Morningstar Corporate Credit Research Highlights
Corporate Bond Market Trying to Regain Its Footing

Morningstar Credit Ratings, LLC
17 December 2018

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Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
Cardinal Health **CAH**	BBB+	A-
Schlumberger **SLB**	A	A+

- Rating Affirmation

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
AmerisourceBergen **ABC**	A	A
Amgen **AMGN**	A	A
McKesson **MCK**	A-	A-
Fiserv **FISV**	A-	A-

Credit Market Insights

Corporate Bond Market Trying to Regain Its Footing

Credit spreads in the corporate bond market began on a strong note early last week but gave back some of the gains on Friday. Investor sentiment evaporated following weaker-than-expected economic data from China, heightened international trade tensions, and falling equity prices. Among the economic indicators released by Chinese officials, retail sales and industrial production were below expectations. While Chinese fixed-asset investment was in line with consensus, the weaker-than-expected sales and production results exacerbated the already dour market sentiment, which has been under pressure from the tense negotiations between the United States and China. Expectations for global growth were also tempered by the decline in the eurozone composite purchasing managers report. The index fell for the fifth consecutive month, to 51.3 from 52.7. While a reading above 50 indicates economic expansion, as opposed to a reading below 50, which indicates contraction, this most recent reading was the lowest of the past 49 months. Equity prices were pummeled Friday as the S&P 500 fell almost 2% for the day and ended the week 1.26% in the red. Year to date, the S&P 500 is down 2.76%.

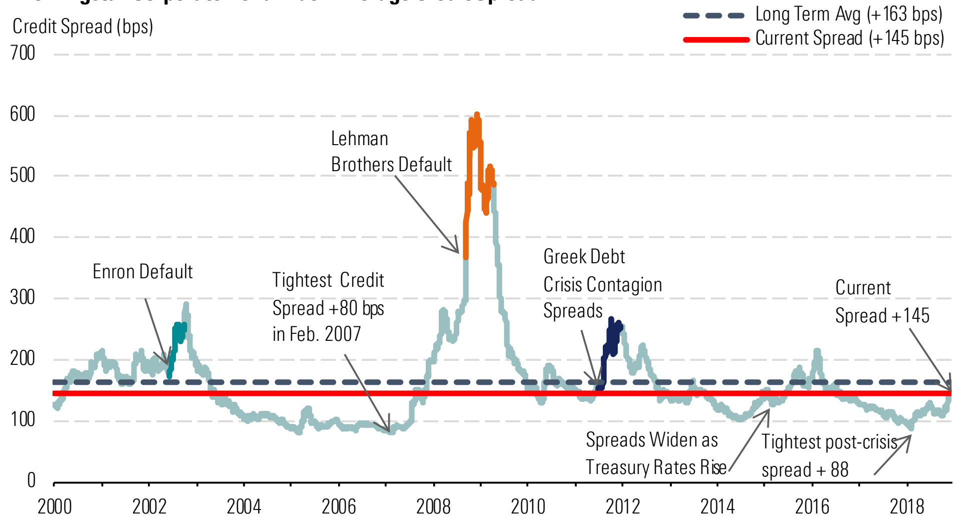
Corporate bond credit spreads began the week on a strong note and snapped tighter through Thursday, then gave back some, but not all, of the gains on Friday. On a week-over-week basis, the average spread of the Morningstar Corporate Bond Index (our proxy for the investment-grade market) tightened 4 basis points to +145. In the high-yield market, the BofA Merrill Lynch High Yield Master Index also tightened 4 basis points to end the week at +446.

Corporate Bond Credit Spreads

Source: Morningstar, Inc., BofA Merrill Lynch Global Indexes. Data as of 12/14/2018

Although credit spreads tried to rebound last week, year to date the average spreads for investment-grade and high-yield corporate bonds have widened meaningfully and are at their widest levels since 2016. Thus far this year, the investment-grade index has widened 49 basis points and the high-yield index has risen 83 basis points. At these currently wider levels, on a longer-term scale, both indexes are moving toward their long-term averages. In the investment-grade market, the current spread level is 18 basis points below the long-term average of +163; however, that average is skewed to the upside due to the collapse of the bond markets during the 2008-09 global financial credit crisis. At the current spread level, the index is actually slightly higher than the median spread level as the index has traded below its current level over 50% of the time.

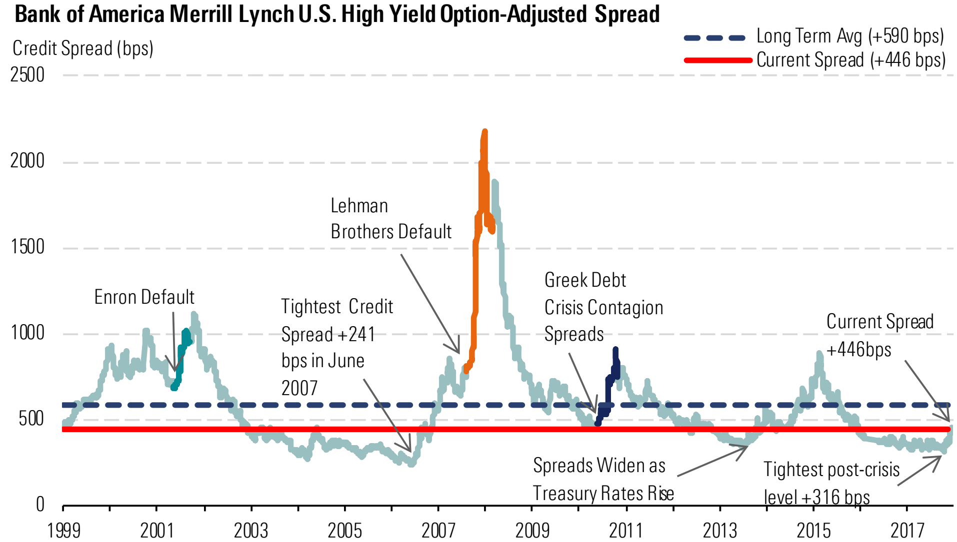
Morningstar Corporate Bond Index Average Credit Spread



Source: Morningstar, Inc. Data as of 12/14/2018.

In the high-yield market, while spreads are rising toward the long-term average, they remain lower than both the long-term average and median. At its current level, the index spread is 144 points below the average and 80 basis points below the median. Since 1999, the index has registered a higher spread level about 65% of the time compared with now.

Bank of America Merrill Lynch U.S. High Yield Option-Adjusted Spread



Source: Bank of America Merrill Lynch Global Indexes, Data as of 12/14/2018.

While prices on U.S. Treasury bonds rose toward the end of the week as investors sought refuge from the weak equity markets, the rebound was not enough to offset price declines earlier in the week. The yield on the 2-year U.S. Treasury bond rose 2 basis points to 2.73% and the yield on the 5-year increased 4 basis points to 2.73%, which erased the slight yield inversion the prior week. In the longer end of the curve, the 10-year rose 4 basis points to 2.89% and the yield on the 30-year was unchanged at 3.14%.

Although the markets have been relatively choppy, the increased volatility has not been enough to change investors' expectations for an additional rate hike this week. Recently released economic metrics, such as the retail sales report and the industrial production report, were enough to raise the Atlanta Fed's GDPNow model for fourth-quarter GDP to 3.0% (matching its highest reading this quarter) from 2.4% in its previous reading. In addition, while falling oil prices will put pressure on future inflation, inflation remains near the Federal Reserve's target. According to the CME's FedWatch Tool, the probability that the Fed will hike the federal-funds rate by another quarter point to 2.25%-2.50% is 77%. However, the probability that the Fed will hike rates again in 2019 is only slightly better than a coin flip. The market-implied probability that the federal-funds rate will end 2019 at 2.50% or higher is 55%. That probability was as high as 70% at the end of last month and 88% at the beginning of November.

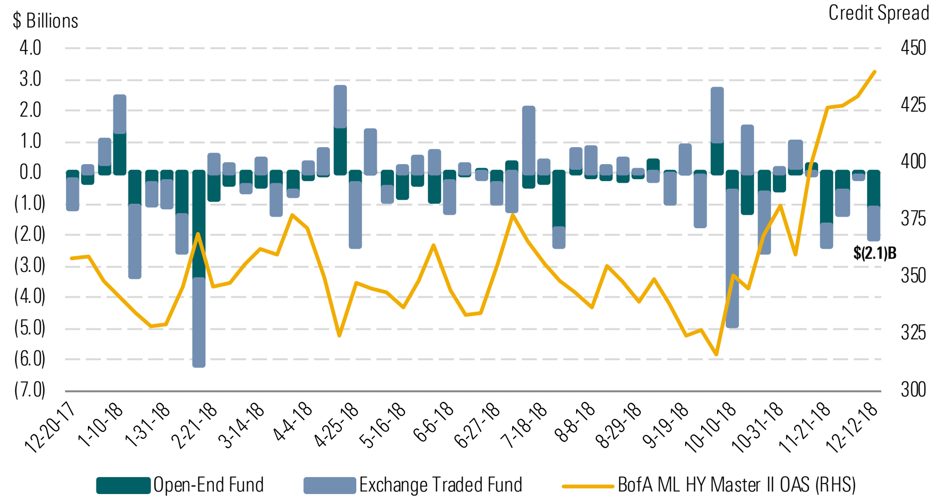
For greater detail regarding our credit ratings as well as for access to our corporate credit research and notes, please visit www.morningstarcreditratings.com.

Weekly High-Yield Fund Flows

The pace at which investors pulled money out of the high-yield asset class picked up speed last week as net fund outflows increased to $2.1 billion. Over the past three months, weekly fund flows have been negative 75% of the time compared with the year-to-date weekly fund flows, which have been negative a little over half the time. This past week was the ninth instance over the past year in which weekly fund outflows were $2.1 billion or more.

Outflows were reasonably balanced between open-end mutual funds and exchange-traded funds. Among open-end high-yield funds, investors withdrew $1.2 billion, and across high-yield ETFs, net unit redemptions totaled $1.0 billion. Year to date, total outflows across the high-yield sector have been decidedly negative. Thus far this year, investors have pulled $25.2 billion out of the junk bond market. Outflows among open-end funds are $16.9 billion and net unit redemptions in ETFs are $8.3 billion.

Estimated Weekly High-Yield Bond Fund Flows and High Yield Credit Spreads



Source: Morningstar, Inc. and BofA Merrill Lynch Global Indexes.

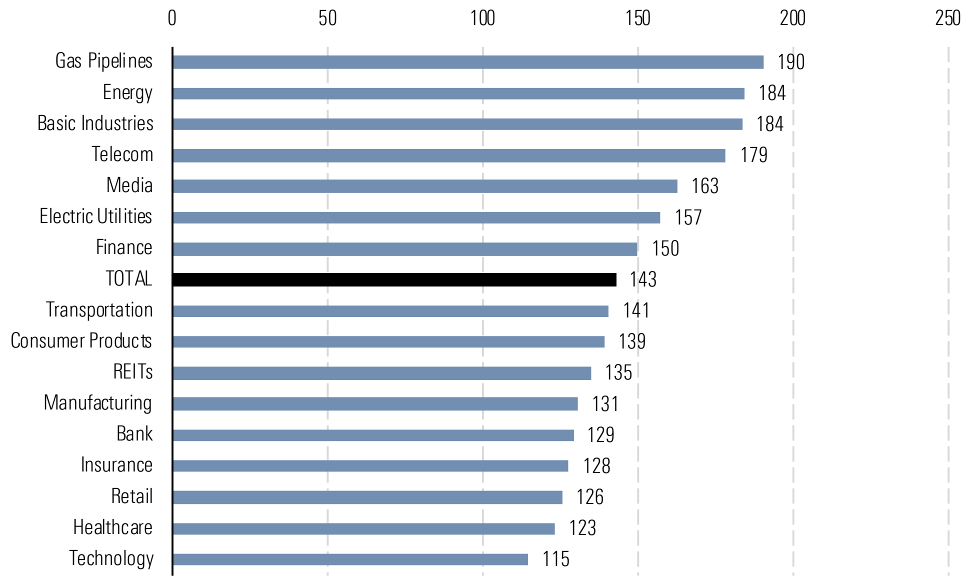
Exhibit 1 Morningstar Corporate Bond Index Sector Summary

Sector	Average Rating	Number of Issues	Modified Duration	Spread (bps)	MTD Spread Chg (bps)	YTD Spread Chg (bps)	MTD Total Return (%)	YTD Total Return (%)
TOTAL	**A-**	**5,179**	**6.7**	**144.82**	**2**	**49**	**1.04**	**(2.68)**
FINANCIAL	**A-**	**1,464**	**5.1**	**133**	**1**	**50**	**0.58**	**(2.10)**
Bank	A-	916	4.6	134	5	53	0.52	(1.60)
Finance	A-	232	5.1	128	(22)	41	0.49	(3.77)
Insurance	A	217	8.1	132	4	45	1.06	(3.09)
REITs	BBB+	90	5.9	142	7	37	0.51	(1.32)
INDUSTRIAL	**A-**	**3,038**	**7.4**	**148**	**2**	**48**	**1.24**	**(2.87)**
Basic Industries	BBB	257	7.2	186	2	57	0.99	(3.57)
Consumer Products	BBB+	362	7.3	140	1	56	1.10	(4.11)
Energy	A-	406	7.1	178	(7)	56	1.69	(3.13)
Healthcare	A-	426	7.6	125	1	36	1.22	(2.88)
Manufacturing	A-	488	6.0	150	20	69	0.86	(2.38)
Media	BBB+	178	8.4	164	2	35	1.18	(3.00)
Retail	A-	166	7.6	129	3	42	1.03	(2.93)
Technology	A+	350	7.1	116	1	39	1.16	(2.22)
Telecom	BBB+	161	8.9	176	(3)	33	1.75	(1.60)
Transportation	BBB+	177	8.8	145	4	47	1.23	(3.85)
UTILITY	**BBB+**	**627**	**8.5**	**172**	**1**	**53**	**1.37**	**(4.06)**
Electric Utilities	A-	362	9.0	160	3	57	1.22	(5.06)
Gas Pipelines	BBB	247	7.7	189	(1)	46	1.59	(2.64)
Rating Bucket								
AAA Bucket		121	7.5	55	(2)	6	1.28	(1.56)
AA Bucket		501	5.7	81	2	23	0.89	(0.90)
A Bucket		1,923	6.7	115	(1)	41	0.96	(2.71)
BBB Bucket		2,634	7.0	187	3	60	1.12	(3.10)
Term Bucket								
1-4	A-	1,703	2.3	96	5	39	0.25	0.78
4-7	A-	1,180	4.7	143	4	63	0.52	(1.08)
7-10	A-	883	6.9	164	2	58	0.84	(2.97)
10PLUS	A-	1,413	13.4	191	(2)	47	2.51	(7.37)

Data as of 12/14/2018

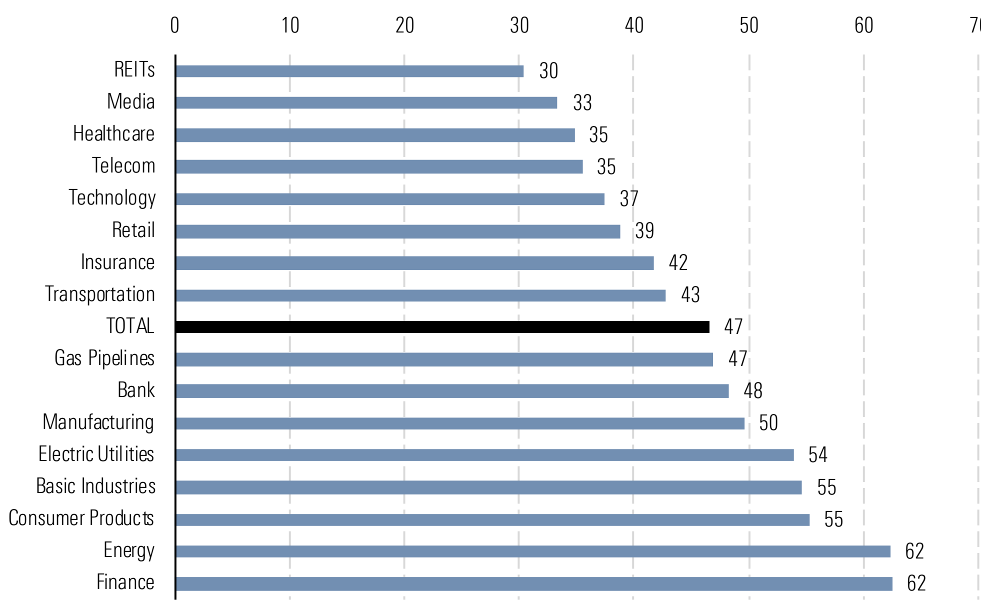
Source: Morningstar, Inc.

Exhibit 2 Morningstar Corporate Bond Index Spread by Sector



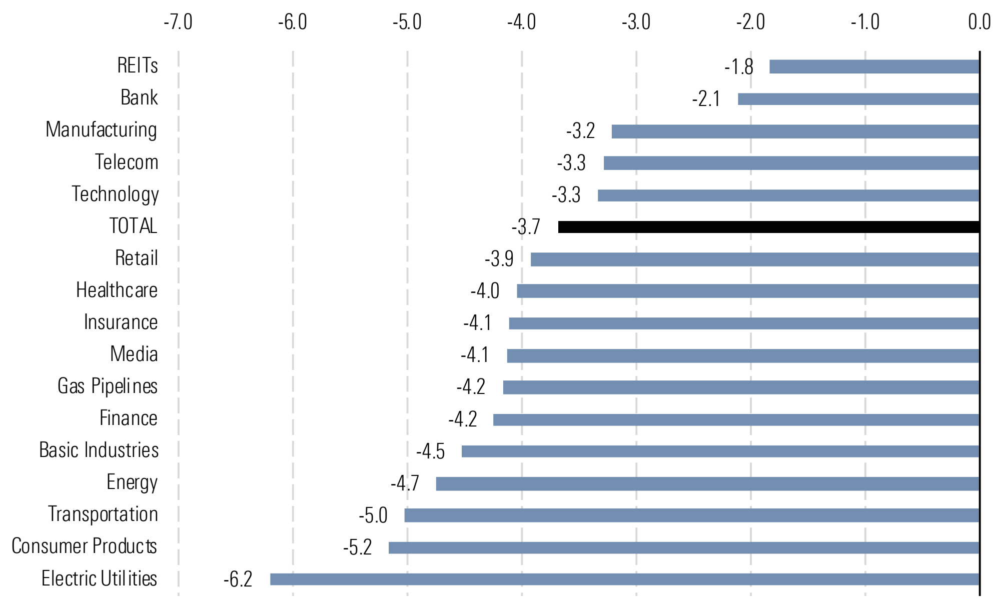
Source: Morningstar, Inc.

Exhibit 3 Morningstar Corporate Bond Index YTD Spread Change



Source: Morningstar, Inc.

Exhibit 4 Morningstar Corporate Bond Index YTD Return



Source: Morningstar, Inc.

Credit Rating Actions

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Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
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Amgen **AMGN**	A	A
McKesson **MCK**	A-	A-
Fiserv **FISV**	A-	A-

Morningstar Credit Ratings Releases Updated Ratings for Cardinal Health

Morningstar Credit Ratings, LLC is downgrading our credit rating for Cardinal Health Inc. by one notch to BBB+ to reflect the firm's weaker profit prospects related to the repriced OptumRx contract and ongoing Cordis problems. Those factors have cut into the company's Cash Flow Cushion, Solvency Score, and Distance to Default pillars enough to downgrade our rating. Considering that lowered rating, our outlook is stable, as we see few catalysts that could change our rating in the near term.

Our rating still reflects the firm's low Business Risk and elevated, albeit manageable, leverage. The Business Risk pillar considers the firm's competitive advantages in pharmaceutical distribution, significant size, and low cyclicality. Morningstar's Equity Research Group gives all three major pharmaceutical distributors in the United States--AmerisourceBergen, Cardinal, and McKesson--wide economic moat ratings. These three cumulatively control nearly all of this essential part of the drug supply chain, resulting in scale advantages. However, we also recognize customer concentration risks in the Business Risk pillar. For example, CVS Health and OptumRX account for about 25% and 11% of Cardinal's revenue, respectively. Dependence on limited sources of business can lead to somewhat volatile earnings and cash flows, highlighted by Cardinal's lower profit prospects for fiscal 2019 related to the OptumRX contract renegotiation. Offsetting some of this concentration, Cardinal has diversified into medical device manufacturing and distribution in recent years, but recent acquisitions to enter this sector have inflated leverage.

Specifically, the $6.1 billion acquisition of the Medtronic products in July 2017 was a large one, and Cardinal financed it mostly with new senior notes and existing cash. At the end of September, Cardinal had $9.0 billion in debt, and we estimate gross leverage stands in the high 2s. With ongoing pressure expected on the firm's profitability, we estimate gross leverage will only wind down to the mid-2s in the next couple of years. This gross leverage compares with 1.6 times before the acquisition. The firm's elevated leverage and recently reduced profit prospects have cut into the Cash Flow Cushion, Solvency Score, and Distance to Default pillars, which contributed to our downgrade.

Considering that downgrade, our outlook on the rating is stable. However, with company-specific issues and industrywide concerns related to the opioid crisis in particular, uncertainty around cash flows for

Cardinal appears to be rising in the intermediate term and could put downward pressure on the rating eventually. Offsetting these pressures somewhat are the firm's deleveraging plans. If Cardinal redeems maturing debt and profits prospects rise, we would have a more positive view of its credit profile, which could lead to an upgrade.

Morningstar Credit Ratings Releases Updated Ratings for Schlumberger

Morningstar Credit Ratings, LLC is downgrading the corporate credit rating on Schlumberger by one notch to A and revising the rating outlook to stable from negative. Credit metrics have eroded, and we no longer view them as consistent with the A+ category. The stable outlook reflects our new demand forecast for oilfield products and services, ongoing portfolio optimization by Schlumberger, and our forecast for steadily increasing company cash flow.

For year-to-date 2018, global oilfield service activity has increased relative to the same period last year. However, given the recent oil price correction and reduction in visibility, we expect a more conservative capital spending approach by producers in the first half of 2019. We expect the broader-based recovery in international and offshore segment demand for oilfield products and services that began earlier this year to continue, but at a slower pace than we previously forecast.

Our rating reflects Schlumberger's large scale and number-one position as an innovator and global technology leader in oilfield services. The company's moderate Business Risk score reflects the cyclicality of the oilfield services industry and Schlumberger's concentrated product line, partly offset by a geographically diverse end market and our forecast for positive free cash flow generation, which lessens the company's need to tap capital markets. Business Risk also reflects Morningstar's Equity Research Group's view that Schlumberger benefits from a narrow economic moat, with a return on invested capital generally expected to remain above its weighted average cost of capital.

At the end of the September quarter, Schlumberger reported $2.9 billion in cash and short-term investments. The company maintains separate committed debt facility agreements aggregating $6.5 billion that support commercial paper programs, of which $3.4 billion was available and unused. The company reported $3.1 billion of borrowings under the commercial paper program at Sept. 30, of which $2.6 billion is classified as long-term debt. We view Schlumberger's liquidity relative to scheduled near-term debt maturities as excellent. Upcoming maturities of long-term borrowings include $1.25 billion in 2019, $2.1 billion in 2020, $2.7 billion in 2021, and $2.45 billion in 2022. Remaining senior note maturities are well distributed from 2023 through 2043. Schlumberger plans to spend approximately $2 billion on capital expenditures in 2018 (excluding production management investments and multiclient seismic that we estimate to be $1 billion), about the same as the previous year, and we estimate it will spend $2.3 billion in 2019. After capital expenditures, production management investments, and multiclient seismic expenditures, we forecast free cash flow of $2.5 billion in 2018, increasing to $7.6 billion in 2022. Combined with the company's cash position, we believe this should support a moderate Cash Flow Cushion score, near the middle of the scale. We also expect a gradually increasing return on invested capital, increasing interest coverage and declining leverage, which should lead to an improving Solvency Score throughout our forecast period.

Our base forecast for Schlumberger incorporates revenue of $33 billion in 2018, then cyclically rebounding to $46 billion in 2022, which incorporates an approximate 9% compound annual revenue growth rate from 2018. We expect the EBITDA margin to gradually rise to 29% in 2022 from about 23% in 2018. Commensurate with this, we estimate the ratio of total debt/trailing 12-month EBITDA gradually declining to about 1 time by 2021 from 2.5 times in 2018.

Our rating outlook is stable and assumes that Schlumberger continues to spend within its cash flow and that global demand and the pricing outlook for oilfield equipment and services continue to improve. Our rating could come under pressure if profitability improvements do not materialize, to the extent that this materially weakens our Cash Flow Cushion and Solvency Score pillars. We do not currently envision a scenario where we would upgrade our rating in the near term. However, the rating could be revised higher if the oilfield services recovery progresses at a faster-than-expected rate, allowing the company to accelerate debt reduction.

Morningstar Credit Ratings Releases Updated Ratings for AmerisourceBergen

Morningstar Credit Ratings, LLC is affirming its A credit rating on AmerisourceBergen Corp with a stable outlook. Our rating continues to reflect the firm's top-tier position in the attractive pharmaceutical distribution industry and light leverage. We view AmerisourceBergen's credit trajectory as stable, currently.

Our rating considers Morningstar's Equity Research Group's wide moat assessment, which contributes to AmerisourceBergen's low Business Risk. With the top three players cumulatively controlling nearly all of this essential part of the pharmaceutical supply chain, AmerisourceBergen, Cardinal Health, and McKesson each turn their colossal size into competitive advantages. Strategically, AmerisourceBergen has aligned itself with Walgreens after signing a 10-year agreement in 2013 to supply the majority of the retail pharmacy's branded and generic drugs. In 2016, this agreement was extended by three years to 2026. Walgreens accounts for about 33% of AmerisourceBergen's sales while Express Scripts accounts for another 13%, which adds concentration risk to AmerisourceBergen. Beyond this business-related dependence, Walgreens owns about 26% of AmerisourceBergen. Although a full merger is not planned at this time, creditors should realize that such a combination would create some downside risk for AmerisourceBergen, given Walgreen's higher lease-adjusted leverage in the mid-3s.

Currently, AmerisourceBergen's leverage is easily manageable. With debt of $4.3 billion and cash of $2.5 billion on its balance sheet as of September, both gross and lease-adjusted leverage were around 2 times while net debt/EBITDA was less than 1 times by our calculations. The company's liquidity remains strong, with cash covering all debt coming due in the next five fiscal years. Considering these factors and ongoing free cash flows (roughly $1.5 billion expected in fiscal 2019), the firm should have plenty of financial flexibility to meet its obligations as they come due and pursue other capital-allocation activities, such as its dividend ($0.3 billion in fiscal 2018) and repurchases ($0.6 billion in fiscal 2018). The company was recently authorized to repurchase $1.0 billion in shares.

Our outlook for AmerisourceBergen's credit rating is currently stable. However, we view AmerisourceBergen as operating on the weak end of its rating. With ongoing concerns related to the opioid crisis and other industry issues, uncertainty around cash flows for AmerisourceBergen appears to be rising in the intermediate term and could put downward pressure on the rating eventually. Also, we would consider downgrading our rating by a notch or more if the firm pursues acquisitions that look likely to keep leverage well above recent levels on a sustainable basis, which could cut into its leverage sensitive pillars. Positively, we would consider a higher rating if the firm deleverages significantly and looks likely to sustain that lighter leverage.

Morningstar Credit Ratings Releases Updated Ratings for Amgen

Morningstar Credit Ratings, LLC is affirming Amgen's A rating and stable outlook, reflecting our estimation that the firm may maintain near-steady operational performance aided by research innovation that offsets demand erosion arising from branded and biosimilar competition to its aging pharmaceutical portfolio.

Amgen presently contends with a growing number of competing next-generation autoimmune disorder therapies to Enbrel, looming biosimilar competition to anemia medicine Epogen and neutropenia treatments Neulasta and Neupogen, and potential generic versions of hyperparathyroidism drug Sensipar (expired March 2018). These five medicines alone represent 52% of company revenue. Revenue concentration on these older drug treatments stresses the firm's low Business Risk pillar. Considering these threats, we think Amgen may experience modest revenue declines in the low single digits compounded annually through 2022, including a trough in 2019. We base this relatively flat sales forecast mainly on sustained demand for osteoporosis treatment Prolia, increased use of cancer drug Kyprolis from expanding indications, and rising uptake of cholesterol-lowering medicine Repatha. We also see good contributions from Amgen's expanding biosimilar portfolio and recently approved migraine medication Aimovig. We expect EBITDA to decrease at a slightly faster pace than sales through 2022 as Amgen has dedicated expense savings achieved from its successful transformation efforts (since 2014) to refreshing its drug portfolio. Sustained cost reduction and the dissolution of the Enbrel copromotion agreement with Pfizer have already propelled adjusted operating margin into Amgen's targeted range of 52%-54% by the end of 2018.

Amgen maintains a heavy debt load as it prioritizes cash flows toward shareholder returns over debt reduction. This was evident during the first nine months of 2018 as Amgen chose to aggressively repurchase shares ($15.7 billion) while gross debt stayed elevated at $34.4 billion as of Sept. 30, or gross debt leverage of 2.8 times for the trailing 12 months, by our estimates. Amgen's debt load is solely composed of unsecured debt obligations based in U.S. dollars, euros, Swiss francs and British pounds that date from 2019 to 2097. Amgen faces debt maturities over the next five years consisting of $4.5 billion due in 2019, $3.0 billion due in 2020, $3.5 billion due in 2021, $4.3 billion due in 2022, and $1.5 billion due in 2023. Amgen can easily manage these coming maturities with cash and investments of $29.9 billion on Sept. 30 and free cash flow that we see averaging about $9 billion per year through 2022. External liquidity is provided by a $2.5 billion unsecured revolver due in 2020 that backstops a $2.5 billion commercial paper program. However, we expect steady EBITDA generation may be the main contributor to keeping debt leverage relatively constant over the next five years, given Amgen's low priority to reduce its debt burden. The company's top focus for cash flows remains shareholder returns as it targets returning 60% of adjusted net income on average in 2014-18 via a rapidly rising dividend and aggressive share repurchases, though total rewards have far exceeded this goal in 2018 given a $10 billion equity tender in the first quarter. For the 12 months ended Sept. 30, Amgen paid $3.5 billion in dividends and repurchased $16.5 billion in equity, compared with $10.4 billion in free cash flow. As of Sept. 30, Amgen had remaining share-repurchase authorization of about $3.7 billion including a $5 billion increase in April. Out outlook for relatively steady operational performance supports our expectation that Amgen can effectively manage its balance sheet despite greatly rewarding shareholders, which positively influences our Cash Flow Cushion, Solvency Score, and Distance to Default pillars.

Our stable outlook considers the growth prospects of Amgen's refreshed medicine chest, notably Repatha, Kyprolis, Parsabiv, and Aimovig. Strong uptake of these promising medicines may help replace losses arising from brand-name and biosimilar and generic competition to the firm's older drug portfolio with an emphasis on expiring pharmaceuticals Epogen, Neulasta, and Sensipar. Positive momentum to the rating may follow greater-than-anticipated uptake of Aimovig and potentially osteoporosis treatment Evenity along with accelerating demand for Repatha, which benefits our Cash Flow Cushion pillar while easing concentration risk in the aging portfolio, which would strengthen our Business Risk pillar. However, if there is a significant deviation from our operational performance estimates, most likely resulting from slower-than-expected demand for Repatha or Kyprolis, our Cash Flow Cushion may deteriorate and stress the current rating. Additionally, the rating may be pressured by large leveraging transactions, such as heavy business development or aggressive share repurchases that significantly stress leverage over the long run and deteriorate the firm's Cash Flow Cushion and Solvency Score pillars.

Morningstar Credit Ratings Releases Updated Ratings for McKesson
Morningstar Credit Ratings, LLC is affirming our A- credit rating on McKesson Corp with a stable outlook. Our rating continues to reflect McKesson's top-tier position in the attractive pharmaceutical distribution industry and easily manageable leverage. Currently, we see few catalysts that could contribute to a rating change in the near term, which is reflected in our stable outlook.

In our methodology, McKesson enjoys low Business Risk, which recognizes its advantaged position in the pharmaceutical supply chain and substantial size offset by some concentration risks including about 20% of sales from CVS Health. McKesson, AmerisourceBergen, and Cardinal Health cumulatively control nearly all of the U.S. drug distribution channel and enjoy scale advantages in this key sector of the pharmaceutical supply chain. Accordingly, Morningstar's Equity Research Group asserts that McKesson operates with a wide moat. Negatively, one of its clients, Rite Aid, recently sold a significant chunk of its stores to Walgreens, which operates with a close relationship with AmerisourceBergen. However, those stores only represented about 1% of McKesson's earnings power, so it did not move the needle on our view of McKesson.

Relative to the Business Risk pillar, McKesson scores slightly weaker but still moderately to strong in the other pillars of our methodology--the Cash Flow Cushion, Solvency Score, and Distance to Default--given its manageable leverage position. At the end of September, McKesson owed $9 billion in debt and held $2 billion of cash on its balance sheet. McKesson recently employed short-term borrowings to fund an acquisition and working capital-related outflows, which has elevated leverage somewhat. As of September, lease-adjusted, gross, and net leverage stood in high 2s, mid-2s, and high 1s by our calculations, respectively, which remains highly manageable by McKesson, in our opinion.

Our stable outlook suggests that we see few catalysts that could contribute to a rating change in the near term, despite ongoing concerns related to the opioid crisis and other industry issues. While uncertainty around cash flows for McKesson appears to be rising in the intermediate term, we believe McKesson has capacity within its current rating to withstand those issues. However, we would consider downgrading if the competitive or legal environment intensifies enough to cut into the firm's cash flow and profit generation, as all pillars (including the Business Risk score) could weaken. We would also consider downgrading if McKesson's capital-allocation decisions result in significantly higher debt leverage for a sustained period. In a positive scenario, we would consider upgrading if McKesson commits to operating with significantly lower leverage for the long run. The competitive and legal environments would also have to remain subdued in the pharmaceutical distribution industry for us to consider a higher rating.

Morningstar Credit Ratings Releases Updated Ratings for Fiserv

Morningstar Credit Ratings, LLC is affirming Fiserv Inc.'s A- consolidated corporate credit rating, which reflects the company's moderate leverage, robust operating margins, and strong free cash flow generations. Our outlook for the company remains stable.

Our credit rating reflects Fiserv's solid competitive position as a leading provider of payment and transaction processing solutions for banks and other financial services companies. Fiserv's products, which include electronic bill payment, check printing, credit card processing, accounting, and fraud prevention solutions, are essential to the daily operations of its U.S. retail and commercial bank customers. The importance of Fiserv's products to its customers' business performance, combined with its generally long-duration contracts, combine to create high customer switching costs. These costs are the key driver behind Morningstar's Equity Research Group's assessment that Fiserv has a wide economic moat, an important factor in our view that Fiserv exhibits low Business Risk.

Fiserv's strong Solvency Score reflects the firm's robust returns on invested capital, which we expect to remain in the mid- to high teens throughout our five-year forecast period, as well as its good interest coverage and liquidity ratios. Fiserv's operating results compare favorably with peers, including an operating margin of 26.2% over the last 12 months. While we think that adjusted EBITDA/interest expense may fall from the 10-11 times area of recent years as interest rates rise, we expect it to remain above 7 times throughout our forecast.

Fiserv's moderate Cash Flow Cushion score, as well as its commitment to returning capital to shareholders, limits our credit rating. Fiserv reports over $2.4 billion of obligations coming due through 2022. However, barring further major acquisitions, we forecast debt leverage to average 2.3 times over our five-year forecast period. Fiserv's very strong score on our market-based Distance to Default pillar benefits from the company's consistent operating results and low equity volatility and positively influences the rating.

Our stable outlook on Fiserv implies that we are unlikely to change our rating within the next one to two years. Our rating assumes that Fiserv maintains similar levels of leverage, and we could take a negative rating action if financial leverage were to increase to materially. Conversely, we could consider a positive rating action should Fiserv reduce shareholder capital returns to materially below 100% of free cash flow or reduce its debt/EBITDA on a sustained basis.

Corporate and Financial Institutions Credit Rating Group

Managing Director
Dave Sekera, CFA
david.sekera@morningstar.com
+1 312 696-6293

Analyst Team

Basic Materials
Sean Sexton, CFA
sean.sexton@morningstar.com
+1 312 348-3077

Consumer Defensive
Wesley Moultrie, CPA, CGMA
wesley.moultrie@morningstar.com
+1 312 384-5405

Consumer Cyclical
Wayne Stefurak, CFA
wayne.stefurak@morningstar.com
+1 312 696-6114

Energy
Andrew O'Conor
andrew.oconor@morningstar.com
+1 312 348-3021

Financials – Banks
Erin Davis
erin.davis@morningstar.com
+1 312 384-4810

Healthcare
Julie Utterback, CFA
julie.utterback@morningstar.com
+ 1 312 696-6278

Healthcare
Michael Zbinovec
michael.zbinovec@morningstar.com
+ 1 312 348-3136

Industrials
Rick Tauber, CFA, CPA
rick.tauber@morningstar.com
+1 312 384-5431

Industrials
Basili Alukos, CFA, CPA
basili.alukos@morningstar.com
+1 312 384-4984

REITs
Chris Wimmer, CFA
chris.wimmer@morningstar.com
+1 646 560-4585

REITs
Mike Magerman, CFA
mike.magerman@morningstar.com
+1 267 960-6022

Technology, Media, and Telecom
Michael Dimler, CFA
michael.dimler@morningstar.com
+1 312 696-6339

For More Information
Todd Serpico
+1 312 384-5488
todd.serpico@morningstar.com

22 West Washington Street
Chicago, IL 60602 USA