Rating Evaluation Service:

Gain Insight Before You Act

S&P Global
Ratings

When Evaluating Strategic Options, Consider the Credit Impact

When exploring strategic options, you may want to assess ahead of time how your proposed initiatives may affect your creditworthiness. The decision to take on a major capital program, consider an acquisition, manage debt capacity, change an operating structure or vary the mix of security types issued can potentially have significant credit consequences. That's where we can help.

Obtain Useful Feedback and Gain Valuable Insight

Rating Evaluation Service (RES) gives you a confidential assessment of the potential credit impact of your proposed strategic initiatives before you implement them. Our analysis can allow you to identify actions that could lead to credit outcomes that you would view as being more or less favorable, based on your objectives. This can be particularly valuable, whether you are considering only one plan or several alternatives.

Analysis Based on Your Scenarios

Provide us with the hypothetical scenarios you are considering — for example, varying combinations of debt, equity and cash — and we'll provide you with feedback and indicative rating outcomes from a rating evaluation committee. Please note that the Rating Evaluation Service process and outcome remain confidential.

One Solution, Many Uses

Rating Evaluation Service is available to both rated and unrated entities and has been used by our clients to gauge the potential ratings implications of initiatives such as:

- Mergers and acquisitions
- Capital plan alternatives and/or additional debt being contemplated
- Infrastructure/public-private partnership projects
- Asset or line-of-business divestitures
- Share buybacks or dividend payments
- Creation of new holding and subsidiary company structures
- Recapitalizations (including senior and subordinated debt, common and preferred mix)
- Internal risk-based capital allocation (against lines of business and risk classes)
- Risk-shedding and capital-relief transactions (securitizations, hybrids, derivatives, and reinsurance)
- Financial and demutualization restructurings
- Pre-packaged or pre-emergence Chapter 11 bankruptcy alternatives

Rating Evaluation Service in Action

Mergers & Acquisitions

A consumer products company was considering a friendly acquisition of one of its competitors. It believed the acquisition would bring together some of the most recognizable brands, generate substantial annual synergies and expand product offerings for its customers. However, the company's management and board of directors were concerned about the acquisition's potential effect on its existing ratings. Before going ahead with the acquisition, they engaged us for our Rating Evaluation Service. The company presented hypothetical financing scenarios that included variations of additional debt, equity and cash on hand. Through Rating Evaluation Service, we provided our rationale and potential ratings impact for each scenario. The management team and board used the RES results to help them decide which financing approach would better achieve their objectives.

Initial Credit Ratings Including Loan Ratings

To realize its strategic goal of a significant expansion in the U.S. and into Canada, a privately held retail company determined that it would need to take on additional debt. Its plan involved raising funds through a combination of senior loans and issuing high yield bonds for the first time. The company wanted to maximize the amount of senior loans. Also, it hoped to achieve a loan rating that would be higher than its corporate credit rating, in order to take advantage of lower interest rates and the floating-rate feature of the syndicated loan market. Because it had no prior credit ratings, the company used Rating Evaluation Service to get our opinion about its potential ratings, based on its hypothetical scenarios. The company received our initial indicative credit ratings and recovery rating analyses. The company and its bankers used the Rating Evaluation Service results to help price out various financing options and reach a final decision.

Project Finance/Infrastructure

An energy developer was planning to build a low-cost, reliable, clean energy power plant to meet the continuing energy demand of an expanding city, and had been given federal and state environmental approval to proceed. As the senior management team prepared to evaluate the project's financing options, it also considered its board's objectives, which included optimizing the debt/equity combination without negatively affecting the company's targeted ratings. The developer engaged us for our Rating Evaluation Service and presented hypothetical financing scenarios. Our report included feedback and initial indicative ratings for each scenario. The information helped the management team to decide on the financing structure that best suited its board's objectives.

Spin-off of Non-Core Business

Senior management of a technology company was under pressure to separate one of its main business units into an independent publicly traded company through a spinoff to its shareholders. The plan was consistent with the company's strategy of allowing each business unit to grow and focus on its competitive position. The management wanted to better understand the potential ratings impact for both the remaining company and the company to be spun off, before bringing the proposal to its board. Based on the company's hypothetical scenarios, our Rating Evaluation Service analysis provided the company with feedback on the potential rating impact for each entity, including an indicative rating and rationale for each scenario. The company took this information into account when choosing the debt and equity combination that it viewed as being the most favorable.

Public-Private Partnership Project

After a long selection process, a state finance authority announced a shortlist of three project teams to bid on its first road transportation infrastructure project that would be built under a public-private partnership (PPP) investment model. One of the shortlisted consortia contacted us about our Rating Evaluation Service. The consortium was examining several funding strategies to determine the most effective financing structure for the project, and was concerned about the potential effect on the project's rating outcome. Through Rating Evaluation Service, we provided feedback and an initial indicative rating for each of the consortium's hypothetical scenarios. The analysis allowed the consortium not only to identify what it viewed as the more effective financing option, but also to enhance its final bid proposal package.

Post-Emergence Capital Structure

A company was in the advanced stages of emerging from bankruptcy. It was preparing a plan to reorganize its postemergence capital structure in a way that would enable it to restructure its balance sheet and significantly reduce its outstanding debt to position the company for long-term growth. The company was looking for more than an "educated guess" regarding its potential credit ratings so that it could assess its restructuring plans. The company engaged us for our Rating Evaluation Service and presented its hypothetical restructuring scenarios. After receiving its initial indicative ratings, the company decided on a final structure that it considered advantageous to achieving its strategic objectives.

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