

Corporate and Financial Institution Ratings

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Our Mission

Morningstar Credit Ratings, LLC is a nationally recognized statistical rating organization, or NRSRO. Our mission is to create great products that help investors. We accomplish this by providing thoughtful, unbiased, and trustworthy credit ratings and credit analysis that help issuers and investors identify and understand credit risk.

Issuer Advantages: Transparent, Comprehensive, Timely

Morningstar has the resources and experience to execute for our issuer clients. Morningstar has created a transparent framework for our credit ratings built from four quantitative and qualitative metrics — Business Risk, Morningstar® Cash Flow Cushion™, Morningstar® Solvency Score™, and Distance to Default. Our openness allows issuers to know where they stand because they understand our well-defined methodology and their rating. And our Methodology is applied consistently across all industries and sectors.

Experience You Can Trust

Standing behind our research is an experienced and seasoned team of credit analysts with a deep understanding of all aspects of corporate finance, including credit modeling, fundamental credit risk analysis, industry analysis and legal and structural concepts. We build our analytical teams by taking advantage of diverse backgrounds, which allows our clients to benefit from the experience gathered at rating agencies, banks, fund management companies, insurance companies, and legal firms.

Market Credibility

Since 2010, Morningstar has been providing insightful corporate credit research that resonates with investors. Hundreds of Institutional Investors and Advisors access our analysis and are familiar with and trust our credit research and opinions.

Diverse Coverage

On an unsolicited basis Morningstar covers hundreds of companies today, including a majority of the S&P 500. Our focus is on companies with economic moats, which is evident with most companies covered maintaining either a Wide or Narrow Moat designation. We cover several sectors and continue to grow into additional areas.

How We Help Investors

We provide corporate credit ratings, in-depth analyst commentary and offer a unique perspective in debt research. Our analysts use a consistent approach that focuses on fundamental analysis, field research, competitive advantage research, and cash-flow modeling. Our emphasis on analyzing competitive advantages — what we term economic moats — is the cornerstone of Morningstar's methodology, and it differentiates our research from that of other providers.

Ratings Methodologies

Our transparent framework is built from four quantitative and qualitative metrics — Business Risk, Morningstar® Cash Flow Cushion™, Morningstar® Solvency Score™, and Distance to Default. The first, business risk, is qualitative in nature and depends on Morningstar's assessment of competitive advantages. The latter three are primarily quantitative. The Cash Flow Cushion is based on our forward looking view of cash flow generation as compared to future obligations. Solvency Score is based on a company's financial ratios and Distance to Default is a market-driven measure of financial health and distress. All of these metrics are utilized to measure credit risk and are encapsulated within the Morningstar® Corporate Credit Rating™, Uncertainty Assessment, and Stewardship Grade.

Business Risk

In addition to forward-looking base-case analyses, our credit analysts run upside and downside cases to determine alternate estimates of enterprise value. Based on competitive analysis, cash flow forecasts, and scenario analysis, the analyst assigns a Business Risk level. Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk measure include the Morningstar Economic Moat™ and the Morningstar Uncertainty Assessment.

Morningstar® Cash-Flow Cushion™

Our proprietary Cash Flow Cushion is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years.

The Cash Flow Cushion acts as a predictor of financial distress, exposing potential refinancing, operational, and liquidity risks inherent to the firm.

The advantage of the Cash Flow Cushion relative to other fundamental indicators of credit health is that it focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, analysts can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar® Solvency Score™

Morningstar's quantitative solvency proprietary score is derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations?), and interest coverage (how much profit is used up by interest payments?).

Distance to Default

Our quantitative Distance to Default ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe, and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

Ratings Process

Competitive Analysis

Morningstar equity analysts research a company and its industry, which may include management and customer interviews, conference calls, and trade show visits.

The result of this analysis is the Morningstar® Economic

Moat.™ Developed by our equity research team, this metric indicates how a company compares to its competitors by giving it a Wide, Narrow, or No Moat. *Morningstar equity analysts are part of Morningstar Research Services LLC, not Morningstar Credit Ratings, LLC.*

Rating Committee

Morningstar reviews credit ratings on a regular basis as events warrant, but no less than annually. Any change in a rating must be approved by the Credit Rating Committee. In a meeting, the analyst's credit rating recommendation undergoes rigorous scrutiny. Several senior personnel question the analyst directly about his or her model assumptions and company assessment followed by a group discussion. We only publish the credit rating when the members of the committee reach a consensus in an official vote. Our ratings use the standard scale of "AAA" for extremely low default risk to "D" indicating a payment default.

Specialized Models

In addition to our standard models, we've developed specialized models to account for the differences in financial companies such as; banks and insurance companies. *Morningstar insurance ratings are not NRSRO ratings.*

We Listen

Our analysts are willing listeners, who want to work with you to provide an innovative analytical product that addresses issuer concerns and questions. We are committed to developing and maintaining strong relationships with issuers and investors.

Accessible in Morningstar Products

Morningstar makes credit ratings available to help institutions, advisors, and individual investors make informed decisions about investing in bonds. Clients can integrate our corporate credit research with their existing systems, or access our corporate credit ratings through various Morningstar products.

Contact Information

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