MOODY'S
INVESTORS SERVICE

RATING METHODOLOGY
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Rating Methodology

Retail

This methodology is no longer in effect. For more information on rating methodologies used by Moody's Investor Services, visit https://ratings.moodys.com/rating-methodologies.

This rating methodology replaces the *Retail Industry* methodology published in May 2018. We have reordered and have made editorial updates to various sections of the methodology, and we have changed the presentation of the scorecard. We have removed outdated information. These updates do not change our methodological approach.

Scope

This methodology applies to companies globally that are primarily* engaged in the sale of products to consumers online or in stores. Retailers with physical locations may own or lease their real estate.

This methodology applies to retailers in a large number of segments (e.g., grocery store retailers, automobile retailers, specialty apparel stores, or department stores) with different business and operating models and in a wide range of formats (e.g., "big box" retailers or internet-only).

This methodology does not apply to companies that are primarily engaged in the sale of apparel, footwear and related accessories, such as handbags, wallets or jewelry, under brands they own or license, unless those companies are primarily engaged in sales through self-operated retail channels. Apparel companies are rated using a separate methodology.[1]

*The determination of a company's primary business is generally based on the preponderance of the company's business risks, which are usually proportionate to the company's revenues, earnings and cash flows.

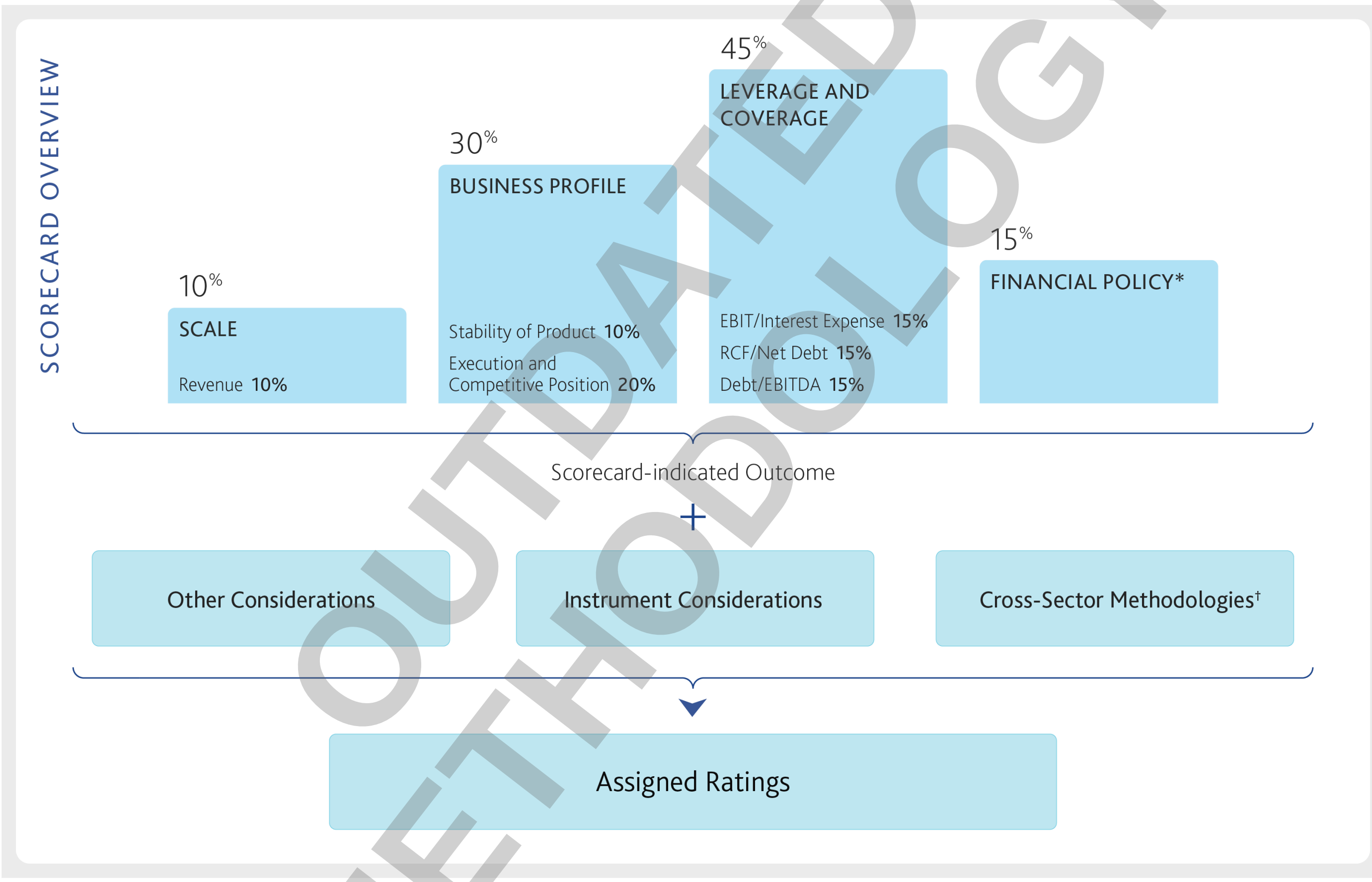
Rating approach

In this rating methodology, we explain our general approach to assessing credit risk of issuers in the retail industry globally, including the qualitative and quantitative factors that are likely to affect rating outcomes in this sector. We seek to incorporate all material credit considerations in ratings and to take the most forward-looking perspective that visibility into these risks and mitigants permits.

The following schematic illustrates our general framework for the analysis of retail companies, which includes the use of a scorecard.[2] The scorecard-indicated outcome is not expected to match the actual rating for each company. For more information, see the "Other considerations" and "Limitations" sections.

Exhibit 1

Illustration of the retail methodology framework



* This factor has no sub-factors.

† Some of the methodological considerations described in one or more cross-sector rating methodologies may be relevant to ratings in this sector. A link to a list of our sector and cross-sector methodologies can be found in the "Moody's related publications" section.

Source: Moody's Investors Service

Retail scorecard

For general information about how we use the scorecard and for a discussion of scorecard mechanics, please see the "Using the scorecard to arrive at a scorecard-indicated outcome" section. The scorecard does not include or address every factor that a rating committee may consider in assigning ratings in this sector. Please see the "Other considerations" and "Limitations" sections.

Exhibit 2

Retail scorecard

	SCALE (10%)	BUSINESS PROFILE (30%)		LEVERAGE and COVERAGE (45%)			FINANCIAL POLICY (15%)
	Revenue (USD Billion) (10%)	**Stability of Product (10%)**	**Execution and Competitive Position (20%)**	**EBIT / Interest Expense (15%)**	**RCF / Net Debt[1] (15%)**	**Debt / EBITDA[2] (15%)**	**Financial Policy (15%)**
Aaa	≥ $100	Products are absolute necessities for day-to-day living with virtually zero demand elasticity (gasoline and prescription drugs), with deferral of purchases rare regardless of macroeconomy or other cyclical factors, which has been historically evidenced.	Flawless, best-in-class execution and dominant positions in multiple broad markets across varying geographies, as well as within the company's product categories no matter the level of fragmentation. Online (where relevant) is growing and well-integrated, with company a bonafide multichannel retailer. No anticipated threats to current market position from any front.	≥ 20x	≥ 100%	< 0.75x	Expected to have extremely conservative financial policies; very stable metrics; public commitment to very strong credit profile over the long term.
Aa	$50-$100	Products are highly-necessary for day-to-day living (essential food products), with deferral of purchases highly unlikely regardless of macroeconomy or other cyclical factors, which has been historically evidenced. Highly inelastic demand, minimal fashion risk, technological obsolescence, and remote possibility of product substitution.	Flawless, best-in-class execution. Clear leader in multiple broad markets across varying geographies, as well as within the company's product categories no matter the level of fragmentation. Online (where relevant) is growing and well-integrated, with company a bonafide multichannel retailer. Market position easily defended against any type of threat.	12x-20x	50%-100%	0.75x-1.5x	Expected to have very stable and conservative financial policies; stable metrics; minimal event risk that would cause a rating transition; public commitment to strong credit profile over the long term.
A	$25-$50	Products are moderately-necessary for day-to-day living, with deferral of purchases unlikely regardless of macroeconomy or other cyclical factors. Moderately inelastic demand, and moderate levels of fashion risk or technological obsolescence, with some potential for product substitution.	Generally flawless, world-class execution. One of the leaders in multiple broad markets across varying geographies, as well as within the company's product category(ies) no matter the level of fragmentation. Online (where relevant) is growing and integrated, with company on its way to becoming a bonafide multi-channel retailer. Market position easily defended against almost any type of threat.	6x-12x	35%-50%	1.5x-2.5x	Expected to have predictable financial policies that preserve creditor interests. Although modest event risk exists, the effect on leverage is likely to be small and temporary; strong commitment to a solid credit profile.
Baa	$10-$25	Products are necessary, though deferral of purchases possible under certain macroeconomic or other cyclical factors, which has been historically evidenced. Demand exhibits some signs of elasticity, fashion risk/technological obsolescence begins to surface, as does mild potential for product substitution.	Execution is well-above peers. Leadership is evident in multiple markets across varying geographies, as well as within the company's product category(ies) with some potential fragmentation acknowledged. Online (where relevant) is growing and in early stages of integration, laying the groundwork for future multi-channel capability. Market position can be defended against most types of threats, with even minor market share losses unusual.	4x-6x	25%-35%	2.5x-3.5x	Expected to have financial policies that balance the interest of creditors and shareholders; some risk that debt funded acquisitions or shareholder distributions could lead to a weaker credit profile.

	SCALE (10%)	BUSINESS PROFILE (30%)		LEVERAGE and COVERAGE (45%)			FINANCIAL POLICY (15%)
	Revenue (USD Billion) (10%)	**Stability of Product (10%)**	**Execution and Competitive Position (20%)**	**EBIT / Interest Expense (15%)**	**RCF / Net Debt[1] (15%)**	**Debt / EBITDA[2] (15%)**	**Financial Policy (15%)**
Ba	$3.5-$10	Products begin to exhibit discretionary features, with some delay of purchases due to macroeconomic or cyclical factors evident, and historically verifiable. Demand exhibits clear signs of elasticity, fashion risk/technological obsolescence is readily evident, as is moderate potential for product substitution.	Execution above peers. A leader in markets where company chooses to operate, as well as within the company's product category(ies), with some fragmentation evident. Online (where relevant) is growing and base-level capability for multi-channel success is evident. Market position can be defended against most types of threats, however some level of market share erosion can occur.	2.25x-4x	12.5%-25%	3.5x-4.5x	Expected to have financial policies that tend to favor shareholders over creditors; above average financial risk resulting from shareholder distributions, acquisitions or other significant capital structure changes.
B	$1.5-$3.5	Products are moderately discretionary, with easily-delayed purchases certain under even mild macroeconomic or cyclical factors, and historically verifiable. Demand is elastic, fashion risk/technological obsolescence is acute, and product substitution is easy.	Execution can be variable, but generally consistent with peers. Key competitor in markets where company chooses to operate, as well as within the company's product category(ies), with moderate levels of fragmentation evident. Online (where relevant) is growing and base-level capability is becoming evident, though ultimate multi-channel capability is uncertain. Market position can generally be defended, however at times some market share erosion is expected.	1x-2.25x	5%-12.5%	4.5x-6.5x	Expected to have financial policies that favor shareholders over creditors; high financial risk resulting from shareholder distributions, acquisitions or other significant capital structure changes.
Caa	$0.25-$1.5	Products are highly discretionary or within a narrowly defined niche category with significantly delayed or eliminated purchases certain under even mild macroeconomic or cyclical factors.	Execution lags peers. Credible competitor in markets where company chooses to operate, as well as in company's product category(ies), which are typically highly fragmented. Online (where relevant) presence evident, though capability is rudimentary and sales penetration is minimal. Market position exhibits variability, with sustainability questionable with even moderate increase in competition.	0.5x-1x	0%-5%	6.5x-8x	Expected to have financial policies that create elevated risk of debt restructuring in varied economic environments.
Ca	< $0.25	Products are absolutely discretionary, with elimination of purchases certain under even mild macroeconomic or cyclical factors. Demand is highly elastic, fashion risk is absolute, and easily substituted by other broader retailers. Product category may be recently emergent or in significant secular decline.	Execution well below peers. Niche competitor at best in markets where company chooses to operate. Online (where relevant) presence not compelling. Little control over market position.	< 0.5x	< 0%	≥ 8x	Expected to have financial policies that create elevated risk of debt restructuring even in healthy economic environments.

[1] When net debt is negative and RCF is positive, the score is Aaa. When net debt is negative and RCF is negative, the score is Ca.
[2] When debt is zero, the score is Aaa. When debt is positive and EBITDA is negative, the score is Ca.
Source: Moody's Investors Service

Sector overview

The universe for retailers encompasses issuers covering a broad spectrum of products, segments and sub-segments. Our overriding definition is a company that sells products to an end-user. This eliminates food distributors that sell to companies that sell to the end-user. Major industry segments may include:

» Department Stores

» Drug Stores

» Auto and Auto-Parts Retailers

» Home Improvement Stores

» Value Stores

» Food and Gas Retailers

» Apparel and Footwear

» Off-Price Retailers

» Big Box

» Online

Peer groups may be drawn from the broad industry category, the segment (or where applicable, the sub-segment) or by rating category.

Discussion of the scorecard factors

In this section, we explain our general approach for scoring each scorecard factor or sub-factor, and we describe why they are meaningful as credit indicators.

Factor: Scale (10% weight)

Why it matters

Scale is an important indicator of a retailer's buying power with vendors and potential price leadership, both of which can result in meaningful competitive advantages versus smaller companies.

How we assess it for the scorecard

REVENUE:

Scale is measured (or estimated in the case of forward-looking expectations) using total reported revenue in billions of US dollars.

Factor: Business Profile (30% weight)

Why it matters

A retailer's business profile is important because it greatly influences its ability to generate sustainable earnings and operating cash flows.

This factor has two sub-factors:

Stability of Product

In the retail industry, companies that sell products with relatively inelastic demand are typically less vulnerable to changes in consumer preferences or competitive threats than are companies that offer more discretionary products or products with more elastic demand.

Execution and Competitive Position

A company's competitive position and execution ability are critical because they are the primary drivers of the company's operating performance and quantitative credit profile.

How we assess it for the scorecard
Scoring for this factor is qualitative and is based on two sub-factors: Stability of Product; and Execution and Competitive Position.

STABILITY OF PRODUCT:

Our qualitative assessment is based on a variety of considerations, including the performance of the company through varying economic scenarios, which is an indicator of the necessity of its products. During times of economic stress, consumers tend to purchase necessary products rather than discretionary products. Conversely, during periods of economic strength, consumers may increase their purchases of discretionary products, and may also "up-tier" their purchases of necessities.

EXECUTION AND COMPETITIVE POSITION:

In our qualitative assessment, we take a holistic view of a retailer's execution and competitive position. Considerations may include a retailer's margins, market share in its chosen geographic locations, key competitors and its relative positioning within its peer or competitive group, online capability in product segments where it is relevant, historical performance versus forecasts, adaptability to potentially changing consumer preferences or macroeconomic factors, and brand or franchise strength, among others.

Factor: Leverage and Coverage (45% weight)

Why it matters
Financial leverage and coverage measures are indicators for a company's financial flexibility and long-term viability. Financial flexibility is critical to retailers because of their need to adapt to almost constant changes in consumer behavior.

The factor comprises three sub-factors:

EBIT / Interest Expense

The ratio of earnings before interest and taxes to interest expense (EBIT/Interest Expense) is an indicator of a company's ability to meet its interest obligations.

RCF / Net Debt

The ratio of retained cash flow to net debt (RCF/Net Debt) is an indicator of a company's cash generation (before working capital movements and capital expenditures, and after dividend payments) relative to its net debt (total debt minus cash and cash equivalents).

Debt / EBITDA

The ratio of total debt to earnings before interest, taxes, depreciation and amortization (Debt/EBITDA) is an indicator of debt serviceability and financial leverage. The ratio is commonly used in this sector as a proxy for comparative financial strength.

How we assess it for the scorecard
Scoring for this factor is based on three sub-factors: EBIT/Interest Expense; RCF/Net Debt; and Debt/EBITDA.

EBIT / INTEREST EXPENSE:

The numerator is EBIT, and the denominator is interest expense.

RCF / NET DEBT:

The numerator is retained cash flow, and the denominator is net debt (total debt minus cash and cash equivalents).

DEBT / EBITDA:

The numerator is total debt, and the denominator is EBITDA.

Factor: Financial Policy (15% weight)

Why it matters

Management and board tolerance for financial risk is a rating determinant because it directly affects debt levels, credit quality, and the risk of adverse changes in financing and capital structure.

Our assessment of financial policies includes the perceived tolerance of a company's governing board and management for financial risk and the future direction for the company's capital structure. Considerations include a company's public commitments in this area, its track record for adhering to commitments, and our views on the ability of the company to achieve its targets.

Financial risk tolerance serves as a guidepost to investment and capital allocation. An expectation that management will be committed to sustaining an improved credit profile is often necessary to support an upgrade. For example, we may not upgrade a company that has built flexibility within its rating category if we believe the company will use that flexibility to fund a strategic acquisition, cash distribution to shareholders, spin-off or other leveraging transaction. Conversely, a company's credit rating may be better able to withstand a moderate leveraging event if management places a high priority on returning credit metrics to pre-transaction levels and has consistently demonstrated the commitment to do so through prior actions.

How we assess it for the scorecard

We assess the issuer's desired capital structure or targeted credit profile, history of prior actions and adherence to its commitments. Attention is paid to management's operating performance and use of cash flow through different phases of economic cycles. Also of interest is the way in which management responds to key events, such as changes in the credit markets and liquidity environment, legal actions, competitive challenges, and regulatory pressures.

Management's appetite for M&A activity is assessed with a focus on the type of transactions (i.e., core competency or new business) and funding decisions. Frequency and materiality of acquisitions and previous financing choices are evaluated. A history of debt-financed or credit-transforming acquisitions will generally result in a lower score for this factor.

We also consider a company's and its owners' past record of balancing shareholder returns and debtholders' interests. A track record of favoring shareholder returns at the expense of debt holders is likely to be viewed negatively in scoring this factor.

Other considerations

Ratings may reflect consideration of additional factors that are not in the scorecard, usually because the factor's credit importance varies widely among the issuers in the sector or because the factor may be important only under certain circumstances or for a subset of issuers. Such factors include financial controls and the quality of financial reporting; corporate legal structure; the quality and experience of management; assessments of corporate governance as well as environmental and social considerations; exposure to uncertain licensing regimes; and possible government interference in some countries. Regulatory, litigation, liquidity, technology and reputational risk as well as changes to consumer and business spending patterns, competitor strategies and macroeconomic trends also affect ratings.

Following are some examples of additional considerations that may be reflected in our ratings and that may cause ratings to be different from scorecard-indicated outcomes.

Management Strategy

The quality of management is an important factor supporting a company's credit strength. Assessing the execution of business plans over time can be helpful in assessing management's business strategies, policies and philosophies and in evaluating management performance relative to performance of competitors and our projections. Management's track record of adhering to stated plans, commitments and guidelines provides insight into management's likely future performance, including in stressed situations.

Environmental, Social and Governance Considerations

Environmental, social and governance (ESG) considerations may affect the ratings of issuers in the retail sector. For information about our approach to assessing ESG issues, please see our methodology that describes our general principles for assessing these risks.[3]

Among the areas of focus in corporate governance, for example, are audit committee financial expertise, the incentives created by executive compensation packages, related party transactions, interactions with outside auditors, and ownership structure.

Financial Controls

We rely on the accuracy of audited financial statements to assign and monitor ratings in this sector. The quality of financial statements may be influenced by internal controls, including the proper tone at the top, centralized operations, and consistency in accounting policies and procedures. Auditors' reports on the effectiveness of internal controls, auditors' comments in financial reports and unusual restatements of financial statements or delays in regulatory filings may indicate weaknesses in internal controls.

Liquidity

Liquidity is an important rating consideration for all retailers, although it may not have a substantial impact in discriminating between two issuers with a similar credit profile. Liquidity can be particularly important for non-investment-grade retailers, which typically have less operating and financial flexibility, and ratings can be affected by extremely weak liquidity We form an opinion on likely near-term liquidity requirements from the perspective of both sources and uses of cash. For more details on our approach, please see our liquidity cross-sector methodology.[4]

Event Risk

We also recognize the possibility that an unexpected event could cause a sudden and sharp decline in an issuer's fundamental creditworthiness, which may cause actual ratings to be lower than the scorecard-indicated outcome. Event risks — which are varied and can range from leveraged recapitalization to liabilities from an accident — can overwhelm even a stable, well-capitalized firm. Some other types of event risks include M&A, asset sales, spin-offs, capital restructuring programs, litigation, pandemics, significant cyber-crime events and shareholder distributions. In addition, we recognize that shareholder activism can increase risk to debtholders.

Seasonality

Seasonality is an important driver of customer demand and can cause swings in cash balances and working capital positions for some retailers. Higher volatility creates less room for errors in product or operational execution.

Parental Support

Ownership can provide ratings lift for a particular company in the retail sector if it is owned by a highly rated owner(s) and is viewed to be of strategic importance to those owners. In our analysis of parental support, we consider whether the parent has the financial capacity and strategic incentives to provide support to the issuer in times of stress or financial need (e.g., a major capital investment or advantaged operating agreement), or has already done so in the past. Conversely, if the parent puts a high dividend burden on the issuer, which in turn reduces its flexibility, the ratings would reflect this risk.

Government-related issuers may receive ratings uplift due to expected government support. However, for certain issuers, government ownership can have a negative impact on the underlying Baseline Credit Assessment.[5] For example, price controls, onerous taxation and high distributions can have a negative effect on an issuer's underlying credit profile.

Using the scorecard to arrive at a scorecard-indicated outcome

1. Measurement or estimation of factors in the scorecard

In the "Discussion of the scorecard factors" section, we explain our analytical approach for scoring each scorecard factor or sub-factor,[6] and we describe why they are meaningful as credit indicators.

The information used in assessing the sub-factors is generally found in or calculated from information in the company's financial statements or regulatory filings, derived from other observations or estimated by Moody's analysts. We may also incorporate non-public information.

Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of a company's performance as well as for peer comparisons. Financial ratios,[7] unless otherwise indicated, are typically calculated based on an annual or 12-month period. However, the factors in the scorecard can be assessed using various time periods. For example, rating committees may find it analytically useful to examine both historical and expected future performance for periods of several years or more.

All of the quantitative credit metrics incorporate our standard adjustments[8] to income statement, cash flow statement and balance sheet amounts for items such as underfunded pension obligations and operating leases. We may also make other analytical adjustments that are specific to a particular company.

2. Mapping scorecard factors to a numeric score

After estimating or calculating each factor or sub-factor, each outcome is mapped to a broad Moody's rating category (Aaa, Aa, A, Baa, Ba, B, Caa, or Ca, also called alpha categories) and to a numeric score.

Qualitative factors are scored based on the description by broad rating category in the scorecard. The numeric value of each alpha score is based on the scale below.

Exhibit 3

Aaa	Aa	A	Baa	Ba	B	Caa	Ca
1	3	6	9	12	15	18	20

Source: Moody's Investors Service

3. Determining the overall scorecard-indicated outcome

The numeric score for each sub-factor (or each factor, when the factor has no sub-factors) is multiplied by the weight for that sub-factor (or factor), with the results then summed to produce an aggregate numeric score. The aggregate numeric score is then mapped back to a scorecard-indicated outcome based on the ranges in the table below.

Exhibit 4

Scorecard-indicated outcome

Scorecard-indicated outcome	Aggregate numeric score
Aaa	x < 1.5
Aa1	1.5 ≤ x < 2.5
Aa2	2.5 ≤ x < 3.5
Aa3	3.5 ≤ x < 4.5
A1	4.5 ≤ x < 5.5
A2	5.5 ≤ x < 6.5
A3	6.5 ≤ x < 7.5
Baa1	7.5 ≤ x < 8.5
Baa2	8.5 ≤ x < 9.5
Baa3	9.5 ≤ x < 10.5
Ba1	10.5 ≤ x < 11.5
Ba2	11.5 ≤ x < 12.5
Ba3	12.5 ≤ x < 13.5
B1	13.5 ≤ x < 14.5
B2	14.5 ≤ x < 15.5
B3	15.5 ≤ x < 16.5
Caa1	16.5 ≤ x < 17.5
Caa2	17.5 ≤ x < 18.5
Caa3	18.5 ≤ x < 19.5
Ca	x ≥ 19.5

Source: Moody's Investors Service

For example, an issuer with an aggregate numeric score of 11.7 would have a Ba2 scorecard-indicated outcome.

In general, the scorecard-indicated outcome is oriented to the corporate family rating (CFR) for speculative-grade issuers and the senior unsecured rating for investment-grade issuers. For issuers that benefit from ratings uplift from parental support, government ownership or other institutional support, we consider the underlying credit strength or Baseline Credit Assessment for comparison to the scorecard-indicated outcome. For an explanation of the Baseline Credit Assessment, please refer to *Rating Symbols and Definitions* and to our cross-sector methodology for government-related issuers.[9]

Assigning issuer-level and instrument-level ratings

After considering the scorecard-indicated outcome, other considerations and relevant cross-sector methodologies, we typically assign a CFR to speculative-grade issuers or a senior unsecured rating for investment-grade issuers. For issuers that benefit from rating uplift from government ownership, we may assign a Baseline Credit Assessment.[10]

Individual debt instrument ratings may be notched up or down from the CFR or the senior unsecured rating to reflect our assessment of differences in expected loss related to an instrument's seniority level and collateral. The documents that provide broad guidance for such notching decisions are the rating methodology on loss given default for speculative-grade non-financial companies, the methodology for notching corporate instrument ratings based on differences in security and priority of claim, and the methodology for assigning short-term ratings.[11]

Key rating assumptions

For information about key rating assumptions that apply to methodologies generally, please see *Rating Symbols and Definitions*.[12]

Limitations

In the preceding sections, we have discussed the scorecard factors and many of the other considerations that may be important in assigning ratings. In this section, we discuss limitations that pertain to the scorecard and to the overall rating methodology.

Limitations of the scorecard

There are various reasons why scorecard-indicated outcomes may not map closely to actual ratings.

The scorecard in this rating methodology is a relatively simple reference tool that can be used in most cases to approximate credit profiles of companies in this sector and to explain, in summary form, many of the factors that are generally most important in assigning ratings to these companies. Credit loss and recovery considerations, which are typically more important as an issuer gets closer to default, may not be fully captured in the scorecard. The scorecard is also limited by its upper and lower bounds, causing scorecard-indicated outcomes to be less likely to align with ratings for issuers at the upper and lower ends of the rating scale.

The weights for each factor and sub-factor in the scorecard represent an approximation of their importance for rating decisions across the sector, but the actual importance of a particular factor may vary substantially based on an individual company's circumstances.

Factors that are outside the scorecard, including those discussed above in the "Other considerations" section, may be important for ratings, and their relative importance may also vary from company to company. In addition, certain broad methodological considerations described in one or more cross-sector rating methodologies may be relevant to ratings in this sector.[13] Examples of such considerations include the following: how sovereign credit quality affects non-sovereign issuers, the assessment of credit support from other entities, the relative ranking of different classes of debt and hybrid securities, and the assignment of short-term ratings.

We may use the scorecard over various historical or forward-looking time periods. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way.

General limitations of the methodology

This methodology document does not include an exhaustive description of all factors that we may consider in assigning ratings in this sector. Companies in the sector may face new risks or new combinations of risks, and they may develop new strategies to mitigate risk. We seek to incorporate all material credit considerations in ratings and to take the most forward-looking perspective that visibility into these risks and mitigants permits.

Ratings reflect our expectations for an issuer's future performance; however, as the forward horizon lengthens, uncertainty increases and the utility of precise estimates, as scorecard inputs or in other considerations, typically diminishes. Our forward-looking opinions are based on assumptions that may prove, in hindsight, to have been incorrect. Reasons for this could include unanticipated changes in any of the following: the macroeconomic environment, general financial market conditions, industry competition, disruptive technology, or regulatory and legal actions. In any case, predicting the future is subject to substantial uncertainty.

Appendix: Considerations for rating auto dealers

This section includes some additional considerations for ratings of automobile retailers covered under this methodology.

Scale

» We consider auto retail to be an inherently local business, with typically 90% of purchases made within close proximity of the purchaser's home. Therefore, size in and of itself is not as meaningful for auto dealers as it is for other types of retailers.

Business Profile

» Stability of Product - New car sales can vary widely. However, Parts and Service, which typically generates around 70% of a dealership's gross profit despite only generating around 25% of overall revenue, has tended to remain fairly stable during a recession. We believe this is a very "sticky" business, providing steady, annuity-type benefits to dealers. While new car sales fuel some demand for this sub-segment, what is more relevant is overall vehicles on the road, miles driven, and average age of vehicle,. In addition, used car sales annually provide opportunities for vehicle repairs.

» Execution and Competitive Position - For auto retail, we typically focus on the company's competitive position in the markets in which it chooses to operate. We also consider product mix, with flexibility in our evaluation depending on sales activity and consumer perception of quality by brand and nameplate. Key metrics we focus on to assess execution ability include parts and service as a percentage of gross profit and SG&A as a percentage of gross profit.

Leverage and Coverage

We consider the predictability of performance in the sector, as well as similarities between operations of "full service" (service as well as car sales), in our evaluation of auto retailers' quantitative credit profile. We typically treat floor plan financing as secured accounts payable.

Financial Policy

Given the fragmentation in the sector, growth is typically fueled by acquisition. We typically consider the likelihood of a larger amount of expected acquisition activity for automobile retailers than for the overall universe of rated retailers.

Moody's related publications

Credit ratings are primarily determined through the application of sector credit rating methodologies. Certain broad methodological considerations (described in one or more cross-sector rating methodologies) may also be relevant to the determination of credit ratings of issuers and instruments. A list of sector and cross-sector credit rating methodologies can be found here.

For data summarizing the historical robustness and predictive power of credit ratings, please click here.

For further information, please refer to *Rating Symbols and Definitions*, which is available here.

Moody's Basic Definitions for Credit Statistics (User's Guide) can be found here.

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Endnotes

1 A link to a list of our sector and cross-sector methodologies can be found in the "Moody's related publications" section.

2 In our methodologies and research, the terms "scorecard" and "grid" are used interchangeably.

3 A link to a list of our sector and cross-sector methodologies can be found in the "Moody's related publications" section.

4 A link to a list of our cross-sector methodologies can be found in the "Moody's related publications" section of this report.

5 For an explanation of the Baseline Credit Assessment, please refer to *Rating Symbols and Definitions* and to our cross-sector methodology for government-related issuers. A link to a list of our sector and cross-sector methodologies and a link to *Rating Symbols and Definitions* can be found in the "Moody's related publications" section.

6 When a factor comprises sub-factors, we score at the sub-factor level. Some factors do not have sub-factors, in which case we score at the factor level.

7 For definitions of our most common ratio terms, please see *Moody's Basic Definitions for Credit Statistics (User's Guide)*. A link can be found in the "Moody's related publications" section.

8 For an explanation of our standard adjustments, please see the cross-sector methodology that describes our financial statement adjustments in the analysis of non-financial corporations.

9 A link to a list of our sector and cross-sector methodologies and a link to *Rating Symbols and Definitions* can be found in the "Moody's related publications" section.

10 For an explanation of the Baseline Credit Assessment, please refer to *Rating Symbols and Definitions* and to our cross-sector methodology for government-related issuers. A link to a list of our sector and cross-sector methodologies and a link to *Rating Symbols and Definitions* can be found in the "Moody's related publications" section.

11 A link to a list of our sector and cross-sector rating methodologies can be found in the "Moody's related publications" section.

12 A link to *Rating Symbols and Definitions* can be found in the "Moody's related publications" section.

13 A link to a list of our sector and cross-sector methodologies can be found in the "Moody's related publications" section.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

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