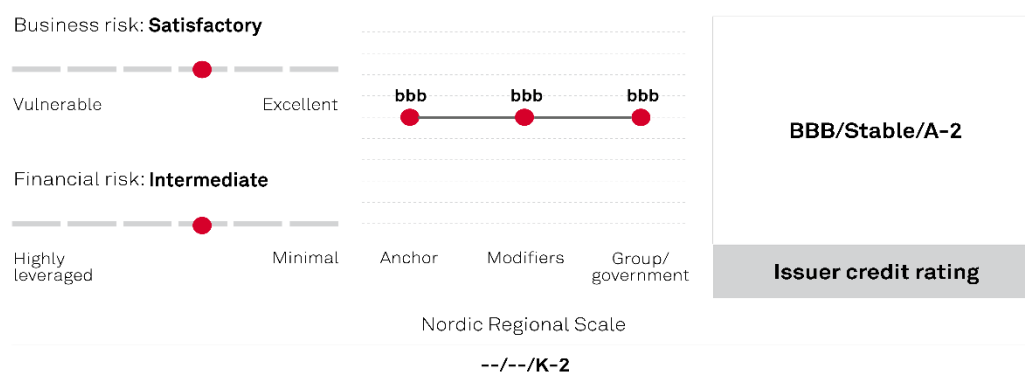


# Autoliv Inc.

November 22, 2023

## Ratings Score Snapshot



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## Credit Highlights

### Overview

Key strengths	Key risks
Leading position in automotive passenger passive safety systems, with an overall market share of 43% in 2022.	Exposure to the cyclical and competitive light vehicle component market, implying persistent cost pressure and volatility in profitability.
Diverse customer base comprising all major original equipment manufacturers (OEMs).	Accruals related to the alignment program will temporarily curb EBITDA margin in 2023.
Geographically balanced sales mix, with 27%-40% of revenue from Europe, the Americas, and Asia-Pacific.	Limited product diversity compared with other auto suppliers.
Product portfolio not dependent on the transition to e-mobility.	No meaningful presence in the aftermarket, unlike several peers.
Strong liquidity profile, with projected cash sources to needs of more than 1.5x for the next 12 months.	

**The ongoing alignment plan will constrain Autoliv Inc.'s operating margins in 2023.** The company is implementing a capacity alignment plan that focuses on improving operating efficiency and profitability. The plan includes simplification of logistics, reduction of overheads,

and consolidation of manufacturing capacity aligning with market demand to ensure high plant efficiency. The company has already accrued capacity alignment costs of \$61 million during 2022, and \$122 million during the first nine months of 2023. For full year 2023, we expect total alignment costs (including expenses toward litigation settlement and antitrust-related matters) to be about \$250 million. Consequently, we expect S&P Global Ratings-adjusted EBITDA margins to decline to about 11% in 2023, compared with 12.3% in 2022. From 2024, we expect the burden from these one-off costs to reduce to approximately \$50 million, resulting in margins improving to about 14% in 2024 and 2025.

**Autoliv's shareholder returns policy is a key rating headroom driver.** The company launched a share buyback program of up to \$1.5 billion for 2022-2024. Spending has been modest so far, with the company buying back shares worth \$317 million up until Sept. 30, 2023. We forecast total buybacks of about \$350 million in 2023 and \$400 million in 2024. This would represent a step up compared to 2022 but would still leave Autoliv's key credit ratios in line with our requirements for the current 'BBB' long-term issuer credit rating.

**The United Auto Workers strike has not majorly affected Autoliv's operations, and we think the company is well positioned to navigate volatility in China.** The strike has only targeted specific plants and parts distribution centers in North America. While GM, Stellantis, and Ford are some of the largest customers with a total of about 30% of 2022 global sales, we expect lost volumes--that Autoliv estimated at about \$6 million of revenue per week from October 2023--will recover quickly.

It is difficult to predict which OEM will be more competitive in China, and we therefore view the auto market in the country as increasingly competitive, creating greater uncertainty for suppliers because it is difficult to predict which OEM will be more successful there. This is because there is continued revenue growth from local OEMs in China and Autoliv has indicated that 50% of its 2022 order intake in the market came from local OEMs. Autoliv's customers in China include Geely, Great Wall Motor, Chery, Nio, and BYD.

## Outlook

The stable outlook reflects that we expect disciplined cost and cash management will help Autoliv to maintain funds from operations (FFO) to debt at 40%-50% and free operating cash flow (FOCF) to debt hovering between 17%-25% despite increased levels of shareholder returns and operating challenges such as volatile auto production and input cost inflation.

### Downside scenario

We could lower the ratings if Autoliv's FFO to debt fell below 30% or if its FOCF to debt fell below 15% for a prolonged period. This could occur if challenging conditions in the auto sector, including low auto production levels and increased price or cost pressure, weighed on revenue and margins and potentially required the company to undertake even more extensive restructuring. This could also materialize because of a sizable debt-financed acquisition, or a material further increase in shareholder returns that indicated looser adherence to the current financial policy.

### Upside scenario

We could raise the rating on Autoliv during the next two years if higher auto production--combined with disciplined cost and cash management--resulted in a sustained improvement in credit metrics, with FFO to debt sustainably exceeding 45% and FOCF to debt exceeding 25%. An upgrade would also depend on Autoliv's commitment to maintain credit metrics at these levels on a sustained basis, which would likely require net debt to EBITDA to stay well below the upper end of the company's target range of 0.5x-1.5x.

## Our Base-Case Scenario

### Assumptions

- Global real GDP growth of 3.1% in 2023 and 2.9% in 2024 after expansion of 3.6% in 2022 and 6.4% in 2021.
- Global light vehicle production increasing by 3.0%-5.0% in 2023 and 0.0%-2.0% in 2024 after an increase of 6.7% in 2022.
- Sales growth for Autoliv reflects continued recovery of auto production, increasing content per vehicle, new product launches resulting in additional market share gains, and improved pricing.
- Adjusted EBITDA margin to decrease to about 11.0% in 2023, down from 12.3% in 2022, due to elevated realignment costs that we consider as operating costs. We anticipate margin improvement to about 14.0% in 2024, reflecting the phasing out of restructuring costs, as well as modest input cost inflation mainly relating to wages.
- We expect neutral changes in working capital during 2023 due to normalization in the working capital cycle in 2023. Working capital outflows of up to \$50 million in 2024 linked to revenue growth. This compares with working capital-related cash inflows of \$56 million in 2022.
- Capital expenditure (capex) at 5.5%-6.5% of sales, toward capacity and footprint expansion projects.
- We do not anticipate any acquisitions in our forecasts.

### Key metrics

#### Autoliv Inc.--Forecast summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024
(Mil. \$)	2019a	2020a	2021a	2022a	2023e	2024f
Revenue	8,548	7,447	8,230	8,842	10,177	10,684
EBITDA (reported)	1,076	753	1,069	1,022	1,015	1,441
Plus: Operating lease adjustment (OLA) rent	49	46	44	50	50	50
Plus/(less): Other	10	22	18	12	12	12
EBITDA	1,135	821	1,131	1,084	1,077	1,503
Less: Cash interest paid	(76)	(76)	(63)	(68)	(89)	(83)
Less: Cash taxes paid	(192)	(104)	(207)	(215)	(214)	(267)
Funds from operations (FFO)	867	641	861	801	773	1,152
Cash flow from operations (CFO)	716	894	797	744	976	1,003
Capital expenditure (capex)	483	344	458	585	611	641
Free operating cash flow (FOCF)	232	550	339	159	366	362
Dividends	218	55	166	226	250	250
Share repurchases (reported)	--	--	--	115	350	400
Discretionary cash flow (DCF)	14	495	173	(182)	(234)	(288)
Debt (reported)	2,094	2,411	2,008	1,765	1,619	1,807

**Autoliv Inc.--Forecast summary**

Plus: Lease liabilities debt	157	141	132	158	158	158
Plus: Pension and other postretirement debt	198	211	172	128	128	128
Less: Accessible cash and liquid Investments	(375)	(1,108)	(899)	(524)	(276)	(130)
Plus/(less): Other	163	161	159	174	174	174
Debt	2,238	1,816	1,572	1,701	1,803	2,137
<b>Adjusted ratios</b>						
Debt/EBITDA (x)	2.0	2.2	1.4	1.6	1.7	1.4
FFO/debt (%)	38.8	35.3	54.8	47.1	42.9	53.9
FOCF/debt (%)	10.4	30.3	21.6	9.3	20.3	16.9
DCF/debt (%)	0.6	27.3	11.0	(10.7)	(13.0)	(13.5)
Annual revenue growth (%)	(1.5)	(12.9)	10.5	7.4	15.1	5.0
EBITDA margin (%)	13.3	11.0	13.7	12.3	10.6	14.1

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. \$--U.S. dollar.

## Company Description

Autoliv is the world's largest supplier of automotive occupant restraint systems. Incorporated in the U.S. but headquartered in Stockholm, the company develops, markets, and manufactures integrated passive safety systems. It has two key product lines:

- Airbag products and steering wheels (66% of sales in 2022); and
- Seatbelt products (34% of sales in 2022).

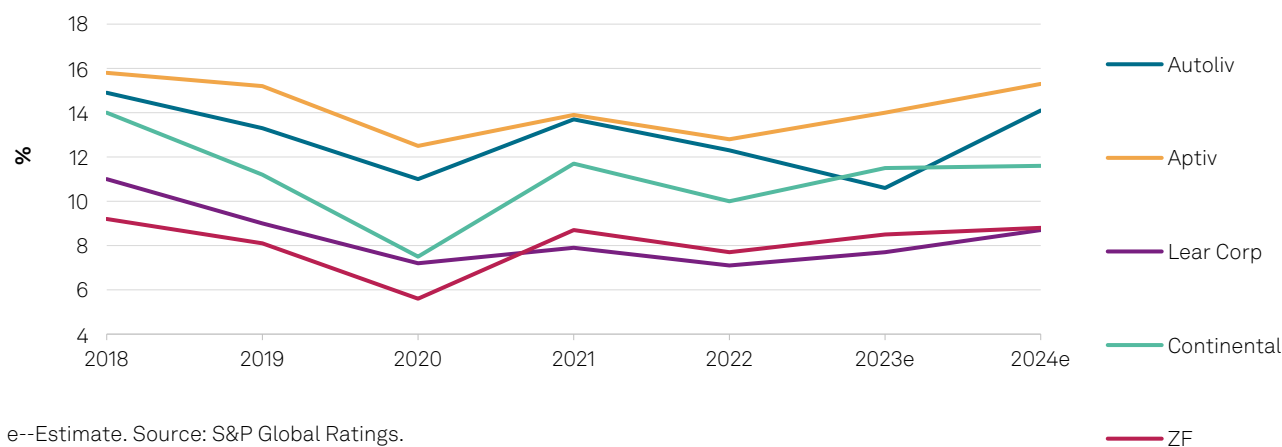
In 2022, the company's sales amounted to \$8.8 billion and were split across Asia (40%), the Americas (33%), and Europe (27%). During the same year, the company's top five customers based on revenue were the Renault–Nissan–Mitsubishi Alliance (11%), Stellantis (11%), Volkswagen (10%), Toyota (9%), and Honda (8%).

## Peer Comparison

With about 43% of market share, Autoliv is the global leader in the manufacturing of automotive passive safety systems and competes with companies such as ZF Friedrichshafen (BB+/Stable), and Joyson Electronics (not rated). We have included Continental AG (BBB/Stable), Aptiv (BBB/Stable), and Lear Corp (BBB-/Positive) in our selection of peers due to the similar ratings to that on Autoliv.

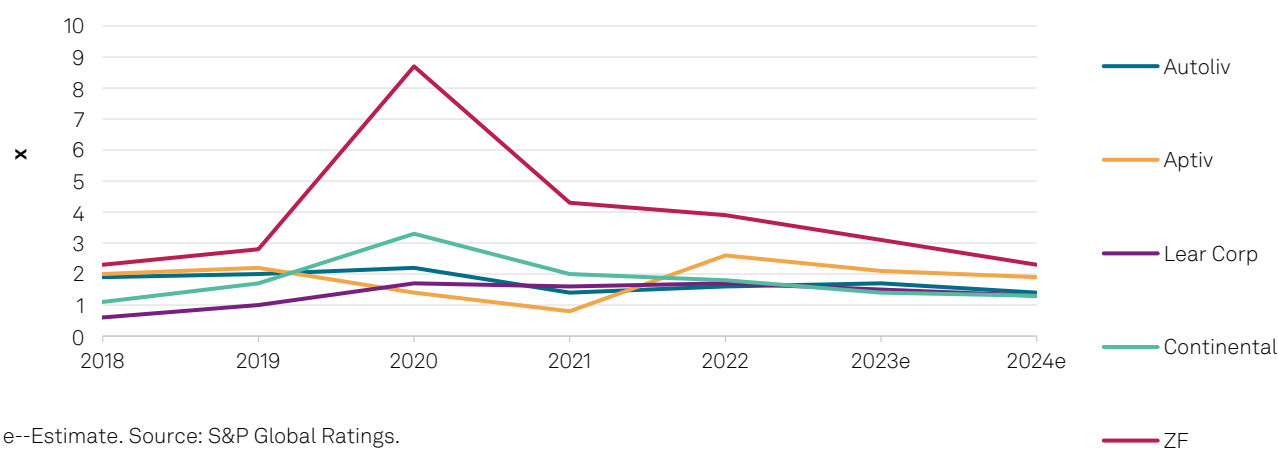
Autoliv's EBITDA margin and leverage levels are key supporting factors for the rating. We view the expected decline in Autoliv's 2023 EBITDA margin as temporary due to restructuring provisions.

### Comparison of EBITDA margin for a selection of peers



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### Comparison of debt/EBITDA for a selection of peers



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### Autoliv Inc.--Peer Comparisons

	Autoliv Inc.	Aptiv PLC	Continental AG	ZF Friedrichshafen AG	Lear Corp.
Foreign currency issuer credit rating	BBB/Stable/A-2	BBB/Stable/--	BBB/Stable/A-2	BB+/Stable/--	BBB/Stable/NR
Local currency issuer credit rating	BBB/Stable/A-2	BBB/Stable/--	BBB/Stable/A-2	BB+/Stable/--	BBB/Stable/NR
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	\$	\$	\$	\$	\$

**Autoliv Inc.--Peer Comparisons**

Revenue	8,842	17,489	42,118	46,812	20,892
EBITDA	1,084	2,246	4,212	3,609	1,488
Funds from operations (FFO)	801	1,848	3,411	2,786	1,173
Cash interest paid	68	204	162	374	121
Operating cash flow (OCF)	744	1,371	2,427	2,026	1,162
Capital expenditure	585	844	2,292	1,874	638
Free operating cash flow (FOCF)	159	527	135	153	524
Discretionary cash flow (DCF)	(182)	419	(353)	(64)	153
Debt	1,701	5,791	7,650	14,132	2,509
EBITDA margin (%)	12.3	12.8	10.0	7.7	7.1
Debt/EBITDA (x)	1.6	2.6	1.8	3.9	1.7
FFO/debt (%)	47.1	31.9	44.6	19.7	46.8
FOCF/debt (%)	9.3	9.1	1.8	1.1	20.9
DCF/debt (%)	(10.7)	7.2	(4.6)	(0.5)	6.1

## Business Risk

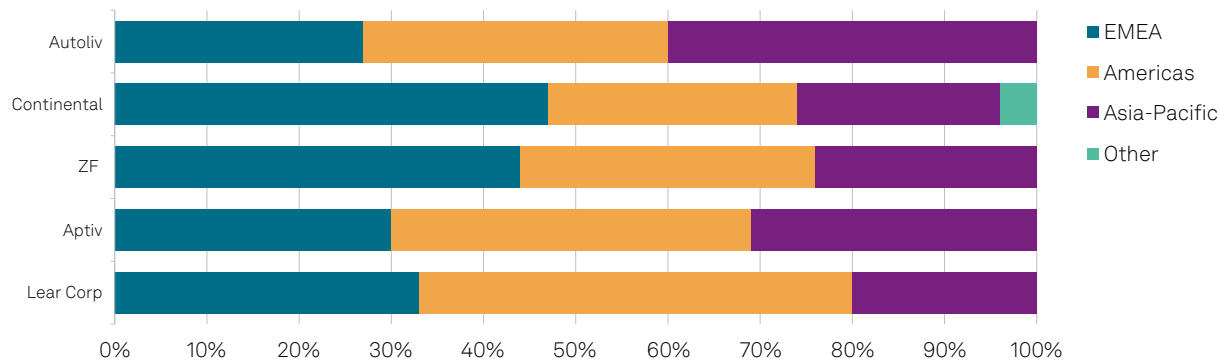
Underpinning our business risk assessment for Autoliv is the company's leading market share in automotive passive safety systems, highly variable cost structure, and good geographic and customer diversity. These strengths are offset by Autoliv's relatively small size, limited product diversity, and historically volatile EBITDA margin.

**Autoliv reported a solid overall market share of 43% in 2022.** It has been steadily growing over the past few years, from about 38% at the end of 2017, cementing the company's reputation as a quality provider of highly reliable safety products. The company's market share is strong in all product categories, with 44% in airbags, 45% in seatbelts, and 37% in steering wheels during 2022. The company has been involved in less than 2% of passive safety-related recalls over the last 10 years, which is low compared with the industry average. Some competitors have not fared as well and have faced major quality issues.

**The company is one of the most geographically diversified auto suppliers.** It delivers products for approximately 1,300 models and 100 car brands in total. It enjoys a relatively wide customer base, with the top five customers representing 49% of sales and the 10 largest customers representing 80% of sales--in line with the automotive industry in general. However, the company's customer base is skewed toward volume car makers, with premium brands representing less than 20% of revenues in 2022.

Autoliv drives the largest share of Asia-Pacific revenues among selected peers

Geographic diversification (2022 revenues)



Source: Companies' 2022 annual reports.

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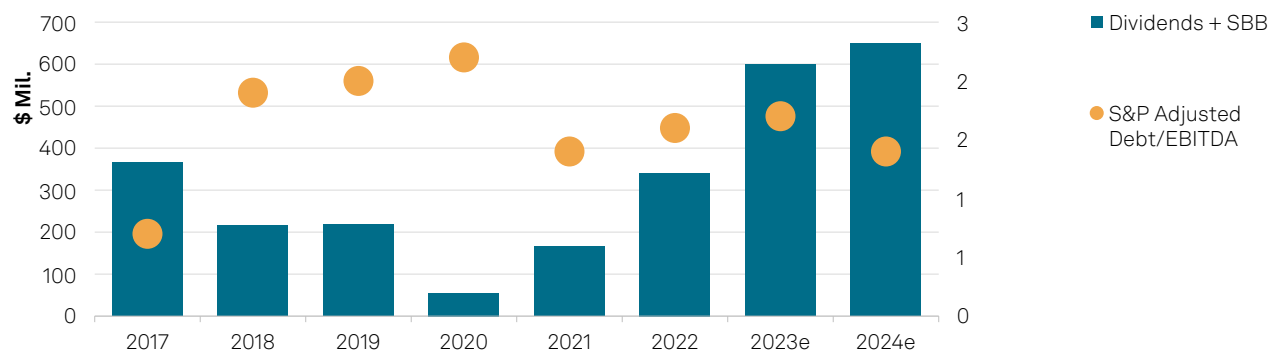
**A key constraining factor to Autoliv's business risk is its limited product diversity.** The company only produces safety solutions, while many of its peers operate in several segments. For instance, ZF Friedrichshafen--a direct competitor to Autoliv--boasts a wider product portfolio including passive safety, transmission, active safety, advanced driver assistance systems, and electronics. The lack of product diversity makes Autoliv more vulnerable to potential reputation risk in its limited product line.

**We think Autoliv's EBITDA margin will recover to about 14% in 2024--corresponding to the higher end of the sector average of 9%-15%--up from the low estimate of about 11% in 2023.** The main driver behind EBITDA margin recovery in 2024 should be the phase out of restructuring-related accruals, the expected modest input cost inflation, and better reliability in customers' call-off orders as supply chain issues ease. Cost savings from the alignment program will become material from 2025 onward. Moreover, Autoliv's product portfolio is not dependent on the regulatory driven push to e-mobility since airbags, seatbelts, and steering wheels are indifferent to a car's powertrain type. This means that Autoliv can maintain a lower level of research and development (R&D) expenses at 4%-5% of sales, compared with auto suppliers that are exposed to the energy transition such as Valeo or Schaeffler Group--which tend to reach levels of R&D to sales of up to 7%-9%.

Financial Risk

We expect management to maximize shareholder returns while maintaining its reported net debt to EBITDA within its publicly stated target of between 0.5x-1.5x. As of Sept. 30, 2023, Autoliv's reported net leverage stood at 1.3x (1.6x adjusted debt to EBITDA). Over the past years, management has shown some discipline in financial policy and reduced dividend distributions and share buybacks to protect its liquidity and balance sheet. To keep a balance between shareholder returns and credit flexibility, the company suspended dividends from second quarter 2020 until first quarter 2021.

## Autoliv adjusts its distribution to shareholders to protect its financial risk



SBB--Share buy back. e--Estimate. Source: S&P Global Ratings.

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We include the unfunded postretirement obligation of about \$128 million that the group reported at year-end 2022 in our adjusted debt figure. Other debt adjustments for 2022 include \$174 million of factoring (trade receivables sold); \$158 million of leases; and surplus cash reduced by \$70 million, for cash we consider inaccessible for debt repayment. We assume no further increase of these obligations in our base case in 2023-2024.

## Debt maturities

As of Sept. 30, 2023:

- 2023: \$178 million
- 2024: \$297 million
- 2025: \$287 million
- 2026: \$285 million
- 2027: Nil
- Thereafter: \$685 million

## Autoliv Inc.--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	\$	\$	\$	\$	\$	\$
Revenues	10,383	8,678	8,548	7,447	8,230	8,842
EBITDA	1,325	1,291	1,135	821	1,131	1,084
Funds from operations (FFO)	1,090	1,001	867	641	861	801
Interest expense	70	76	79	76	63	66
Cash interest paid	72	76	76	76	63	68
Operating cash flow (OCF)	951	705	716	894	797	744



**Autoliv Inc.--Financial Summary**

Capital expenditure	580	560	483	344	458	585
Free operating cash flow (FOCF)	371	145	232	550	339	159
Discretionary cash flow (DCF)	5	(71)	14	495	173	(182)
Debt	921	2,405	2,238	1,816	1,572	1,701

**Adjusted ratios**

EBITDA margin (%)	12.8	14.9	13.3	11.0	13.7	12.3
Debt/EBITDA (x)	0.7	1.9	2.0	2.2	1.4	1.6
FFO/debt (%)	118.3	41.6	38.8	35.3	54.8	47.1
FOCF/debt (%)	40.2	6.0	10.4	30.3	21.6	9.3
DCF/debt (%)	0.5	(3.0)	0.6	27.3	11.0	(10.7)

Financial year	Dec-31-2022	Debt	EBITDA	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Company reported amounts		1,765	1,022	1,084	713	226	585
Cash taxes paid		-	-	(215)	-	-	-
Cash interest paid		-	-	(64)	-	-	-
Trade receivables securitizations		174	-	-	(15)	-	-
Lease liabilities		158	-	-	-	-	-
Operating leases		-	50	(4)	46	-	-
Postretirement benefit obligations/deferred compensation		128	2	-	-	-	-
Accessible cash and liquid investments		(524)	-	-	-	-	-
Share-based compensation expense		-	10	-	-	-	-
Nonoperating income (expense)		-	-	-	-	-	-
Noncontrolling/minority interest		-	-	-	-	-	-
Total adjustments		(64)	62	(283)	31	-	-
<b>S&amp;P Global Ratings adjusted</b>		<b>Debt</b>	<b>EBITDA</b>	<b>Funds from Operations</b>	<b>Operating cash flow</b>	<b>Dividends</b>	<b>Capital expenditure</b>
		1,701	1,084	801	744	226	585

## Liquidity

The short-term global scale rating is 'A-2', and the Nordic regional scale rating is 'K-2'. We view Autoliv's liquidity as strong because we project the ratio of liquidity sources to uses will be more

than 1.5x for the next 12 months and more than 1.0x for the subsequent 12 months. We forecast Autoliv's liquidity will remain sufficient to cover uses even if EBITDA drops by 30%. The company's solid relationships with banks and high standing in credit markets, illustrated by successful refinancing activities in the last three years, support our view of Autoliv's liquidity.

Principal liquidity sources	Principal liquidity uses
1. Cash and cash equivalents of about \$405 million as of Sept. 30, 2023, after deducting inaccessible cash.	4. Debt maturities of about \$178 million in 2023 and \$297 million in 2024.
2. Undrawn bank lines of \$1.1 billion maturing in May 2027.	5. Working capital-related outflows of up to \$150 million, including intra-year working capital swings.
3. Annual cash FFO of \$0.9 billion-\$1.0 billion over the next 24 months.	6. Annual capex between \$600 million-\$650 million.
	7. Annual dividends of \$240 million-\$260 million.
	8. We do not include share buybacks in our liquidity uses forecast as we think they are discretionary and can be suspended in times of liquidity stress.

## Covenant Analysis

### Requirements

Autoliv's credit documentation does not contain any financial maintenance covenants.

## Issue Ratings--Subordination Risk Analysis

### Capital structure

The capital structure consists of senior unsecured debt issued by Autoliv Inc. and by its core operating subsidiary Autoliv ASP Inc.

### Analytical conclusions

The issue rating on the debt is 'BBB', the same as the issuer credit rating, with no significant elements of subordination risk present in the capital structure. Even though the amount of debt at operating companies can occasionally exceed 50% of total debt, the upstream guarantees from operating companies lead us to rank all the unsecured debt facilities and tranches pari passu.

## Rating Component Scores

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

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

**Ratings Detail (as of November 22, 2023)\*****Autoliv Inc.**

Issuer Credit Rating	BBB/Stable/A-2
<i>Nordic Regional Scale</i>	--/--/K-2
Commercial Paper	
<i>Local Currency</i>	A-2

**Issuer Credit Ratings History**

17-Dec-2021		BBB/Stable/A-2
11-Feb-2021		BBB/Positive/A-2
28-May-2020		BBB/Stable/A-2
26-Sep-2019		BBB+/Negative/A-2
10-Dec-2018		A-/Negative/A-2
28-May-2020	<i>Nordic Regional Scale</i>	--/--/K-2
29-Oct-2010		--/--/K-1
26-Nov-2009		--/--/K-2

**Related Entities****Autoliv ASP Inc.**

Issuer Credit Rating	BBB/Stable/A-2
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\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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