europe, we believe this risk is further heightened.

Paul Hartmann AG: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	1,633	1,564	1,380
Net income	66	55	22
EBITDA	156	145	106
Funds from operations (FFO)	119	123	96
CFO	54	131	60
Capex	61	47	43
FOCF	-6	84	17
Total debt	226	198	274
Shareholders' equity	547	484	442
Cash and liquid financial assets	34	38	47
Total assets	1,136	1,016	1,043
Operating margin bef D&A (%)	9.5	9.3	7.7
EBITDA interest coverage (x)	26.2	11.6	10.0
FFO/total debt (%)	52.4	62.2	35.1
Return on capital (%)	9.1	8.5	5.8
Total debt/total capital (%)	28.4	28.3	37.5
Total debt/EBITDA (x)	1.5	1.4	2.6

Source: S&P Capital IQ.

Hugo Boss Group AG

Business Activity

Business risk profile: Satisfactory.
Financial risk profile: Intermediate.

Revenue mix: Boss Black 68%, Boss Orange 15%, Hugo 9%, Boss Green 5%, Boss Selection 3%.

Geographic revenue mix: Europe 62%, Americas 22%, Asia Pacific 13%, Royalties 3%.

Key shareholders: Permira Holding 88%, Free float 11%, Hugo Boss AG 1%.

Credit Analysis

The credit profile of Hugo Boss reflects the following strengths:

- *Good market position:* The premium fashion and luxury goods market in which Hugo Boss operates is estimated to be worth about €153bn. Germany is the biggest market, followed by the U.K., Italy, and France. Hugo Boss is one of the market leaders in this segment and is continuously expanding its position. The Boss and Hugo brands originated in the early 1970s and 1990s respectively and the company has remained a solid competitor within the industry. Hugo Boss products are available in more than 110 countries and at 6,100 points of sale. In December 2010, the number of own-retail stores amounted to 537 and the number of stores operated via franchisees amounted to more than 1,050.
- *Well-recognized brand name:* Hugo Boss is represented in the fashion market by the Boss and Hugo brands. These brand collections and their fashion lines are aimed at various target groups and cover all the key fashion segments. Despite a global economic downturn, we note that the company did not alter its pricing strategy, which led to a degree of declining sales in 2009.
- *Geographic, product, and distribution-channel diversity:* Geographic diversity is good: as of December 2010, 62% of revenues came from different European regions, followed by 22% from the Americas, 13% from Asia Pacific, and 3% from various licenses. The company also benefits from good product diversity (menswear, womenswear, kids' wear, and accessories) and is also present in all three distribution channels, namely wholesale (57% of revenues), retail (40%), and royalties (3%).
- *Good operating performance through the recent recession:* The company's operating margins improved over the past few years, but it may face some headwinds in the form of rising input costs. The improvement was attributed to a better product mix, a higher contribution from retail operations, enhanced cost controls, and lower promotional activities last year. However, we expect its performance to moderate over the near term as cost pressures (especially from cotton) begin to weigh on margins.
- *Intermediate financial risk profile:* Credit measures continue to remain strong with EBITDA coverage of interest at 17x, an FFO/debt ratio of 54%, and debt/EBITDA of 1.5x: these measures compare with 11.1x, 30%, and 1.9x, respectively, for fiscal 2009. Historically, the cash conversion has been good and given its sustainable market position, we expect the company to continue generating stable cash flows over the next two to three years. The liquidity position is adequate and debt maturities are manageable over the next two to three years, in our view.

These factors are partly offset by the following weaknesses:

- *Highly competitive and cyclical industry with high promotional activities:* Despite years of consolidation, the industry remains extremely competitive, highly fragmented, and is characterized by heavy promotional activity. Market growth is primarily driven by economic conditions and consumer spending; it is also very sensitive to fashion risk. Due to its presence in commodity-like products, the company is susceptible to fluctuating commodity costs, which in turn can affect cash flows.
- *Challenging conditions in consumer spending and retailing:* Following a strong fiscal 2010, we expect the current recovery in the retail sector to slow down and remain uneven for the rest of 2011. Unemployment is high in most of the regions where Hugo Boss is present. Moreover, consumer spending, although picking up, remains below the norm for a period of economic recovery. This, along with high commodity prices, could result in a dip of sales or a renewed slowdown in the recovery.
- *Somewhat narrow focus in the higher-priced segment:* All the company's brands are positioned between the premium and luxury segments, which are more vulnerable to a potential economic downturn, as was seen in 2009 when revenues dipped by about 7.4% year on year.

Hugo Boss Group AG: Key Financials (Year ended Dec. 31)

(EUR Million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	1,729	1,562	1,686
Net income	186	104	112
EBITDA	351	273	284
Funds from operations (FFO)	288	159	178
CFO	308	344	165
Capex	45	36	100
FOCF	264	307	65
Total debt	533	522	629
Shareholders' equity	361	206	199
Cash and liquid financial assets	306	120	38
Total assets	1,355	1,065	1,162
Operating margin bef D&A (%)	20.3	17.4	16.8
EBITDA interest coverage (x)	17.0	11.1	10.1
FFO/total debt (%)	54	30	28
Return on capital (%)	21	17	18
Total debt/total capital (%)	60	72	76
Total debt/EBITDA (x)	1.5	1.9	2.2

Source: S&P Capital IQ.

De'Longhi S.p.A.

Business Activity

Business risk profile: Fair.
Financial risk profile: Intermediate.

Revenue mix: House-hold segment 77.5%, Professional segment 21.5%, Corporate 1%.

Geographical revenue mix: Italy 17%, U.K. 9%, Other Western Europe countries 38%, Eastern European Countries 9%, Rest of the World 19%, Japan 3%, U.S. 5%.

Key shareholders: De Longhi Soparfi SA 75.01%.

Credit Analysis

The credit profile of De'Longhi reflects the following strengths:

- *Strong market position:* De'Longhi is a global player in household consumer products. The company provides air conditioning and air treatment appliances, heating appliances, and food preparation and cooking appliances. The latter comprises deep fryers, electric ovens, microwave ovens, bread makers, grills and barbecues, kettles, toasters, citrus presses, blenders, and ice-cream makers; it also sells coffeemakers and other breakfast accessories. The company's leading brands include Kenwood and De'Longhi. It operates through 13 production facilities and 30 international subsidiaries that support sales to 75 countries worldwide.
- *Good geographic reach:* Geographic diversification is good. 17% of total sales in 2010 came from Italy, followed by 38% from other Western European countries, 9% from the U.K., 5% from the U.S., and 19% from the rest of the world.
- *Intermediate financial risk profile:* Leverage (debt/EBITDA) was 1.1x as of Dec. 31, 2010, down from 2.5x at year-end 2008; this was primarily due to the repayment of €165m of debt over the past two years. The FFO/debt ratio has also improved considerably, reaching 80% for year-end 2010 (up from 24% in 2008); this was owing to better levels of FFO generation and the repayment of debt. Cash flow from operations is adequate but lower than that of peers such as Electrolux AB and Bosch Siemens. Financial risk assessment is weighed by higher potential working capital savings relative to EBITDA, compared to peers.
- *Adequate liquidity:* Liquidity is adequate with cash and financial instruments of €196m, as well as €400m of medium-term credit lines. Combined, we think these sources are sufficient to meet its modest capital expenditure requirements and debt maturities.

These factors are partly offset by the following weaknesses:

- *Highly competitive market with lower barriers to entry:* The global household appliance industry is characterized by strong competition and material pricing pressure as cheaper imports - particularly from Asia - continue to enter the market. In the market for household consumer products, customers have high bargaining power because they can easily opt for rival products if they find them more appealing. Also, we note that the company needs to make continued investments to launch new products and generate demand.
- *Cyclical demand for household products:* The demand for household products is tied to consumer confidence and housing activity. Profitability therefore tends to rise and fall in line with wider economic conditions.
- *Volatile raw material prices:* Raw material costs comprise a significant portion of the company's operating costs, and any fluctuation in those costs - such as steel, aluminum, and copper - could lead to fluctuating margins and cash flow.
- *Exposure to foreign currency fluctuations:* Being an international player, De'Longhi is exposed to fluctuations in foreign currencies.

De'Longhi S.p.A.: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	1,612	1,391	1,519
Net income	75	32	40
EBITDA	187	139	148
Funds from operations (FFO)	168	101	92
CFO	177	174	38
Capex	33	28	34
FOCF	144	146	5
Total debt	211	255	376
Shareholders' equity	759	687	660
Cash and liquid financial assets	196	126	109
Total assets	1,541	1,414	1,496
Operating margin before D&A (%)	11.6	10.0	9.7
EBITDA interest coverage (x)	17.2	10.8	4.7
FFO/total debt (%)	79.6	39.6	24.5
Return on capital (%)	0.1	0.1	0.1
Total debt/total capital (%)	0.2	0.3	0.4
Total debt/EBITDA (x)	1.13	1.83	2.54

Source: S&P Capital IQ.

Burberry Group plc

Business Activity

Business risk profile: Fair.
Financial risk profile: Modest.

Revenue mix: Non-apparel 40%, Womenswear 32%, Menswear 23.2%, Childrenswear 4.8%.

Geographic revenue mix: Europe 33.7%, Americas 25%, Asia Pacific 27.6%, Rest of the World 5.9%, Licensing 7.7%.

Key shareholders: Blackrock Inc 9%, Massachusetts Financial Services Company 6%, Ameriprise Financial Inc 5%, Schroders plc 5%, JPMorgan Chase & Co. 5%, Others 70%.

Credit Analysis

The credit profile of Burberry Group plc reflects the following strengths:

- *Leading global luxury brand:* Burberry Group is a leading global luxury brand that designs, sources, and markets apparel and accessories. The company caters for men, women, and children, primarily in Europe, the Americas, and Asia Pacific. Burberry operates in the global luxury sector - a global market estimated to be worth about €150bn. In our view, the company's leading position is based on the strength of its Burberry brand, which is one of the world's leading, widely recognized, and more profitable luxury goods brands.
- *Diversified Offering:* The Burberry brand has broad consumer appeal. The business is balanced between Non-apparel (40% of revenues; year-to-date September 2010), Womenswear (32%), Menswear (23.2%), and Childrenswear (4.8%) - the latter being a smaller division but with high growth potential. Outerwear - which is the core of the apparel offer making up over half of sales - is the category where Burberry is 'top-of-mind' among consumers.
- *Global reach:* A fair business risk profile reflects the global reach of the company's products, in terms of both developed and emerging markets. The company's continued expansion of distribution networks in emerging and under-penetrated markets, as well as its development of a local client base, have lessened the impact of volatile, travel-related retail sales; in addition, we think these efforts can harness the potential for new growth markets such as China and other Asian countries.
- *Channel expertise in retail (including e-commerce), wholesale and licensing:* Burberry sells its products to the end consumer through a diversified network of retail, digital commerce, wholesale, and licensing channels worldwide. The retail segment - which accounted for about 58% of 2009/10 revenues - includes 131 mainline stores, 262 concessions within department stores, and 47 outlets; additionally, digital commerce is available in 27 countries. The wholesale segment (34% of revenues) includes sales to department stores, specialty retailers worldwide, and franchisees, the latter of which operate 97 Burberry stores, mainly in the emerging markets. Burberry also has selective licensing agreements - in Japan, for example - leveraging the local and technical expertise of its licence partners.
- *Strong credit metrics and good operating cash flow:* Despite a challenging retail environment, Burberry Group has reported good operating results and generated good free cash flow of more than £200m over the past two years. Its operating performance has benefited from an improved product mix, better inventory management, and cost-saving initiatives, which were implemented over the past 12 to 18 months. The company's EBITDA margins of 22% are good and better than those achieved by most of its peers. Credit measures remain strong with unadjusted leverage (total debt/EBITDA) of 0.6x, EBITDA interest coverage of 101x, and FFO/total debt of 112% (as on Sept. 30, 2010). We also note the liquidity position is good because of a net cash position.

These factors are partly offset by the following weaknesses:

- *Highly competitive and cyclical industry:* Burberry participates in the highly competitive, higher-priced segment of the luxury industry, which is subject to 'fashion risk' and still weak levels of discretionary consumer spending. Burberry competes with a variety of luxury goods companies: Some are large, international conglomerates, owning many luxury brands, while others are focused on a single brand locally or are smaller, more localized operations. Sales remain vulnerable to the inherent cyclicality of the industry and any economic downturns.
- *Foreign exchange volatility:* The company is exposed to volatility in foreign exchange movement; particularly the strength of the British pound against the Euro, the U.S. dollar, and the Japanese Yen. Because goods are to a large extent manufactured in the U.K., but mostly sold outside the U.K., earnings can be hampered by a strengthening pound. Although most players in the sector use hedging to limit the short-term impact of currency fluctuations, ultimately they must adapt, and generally do so, by increasing prices in local currencies. This could, in turn, weigh on future sales and earnings.
- *Brand Concentration:* The company's brand focus is considerably narrow because all of its sales are generated from a single brand: namely, Burberry.

Burberry Group plc: Key Financials (Year ended March 31)

(GBP million)	LTM Sep 2010	March 2010	March 2009	March 2008
Revenue	1,381	1,280	1,202	995
Net income	108	81	-6	135
EBITDA	303	272	228	215
Funds from operations (FFO)	206	185	150	168
CFO	311	369	210	45
Capex	85	70	90	49
FOCF	226	299	120	-3
Total debt	184	206	245	192
Shareholders' equity	584	590	539	495
Cash and liquid financial assets	365	471	255	129
Total assets	1,245	1,140	1,126	953
Operating margin bef D&A (%)	22.0	21.2	18.9	21.6
EBITDA interest coverage (x)	101.1	56.6	18.3	19.6
FFO/total debt (%)	111.6	89.7	61.2	87.7
Return on capital (%)	20.0	17.5	15.5	19.0
Total debt/total capital (%)	23.4	25.5	31.0	27.9
Total debt/EBITDA (x)	0.6	0.8	1.1	0.9

Source: S&P Capital IQ.

Bonduelle SCA

Business Activity

Business risk profile: Fair.
Financial risk profile: Aggressive.

Revenue mix: Canned 51%, Frozen 27%, Fresh 22%.

Geographic revenue mix: France 35%, Europe excluding France 40%, outside Europe 25%.

Key shareholders: Three Bondeulle family members 28%, Other Bondeulle family members 25%, Free Float 41%.

Credit Analysis

The credit profile of Bonduelle reflects the following strengths:

- *Diverse portfolio of branded processed vegetables:* France-based Bonduelle is the leader in fresh and canned vegetables and the second largest producer of frozen vegetables in Europe. Bonduelle has a presence in all segments of the processed-vegetable sector: the company produces canned, frozen, fresh, and prepared vegetables. The company derives 51% of revenues from its group brands and 42% from private labels.
- *Good geographic reach:* The company's operations are geographically diversified across Europe; moreover, it has a presence beyond Europe's borders. The company has 40 production sites and operations in 18 countries, including Italy, Spain, Poland, and Germany. Bonduelle's vegetables are distributed across 80 countries worldwide. In 2010, the company generated 35% of revenues from France, 18% from North America, and 12% from each of Italy and Germany
- *Stable sales growth and EBITDA margins:* Despite weak economic conditions over the past two years, the company was able to post stable year-on-year sales growth of 2% in 2010. In addition, its EBITDA margins have remained in the 10% to 11% range over the past two years.
- *Increasing consumer trend toward processed food:* Increases in lifestyle-related diseases, longer commutes, and reduced leisure times have favored the emergence of processed food products because they are quicker to prepare. Furthermore, since the vegetable market is currently dominated by raw vegetables, we believe there may be further growth opportunities for processed vegetables.

These factors are partly offset by the following weaknesses:

- *Aggressively leveraged financial profile:* As of Dec. 31, 2010, the company's leverage was 4.4x, which increased from 3.7x as of June 30, 2010, due to the issuance of a US$165m private bond issue.
- *Highly competitive industry:* The processed vegetable sector is highly competitive and is subject to intense price competition. Companies compete largely based on cost and their ability to distribute the finished product. In addition, Bonduelle's management expects the increasing effects of the U.S. dollar on its North American business, as well as severe weather conditions in Eastern Europe, to add further pressure in 2011.
- *Climate, industrial, and environmental related risks:* Although the company benefits from geographic diversification in terms of its sourcing regions, risks stemming from climate and crop disease make it somewhat vulnerable to food safety risk, in our view.
- *Volatile agricultural commodity costs:* There is no organized market for agricultural commodities purchased by Bonduelle. Changes in agricultural commodity prices may significantly affect the company's purchase prices in the future.

Bonduelle SA: Key Financials (Year ended June 30)

(EUR million)	LTM Dec. 2010	June 2010	June 2009	June 2008
Revenue	1,684	1,560	1,524	1,490
Net income	49	58	27	51
EBITDA	153	163	176	165
Funds from operations (FFO)	186	150	63	106
CFO	142	142	128	189
Capex	102	85	73	72
FOCF	40	58	55	117
Total debt	672	601	590	528
Shareholders' equity	460	460	368	372
Cash and liquid financial assets	41	33	67	94
Total assets	1,748	1,649	1,487	1,461
Operating margin bef D&A (%)	9.1	10.4	11.5	11.1
EBITDA interest coverage (x)	6.2	7.3	6.5	5.9
FFO/total debt (%)	27.7	25.0	10.7	20.1
Return on capital (%)	5.2	6.4	6.7	7.8
Total debt/total capital (%)	58.5	55.7	60.8	57.4
Total debt/EBITDA (x)	4.4	3.7	3.4	3.2

Source: S&P Capital IQ.

Britvic plc

Business Activity

Business risk profile: Fair.
Financial risk profile: Aggressive.

Revenue mix: Great Britain Stills 33%, Great Britain Carbs 43%, International 2%, Ireland 16%, France 6%.

Geographic revenue mix: United Kingdom 79%, Other 21%.

Key shareholders: Black Rock Investment Management (UK) Limited 11.09%, Standard Life Investments Limited 5.92%, FMR LLC (Fidelity) 5.31%, Newton Investment Management Limited 5.0%, PepsiCo, Inc. 4.97%.

Credit Analysis

The credit profile of Britvic plc reflects the following strengths:

- *Leading market position in Great Britain:* Britvic is the largest supplier of branded still soft drinks in Great Britain (GB), and the number two supplier of branded carbonated soft drinks in GB.
- *Portfolio of leading brands:* Britvic owns a number of leading brands, including Tango, Robinsons Squash, Fruit Shoot, and J2O. Robinsons is the number one squash brand in GB and Fruit Shoot is the leader in the drink segment for kids. Britvic also produces and sells PepsiCo brands, such as Pepsi and 7UP, in GB and Ireland under exclusive PepsiCo agreements. The agreement with PepsiCo lasts until 2023 in GB and until 2015 in Ireland, which gives Britvic exclusive rights to distribute Pepsi and 7UP brands until the agreement ends.
- *Stable EBITDA margins:* The EBITDA margin for fiscal 2010 was 15%, a material improvement on the 14% for fiscal 2008. This was primarily a result of higher sales from the carbonates portfolio over the past three years, stable sales growth from the stills portfolio, and the acquisition of France-based Fruité Entreprises SA in 2010, which is a high-margin business.
- *Stable cash flow generation and adequate liquidity:* Britvic has generated stable funds from operations of £110m to £130m over the past three years. The cash flow generation is more than sufficient to fund its moderate capital expenditure. Also, FOCF remained stable at £84m in 2010. Liquidity is adequate with £54m of cash and a £333m revolving credit facility maturing in May 2012. The company does not have any debt maturities until 2014.

These factors are partly offset by the following weaknesses:

- *Aggressive financial risk profile:* As of Sept. 30, 2010, the ratio of debt to EBITDA was 3.3x, and it has remained stable at about this level for the past three years. Although EBITDA has improved over the past three years, the company's leverage has remained stable owing to the issuance of £150m of notes in the U.S.A. in 2010.
- *Continued decline in the Irish soft drinks market:* The soft drinks market in Ireland has continued to decline in value due to economic challenges that affected Britvic Ireland at both a revenue and profit level. Revenues from Ireland declined by about 5%-6% in each of 2009 and 2010. Moreover, the company took a £104.2m write-down on the carrying value of intangible and property assets in 2010.
- *Geographical concentration:* Britvic's dependence on the UK market for most of its revenue generation makes it vulnerable to economic uncertainties in that region.
- *Commodity price risk:* The prime materials used in the production of the company's products are PET, sugar, cans and frozen concentrated orange juice. The prices of these materials can fluctuate widely and have increased significantly over the past 12 months, mainly owing to poor crops and scarcity . If Britvic fails to plan its prime materials requirements in advance, it may have to pay higher prices, which would hamper revenues and EBITDA.

Britvic plc: Key Financials (Year ended Sept. 30)

(GBP million)	Sept. 2010	Sept. 2009	Sept. 2008
Revenue	1,139	979	927
Net income	-48	47	32
EBITDA	173	142	131
Funds from operations (FFO)	129	109	116
CFO	125	131	143
Capex	40	38	45
FOCF	84	93	98
Total debt	574	451	415
Shareholders' equity	-31	-3	9
Cash and liquid financial assets	54	40	14
Total assets	1,046	854	741
Operating margin bef D&A (%)	15.2	14.5	14.1
EBITDA interest coverage (x)	6.8	6.0	4.8
FFO/total debt (%)	22.6	24.2	28.0
Return on capital (%)	16.5	15.8	13.7
Total debt/total capital (%)	105.7	100.6	97.8
Total debt/EBITDA (x)	3.3	3.2	3.2

Source: S&P Capital IQ.

Coloplast A/S

Business Activity

Business risk profile: Satisfactory.
Financial risk profile: Intermediate.

Revenue mix: Ostomy 41%, Urology and Continence 43%, Wound and Skin care 16%.

Key shareholders: Niels Peter Louis-Hansen 20.3%, Aage Johanne Louis-Hansens Fond 10.8%, Coloplast A/S 6.3%.

Credit Analysis

The credit profile of Coloplast A/S reflects the following strengths:

- *Good market position:* Coloplast is a leading provider of intimate healthcare products and services worldwide. It primarily offers ostomy care products - including colostomy, ileostomy, and urostomy bags - which have a global market size of DKK10bn-DKK11bn; the group's market share of this segment is 35%-40%. The group also provides urology care (global market size DKK8bn; market share 10%), continence care products (DKK10bn-DKK11bn; 30%-35%) and dressings for the treatment of chronic wounds (DKK12bn-DKK13bn; 5%-10%).
- *Favorable growth trend:* With an expanding elderly population and healthcare coverage increasing for people in the emerging markets, the business segments in which the group operates are expected to grow further. The global ostomy and continence care markets, where the group holds leading market positions, is estimated to increase by 4%–5% annually. The urology and wound and skin care markets are budgeted to increase by 8%-10% and 5%-7%, respectively.
- *Persistently good profitability:* An EBITDA margin for fiscal 2010 of 28% represents a consistent improvement from the 20% achieved in fiscal 2008. This was on account of higher sales, cost-saving initiatives, and efficiency-improvement measures; an example of which included the relocation of production to Hungary and China.
- *Intermediate financial risk profile:* With a steady improvement in profitability and a low capex-to-sales ratio - owing to a strict approach to investments – the group's cash flow protection measures continue to remain strong and it is generating positive FOCF. The group's market position should also support stable cash flow generation over the next two to three years. However, about one-half of cash flows are deployed for paying dividends (averaging DKK300m for the past three years) and for a share buyback program (DKK500m budgeted for 2011). Despite this, the group has paid down debt and the leverage ratio (total debt/ EBITDA) is 0.8x, down from 2.1x in fiscal 2008. The liquidity position is adequate and the group has unutilized credit facilities of about DKK2.5bn. Set against this, debt maturities are manageable over the next two to three years. Although all of its debt matures in fiscal 2013, we do not see this as an issue given the group's good financial flexibility in terms of refinancing.

These factors are partly offset by the following weaknesses:

- *Competitive and regulatory risks:* The group operates in an industry that is very competitive and it faces relatively fast innovation cycles for certain products. In addition, there are regulatory, pricing, and litigation risks. Pricing pressures stem from increased competition: this is owing to a growing number of products and technology developments; as well as an increased focus from payers (hospitals) and policymakers (government entities) on cost containment and product quality. The increased pressure from healthcare authorities leaves Coloplast with little or no pricing power in its largest, most profitable market; there is also the specter of margin volatility.
- *New product development:* The group's products are vulnerable to technological change. That said, its internal research and development efforts, as well as buying early-stage technologies and developing them into viable products, have enabled it to broaden the product offering. The group competes against large companies with significant resources. As a result, the group could face pricing pressure and must continue to successfully expand product lines while defending its current positions in small but competitive markets.
- *Limited size and diversity:* The group's geographic reach, size, and business-segment diversification are not significant when compared with those of its peers. About 75% of revenues are generated in Europe and 16% in the U.S. In addition, 84% of revenues are generated in the ostomy, urology, and continence care segments.

Coloplast A/S: Key Financials (Year ended Sept. 30)

(Million DKK)	LTM Dec. 2010	Sept. 2010	Sept. 2009	Sept. 2008
Revenue	9,782	9,537	8,820	8,463
Net income	1,374	1,243	883	715
EBITDA	2,793	2,644	1,968	1,735
Funds from operations (FFO)	1,921	2,019	1,510	1,420
CFO	1,527	1,769	1,830	1,324
Capex	274	260	487	718
Total debt	2,229	2,068	2,926	3,621
Shareholders' equity	3,522	3,452	2,850	2,291
Cash and liquid financial assets	351	476	630	194
Total assets	8,116	7,771	7,963	7,981
Operating margin (%)	28.6	27.7	22.3	20.5
EBITDA interest coverage (x)	25.9	22.0	12.3	9.4
FFO/total debt (%)	86	98	52	39
Return on permanent capital (%)	25.3	22.7	15.2	12.7
Total debt/total capital (%)	35.2	34.3	46.6	53
Total debt/EBITDA (x)	0.8	0.8	1.5	2.1

Source: S&P Capital IQ.

MARR S.p.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Significant.

Revenue mix: Street Market 61.3%, National Account 18%, Wholesale 20.6%.

Key shareholders: Cremonini S.p.A. 58.8%, Free Float 40.1%, Own Shares 1.1%.

Credit Analysis

The credit profile of Marr reflects the following strengths:

- *Strong market position:* Marr caters to about 38,000 food service operators, which represents a significant market share (~27%) in a total market of about 140,000 operators. In addition, Marr enjoys about a 10% market share in the wholesale food-services segment, the total industry value of which is €11bn.
- *Improving out-of-home food consumption market:* The out-of-home food consumption segment has the potential for further growth because average spending on out-of-home food consumption is lower in Italy when compared with the European average. As a consequence, the proportion of Italian families' spending on out-of-home food consumption is increasing. In 2010, this measure improved by 1.8%, which was greater than the growth in overall spending by Italian families.
- *Diverse product mix and customer base:* Marr is present in Italy and abroad, serving commercial food-service operators including restaurants, hotels, pizzerias, and holiday villages. It also serves collective operators, such as company canteens, schools, and hospitals. The diverse product range comprises about 10,000 different food articles, including breakfast and baked goods, legumes, cereals, condiments, sauces, oils, and gravies. Further products include canned goods, beverages, dairy products, cold cuts, and smoked fish. Marr also has access to more than 2,200 suppliers for its raw materials, which provide it with material negotiating power, in our view.
- *Stable earnings profile:* The company has consistently maintained EBITDA margins of about 6% over the past three years. This was helped by the company's ability to pass on increased raw material prices to its customers. Moreover, the company has improved its cash conversion cycle to 43 days from 47 days. It aims to further improve this measure through a policy of optimizing the stock level of distribution.

These factors are partly offset by the following weaknesses:

- *Somewhat aggressive financial policy:* Marr has relatively high leverage, with a debt/EBITDA ratio of about 2.8x and a debt-to-capital ratio of about 50%. Discretionary cash flows have been negative or minimal due to high dividend payouts. The company prefers funding expansionary growth through specific long-term loans rather than internally-generated cash flows. Goodwill acquired through the company's acquisitions forms a significant portion of its non-current assets (33% in 2009).
- *High receivables realization risk:* The bulk of Marr's revenues is generated through its street-market channel, which amounted to 61% in 2010, and a significant portion of this revenue is locked in receivables. For 2009, receivables constituted about 33% of total revenues, of which 35% were overdue. In addition, the company wrote down €18m because of disputed trade receivables in 2009.
- *Competitive and cyclical industry risk:* The food-services market is highly competitive, with the wholesale market having more than 5,700 operators. It is also vulnerable to economic cycles as the restaurant and street-market segments of the food-services industry are somewhat dependent on tourism, which fluctuates with economic cycles.
- *Raw material price risk:* In a situation of rising raw material costs, the ability - and time lag - to pass on the incremental increases to the customer is of critical importance. A rise in the price of raw materials consequently affects the margins and/or volumes of the operators. Packaging costs have also increased due to a rise in crude oil prices.

MARR S.p.A.: Key Financials (Year ended Dec. 31)

(Euro million)	LTM Sept. 2010	Dec. 2009	Dec. 2008	Dec. 2007
Revenue	1174	1137	1107	1045
Net income	44.3	38.6	31.7	29.3
EBITDA	72.6	67.1	64.4	63.2
FFO	62.3	53.9	38.2	40.1
CFO	33.1	26.8	11.9	10.8
Capex	3.5	2.3	6.8	6.1
Total debt	204	206	188	177
Shareholders' equity	199	192	182	181
Cash and liquid financial assets	42.2	39.8	30.6	48.3
Total assets	734	680	643	613
Operating margin bef D&A (%)	6.2	5.9	5.8	6.0
EBITDA interest coverage (x)	16.2	11.0	4.9	6.0
FFO/total debt (%)	30.5	26.1	20.3	22.7
Return on capital (%)	10.6	10.1	10.2	10.9
Total debt/total capital (%)	50.6	51.7	50.7	49.4
Total debt/EBITDA (x)	2.8	3.1	2.9	2.8

Source: S&P Capital IQ.

Davide Campari-Milano S.p.A.

Business Activity

Business risk profile: Satisfactory.
Financial risk profile: Significant.

Revenue mix: Product: Spirit 75.4%, Wine 15%, Soft Drinks 8.5%.

Geographic revenue mix: Americas 34.8%, Italy 34.2%, rest of Europe 23.8%, rest of world 7.2%.

Key shareholders: Alicros Spa 51%, Cedar Rock Capital 10%, others 39%.

Credit Analysis

The credit profile of Davide Campari-Milano S.p.A. (Gruppo Campari) reflects the following strengths:

- *A top 10 position in the branded spirits markets:* Gruppo Campari is a major player in the global branded beverage industry, and is currently ranked sixth. The group boasts a rich portfolio, with more than 40 brands sub-divided into three segments: spirits, wines, and soft drinks. The group's products are marketed and distributed in over 190 countries worldwide. The group has 13 manufacturing plants and four wineries, as well as its own distribution network in Italy, Austria, Germany, Luxemburg, Switzerland, Belgium, Ukraine, the US, Argentina, Brazil, Mexico, China, and Australia. In addition, there is a joint venture in the Netherlands. Gruppo Campari uses local distributors in over 180 other countries.
- *Reasonable Diversity:* Gruppo Campari's geographic diversification is balanced; Italy contributed 34.2% of total 2010 revenues, the US 22.3%, Germany, 11.4%, Brazil, 8.4%, Argentina 4.1%, Australia 3.3%, and Russia 2.2%. However, this diversity is somewhat tempered by only 16% exposure to the emerging markets (Latin America, Central Europe, Middle East, and Africa). Product diversification is reasonable, with spirits accounting for 75.4% of total revenues in 2010, wines 15%; soft drinks 8.5%, and others the remaining 1.1%.
- *Strong and consistent improvement in operating performance:* Over the past couple of years, the group has shown consistent improvements in both revenues and EBITDA. This was achieved through organic growth and acquisitions, reflecting the group's investment in brand building, portfolio enhancement, and strengthened route-to-market operations. EBITDA margins of about 25%-26% are good and in line with those of its peers.
- *Solid free cash flow generation:* Consistent improvements in the group's operating performance have led to good FCF generation, with the group generating about €115m on average for the past five years. Also, the group's liquidity position is adequate with no significant debt maturities until fiscal 2016.

These factors are partly offset by the following weaknesses

- *Competitive industry:* Gruppo Campari operates in the alcoholic and soft drinks segments, which are fiercely competitive and attract large numbers of players. The main competitors are large international groups, which are involved in the current wave of mergers and acquisitions and continue to implement aggressive strategies at a global level. The group's competitive position vis-à-vis the most important global players - which often have greater financial resources and benefit from more a diversified portfolio of brands and geographic locations - makes it more vulnerable to market competition risks.
- *Significant financial risk profile:* As of Dec. 31, 2010, Gruppo Campari's unadjusted total debt was €942m and its leverage was significant at about 3.2x. The group's cash flow protection measures reflect favourable cost of debt, however with EBITDA coverage of interest at 8.0x and an FFO/total debt ratio of 23% for fiscal 2010. With the acquisitive nature of the business (28 acquisitions have been made over the past decade), we do not expect to see a significant improvement in these ratios.
- *Brand concentration:* Although the group has a rich portfolio of 40 brands, about one-half of total sales generated in fiscal 2010 came from the top 5 brands (with SKYY Vodka representing 12%, Campari 12%, Aperol 9%, Wild Turkey 8%, and Camprisoda 6%).
- *Exposure to volatile costs of raw materials:* Gruppo Campari is exposed to volatility in commodity prices such as raw alcohol, grains, and packaging. The group partly offsets these risks by efficiency gains from global supply and production management.
- *Exposure to foreign exchange rate risk:* In 2010, more than 40% of the group's consolidated sales came from outside the EU. In light of further expansion across the group's international operations outside of the Eurozone, any significant fluctuation in exchange rates could hit its activities and operating results. This is particularly relevant for the US dollar and Brazilian real, where the group has significant exposure. However, the group's international production slightly moderates this risk by helping it to achieve a closer currency match between revenues and operating costs.

Davide Campari-Milano S.p.A.: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	1,163	1,008	942
Net income	156	137	127
EBITDA	299	265	224
Funds from operations (FFO)	216	178	140
CFO	186	233	146
Capex	67	61	48
FOCF	120	172	98
Total debt	942	927	507
Shareholders' equity	1,250	1,043	953
Cash and liquid financial assets	260	133	176
Total assets	2,651	2,378	1,806
Operating margin bef D&A (%)	25.7	26.3	23.8
EBITDA interest coverage (x)	8.0	8.5	9.0
FFO/total debt (%)	22.9	19.2	27.7
Return on capital (%)	8.2	8.7	9.0
Total debt/total capital (%)	42.9	47.0	34.7
Total debt/EBITDA (x)	3.2	3.5	2.3

Source: S&P Capital IQ.

William Demant Holding A/S

Business Activity

Business risk profile: Fair.
Financial risk profile: Intermediate.

Revenue mix: Hearing devices 88%, Diagnostic instruments 8%, Personal communication 4%.

Geographic revenue mix: Europe 43%, North America 38%, Pacific Rim 8%, Asia 7%, Others 4%.

Key shareholders: Oticon Foundation 60%, Board members 2%, Others 38%.

Credit Analysis

The credit profile of William Demant Holding reflects the following strengths:

- *Leading player:* William Demant is one of the leading hearing solutions providers, operating in a 10 million hearing aid product market. The group is active in three business areas. Hearing Aids provide hearing solutions through three companies: Bernafon in Switzerland, Oticon in Denmark, and Sonic in the U.S. The second area, Diagnostic Instruments, provides audiological equipments while the third, Personal Communication, is involved in wireless sound systems and assistive listening devices. The hearing-aid market is competitive and dominated by big players such as Siemens and Sonova. Other players include GN ReSound and Starkey Laboratories.
- *Reasonable diversity:* Geographic diversification is balanced with Europe contributing 43% of total sales in 2010, followed by America (38%), and Asia Pacific (15%). With continued investments in product development and significant launches in recent years, we view the company's product portfolio as strong, comprehensive, and competitive. The company enjoys a strong global distribution network and well-established partnerships with worldwide hearing-care professionals.
- *Improved credit measures and good free cash flow generation:* Credit measures have improved and remain in line with an intermediate financial risk profile. As of Dec. 31, 2010, unadjusted EBITDA interest coverage was 18.9x, FFO/debt was 50%, and leverage (total debt/EBITDA) was 1.5x. Historically, free cash flow generation has been good. Despite a materially unfavorable movement in working capital in 2010 - due to higher inventories and receivables, which was on account of higher sales and the success of the Oticon Agil product - the company still generated good free cash flow of DKK562m. Also, the liquidity position is adequate and debt maturities are manageable.
- *Growth prospects on the horizon:* The economic downturn has affected the hearing aids market (especially in the U.S.). Furthermore, reimbursement issues continue to challenge future prospects for this market. However, the market is expected to expand with an increasing number of young people opting for hearing aids, as well as from growth in the aging population. Also, the low penetration of hearing aids in Asia offers potential opportunities. The increased demand for quality healthcare - as well as rising incomes in the emerging economies (such as China, India, Brazil, Russia, and Taiwan) - offer new and potential opportunities to hearing-aid manufacturers.
- *High barriers to entry:* Technological competency and high quality standards have resulted in leading market positions for the company and high entry barriers.

These factors are partly offset by the following weaknesses:

- *Innovative product development key to success:* The hearing-aids market is experiencing significant advancements in technology, resulting in the introduction of innovative, cosmetically-appealing, and highly-efficient hearing systems. Some of the advancements include battery longevity, improved design to enable ease of use, and advanced digital signal processing, among others. Furthermore, digital hearing aids (with highly advanced signal processing) and customized hearing aids (with wireless technology enabling total communication) have come onto the market. Combined, these factors have resulted in significant price pressures, evolving competition dynamics, and increased product development costs.
- *Significant exposure to foreign-exchange movements:* With 97% of total revenues generated in foreign currencies, the company faces material risks related to foreign-exchange movement.
- *Reimbursement risk by public authorities:* Changes to the healthcare reimbursement system or cuts in the investment budget of public authorities can have a significant impact on the company. Since it is active across a large number of geographical markets, however, this risk is somewhat mitigated.
- *Acquisitive management:* Over the years, the company has expanded through acquisitions. This was particularly true in the past three years when it made significant acquisitions related to hearing-aid products worth DKK1.3bn. Given these acquisitions, we think the company faces high integration risks.

William Demant Holding A/S: Key Financials (Year ended Dec. 31)

(DKK million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	6,892	5,701	5,374
Net income	988	795	682
EBITDA	1,657	1,341	1,214
Funds from operations (FFO)	1,254	1,018	862
CFO	826	950	828
Capex	264	194	209
FOCF	562	756	619
Total debt	2,498	2,002	2,268
Shareholders' equity	2,443	1,302	532
Cash and liquid financial assets	240	152	142
Total assets	6,786	4,626	3,914
Operating margin bef D&A (%)	24.0	23.5	22.6
EBITDA interest coverage (x)	18.9	15.0	10.0
FFO/total debt (%)	50	51	38
Return on capital (%)	22	24	24
Total debt/total capital (%)	51	61	81
Total debt/EBITDA (x)	1.5	1.5	1.9

Source: S&P Capital IQ.

Grupa Zywiec SA

Business Activity

Business risk profile: Satisfactory.
Financial risk profile: Intermediate.

Revenue mix: Product: Beer 100%.

Geographic revenue mix: Almost 100% from Poland with additional exports.

Key shareholders: Brau Union AG 61.94%, Harbin B.V. 36.23%, others 1.83%.

Credit Analysis

The credit profile of Grupa Zywiec SA reflects the following strengths:

➤ *Leading market position:* Grupa Zywiec SA manufactures and sells beer and has a solid No. 2 position in the Polish beer market with about a 30% market share (behind Kompania Piwowarska, which has 38% market share and is majority owned by SAB Miller). The company is also involved in the wholesale, retail, export, and import of alcoholic and non-alcoholic beverages; in addition, it provides transport services. The Polish beer market is one of the world's top 10 by volume and the third largest in Europe, after Germany and the UK. The company's beers are brewed in five breweries located at Zywiec, Warka, Elblag, Lezajsk, and Cieszyn.

➤ *Brand recognition:* This leading market position is supported by strong brands such as Zywiec, Heineken, Warka, Strong, and Tatra. The portfolio is also comprised of local brands such as Królewskie, Lezajsk, which dominate in south-eastern Poland, and Specjal, which is popular in the north.

➤ *Strong parental support:* Heineken NV, the third largest brewer globally in terms of volume (after Anheuser-Busch InBev and SAB-Miller) and second largest brewer in terms of revenues, is a major shareholder in Grupa Zywiec. Heineken owns a 61.9% holding in the company through Brau Union AG.

➤ *Intermediate financial risk profile with good cash flow generation:* Grupa Zywiec's unadjusted total debt was PLN785m, or about 1.2x EBITDA, as of Dec. 31, 2010. Cash flow protection measures are strong with EBITDA coverage of interest at 17.7x and an FFO/total debt ratio of 77% for fiscal 2010. Over the past couple of years, the company has generated good free cash flow on the back of sound working capital management and a moderation in capital expenditure. This has been achieved despite very difficult trading conditions in the beer sector. However, over the same period, more than 85% of FCF was used to pay out dividends. Given the company's parental support, liquidity does not seem to be an issue.

These factors are partly offset by the following weaknesses:

➤ *Continuous decline in revenue and EBITDA over the past three years:* Due to difficult market conditions, beer volumes declined significantly in Poland, which in turn has affected revenues and EBITDA. With a stagnated beer market expected for 2011, together with pricing pressure from higher input costs and increases in VAT, we expect revenues and margins to remain under pressure throughout 2011 at least.

➤ *Low operating margins:* The company's profitability at 18% remains well below that of its peers. In light of very volatile agricultural commodity costs, we expect profitability to be pressured over the short term.

➤ *Volatile commodity costs:* The company is exposed to volatile commodity prices, especially barley, which tends to track pricing in the broader wheat and cereal markets. It is also exposed to aluminum and oil prices that affect the cost of packaging and distribution. The company partly mitigates these risks through operating efficiency initiatives and supply chain risk management globally. Raw materials (commodities) account for about one-third of the company's cost structure.

➤ *Geographic concentration:* There is a significant geographic concentration because the company is predominantly present in Poland. As a result, any significant policy changes by the government or an economic downturn could materially affect the company.

Grupa Zywiec SA: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	3,631	3,730	3,810
Net income	399	370	416
EBITDA	660	675	821
Funds from operations (FFO)	608	510	632
CFO	693	606	684
Capex	86	139	262
FOCF	607	467	422
Total debt	785	845	921
Shareholders' equity	589	704	725
Cash and liquid financial assets	28	25	54
Total assets	2,309	2,711	2,583
Operating margin bef D&A (%)	18.2	18.1	21.6
EBITDA interest coverage (x)	17.7	16.9	12.5
FFO/total debt (%)	77.5	60.3	68.6
Return on capital (%)	19.6	16.7	21.7
Total debt/total capital (%)	57.1	54.6	56.0
Total debt/EBITDA (x)	1.2	1.3	1.1

Source: S&P Capital IQ.

Sartorius AG

Business Activity

Business risk profile: Fair.
Financial risk profile: Intermediate.

Revenue mix: Biotechnology 65.6%, Mechatronics 34.4%.

Geographic revenue mix: Europe 52.6%, North America 22.3%, Asia Pacific 21%, Others 4.1%.

Key shareholders: Bio-Rad Laboratories Inc. 25%, Administered by executor 50%, Sartorius AG 9% (treasury stock), Sartorius Family 7%, Others 9%.

Credit Analysis

The credit profile of Sartorius AG reflects the following strengths:

- *Competitive position of the biotechnology division:* The biotechnology division of Sartorius is one of the leading manufacturers of lab balances and it enjoys a good market share.
- *Low correlation with economic cycle for the biotechnology division:* The impact of recent weak economic conditions on the biotechnology division was low, signifying a low correlation with economic cyclicality. Moreover, we note the division has experienced revenue growth over the past five years.
- *Geographic diversity:* Sartorius' geographic diversity is balanced. In 2010, Europe contributed 52.6% of total revenues, North America 22.3%, and Asia Pacific 21%.
- *High barriers to entry:* The company caters to highly-regulated sectors such as the pharmaceutical and food industries. Its products and processes utilize difficult and/or costly-to-obtain advanced technologies: factors which serve as an entry barrier for newer competitors.
- *Intermediate financial risk profile:* As of Dec. 31, 2010, Sartorius' unadjusted total debt was €224.7m and its leverage was about 2.2x. Furthermore, cash flow protection measures are good with unadjusted EBITDA coverage of interest at 13.9x and an FFO/total debt ratio of 39.9% (for fiscal 2010).
- *Good free operating cash flow generation.* Thanks to a consistent improvement in operating performance, the company's free operating cash flow generation has been good. It has generated about €100m on average for the past two years.
- *Adequate liquidity:* The company's liquidity position is adequate with €27.7m of cash and €200m available under its agreed credit lines, which totaled €434.5m as of Dec. 31, 2010.

These factors are partly offset by the following weakness:

- *Highly competitive industry:* Sartorius operates under highly competitive conditions. Within the industry, the company faces competition from larger players like Merck Millipore and Pall Corp in the biotechnology segment, and from Mettler-Toledo in the mechatronics segment.
- *Relatively lower margins:* Although Sartorius has delivered improvements in EBITDA margins over the past couple of years, its current margin of about 15% continues to be lower than those of most other competitors. That said, EBITDA margins have improved by 300 basis points over the past two years; and this was achieved despite revenue declines in 2009. Moreover, we note the margin improvement appears to be sustainable. However, the company will have to further improve its operating performance to achieve margins comparable with other technology and service providers.
- *Competitive position of mechatronics division:* The division has a low market share outside of Europe, especially in the industrial segment. We note that the company considers its industrial weighing equipment business to be non-core, and accordingly has low expectations for it.
- *High correlation with the economic cycle for the mechatronics division:* The division's revenues have a higher degree of correlation with the economic cycle than those of the biotechnology division. Revenues at the mechatronics division declined by 5% and 18% year on year in 2008 and 2009, respectively. This was a result of the recent economic downturn.
- *Consolidation in pharmaceutical industry:* The pharmaceutical industry has witnessed a significant number of merger and acquisitions of late. When a newly-combined entity reviews its supplier structure, the process usually results in a reduction in the number of suppliers. Such transactions could significantly affect Sartorius' biotechnology division because the pharmaceutical industry provides a major part of its client base.

Sartorius AG: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	659	602	612
Net income	31	-7	12
EBITDA	100	78	73
Funds from operations (FFO)	90	53	67
CFO	96	143	53
Capex	16	16	25
FOCF	80	128	28
Total debt	225	283	240
Shareholders' equity	277	273	290
Cash and liquid financial assets	28	59	22
Total assets	808	820	865
Operating margin bef D&A (%)	15.2	13.0	11.9
EBITDA interest coverage (x)	13.9	7.4	4.3
FFO/total debt (%)	39.9	18.9	28.1
Return on capital (%)	7.9	5.4	5.2
Total debt/total capital (%)	40.7	47.0	41.8
Total debt/EBITDA (x)	2.2	3.6	3.3

Source: S&P Capital IQ.

Fiberweb plc

Business Activity

Business risk profile: Weak.
Financial risk profile: Significant.

Revenue mix: Hygiene division 59%, Industrial division 41%.

Geographic revenue mix: United Kingdom 4%, United States 35.5%, Sweden 11.5%, Germany 16.4%, Italy 18.4%, China 7.5%, Other 6.6%.

Key shareholders: Templeton Investment Council 12%.

Credit Analysis

The credit profile of Fiberweb plc reflects the following weaknesses:

- *Highly competitive market:* The company operates in the highly competitive, specialty, non-woven fabrics market. Competition in the industry is based on the range and quality of products offered, the ability to deliver new products, geographical reach, reputation, price, and customer relationships. Large customers in the hygiene market create strong competition to win contracts. We also note the industrial market is highly fragmented. Fiberweb faces competition at various levels depending on the application, which emphasizes the need for continually investing in the research and development of new products.
- *Vulnerable to volatile raw-material costs:* Raw material outlay is a significant cost component, representing about 50% of revenues. The key raw materials are polypropylene and polyester, the prices of which are volatile and depend primarily on the price of crude oil, monomer and polymer manufacturing capacity, and demand. Historically, polypropylene price increases have pressured the company's margins.
- *Customer concentration and supplier dependence:* In 2010, Procter & Gamble - through a large number of different contracts and purchasing arrangements of varying durations - accounted for about 24% of sales; and the top 10 customers accounted for 46% of sales. The loss of one or more of these customers could have a material impact on the business. The company is also dependent on a small number of critical suppliers for polypropylene and other resins and fibers. Any disruption in the supply chain could adversely affect the company.
- *Significant financial risk profile:* As of Dec. 31, 2010, leverage (debt/EBITDA) was 3.8x, and it has been in this area for the past three years. As of the same date, the FFO/debt ratio improved to 30%, up from 21% a year earlier, mainly due to improved FFO generation. Free operating cash flow generation has been volatile over the past four years owing to varying CFO generation. For the year ended Dec. 31, 2010, FOCF was £5m. Fiberweb has also experienced high working capital volatility relative to its income.

These factors are partly offset by the following strengths:

- *Leading position in a niche market:* Fiberweb, a U.K.-based company, is one of the world's largest and leading suppliers of specialty, non-woven fabrics. Non-woven materials developed, manufactured, and marketed by Fiberweb are used in a wide variety of everyday products such as filters, baby diapers, construction products, and feminine care. It operates principally in Europe, North America, and Asia.
- *Diverse range of products:* In the industrial market, Fiberweb manufactures a diverse range of non-woven products. The company operates across a number of areas, including construction, filtration, landscape, furniture and bedding, and specialties. In the construction arena, its major focus includes housewrap (weather protection), landscape, and geotextile markets. Fiberweb's 'Typar' is the second largest brand for housewrap in North America, and in Canada it is the leading market brand. The company is the market leader in pool and spa filtration under its brand 'Reemay'. Its hygiene business provides non-woven fabrics to major consumer-goods companies around the world; these applications include baby care, feminine hygiene, and adult incontinence.
- *Stable operating margins:* For the year ended Dec. 31, 2010, the operating margin was 10%, and it has been stable at 9%-10% over the past four years. The company has maintained margins through a period of increasing raw material costs, ongoing and severe recessions in many of its markets, and a high degree of economic uncertainty, which prevailed in 2009-2010.
- *Sufficient liquidity over the near term:* As of Dec. 31, 2010, the company had £26m of cash and a £210m multi-currency revolving credit facility, under which it had £36m available. These resources are sufficient to pay its debt maturities of £8m in 2011 and £9m in 2012. From years three to five, debt maturities total £161m.

Fiberweb PLC: Key Financials (Year ended Dec. 31)

(GBP million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	463	454	513
Net income	7	1	-22
EBITDA	48	47	48
Funds from operations (FFO)	53	36	44
CFO	38	51	56
Capex	33	26	33
FOCF	5	25	23
Total debt	179	175	184
Shareholders' equity	179	173	196
Cash and liquid financial assets	26	32	26
Total assets	492	476	546
Operating margin (%)	10.3	10.4	9.3
EBITDA interest coverage (x)	8.1	8.3	5.0
FFO/total debt (%)	29.6	20.7	24.0
Return on capital (%)	3.9	3.0	3.0
Total debt/total capital (%)	50.1	50.4	48.4
Total debt/EBITDA (x)	3.8	3.7	3.9

Source: S&P Capital IQ.

VK Muehlen AG

Business Activity

Business risk profile: Weak.
Financial risk profile: Highly Leveraged.

Revenue mix: Milled products 81.6%, Rice, pulse and ready-to-serve meals 12.2%, Special flours 6.2%.

Geographic revenue mix: Domestic sales 78.9%, International sales (Poland and Hungary) 21.1%.

Key shareholders: LLI Euromills GmbH 51%, Lantmännen Cerealia AB 18.4%, BayWa AG 10.0%, Georg Olbrich 10.0%, Gothaer Versicherung WaG 6.9%, Others 3.7%.

Credit Analysis

The credit profile of VK Muehlen AG reflects the following weaknesses:

- *Participation in a highly competitive, low-margin, commodity-oriented business:* VK Muehlen operates in a mature and highly fragmented market. In addition, we note there is pricing flexibility due to competition and pressure from retailers. Combined, these factors imply only slow growth in the future, in our view.
- *Susceptibility to weather conditions:* Adverse weather conditions can cause corn and wheat supplies to tighten. Consequently, prices are at risk of moving significantly higher.
- *Higher corn prices and overall price volatility for commodities remain key risks beyond 2011:* Agricultural commodity prices have risen sharply recently and are expected to remain volatile in the future. As a result, we expect cash flow growth, margin resilience, financial policies - especially the management of inflationary pressures - and liquidity to remain important factors for the company.
- *Depressed profitability as long-term contract pricing contributes to margin erosion during inflationary cycles:* While processed volumes increased by 5% in 2010, revenues declined by 12.5% after decreasing by 18.5% a year earlier: this was on account of fierce competition created by the industry's overcapacity, which meant the price of flour reached a level that was not covering costs. We expect VK Muehlen to remain a low-margin business: profitability has averaged about 4% over the past three years. EBITDA margins are expected to remain under pressure because of higher energy and other related commodity costs.
- *Weak financial performance:* We note negative free cash flow generation during periods of either rising commodity prices or volatile market conditions is common because companies have to finance higher-cost inventories. However, the decline in the company's revenues and subsequent pressure on EBITDA is a concern: while free operating cash flow was positive in 2008 and 2009, it deteriorated to negative €17m in 2010, burdened by substantial and ongoing capital expenditures. Also in 2010, VK Muehlen's unadjusted total debt increased to €133m from €113m in 2009. We expect a continuation of weak financial results as a result of intense competition.
- *Two pending antitrust suits:* Currently, two probes into the company's workings have been launched on the suspicion of price collusion with other milling companies. The amount of administrative fines, as well as timing thereon, cannot presently be determined, however. We understand the company has already created provisions for this purpose.

These factors are partly offset by the following strengths:

- *Established brands:* The company's brands, namely Aurora, Diamond, and Müller's Mühle, are well regarded.
- *Established industry position:* We note the company's position as a major player in the European milling industry.
- Long-standing customer relationships.

VK Muehlen AG: Key Financials (Year ended Sept. 30)

(EUR million)	Sept. 2010	Sept. 2009	Sept. 2008
Revenue	530	606	744
Net income	-16	12	10
EBITDA	-6	31	38
Funds from operations (FFO)	-16	22	27
CFO	3	44	28
Capex	19	16	11
FOCF	-17	28	17
Total debt	133	113	130
Shareholders' equity	88	105	106
Cash and liquid financial assets	5	4	3
Total assets	366	340	368
Operating margin before D&A (%)	-1.1	5.1	5.1
EBITDA interest coverage (x)	NM	4.7	4.0
FFO/total debt (%)	-12.0	19.1	21.1
Return on capital (%)	-4.8	5.3	6.8
Total debt/total capital (%)	58.3	50.6	53.8
Total debt/EBITDA (x)	N/A	3.7	3.4

Source: S&P Capital IQ.

Vranken-Pommery Monopole SA

Business Activity

Business risk profile: Weak.
Financial risk profile: Highly Leveraged.

Geographic revenue mix: France 59%, Europe excluding France 33.2%, Rest of World 2.8%.

Key shareholders: Compagnie Vranken pour le Haut Commerce 70.9%, Vranken Pommery Monopole 1.1%, Paul-François Vranken 0.08%.

Brands: Demoiselle, Pommery, Vranken, Charles Lafitte, Heidsieck & C°, Monopole.

Credit Analysis

The credit profile of Vranken-Pommery Monopole reflects the following weaknesses:

- *Exposure to economic cycles:* Historical trends show that champagne consumption decreases during economic downturns. Following a period of steadily growing demand, champagne companies faced a very difficult market environment from mid-2008 until the end of 2009. This was a result of the declining buying power of consumers, as well as some destocking effects.
- *Exposure to grape prices variations:* Within the industry, Champagne makers only own 10% of the vineyards but sell 66% of the bottles. To fill the procurement gap, grapes are purchased from grape growers. However, the region's grape supply is limited because it operates within a regulated area of production; moreover, the area planted is now nearing the legal PDO size limit. These resource constraints have the capacity to pressure grape prices.
- *Highly-leveraged financial risk profile:* Vranken Pommery's unadjusted total debt stood at €556m as of December 2010, which translated into leverage (calculated as the ratio of EBITDA to unadjusted total debt) of 11.8x. In addition, cash flow protection measures are weak with unadjusted EBITDA coverage of interest of 2.4x and an FFO/total debt ratio of 4.9% for the financial year 2010.
- *Negative free cash flow generation:* Historically, the company has been free cash flow negative due to its working capital intensity - which results from the required aging process for champagne production - and a high debt burden.

These factors are partly offset by the following strengths:

- *Established market position:* With about 20 million bottles sold annually, Vranken Pommery is the second largest player in the champagne market behind LVMH. The global champagne market was estimated at about 320 million bottles in 2010. The market is quite concentrated because it is dominated by less than 10 big producers.
- *High barriers to entry given niche product:* The Champagne appellation is very tightly controlled and champagne producers must comply with strict rules. These factors, in our view, introduce very high barriers to entry. Specific barriers, for example, stem from the three-year processing time from harvest to sale of bottles, which requires very high storage capacities of more than a billion bottles.

Vranken-Pommery Monopole SA: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	364	270	283
Net income	15	18	12
EBITDA	47	43	55
Funds from operations (FFO)	27	13	15
CFO	34	6	-21
Capex	12	8	14
FOCF	22	-2	-35
Total debt	556	568	535
Shareholders' equity	311	252	202
Cash and liquid financial assets	8	5	5
Total assets	1,133	1,066	946
Operating margin (%)	12.9	15.8	19.3
EBITDA interest coverage (x)	2.4	3.5	1.9
FFO/total debt (%)	4.9	2.3	2.8
Return on capital (%)	2.8	2.7	3.8
Total debt/total capital (%)	64.1	69.6	72.6
Total debt/EBITDA (x)	11.8	13.3	9.8

Source: S&P Capital IQ.

Tom Tailor Holding AG

Business Activity

Business risk profile: Weak.
Financial risk profile: Aggressive

Revenue mix: Product: Men casual (38%), Women casual (32%), Kids & minis (13%), Denim male (9%), Denim female (7%) and Licenses (1%) Channel: Wholesale (69%) and Retail (31%).

Geographic revenue mix: Germany (68%) and International (32%).

Key shareholders: Morgan Finance (8.96%), Management (1.96%) and free float (89.08%).

Credit Analysis

The credit profile of Tom Tailor Holding AG reflects the following weaknesses:

➤ *Competitive apparel industry:* Tom Tailor operates in a highly competitive, fragmented and cyclical apparel industry, which is vulnerable to fashion risk and changes in consumer discretionary spending. The market is fragmented and includes numerous small, medium-sized, local as well as regional players and is characterized by heavy promotional retail environment. Due to its presence in commodity-like products, it is susceptible to fluctuating commodity costs. With increased sourcing of clothing from regions with low production costs such as the Far East, Eastern Europe, and southern Asia, there is significant price competition among retailers which has led to declining prices across Europe. In addition, the proportion of disposable income spent on clothing has been decreasing because consumers are increasingly spending on leisure and entertainment.

➤ *Moderate geographic and balanced product diversification:* Geographical diversification is moderate, with Germany representing 68%, and a significant presence in the other core foreign markets of Austria, Switzerland, the Benelux countries and France. The Group also plans to further develop its market position in the eastern European countries showing strong industry growth rates, and to enter into new markets such as Poland. Product diversification is balanced with the company covering all segments like Men Casual, Women Casual, Kids & Minis, Denim Male and Denim Female.

➤ *Aggressive financial risk profile:* With the repayment of about €130 million of debt from the IPO proceeds, credit measures have improved but remain aggressive with operating lease adjusted ** leverage at around 4.0x, EBITDA coverage of interest at around 2.3x and FFO/ debt at 20% as on December 31, 2010. For the same period reported leverage was at 1.9, EBITDA coverage of interest at 3.5x and FFO/ Debt at 32%. This aggressive financial risk profile was further tempered by the current negative FOCF generation, which was due to unfavorable movement in working capital (increase in inventories due to increase in sales and retail stores opening).

➤ *High input cost to put pressure on operating margins:* With higher cost of cotton, labor and freight expected in 2011, we anticipate operating margin to come under pressure. This concern is further aggravated by the fact that 83% of the products are sourced from China and other Asian countries, particularly where we expect a significant rise in both, labor and freight costs. Further pressure stems from the company's plans to open more retail stores, which in turn will result in higher upfront costs.

These factors are partly offset by the following strengths.

➤ *Among the leading players in the German market:* Tom Tailor is one of the leading German apparel companies, offering a variety of apparel products and accessories to a broad target group under 2 brands, Tom Tailor Casual and Tom Tailor Denim. Tom Tailor markets its products in the core markets of Germany, Austria, Switzerland, the Benelux countries and France. With its 158 own operated stores, the E-Shop (in Germany, Austria and Netherlands), 175 franchise stores, 1,441 shop-in-shops and more than 6,000 multi-label points of sale, the group has presence in 35 countries.

➤ *Significant brand recognition in the German market:* Brand awareness constitutes the most important key success criteria for garment manufacturers offering branded labels. The Tom Tailor brand remains one of the very good consumer apparel brands in Germany. With rapid growth seen over the last decade, it has established a loyal customer base and a high level of brand recognition.

➤ *Multi-Channel distribution:* Tom Tailor distributes its products to customers through resellers using franchise stores, shop-in-shops and multi-label stores. It also sells its products directly to customers using company-owned stores, including centre stores, city stores, flagship stores and outlets, as well as through a Internet-based online shop. In addition, it licenses and markets accessories such as, shoes, leather goods, belts, underwear products, bags, perfumes, watches, sunglasses and bed sheets.

➤ *Strengthened capital base and increased financial flexibility post IPO:* The recent IPO in March 2010 has strengthened the capital base and increased financial flexibility. This will also allow for further development of the successful and profitable business model in the area of controlled retail space. Liquidity position is also adequate with cash balance of €22 million, against which there are no significant debt maturities until January 2014 when about €54 million of debt matures.

***Present value of operating lease adds to around €130 million to the total debt (assuming the discount factor of 10%).*

Tom Tailor Holding AG: Key Financials (Year ended Dec. 31)

(EUR million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	352	304	288
Net income	2	-6	-25
Recurring EBITDA	40	37	27
Funds from operations (FFO)	25	24	14
CFO	15	25	20
Capex	25	12	24
FOCF	-10	13	-4
Total debt	78	203	206
Shareholders' equity	97	-68	-63
Cash and liquid financial assets	22	14	11
Total assets	295	250	253
Operating margin (%)	11.4	12.2	9.2
EBITDA interest coverage (x)	3.5	2.1	1.2
FFO/total debt (%)	32.1	11.7	6.7
Return on capital (%)	6.5	9.5	-4.0
Total debt/total capital (%)	43.8	150.7	143.4
Total debt/EBITDA (x)	1.9	5.5	7.8

Source: S&P Capital IQ.

Business Risk/Financial Risk Matrix Expanded

Primary Credit Analysts:
Solomon B Samson, New York, (1) 212-438-7653;
sol_samson@standardandpoors.com

Emmanuel Dubois-Pelerin, Paris, (33) 1-4420-6673;
emmanuel_dubois-pelerin@standardandpoors.com

Editor's Note:
Standard & Poor's Ratings Services is refining its methodology for corporate ratings related to its business risk/financial risk matrix, which we published as part of *"2008 Corporate Ratings Criteria" on April 15, 2008*, on RatingsDirect at www.ratingsdirect.com and Standard & Poor's Web site at www.standardandpoors.com.

This article amends and supersedes the criteria as published in *Corporate Ratings Criteria, page 21*, and the articles listed in the "Related Articles" section at the end of this report.

This article is part of a broad series of measures announced last year to enhance our governance, analytics, dissemination of information, and investor education initiatives. These initiatives are aimed at augmenting our independence, strengthening the rating process, and increasing our transparency to better serve the global markets.

We introduced the business risk/financial risk matrix four years ago. The relationships depicted in the matrix represent an essential element of our corporate analytical methodology.

We are now expanding the matrix, by adding one category to both business and financial risks *(see table 1)*. As a result, the matrix allows for greater differentiation regarding companies rated lower than investment grade (i.e., 'BB' and below).

The rating outcomes refer to issuer credit ratings. The ratings indicated in each cell of the matrix are the midpoints of a range of likely rating possibilities. This range would ordinarily span one notch above and below the indicated rating.

Business Risk/Financial Risk Framework

Our corporate analytical methodology organizes the analytical process according to a common framework, and it divides the task into several categories so that all salient issues are considered. The first categories involve fundamental business analysis; the financial analysis categories follow.

Our ratings analysis starts with the assessment of the business and competitive profile of the company. Two companies with identical financial metrics can be rated very differently, to the extent that their business challenges and prospects differ. The categories underlying our business and financial risk assessments are:

Business risk

- Country risk
- Industry risk
- Competitive position
- Profitability/Peer group comparisons

Financial risk

- Accounting
- Financial governance and policies/risk tolerance
- Cash flow adequacy
- Capital structure/asset protection
- Liquidity/short-term factors

We do not have any predetermined weights for these categories. The significance of specific factors varies from situation to situation.

Table 1: Business And Financial Risk Profile Matrix

	Financial Risk Profile					
Business Risk Profile	**Minimal**	**Modest**	**Intermediate**	**Significant**	**Aggressive**	**Highly Leveraged**
Excellent	AAA	AA	A	A-	BBB	—
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	—	BBB-	BB+	BB	BB-	B
Weak	—	—	BB	BB-	B+	B-
Vulnerable	—	—	—	B+	B	CCC+

These rating outcomes are shown for guidance purposes only. Actual rating should be within one notch of indicated rating outcomes.

Updated Matrix

We developed the matrix to make explicit the rating outcomes that are typical for various business risk/financial risk combinations. It illustrates the relationship of business and financial risk profiles to the issuer credit rating.

We tend to weight business risk slightly more than financial risk when differentiating among investment-grade ratings. Conversely, we place slightly more weight on financial risk for speculative-grade issuers *(see table 1, again)*. There also is a subtle compounding effect when both business risk and financial risk are aligned at extremes (i.e., excellent/minimal and vulnerable/highly leveraged.)

The new, more granular version of the matrix represents a refinement—not any change in rating criteria or standards—and, consequently, holds no implications for any changes to existing ratings. However, the expanded matrix should enhance the transparency of the analytical process.

Financial Benchmarks
How To Use The Matrix—And Its Limitations

The rating matrix indicative outcomes are what we typically observe—but are not meant to be precise indications or guarantees of future rating opinions. Positive and negative nuances in our analysis may lead to a notch higher or lower than the outcomes indicated in the various cells of the matrix.

In certain situations there may be specific, overarching risks that are outside the standard framework, e.g., a liquidity crisis, major litigation, or large acquisition. This often is the case regarding credits at the lowest end of the credit spectrum—i.e., the 'CCC' category and lower. These ratings, by definition, reflect some impending crisis or acute vulnerability, and the balanced approach that underlies the matrix framework just does not lend itself to such situations.

Similarly, some matrix cells are blank because the underlying combinations are highly unusual—and presumably would involve complicated factors and analysis.

The following hypothetical example illustrates how the tables can be used to better understand our rating process *(see tables 1 and 2)*.

We believe that Company ABC has a satisfactory business risk profile, typical of a low investment-grade industrial issuer. If we believed its financial risk were intermediate, the expected rating outcome should be within one notch of 'BBB'. ABC's ratios of cash flow to debt (35%) and debt leverage (total debt to EBITDA of 2.5x) are indeed characteristic of intermediate financial risk.

Table 2: Financial Risk Indicative Ratios (Corporates)

	FFO/Debt (%)	Debt/EBITDA (x)	Debt/Capital (%)
Minimal	greater than 60	less than 1.5	less than 25
Modest	45-60	1.5-2	25-35
Intermediate	30-45	2-3	35-45
Significant	20-30	3-4	45-50
Aggressive	12-20	4-5	50-60
Highly Leveraged	less than 12	greater than 5	greater than 60

It might be possible for Company ABC to be upgraded to the 'A' category by, for example, reducing its debt burden to the point that financial risk is viewed as minimal. Funds from operations (FFO) to debt of more than 60% and debt to EBITDA of only 1.5x would, in most cases, indicate minimal.

Conversely, ABC may choose to become more financially aggressive—perhaps it decides to reward shareholders by borrowing to repurchase its stock. It is possible that the company may fall into the 'BB' category if we view its financial risk as significant. FFO to debt of 20% and debt to EBITDA 4x would, in our view, typify the significant financial risk category.

Still, it is essential to realize that the financial benchmarks are guidelines, neither gospel nor guarantees. They can vary in nonstandard cases: For example, if a company's financial measures exhibit very little volatility, benchmarks may be somewhat more relaxed.

Moreover, our assessment of financial risk is not as simplistic as looking at a few ratios. It encompasses:

- a view of accounting and disclosure practices;
- a view of corporate governance, financial policies, and risk tolerance;
- the degree of capital intensity, flexibility regarding capital expenditures and other cash needs, including acquisitions and shareholder distributions; and
- various aspects of liquidity—including the risk of refinancing near-term maturities.

The matrix addresses a company's standalone credit profile, and does not take account of external influences, which would pertain in the case of government-related entities or subsidiaries that in our view may benefit or suffer from affiliation with a stronger or weaker group. The matrix refers only to local-currency ratings, rather than foreign-currency ratings, which incorporate additional transfer and convertibility risks. Finally, the matrix does not apply to project finance or corporate securitizations.

Standard & Poor's Ratings Services Offices

Europe, Middle East & Africa

London
20 Canada Square
Canary Wharf
London E14 5LH, UK
Tel: +44-207-176-3800

Frankfurt
Torsten Hinrichs
Standard & Poor's Credit Market Services
Neue Mainzer Straße 52 - 58
D-60311 Frankfurt am Main, Germany
Tel. +49-69-33-999-110

Paris
Carol Sirou
Standard & Poor's CMS France
40 rue de Courcelles
75008 Paris, France
Tel: +33-1-4420-6662

Milan
Maria Pierdicchi
The McGraw-Hill Companies Srl
divisione Standard & Poor's
Vicolo San Giovanni sul Muro, 1
20121 Milano, Italy
Tel: +39-02-72-111-204

Madrid
Myriam Fernandez de Heredia
Marqués de Villamejor, 5
28006 Madrid, Spain
Tel: +34-91-389-6942

Stockholm
Peter Tuving
Mäster Samuelsgatan 6
P.O. Box 1753
111 87 Stockholm, Sweden
Tel: +46-8-440-5913

Moscow
Alexei Novikov
Business Center Mokhovaya
4/7 Vozdvizhenka St.
Bldg. 2, 7th Floor
Moscow 125009, Russia
Tel: +7-495-783-4012

Johannesburg
Konrad Reuss
Unit 4, 1 Melrose Boulevard
Melrose Arch
Johannesburg, South Africa
Tel: +27-11-2141-991

Dubai
Dubai International Financial Centre
Al Fattan Currency House, level 2
PO Box 506650
Dubai, United Arab Emirates
Tel: +971-4-372-7100

Tel Aviv
12 Abba Hillel Silver Street
Ramat Gan
Tel Aviv, Israel 52506
Tel: +972-3-753-9700

Europe, Middle East & Africa

Corporate & Government Ratings Services Europe, Middle East & Africa

Head: Yann Le Pallec
Paris
Phone: +33-1-4420-6725
Fax: +33-1-4420-6697
Email: yann_lepallec@standardandpoors.com

Corporate Ratings

Head: Christian Dinwoodie
London
Phone: +44-207-176-3516
Fax: +44-207-176-7201
Email: christian_dinwoodie@standardandpoors.com

Consumer & Healthcare Corporate Ratings

Tobias Mock
Frankfurt
Phone: +49-69-3399-9126
Fax: +49-69-3399-9129
Email: tobias_mock@standardandpoors.com

Christian Wenk
London
Phone: +44-207-176-3511
Fax: +44-207-176-3690
Email: christian_wenk@standardandpoors.com

Anna Overton
London
Phone: +44-207-176-3642
Fax: +44-207-176-3690
Email: anna_overton@standardandpoors.com

Olaf Toelke
Frankfurt
Phone: +49-69-3399-9125
Fax: +49-69-3399-9129
Email: olaf_toelke@standardandpoors.com

Client Business Management

Tim Poole
London
Phone: +44-207-176-3573
Fax: +44-207-176-7221
Email: timothy_poole@standardandpoors.com

Dubai

Frankfurt

Johannesburg

London

Madrid

Milan

Moscow

Paris

Stockholm

Tel Aviv