Morningstar Corporate Credit Research Highlights

Fixed-Income Returns in 2018 Pressured by Combination of Rising Rates and Widening Credit Spreads

Morningstar Credit Ratings, LLC
7 January 2019

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Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
Lowe's Companies **LOW**	A-	A
Vale **VALE**	BBB-	BB+
Celgene **CELG**	A-/UR+	A-
Bristol-Myers Squibb **BMY**	AA-/UR-	AA-

- Rating Affirmation

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
Fidelity National Information Services **FIS**	BBB	BBB
Church & Dwight **CHD**	A-	A-
Clorox **CLX**	A	A
Procter & Gamble **PG**	AA	AA
Microsoft **MSFT**	AA+	AA+
Comerica **CMA**	A	A/UR
BB&T **BBT**	A	A/UR
Regions Financial **RF**	BBB+	BBB+/UR
Altria Group **MO**	A-	A-

Credit Market Insights

2018 Fixed-Income Returns Pressured by Combination of Rising Rates, Widening Credit Spreads

Rising interest rates, especially at the long end of the yield curve, along with widening corporate bond credit spreads hampered fixed-income returns in 2018. Over the course of the year, the interest rate on 2-year, 5-year, 10-year, and 30-year U.S. Treasury bonds rose 61, 30, 27, and 27 basis points, respectively. The total annual return for Morningstar's Core Bond Index (our broadest measure of the fixed-income universe) was essentially unchanged at a 0.01% loss for the year. Breaking the overall index down, Morningstar's Short-Term Core Bond Index rose 1.46% and the Intermediate Core Bond Index rose 0.93%, but these gains were offset by the Long-Term Core Bond Index, which fell 3.24%. The amount that long-term bond prices fell due to rising rates more than offset the yield carry of the underlying securities.

Fixed Income Index Returns

Broad Market Index	2018	2017	2016	2015	2014	2013	2012
Core Bond	-0.01	3.64	2.64	0.98	6.07	-1.89	4.41
Short-Term Core	1.46	1.12	1.46	0.79	1.04	0.57	1.75
Intermediate Core	0.93	2.63	2.22	1.96	5.56	-1.07	4.25
Long-Term Core	-3.24	8.39	5.10	-1.55	15.10	-6.88	8.32
Sector Indexes							
US Gov't Bond	0.86	2.41	0.97	0.91	5.08	-2.74	1.98
Agency	1.35	2.10	1.67	0.72	3.01	-1.03	1.96
Corporate Bond	-2.30	6.40	5.81	-0.46	7.20	-1.50	10.54
BofAML High Yield Master II	-2.26	7.48	17.49	-4.64	2.50	7.42	15.58
TIPS	-1.27	3.10	4.68	-1.60	3.95	-8.53	6.93
Emerging Markets Indexes							
Emerging Mkt Composite	-2.82	8.24	9.94	0.62	5.06	-4.39	16.25
Emerging Mkt Sovereign	-4.72	9.31	9.25	1.15	7.69	-3.40	13.75
Emerging Mkt Corporate	-1.71	7.85	11.30	0.08	3.47	-2.81	15.32
Emerging Mkt High Yield	-4.61	9.34	15.17	1.42	2.63	-4.99	24.07

Sources: Morningstar, Inc. and ICE BofAML Index. Data as of 12/31/2018.

In the corporate bond market, credit spreads widened out significantly across investment-grade and high-yield bonds. For the year, the Morningstar Corporate Bond Index (our proxy for the investment-grade corporate bond market) registered a loss of 2.30%. In the high-yield sector, the ICE BofAML US High Yield Master II index declined 2.26%. Even though credit spreads widened out more in the high-yield sector, investment grade underperformed as it has a longer duration than the high-yield index and was more negatively affected by rising interest rates.

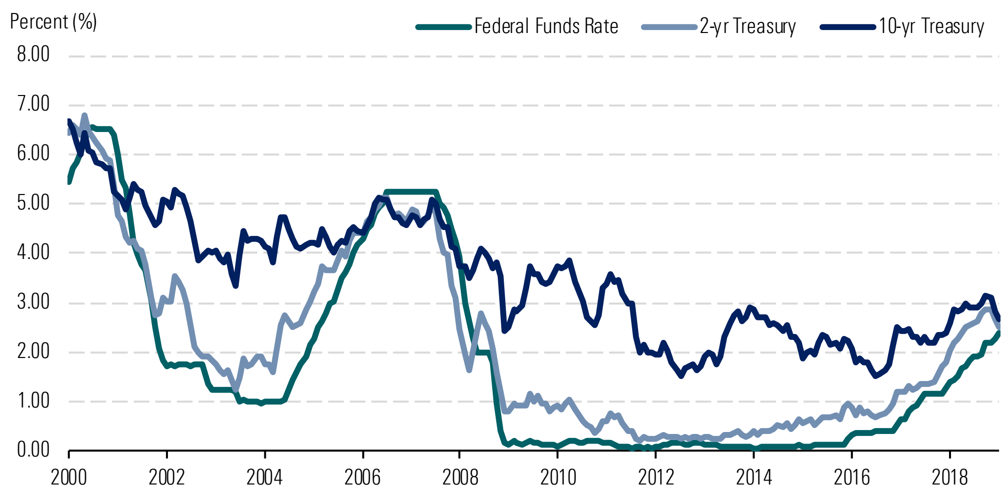
Emerging-markets fixed-income indexes were the worst performers for the year as negative investor sentiment drove interest rates higher and emerging bond credit spreads wider. The Morningstar Emerging Market Composite Index fell 2.82%, as the underlying Morningstar Emerging Market

Sovereign Index declined 4.72% and the Morningstar Emerging Market Corporate Index fell 1.71%. Morningstar's Emerging Market High Yield Index dropped 4.61%.

Yield Curve Continues to Flatten as Rates Rise

In conjunction with the hikes in the federal-funds rate, short-term rates continued their march higher in 2018. The interest rate on the 2-year U.S. Treasury bond rose to almost 3% in mid-November, but then it rallied over the past two months to end the year at 2.49%, a 61-basis-point increase from the end of 2017. Similarly, the yield of the 10-year U.S. Treasury bond had risen to 3.24% before rallying and ending the year at 2.68%, an increase of 27 basis points over the course of the year. Treasury prices have rebounded slightly over the past few weeks as global asset markets deteriorated and volatility increased, sending many investors to the safety of U.S. Treasury bonds. For the year, the S&P 500 index fell 6.2% with the loss predominantly occurring over the last few weeks amid increasingly negative rhetoric surrounding global trade renegotiations and the rising risk that new tariffs and responding retaliatory tariffs will be imposed

US Interest Rates



Source: Federal Reserve Bank of St. Louis

While short-term rates have surged higher this past year, the increase in long-term rates has lagged, leading to a further flattening of the yield curve. This drove the spread between the 2-year and 10-year Treasury tighter to 19 basis points, representing the flattest the yield curve has been since fall 2007. The yield curve has been on a multiyear flattening trend since the Federal Reserve began to raise short-term rates in its pursuit to normalize monetary policy. Historically, a flattening yield curve has often been an indicator of a weakening economy and in many cases portended an impending recession when the yield curve has inverted. This time around, this signal may not be foreshadowing a near-term recession risk, as it is being heavily influenced by global central bank actions. While some recent economic metrics have been weakening, they continue to indicate continued economic growth, just at a slower rate of expansion. According to the Atlanta Fed's GDPNow model forecast, fourth-quarter 2018 real GDP growth is running at an estimated 2.6% annualized rate.

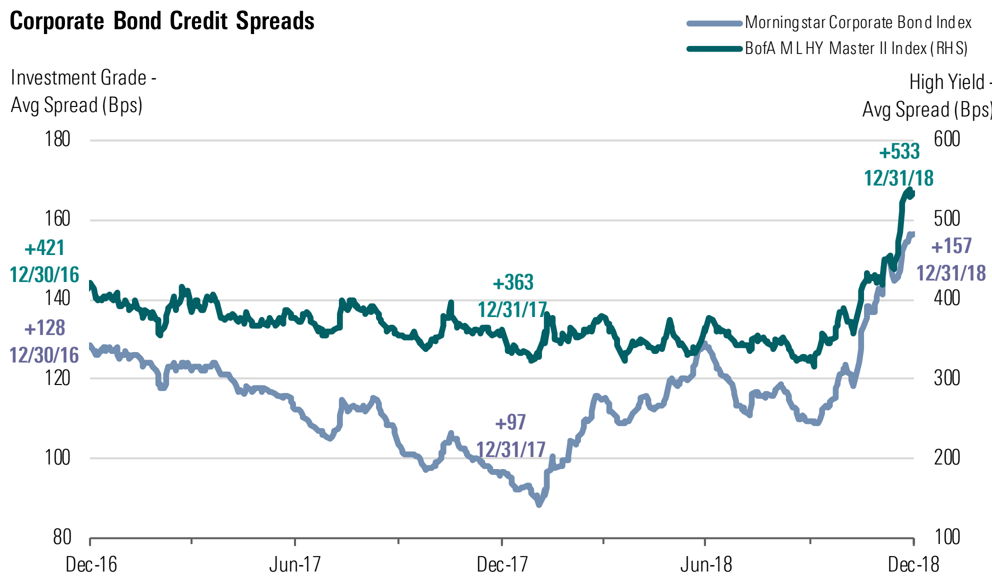
10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity

Source: Federal Reserve Bank of St. Louis as of 12/31/18.

After Trading Near Historically Tight Levels,
Corporate Bond Credit Spreads Surge Higher Toward Long-Term Averages

In 2018, the average spread of the Morningstar Corporate Bond Index widened 60 basis points to +157 and the average credit spread of the ICE BofAML High Yield Master Index widened 170 basis points to +533.

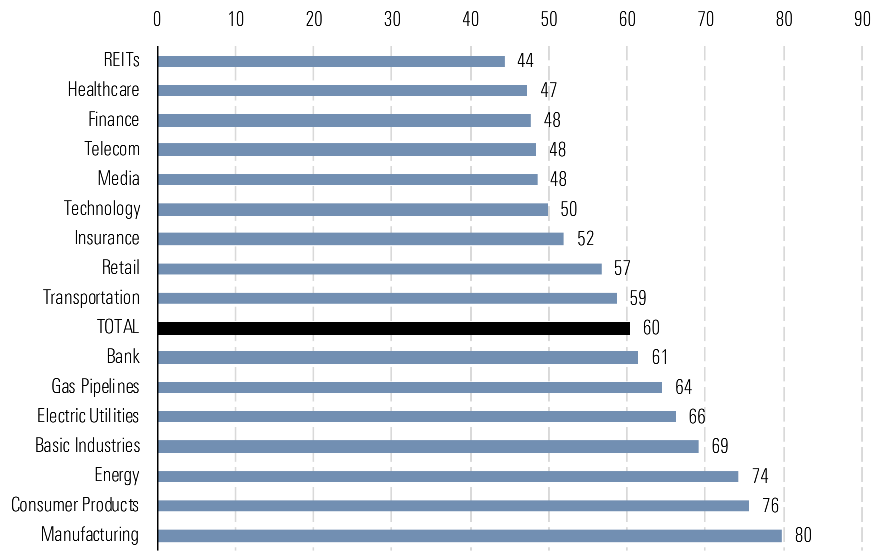
Corporate Bond Credit Spreads



Source: Morningstar, Inc., BofA Merrill Lynch Global Indexes. Data as of 12/31/2018

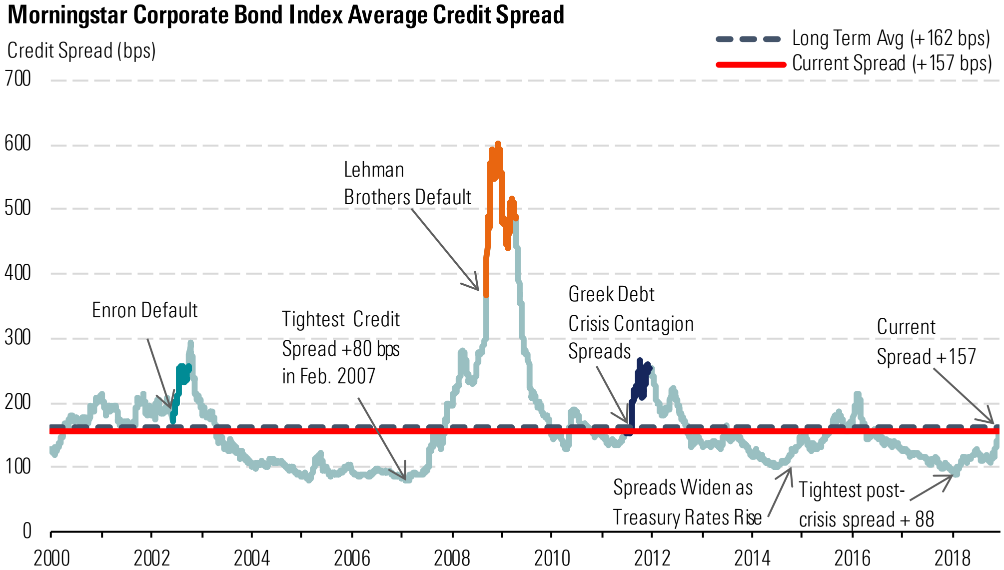
Among the winners and losers for the year by sector, companies with defensive characteristics generally outperformed, whereas sectors that are more economically sensitive underperformed. For example, real estate investment trusts and healthcare widened out the least in 2018, while the manufacturing and energy sectors are among those that widened out the most.

Morningstar Corporate Credit Index YTD Spread Change



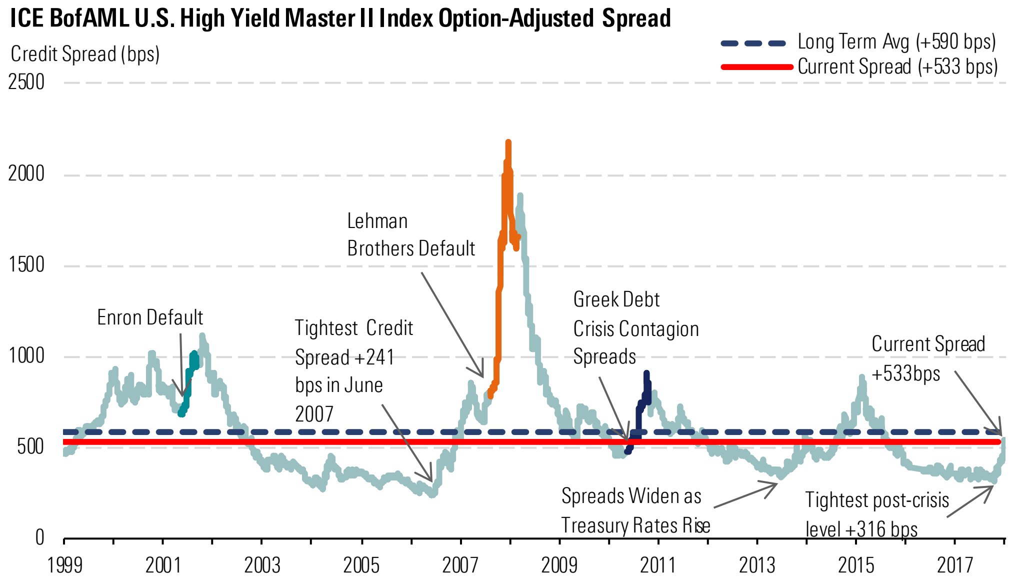
At these currently wider levels, on a longer-term scale, both indexes are near their long-term averages. In the investment-grade market, the current spread level is only 5 basis points below the long-term average of +162; however, that average is skewed to the upside due to the collapse of the bond markets during the 2008-09 global financial credit crisis. If you compare the index with the median spread level, credit spreads are now wider than the median as the index has traded below its current level almost 60% of the time.

Morningstar Corporate Bond Index Average Credit Spread



Source: Morningstar, Inc. Data as of 12/31/2018.

In the high-yield market, the average spread is 57 basis points below its long-term average; however, the current level is trading right at the median over the same period.



Source: ICE BofAML Global Indexes. Data as of 12/31/2018.

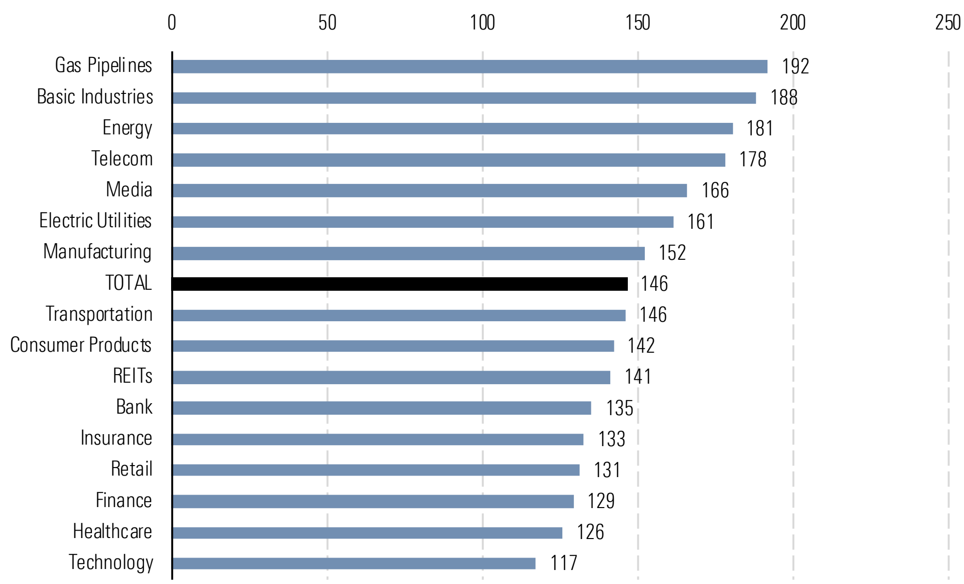
Exhibit 1 Morningstar Corporate Bond Index Sector Summary

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-**	**5,136**	**6.8**	**159**	**2**	**2**	**0.15**	**0.15**
FINANCIAL	**A-**	**1,437**	**5.2**	**146**	**5**	**5**	**0.01**	**0.01**
Bank	A-	895	4.7	149	6	6	(0.03)	(0.03)
Finance	A-	228	5.1	139	4	4	0.06	0.06
Insurance	A	215	8.1	140	2	2	0.19	0.19
REITs	BBB+	90	5.9	151	2	2	0.09	0.09
INDUSTRIAL	**A-**	**3,023**	**7.4**	**163**	**1**	**1**	**0.22**	**0.22**
Basic Industries	BBB	255	7.2	203	5	5	0.20	0.20
Consumer Products	BBB+	361	7.3	163	3	3	0.15	0.15
Energy	A-	399	7.1	191	(5)	(5)	0.49	0.49
Healthcare	A-	428	7.6	137	1	1	0.19	0.19
Manufacturing	A-	480	6.0	165	4	4	0.08	0.08
Media	BBB+	177	8.4	178	(0)	(0)	0.40	0.40
Retail	A-	168	7.6	144	1	1	0.19	0.19
Technology	A+	351	7.1	130	3	3	0.07	0.07
Telecom	BBB+	163	8.9	191	(1)	(1)	0.40	0.40
Transportation	BBB+	175	8.8	159	3	3	0.11	0.11
UTILITY	**BBB+**	**623**	**8.6**	**187**	**1**	**1**	**0.22**	**0.22**
Electric Utilities	A-	361	9.2	171	1	1	0.24	0.24
Gas Pipelines	BBB	245	7.7	210	2	2	0.21	0.21
Rating Bucket								
AAA Bucket		124	7.4	59	1	1	0.16	0.16
AA Bucket		492	5.7	87	2	2	0.10	0.10
A Bucket		1,857	6.7	124	0	0	0.11	0.11
BBB Bucket		2,663	7.0	205	1	1	0.19	0.19
Term Bucket								
1-4	A-	1,672	2.3	104	3	3	0.02	0.02
4-7	A-	1,170	4.7	157	2	2	0.07	0.07
7-10	A-	882	6.9	181	2	2	0.07	0.07
10PLUS	A-	1,412	13.4	210	1	1	0.43	0.43

Data as of 01/04/2019

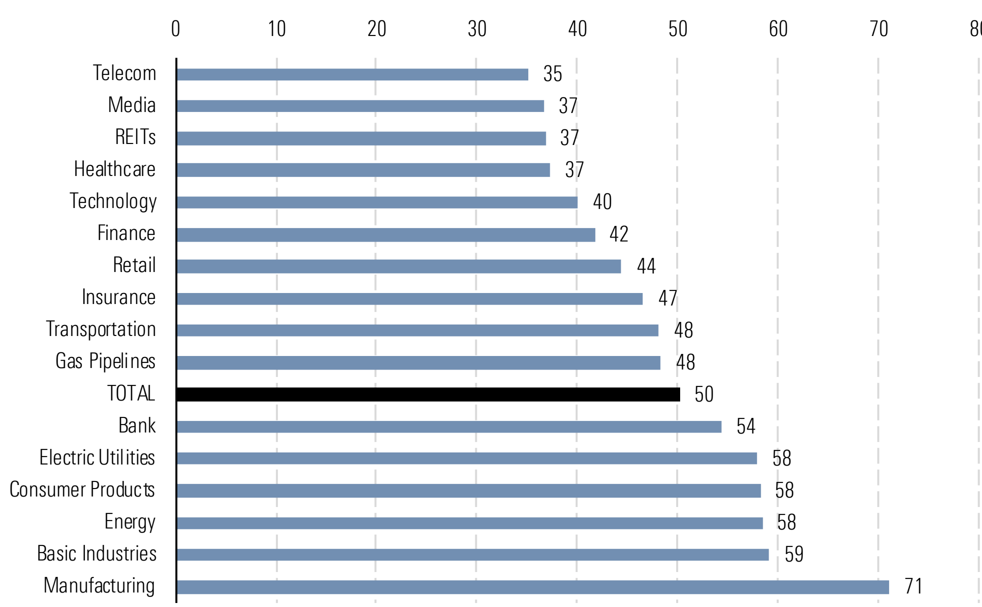
Source: Morningstar, Inc.

Exhibit 2 Morningstar Corporate Bond Index Spread by Sector



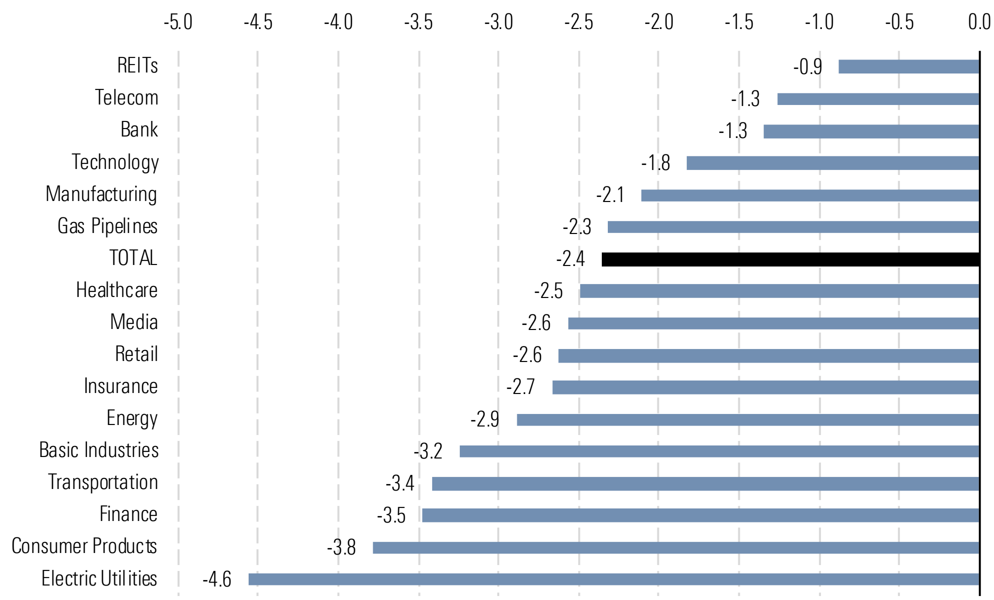
Source: Morningstar, Inc.

Exhibit 3 Morningstar Corporate Bond Index YTD Spread Change



Source: Morningstar, Inc.

Exhibit 4 Morningstar Corporate Bond Index YTD Return



Source: Morningstar, Inc.

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Vale SA **VALE**	BBB-	BB+
Celgene **CELG**	A-/UR+	A-
Bristol-Myers Squibb **BMY**	AA-/UR-	AA-

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Fidelity National Information Services **FIS**	BBB	BBB
Church & Dwight **CHD**	A-	A-
Clorox **CLX**	A	A
Procter & Gamble **PG**	AA	AA
Microsoft **MSFT**	AA+	AA+
Comerica **CMA**	A	A/UR/
BB&T **BBT**	A	A/UR/
Regions Financial **RF**	BBB+	BBB+/UR/
Altria Group **MO**	A-	A-

Morningstar Credit Ratings Releases Updated Ratings for Lowe's Companies

Morningstar Credit Ratings, LLC is lowering its corporate credit rating for Lowe's Companies by one notch to A- following a change in financial policy. Lowe's increased its adjusted debt leverage target to 2.75 times (adjusted for 6 times rent) from 2.25 times and plans to increase share repurchases. Over the next several years, Lowe's debt balances are forecast to increase by approximately $9 billion.

Historically, Lowe's has maintained a modestly leveraged balance sheet along with modest shareholder distributions. Both the company's Cash Flow Cushion and Solvency Score are negatively affected by the forecast increase in debt and interest expense. We forecast Lowe's will increase debt by $9 billion over the next three years to approximately $25 billion, with adjusted debt/EBITDAR (adjusted for 8 times rent) increasing to 2.9 times from 2.4 times at the end of the third quarter of 2018. Lowe's announced a new $10 billion share-repurchase program that adds to the existing program availability of $4.5 billion. The company plans to repurchase between $6.0 billion to $7.5 billion of shares in 2019, compared with an average of about $3.5 billion since 2015. Lowe's will also increase capital spending to about $1.5 billion on average over the next three years compared with $1.2 billion in 2018. Management has budgeted for significant improvements in store sales per square foot, operating margins, and return on invested capital following these investments, which will target technology and supply chain improvements rather than new store growth.

Lowe's rating continues to be supported by its strong competitive position in home-improvement retailing and consistent free cash flow generation. Lowe's is the second-largest global home improvement retailer, which positions it well to benefit from a solid U.S. housing market. The home improvement industry is expected to continue to benefit from growth in real disposable income, a lower unemployment rate, rising home prices, and increased housing turnover. Lowe's competitive advantages include its large scale, which enables it to negotiate advantageously with vendors, while a low-cost position is supported by an automated distribution network that integrates its vendors, distribution centers, and stores. MCR believes the Lowe's brand is a strong asset, as evidenced by a loyal customer base that relies on the expertise and knowledge of its store-based employees. The company's low Business Risk reflects these attributes, which is supported by a wide economic moat as assigned by Morningstar's Equity Research Group.

Morningstar calculates the company's net adjusted debt leverage at 2.4 times at the end of the third quarter of 2018, consistent with the last couple of years. The adjusted debt balance of $21 billion is composed of $16 billion of unsecured notes and a $5 billion adjustment for operating lease commitments. Liquidity includes $1.8 billion in cash and short-term investments and full availability under a $1.75 billion revolver, whose maturity was extended to 2023 during a recent amendment.

A stable outlook on Lowe's rating reflects Morningstar's expectation that adjusted debt leverage will increase from current levels to management's target of approximately 2.75 times and includes a substantial increase in shareholder distributions. Lowe's rating could be lowered if investments fail to improve margins and return on invested capital, which could lead to higher-than-anticipated debt leverage and stress the Solvency Score and Cash Flow Cushion. The rating could be raised if the company generates higher margins and return on invested capital along with a lower targeted adjusted debt level

Morningstar Credit Ratings Releases Updated Ratings for Vale

Morningstar Credit Ratings, LLC is upgrading the corporate credit rating of Vale SA to BBB- from BB+ and revising its outlook to stable from positive. The upgrade stems from the continued debt reduction that Vale has made over the course of this year. As of Sept. 30, the company has reduced gross debt by approximately $5 billion or about 22% since year-end 2017. Additionally, Vale has almost achieved its net debt target of $10 billion--it was $10.7 billion as of Sept. 30, 2018. Third-quarter results showed net debt/latest 12 months adjusted EBITDA declined to 0.7 times compared with 1.3 times a year ago. By our calculations, free cash flow for Vale was approximately $3.2 billion in the most recent quarter.

The BBB- rating reflects high Business Risk coupled with moderate Cash Flow Cushion and Distance to Default credit pillars and a strong Solvency Score credit pillar. Its Business Risk is negatively affected by industry cyclicality, production concentration, and lack of an economic moat as assigned by Morningstar's Equity Research Group. This is offset somewhat by the company's large size. Vale's Cash Flow Cushion is boosted by strong internally generated cash flow that is primarily a result of good iron ore prices and Vale's massive production volume. The company's Solvency Score is a product of moderate leverage, good internal liquidity, and robust interest coverage, and its Distance to Default reflects the large market capitalization of its equity relative to its debt balance.

As of Sept. 30, Vale's gross debt balance was $16.8 billion, down $5.3 billion from year-end 2017. Cash and equivalents totaled $6.1 billion as of Sept. 30, and we estimate available external liquidity includes

$5 billion in remaining availability on its two main revolving credit facilities, due 2020 and 2022, both of which were undrawn as of Sept. 30. We estimate near-term debt maturities as $900 million in 2019, $1.1 billion in 2020, $1.3 billion in 2021, and $12.8 billion thereafter.

Going forward, we expect the company to post net debt/EBITDA of 1.0 times or under and be robustly free cash flow positive. Also, we expect the company will increase shareholder remuneration once its net debt target is achieved. Our assumptions for iron ore prices in our forecast are $58 per metric ton for 2019 and $50 per metric ton from 2020 through 2022.

Morningstar Credit Ratings Places Ratings for Celgene Under Review

Morningstar Credit Ratings, LLC is placing Bristol-Myers Squibb Co's AA- credit rating under review with negative implications following the announcement of a formal offer to merge with A- rated Celgene Corp, which we are also placing under review albeit with positive implications. Bristol-Myers Squibb expects to close the roughly $74 billion transaction in the third quarter of 2019 and fund the proposed purchase with equity funding of $38 billion, available cash, and $32 billion in incremental debt. After the deal is completed, we estimate that gross leverage will stand around 3 times at the combined entity, which is about 2 turns higher than Bristol's stand-alone leverage but similar to Celgene's stand-alone leverage. Even when considering the increasing product diversity, we expect the rising leverage to cut into Bristol's credit rating potentially by multiple notches. On the other hand, considering the similar gross leverage and rising diversity relative to its stand-alone status, Celgene's credit rating could rise if the merger is completed as planned.

The combined entity will have a more diverse portfolio than the individual firms, considering that Bristol-Myers Squibb is heavily reliant on immuno-oncology agent Opdivo and Celgene is highly dependent on oncology medicine Revlimid. The transaction combines Bristol-Myers Squibb's strength in immuno-oncology with Celgene's expertise in blood cancer while also bringing together leading immunology and inflammation treatments, Orencia and Otezla. We expect the lessened product concentration to positively influence the Business Risk pillar of the combined entity.

However, incremental debt will stress the combined entity's balance sheet with the addition of new debt and existing Celgene debt around $20 billion. We expect gross leverage to stand around 3 times at completion of the deal, compared with about 1 time currently at Bristol and roughly 3 times at Celgene as of last count. This increase in leverage may pressure Bristol-Myers Squibb's currently strong Solvency Score and very strong Cash Flow Cushion and Distance to Default pillars enough to downgrade. However, that rating may be higher than Celgene's A- rating as a stand-alone entity, which informs its under review positive status. Also, strong free cash generation may facilitate debt reduction after the combination. Management thinks that free cash flow may total more than $45 billion over the first three years after the transaction, which can be used to repay outstanding debt as management expects to maintain a strong investment-grade rating. In conjunction with the merger announcement, Bristol-Myers Squibb announced plans to repurchase $5 billion in shares through an accelerated share-repurchase program after completion of the deal, which we will also consider in the combined entity's rating.

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Morningstar Credit Ratings Releases Updated Ratings for Fidelity National Information Services

Morningstar Credit Ratings, LLC is affirming its BBB consolidated corporate credit rating for Fidelity National Information Services, Inc. and maintaining its stable outlook. Our BBB credit rating reflects Fidelity National Information Services' solid competitive position, the positive effects of which are partially offset by the company's average returns on invested capital and elevated financial leverage. Our moderate Business Risk score is supported by Morningstar's Equity Research Group's assessment that the company has a narrow economic moat. Fidelity is a leading provider of payment solutions, accounting and compliance systems, information security, and outsourcing arrangements for large and midsize banking and asset management companies. In our view, these products are essential to its customers' business operations and, together with typically long-term service contracts, contribute to Fidelity's high customer switching costs and relatively stable revenue.

Fidelity's moderate Solvency Score reflects its average returns on invested capital, which we expect to remain in the high single digits throughout our five-year forecast period, as well as declining interest coverage ratios. We project that EBITDA/interest expense may fall to 5.8 from 9.6 times by the end of our five-year forecast.

Fidelity's moderate Cash Flow Cushion score, as well as its commitment to returning capital to shareholders, limits our credit rating. Fidelity reports over $3.2 billion of obligations coming due by 2022, which is approximately 35% of reported long-term debt. Leverage has fallen to 3.1 times debt/trailing 12month EBITDA at the close of third-quarter 2018 from 4.3 times at year-end 2015 (post acquisition of SunGard) which is a credit positive. We believe the debt is well laddered and interest expense manageable with coupons ranging from 0.4% to 5.0%. We expect debt/EBITDA to average 3.3 times in our five-year forecast. Fidelity's 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 operating forecast supports a stable outlook for the company, and we do not expect to change our rating over the next one to two years. However, we may consider a negative outlook or a lower credit rating if the company were to significantly increase its leverage, possibly as a result of a large debt-funded acquisition, aggressive share repurchases, or a sustained reduction in revenue. We could consider a positive rating action if Fidelity were to demonstrate commitment to maintaining lower leverage, which would contribute positively to its Cash Flow Cushion and Solvency Score.

Morningstar Credit Ratings Releases Updated Ratings for Church & Dwight

Morningstar Credit Ratings, LLC is affirming its A- rating on Church & Dwight Co., Inc. and maintaining a stable outlook. The affirmation reflects Church & Dwight's diversification, good returns on invested capital in the low teens, solid free cash flow generation, and moderate leverage, which has resulted in a strong Solvency Score. Church & Dwight continues to obtain top-line growth through successful acquisitions and incremental operating income growth, mainly through cost reductions and effectively leveraging its manufacturing, logistics, and procurement infrastructure. We believe the company is likely to benefit from ongoing investment in R&D and marketing that support new product development and product-line extensions. However, Church & Dwight competes with much larger diversified players with significantly greater financial resources, and as a result, possesses modest negotiating power relative to its customers, a challenging position given that Walmart constitutes 24% of sales. The firm lacks the size and scale advantages of the dominant industry players, but we believe its continued brand investments will provide a sustainable competitive advantage in some of its product categories.

In the absence of an acquisition, we forecast continued improvement in the company's credit measures and strong free cash flow generation. Church & Dwight's Cash Flow Cushion is moderate, but its low debt level relative to its enterprise value has provided a very strong Distance to Default. Church & Dwight's debt/adjusted EBITDA is 2.2 times for the 12 months ended Sept. 30 and is projected to decline below 2.0 times due to strong EBITDA margins and modest debt reduction from healthy cash flow. Cash flow generation after dividends has been excellent and is expected to exceed $400 million annually, or greater than 10% of revenue throughout our forecast period. Acquisitions remain a key element of Church & Dwight's growth strategy, and as a result, periodic increases in leverage are anticipated. We would re-evaluate our rating if the company materially changed its capital allocation policy, which resulted in significantly higher and more than a temporary increase in leverage.

To support its acquisition growth strategy, Church & Dwight has historically maintained a conservative capital structure. At Sept. 30, total debt was $2.1 billion, and its cash balance was $188 million. Over the next 12 months, the company has approximately $600 million of long-term debt maturing, which we believe Church & Dwight would partially refinance and repay the remaining amount using free cash flow. This will allow the company to achieve its stated leverage target of debt/EBITDA of below 2 times. Financial flexibility is provided by the company's $1.0 billion credit facility, which was amended in March 2018 and the maturity extended to March 2023 from December 2020. The credit facility, which was fully available, supports the company's $1.0 billion of commercial paper program and supplements its liquidity and can be increased by an additional $600 million. Under its credit agreement, Church & Dwight has a financial covenant that requires it to maintain a debt/EBITDA ratio no greater than 3.75 times, which increases to 4.75 times for a 12-month period following a material acquisition. The company was in compliance with this covenant as of Sept. 30.

Church & Dwight's dividend payout ratio is approximately 40%, which is lower than its peers' and provides added financial flexibility, given its acquisition-based growth strategy. The company has a 2017 share-repurchase program of $500 million with no expiration date and an evergreen share-repurchase program to reduce or eliminate dilution caused by its incentive plans. In the first quarter of fiscal 2018, Church & Dwight completed an accelerated stock repurchase of approximately $200 million, with $90 million repurchased under 2017 plan and the remaining under the evergreen plan--thus the company has around $310 million remaining under its 2017 share-repurchase plan as of Sept 30. Considering Church & Dwight's substantial free cash flow generation, we do not expect share repurchases to weaken the company's credit profile.

Our current rating outlook is stable. A rating upgrade is unlikely given the company's acquisition growth strategy, which will probably lead to periodic increases in leverage and weaken its credit pillars. Also, the high level of competitiveness of the major industry players in the household and personal-care categories could negatively affect Church & Dwight's operating margin, earnings, and cash flows. A downgrade is possible if there is a decline in operating margins signaling a loss of competitiveness or if leverage increases, weakening the company's Solvency Score or Cash Flow Cushion. A negative rating action would also be considered if share repurchases resulted in a deterioration of the company's overall credit profile.

Morningstar Credit Ratings Releases Updated Ratings for Clorox

Morningstar Credit Ratings, LLC is affirming the Clorox Company's A rating and maintaining a stable outlook. Clorox's rating reflects its moderate use of leverage and the stability of its operating earnings and cash flow, which supports our assessment of its Business Risk as minimal. The strength of the company's intangible asset has resulted in exceptional returns on invested capital that are in the mid-20s. These returns are generated by Clorox's strong brand equity, which is demonstrated by its leading market shares, and the fact that more than 80% of the firm's portfolio consists of number-one or number-two brands. We believe Clorox's competitive position is maintained through product innovation driven by research and development, advertising and promotion, and a cost-cutting culture, which also fuels investments that supports the company's growth objectives. These elements have resulted in Morningstar's Equity Research Group assigning Clorox a wide economic moat.

Clorox's Solvency Score is strong and remains so throughout MCR's five-year forecast period. It is driven by the company's modest leverage, strong interest coverage, and double-digit ROICs. The stable outlook reflects our expectations for steady financial performance and credit metrics, although more aggressive debt-funded acquisitions or share repurchases could affect the rating. Yet, acquisitions have mainly been successful, accretive to margins, and provided diversification and growth, enhancing the company's credit profile. Clorox's Cash Flow Cushion is weak as the company has several large maturities within the forecast period. Overall, Clorox maintains a healthy balance sheet with strong free cash flow generation. The company's leverage has been consistently maintained at a little less than 2 times and below management's targeted leverage range of 2-2.5 times. Our forecast includes low-single-digit top-line growth and operating margins to remain stable in the low 18% area. We expect healthy free cash flow (cash flow from operation less capital expenditures and dividends) to exceed $300 million annually throughout our five-year forecast period.

Clorox's has judiciously used debt within its capital structure with a total of $2.6 billion as of Sept. 30, which is composed of $280 million of short-term debt, mainly commercial paper, and long-term debt of $2.3 billion. Clorox's long-term maturities are manageable and are as follows: $298 million in 2021, $596 million in 2022, and $1.4 billion thereafter. Clorox maintains minimal internal liquidity as its cash balance at the end of the period was $162 million. However, its financial flexibility is substantial and afforded by the company's committed and fully available $1.1 billion revolving credit facility, which matures in February 2022, and its free cash flow generation after dividends, which is projected to exceed $300 million annually during the forecast period. The company's credit agreement contains a restrictive financial covenant that requires the company to maintain a minimum interest coverage for a trailing four quarters of at least 4 times, which Clorox easily meets.

Beyond boosting shareholders' returns through increased share repurchases and dividends, we anticipate that the company will continue to be acquisitive. We believe that management would likely target acquisitions within its recent historical range of $300 million-$700 million, which are unlikely to constrain Clorox's balance sheet or force its leverage ratio beyond the company's targeted range. Clorox's other obligation includes its retirement income and retirement health plans, which are underfunded by $211 million. However, the pension plan was frozen in 2011, and the company contributed $22 million to the retirement income plans in fiscal 2018. Clorox has two share-repurchase programs; an open-market purchase program with an authorized aggregate purchase amount of up to $2.0 billion, which was increased from $750 million in May 2018, and an evergreen program to offset the anticipated impact of share dilution from stock compensation. The company has $1.8 billion available under its open-market purchase program. Clorox has been conservative with share repurchases, so we do not expect them to weaken the company's credit profile.

Our current rating outlook is stable, indicating that we do not anticipate a rating change in one or two years. However, continued diversification and significant expansion of Clorox's product portfolio, maintenance of its profitability margins, and improvements in its Cash Flow Cushion score while maintaining a strong Solvency Score could result in a rating upgrade. Conversely, heightened leverage beyond its target range, signaling a change in its capital allocation policy to a more aggressive stance toward acquisitions and share repurchases, or a weakening of the company's Solvency Score and Cash Flow Cushion, could result in a rating downgrade.

Morningstar Credit Ratings Releases Updated Ratings for Procter & Gamble

Morningstar Credit Ratings, LLC is affirming its AA corporate credit rating for the Procter & Gamble Company and maintaining a stable outlook. Procter & Gamble's credit rating is derived from the cash flow generated by the company's global leadership in the household and personal-care products sector and a moderate use of financial leverage. P&G's portfolio consists of 21 brands that each generate over $1 billion of revenue per year and another 11 brands that generate over $500 million in annual sales. P&G's vast economies of scale and dominant market positions produced by the intangible assets of its branded portfolio have resulted in the assignment of a wide economic moat by Morningstar's Equity Research Group. Although P&G operates as the leading player in the worldwide household and personal-care category, it is not immune to aggressive competition, private-label incursions, and at times changing and lackluster consumer spending.

P&G continues to report financial and operational improvement indicative of the success of its restructuring program. The company has 65 brands that accounted for more than 85% of its top line and 95% of its profit. The company is in the midst of a five-year (fiscal 2017-22), $10 billion productivity and cost-saving plan, which is expected to lead to the optimization of its supply chain and manufacturing processes and improve its operating margins and cash flow. P&G has a long record of operating with high interest coverage and moderate leverage. We project that leverage will average just under 2.0 times over our five-year forecast period and interest coverage will exceed 20 times. Although leverage is high for the rating category, P&G benefits from minimal Business Risk, a strong Solvency Score, and a very strong Distance to Default score, which supports our credit rating. P&G's Cash Flow Cushion ratio is moderate for its credit rating due to substantial commercial paper and debt maturities within our five-year forecast period, which represent about 65% of the firm's debt; however, based on P&G's substantial liquidity, robust free cash flow generation, and established brand name, we believe it will have no difficulty managing its debt portfolio.

At Sept. 30, 2018, P&G's total debt was $31.3 billion, including $10.5 billion of short-term debt, of which we estimate a significant portion was commercial paper. P&G's maturities are estimated as follows: $2.6 billion in 2020, $2.0 billion in 2021, and $16.2 billion thereafter. These maturities are manageable considering the company's liquidity, which totals $11.2 billion, composed of $2.5 billion of cash and cash equivalents and $8.7 billion of investments available for sale, at period-end. Financial flexibility is provided by the company's $8.0 billion of credit facilities, which is split between a $3.2 billion five-year facility that expires in November 2022 and a $4.8 billion 364-day facility that expired in November 2018, which we believe was renewed. The credit facilities also support P&G's commercial paper program. P&G issued EUR 2.1 billion of senior notes in multiple tranches in October, the proceeds of which we believe were used in part to finance the company's $3.9 billion acquisition of Merck KGaA's over-the-counter healthcare business in November. The acquired business had approximately $1.0 billion of revenue that was generated in Europe, Latin America, and Asia.

P&G's other material obligation include its defined- benefit pension plan, which was underfunded by approximately 28% or $4.4 billion at fiscal year-end. Trailing 12 months total debt/adjusted EBITDA was 1.8 times, EBITDA/interest was 33 times, and free cash flow (cash flow from operations less capital expenditures and dividends) was $3.8 billion. P&G's management has articulated that it intends to deliver another year of 90% or better cash flow productivity and accordingly expects to pay nearly $7 billion in dividends and to spend $5 billion on share repurchases in fiscal 2019.

P&G maintains a healthy amount of cash and investments on its balance sheet, but given management's commitment to step up investment in the business during the next several years, we doubt there is much appetite to engage in a large acquisition. Beyond reinvesting in the business, we expect that dividend payments will remain a top priority of cash, and we forecast mid- to high-single-digit dividend increases during the near to intermediate term.

Our stable outlook reflects the expectation that there is not likely to be a rating change in a 12-to 24-month period. However, a change in P&G's financial strategy or large debt-financed acquisition that weakens its Cash Flow Cushion further or its Solvency Score could result in a negative rating action. Conversely, if P&G maintains the strength of its Solvency Score, improves its Cash Flow Cushion by meaningfully terming out a significant portion of its short-term debt, and makes a commitment to lower its leverage, a positive rating action could occur.

Morningstar Credit Ratings Releases Updated Ratings for Microsoft

Morningstar Credit Ratings, LLC is affirming its AA+ corporate credit rating for Microsoft Corp. and maintaining a stable outlook. Our AA+ credit rating reflects Microsoft's solid credit pillars, supported by robust revenue growth and operating margin expansion. Over the past year, the Cash Flow Cushion has strengthened modestly on growth in projected cash flow and lower debt maturities. The Solvency Score also improved as a result of a high return on invested capital driven by rapid revenue growth and a lower income tax rate. Both Business Risk and Distance to Default remain strong.

Morningstar's Equity Research Group assigns the company a wide moat, supported by switching costs and network effect sourced from Microsoft's productivity and business processes products (Office, Dynamics, LinkedIn), server products and Azure cloud offerings, and its deeply entrenched Windows operation system. Collectively, we estimate that on-premises Office, Windows, and other legacy platforms still contribute about 43% of Microsoft's revenue. However, Microsoft has made demonstrable progress toward building a leadership position in cloud. In the years ahead, we believe the company will continue to look toward acquiring market share in the cloud infrastructure industry. Microsoft also expects to enhance its developer ecosystem through its $7.5 billion acquisition of GitHub, though we do not expect this to be accretive to operating income until fiscal 2020.

Microsoft's total debt ended the September quarter at $76.2 billion, down $9.2 billion from a year ago. Total debt represented 1.6 times trailing 12-month EBITDA compared with 2.3 times from a year ago. Cash and investments totaled $135.9 billion at the end of the quarter, with excess cash net of total debt equivalent to 1.3 times EBITDA. Free cash flow over the past 12 months decreased 2% from the previous year to $32 billion due to higher capital expenditures in support of the cloud business. During the same period, the company paid out 74% of free cash flow (up from 66% a year ago) for dividends and net share repurchases. Management expects to complete the GitHub acquisition by calendar year-end 2018 and plans to increase share repurchases to offset the issuance of $7.5 billion stock consideration within six months after closing. In September 2016, Microsoft renewed its $40 billion share-repurchase plan, of which $25.6 billion of authorization was available at the end of the latest quarter. We assume the company's long-term payout will remain around 60% of free cash flow, leaving sufficient internal liquidity to meet $24.1 billion of debt maturities over the next five years.

Our rating assumes average annual revenue growth of 10% over the next five years, supported by growth in Azure, LinkedIn, and Office 365, partially offset by secular declines in legacy products. We also forecast modest improvement in operating margin as Azure and LinkedIn profitability stabilizes in the next few years. Given the solid positioning of the credit pillars, we do not anticipate an upgrade of the rating. We may downgrade our rating if management materially increases leverage to fund high shareholder payouts and pursue large-scale acquisitions.

Morningstar Credit Ratings Releases Updated Ratings for Comerica

Morningstar Credit Ratings, LLC is affirming Comerica Inc.'s A consolidated corporate credit rating and assigning a stable outlook. Comerica was placed under review on May 31, 2018, as we assessed the impact of the 2018 Economic Growth, Regulatory Relief and Consumer Protection Act on our credit ratings. Under our methodology, banks are compared with peers based on how they are regulated. Following the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Comerica was regulated as a systemically important bank and compared with a group of global SIBs in our rating process. Under the 2018 law, only U.S. banks with $250 billion or more in total assets

(Comerica had $71.45 billion in total assets at September-end), or which are specifically classified as SIBs by regulators or the Basel Committee on Banking Supervision, will be designated as SIBs.

Comerica's A credit rating reflects the company's solid deposit funding and profitability as well as its above-average asset quality. We consider the bank to have low Business Risk based on a strong funding mix, partially offset by a somewhat smaller size and more limited business line diversification. Comerica operates three major business segments: Business Bank (which generated about 65% of revenue in the first nine months of 2018), Retail Bank (20%), and Wealth Management (14%), with Finance and Other contributing the remaining 1%. Comerica's loan portfolio is heavily tilted toward commercial loans, which, including commercial real estate, constitute about 89% of loans, with residential and retail contributing the remaining 11%. Most of Comerica's funding comes from sources that we consider stable, with deposits constituting 88% of liabilities. Deposits are evenly split between interest-bearing (48%) and noninterest-bearing deposits (52%). The Business Risk score is also supported by Morningstar's Equity Research Group's narrow economic moat assessment, based on the bank's low funding and operating costs along with high implicit switching costs for its corporate customers.

Comerica's strong Solvency Score is supported by the company's solid deposit funding and improving profitability measures, which place it above three fourths of U.S. bank peers. In the first three quarters of 2018, Comerica reported a solid 15.6% return on average equity. Comerica's Solvency Score is also characterized by its modestly above-average asset quality and near-average regulatory capital.

Comerica's very strong Stress Test score reflects the company's strong initial capital position and earnings power. This is partially offset by Comerica's above-average exposures to commercial and industrial loans, which potentially face higher losses in a downturn. Most of the remaining loans are consumer loans, residential mortgages, international loans, and lease financing. We view this portfolio as moderately risky, but the negative impact of hypothetical loan losses in our stress scenario is largely offset by Comerica's preprovision earnings. The results of our Stress Test indicate that that Comerica could exit a two-year period of adverse credit and operating conditions with capital well above regulatory minimums.

Comerica's rating also benefits from the company's strong score on our market-based Distance to Default pillar. Comerica's price/book value ratio of 1.4 times in mid-December was well above average relative to a peer group of U.S. banks.

Our stable outlook on Comerica implies that we do not anticipate a change in our rating within the next one or two years even if capital levels decline moderately. Our rating also assumes that Comerica's conservative underwriting is maintained. If realized profits fall below our expectations or capital levels were to decline substantially, this could negatively affect the group's Solvency and Stress Test scores and may result in a negative outlook or a lower rating. Conversely, if Comerica were to sustain higher levels of capital or reduce the riskiness of its loan book, this could lead to higher Stress Test and Solvency Scores and potentially to a positive rating action.

Morningstar Credit Ratings Releases Updated Ratings for BB&T

Morningstar Credit Ratings, LLC is affirming BB&T Corp's A consolidated corporate credit rating and assigning a stable outlook. BB&T was placed under review on June 1, 2018, as we assessed the impact of the 2018 Economic Growth, Regulatory Relief, and Consumer Protection Act on our credit ratings. Under our methodology, banks are compared with peers based on how they are regulated. Following the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, BB&T was regulated as a systemically important bank and therefore compared with a group of global SIBs in our ratings process. Under the 2018 law, only U.S. banks with $250 billion or more in total assets (BB&T had $222.9 billion in total assets at the end of September), or which are specifically classified as SIBs by regulators or the Basel Committee on Banking Supervision, will be designated as SIBs.

BB&T's A credit rating reflects the bank's strong operating results, diverse business mix, and adequate capital levels. We consider BB&T to have a low Business Risk based on the bank's good funding mix and a diverse revenue mix split between interest income at about 60% of net revenue and fee-based sources for the remaining 40% of revenue. BB&T is one of the largest bank holding companies in the U.S. with $222.9 billion in assets; it offers a wide range of financial services including retail and commercial banking, investments, insurance, wealth management, asset management, mortgage, corporate banking, capital markets, and specialized lending. BB&T benefits from a low-cost deposit base, strong operating efficiency, and conservative underwriting. This supports the narrow moat assigned by Morningstar's Equity Research Group.

The bank's moderate Solvency Score continues to be supported by solid profitability measures, including a return on average assets of 1.49% and an adjusted return on common equity of 11.7%, which place BB&T in the top quartile of its peers. These positives are offset by below-average capital levels including a common equity Tier 1 ratio of 10.2% as of September, which detracts from its score.

BB&T's loan portfolio remains tilted toward commercial and retail lending, with about 41% commercial and industrial lending, 15% commercial real estate lending, and 21% residential mortgages as of Sept. 30. Most of its remaining loans are lease financing, home equity, and other consumer retail loans. The company's manageable credit risk and earnings power positively contribute to its very strong Stress Test score.

Our rating for BB&T also considers its very strong Distance to Default score. This market-based pillar considers the company's equity market value compared with the book value of its assets and the volatility of its shares relative to those of peers. BB&T's pillar score benefits from its 1.3 times price/book ratio in mid-December, which ranks higher than 56% of peers. Lower volatility in the share price relative to peers also contributes positively to the DTD score.

Our stable outlook for BB&T indicates that we do not expect to change our rating over the next one to two years. However, our rating may be negatively affected by materially lower reserves relative to nonperforming and delinquent assets, or by lower levels of capital, to the extent that they lead to lower Solvency or Stress Test scores. A shift toward a riskier loan portfolio or lower underwriting standards may also contribute to a lower Stress Test score. Conversely, higher capital levels could lead to a higher Solvency Score and a higher credit rating.

Morningstar Credit Ratings Releases Updated Ratings for Regions Financial

Morningstar Credit Ratings, LLC is affirming Regions Financial Corp.'s BBB+ credit rating and assigning a negative outlook. Regions was placed under review on June 1, 2018, as we assessed the impact of the 2018 Economic Growth, Regulatory Relief, and Consumer Protection Act on our credit ratings. Under our methodology, banks are compared with peers based on how they are regulated. Following the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Regions was regulated as a systemically important bank and therefore compared with a group of global SIBs in our ratings process. Under the 2018 law, only U.S. banks with $250 billion or more in total assets (Regions had $124.5 billion in total assets at September-end), or which are specifically classified as SIBs by regulators or the Basel Committee on Banking Supervision, will be designated as SIBs.

Our rating is based on Regions' solid funding mix and diversified loan portfolio, which are partially offset by the company's falling capital metrics and its weak Distance to Default score. Our negative outlook reflects management's intention to reduce Region's common equity Tier 1 capital ratio to 9.5% from the 10.2% level reported at the end of September, which could negatively affect Regions' performance in our Solvency Score and Stress Test.

We consider Regions to have low Business Risk based on the diversity of its operations and good funding mix. Revenue sources are split between net interest income, which represented about 64% of revenue for the nine months through Sept. 30, 2018, and fee-based sources, which contributed the remaining 36% of revenue. By segment, the company generated nearly 47% of income from continuing operations from consumer banking, 39% from corporate banking, and 14% from wealth management and other activities. Regions' funding mix includes deposits representing about 84.9% of liabilities at quarter-end and long-term debt representing about 10.2%. Our Business Risk score also reflects Morningstar's Equity Research Group's view that Regions does not possess sustainable cost advantages or an economic moat.

Regions' moderate Solvency Score is supported by company's strong deposit funding, which places Regions in the top quartile among its peers. Region's above-average profitability also contributes positive to its Solvency Score. These factors are partially offset by modest deterioration in Regions' capital metrics, which are now below-average relative to our regional peer group. The company's relatively large portfolio of impaired loans further detracts from the score.

Regions' very strong Stress Test score is influenced by good loan diversification, adequate capital levels, and our forecasts for revenue growth. Regions' loan portfolio emphasizes commercial loans, which represent 62% of the total including commercial real estate loans, which are about 15% of total loans. Most of the remaining loans are residential mortgages and home equity loans. The bank's rating also incorporates its weak performance on our market-driven Distance to Default pillar. Regions' price/book ratio of 1.0 times in mid-December was lower than that of 85% of peers.

Our negative outlook indicates that we may reduce our rating within the next one to two years. Management's plans to reduce capital ratios may negatively affect the bank's performance on our Stress Test and Solvency Score, which could lead to a lower rating. While our negative outlook implies that a higher rating is unlikely, the outlook could be revised if the management were to maintain capital at higher levels than expected or reduce risk in its loan portfolio enough to offset the negative impact of lower capital levels.

Morningstar Credit Ratings Releases Updated Ratings for Altria Group

Morningstar Credit Ratings, LLC is affirming Altria Group's Inc. A- corporate credit rating and revising its outlook to stable from positive following the company's announcement that it invested $12.8 billion in JUUL Labs, the dominant player in the e-vapor cigarette category. Altria's ratings reflect its moderate leverage, substantial cash flow generation, and our low Business Risk assessment, which is driven by the company's leading market position in the U.S. tobacco industry in cigarettes, moist smokeless tobacco, and machine-made cigars. It is further supported by the strength of Altria's intangible brand assets, which provide pricing power and generate industry-leading profit margins. This is demonstrated by the 40%-plus market share of Marlboro, which is owned by Philip Morris USA, Altria's wholly owned subsidiary. Given the tobacco industry's high barriers to entry, including substantial regulation, Altria's leading market position is expected to support excess ROICs over the next 20 years and will continue to support its strong, albeit weaker, Solvency Score.

Financing for the JUUL investment and Altria's recent $1.8 billion acquisition of a 45% interest in Cronos Group, a Canadian cannabis company, was provided by its $14.6 billion term loan facility, which matures Dec. 19, 2019. While the JUUL investment places the company at the forefront of the fast-growing vaping category, the cannabis industry is in its infancy. Neither investment is expected to make a meaningful contribution to Altria's earnings and cash flow in the near to intermediate term, but both position the company for the possibility of substantial longer-term growth. Altria expects to offset the interest cost of financing these investments with its newly announced cost reduction program, which is expected to deliver $500 million-$600 million in annual cost savings by the end of 2019. The program includes reducing third-party spending across the business and workforce reductions.

Altria's pro forma debt is $29 billion with current maturities of $2.0 billion and approximately $27 billion maturing thereafter. Liquidity is provided by Altria's $2.3 billion cash balance at quarter-end September 30, 2018. We forecast that the company will refinance at least 75% of its $14.6 billion term loan facility beyond our five-year projection period. Altria's pro forma leverage was 2.9 times, which is weak for the rating category; however, we forecast that it will improve to 2.4 times during the intermediate term. The company's coverage ratio is projected at just under 8 times. Altria's Cash Flow Cushion is weak due to acquisition debt and significant debt maturities during the forecast period, which necessitates the company having access to capital markets. An additional financial resource is provided by Altria's 10.1% equity ownership of Anheuser-Busch InBev, which we estimate at a value of $13 billion.

Financial flexibility is afforded by full availability of Altria's $3.0 billion senior unsecured five-year revolving credit agreement that matures in August 2023. The credit facility also supports Altria commercial paper issuances, with no amount outstanding as of Sept. 30, 2018. The credit agreement has financial covenants that require Altria to maintain an EBITDA/interest expense ratio of not less than 4.0/1.0, which the company easily meets. Altria's senior notes have a rating trigger and a change-of-control provision. The company will be required to make an offer to purchase the notes upon both a change of control and the notes ceasing to be rated investment grade by the rating agencies. Altria has approximately $1.6 billion aggregate principal amount outstanding under its senior unsecured long-term notes, which were issued in 2008 and 2009 (9.25% due 2019, 9.95% due 2038, and 10.20% due 2039) and have an interest-rate adjustment provision based upon the company's credit rating.

Although Altria maintains a high dividend payout ratio of approximately 80%, we do not expect shareholder payouts to result in a weakening of its credit profile. As of Sept. 30, Altria had $700 million remaining under the share-repurchase program.

We have a stable outlook that is an indication that the rating is not likely to change in the near term. Meaningful diversification (generating 20% or more of operating income from sources other than combustible cigarettes) or successfully developing and marketing lower-risk products and an improvement in its Cash Flow Cushion and Solvency Score would be positive for the rating. A negative rating action is likely if the company loses the ability to offset cigarette consumption declines through higher pricing, if unanticipated volume declines pressure its operating earnings and cash flow, or if the company fails to make progress in deleveraging and its Cash Flow Cushion or Solvency Score weakens further. A rating downgrade could also result if the heightened regulatory environment accelerates volume declines or management adopts an aggressive capital allocation policy regarding shareholders' remunerations that materially weakens the company's credit profile.

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