Morningstar Corporate Credit Research Highlights
Volatility rising.

Morningstar Credit Ratings, LLC
19 September 2016

Credit Market Insights

- Market data and update.

Credit Rating Actions

- Rating Changes

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
Brown-Forman BF.B	A+	A+
Quest Diagnostics DGX	BBB+	BBB+
Mylan MYL	BBB-	BBB-
LabCorp LH	BBB+	BBB+

Recent Notes Published by Credit Analysts

- **Agrium-PotashCorp** merger agreement is modest credit positive.
- **Freeport-McMoRan**'s plan to sell deep-water Gulf of Mexico oil and gas assets a credit positive.
- **Anadarko**'s purchase of Freeport's deep-water Gulf of Mexico assets a modest credit positive.
- **Gilead** making multitranche debt offering for general corporate purposes.
- **LafargeHolcim Finance** offering benchmark 10-year and 30-year notes.

Credit Market Insights

Market Data and Update

From the Federal Reserve's various quantitative easing programs that began almost eight years ago to the European Central Bank's recent negative interest rate policy and asset-purchase programs, in conjunction with the seemingly endless easy monetary programs from the Bank of Japan, the markets have long been feeding on a liquid(ity) diet. Myriad easy money policies have supplied the global markets with a steady supply of newly created money that has been recycled into the asset markets. As this newly created money has been invested, it has helped to send interest rates across the world to historical lows (in many cases generating negative yields) and to push the U.S. stock market to near all-time highs.

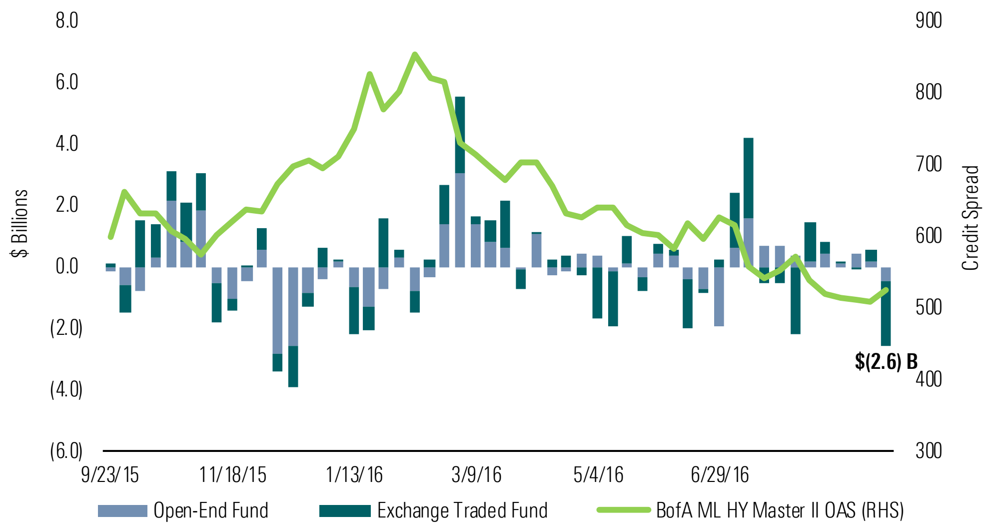
The markets' dependence upon ever easier monetary programs is starting to be put to the test as investors appear to be concerned that central banks may no longer be as willing to continually force-feed the markets increasingly larger portions of liquidity. The anxiety began after the ECB decided to hold its monetary policy steady earlier this month, as opposed to loosening it further, as expected by the market. After ECB's announcement, the price of many European sovereign bonds quickly fell, which pushed the yields for some bonds back into positive territory for the first time since mid-June. The price on Germany's 10-year bond fell enough to push its yield into positive territory of 0.02% after trading as low as negative 0.19% in mid-July. Sovereign bonds had rallied significantly this summer as investors rushed to safety after the United Kingdom surprised the world and voted to exit the European Union. Yet even though the yields on many long-dated sovereign bonds have risen back into positive territory, there remains approximately EUR 12 trillion of debt trading at prices so high that if investors hold the bonds to maturity, they will lock in a total loss.

Similarly, after hitting their recent lows in early July, long-term U.S. interest rates have continued to rise over the past month. Over the past four weeks, the yield on the 10-year Treasury bond has risen 14 basis points to 1.70%, and the 30-year Treasury bond has increased 17 basis points to 2.45%. This week, investors will be paying attention to the outcome of the Federal Reserve's Federal Open Market Committee's meeting Sept. 20-21, which includes an updated release of the Fed's economic projections. Investors will also be paying attention to the Bank of Japan's monetary policy meeting held on those same days; however, the BOJ is not scheduled to release updated economic projections. Investors may be hoping for some additional policy easing from the BOJ, as there has been much market speculation that Japanese policy makers may increase quantitative easing programs in a bid to stimulate their domestic economy.

At the beginning of the year, the market was expecting three to four interest rate hikes in the United States in 2016; however, this expectation has dwindled to only one. Currently, the futures market is pricing in a 12% probability that the Fed will hike the federal funds rate after the September meeting, but the probability that the Fed will hike rates in December rises to 55%. The U.S market is currently pricing in a high probability that the current ultra-loose monetary policy will remain in place over the near term. After the December meeting, the market-implied probability of an additional rate hike is only 25% through July 2017.

After several weeks of calm in the marketplace, rising volatility began to take its toll on investor psyches in the high-yield market, and many investors decided to head for the sidelines last week; $2.6 billion of funds were pulled out of high-yield open-ended funds and exchange-traded funds. Investment-grade corporate bonds held relatively steady as the average credit spread of the Morningstar Corporate Bond Index widened only 1 basis point to +139 bps; the high-yield market did not fare as well as the Bank of America Merrill Lynch High Yield Master Index widened 17 basis points to +527 bps, its widest level since early August. As we near the end of the third quarter, investors will be on the watch for any companies that lower third-quarter guidance. With economic metrics in the U.S. indicating ongoing sluggish growth and international economic growth in the doldrums, many companies may find it difficult to meet revenue or earnings growth targets.

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 Sept. 16, 2016.
(000,000s $ unless otherwise noted)

Issuer			Issue				
Name	Ticker	Morningstar Corporate Rating	Size	Coupon	Description	Maturity	Approx Spread to US Treasuries
3M	MMM	AA-	$600	1.63%	Senior Notes	2021	+43
3M	MMM	AA-	$650	2.25%	Senior Notes	2026	+68
3M	MMM	AA-	$500	3.13%	Senior Notes	2046	+93
Altria Group	MO	BBB	$500	2.63%	Senior Notes	2026	+95
Altria Group	MO	BBB	$1,500	3.88%	Senior Notes	2046	+150
BP Capital Markets	BP	A-(1)	$750	2.11%	Senior Notes	2021	+88
BP Capital Markets	BP	A-(1)	$250	NA	Senior Notes	2021	NA
BP Capital Markets	BP	A-(1)	€ 850	0.83%	Senior Notes	2024	+107(2)
BP Capital Markets	BP	A-(1)	$1,000	3.02%	Senior Notes	2027	+130
Cisco	CSCO	AA	$1,500	1.40%	Senior Notes	2019	+50
Cisco	CSCO	AA	$500	NA	Senior Notes	2019	NA
Cisco	CSCO	AA	$2,000	1.85%	Senior Notes	2021	+63
Cisco	CSCO	AA	$750	2.20%	Senior Notes	2023	+70
Cisco	CSCO	AA	$1,500	2.50%	Senior Notes	2026	+80
Delphi Automotive	DLPH	BBB+	$300	4.40%	Senior Notes	2046	+195
Gilead Sciences	GILD	A+	$500	1.95%	Senior Notes	2022	+80
Gilead Sciences	GILD	A+	$750	2.50%	Senior Notes	2023	+105
Gilead Sciences	GILD	A+	$1,250	2.95%	Senior Notes	2027	+125
Gilead Sciences	GILD	A+	$750	4.00%	Senior Notes	2036	+157
Gilead Sciences	GILD	A+	$1,750	4.15%	Senior Notes	2047	+172
LafargeHolcim Finance US	LHN	BBB-(1)	$400	3.50%	Senior Notes	2026	+180
LafargeHolcim Finance US	LHN	BBB-(1)	$600	4.75%	Senior Notes	2046	+240
Thermo Fisher Scientific	TMO	BBB	$1,200	2.95%	Senior Notes	2026	+140

(1) Morningstar's issuer credit rating is assigned at the holding company level.
(2) Spread over mid-swaps.

Exhibit 2 Morningstar, Inc. Corporate Index Spreads

The following exhibits depict spread and return data for bonds in the Morningstar Corporate Bond Index. Rating buckets are determined by each issue's NRSRO rating. Data as of Sept. 16, 2016.

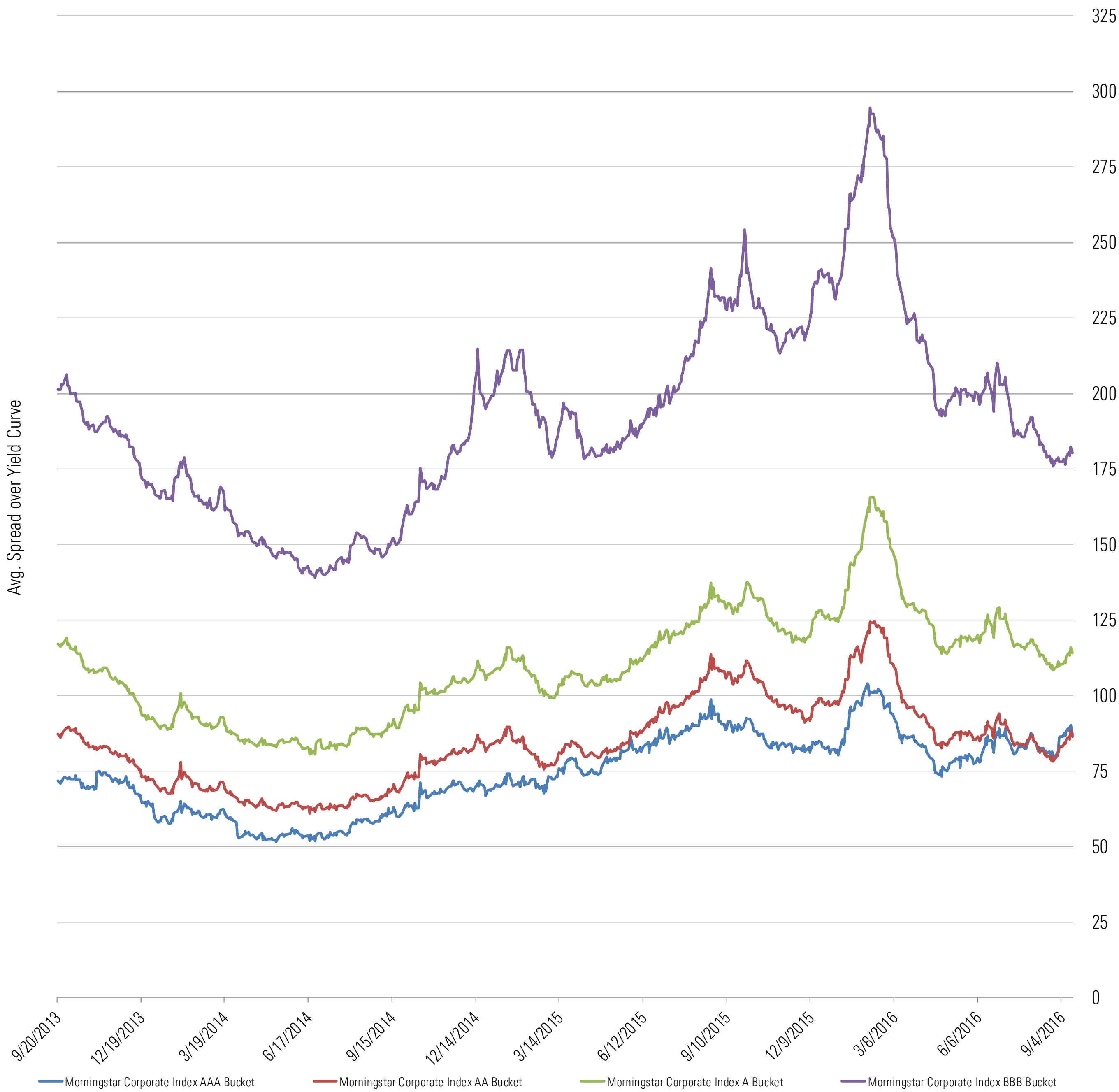


Exhibit 3 Morningstar, Inc. Corporate Bond Index Sector Summary

Sector	Average Rating	Number of Issues	Modified Duration	OAS (bps)	WTD OAS Spread Chg (bps)	MTD OAS Spread Chg (bps)	YTD OAS Spread Chg (bps)	MTD Excess Return (%)	YTD Excess Return (%)	MTD Total Return (%)	YTD Total Return (%)
TOTAL	**A-**	**4,031**	**7.0**	**145**	**1**	**2**	**(27)**	**(0.00)**	**3.24**	**(1.03)**	**8.02**
FINANCIAL	**A-**	**1,252**	**5.6**	**138**	**1**	**4**	**1**	**(0.03)**	**1.60**	**(0.70)**	**5.42**
Bank	A-	776	5.2	138	1	4	3	(0.06)	1.50	(0.60)	4.96
Finance	A	219	6.0	128	2	7	(5)	(0.08)	1.93	(0.85)	6.02
Insurance	A	194	8.0	153	1	(1)	(2)	0.23	1.52	(1.08)	7.17
REITs	BBB+	58	6.3	151	(0)	6	(4)	0.05	2.26	(0.71)	6.71
INDUSTRIAL	**A-**	**2,345**	**7.6**	**144**	**1**	**2**	**(38)**	**(0.00)**	**3.77**	**(1.18)**	**9.02**
Basic Industries	BBB+	192	7.4	205	3	3	(166)	0.05	10.32	(1.09)	15.68
Consumer Products	A-	267	7.8	116	(0)	3	(18)	0.08	3.15	(1.14)	8.44
Energy	A-	352	7.1	180	4	6	(69)	(0.28)	4.69	(1.35)	9.59
Healthcare	A-	368	7.9	123	(0)	4	(11)	(0.01)	2.41	(1.24)	7.85
Manufacturing	A-	333	6.0	114	1	2	(20)	0.00	2.59	(0.79)	6.72
Media	BBB+	168	8.7	175	1	(1)	(39)	0.09	4.96	(1.43)	11.11
Retail	A-	147	8.3	122	(0)	2	(19)	0.16	3.02	(1.20)	8.94
Technology	A+	252	7.2	132	1	3	(4)	(0.02)	2.44	(1.08)	7.22
Telecom	BBB+	128	8.5	164	0	(2)	(30)	0.10	4.57	(1.37)	10.75
Transportation	BBB+	96	9.1	141	(1)	0	(25)	0.16	3.98	(1.40)	10.32
UTILITY	**BBB+**	**431**	**8.6**	**183**	**2**	**(0)**	**(70)**	**0.13**	**7.05**	**(1.35)**	**13.18**
Electric Utilities	A-	260	9.0	150	1	2	(23)	0.12	3.16	(1.48)	9.40
Gas Pipelines	BBB+	162	7.9	236	2	(1)	(146)	0.13	13.46	(1.14)	19.41
Rating Bucket											
AAA Bucket		76	9.6	91	(2)	6	7	0.13	1.35	(1.57)	6.78
AA Bucket		449	6.3	90	1	6	(9)	(0.03)	1.56	(0.89)	5.53
A Bucket		1,587	6.8	119	1	3	(10)	0.00	2.23	(0.99)	6.90
BBB Bucket		1,919	7.2	187	1	2	(57)	(0.00)	4.79	(1.08)	9.89
Term Bucket											
1-4	A-	1,254	2.3	90	1	3	(23)	(0.03)	1.50	0.01	3.01
4-7	A-	1,004	4.7	121	2	3	(35)	0.03	3.00	(0.20)	6.52
7-10	A-	740	7.3	160	2	3	(28)	(0.01)	3.76	(0.91)	8.98
10PLUS	A-	1,033	13.9	215	0	2	(29)	0.00	5.02	(2.90)	14.96

Data as of 09/16/2016

Exhibit 4 Morningstar, Inc. Corporate Bond Index Option-Adjusted Spread by Sector

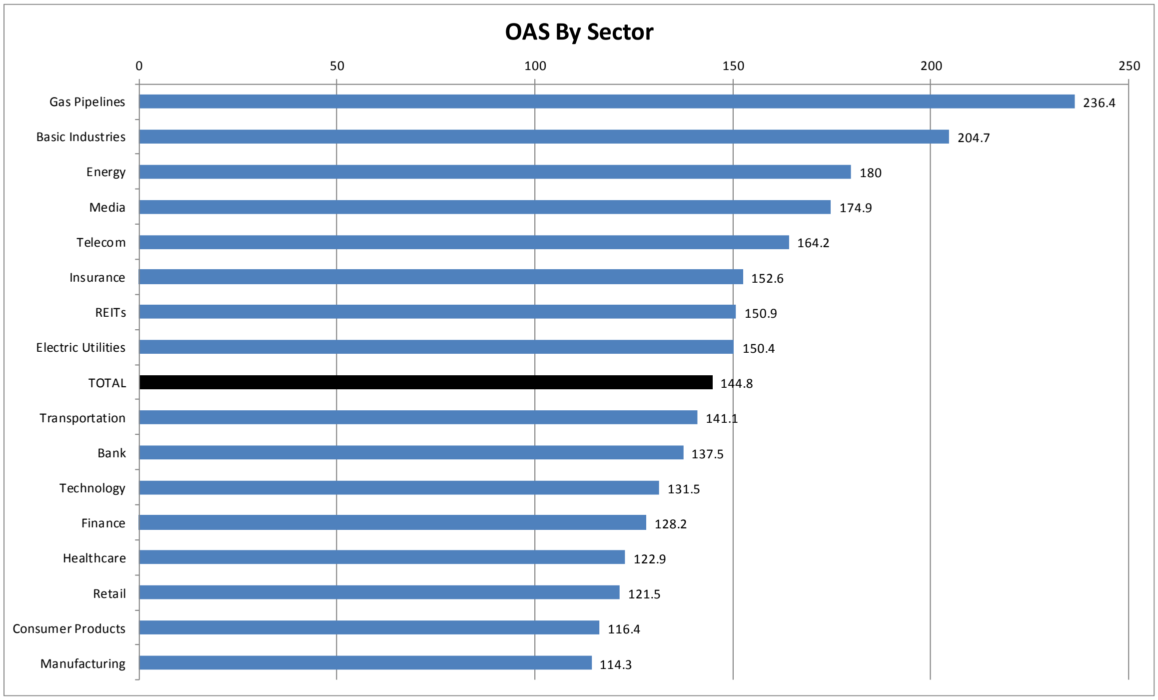


Exhibit 5 Morningstar, Inc. Corporate Bond Index 1-Week OAS Change

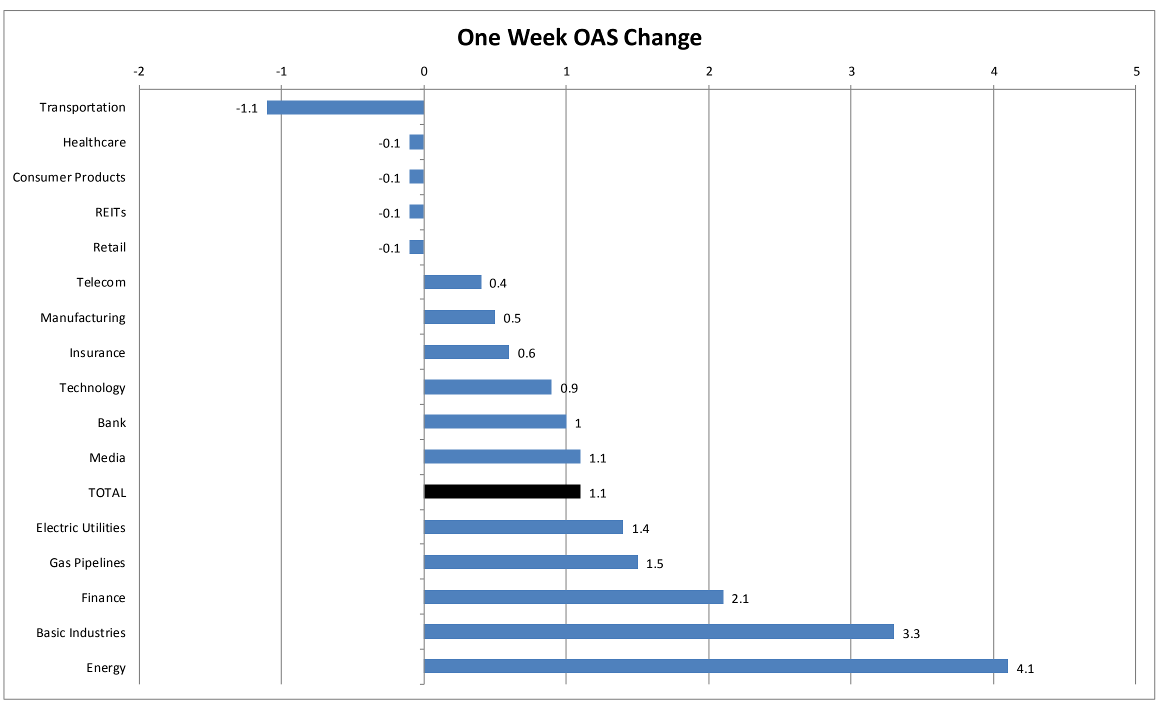


Exhibit 6 Morningstar, Inc. Corporate Bond Index Year-to-Date OAS Change

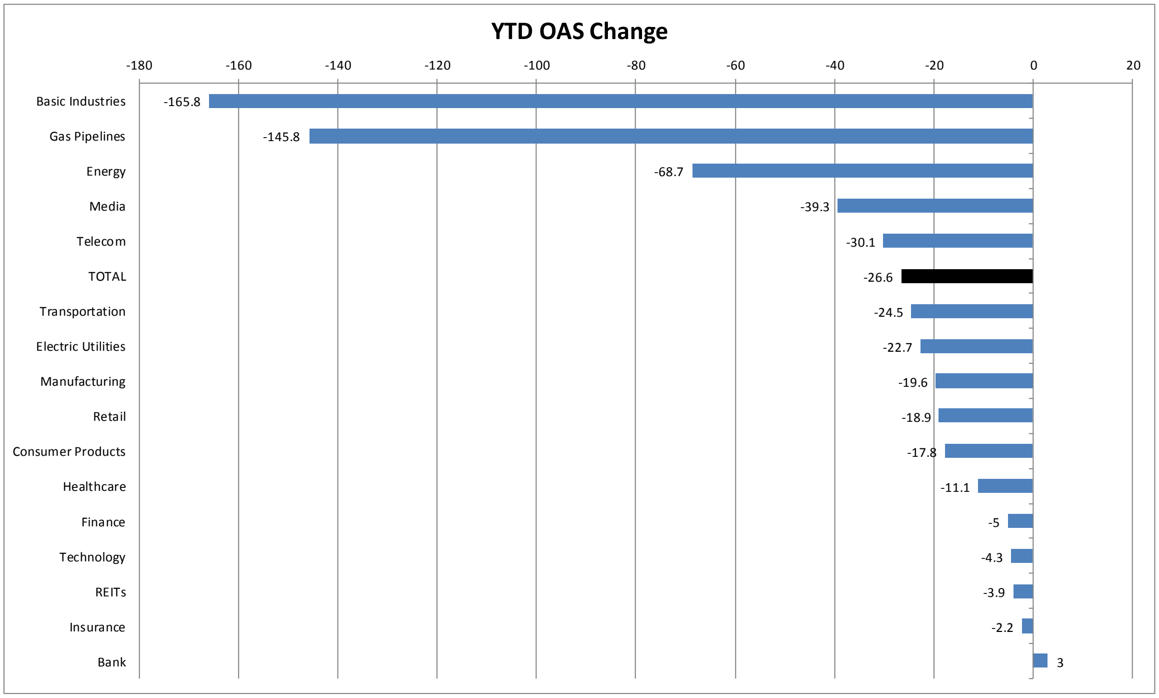
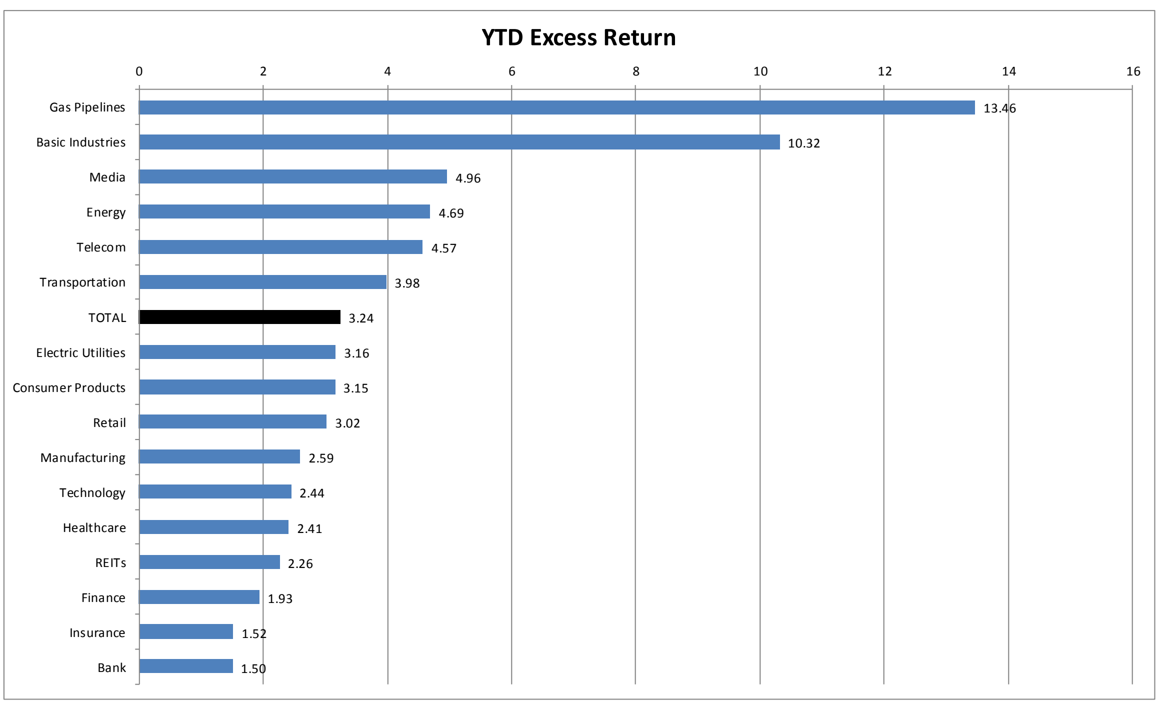


Exhibit 7 Morningstar, Inc. Corporate Bond Index YTD Excess Return



Credit Rating Actions

▶ Rating Changes

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
Brown-Forman BF.B	A+	A+
Quest Diagnostics DGX	BBB+	BBB+
Mylan MYL	BBB-	BBB-
LabCorp LH	BBB+	BBB+

Brown-Forman's A+ Rating Affirmed on Continued Growth of Super- and Ultra-Premium Whiskeys

We are affirming our A+ corporate credit rating on Brown-Forman and initiating a stable outlook. The rating action reflects the strength of Brown-Forman's portfolio of global premium spirits brands, anchored by Jack Daniel's, the fourth-largest spirits brand and the largest-selling American whiskey brand in the world. On the basis of Brown-Forman's intangible brand asset, Morningstar, Inc. has assigned Brown-Forman a wide economic moat.

Brown-Forman's Jack Daniel's brand has heritage, authenticity, and premiumization, the attributes demanded by whiskey consumers. Jack Daniel's line extensions have been highly successful in building the company's super and ultra-premium whiskey brands, and together with its Woodford Reserve Kentucky Bourbons, resulted in double-digit sales in 2016. We believe that the acquisition of The BenRiach Distillery Company for $408 million in June 2016, which brings GlenDronach, BenRiach, and Glenglassaugh single malt scotch brands into the Brown Forman family, will fit well within the company's super- and ultra-premium portfolio.

Brown-Forman's product portfolio is concentrated in its iconic Jack Daniel's brand, which generates roughly half of the firm's volume. Should consumers' tastes and preference change, the firm's financial results may become pressured. However, we believe Brown-Forman's brand strength and competitive advantages will allow it to maintain pricing power and generate returns on invested capital substantially in excess of its weighted average cost of capital. In addition, relatively consistent demand for Brown-Forman's spirits results in stable operating earnings and cash flow, as the company's products have demonstrated some recession resistance. These elements also support our Business Risk assessment. Brown-Forman should have no difficulty meeting our estimate of its cash obligations over the next five years, as reflected by its strong Cash Flow Cushion ratio. We forecast the firm's revenue will increase in the midsingle digits on a constant-currency basis and the operating margin will be approximately 20%.

Brown-Forman has historically managed its balance sheet conservatively, generating strong Solvency and Distant to Default scores. We forecast the firm's leverage (total debt/EBITDA) ratios over the near to medium term in the range of 1.5-2.0 times, and we expect that the company can generate free cash flow (cash flow from operations minus capital expenditure and dividends) of $300 million-$400 million. We believe opportunistic acquisitions will periodically result in leverage at the top end of the range, but we expect the company to return to leverage in the middle of the range. Brown-Forman has become more aggressive with share repurchases, spending $1.1 billion in 2016, which also contributed to slightly higher debt levels; however, its credit measures remain within the rating category.

While we don’t anticipate disruptions in demand or an erosion of Jack Daniel’s brand equity, a consumer preference shift or a loss of pricing ability would weigh on Brown Forman’s operating earnings and cash flow and could result in a negative rating action. A weakening Cash Flow Cushion or leverage above 2.0 times, negatively affecting the company’s Solvency Score, could also result in a ratings downgrade. Heightened leverage resulting from share repurchases, indicative of a change in financial strategy, would also pressure the company’s credit rating and lead to a negative rating action. Meaningful diversification while maintaining the operating margin at approximately 25%, strong free cash flow generation in line with the historical trend, and a commitment to maintaining leverage below 1.5 times may result in a positive rating action.

Quest Diagnostics’ BBB+ Rating Affirmed With a Stable Outlook

We are affirming our credit rating for Quest Diagnostics at BBB+, reflecting its advantages in the diagnostic laboratory business and manageable debt leverage. We are also initiating a stable outlook.

Quest scores best on its Business Risk and Distance to Default pillars, while its mildly elevated leverage constrains its Cash Flow Cushion and Solvency Score pillars. Positive for its Business Risk pillar, Morningstar, Inc. assigns Quest’s diagnostic lab business a narrow economic moat rating. As a duopoly, Quest and LabCorp so thoroughly dominate the independent diagnostic market in the U.S. that it would be very difficult for a new entrant to compete as a national network of labs in a cost-effective manner. Relatively high barriers to entry as a national network and their ongoing acquisitions of smaller laboratories make us believe that Quest and LabCorp will continue to dominate the U.S. diagnostic business with rational competitive dynamics for the foreseeable future. Those rational dynamics, combined with Quest’s substantial size, diverse customer set, and economic resistance, contribute to the company’s low-risk Business Risk pillar. Quest scores worse on the Cash Flow Cushion and Solvency Score pillars than on the Business Risk pillar, which primarily reflects its slightly elevated leverage. To fund the Solstas and other acquisitions, Quest issued $600 million of new debt in early 2014, pushing gross debt up to $3.9 billion at that time. With debt roughly flat since then, the firm’s gross debt/EBITDA remains elevated at 2.7 times as of June, by our estimates. This elevated leverage continues to weigh on the firm’s Solvency Score, and as substantial debt maturities are scheduled to come due during the next five years, the Cash Flow Cushion also scores at only moderate levels.

While we have a stable outlook, several scenarios could cause us to change Quest’s rating. With its Business Risk pillar and Cash Flow Cushion weak in their respective categories, we could see a reason to downgrade with significant changes to the inputs in both of those scores. For example, on the Business Risk pillar, a viable, new competitive entrant to the nationwide diagnostic service sector could cause the most damage to this score. Substantial returns to shareholders or acquisitions could also negatively influence Quest’s Cash Flow Cushion. To upgrade our rating, Quest would probably need to maintain leverage in the low 2s on a gross debt/EBITDA basis. This reduction in leverage and interest obligations relative to profits could have a positive influence on our Solvency Score. However, given the firm’s rollup strategy and recent history of operating with leverage in the mid-2s, we would probably need to see a sustained commitment to maintaining leverage at lower levels, even when considering tuck-in acquisitions and potential returns to shareholders, to upgrade our rating.

Mylan's Credit Rating Affirmed, Stable Outlook Initiated

We have affirmed our BBB- rating and assigned a stable outlook for Mylan, reflecting the firm's advantages in specialty and generic pharmaceuticals and commitment to quickly reduce elevated leverage after the recent acquisition of Meda. Our stable outlook balances our expectations that Mylan will wind down presently high leverage and continue to aggressively pursue acquisitions to bolster its branded, generic, and over-the-counter drug portfolios.

Mylan has earned a narrow moat from Morningstar, Inc. with its cost-advantaged, large-scale generic manufacturing operations and highly profitable specialty pharmaceutical business. While the firm faces pricing pressures on its top-selling specialty drug EpiPen from a highly sensitive political environment in the U.S., we see overall revenue and EBITDA rising in the high single digits and low double digits, respectively, over the next five years compounded annually, backstopped by an expanding generic segment. Mylan has successfully built scale and extended the reach of its generic segment through an aggressive acquisition strategy, which has eased concentration concerns and contributes to our moderate Business Risk pillar. In conjunction with the Meda acquisition for $10 billion in August, Mylan's debt load significantly increased to around $16 billion on a pro forma basis at the end of June from $7 billion at the end of 2015. Pro forma gross leverage and net leverage of just over 4 times as of June has stressed our Cash Flow Cushion and Solvency Score pillars and positioned the firm as a weak BBB- credit, in our opinion. However, we have affirmed our rating, given management's commitment to reduce gross debt leverage to 3 times in 2017, which we think can be attained through a combination of debt reduction and strong EBITDA growth. We expect Mylan's $1.8 billion in free cash flow for the latest 12 months ended in June may rise to an average of $2.5 billion annually through 2020, which could provide the flexibility to rapidly reduce leverage. Mylan will see $2.4 billion of term loan borrowings mature next year, offering it an opportunity to achieve its deleveraging goal.

It is unlikely that we would upgrade Mylan's rating over the next year or so due to aggressive capital deployment that keeps leverage elevated, punctuated by only intermittent periods at the firm's stated leverage goal. However, if gross leverage declines to and remains at management's target of 3 times for a sustained period, we could upgrade our rating. The leverage improvement would probably need to be accompanied by a moderation of leveraging acquisition activity. On the other hand, Mylan is presently a weak BBB- credit, so any difficulty in the integration of Meda or other purchased assets could hinder earnings growth, postpone deleveraging, and pressure our rating. In addition, if Mylan consummates leveraging transactions or shareholder-friendly actions that keep net leverage above 3.5 times consistently, a one-notch downgrade could follow.

Affirming LabCorp's Rating at BBB+ and Initiating a Stable Outlook

We are affirming our BBB+ credit rating for LabCorp, which reflects its strong position in the diagnostics lab industry and its ongoing deleveraging after the Covance acquisition. We are also initiating a stable outlook.

LabCorp scores best on its Business Risk and Distance to Default pillars, while its elevated leverage constrains its Cash Flow Cushion and Solvency Score pillars. As a duopoly, LabCorp and Quest Diagnostics so thoroughly dominate the independent diagnostic lab market in the U.S. that it would be very difficult for a new entrant to cost-effectively compete as a national network of labs and facilities, especially since the top players often acquire new lab upstarts as part of their growth strategy. Overall, this sector's rational competitive dynamics combined with LabCorp's established position and scale within the diagnostic lab market, its diverse customer and service set, and general resistance to economic cycles contribute to its low risk Business Risk pillar. Because of its elevated leverage and obligations that are expected to be paid during the next five years, LabCorp scores more moderately in our Cash Flow Cushion and Solvency Score pillars. In early 2015, LabCorp acquired the contract research organization Covance, which inflated the combined entity's gross debt/EBITDA by about 1.5 turns to roughly 4 times directly after the transaction. As of June, LabCorp's gross debt stood at $6 billion, or pro forma gross debt/EBITDA in the mid-3s, and net leverage stood around 3 times. LabCorp typically shoots for gross/EBITDA of 2.5 times, which we think is possible by the end of 2017 if it repays its term loan early and refrains from share repurchases, as expected. We project the firm will generate at least $900 million in annual free cash flow in 2016 and beyond, which should give it financial flexibility to deleverage and then pursue tuck-in acquisitions and moderate returns to shareholders.

While we have a stable outlook, we see several scenarios that could cause us to change LabCorp's rating. With its Business Risk pillar and Cash Flow Cushion weak in their respective categories, we could see a reason to downgrade with significant changes to the inputs of both scores. For example, on the Business Risk pillar, a viable, new competitive entrant to the nationwide diagnostic service sector could cause the most damage to this pillar, in our opinion. Large returns to shareholders or large debt-funded acquisitions could negatively influence LabCorp's Cash Flow Cushion, too. To upgrade our rating, LabCorp would probably need to maintain leverage near its long-term target of 2.5 times gross debt/EBITDA. This reduction in leverage and interest obligations relative to profits could have a positive influence on our Solvency Score. However, given the firm's rollup strategy and recent history of operating above its target leverage, we would probably need to see a sustained commitment to maintaining leverage at that target, even when considering tuck-in acquisitions and moderate returns to shareholders, to upgrade our rating.

Recent Notes Published by Credit Analysts

Agrium-PotashCorp Merger Agreement Is Modest Credit Positive

We believe that the Agrium (rating: BBB, stable outlook) and Potash Corporation of Saskatchewan (rating: BBB, stable outlook) all-stock deal is marginally credit positive. From a credit perspective, the merger will add synergies of up to $500 million annually, and the combined entity will be larger and possess more financial flexibility as a result.

The merger is structured as a stock-for-stock exchange with a new parent company to be formed to own both companies. Agrium shareholders will receive 2.23 shares of the new company for each Agrium share they own, and Potash shareholders will receive 0.40 share for each Potash share that they own, which results in Agrium shareholders owning approximately 48% of the combined entity and Potash shareholders owning approximately 52%. The transaction has been approved by both boards of directors and is expected to close in mid-2017. The combined company's EBITDA will be approximately 35% potash, 34% nitrogen, 19% retail, and 12% phosphate based on the last three years' operating results.

Combined balance sheet debt for the new company will be approximately $10.2 billion. Pro forma for 2016, we expect the combined company's debt/EBITDA to be slightly over 3.0 times and free cash after capital expenditures and dividends to be approximately neutral based on a resized dividend. The new dividend amount will be set to be roughly equal to the current Agrium dividend level adjusted for the new share count. Pro forma 2016 EBITDA is estimated to be $3.2 billion, down from the 2015 level of $4.7 billion. The above numbers should improve somewhat after the full realization of synergies that are expected two years after closing of the transaction. The merger will do little to change pricing for potash since Agrium's position in this part of the business is relatively small compared with the overall market. Agrium possesses less than 3% of global potash capacity and already markets its potash sales outside North America with PotashCorp and Mosaic through Canpotex.

In July, we affirmed Agrium's rating at BBB and established a stable outlook and downgraded Potash's rating to BBB from A- with a stable outlook. The Agrium affirmation reflected the company's competitive position in the wholesale and retail fertilizer businesses, stability of its retail division, and relatively conservative financial strategy. We had expected Agrium's debt/EBITDA to be approximately 3.0 times by year-end 2016 and for the firm to be free cash flow break-even after capital expenditures and dividends this year. The PotashCorp downgrade was driven by the downturn in potash and other nutrient prices that will cause a 40% decline in EBITDA in 2016 from 2015's levels. As a result, we estimated that Potash's debt/EBITDA will rise to nearly 3.0 times from 1.6 times in 2015. We also note that PotashCorp currently possesses a narrow economic moat but Agrium does not, according to Morningstar, Inc. We currently expect that the combined entity will possess a narrow economic moat based upon PotashCorp's cost advantages in potash and Agrium's advantaged cost position in nitrogen. While we view the merger agreement as a modest credit positive, it is not enough to change our view on the current ratings at this time.

Freeport-McMoRan's Plan to Sell Deep-Water GOM Oil and Gas Assets a Credit Positive
Freeport-McMoRan (rating: CCC) announced an agreement Sept. 12 to sell its deep-water Gulf of Mexico oil and gas properties to Anadarko Petroleum for $2 billion and up to $150 million in contingent payments. The deal also has Anadarko assume certain abandonment obligations that are estimated to be $500 million. The transaction's effective date is Aug. 1, although the closing date is later this year, meaning that the amounts exchanged at closing with be somewhat different.

Preferred shareholders in Freeport McMoRan Oil & Gas' consolidated subsidiary, Plains Offshore Operations, are set to receive $582 million in connection with the transaction, leaving net proceeds of approximately $1.4 billion for Freeport. This transaction moves the total amount of asset sales announced by Freeport to approximately $6 billion this year. Through the end of the second quarter, almost $1.4 billion of those transactions had actually closed; this GOM sale and Freeport's planned sale of its Tenke Fungurume interest for $2.65 billion are scheduled to close in the fourth quarter. The asset sales are clearly a credit positive as Freeport proceeds with its debt-reduction efforts to deleverage its balance sheet and improve liquidity. At the end of the second quarter, Freeport's balance sheet debt stood at $19.3 billion and its debt/last-12-months adjusted EBITDA was approximately 5.2 times.

We expect proceeds from this transaction to help pay down the company's term loan debt ($2.4 billion outstanding as of June 30) and prepare for next year's debt maturities of $1.5 billion, primarily comprised of the company's 2.15% and 2.30% senior notes. Maturities after 2017 are approximately $3.2 billion in 2018, $1.6 billion in 2019, and $2.9 billion in 2020. These amounts are as of June 30 and include the company's term loan balance. The company's liquidity position as June 30 consisted of approximately $350 million in cash and equivalents and an undrawn $3.5 billion revolving credit facility due in 2019.

The GOM assets averaged 73,000 barrels of oil equivalent over the latest 12 months, resulting in revenue of approximately $1.0 billion, and cash production costs were approximately $300 million over that time frame. In connection with sale, Freeport commenced consent solicitations to amend its Freeport-McMoRan Oil & Gas senior note indentures to align the covenants with those governing the existing notes issued by Freeport McMoRan Inc.

Anadarko's Purchase of Freeport's Deep-Water GOM Assets a Modest Credit Positive
In our view, Anadarko Petroleum's (rating: BB+, negative outlook) proposed purchase of Freeport McMoRan's (rating: CCC) deep-water Gulf of Mexico assets is a modest credit positive. Financed entirely with stock, the purchase could provide Anadarko with about $600 million per year of incremental free cash flow, depending on price and operating assumptions. Anadarko intends to dedicate the incremental free cash flow acquired to accelerate investment in its core onshore operations--the Delaware Basin of West Texas and the DJ Basin of northeast Colorado--not directly to debt reduction.

On Sept. 12, it was jointly announced that Anadarko entered into a definitive agreement to acquire the deep-water GOM oil and gas assets of Freeport for $2.0 billion cash and up to $150 million in contingent payments. Simultaneously, Anadarko announced a public offering of 35,250,000 shares of common stock to fund the acquisition. Anadarko expects the transaction, effective Aug. 1, to close before year-end.

Freeport's portfolio of deep-water GOM assets consists of 91 working interest blocks, including a 25.1% ownership interest in the prolific Lucius development, and a large inventory of prospects. Combined with Anadarko's previous 23.8% ownership stake, the transaction will increase Anadarko's ownership interest in Lucius to about 49% and significantly add to Anadarko's previous 269 working interest blocks in the GOM. Also of note, the transaction increases Anadarko's working interest in the Heidelberg field to 44.0% from 31.5%. Because Lucius and Heidelberg are both operated by Anadarko, the assets are well known by the company. Additionally, the transaction provides Anadarko with many more low-cost subsea tieback opportunities, including the Lucius and Heidelberg floating oil platforms.

The purchase adds an increment of approximately 80,000 net barrels of oil equivalent per day, of which more than 80% is oil, to Anadarko's previous sales of 75,000 boe per day for a new company total net sales volume of 155,000 boe per day from the GOM (more than doubling volume). Commensurate with the new increment of production, Anadarko estimates this will generate a total of $3.0 billion of free cash flow over the next five years at current oil and gas strip prices, which we think is reasonable.

From a credit perspective, the addition of incremental free cash flow should improve Anadarko's financial flexibility, but the amount of free cash flow will depend on future pricing and the success the company realizes in redeploying this cash flow in onshore exploration and production activity. While we view the purchase as a modest credit positive for Anadarko, in our view, it is not enough to change the current credit rating of the company. At the end of the June quarter, the ratio of total debt/trailing EBITDAX was 4.3 times and net leverage 3.9 times, the ratios increasing by 2.9 and 2.5 turns, respectively, since the end of 2014.

Gilead Making Multitranche Debt Offering for General Corporate Purposes

Market News and Data

According to a recent regulatory filing and media reports, Gilead Sciences (rating: A+) is in the market issuing new 5-, 7-, 10-, 20-, and 30-year bonds. Proceeds will be used for general corporate purposes. The company highlighted debt repayment ($0.7 billion of short-term debt on its balance sheet as of June), working capital requirements, dividend payments ($2.5 billion in the 12 months ended in June), share repurchases ($11 billion authorized as of June), and future acquisitions as potential uses.

Gilead's existing bonds recently traded as follows over the nearest Treasury: 4.4% senior notes due 2021 at +67 basis points, 3.65% senior notes due 2026 at +117 bps, and 4.75% senior notes due 2046 at +169 bps. For comparison to the 2026s at +117 bps, we note that Morningstar's A+ Industrials Corporate Bond Index is at +100 bps, or 17 bps tighter than Gilead's bonds. While we do not rate any other pharmaceutical firm at A+, Gilead's bonds due 2026 trade at similar spreads as another A rated pharmaceutical firm that we cover, Amgen (rating: A), which has bonds due 2026 that recently traded at +121 bps. However, within that A rating category, some pharmaceutical firms trade at significantly different spreads in the 10-year tranche. For example, AstraZeneca's (rating: A) bonds due 2025 recently traded at +100 bps (or 17 bps tighter than Gilead's existing 2026s), and Biogen's (rating: A) bonds due 2025 recently traded at +139 bps (or 22 bps wider than Gilead's existing 2026s). In the 30-year tranche, Gilead's bonds (2046s around +169 bps) recently traded slightly tighter than Amgen's bonds (2045s at +179 bps) and Biogen's bonds (2045s at +182 bps) but much wider than Astra's bonds (2045s around

+147 bps). In the 5-year tranche, the spread differentials appear even tighter with Gilead's bonds (2021s at +67 bps) recently trading tighter than similar bonds from Amgen (2021s at +78 bps) and Biogen (2020s at +76 bps) but only slightly wider than similar bonds from AstraZeneca (2020s at +58 bps).

MCR Credit Risk Assessment

Our A+ credit rating for Gilead reflects strong cash flows from infectious disease products and an easily manageable balance sheet. Gilead's expertise in creating single-pill formulations to treat HIV and hepatitis C is one of the strongest intangible assets supporting Morningstar, Inc.'s wide economic moat assessment. This moat initially stemmed from the firm's leadership position in HIV treatment, and after acquiring Pharmasset for $11 billion in 2012, Gilead's launch of Sovaldi and Harvoni redefined the firm as a powerhouse in hepatitis C. Free cash flow has risen rapidly thanks to Gilead's impressive launches in hepatitis C since late 2013. In the 12 months ended in June, Gilead generated $17 billion of free cash flow compared with just $3 billion in 2013 before the hepatitis C launches. At the end of June, Gilead operated with slightly more cash and investments ($25 billion) than debt ($22 billion) on its balance sheet. As of June, it had repurchased $15 billion in shares during the prior 12 months and paid out a $2.5 billion dividend. We expect large returns to shareholders will continue. The real wild card for creditors is what the firm will do on the acquisition front. The potential for new debt proceeds to be used for shareholder returns and future acquisitions reflects ongoing event risk at Gilead.

LafargeHolcim Finance Offering Benchmark 10-Year and 30-Year Notes

Market News and Data

LafargeHolcim Finance (not rated) is reportedly in the market Sept. 15 offering 10-year and 30-year notes. The company intends to use proceeds for general corporate purposes including repayment of existing debt. The notes are guaranteed by LafargeHolcim (rating: BBB-, stable outlook). According to the pricing service Advantage Data, Holcim Finance's (not rated) 5.15% notes due Sept 15, 2023, are indicated at a spread over the nearest Treasury of 203 basis points. For comparison purposes, CRH's (rating: BBB-, stable outlook) subsidiary CRH America (not rated) has 3.875% notes due May 18, 2025, that recently traded at +145 basis points and Martin Marietta Materials' (rating: BBB-, stable outlook) 4.25% notes due July 2, 2024, are indicated at +193 basis points. The Morningstar Industrials BBB- Corporate Bond Index is at spread of 223 basis points. For longer-dated bonds, Holcim Finance's 6.5% notes due Sept. 15, 2043, are indicated at +269 basis points, while CRH America's 5.125% notes due May 18, 2045, are indicated at a spread of 218 basis points.

MCR Credit Risk Assessment

Our BBB- rating on LafargeHolcim reflects the sizable market position of the company globally, the diversification of its operations geographically (90 countries), and its somewhat leveraged balance sheet relative to its cash flow. Billed as a merger of equals, Lafarge and Holcim brought together last year two of the largest cement, aggregates, and concrete producers in the world. For 2016, we expect EBITDA to be approximately CHF 5.2 billion adjusted for anticipated divestitures, with resulting debt/EBITDA expected to be approximately 3.5 times. We expect the CHF 3.5 billion in proceeds from the divestitures to be used for gross debt reduction. Net debt was CHF 18.1 billion as of June 30. Also, we expect the company again to be free cash flow positive in 2016 and thereafter. Still, our Cash Flow Cushion score is tempered by sizable annual debt maturities beyond this year as well as dividends.

Morningstar, Inc. has assigned LafargeHolcim, CRH, and Martin Marietta narrow economic moats. We believe Martin Marietta and CRH are better positioned in their ratings, given their lower net debt/EBITDA leverage and somewhat better Solvency Scores. CRH and Martin Marietta are strongly positioned in their BBB- rating while LafargeHolcim is more weakly positioned.

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