Morningstar Corporate Credit Research Highlights
High Yield Outperforming Investment Grade Year to Date as Credit Spreads Widen and Rates Rise

Morningstar Credit Ratings, LLC
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Credit Rating Actions

- Rating Changes

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
Express Scripts **ESRX**	A-/UR-	A-
Cigna **CI**	BBB/UR-	BBB
Northrop Grumman **NOC**	BBB+	A-/UR-
Nutrien **NTR**	BBB	NA
General Dynamics **GD**	A	A+/UR-

- Rating Affirmations

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
Expedia **EXPE**	BBB-	BBB-
Booking Holdings **BKNG**	A-	A-
Maxim Integrated Products **MXIM**	A	A
Xilinx **XLNX**	A	A

Recent Notes Published by Credit Analysts

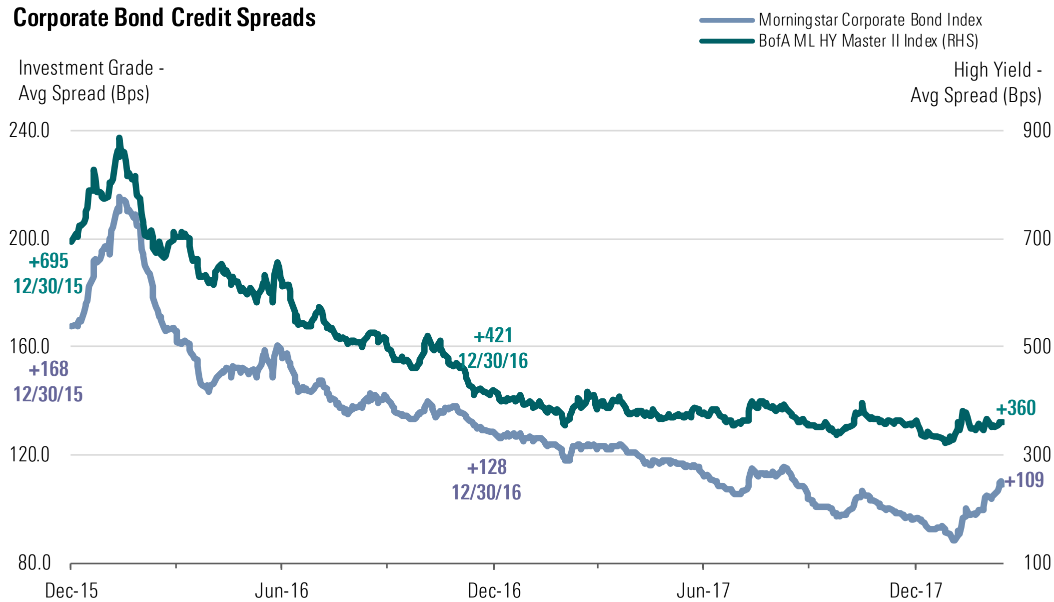
- **Valeant** (B-, Negative) Issuing $1.25 Billion of New Unsecured Notes to Tender for Existing Notes
- **Campbell Soup** (A-/UR-) Issuing New Senior Notes to Finance $6.0 Billion Acquisition of Snyder's-Lance
- **U.S. Steel** (B, Positive) Offers $650 Million in Unsecured Notes to Fund Repurchase of Senior Secured Notes
- **McDonald's** (A-, Stable) Offering New 5-Year and 10-Year Notes and Tap of 2047 Notes

Credit Market Insights

High Yield Outperforming Investment Grade Year to Date as Credit Spreads Widen and Rates Rise

Corporate credit spreads widened across both the investment-grade and high-yield sectors last week, although thus far this year the typically more stable investment-grade sector has underperformed the high-yield sector. The average spread of the Morningstar Corporate Bond Index (our proxy for the investment-grade bond market) widened 4 basis points last week and has widened 13 basis points this year. In the high-yield market, the BofA Merrill Lynch High Yield Master Index widened 7 basis points last week but year to date remains 3 basis points tighter. Between the divergence in corporate credit spreads and the impact of rising interest rates, the high-yield index's total return has outperformed that of the investment-grade index. Through March 16, the Morningstar Corporate Bond Index has declined 2.64%, whereas the BofA Merrill Lynch High Yield Master Index has declined only 0.65%.

Corporate Bond Credit Spreads



Source: Morningstar,Inc., BofA Merrill Lynch Global Indexes. Data as of 3/16/2018.

Several factors have led to this divergence. Investment-grade credit spreads are more susceptible to sell-offs in relation to debt-leveraged mergers and acquisitions, which have re-emerged as a significant risk to the investment-grade market. For example, CVS Health Corp. (BBB+/UR-) recently brought a $40 billion, multitranche new issue to market in order to fund its planned acquisition of Aetna, which is expected to close in late 2018. We had placed our rating for CVS under review with negative implications when the acquisition was announced, as we expect that the debt leverage of the combined company will increase to over 4 times. This new issue transaction is the third-largest single-borrower transaction in the history of the corporate bond market and has weighed on the primary as well as secondary markets. Since this deal was priced, new issue concessions in the primary market have been greater than normal in order to attract investor attention.

Between the new supply and the wider-than-usual new issue concessions, investors have little reason to bid up prices on other corporate bonds until this abundant supply is put away in long-term hands. In addition, investors are increasingly leery that the re-emergence of large, debt-funded acquisitions will drive credit spreads wider. It appears that the appetite for acquisitions in the healthcare industry is not sated, as Cigna (non-NRSRO: BBB/UR-) recently announced its bid to purchase Express Scripts (A-/UR-).

Rising interest rates have also played a significant part in the divergence between the performance of investment-grade and high-yield credit spreads. With their lower credit spreads and longer average durations, investment-grade bonds' performance is more closely tied to movements in interest rates than that of high-yield bonds, which typically have shorter durations and wider credit spreads that are more closely tied to the performance of the underlying companies. Similar to the credit spread widening that occurred during the "taper tantrum" in mid-2013, investors are beginning to require additional credit spread to compensate for the risk that interest rates will rise further. Year to date, yields on the 2-, 5-, 10-, and 30-year U.S. Treasury bonds have risen 41, 43, 43, and 34 basis points, respectively. The pressure on corporate credit spreads has been especially pronounced in the short end of the curve. One Wall Street bond trader said, "Front-end paper remains for sale, causing credit curves to continue to flatten." (Front-end paper is industry jargon for short-term bonds.) The average spread in the 1- to 4-year tranche of the Morningstar Corporate Bond Index has widened 17 basis points thus far this year, whereas the 10-plus-year tranche has widened only 7 basis points.

Volatility across the asset markets in general has risen off 2017 lows, and the investment-grade market has historically been more correlated to changes in volatility than high yield. For example, the correlation between the VIX and the credit spread of the Morningstar Corporate Bond Index has been 85% over time, whereas the correlation between the VIX and the BofA Merrill Lynch High Yield Master Index has been much lower.

Compounding the pressures on the corporate bond markets, expectations for economic growth have been sliding. Since the beginning of March, the Atlanta Fed's GDPNow estimate for first-quarter real GDP has slipped to 1.8% from 3.5%. It had been as high as 4.2% in January, when the Atlanta Fed made its initial estimate for the first quarter. This forecast has been sliding as economic indicators have been decelerating. For example, the headline figure released last week for retail sales in February dropped 0.1% because of weak auto sales and lower gasoline prices, but even excluding the more volatile components, the control group rose only 0.1%. Expectations for retail sales were much higher going into this reading as economists expected the impact from tax cuts to boost consumption.

According to the CME FedWatch Tool, it appears that the market is pricing in a hike this week in the federal-funds rate as a foregone conclusion. The probability that the Federal Reserve will lift rates to 1.50%-1.75% after the Federal Open Market Committee meetings March 20-21 is 94%. The market is also pricing in additional hikes over the course of the year. The probability that the federal-funds rate at the end of 2018 will be greater than 1.75% is 96%, the probability that the fed-funds rate will be 2% or higher is 74%, and the probability that the rate will be 2.25% or higher is now 34%. At the beginning of the year, those probabilities were 79%, 44%, and 13%, respectively.

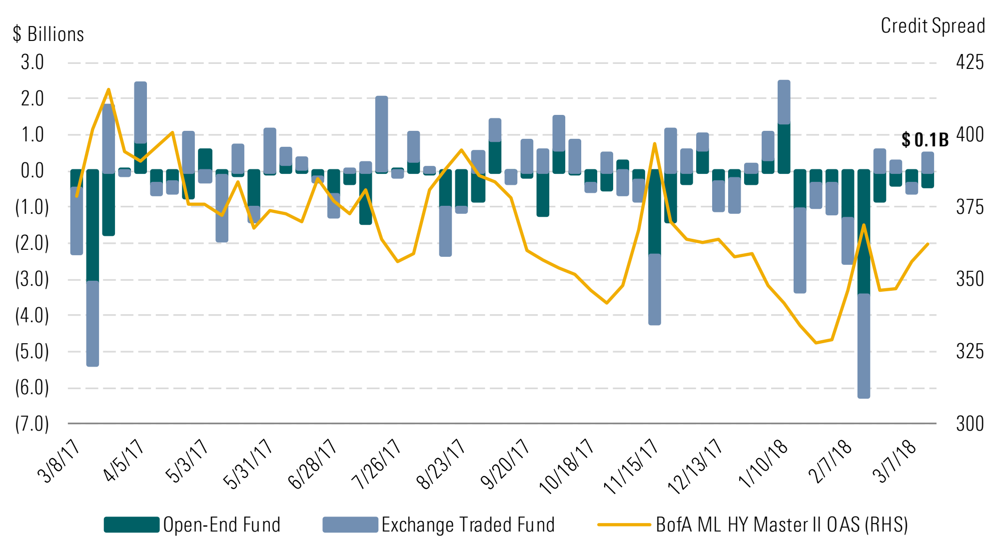
In conjunction with the March meeting, the Fed will release its updated summary of economic projections. These projections will be scrutinized for any change in the dot plot graph that details FOMC participants' assessment of the midpoint of the target range for the federal-funds rate at the end of 2018. According to projections from the Fed's December 2017 meeting, board members' average projected federal-funds rate is 2%, 2.70%, and 3% for the years ended 2018, 2019, and 2020. In addition, Fed Chairman Jerome Powell will conduct a press conference to make a statement and answer questions.

High-Yield Outflows Turn to Inflows by Slimmest of Margins

After a record-breaking eight consecutive weeks of outflows among high-yield open-end mutual funds and exchange-traded funds, fund flows turned positive last week, albeit by the slimmest of margins. Net inflows of $67 million broke the outflow trend as $473 million of net unit creation among ETFs outweighed the $406 million of outflows in open-end mutual funds.

Before this past week, there were eight consecutive weeks of net outflows in the high-yield sector, which surpassed the prior record of six weeks. Those periods occurred in December 2014 through January 2015 and again in July through August 2015. Year to date, there has been a total of $11.5 billion of outflows in the high-yield sector, consisting of $6.9 billion of outflows among the open-end high-yield mutual funds and $4.7 billion of net unit redemptions among the high-yield ETFs.

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



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

Exhibit 1 Morningstar Credit New Issue Monitor
Week ended March 16, 2018
(000,000s $ unless otherwise noted)

Issuer			Issue				
Name	Ticker	Morningstar Corporate Rating(1)	Size	Coupon	Description	Maturity	Approx Spread to US Treasuries
Anglo American	AAL	BB+	$650	4.50%	Senior Unsecured	2028	+170
AvalonBay Communities	AVB	A-	$300	4.35%	Senior Unsecured	2048	+130
Campbell Soup	CPB	A-/UR-	$500	L+50	Senior Unsecured	2020	NA
Campbell Soup	CPB	A-/UR-	$650	3.30%	Senior Unsecured	2021	+90
Campbell Soup	CPB	A-/UR-	$400	L+63	Senior Unsecured	2021	NA
Campbell Soup	CPB	A-/UR-	$1,200	3.65%	Senior Unsecured	2023	+105
Campbell Soup	CPB	A-/UR-	$850	3.95%	Senior Unsecured	2025	+120
Campbell Soup	CPB	A-/UR-	$1,000	4.15%	Senior Unsecured	2028	+130
Campbell Soup	CPB	A-/UR-	$700	4.80%	Senior Unsecured	2048	+170
Caterpillar Financial Services	CAT	A-(1)	$450	L+23	Senior Unsecured	2021	NA
Caterpillar Financial Services	CAT	A-(1)	$450	2.90%	Senior Unsecured	2021	+50
Caterpillar Financial Services	CAT	A-(1)	$625	3.25%	Senior Unsecured	2024	+95
Citigroup	C	A-	€ 1,250	Euribor+50	Senior Unsecured	2023	NA
Citigroup	C	A-	€ 750	1.625%	Senior Unsecured	2028	+70(2)
Fifth Third Bancorp	FITB	BBB+	$650	3.95%	Senior Unsecured	2028	+110
McDonald's	MCD	A-	$500	3.35%	Senior Unsecured	2023	+75
McDonald's	MCD	A-	$500	3.80%	Senior Unsecured	2028	+100
McDonald's	MCD	A-	$1,050	4.45%	Senior Unsecured	2047	+137
US Steel	X	B	$650	6.25%	Senior Unsecured	2026	+343
Valeant Pharmaceuticals	VRX	B-	$1,500	9.25%	Senior Unsecured	2026	+639

Source: Bloomberg, company Securities and Exchange Commission filings.
(1) Morningstar's issuer credit rating is assigned at the holding company level.
(2) Spread over midswaps.

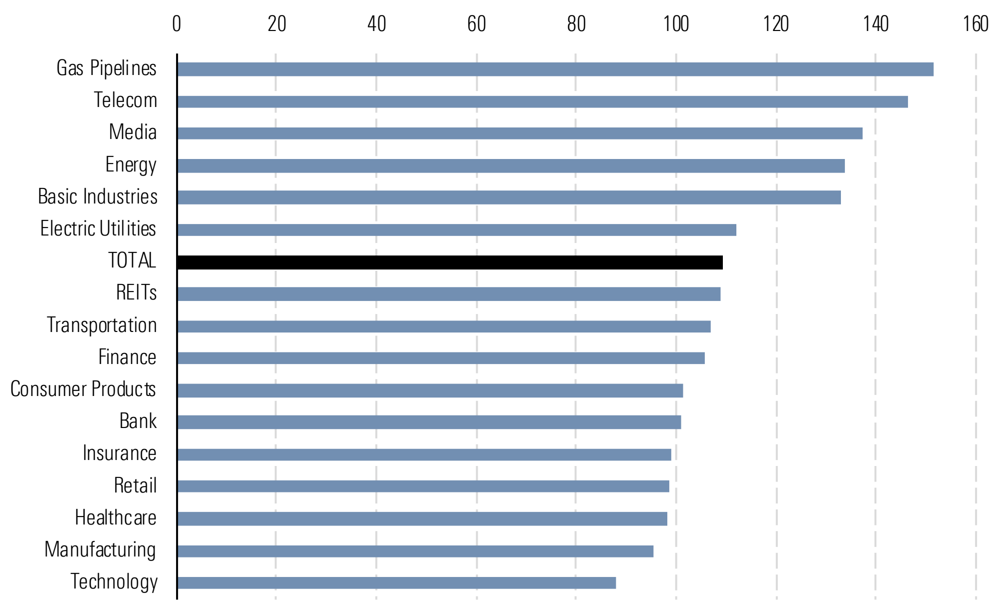
Exhibit 2 Morningstar Corporate Bond Index Sector Summary

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-**	**4,987**	**6.9**	**109**	**9**	**13**	**(0.19)**	**(2.64)**
FINANCIAL	**A-**	**1,486**	**5.3**	**102**	**9**	**18**	**(0.23)**	**(2.34)**
Bank	A-	905	4.9	101	10	20	(0.25)	(2.15)
Finance	A	271	5.5	106	9	18	(0.20)	(2.72)
Insurance	A	217	7.7	99	9	13	(0.21)	(3.00)
REITs	BBB+	85	6.0	109	5	4	(0.22)	(2.16)
INDUSTRIAL	**A-**	**2,892**	**7.6**	**112**	**8**	**11**	**(0.16)**	**(2.79)**
Basic Industries	BBB	242	7.7	133	9	4	(0.40)	(2.58)
Consumer Products	A-	323	7.6	102	8	18	(0.15)	(3.24)
Energy	A-	412	7.3	134	10	12	(0.10)	(2.45)
Healthcare	A-	401	7.8	98	8	10	(0.14)	(3.23)
Manufacturing	A-	459	6.1	96	8	14	(0.18)	(2.45)
Media	BBB+	188	8.4	138	11	8	(0.45)	(3.11)
Retail	A-	160	7.7	99	7	12	(0.14)	(3.10)
Technology	A+	355	7.3	88	5	11	0.02	(2.69)
Telecom	BBB+	146	9.2	146	9	3	(0.23)	(2.23)
Transportation	BBB+	153	9.0	107	7	9	(0.07)	(3.30)
UTILITY	**BBB+**	**570**	**8.7**	**129**	**9**	**9**	**(0.21)**	**(2.97)**
Electric Utilities	A-	330	9.2	112	6	9	0.01	(3.22)
Gas Pipelines	BBB	228	7.9	152	12	8	(0.50)	(2.52)
Rating Bucket								
AAA Bucket		112	8.2	55	4	6	0.12	(2.92)
AA Bucket		473	5.6	68	6	10	(0.02)	(2.08)
A Bucket		1,941	6.8	90	8	16	(0.11)	(2.81)
BBB Bucket		2,461	7.2	138	10	11	(0.30)	(2.60)
Term Bucket								
1-4	A-	1,592	2.3	74	8	17	(0.07)	(0.70)
4-7	A-	1,163	4.6	96	10	16	(0.23)	(1.94)
7-10	A-	927	7.0	120	10	14	(0.26)	(3.08)
10PLUS	A-	1,305	13.7	152	8	7	(0.22)	(4.96)

Data as of 03/16/2018

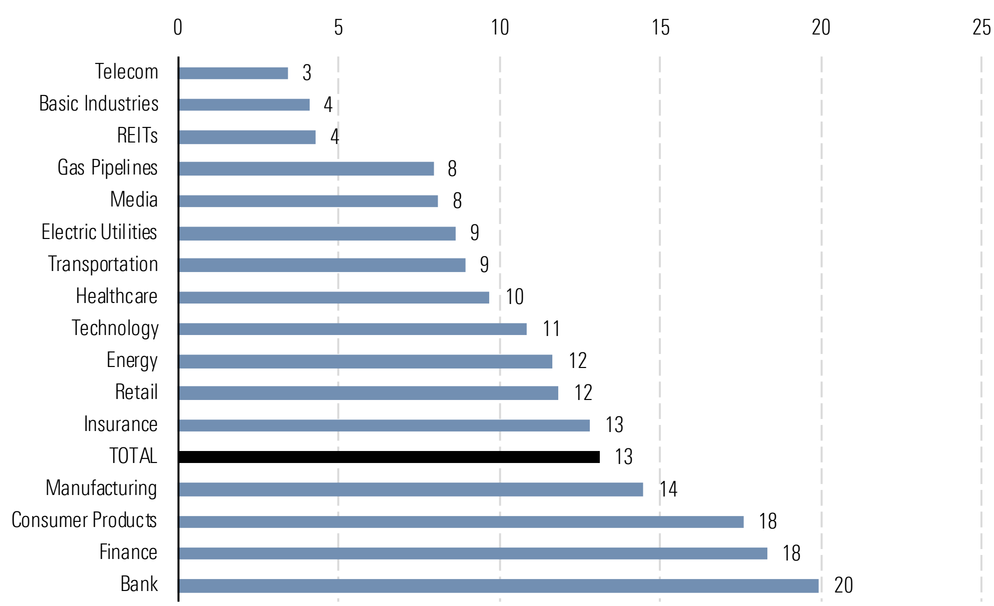
Source: Morningstar, Inc.

Exhibit 3 Morningstar Corporate Bond Index Spread by Sector



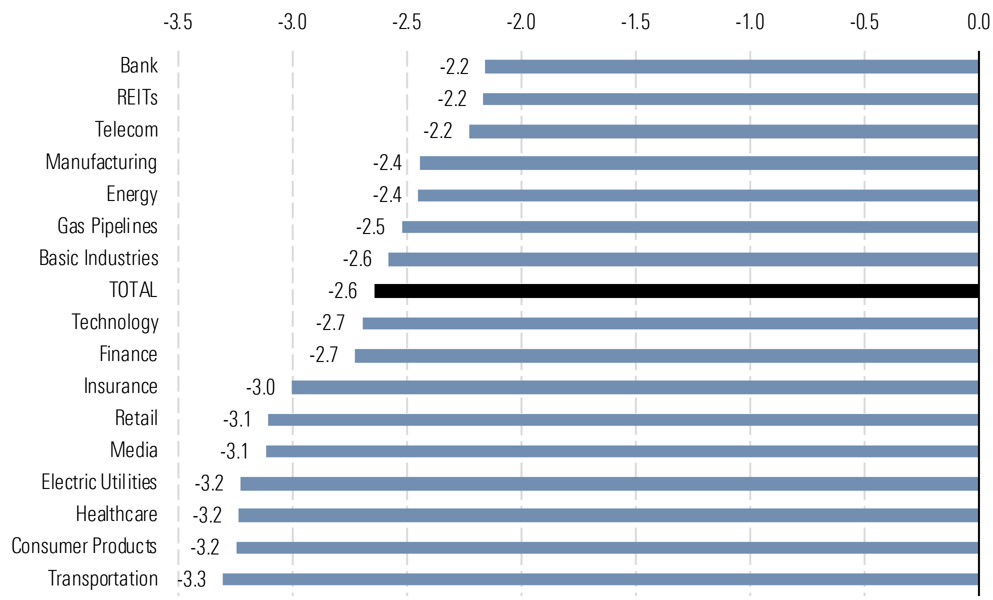
Source: Morningstar, Inc.

Exhibit 4 Morningstar Corporate Bond Index YTD Spread Change



Source: Morningstar, Inc.

Exhibit 5 Morningstar Corporate Bond Index YTD Return



Source: Morningstar, Inc.

Credit Rating Actions

Rating Changes

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
Express Scripts **ESRX**	A-/UR-	A-
Cigna **CI**	BBB/UR-	BBB
Northrop Grumman **NOC**	BBB+	A-/UR-
Nutrien **NTR**	BBB	NA
General Dynamics **GD**	A	A+/UR-

Rating Affirmations

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
Expedia **EXPE**	BBB-	BBB-
Booking Holdings **BKNG**	A-	A-
Maxim Integrated Products **MXIM**	A	A
Xilinx **XLNX**	A	A

Express Scripts' A- Rating Under Review With Negative Implications on Planned Cigna Merger
Morningstar Credit Ratings, LLC is placing its A- credit rating on Express Scripts Holding Co under review with negative implications based on the pharmacy benefit manager's plan to be acquired by Cigna Corp (non-NRSRO rating: BBB/UR-). This deal, which is projected to close around the end of 2018, promises to substantially increase leverage at the combined entity relative to the stand-alone entities. Therefore, we expect Express Scripts' credit profile to weaken materially and to be connected to Cigna's rating if this deal closes as currently planned.

As a stand-alone entity, Express Scripts owed $16.0 billion of debt and held $2.3 billion in cash, resulting in gross and net leverage around 2.2 and 1.8 times, respectively, at the end of 2017. Cigna has stated that it anticipates initially owing $41 billion in debt after the merger is completed. Therefore, pro forma leverage looks set to rise to the mid-3s if the merger with Cigna closes as expected at the end of 2018, or much higher than Express Scripts' stand-alone leverage. This rising leverage looks likely to cut into Express Script's A- rating and could even cut into Cigna's BBB rating. Notably though, Cigna management appears committed to deleveraging to maintain its investment-grade status, which will likely inform our credit view of the combined entity.

Strategically, we view the benefits of combining a top-tier pharmacy benefit manager (Express Scripts) with a top-tier managed-care organization (Cigna) as compelling. As the largest independent PBM, Express Scripts will bring its enormous scale advantages and wide moat status, according to Morningstar's Equity Research Group, to the combined entity. Cigna, which has no moat, according to the equity group, also provides PBM services on a smaller scale. This combination of PBM and managed-care operations has worked relatively well for another top-tier PBM, UnitedHealth Group Inc (non-NRSRO rating: A-, negative), and is being considered by the other top-tier PBM, CVS Health Corp (BBB+/UR-) in its pending combination with Aetna (not rated). Therefore, if the Cigna combination succeeds, Express Scripts will be on more equal footing with its key PBM peers from a strategic perspective, and the combined entity will be able to control more healthcare cost components. Also, the combining functionality of these organizations may help stave off the threat of a new Amazon-led partnership that could change the competitive dynamics in the healthcare industry.

Despite these potential strategic benefits, Express Scripts' rating looks likely to decline by multiple notches on the basis of its plan to combine with Cigna in this leverage-increasing deal. If regulators thwart the combination, though, our rating for Express Scripts could remain the same.

Cigna's BBB Credit Rating Under Review Negative on Express Scripts Acquisition Announcement
Morningstar Credit Ratings, LLC is placing Cigna's BBB rating under review with negative implications. Cigna recently announced that it will acquire pharmacy benefit manager Express Scripts (A-/UR-) with a combination of cash, new equity, and new debt issuance. The deal is expected to close by Dec. 31.

While we believe the mid- to long-term benefits are favorable for both companies, near-term credit risk will increase significantly given the dramatic increase in financial leverage expected from the deal. At year-end 2017, Cigna reported 28% debt/capital. Upon close of the deal, pro forma debt/capital (including new debt issuance and debt assumed from Express Scripts) is expected to increase to roughly 49%. This level of debt would have a materially negative effect on our credit risk assessment, particularly for leverage-sensitive pillars such as the company's Debt Cushion and Financial Risk scores. Additionally, we believe the deal is subject to execution and integration risks that are inherent in mergers between large organizations operating in somewhat disparate segments of the healthcare market.

While near-term credit risk will substantially increase, we believe the mid- to longer-term benefits from the combination will be favorable from a competitive and operational perspective. Operating as a stand-alone entity would likely disadvantage Cigna in the long run against larger, full-service peers such as UnitedHealth Group, CVS-Aetna, and Anthem, the latter of which is currently building out its own organic PBM. There is also the threat of new market entrants, as Amazon, JPMorgan, and Berkshire Hathaway have created a partnership to explore alternative options to the current healthcare market structure in order to reduce employee healthcare costs.

Express Scripts is a large, well-established PBM currently rated three notches higher than Cigna, with significant scale and vast experience in managing drug benefit plans. Morningstar's Equity Research Group currently assigns the company a wide moat, whereas Cigna is assigned a no-moat rating. While Morningstar's Equity Research Group has not yet commented on its plans for a potential moat on the combined company, we believe the merger will likely result in a moat upgrade for Cigna, which would factor favorably in our credit risk assessment but not enough to offset the drastic increase in leverage. Should Cigna achieve its targeted reduction in financial leverage into the 30s over the 18-24 months after deal close and realize the $600 million of expected synergies from the combination, however, we believe the company will be in a stronger competitive position going forward. Likewise, our assessment of Cigna's credit profile could be positively influenced if the company were to achieve these targets.

Our under review negative status for Cigna suggests that we may downgrade the rating if the company combines with Express Scripts as currently planned. If regulators were to block the deal or one of the companies pulls out, however, we would likely affirm Cigna's stand-alone BBB rating and revise the outlook to stable. At that time we would review our sensitivities regarding the health insurer's rating.

Northrop Downgraded One Notch to BBB+ on Orbital ATK Acquisition; Stable Outlook Established
Morningstar Credit Ratings, LLC is lowering its corporate credit rating on Northrop Grumman Corporation to BBB+ from A- and taking it out from under review negative where it was placed in September 2017 on its agreement to purchase Orbital ATK for a total enterprise value of $9.2 billion. We are establishing a stable outlook based on our expectations of solid operating results but only modest deleveraging from here, as management remains aggressive with its capital allocation policy.

Northrop expects to buy Orbital ATK for $7.8 billion in cash plus the assumption of $1.4 billion in net debt in the first half of 2018. In October 2017, the company issued $8.25 billion of unsecured senior notes to finance the acquisition, with maturities ranging from 2020 to 2047 and thereby increasing total debt levels to $15.3 billion from $7.1 billion at Sept. 30. Pro forma debt/EBITDA is expected to increase to about 3.4 times once the deal closes from 1.9 times prior to the acquisition's financing, excluding underfunded pensions of $4.7 billion as of Dec. 31. The added leverage and weaker interest expense coverage negatively impacted our Solvency Score. Sizable debt maturities of about $4.5 billion over the next five years along with increased interest expense weigh on our Cash Flow Cushion pillar. Still, Orbital's business will be mostly complementary to Northrop's existing business, so it will broaden the scope of Northrop's product line, customers, and technological capabilities. This, along with the increased size of the firm, supports our low Business Risk assessment. We expect the narrow economic moat, as assigned by Morningstar's Equity Research Group, to be maintained and to continue supporting the Business Risk pillar. The moat is driven by intangible assets created by supplying the Department of Defense for several decades and developing key technologies through years of research and development, which results in significant switching costs.

Liquidity is strong, with $11.2 billion of cash available as of Dec. 31 to fund the $7.8 billion acquisition of Orbital and assumption of $1.4 billion in net debt. Northrop also maintains a $1.6 billion revolver that matures July 2020.

Our forecast after the close of the acquisition in 2018 is for full-year revenue of about $34 billion in 2019, up from $26 billion in 2017. We expect moderately weaker margins in 2018 and 2019, as the mix shift toward more developmental and cost-plus programs more than offsets growth in full-production programs. However, in the outer years of our forecast, we expect margins to grow as mix shifts favorably and the firm generates some synergies from the acquisition. We expect annual free cash flow comfortably above $2 billion, which should allow for some debt reduction considering Northrop has $850 million in bonds due in 2018 and $500 million in 2019. Thus, we expect leverage to trend down to the mid- to high 2 times range by 2020, supportive of our BBB+ rating. That said, dividends are growing and forecast to consume over $700 million annually, and management has indicated it will resume repurchasing shares shortly after the deal closes. As of December 2017, the firm had $2.3 billion remaining under its current repurchase authorizations.

Our stable outlook suggests we do not expect any rating actions for the foreseeable future. However, should Northrop lay out a plan to aggressively pay down debt and restore credit metrics to predeal levels in the next few years, we could increase our rating. This would enhance the Solvency Score and Cash Flow Cushion and might be associated with gross leverage of under 2 times. Our rating could be lowered if leverage is increased from further acquisitions or more aggressive share repurchases, which could weaken our Solvency Score.

Nutrien Initiated at BBB; Outlook Stable

Morningstar Credit Ratings, LLC is initiating a BBB credit rating on Nutrien Ltd. with a stable outlook. The company is the result of the all-stock merger of Potash Corporation of Saskatchewan and Agrium Inc. that occurred in early January. Prior to the merger, we rated Agrium Inc. and Potash Corp. both BBB with stable outlooks.

Our BBB rating on Nutrien reflects the company's moderate risk ranking for its Business Risk, Cash Flow Cushion, and Solvency Score. The company's Business Risk is supported by its size and its extensive retail operations, which help offset some of the cyclicality of the company's wholesale fertilizer segments. The Cash Flow Cushion is helped by reasonable operating cash flow offset by intermediate-term debt maturities and a sizable annual dividend, while Nutrien's Solvency Score reflects moderate leverage, good liquidity, and strong interest coverage. The company's downstream operations include more than 1,400 retail locations in North America and Australia that sell fertilizers, crop chemicals, and seeds directly to farmers. We expect this segment to be a focused area of growth (primarily acquisitions) for Nutrien. For the company's upstream operations, Nutrien is the world's largest producer of potash with an approximate 20% market share, and its Canadian potash mines are on the lower half of the cost curve. The company's nitrogen production also sits on the lower half of its cost curve due to much of its production benefiting from low-cost North American natural gas. The firm's phosphate assets are not as cost-advantaged and sit on the upper half of its cost curve. As a result of Nutrien's cost position in nitrogen and potash, Morningstar's Equity Research Group has assigned the company a narrow economic moat rating.

Fertilizer margins have been depressed for the past couple of years, and for 2017, Agrium and Potash Corp. had combined debt/EBITDA of approximately 4 times. That said, we expect that metric to decrease, as industry conditions are likely to improve. We expect that debt/EBITDA will decrease to approximately 3.0 times and that the company will be free-cash-positive by at least $1.0 billion in 2018. As of the end of December, the company's debt structure comprised approximately $5.2 billion of Agrium Inc. unsecured debt and $4.5 billion of Potash Corp. unsecured debt. The vast majority of debt is term debt, and we currently estimate short-term commercial paper to be slightly less than $1 billion. Cash on hand was a combined $582 million at the end of December, and the firm's external liquidity includes a combined $6.0 billion in revolving credit facilities. We estimate debt maturities for Nutrien of $1.0 billion in 2019, $540 million in 2020, and $1.0 billion in 2022.

Given that our outlook is stable, we do not anticipate moving the rating in the near term. However, if the company's Cash Flow Cushion or Solvency Score were to improve as result of higher, sustainable fertilizer volumes and/or margins, we could consider an upgrade. On the other hand, the rating could come under pressure if fertilizer volumes and/or margins were to deteriorate without credit-friendly actions as a countermeasure.

General Dynamics Downgraded One Notch to A on CSRA Acquisition; Stable Outlook Established

Morningstar Credit Ratings, LLC is downgrading its corporate credit rating on General Dynamics one notch to A and removing it from under review negative, where it was placed last month following the company's announced agreement to acquire IT solutions provider CSRA for a total enterprise value of $9.6 billion. We are establishing a stable outlook based on elevated leverage offset by management's intent to rapidly restore credit metrics to levels more appropriate for this rating category.

The deal reflects ongoing consolidation in federal IT services. Before this transaction, GD's IT unit was a $4.5 billion business (based on forecast 2018 sales provided by GD) while CSRA was at $5.4 billion, both among the top seven competitors in the space. The deal will launch the combined company into the number-two position behind Leidos (not rated). Other defense contractors have chosen to exit the space, including Lockheed Martin (A-, stable) and L-3 Technologies (not rated) over the past couple of years. GD is choosing to go big and compete with greater scale. CSRA brings in EBITDA margins around 15%, similar to GD's. The transaction will increase the IT segment of GD's business portfolio to 25% of sales, with aerospace (24%), combat (16%), marine (23%), and mission systems (12%) representing the remainder. Our low Business Risk assessment captures Morningstar's Equity Research Group's wide economic moat designation, which is driven by GD's long history of serving the Department of Defense and technological know-how, which leads to high switching costs and intangible assets that are difficult to replicate.

General Dynamics finished 2017 with total debt of $4 billion, consisting almost entirely of a series of senior unsecured public bonds maturing 2021 ($500 million) to 2042. We expect the company to fund its $9.6 billion acquisition of CSRA with cash, new investment-grade bonds, and possibly commercial paper or bank debt. GD had $3 billion of cash on hand at year-end. GD has guided to closing the transaction with net debt of $10.5 billion, which we estimate puts pro forma net debt/EBITDA at 2.0 times. The company has committed to using free cash flow for rapid deleveraging, and thus we expect a fair amount of shorter-maturity debt to be part of the financing package. In 2017, GD produced about $2.5 billion of free cash flow after dividend payments. Management has indicated a commitment to mid-A credit ratings, which would support Tier 1 commercial paper ratings.

We forecast low- to mid-single-digit organic revenue growth over our five-year horizon along with generally stable margins, which should lead to steady growth in EBITDA. We also expect free cash flow to comfortably exceed $2 billion annually, although expected annual dividends of over $1 billion will limit the total excess cash available for debt paydown. Still, debt reduction and EBITDA growth should allow gross leverage to fall below 2 times by 2020 from about 2.5 times on a pro forma basis, with net leverage at about 1 times. The Cash Flow Cushion score is only moderate, considering our cash flow forecast balanced by expected debt maturities and dividends. However, the Solvency Score is strong, despite the higher leverage, driven by solid returns on invested capital that support the wide economic moat.

Our stable outlook reflects our expectation that GD will use most of its excess free cash flow over the next few years to pay down debt, while healthy underlying defense industry fundamentals allow for steady growth in EBITDA and free cash flow. Should the firm make additional large debt-funded acquisitions or revert to aggressive share repurchases that keep leverage at elevated levels, our Solvency Score and Cash Flow Cushion could be negatively affected and we could lower our rating. However, should the firm pay down debt more aggressively than we expect to bring leverage down to pre-deal levels, we could increase our rating.

Expedia's Credit Rating Affirmed at BBB-; Outlook Revised to Stable From Positive

Morningstar Credit Ratings, LLC is affirming Expedia Inc.'s BBB- credit rating and revising the outlook to stable from positive. The rating affirmation is based on Expedia's leading position in the evolving and increasingly competitive online travel industry, further supported by excellent liquidity and a moderately leveraged balance sheet. The outlook revision to stable reflects a slowdown in profit and margin improvement, which will likely be delayed further as the company accelerates growth investments in its online platform.

Expedia's moderate Business Risk reflects its leading competitive position in the $1.6 trillion global travel market, with $88 billion of gross bookings. The company commands an even greater share of the online travel agency, or OTA, segment of the market, which represents approximately 45% of the total market. While the total travel market is currently growing at roughly 5%, online is growing at approximately double that rate. Expedia's various online platforms offer over 440,000 properties and nearly 1.5 million online bookable vacation rental listings through HomeAway. In addition, the rating recognizes the inherent risks within the evolving online travel market that remains in a growth phase, with high returns that continue to attract substantial competition. Morningstar's Equity Research Group assigns Expedia a narrow economic moat rating.

In 2018, Expedia plans to double the number of properties added to its core OTA platform compared with the 90,000 properties added last year, exclusive of the HomeAway rentals listings. Expedia will focus on increasing investment in international markets, where the online penetration rates are lower than in the U.S. As such, the company plans to substantially increase sales and marketing expenditures, which already represent over 50% of total revenue today. Morningstar forecasts double-digit revenue growth that will outpace EBITDA growth over the next several years and constrain margins, return on invested capital, and its moderate Solvency Score.

Expedia's adjusted debt leverage has ranged near 3 times historically; however, in the past, leverage has approached 4 times, such as when it completed the $1.6 billion debt-financed acquisition of Orbitz in 2015. Since then, leverage has trended lower, and at year-end 2017 adjusted debt/EBITDAR was 3.2 times. Adjusted debt of $5.6 billion included $4.3 billion of senior unsecured notes and $1.3 billion of operating lease commitments. Expedia's strong Cash Flow Cushion reflects excellent liquidity, including $3.3 billion of cash and short-term investments, resulting in net adjusted leverage of 1.4 times. Liquidity is further supported by full availability under a $1.5 billion credit facility, which expires in 2021. Covenants included a maximum leverage ratio and a minimum interest coverage, with both set at 3.25

times. Morningstar believes it is important for Expedia to maintain substantial liquidity to support short-term deferred merchant booking liabilities, which totaled $3.2 billion at year-end. The Cash Flow Cushion is also supported by a well-laddered maturity schedule, with under 50% of the company's debt maturing over the next five years. Additionally, we expect the company will continue to distribute 50%-60% of an estimated $1.1 billion of annual free cash flow for dividends and share buybacks, leading to healthy retained free cash flow that will support growth. The rating considers that while it is likely Expedia will continue to maintain an aggressive acquisition policy, balance sheet strength will be maintained.

The stable outlook reflects potentially lower margins due to higher investment spending, yet also reflects excellent liquidity and moderate debt leverage. The rating could be upgraded if the company is able to stabilize margins and return on invested capital, which could lead to a higher Solvency Score. The rating could be lowered if heightened competition leads to an erosion in the company's market position and profitability, or if debt leverage metrics and liquidity are sustainably weakened due to a debt-financed acquisition.

Booking Holdings' A- Rating Affirmed With Positive Outlook

Morningstar Credit Ratings, LLC is affirming Booking Holdings Inc.'s rating at A- and maintaining a positive outlook. The affirmation reflects the company's leading position in online travel services, strong profitability and return on invested capital, and excellent liquidity. The positive outlook reflects the potential for an upgrade with further development of the company's competitive advantages.

Booking Holdings' moderate Business Risk score is supported by a leading position in the rapidly evolving online travel industry. The company offers a large and growing number of properties through Booking.com, which now totals 1.6 million properties, including nearly 400,000 hotel properties and 1.2 million vacation rentals. In 2017 Booking Holdings posted $81 billion in gross travel bookings in the $1.6 trillion global travel industry. The online travel market represents about 45% of the total market, yet remains highly fragmented. While the total travel market is currently growing at roughly 5% annually, the online market is growing at approximately double that rate. As such, Booking Holdings has experienced strong double-digit growth rates in its accommodation reservation services. These high growth rates are expected to continue, as the company generates most of its revenue in international markets, which is a larger market than the U.S. and where online bookings remain less penetrated. The rating recognizes the inherent risks within the evolving online travel market that remains in a growth phase with high returns that continue to attract substantial competition. In addition, the company's exposure to large hotel operators subjects it to increased promotional pricing as hotels have accelerated the use loyalty programs and other incentives for customers to book directly. Morningstar's Equity Research Group has assigned Booking Holdings a narrow economic moat.

Booking Holdings' very strong Solvency Score reflects exceptional profitability and return on invested capital, including EBITDA margins of 39% over the past several years. The company reported strong results in 2017, including a 19% increase in gross travel bookings, and revenue and adjusted EBITDA growth of 18% over last year, to $12.7 billion and $4.9 billion, respectively. Morningstar forecasts

Booking Holdings will continue gain market share over the next five years, with double-digit revenue and EBITDA growth, while margins may be negatively impacted by increasing investments and competition.

The company has historically maintained excellent liquidity, which, along with sound cash flow generation, supports a strong Cash Flow Cushion. At year-end 2017, Booking Holdings held $17.8 billion in cash and investments, including $16.2 billion at its international subsidiaries. Under new U.S. tax legislation, the company recorded a $1.3 billion provisional transition tax liability. As such, future repatriation of its international cash will not be subject to a U.S. federal income tax liability as a dividend but will be subject to U.S. state income taxes and international withholding taxes. Most of the company's investment portfolio is in fixed-income securities with average credit quality in the high single-A category. Booking Holdings' liquidity is further supported by full availability under a $2.0 billion unsecured revolver that matures in 2020. At year-end 2017, adjusted debt totaled $10.5 billion, including $1.0 billion related to capitalized operating leases. Adjusted debt/EBITDAR was 2.1 times, yet including $7.4 billion of cash and short-term investments, net leverage was 0.6 times. Most of Booking Holdings' EBITDA generation falls to free cash flow, due to minimal working capital requirements and capital expenditures that typically total just 2% of sales. Free cash flow totaled $4.4 billion in 2017, which was utilized in part for $1.8 billion of share repurchases. The company does not pay a dividend.

The positive outlook reflects the potential for an upgrade with further development of the company's competitive advantages and strengthening of its Business Risk. In addition, an upgrade would likely be predicated on confidence that the company's future financial policy will include the maintenance of its balance sheet strength. A lower rating is unlikely over the next several years; however, the outlook could be revised to stable if competitive pressures in the rapidly evolving online travel industry depress profitability and returns, which could negatively affect its Business Risk and Solvency Score.

Maxim Integrated Products' Rating Affirmed at A and Stable Outlook Maintained

Morningstar Credit Ratings, LLC is affirming its A corporate credit rating on Maxim Integrated Products Inc. and maintaining a stable outlook. Our credit rating reflects Maxim's stable Business Risk as well as a strong Solvency Score from consistently high returns on invested capital. The rating is also supported by a strong Cash Flow Cushion as Maxim continues to improve profitability while maintaining ample cash reserves.

Morningstar's Equity Research Group's wide economic moat derives from Maxim's persistent competitive advantage in product design and manufacturing, as well as high switching costs faced by customers once its analog products are designed into devices. Revenue growth has rebounded in recent quarters after a weak period in 2015 and 2016. The uptick has been supported by strong demand from the industrial and automotive end markets, which we estimate contributed 29% and 21% of total revenue, respectively, over the most recent four quarters. However, the portfolio retains a 26% exposure to short-cycle consumer products, including a 10% exposure to Samsung, which has been a source of revenue volatility in recent years. Nevertheless, we expect this exposure to continue declining over time as the portfolio migrates toward higher-growth end markets. We believe Maxim's efforts to reduce costs and streamline its manufacturing facilities should contribute to further near-term margin expansion.

Maxim reported total debt of just under $1.5 billion at the end of December, up nearly $500 million from a year ago, driven by the issue of new 10-year notes last August, which we believe will be used to retire an equal amount of senior notes due in November. Over the past 12 months, cash and investments increased $736 million to $2.8 billion, supported by new issuance proceeds as well as higher net cash flow as a result of a reduction in payouts to shareholders compared with a year ago. Total debt ended the year at 1.6 times trailing 12-month EBITDA compared with 1.3 times a year ago, despite 28% growth in EBITDA over the period. However, adjusted for $500 million of debt due in November, we expect total debt to decline to around 1.0 times EBITDA by December.

Over the past 12 months, Maxim paid out 68% of free cash flow to shareholders, compared to 85% a year ago. Given the company's increased access to its international cash due to tax reform, management has increased its target payout ratio from 80% to 100% of free cash flow. As of the end of the December quarter, the company reported $874 million of remaining capacity under its $1 billion share-repurchase program, which carries no expiration. Meanwhile, Maxim's debt maturities remain light. Assuming 2018 maturities have been funded, the company's next scheduled maturity is $500 million due in 2023.

Our outlook remains stable, though we still consider event risk to be elevated amid an industry consolidation trend. Our rating assumes annual revenue growth between 3% and 4%, operating margin of 34%-36%, and annual free cash flow averaging around $830 million over the next five years. We may consider an upgrade of the rating if Maxim can demonstrate an ability to maintain good operating performance through the back end of the semiconductor cycle. We may consider a downgrade of the rating if the company abandons capital discipline to pursue a significant debt-financed acquisition or undertake a more aggressive capital policy that leads to meaningfully higher leverage.

Xilinx Affirmed at A and Stable Outlook Maintained

Morningstar Credit Ratings, LLC is affirming its A corporate credit rating on Xilinx Inc. and maintaining a stable outlook. The credit rating reflects a moderate and stable Business Risk Score, a strong Cash Flow Cushion, and a very strong Solvency Score, supported by high returns on invested capital and low debt usage.

Business Risk incorporates Morningstar's Equity Research Group's narrow economic moat assessment, which is driven by high customer switching costs for engineering and training. Xilinx remains one of two dominant players in a duopolistic market for programmable logic devices, or PLDs. Despite increasing competitive pressure, Xilinx has been able to maintain its robust market share. After a slowdown in 2016, revenue growth has improved recently, driven by aerospace and defense spending and ongoing demand from the automotive segment. In the years ahead, we believe that demand for PLDs will continue to expand, including applications in cloud computing and machine learning, supporting further revenue growth for Xilinx.

As of Dec. 31, Xilinx reported $3.5 billion in cash and investments, supporting $1.7 billion in debt, with net cash representing about 2.3 times EBITDA over the trailing 12 months. With recent tax reform legislation, we believe that substantially all of the $3.2 billion cash and investments held by foreign subsidiaries will be available for domestic needs, increasing Xilinx's internal capital flexibility in future periods. In addition to cash on hand, Xilinx also maintains access to a $400 million undrawn credit facility, maturing in 2021. Like many semiconductor firms, Xilinx has historically generated high margins and solid free cash flow.

Over the past 12 months, Xilinx generated $835 million free cash flow, of which it paid out $767 million, or 92%, to shareholders through share repurchases and dividends. The company has $371 million of authorization under its $1 billion repurchase program, which management expects to complete over next several quarters. In our view, the debt maturity schedule remains manageable, with $500 million of maturities due in both fiscal 2019 and 2021.

While revenue has historically been cyclical, we view this as mitigated by Xilinx's low capital needs, maintenance of solid cash reserves, and historically conservative debt levels. Liquidity also remains well-supported by a substantial amount of cash reserves in excess of debt. Though our outlook on Xilinx remains stable, we consider event risk elevated amid broader industry consolidation. Our rating incorporates average sales growth of 3.5%-4.0% over the next five years, with modest improvement in operating margin over the period. We may consider an upgrade of the rating if Xilinx can produce sustainable improvements to its Business Risk or Cash Flow Cushion pillars. However, we may consider a downgrade of the rating if management abandons its historical balance sheet discipline to pursue more aggressive capital allocation policy, particularly if operating performance deteriorates.

Recent Notes Published by Credit Analysts

Valeant (B-, Negative) Issuing $1.25 Billion of New Unsecured Notes to Tender for Existing Notes

Market Data

Valeant Pharmaceuticals International, Inc. (B-, negative) is in the market with a proposed private offering of $1.25 billion in unsecured senior notes maturing in 2026. According to its March 12 press release, net proceeds will be used to fund a cash tender offer for up to $1.25 billion of aggregate principal amount of its 6.38% senior notes due 2020, 5.38% senior notes due 2020, and up to $100 million of 6.75% senior notes due 2021.

We compare Valeant's unsecured bonds with key peers that are also rated in the general B category in the healthcare industry, including specialty pharmaceutical firm Endo International PLC (B, negative) and healthcare provider Tenet Healthcare Corp (B-, stable). Valeant's unsecured bonds are recently trading tighter than Endo's bonds by around 350 basis points and wider than those at Tenet by around 140 basis points. All bond data is sourced from Interactive Data, which can be seen as follows:

Valeant's 6.13% notes due in 2025 at 87.88, yield to maturity of 8.43%, and spread to maturity of +562 basis points.
Endo's 6.00% notes due in 2025 at 72.75, yield to maturity of 11.91%, and spread to maturity of +911 basis points.
Tenet's 7.00% notes due in 2025 at 99.88, yield to maturity of 7.02%, and spread to maturity of +420 basis points.

MCR Credit Risk Assessment

Our B- credit rating on Valeant reflects greater-than-expected operational deterioration while the firm repairs its organization from its rollup strategy of 2010-15. The firm may see continued operational pressure during 2018 as it annualizes significant divestments in 2017, including Dendreon, iNova, its skin-care brands, and Obagi, and faces patent lapses of key medicines. The loss of diversification from divestitures negatively influences our Business Risk pillar. With a handful of new dermatology treatments possibly launching in 2018, Valeant expects to increase investment to ensure success of these new medicines, but those actions may push adjusted EBITDA down to $3.05 billion-$3.20 billion (on revenue of $8.1 billion-$8.3 billion). With a focus on internal innovation and supporting product introductions, we see these incremental operating costs holding EBITDA generation relatively flat over the next five years. Our negative outlook reflects our view that the firm has yet to hit a floor in weakening performance, which may further stress elevated debt leverage in the next year or so. Valeant's success in reversing operational distress and strengthening the balance sheet are vital to improving currently poor Cash Flow Cushion and Solvency Score pillars. Our Distance to Default pillar is Valeant's weakest as market capitalization represents only 15% of its enterprise value.

As a result of its once-aggressive M&A stance in 2010-15, Valeant's debt load and gross debt leverage (total debt/adjusted EBITDA) ballooned from below 1 times in 2009. The total debt balance stood at $25.8 billion on Dec. 31, 2017, or gross debt leverage of 7.6 times. Leverage remained high even after the firm successfully achieved its debt-reduction goal of more than $5 billion from August by February

2018, having repaid $969 million in the second half of 2016 and $4.4 billion during 2017. Considering Valeant's unrestricted cash and investments of $720 million, net debt leverage was slightly lower at 7.4 times. We favorably view Valeant's commitment to deleveraging, but operational pressure through 2018 may overwhelm debt repayment such that leverage stays elevated, which informs our negative outlook. However, the firm has plenty of breathing room to repair its businesses, given that has satisfied all of its mandatory term loan amortization and has no significant debt maturities through 2020 ($1.3 billion in total after adjusting for current refinancing).

Campbell (A-/UR-) Issuing New Senior Notes to Finance $6.0 Billion Acquisition of Snyder's-Lance

Market Data

Campbell Soup Company (A-/UR-) is in the market with a seven-part debt issuance, the proceeds of which are expected to be used to finance a portion of the company's $6.0 billion acquisition of Snyder's-Lance. The notes have a mandatory redemption feature: Should the acquisition not close on or before Sept. 18, the company must redeem the notes. The notes also have a provision that should a change of control occur concurrent with a ratings downgrade below investment-grade by the rating agencies, the company would be required to make an offer to purchase the notes.

Comparables are General Mills (BBB+, stable) and Kellogg Co (BBB, stable). Bonds from these issuers recently traded over the nearest Treasury as follows, according to Interactive Data:
Campbell's 3.3% notes due 2025 at +87 basis points.
General Mills' 3.2% notes due 2027 at +98 basis points.
Kellogg's 3.25% notes due 2026 at +114 basis points.
According to data from Morningstar, Inc., the A- tranche of the Morningstar Corporate Bond Index is +96 basis points, while the BBB+ tranche of the index is +126 basis points. Historically, Campbell has priced tighter than its rating category, and the consumer product sector has priced tighter than the index as a whole.

MCR Credit Risk Assessment

Our A- credit rating on Campbell was placed under review with negative implications following the company's agreement to acquire Snyder's-Lance for $6.0 billion, or a pre-synergies enterprise EBITDA multiple of 19.9. Pro forma for the acquisition, Campbell's leverage will approach 5.0 times, and represent a substantial increase from leverage, which has ranged from 2.0 to 2.5 times over the past several years. The company is expected to achieve $170 million of cost synergies from the transaction by the end of fiscal 2022. One-time transaction costs and integration costs to achieve synergies are expected to range from $275 million to $325 million. We view the acquisition as a strategic positive. Snyder's-Lance has the number-one market position in pretzels and in sandwich crackers, and each category has a market size of over $1.0 billion. Snyder's-Lance will strengthen Campbell's position in the better-for-you snacks category and is highly complementary to the Pepperidge Farm business.

While we do not anticipate significant changes to the Business Risk pillar because of the strategic fit of the acquisition, Campbell's other three pillars, which are influenced by leverage, are expected to weaken. Although the company has committed to reducing leverage over the next several years, its credit measures are likely to be weak for its current rating level even after 2022. Campbell anticipates deleveraging to approximately 3 times by year-end 2022, which will be more than one turn above the company's historical leverage target. Snyder's-Lance reported net sales of $2.2 billion and adjusted EBIT of $193 million for the 12 months ended Sept. 30, 2017.

We view at least a one-notch downgrade of Campbell's credit rating as likely, based on this leverage-increasing deal. MCR's review of Campbell's rating will include an analysis of the strategic merits of the combination, the ability to generate synergies, MCR's estimates for the combined entity's ability to reduce debt, and a review of Campbell's financial and capital allocation policies, including guidance or expectations for future acquisitions.

For comparison, General Mills is larger and more diversified than Campbell. Its pro forma leverage was 4.6 times, reflecting its agreement to acquire Blue Buffalo Pet Products, Inc. for $8.0 billion. Its acquisition is expected to be financed with $1.0 billion of equity, cash on hand, and debt. However, the company indicated that it will use its free cash flow, estimated at $1.0 billion annually, to deleverage rapidly to below 3.5 times by fiscal 2020. An additional comparison is Kellogg, whose leverage was 3.2 times, excluding restructuring charges, for the fiscal year ended Dec. 31, 2017.

U.S. Steel (B, Positive) Offers $650 Million in Unsecured Notes to Fund Repurchase of Senior Secured Notes

Market Data

United States Steel Corporation (B, positive) is issuing $650 million in 8-year (noncallable 3) senior unsecured notes today. Proceeds together with cash on hand will fund the purchase of its outstanding 8.375% senior secured notes due 2021, which we estimate to amount to approximately $780 million.

According to Interactive Data, U.S. Steel's 6.875% notes due Aug. 15, 2025, recently traded at 104.875, resulting in a yield to worst of 5.61%. For comparison, we look to Summit Materials' (B+, stable) 5.125% notes due June 1, 2025, which recently traded at 98.5 for a yield to worst of 5.38%. For an index comparison, we look to BofA Merrill Lynch's High Yield B Semi-Annual Yield to Worst Index, which is quoted at 6.27%.

MCR Credit Risk Assessment

U.S. Steel's credit rating reflects its high Business Risk and weak Cash Flow Cushion, Solvency Score, and Distance to Default credit pillars. The company's Business Risk is affected by steel industry cyclicality, product concentration, and lack of an economic moat as assigned by Morningstar's Equity Research Group. Its Cash Flow Cushion reflects reasonable operating cash flow coupled with modest but necessary capital spending and a manageable maturity schedule. The company's Solvency Score stems from its leveraged capital structure offset somewhat by its strong internal liquidity. The debt structure includes approximately $2 billion of unsecured bonds and one $780 million secured note due 2021. Debt/EBITDA ended 2017 at approximately 2.4 times. The company also has underfunded pension and other postretirement liabilities that are approximately $1.1 billion, and we calculate approximately $1 billion of obligations for operating leases (at 8 times rent). Liquidity is strong, supported by $1.5 billion of cash and equivalents as of Dec. 31, full availability on its $1.5 billion secured credit facility due 2023, and approximately $297 million for its unsecured credit facility due 2019 for USSK (Europe). Maturities are reasonable near term and are estimated at $55 million in 2019 and $432 million in 2020.

McDonald's (A-, Stable) Offering New 5-Year and 10-Year Notes and Tap of 2047 Notes

Market Data

McDonald's Corporation (A-, stable) is in the market with a 5-year and 10-year notes offering and new 2047 notes, which are a further issuance of existing 4.45% senior notes due 2047, originally issued March 9, 2017. We believe the primary use of proceeds will be for general corporate purposes, including enhancing shareholders' returns.

Comparables are higher-rated Starbucks Corporation (A, stable) and similar-rated Sysco Corporation (A-, stable). Bonds from these issuers recently traded over the nearest Treasury as follows, according to Interactive Data:
McDonald's 3.50% notes due 2027 at +91 basis points.
Sysco Corporation 3.25% notes due 2027 at +101 basis points.
Starbucks' 2.45% notes due 2026 at +62 basis points.
As an additional point of reference, the A- tranche of the Morningstar Corporate Bond Index is at a spread of +99 basis points.

MCR Credit Risk Assessment

Our A- rating of McDonald's reflects the company's strong Business Risk Score and a strong Solvency Score that is anchored by high returns on invested capital. The company's Cash Flow Cushion is weak, and constrained by significant maturities over our 5-year forecast period. McDonald's owns one of the world's best-known brand franchises. The company's Business Risk is low and supported by its exceptional intangible asset, a cohesive franchisee system, economies of scale, and a focus on unit-level productivity improvements that result in stable operating earnings and cash flows.

Over the past few years, McDonald's has engaged in a significant operational turnaround, with high-single-digit systemwide sales growth, mid-single-digit global comparative same-store sales growth, and operating margins expanding to over 40%. We forecast that the company will reach its general and administrative cost-saving goal of $500 million annually by 2019. McDonald's has also been making progress revamping its customer ordering, introducing kiosks, web, and mobile to improve table service and delivery. We believe McDonald's can maintain operational and financial momentum through additional new product development, refranchising, and cost reductions to feed an aggressive three-year $22 billion-$24 billion target for share repurchases and dividends without weakening its pillars. Pro forma for the payout, we forecast that lease-adjusted leverage will remain between 3.4 and 3.7 times over the forecast period.

McDonald's total debt was $29 billion at the year ended Dec. 31, 2017, while lease-adjusted leverage was 3.5 times, which is slightly high for the rating level, but within our forecast. We forecast that

McDonald's annual free cash flow generation (cash flow from operations less capital expenditures and dividends) will average $1.5 billion during the next few years.

For comparison purposes, higher-rated Starbucks' lease-adjusted leverage was 2.2 times, and its free cash flow was approximately $1.2 billion for the latest 12-month period ended Dec. 31, 2017. Starbucks is still in a growth phase and maintains a less aggressive capital-allocation policy than McDonald's. Similar-rated Sysco's lease-adjusted leverage was 3.0 times and its free cash flow was approximately $850 million for the latest 12-month period ended Dec. 31, 2017. Sysco is also benefiting from the successful execution of its strategic plan to increase operating margins and returns on invested capital. However, its credit measures are weakening due to debt-financed share repurchases.

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