

Mainstream Marijuana: How Consumer Goods Companies Will Capitalize On The Growing Acceptance Of Cannabis

June 19, 2019

Key Takeaways

- We see a growing acceptance of legal cannabis over the next decade, with consumer product companies beginning to offer a range of products including recreational marijuana, health and beauty products, cannabis infused beverages, and treatments for insomnia and anxiety.
- Successful cannabis offerings will need to have an acceptable taste, accurate dosage levels, a predictable time of onset, and sufficiently long shelf life. A product's image may also play a role in its acceptance, especially if it is used in social settings.
- Most large companies are entering the market for cannabis products on a small scale through joint ventures that protect the balance sheet, but also allow for further investment as the market heats up.
- In addition to risks arising from product taxation, regulatory changes, and potential health concerns, companies will have to worry about competition from illegal sources.
- Over the next two years we don't expect cannabis, by itself, to drive rating activity at any large consumer product company. But we think that rating actions could materialize over the subsequent five years as issuers succeed (or fail) at capitalizing on cannabis opportunities, including by possibly increasing leverage significantly .

PRIMARY CREDIT ANALYSTS

Gerald T Phelan, CFA

Chicago

(1) 312-233-7031

gerald.phelan
@spglobal.com

Chris Johnson, CFA

New York

(1) 212-438-1433

chris.johnson
@spglobal.com

The growing acceptance of cannabis for use in industrial, medical, and consumer goods has spurred some of the largest consumer product companies in the world to make billion dollar investments in this nascent business. S&P Global Ratings believes that these companies are only just beginning to jump into a market likely to expand greatly over the next decade as cannabis products increasingly go mainstream. The legalization of recreational marijuana gets the headlines. But consumer product companies are eyeing everything from THC-infused beer to dog treats laced with cannabis, even as they keep a close eye on regulatory developments and their balance sheets.

Investment in cannabis is coming as more and more U.S. states have chosen to legalize medical or recreational marijuana—as did all of Canada in October 2018. Indeed, asset prices for many small pure-play cannabis firms have skyrocketed over the last year as larger corporations established joint ventures or other types of partnerships with them. The makers of alcoholic and non-alcoholic beverages, health and beauty care products, and cigarettes, are among companies considering selling cannabis products, either to capitalize on its use or as a defensive marketplace measure. And despite growing—but not yet total—legalization, these companies will still worry that consumers may ultimately opt to ignore mainstream sellers and buy illicit products.

While we see no significant rating actions directly related to cannabis at major consumer product companies over the next two years, we could subsequently see such actions depending on market dynamics, consumer preferences, legislative and regulatory action, and a company's appetite to incur additional debt. There will be winners with improved credit measures and market positions, and losers who have misread the changing environment, missed opportunities for growth, or encountered financial or regulatory difficulty. The evolving attitude toward cannabis around much of the world however, cannot be denied, and companies large and small are generally doing their best not to live in denial.

What Is Cannabis?

Cannabis is a family of plants which includes hemp and marijuana. Cannabis contains a variety of different compounds called cannabinoids, the most dominant of which are tetrahydrocannabinol (THC) and CBD. THC induces psychoactive effects. It's the compound that gets users 'high'. CBD is not psychoactive, but its advocates believe it can help treat anxiety, chronic pain, sleep ailments, and mood disorders, among other ailments. Hemp, which is typically grown as a fiber, cannot contain more than 0.3% of THC—whereas marijuana typically has 15% to 40% THC.

Hemp is used primarily for industrial purposes including the production of paper, clothing, building materials, biofuel, food products, and oils, as well as a variety of other THC-free CBD products. The 2018 U.S. Farm Bill legalized hemp in the U.S.—although with significant restrictions. Marijuana is used mainly for recreational and medicinal purposes, and can be smoked, inhaled, or ingested. Less frequently, marijuana oil extract is injected with a needle.

Consumer goods that may see growth or disruption from cannabis include, but are not limited to over-the-counter healthcare, alcoholic and non-alcoholic beverages, tobacco, packaged food, beauty, personal care, and pet care.

Growing Like Weeds

According to the market research outfit Euromonitor International, the global cannabis market totals around \$150 billion today, over 90% of which is illicit. However, Euromonitor forecasts that the legal cannabis market may increase over the next seven years by a 45% compound annual growth rate, to about \$166 billion by 2025, from \$12 billion in 2018. We believe this outlook assumes legalization of new markets, most notably the U.S., whose current illicit market is estimated at close to \$50 billion annually, or about a third of the total legal and illicit market globally. We believe that the rapid growth we project will hinge on further legalization among U.S. states, or at least a federal government which cedes oversight to the states. Broad decriminalization of cannabis, whereby people with small amounts of marijuana for personal use are given only a modest fine, can be the first step towards full legalization.

We believe that over the next decade most legal cannabis growth will occur in more socially liberal

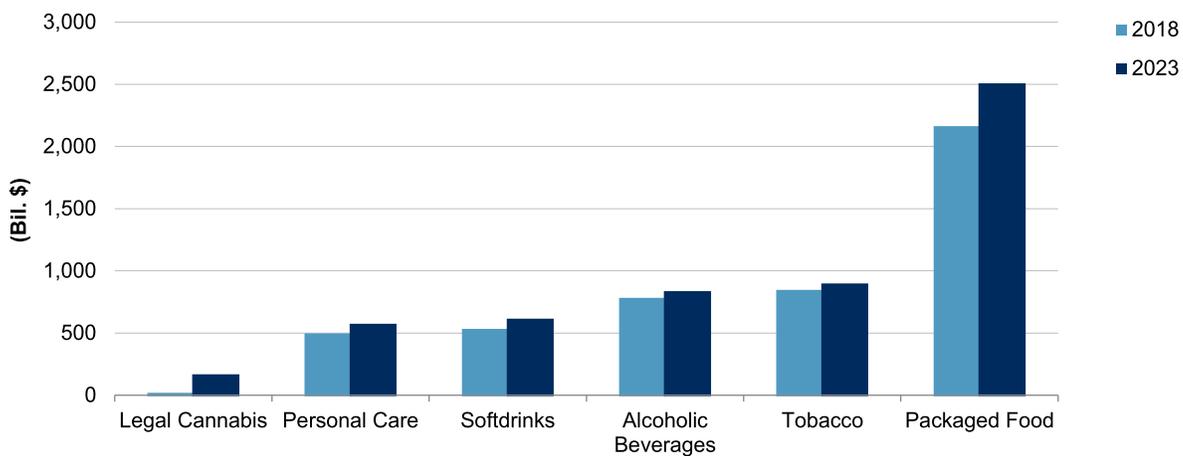
western economies: Canada, the U.S, Western Europe, and certain South American countries. Although the push for legalization so far is less pronounced in Western Europe and South America (where only Uruguay has legalized it), Canada legalized cannabis in certain forms in October 2018, and will also legalize edible cannabis.

The U.S. government still classifies cannabis as a schedule 1 drug (those with a high potential for abuse and the potential to create severe psychological and/or physical dependence), and full legalization on the national level appears unlikely in the near term. But the states have taken the lead in cannabis reform, reflecting voter sentiment as well as the hope that revenues from legalization will help support state budgets. For example, tax receipts have topped \$250 million annually in Oregon, Colorado, and California—exceeding expectations in both Oregon and Colorado. And Washington State raked in \$358 million in taxes for the state.

All but three U.S. states have okayed some form of medical cannabis use. Ten states and the District of Columbia have legalized it for recreational use. Fifteen states have decriminalized cannabis possession. And federal law now prohibits prosecution of people who comply with state medical cannabis laws. The positive economic impact of legal sales on government coffers may raise the prospects for federal legalization.

Chart 1

Select Consumer Global Market Sizes

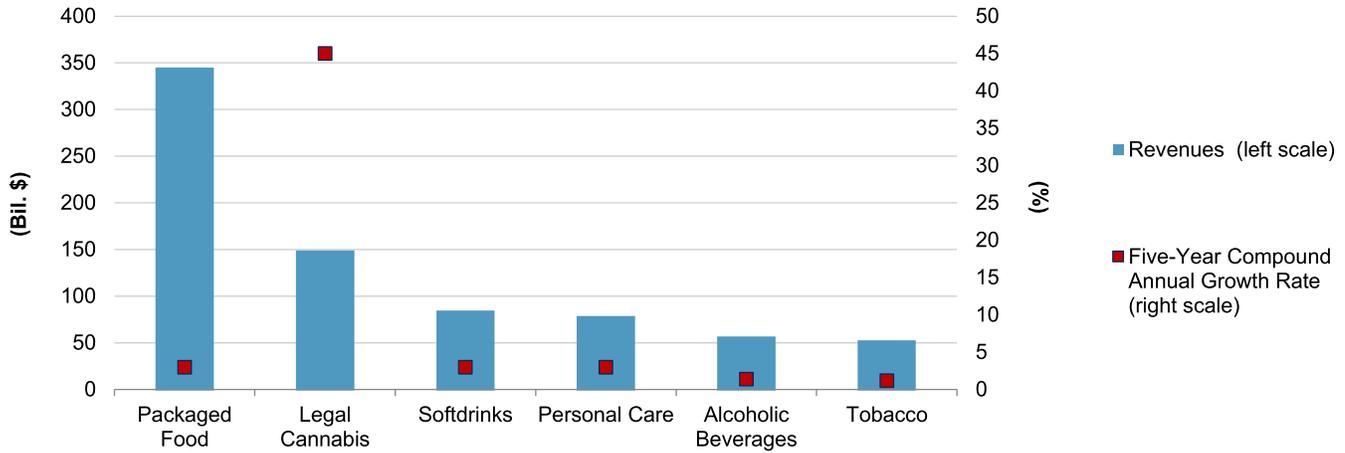


Source: Euromonitor, S&P Global Ratings forecast for personal care, soft drink, and packaged food categories.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 2

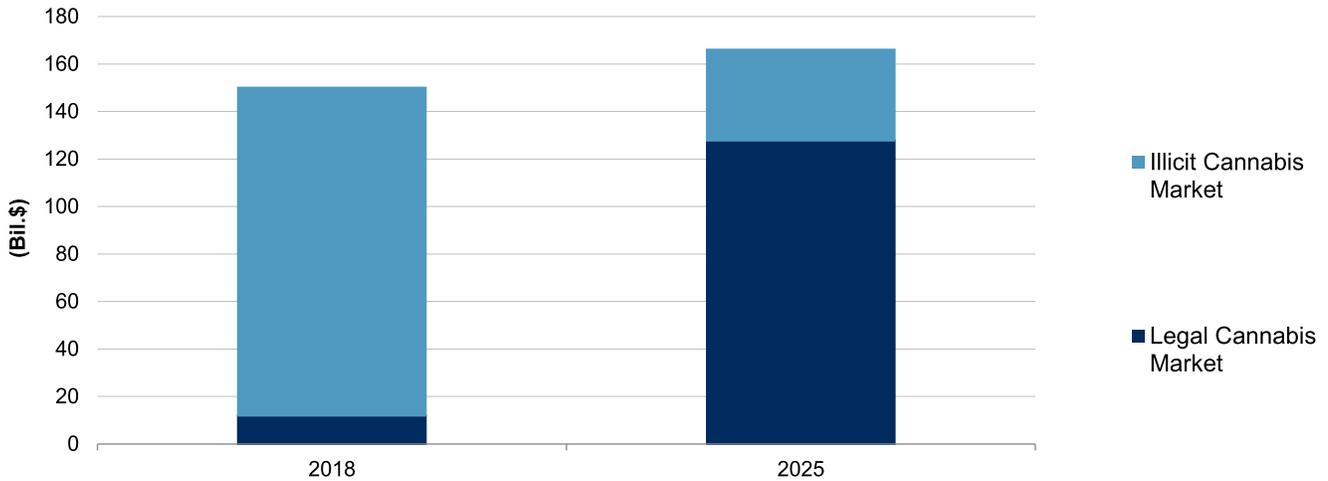
Projected Five-year Growth In Market



Source: Euromonitor, S&P Global Ratings
 Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 3

Growth Of The Legal Cannabis Market



Source: Euromonitor
 Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

However, if the market for legal cannabis products is to realize its full potential, we also believe that consumers will have to shy away from illicit products. Key factors will be the relative price of legal versus illicit products (including the cost of regulation and associated fees and taxes), the

actual or perceived differences in quality and/or safety, the ease of purchase, and the product's availability. Consumers could choose to stay with their existing illicit supply source rather than buy legal cannabis. That option might prove appealing if the regulated THC dosage in legal products is lower than they want, or if legal recreational consumption is limited to cannabis only in certain foods and beverages. With many estimates projecting that medicinal uses will make up about a third of consumption, a non-medical illicit market could constitute upwards of 50% of the market in the future if regulation is too onerous.

Still Experimenting

Given the growth potential of legal cannabis, a handful of companies have opportunistically entered the cannabis market hoping to capitalize on early stage investments. These early entrants cover a broad spectrum of the consumer products sector, including lawn and garden company The Scotts Miracle-Gro Co., Anheuser-Busch InBev Worldwide Inc. (ABI), premium wine marketer Constellation Brands Inc., and tobacco giant Altria Group Inc. Other sectors such as apparel, non-alcoholic beverages (NABs), and snack companies have made peripheral product launches with hemp and cannabis infused drinks but have not committed meaningful capital.

There are, however, several notable industry leaders that are either on the sidelines or taking a much more cautious approach. The Coca-Cola Co. has repeatedly quelled rumors that is exploring entry into cannabis, while Molson Coors Brewing Co. has only dabbled at offering cannabis infused beverages. The CEO of snacking company Mondelez International Inc. recently acknowledged that it is considering CBD-infused snacks, though we believe the company will move cautiously, possibly creating new product lines while leaving its core family-focused brands CBD-free. Nevertheless, with key players already committing large amounts of capital in the category, the corporate wallflowers may find themselves pressured to finally join the dance.

Growth Versus Disruption

With many traditional consumer product categories facing secular changes in consumer tastes and shopping habits, the case for investing in cannabis is not only opportunistic, but potentially defensive. In addition to being a first mover in a new category with healthy growth prospects, developing a cannabis alternative may be a good strategy for companies that sell products which could face significant cannabis disruption. We have plotted (see table 1 below) which consumer sectors, in our opinion, face either a risk or an opportunity from cannabis, and whether the impact could be high, medium, or low. Sector summaries follow.

Table 1

Cannabis Opportunities And Risks In The Consumer Goods Sector

Consumer Sector	Risk or Opportunity	Cannabis Impact On Sector	Comments
Alcoholic Beverage	Risk	High	With projected volumes in decline for much of the industry, lost share to cannabis consumption could be disruptive.
Tobacco	Opportunity	Medium	Expansion into cannabis could help offset the secular decline in combustible cigarette sales.
Non Alcoholic Beverage	Opportunity	Low	Cannabis flavored alternatives could provide another avenue for growth, but companies will likely focus on categories like ready-to-drink coffees, flavored water, and energy, that are already fast-growing.
Packaged Foods	Opportunity	Low	Although cannabis provides growth potential, particularly in snacking and wellness, the sheer size of the global packaged food industry suggests that the incremental impact of cannabis will relatively small.
Personal Care	Opportunity	Low	Opportunities exist to include cannabis-based ingredients in skin-care and other personal care products, but it's not clear if such products will prove to be a fad or have sustainable long-term growth prospects.

Source: S&P Global Ratings.

To be successful, consumer product companies experimenting with cannabis offerings will generally need to develop products whose cannabis content will affect users in a predictable amount of time, taste good, and have a long enough shelf life to preserve quality.

Alcoholic beverages

Overall alcoholic beverage consumption has already eroded, and legal marijuana could either hasten that decline--or perhaps become a complement to enjoying beer, wine, or a cocktail. Consumption trends for alcoholic beverages in several large economies, particularly the U.S., have changed in recent years as younger generations consume less alcohol, turning instead to coffee shops and recreational cannabis for an experience. Euromonitor estimates total alcoholic beverage volume consumption in the U.S. fell by about one-half percent from 2017 to 2018, and projects similar declines over the next several years. What's more, the declines are more severe in certain categories like domestic beer, where craft and imported beers have taken market share. Total beer consumption fell in 2018 by 1.4% year-over-year, and declines are projected to accelerate in the coming years. The declines are even worse for mid-to-low priced and light beers, where volumes are falling closer to 5% annually.

Even so, some segments of the beer market are growing because of particular demographic or pricing trends. The growing Hispanic population in the U.S., for example, is buying premium-priced imports, while domestic premium-priced craft beers are also popular. But overall, U.S. breweries continue to make less beer, as consumers shun calories and opt instead for premium wines and spirits. With growth prospects bleak for a large swath of the U.S. beer industry, industry players like Constellation Brands Inc., Molson Coors, and ABI have already been tempted into cannabis investments, and this trend may accelerate.

Non-alcoholic beverages

Unlike alcoholic drinks, the NAB sector has not been as keen to experiment with large investments in cannabis, in part because NABs already have better growth prospects than alcoholic drinks. Several categories, including flavored and carbonated water, ready-to-drink coffees and teas, energy drinks, and plant based drinks continue to grow, with global volumes of some rising by 3% annually. And with higher pricing, their organic revenue growth can hit a mid-single-digit percent rate. The NAB category continues to evolve at a rapid pace. While flavored water, coffee, and tea are taking share today, a new-flavor-of-the-day will likely become tomorrow's success story, and yesterday's success can quickly become a drag on growth. Sugary carbonated drinks and diet offerings, which continue to suffer volume losses in mature markets are prime examples. Given this highly competitive landscape, new product innovation is critical to success. While some companies are already stirring up offerings with cannabis flavors, results so far have been mixed, as flavor profiles haven't quite lured in consumers.

Other considerations also may be keeping the NAB players on the sidelines. Brand strength remains important to beverage giants like The Coca-Cola Co. and PepsiCo Inc., and associating cannabis with a global brand could destroy brand equity if a negative social stigma were to attach to their core brands. Moreover, cannabis will likely remain highly regulated, so distribution synergies are less obvious for beverage companies that leverage their scale to distribute legal beverages to all age groups across multiple sale channels.

Packaged food and personal care products

Given the size of the U.S. packaged food and beauty/personal care sectors (about \$400 billion and \$90 billion, respectively at retail, per Euromonitor), we believe the impact of selectively using cannabis would be positive, albeit moderate. Makers of these products may talk up the health and wellness benefits of THC- or CBD-infused products, but those products aren't likely to be a big part of their product mix any time soon.

For one, consumers desire attributes that can be unrelated to the perceived benefits of cannabis. Moreover, many products, particularly in the food space, will avoid cannabis to protect their brands' wholesome or family image. Beauty and personal care products, however, could see relatively more growth potential than packaged food because some adult oriented products, such as in skin creams and lip balms, have already gained a measure of acceptance.

Tobacco

Cannabis could be a growth opportunity for tobacco companies that are facing declining combustible cigarette sales. But other nicotine consumption forms may still be a near-term priority ahead of cannabis.

S&P Global Ratings expects U.S. combustible cigarette volumes to decline by 4.0%-4.5% annually, partly reflecting the probable rise in next generation smoking alternatives such as e-cigs (including the popular Juul) and heat-not-burn cigarettes such as IQOS, which was approved for sale in the U.S. by the FDA on April 30, 2019. Over the near to medium term, we expect tobacco companies to prioritize these next generation alternatives over investing in cannabis. Nevertheless, over time we would expect tobacco firms to be keen on selling CBD-infused and possibly THC-infused products, subject to clarity around federal laws.

While the jury is still out, there have been studies which imply a correlation between tobacco and marijuana use, and that marijuana use increases the risk of dependence on other substances. Some surveys imply that a disproportionate number of marijuana users also use tobacco, and that cannabis use triggers non-smokers to begin smoking and former smokers to relapse, although the

veracity of the data (especially if driven by surveys) is not clear. Nevertheless, it's possible that marijuana legalization could slow the ongoing decline in tobacco consumption.

Regulatory Buzz Kill

While current laws and regulations in most countries hamper the wider use of cannabis to varying degrees, we expect that ultimately, most regulatory authority will be ceded to local governing bodies, possibly laced with some national regulation. This transition, however, is likely to result in a delayed ramp up of the overall cannabis market, higher regulatory and legal costs, and varying ramifications for non-compliance. Emerging pure-play cannabis firms could navigate these risks by increasing investment in their legal/compliance capabilities, or partnering with experienced firms--as has already occurred in some cases.

Pointing to Canada as an example, its federal government regulates production, sets minimum safety standards, age requirements, and maximum possession amounts. But its various provinces and territories will regulate distribution. Some will make the sale of cannabis a provincial monopoly, including government operated shops. Others will allow private sector competition and online sales (subject to, we assume, advanced user-verification systems). We could not rule out a three tier system in the U.S. if cannabis is approved federally, at least for THC-infused products. Large-scale commercial cannabis cultivation will be strictly regulated, and maximum individual possession (quantities of cannabis, CBD, or THC) will likely be set.

It's possible that cannabis dispensaries could keep the product out of sight or behind glass. Plain packaging is also possible, while health warnings are probable, at least for combustible-CBD or THC-infused products. We assume any combustible cannabis use will be subject to restrictions similar to those placed on cigarettes and e-cigarettes (e.g., minimum age to purchase, prohibited use in public places), and that significant taxes will be levied. Regulators will need to be careful, however, not to levy taxes so large that they drive users back to the black market, which could exploit the opportunity and actually become larger than it is now.

The substantial legal and regulatory expertise of large alcoholic beverage and tobacco firms (including Constellation Brands and Altria Group), and the deep pockets of large consumer product companies in general, will aid the money-losing cannabis upstarts to navigate the regulatory landscape and exploit the substantial opportunities that exist across the globe.

First In, First Out?

The early stages of wide cannabis use in consumer products is likely to produce many losers because of, to be blunt, the greed factor. We expect many companies will be eager to participate in the categories' growth prospects. Cannabis is still in the start-up phase of the industry life cycle, with growth, shakeout, maturity, and eventual decline to follow. Although the cycle will probably be quite long, we believe that before the market matures, there will be companies that rise and fall.

As an example, about five years ago there were around a dozen e-cigarette competitors holding 1% or more market share, and numerous smaller competitors with less than 1%. King of the hill was the blu brand e-cigarette (acquired by Lorillard Inc. in 2013), which at one point held over 40% of the market. Altria also put its hat in the ring, mainly with its acquisitions of MarkTen and Green Smoke. Fast forward to 2018: Juul is the market leader with over 70% share, blu holds around 5%, and Altria has discontinued both MarkTen and Green Smoke. As of today, first mover blu did not win, largely because Juul has developed a more appealing product.

The shape of the cannabis market in the U.S. will ultimately change its contours as well, as an evolving regulatory framework emerges for different products, their intended use, and possibly even their location. CBD, for instance, is presently legal in some states, but not legal federally, while hemp may be federally legal, but only under very narrow circumstances.

It's possible certain cannabis products could require a three-tier distribution system, as is the case in the alcohol industry. We believe CBD-infused products could increasingly find their way onto local grocery store shelves. However, THC-infused products intended for leisure or medicinal use will be tightly controlled, most likely being sold at licensed dispensaries.

Early entrants into the cannabis markets can also face difficulty in obtaining banking services. As of now, banks are reluctant to accept deposits in the U.S. from companies that participate in the cannabis industry. The legalization of recreational cannabis in California wreaked havoc on the sector in 2018 as businesses had to obtain both local and state permits, and because of banking limitations, some have to operate on an all-cash basis.

To Your Health—Maybe

While there have not yet been any studies that definitively implicate cannabis as carcinogenic, several health and other social risks could cloud the outlook for the cannabis industry. These include lung cancer from smoking marijuana, mental health risks—especially cognitive and learning impairments among youth—heart problems, as THC is known to accelerate people's heartbeats, and being a gateway to more dangerous and addictive drugs. If a direct link to any form of cancer is proven medically, companies could face litigation, penalties, and heightened restrictions on distribution and marketing, much as the tobacco industry now does. If society then adopts a negative view of cannabis and its health effects, companies could face significant reputational damage. However, we believe these risks won't manifest in the next five years or so, largely because there is not yet scientific evidence to support such claims, and it can take years to complete such studies. In the meantime we expect more entrants in this budding industry, not fewer.

Joint Ventures

Incremental leverage for most entrants has been modest as companies take minority share puffs, with the option to inhale a much larger stake down the road. Some companies have put their balance sheets to work investing in cannabis, but so far, none of our issuer ratings have been hurt by these early stage investments. This is in large part because most investments are small partnership investments that aren't likely to grow unless the business takes off. This is certainly the case for companies like ABI and Molson Coors, which have made very small joint venture (JV) investments. But even the larger investments are being made within companies' existing financial policy frameworks and in a staged way, with board control and the option to make larger investments if earnings growth materializes. Both Altria Group and Constellation Brands, the two issuers that have made the largest cannabis investments so far (totaling well above \$1 billion each), have negotiated board control with their large minority share positions and own warrants that allow for a measured increase in their JV holdings. This staged approach should enable them to remain within their leverage targets, as debt repayment should occur prior to additional future investments. Moreover, by then the cannabis businesses should be making meaningful contributions to the overall business helping to offset any leveraging impact of subsequent investments. Here is how some of our large, rated consumer product companies are investing in the cannabis business.

Altria Group Inc.

Altria has bought a 45% stake in Cronos Group Inc. for \$1.8 billion, including four of seven board seats, plus warrants to purchase an additional 10% for \$1 billion. In our opinion, the move signals the potential for disruption in the U.S. combustible cigarette industry (which is already under pressure from such products as e-cigarettes) from cannabis, including in vape form. Altria's investment gives it a toehold in the high growth cannabis sector where it can use its extensive regulatory, legal, and production expertise. Cronos will use the funds primarily for investment in its business. This investment has had no impact on Altria's credit rating given its relatively small size and the likelihood for minimal returns over the next two years.

Constellation Brands Inc.

This company has to date made the largest investment in cannabis of any of the large U.S. consumer product companies we rate. It took a 36% ownership position in Canopy Growth Corp. in 2018 for \$4 billion. Constellation also owns several warrants exercisable through 2026 that could increase its share in Canopy to nearly 50%. Although Constellation's pro-forma leverage is just over 4.5x, the company is prioritizing debt repayment to restore leverage within the 3x to 4x range over the next 12 to 18 months. Therefore, we don't see additional cash investments in Canopy as likely in the next two years. Strategically, we view the investment as both opportunistic (given the favorable growth profile of cannabis) and as a commitment by Constellation's family-controlled ownership to remain a fast-growing company. Constellation has consistently outperformed the broader alcoholic beverage industry (beer in particular) on both revenue and profit growth in large part because of the strength of its Corona brand in the U.S. As higher growth rates in its beer and spirits portfolio slowly taper off, cannabis provides another growth platform.

Molson Coors Brewing Co. and Anheuser Busch InBev

Both these giant breweries have invested in cannabis, but much more cautiously than their peers. Molson Coors announced the formation of a JV in August of 2018 with The Hydrophocary Corp. (HEXO) for an undisclosed, but in our view, largely immaterial amount compared to its overall cash flow. Similarly, ABI announced in December 2018 a \$100 million JV to research cannabis-infused nonalcoholic drinks for the Canadian market. In our opinion, both these investments signal a cautious wait-and-see approach to entering the cannabis market in a way that does not risk either companies' balance sheets.

Scotts Miracle-Gro Co.

This company has taken a different approach to investing in the space. It's sunk around \$1 billion into acquiring hydroponics companies that design and distribute products that help users grow plants in indoor or urban environments with little or no soil. While hydroponics products are not solely dedicated to growing cannabis, we believe this is the primary purpose. Although it's been tough going so far, especially in the important California market, we think Scotts' hydroponics investments could eventually pay off handsomely. (Significant regulatory-driven volatility in California contributed to our outlook revision on the company to negative from stable in August of 2018.) With the 2018 acquisition of Sunlight Supply Inc., Scotts' hydroponics business generates over \$600 million in sales, which includes the distribution of third-party hydroponics products.

Authentic Brands Group

Authentic Brands Group LLC (ABG) has a revenue sharing agreement with medical marijuana company Tilray Inc. to market consumer cannabis products within the brand manager's portfolio. ABG will receive \$100 million and up to \$250 million in cash and stock upon achieving unspecified milestones. Tilray will have the right to receive up to 49% of net revenues from cannabis products bearing ABG brand names with a guaranteed \$10 million minimum annually over ten years. ABG's portfolio generates about \$9 billion in annual retail sales and includes well-known names such as Aeropostale, Nautica, Spyder, and Vince Camuto. CBD products in Canada and the U.S. would be the priority. We believe probable uses include personal care products such as creams, rubs, and balms.

A Budding Market

We see slow but substantial growth of legal cannabis over the next decade, and believe that large consumer product companies will attempt to capitalize on this growth, either through their own branded products or joint ventures with smaller partners that have the deep expertise with cannabis that they lack. Regulatory issues may result in growth being volatile, but we don't foresee this as a permanent drag. Nevertheless, companies that want to sell cannabis products will still have to consider the tax structure on cannabis, competition from illegal sellers, potentially deleterious health issues, and of course, how their investments affect their existing balance sheet and other businesses. We don't think that the ratings impact on these companies, if any, is likely to come in the next two years. In the meantime, companies will be busy trying to develop products that are safe, effective, and enjoyable.

This report does not constitute a rating action.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software, or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com and www.spcapitaliq.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.