Corporate Credit Spread Chartbook
Consumer Cyclical Industry

Morningstar Credit Research
4 December 2018

Contents

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Executive Summary

Morningstar Credit Ratings, LLC maintains a corporate credit rating on 21 issuers in the consumer cyclical sector, including high-yield issuers. The average credit spread for the 18 investment-grade consumer cyclical issues highlighted in our charts widened 19 basis points to +152 over Treasuries, keeping pace with the Morningstar Corporate Bond Index, which widened 24 basis points to +137 since our last consumer cyclical chartbook publication in July.

During this same period, MCR affirmed two issuers in the consumer cyclical sector. Year to date, Morningstar downgraded Mattel Inc (BB, negative) by two notches and Bed Bath & Beyond (BB+, negative) by one notch, while MGM Resorts International (BB, stable) was upgraded one notch.

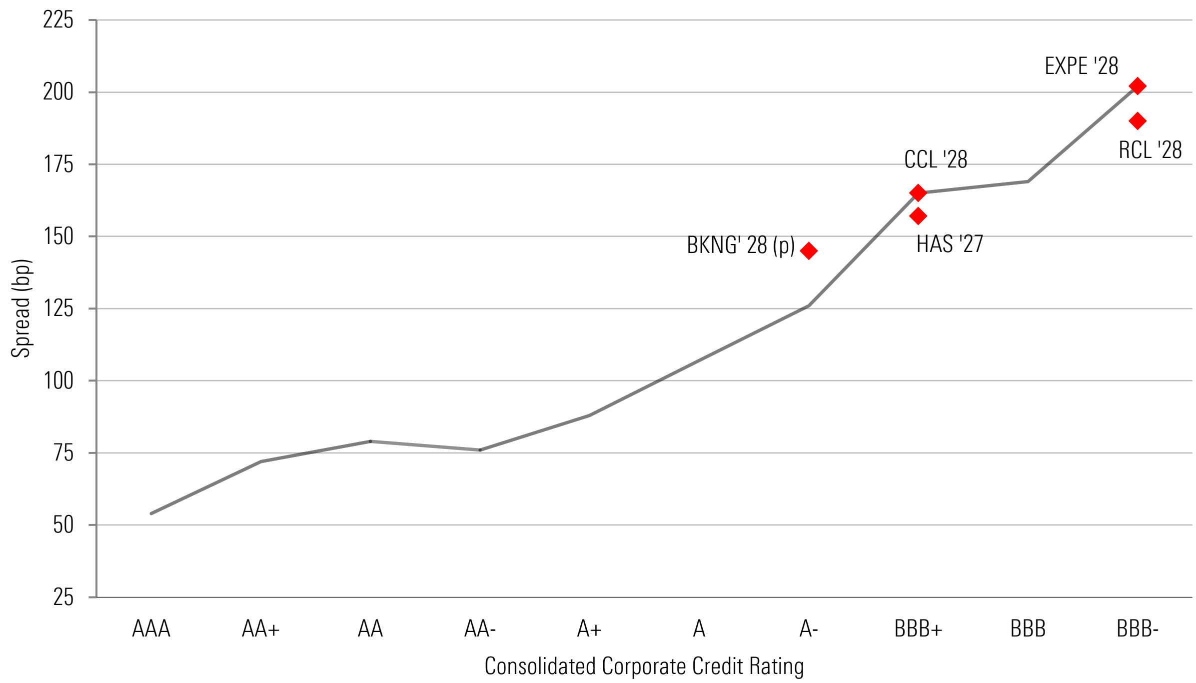
Despite the strong economy, credit quality is expected to remain under pressure, as indicated by the predominance of negative rating outlooks. In Morningstar's consumer cyclical rated universe, six issuers currently have a negative outlook while only one issuer has a positive outlook.

Many retailers, including department stores, apparel retailers, discounters, and specialty retailers, have reported strong same-store sales over the last quarter. However, this growth has come at a cost, as much of this traction has been generated after significant investments and lower margins. While the economy has provided a strong tailwind, an increasingly competitive landscape will continue to demand ongoing investment in stores, delivery, websites, and price, all of which will pressure operating margins for the foreseeable future. Meanwhile, the travel and leisure industry remain robust, benefiting from a strong consumer spending environment, as evidenced by strong revenue growth and margin expansion. Auto-parts retailers and home centers have performed consistently well, aided by in-store service expertise and low-cost distribution capabilities, which provide modest defenses against online threats.

Spread Charts by Consumer Cyclical Sector

Travel and Leisure

Exhibit 1 Travel and Leisure vs. Morningstar Industrials Index



Source: Morningstar Credit Ratings, LLC, Morningstar, Inc., and Interactive Data as of Nov. 26, 2018.
(UR) = rating under review/(p) = positive outlook/(n) = negative outlook.

Credit Spreads

The average credit spread for investment-grade issuers in the travel and leisure sector widened +20 basis points since the July chartbook, which is roughly consistent with the broader consumer cyclical sector average. Credit spreads for each issuer in the sector widened by double digits. Carnival Corp (BBB+, stable) widened +15 basis points to trade at +165 over Treasuries, while Booking Holdings (A-, positive) widened the most at +26 basis points to +145.

Issuer Highlights

- Hasbro's (BBB+, stable) rating was affirmed with a stable outlook in October, reflecting its leading position in the highly competitive toy industry, consistent strong profitability, and the maintenance of a conservative balance sheet. A moderate Business Risk Score is based on its large scale, leading toy brands, and strong licensing relationships. Hasbro's debt leverage has ranged between 1 and 2 times over the past decade, and management maintains a financial policy that targets a capital structure that supports a strong investment-grade rating and access to the commercial paper market. Morningstar expects that the company will maintain a moderately leveraged balance sheet, which supports Hasbro's strong Solvency Score, along with its high return on invested capital, which has averaged near 25% historically.

- Morningstar maintains a positive outlook on Booking Holdings (A-, positive), reflecting the potential for an upgrade with further development of the company's competitive advantages and strengthening of its Business Risk. The company holds a leading position in online travel services, strong profitability and return on invested capital, and excellent liquidity. A moderate Business Risk score is supported by its strong position in the rapidly evolving online travel industry, while its very strong Solvency Score reflects exceptional profitability and return on invested capital, and excellent liquidity.
- Morningstar maintains a negative outlook on Mattel (BB, negative), which reflects the potential for a lower rating if Mattel is unable to stabilize revenue and improve margins and debt protection metrics. Mattel's rating also incorporates ongoing revenue and cash flow declines, weaker credit protection measures, and heightened uncertainty regarding future operating performance.

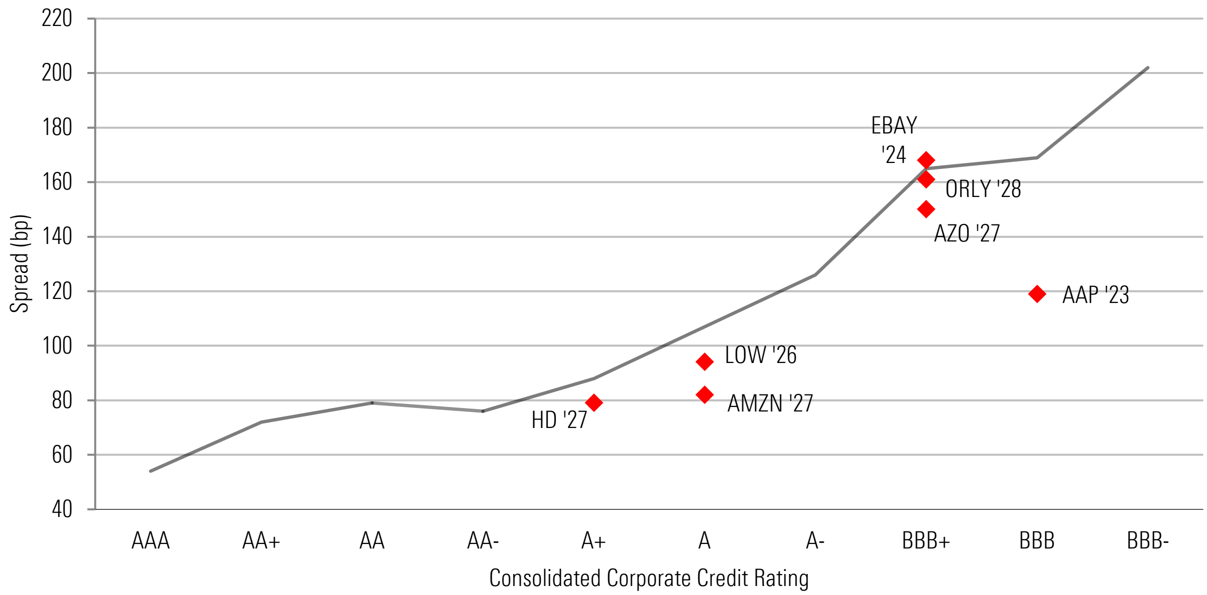
Exhibit 2 Travel and Leisure Financial Summary

	Booking Holdings	Hasbro	Carnival	Expedia	Royal Caribbean	Mattel	MGM
Ticker	BKNG	HAS	CCL	EXPE	RCL	MAT	MGM
MCR Credit Rating	**A-**	**BBB+**	**BBB+**	**BBB-**	**BBB-**	**BB**	**BB**
MCR Rating Outlook	**Positive**	**Stable**	**Stable**	**Stable**	**Stable**	**Negative**	**Stable**
LTM ($ in mm)	9/30/18	9/30/18	8/31/18	9/30/18	9/30/18	9/30/18	9/30/18
Revenue	$14,118	$4,784	$18,684	$10,982	$9,166	$4,597	$11,298
EBITDAR	$5,738	$906	$5,287	$1,864	$2,861	$99	$3,073
EBITDAR Margin	40.6%	18.9%	28.3%	17.0%	31.2%	2.1%	27.2%
Cash & Investments	$7,131	$907	$526	$3,564	$255	$209	$1,303
Bank Availability	$2,000	$999	$2,600	$1,500	$1,200	$1,600	$2,472
Total Liquidity	$9,131	$1,906	$3,126	$5,064	$1,455	$1,809	$3,775
Net Debt	$1,573	$808	$9,091	$163	$9,920	$2,916	$13,361
Total Debt	$8,704	$1,715	$9,617	$3,727	$10,175	$3,125	$14,664
Adjusted Debt	$9,656	$2,261	$10,153	$5,071	$10,409	$4,351	$15,400
Cash from Operations	$5,430	$697	$5,462	$1,997	$3,167	($18)	$2,090
CAPX	($420)	($135)	($3,432)	($819)	($2,686)	($173)	($1,689)
Free Cash Flow	$5,010	$561	$2,030	$1,178	$481	($191)	$401
Share Repurchase	($4,814)	($227)	($1,452)	($778)	($675)	$0	($1,133)
Dividends	$0	($300)	($1,293)	($197)	($509)	$0	($260)
Retained FCF	$196	$34	($716)	$203	($703)	($191)	($992)
Adj. EBITDAR/(Int.+ 1/3 Rent)	18.2x	8.0x	24.4x	6.4x	9.1x	0.5x	4.1x
Adj. Net Debt / EBITDAR	0.4x	1.5x	1.8x	0.9x	3.5x	42.0x	4.6x
Adj. Debt / EBITDAR	1.7x	2.5x	1.9x	2.7x	3.6x	44.1x	5.0x
Enterprise Value	$87,973	$13,108	$51,091	$17,963	$33,220	$7,616	$27,761
EV / EBITDA	15.7x	15.5x	9.8x	10.7x	11.7x	nm	9.3x
FCF/ Sales	35%	12%	11%	11%	5%	-4%	4%
FCF / Adjusted Debt	52%	25%	20%	23%	5%	-4%	3%

Source: Company reports, Morningstar Credit Ratings, LLC.

Specialty Retail

Exhibit 3 Specialty Retail vs. Morningstar Corporate Bond Index



Source: Morningstar Credit Ratings, LLC, Morningstar, Inc., and Interactive Data as of Nov. 26, 2018.
(UR) = rating under review/(p) = positive outlook/(n) = negative outlook.

Credit Spreads

The average bond spread for issuers in the specialty retail category sector widened +14 basis points since July. AutoZone (BBB+, stable) widened the most in the sector, with its 2027 bond spreads increasing +36 basis points to trade at +150 over Treasuries. AutoZone now trades closer to peer O'Reilly Automotive (BBB+, stable). The home improvement companies widened +14 basis points each, outperforming the broader consumer cyclical sector.

Issuer Highlights

- Home Depot (A+, stable) issued $3.5 billion of senior unsecured notes in November with maturities ranging from 2022 to 2048. The 2028 notes were issued at a spread to Treasuries of +93 basis points. Home Depot's credit rating remains supported by its competitive advantages, accelerating free cash flow, and maintenance of a moderately leveraged balance sheet. Home Depot's competitive strengths include its large scale, breadth of product offerings, and low-cost operations that allow the company to provide everyday low pricing. Morningstar's Equity Research Group has assigned Home Depot a wide economic moat.
- Morningstar maintains a negative outlook on Bed Bath & Beyond (BB+, negative) reflecting uncertainty and reduced operating visibility that may limit the effectiveness of initiatives undertaken by the company to stabilize operations. The rating also reflects our expectation that the decline in profitability appears likely to continue over the next two years at a more severe pace than previously anticipated, further

stressing cash flow and credit protection measures. Bed Bath & Beyond's Business Risk pillar remains fair, supported by an estimated 11% share of the $100 billion-plus U.S. retail home furnishing industry. The company strives to offer differentiated products, services, and solutions to better compete in what has become an increasingly transparent retail price environment.

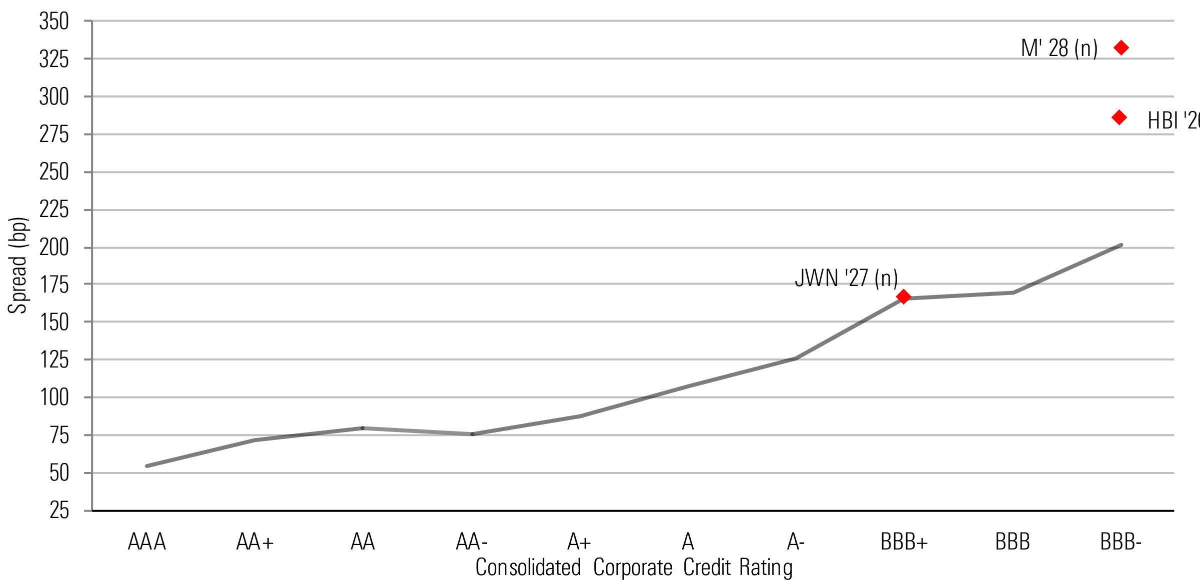
Exhibit 4 Specialty Retail Financial Summary

	Home Depot	**Lowe's Companies**	**Amazon**	**eBay Inc**	**O'Reilly Auto**	**AutoZone**	**Advance Auto Parts**	**Bed Bath & Beyond**
Ticker	HD	LOW	AMZN	EBAY	ORLY	AZO	AAP	BBBY
MCR Credit Rating	**A+**	**A**	**A**	**BBB+**	**BBB+**	**BBB+**	**BBB**	**BB+**
MCR Rating Outlook	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Negative**
LTM ($ in mm)	10/28/18	11/02/18	9/30/18	9/30/2018	9/30/18	8/25/18	10/6/18	9/1/18
Revenue	$105,595	$71,157	$221,317	$10,482	$9,414	$11,221	$9,514	$12,360
EBITDAR	$18,642	$7,916	$26,034	$3,005	$2,354	$2,795	$1,443	$1,561
EBITDAR Margin	17.7%	11.1%	11.8%	28.7%	25.0%	24.9%	15.2%	12.6%
Cash & Investments	$1,764	$1,876	$29,775	$4,823	$40	$218	$970	$1,075
Bank Availability	$3,000	$1,750	$3,000	$2,000	$1,163	$2,000	$896	$250
Total Liquidity	$4,764	$3,626	$32,775	$6,823	$1,203	$2,218	$1,866	$1,325
Net Debt	$24,020	$13,701	$17,545	$4,384	$3,134	$4,788	$75	$417
Total Debt	$25,784	$15,577	$47,320	$9,207	$3,174	$5,006	$1,045	$1,492
Adjusted Debt	$34,208	$20,585	$64,920	$10,047	$5,558	$7,534	$5,301	$6,404
Cash from Operations	$12,326	$6,491	$26,589	$2,415	$1,668	$2,080	$882	$1,136
CAPX	($2,254)	($1,182)	($12,730)	($713)	($468)	($522)	($134)	($382)
Free Cash Flow	$10,072	$5,309	$13,859	$1,702	$1,200	$1,558	$748	$754
Share Repurchase	($7,451)	($2,636)	$0	($3,913)	($1,531)	($1,592)	($130)	($132)
Dividends	($4,586)	($1,409)	$0	$0	$0	$0	($18)	($85)
Retained FCF	($1,965)	$1,264	$13,859	($2,211)	($331)	($34)	$600	$537
Adj. EBITDAR/(Int.+ 1/3 Rent)	13.1x	9.3x	13.5x	11.6x	10.6x	10.0x	6.2x	5.7x
Adj. Net Debt / EBITDAR	1.7x	2.4x	1.3x	1.7x	2.3x	2.6x	3.0x	3.4x
Adj. Debt / EBITDAR	1.8x	2.6x	2.5x	3.3x	2.4x	2.7x	3.7x	4.1x
Enterprise Value	$222,420	$89,001	$835,845	$32,784	$31,534	$25,888	$13,075	$2,217
EV / EBITDA	12.7x	12.3x	35.1x	11.3x	15.4x	10.4x	14.3x	2.4x
FCF/ Sales	10%	7%	6%	16%	13%	14%	8%	6%
FCF / Adjusted Debt	29%	26%	21%	17%	22%	21%	14%	12%

Source: Company reports, Morningstar Credit Ratings, LLC.

Department Stores and Apparel

Exhibit 5 Department Stores and Apparel vs. Morningstar Corporate Bond Index



Source: Morningstar Credit Ratings, LLC, Morningstar, Inc., and Interactive Data as of Nov. 26, 2018.
(UR) = rating under review/(p) = positive outlook/(n) = negative outlook.

Credit Spreads

The average credit spread on rated department store bonds widened +33 basis points, ahead of the broader sector. Morningstar maintains a negative outlook on two department store issuers: Nordstrom Inc (BBB+, negative) and Macy's Inc (BBB-, negative). Despite operational improvements during the first three quarters of 2018, the credit spread for Macy's 2028 bonds widened +53 basis points to +333. In apparel, Hanesbrands' (BBB-, stable) 2026 bonds widened +47 as debt leverage has crept higher.

Issuer Highlights

- Hanesbrands' (BBB-, stable) rating was affirmed with a stable outlook in October, based on the company's leading positions and competitive advantages in the apparel industry underscored by strong midteens return on invested capital, ongoing successful execution of an active acquisition strategy, and a clearly articulated near-term financial policy goal to reduce debt leverage to within its targeted range by the end of 2019. Hanesbrands' management recently articulated a clear near-term financial policy goal that includes eliminating share repurchases and focuses on debt reduction. The company expects that net debt/EBITDA will approach 3 times by the end of 2018 and that it will meet its targeted debt leverage range of 2-3 times by the end of 2019.
- Nordstrom's (BBB+, negative) rating outlook remains negative, reflecting the possibility that the rating could be lowered if profitability continues to deteriorate. Competitive pricing pressure coupled with investment spending in its digital platform, the supply chain, and new markets negatively affected

margins. EBIT margins currently hover around 6.0% compared with 11.0% in 2012. Management is forecasting a turning point in 2018, which includes a stabilization of EBIT margins followed by margin expansion as it further integrates and leverages its digital and physical assets.

- Macy's (BBB-, negative) rating outlook remains negative, reflecting the potential for a lower rating if the company is unable to steady profitability and reduce leverage. Management has made significant progress toward reaching its debt leverage target of 2.5-2.8 times and continues to use excess cash to pay down debt further. After several years of gross margin declines, management recently reiterated its guidance for slight margin improvement in 2018.

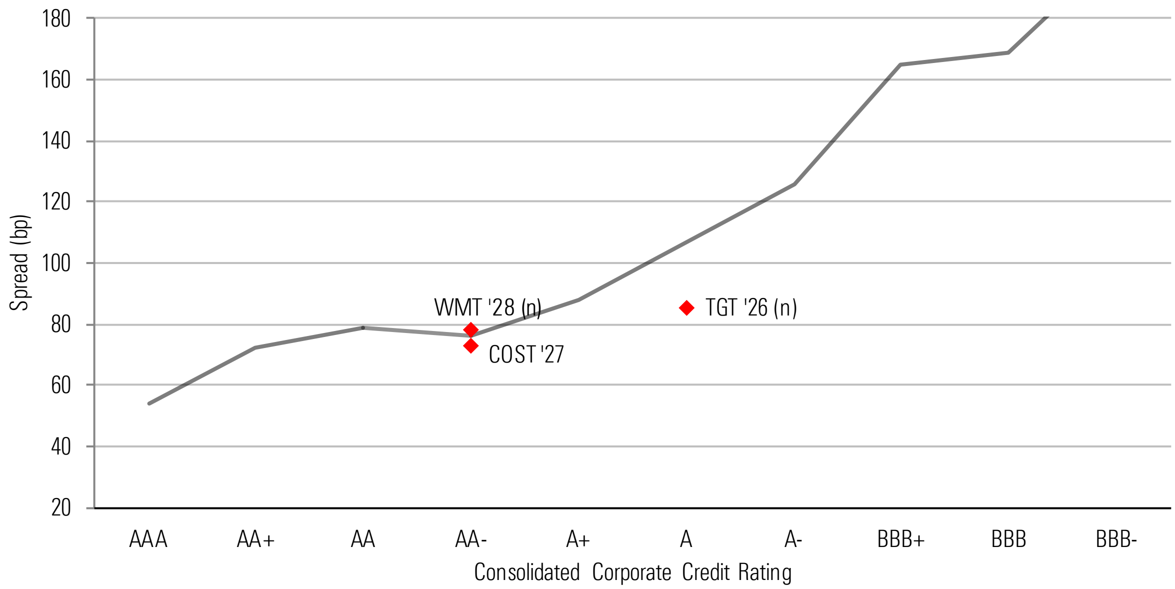
Exhibit 6 Department Stores and Apparel Financial Summary

	Nordstrom	Hanesbrand	Macy's
Ticker	JWN	HBI	M
MCR Credit Rating	**BBB+**	**BBB-**	**BBB-**
MCR Rating Outlook	**Negative**	**Stable**	**Negative**
LTM ($ in mm)	11/03/18	9/30/18	10/28/18
Revenue	$16,078	$6,682	$25,087
EBITDAR	$1,790	$1,278	$2,986
EBITDAR Margin	11.1%	19.1%	11.9%
Cash & Investments	$1,127	$399	$736
Bank Availability	$800	$677	$1,500
Total Liquidity	$1,927	$1,076	$2,236
Net Debt	$1,559	$3,985	$4,798
Total Debt	$2,686	$4,384	$5,534
Adjusted Debt	$4,886	$6,252	$8,152
Cash from Operations	$1,444	$465	$1,974
CAPX	($624)	($88)	($887)
Free Cash Flow	$820	$377	$1,087
Share Repurchase	($155)	($100)	$0
Dividends	($248)	($215)	($462)
Retained FCF	$417	$61	$625
Adj. EBITDAR/(Int.+ 1/3 Rent)	9.1x	4.8x	8.0x
Adj. Net Debt / EBITDAR	2.1x	4.6x	2.5x
Adj. Debt / EBITDAR	2.7x	4.9x	2.7x
Enterprise Value	$10,359	$9,685	$15,098
EV / EBITDA	6.7x	9.2x	5.7x
FCF/ Sales	5%	6%	4%
FCF / Adjusted Debt	17%	6%	13%

Source: Company reports, Morningstar Credit Ratings, LLC.

Discounters and Grocery

Exhibit 7 Discounters and Grocery vs. Morningstar Corporate Bond Index



Source: Morningstar Credit Ratings, LLC, Morningstar, Inc., and Interactive Data as of Nov. 26, 2018.
(UR) = rating under review/(p) = positive outlook/(n) = negative outlook

Credit Spreads

Since July, the average credit spread for rated discounters widened +13 basis points over Treasuries, outperforming the Morningstar Corporate Bond Index and the consumer cyclical sector. Walmart's (AA-, negative), Target's (A, negative), and Costco's (AA-, stable) bonds all widened virtually identical to the sector.

Issuer Highlights

- Morningstar maintains a negative outlook on Walmart (AA-, negative), reflecting the potential for the rating to be lowered if investments in existing stores and e-commerce do not sustain comparable sales growth or stabilize operating margins and returns on invested capital. Walmart has increased investments in its e-commerce business, including significant acquisitions of online retailers. Over the past year, the company has tripled the number of items available on walmart.com. Additional initiatives include leveraging its massive store base as points of distribution for delivery including free shipping and store pickup and use of mobile payment systems. As a result, while gross margins have remained near historical peak levels, higher operating expenses have driven EBIT margins over 100 basis points lower to near 4.0%, along with a similar negative impact to return on invested capital.
- A negative outlook on Target (A, negative) indicates the rating could be lowered if the company fails to stabilize its competitive position, which would be reflected in consistent, modest revenue growth along with a recovery or stabilization in margins and return on capital. Further, the rating could be lowered if

the company fails to manage shareholder distributions while maintaining current leverage metrics. Target is in the midst of a three-year $7 billion capital investment plan that includes accelerated investments in its existing store base and its e-commerce platform, the rollout of a new smaller-store urban format, and improvements in customer fulfillment.

Exhibit 8 Discounters and Grocery Financial Summary

	Costco	Wal-Mart	Target
Ticker	COST	WMT	TGT
MCR Credit Rating	**AA-**	**AA-**	**A**
MCR Rating Outlook	**Stable**	**Negative**	**Negative**
LTM ($ in mm)	9/2/18	10/31/18	11/03/18
Revenue	$141,576	$511,879	$75,144
EBITDAR	$6,182	$34,131	$6,659
EBITDAR Margin	4.4%	6.7%	8.9%
Cash & Investments	$7,259	$9,174	$825
Bank Availability	$857	$15,000	$2,500
Total Liquidity	$8,116	$24,174	$3,325
Net Debt	($285)	$51,817	$10,814
Total Debt	$6,974	$60,991	$11,639
Adjusted Debt	$9,094	$84,191	$13,423
Cash from Operations	$5,774	$28,584	$5,985
CAPX	($2,969)	($10,157)	($3,357)
Free Cash Flow	$2,805	$18,427	$2,628
Share Repurchase	($328)	($5,801)	($1,774)
Dividends	($689)	($6,107)	($1,338)
Retained FCF	$1,788	$6,519	($484)
Adj. EBITDAR/(Int.+ 1/3 Rent)	25.0x	10.5x	11.5x
Adj. Net Debt / EBITDAR	0.3x	2.2x	1.9x
Adj. Debt / EBITDAR	1.5x	2.5x	2.0x
Enterprise Value	$100,915	$336,717	$47,914
EV / EBITDA	17.1x	10.9x	7.5x
FCF/ Sales	2%	4%	3%
FCF / Adjusted Debt	31%	22%	20%

Source: Company reports, Morningstar Credit Ratings, LLC.

Exhibit 9 Consumer Cyclical Coverage

Issuer	Rating	Outlook	Rating Date	Direction	Coupon	Maturity	Bid	YTW	STW
Department Stores and Apparel									
Nordstrom Inc.	BBB+	Negative	3/27/2018	Affirmation	4.00%	3/15/2027	95.35	4.68%	167
HanesBrands Inc.	BBB-	Stable	10/19/2018	Affirmation	4.88%	5/15/2026	94.26	5.83%	285
Macy's Retail Holdings Inc.	BBB-	Negative	3/28/2018	Affirmation	7.00%	2/15/2028	104.36	6.37%	333
Discounters & Grocery									
Costco Wholesale Corp.	AA-	Stable	1/24/2018	Affirmation	3.00%	5/18/2027	94.65	3.74%	73
Walmart Inc.	AA-	Negative	1/25/2018	Affirmation	3.70%	6/26/2028	98.97	3.83%	78
Target Corp.	A	Negative	1/24/2018	Affirmation	2.50%	4/15/2026	91.46	3.84%	85
Gaming, Lodging & Leisure, Casino									
Booking Holdings Inc.	A-	Positive	3/12/2018	Affirmation	3.55%	3/15/2028	92.92	4.49%	145
Hasbro Inc.	BBB+	Stable	10/30/2018	Affirmation	3.50%	9/15/2027	92.12	4.60%	157
Carnival Corp.	BBB+	Stable	3/28/2018	Affirmation	6.65%	1/15/2028	114.41	4.69%	165
Royal Caribbean Cruises LTD	BBB-	Stable	3/22/2018	Affirmation	3.70%	3/15/2028	90.85	4.94%	190
Expedia Inc.	BBB-	Stable	3/12/2018	Affirmation	3.80%	2/15/2028	90.85	5.05%	202
MGM Resorts International	BB	Stable	6/28/2018	Upgrade	4.63%	9/1/2026	90.25	6.23%	323
Mattel Inc.	BB	Negative	2/09/2018	Downgrade	6.75%	12/31/2025	93.38	7.99%	501
Specialty Retail									
Home Depot Inc.	A+	Stable	7/30/2018	Affirmation	2.80%	9/14/2027	92.45	3.82%	79
Amazon.com Inc.	A	Stable	2/22/2018	Affirmation	3.15%	8/22/2027	94.89	3.84%	82
Lowe's Companies Inc.	A	Stable	7/30/2018	Affirmation	2.50%	4/15/2026	90.93	3.93%	94
Advance Auto Parts Inc.	BBB	Stable	2/27/2018	Affirmation	4.50%	12/1/2023	101.82	4.08%	119
AutoZone Inc.	BBB+	Stable	2/20/2018	Affirmation	3.75%	6/1/2027	93.90	4.63%	161
O'Reilly Automotive Inc.	BBB+	Stable	2/27/2018	Affirmation	4.35%	6/1/2028	98.53	4.54%	150
eBay Inc.	BBB+	Stable	2/22/2018	Affirmation	3.60%	6/5/2027	92.36	4.70%	168
Bed Bath & Beyond Inc.	BB+	Negative	4/19/2018	Downgrade	3.75%	8/1/2024	84.36	7.15%	423

Source: Morningstar Credit Ratings, LLC, Morningstar, Inc., and Interactive Data as of Nov. 26, 2018.

Morningstar® Credit Research

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