Morningstar Corporate Credit Research Highlights

Positive credit trends continue in first quarter.

Morningstar Credit Research
27 March 2017

Contents

Credit Market Insights

- Positive credit trends continue in the first quarter.

Credit Rating Actions

- Rating changes

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
Best Buy BBY	BBB-	BB
M&T Bank MTB	A-	BBB+

- Rating affirmations

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
Xilinx XLNX	A	A
Nordstrom JWN	BBB+	BBB+
State Street STT	A	A
Allergan AGN	BBB-	BBB-
JPMorgan Chase JPM	A-	A-
General Mills GIS	BBB+	BBB+
Kellogg K	BBB	BBB

Recent Notes Published by Credit Analysts

- **Heineken** offering 10-year and 30-year bonds.
- **Medtronic** issuing new debt for general corporate purposes.
- **BlackRock** offering 10-year senior notes.

Credit Market Insights

Positive Credit Trends Continue in First Quarter

After upgrades slightly outpaced downgrades in the fourth quarter, our rating changes pushed firmly into positive territory in the first quarter, as we upgraded 15 firms and downgraded 10. The basic materials and consumer cyclical sectors saw the most upgrades while the energy and healthcare sectors were dominated by downgrades. Rating changes in other sectors were more balanced.

Ratio of Rating Upgrades to Downgrades, by Quarter by Sector

Sector	Q4 2014 Ratio	Q1 2015 Ratio	Q2 2015 Ratio	Q3 2015 Ratio	Q4 2015 Ratio	Q1 2016 Ratio	Q2 2016 Ratio	Q3 2016 Ratio	Q4 2016 Ratio	Q1 2017 Ratio
Basic Materials	0 / 3	0 / 0	0 / 1	0 / 0	0 / 6	1 / 1	0 / 1	1 / 2	0 / 1	3 / 0
Communication Services	0 / 0	0 / 2	0 / 0	0 / 2	0 / 0	0 / 1	0 / 4	0 / 0	1 / 0	0 / 0
Consumer Cyclical	0 / 2	0 / 4	0 / 2	0 / 5	0 / 1	3 / 2	1 / 2	0 / 0	1 / 0	7 / 0
Consumer Defensive	0 / 0	0 / 0	0 / 0	0 / 0	0 / 1	0 / 3	1 / 1	1 / 2	3 / 1	1 / 1
Energy	0 / 0	0 / 0	0 / 7	0 / 0	0 / 4	0 / 3	0 / 2	0 / 2	0 / 5	1 / 4
Financial Services	2 / 0	0 / 4	0 / 1	0 / 2	0 / 0	2 / 1	0 / 0	2 / 1	1 / 0	0 / 0
Healthcare	2 / 9	2 / 2	0 / 1	2 / 4	0 / 3	0 / 2	2 / 3	2 / 1	2 / 1	0 / 2
Industrials	0 / 0	2 / 1	1 / 0	2 / 2	0 / 0	1 / 4	1 / 1	6 / 4	2 / 1	2 / 1
Insurance	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	1 / 2
Real Estate	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0	0 / 0
Techology	0 / 2	0 / 0	0 / 0	0 / 0	0 / 3	0 / 0	1 / 3	0 / 3	2 / 2	0 / 0
Total	**4/16**	**4/13**	**1/12**	**4/15**	**0/18**	**7/17**	**6/17**	**12/15**	**12/11**	**15/10**
Ratio Upgrades to Downgrades	**0.25**	**0.31**	**0.08**	**0.27**	**0.00**	**0.41**	**0.35**	**0.80**	**1.09**	**1.50**

Data as of 3/20/2017

Deleveraging through debt redemption and profit growth remained a key theme for several sectors this quarter, and improving profit trends in the consumer cyclical sector led to nearly half of our upgrades. In basic materials, deleveraging produced upgrades at CRH (on debt redeemed after previous acquisitions and solid profits), Freeport-McMoRan (through asset sales), and Vulcan Materials (on EBITDA growth). In consumer cyclical, we upgraded seven firms (Advance Auto Parts, AutoZone, O'Reilly Automotive, Amazon, Best Buy, Carnival, and Royal Caribbean Cruises), all with signs of improving profitability. In consumer defensive, we upgraded Conagra Brands on recent portfolio restructuring activities. In energy, we upgraded Total on its improved operations and outlook since our downgrade in 2015. In industrials, we upgraded Masco on deleveraging through debt redemption and profit growth, and we upgraded Terex on deleveraging after a recent asset sale. In the insurance sector, we upgraded Allstate on a lower risk assessment of its insurance operations since our last rating action.

Profit pressure and acquisition activities were key themes in our downgrades. In consumer defensive, we downgraded Wal-Mart on its multiyear erosion of profitability. The energy sector was dominated by downgrades, as ExxonMobil, Occidental Petroleum, EOG Resources, and Marathon Oil finally succumbed to a lower baseline forecast of oil/gas prices after sharp declines in commodity prices since late 2014. In healthcare, we downgraded Abbott Laboratories after incorporating its recent leverage-increasing acquisition activity, and we downgraded AstraZeneca on its ongoing commitment to shareholder returns despite deteriorated cash flows. In industrials, we downgraded Parker Hannifin on a recent leverage-increasing acquisition. In insurance, we downgraded American International Group on significant returns to shareholders and ongoing operational problems, as evidenced by recent large reserve charges, and we downgraded Humana after its merger agreement with higher-rated Aetna was blocked.

First Quarter Upgrades and Downgrades

Company Name	Ticker	Old Rating	Current Rating	Date
Upgrades:				
Best Buy Co., Inc	BBY	BB	BBB-	03/20/17
Carnival Corp	CCL	BBB	BBB+	03/15/17
Allstate Corp	ALL	BBB	BBB+	03/14/17
CRH PLC	CRH	BBB-	BBB	03/14/17
Royal Caribbean Cruises Ltd	RCL	BB+	BBB-	03/14/17
Total SA	FP	BBB+	A-	03/14/17
Vulcan Materials Co	VMC	BB+	BBB-	03/14/17
Amazon.com Inc	AMZN	BBB+	A	02/21/17
Conagra Brands Inc	CAG	BBB-	BBB	02/13/17
O'Reilly Automotive Inc	ORLY	BBB	BBB+	02/13/17
Terex Corp	TEX	BB-	BB	02/13/17
Freeport-McMoRan Inc	FCX	B-	B+	02/07/17
Advance Auto Parts Inc	AAP	BBB-	BBB	02/03/17
AutoZone Inc	AZO	BBB	BBB+	02/03/17
Masco Corp	MAS	BBB-	BBB	01/20/17
Downgrades:				
Humana Inc	HUM	BBB+	BBB	03/15/17
American International Group Inc	AIG	BBB+	BBB	03/14/17
Abbott Laboratories	ABT	A	BBB+	03/03/17
Parker Hannifin Corp	PH	A	A-	02/23/17
Marathon Oil Corp	MRO	BBB	BBB-	02/21/17
Exxon Mobil Corp	XOM	AAA	AA+	02/17/17
AstraZeneca PLC	AZN	A	A-	02/16/17
Occidental Petroleum Corp	OXY	AA-	A	01/26/17
EOG Resources Inc	EOG	A	BBB+	01/19/17
Wal-Mart Stores Inc	WMT	AA	AA-	01/18/17

Data As of 3/20/2017.

During the first quarter, we resolved 10 reviews and did not place any additional companies under review, causing the number of companies under review to fall to 21 as of March from 31 at the end of December. We expect more downgrades than upgrades from our current rating reviews. As of March 17, 48% of these under review firms were downgrade candidates (UR-), 33% were upgrade candidates (UR+), and 19% could go in either direction (UR).

Companies Under Review Status by Sectors

Sector	UR+	UR	UR-	Total
Basic Materials	0	2	1	3
Communication Services	2	0	2	4
Consumer Cyclical	0	0	0	0
Consumer Defensive	0	0	3	3
Energy	2	1	0	3
Financial Services	1	0	0	1
Healthcare	0	0	1	1
Industrials	0	1	1	2
Insurance	2	0	0	2
Real Estate	0	0	0	0
Technology	0	0	2	2
Total	7	4	10	21
% of Total Under Review	33%	19%	48%	100%

Data as of 3/20/2017

While weak commodity prices remain a concern in basic materials, our current rating reviews in this industry are related to leverage-changing M&A and separations. Monsanto Co's (rating: A/UR-) credit rating remains under review with negative implications on the company's plan to merge with lower-rated Bayer AG (rating: A-/UR-) in a leverage-increasing transaction. Our credit ratings for Dow Chemical Co (rating: BBB/UR) and E. I. DuPont de Nemours & Co (rating: A-/UR) remain under review on merger plans; the direction and outcome of these reviews remain uncertain.

In communication services, our ratings for AT&T, CenturyLink, Sky, and Windstream remain under review on planned M&A activity. AT&T Inc (rating: BBB/UR-) plans to acquire Time Warner (rating: BBB+/UR-) in a leverage-increasing deal that could cut into their credit ratings. CenturyLink Inc's (rating: BB/UR-) review is based on the firm's plan to acquire Level 3, which may boost leverage enough to cut into its credit rating. Sky PLC's (rating: BBB/UR+) review reflects Twenty-First Century Fox's (not rated) plan to fully acquire it, which could have positive rating implications for the target. Windstream Holdings Inc's (rating: B-/UR+) recent merger with EarthLink appears to have positive implications for its credit profile based on lower expected financial leverage and higher profitability relative to its stand-alone status.

In consumer defensive, leverage-increasing acquisitions also dominate our reviews. British American Tobacco PLC (rating: BBB+/UR-) remains under review with negative implications on its plan to buy the rest of Reynolds American Inc (rating: BBB/UR-), which is also under review with negative implications on this planned transaction. British American's management team has stated a commitment to an investment-grade rating, but given the proposed debt financing, it could take several years to achieve investment-grade credit measures. Danone's (rating: BBB+/UR-) rating remains under review on plans to acquire WhiteWave (not rated) in an leverage-increasing deal, which could lead to a downgrade of the acquirer.

In energy, Baker Hughes, Tesoro, and Western Refining remain under review. Our review of Baker Hughes Inc (rating: BBB+/UR+) relates to the firm's planned merger with GE Oil & Gas. We understand that GE Oil & Gas will not bring any debt to the new combined entity, so the new entity should benefit from the combined cash flow of GE Oil & Gas and Baker Hughes and have lower leverage at inception. We are also reviewing the ratings on Tesoro Corp (rating: BBB-/UR) and Western Refining (rating: BB/UR+) on their pending merger. Assuming consummation of the deal, we estimate Tesoro's pro forma gross and net leverage probably will not change substantially, including merger synergies. Therefore, our rating of the combined entity may be in line with Tesoro's current rating, especially if refining industry conditions do not deteriorate further.

In financial services, Janus Capital Group Inc (rating: BBB/UR+) remains under review with positive implications on its pending merger with Henderson Group (not rated) in an all-stock deal that may lead to a better credit profile relative to the stand-alone entity.

In healthcare, Bayer AG's (rating: A-/UR-) credit rating remains under review after the company agreed to acquire Monsanto Co (rating: A/UR-) in a leverage-increasing transaction. If completed as planned, we suspect the combined entity's rating will be lower than Bayer's current rating.

In industrials, Joy Global and Rockwell Collins remain under review on recent merger and acquisition activities. Joy Global Inc's (rating: BB-/UR) rating remains under review on the company's plans to be acquired by Japanese firm Komatsu (not rated). We expect to withdraw our rating on Joy upon consummation of the merger, which is expected in mid-2017. Our review of Rockwell Collins Inc (rating: A-/UR-) revolves around its agreement to buy B/E Aerospace (not rated), which will push up leverage initially, and its plan to shoot for a higher long-term leverage target than it operates with as a stand-alone entity.

In insurance, the Department of Justice's attempt to block the merger of Anthem Inc (rating: BBB-/UR+) and Cigna Corp (rating: BBB-/UR+) was successful. However, Anthem is appealing that decision, and another court date is scheduled for April. Before this legal battle, our ratings assumed the merger would close as planned. But if it is not completed, we see the potential for positive credit rating implications for Anthem and Cigna, given the lower leverage that both firms could carry in stand-alone scenarios. The companies have not fully revealed their stand-alone capital-allocation plans, and we will continue to review their ratings until we have a better of sense of how they intend to manage their balance sheets in the long run.

In technology, acquisition activities and business reorganizations are the primary reasons for our rating reviews, and Time Warner and Analog Devices remain under review with negative implications on those activities. Our review of Time Warner Inc (rating: BBB+/UR-) relates to its planned combination with AT&T Inc (rating: BBB/UR-). Relative to Time Warner on a stand-alone basis, we project that the combined entity will operate with more leverage and a potentially weaker Business Risk profile, which could cut into its rating. Analog Devices Inc (rating: A+/UR-) remains under review with negative implications on its recent leverage-increasing merger with Linear Technologies (not rated).

Companies Under Review

Company	Ticker	Sector	Rating	Rating Status
Dow Chemical Co	DOW	Basic Materials	BBB	UR
E.I. du Pont de Nemours & Co	DD	Basic Materials	A-	UR
Monsanto Co	MON	Basic Materials	A	UR-
AT&T Inc	T	Communication Services	BBB	UR-
Sky PLC	SKY	Communication Services	BBB	UR+
CenturyLink Inc	CTL	Communication Services	BB	UR-
Windstream Holdings Inc	WIN	Communication Services	B-	UR+
British American Tobacco PLC	BATS	Consumer Defensive	BBB+	UR-
Danone SA	BN	Consumer Defensive	BBB+	UR-
Reynolds American Inc	RAI	Consumer Defensive	BBB	UR-
Tesoro Corp	TSO	Energy	BBB-	UR
Baker Hughes Inc	BHI	Energy	BBB+	UR+
Western Refining Inc	WNR	Energy	BB	UR+
Janus Capital Group Inc	JNS	Financial Services	BBB	UR+
Bayer AG	BAYN	Healthcare	A-	UR-
Joy Global Inc	JOY	Industrials	BB-	UR
Rockwell Collins Inc	COL	Industrials	A-	UR-
Anthem Inc	ANTM	Insurance	BBB-	UR+
Cigna Corp	CI	Insurance	BBB-	UR+
Analog Devices Inc	ADI	Technology	A+	UR-
Time Warner Inc	TWX	Technology	BBB+	UR-

Data as of 3/20/2017

Contributed by Julie Utterback, CFA

Exhibit 1 Morningstar Credit New Issue Monitor

Week ended March 27, 2017

(000,000s $ unless otherwise noted)

Issuer			Issue				
Name	Ticker	Morningstar Corporate Rating	Size	Coupon	Description	Maturity	Approx Spread to US Treasuries
BlackRock	BLK	AA-	$700	3.20%	Senior Unsecured	2027	+82
Caterpillar Financial Services	CAT	A-[(1)]	$650	1.90%	Senior Unsecured	2019	+63
Caterpillar Financial Services	CAT	A-[(1)]	$250	L+28	Senior Unsecured	2019	NA
Goldman Sachs	GS	BBB+	$1,750	2.60%	Senior Unsecured	2020	+110
Goldman Sachs	GS	BBB+	$750	L+73	Senior Unsecured	2020	NA
Heineken NV	HEINY	A-	$1,100	3.50%	Senior Unsecured	2028	+110
Heineken NV	HEINY	A-	$650	4.35%	Senior Unsecured	2047	+130
Medtronic Global Holdings	MDT	A+	$1,000	1.70%	Senior Unsecured	2019	+47
Medtronic Global Holdings	MDT	A+	$850	3.35%	Senior Unsecured	2027	+92
Medtronic Global Holdings	MDT	A+	$150	4.63%	Senior Unsecured	2045	+117

Source: Advantage Data, Company SEC fillings.

(1) Morningstar's issuer credit rating is assigned at the holding company level.

Exhibit 2 Morningstar, Inc. 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-**	**4,668**	**6.8**	**123**	**2**	**(5)**	**(0.25)**	**1.23**
FINANCIAL	**A-**	**1,437**	**5.4**	**114**	**2**	**(8)**	**(0.10)**	**1.22**
Bank	A-	887	5.0	115	1	(7)	(0.06)	1.11
Finance	A	259	5.6	109	4	(12)	(0.23)	1.45
Insurance	A	212	7.6	116	1	(6)	(0.11)	1.52
REITs	BBB+	71	5.9	130	4	(5)	(0.25)	1.37
INDUSTRIAL	**A-**	**2,672**	**7.4**	**126**	**2**	**(4)**	**(0.29)**	**1.23**
Basic Industries	BBB+	226	7.5	162	7	(18)	(0.42)	2.92
Consumer Products	A-	292	7.4	107	3	0	(0.40)	0.80
Energy	A-	402	7.0	152	5	(3)	(0.45)	1.51
Healthcare	A-	392	7.6	111	(0)	(4)	(0.26)	1.18
Manufacturing	A-	386	6.1	102	3	(8)	(0.29)	1.10
Media	BBB+	192	8.2	155	1	(3)	(0.27)	1.17
Retail	A-	163	8.0	111	2	2	(0.30)	0.72
Technology	A+	291	7.1	100	0	(5)	(0.20)	1.12
Telecom	BBB+	157	8.5	164	2	6	0.05	0.61
Transportation	BBB+	130	8.9	130	2	(3)	(0.45)	1.33
UTILITY	**BBB+**	**515**	**8.2**	**150**	**7**	**(2)**	**(0.71)**	**1.37**
Electric Utilities	A-	302	8.6	130	2	(6)	(0.39)	1.50
Gas Pipelines	BBB+	205	7.6	177	13	0	(1.15)	1.25
Rating Bucket								
AAA Bucket		110	7.7	67	1	1	(0.15)	0.67
AA Bucket		546	5.8	78	1	(5)	(0.20)	0.93
A Bucket		1,742	6.8	102	2	(4)	(0.26)	1.01
BBB Bucket		2,270	6.9	157	3	(8)	(0.26)	1.53
Term Bucket								
1-4	A	1,460	2.3	81	1	(12)	0.05	0.81
4-7	A-	1,145	4.6	107	1	(9)	(0.05)	1.25
7-10	A-	883	7.1	135	4	(2)	(0.25)	1.39
10PLUS	A-	1,180	13.5	177	4	3	(0.78)	1.60

Data as of 03/24/2017

Exhibit 3 Morningstar, Inc. Corporate Bond Index Spread by Sector

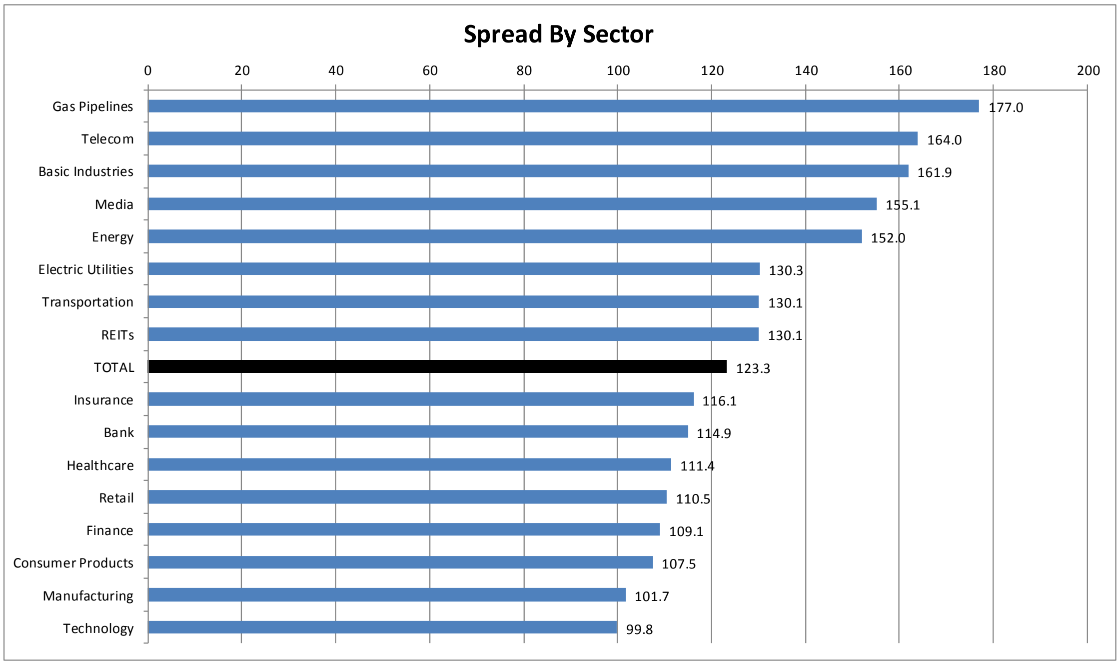


Exhibit 4 Morningstar, Inc. Corporate Bond Index YTD Spread Change

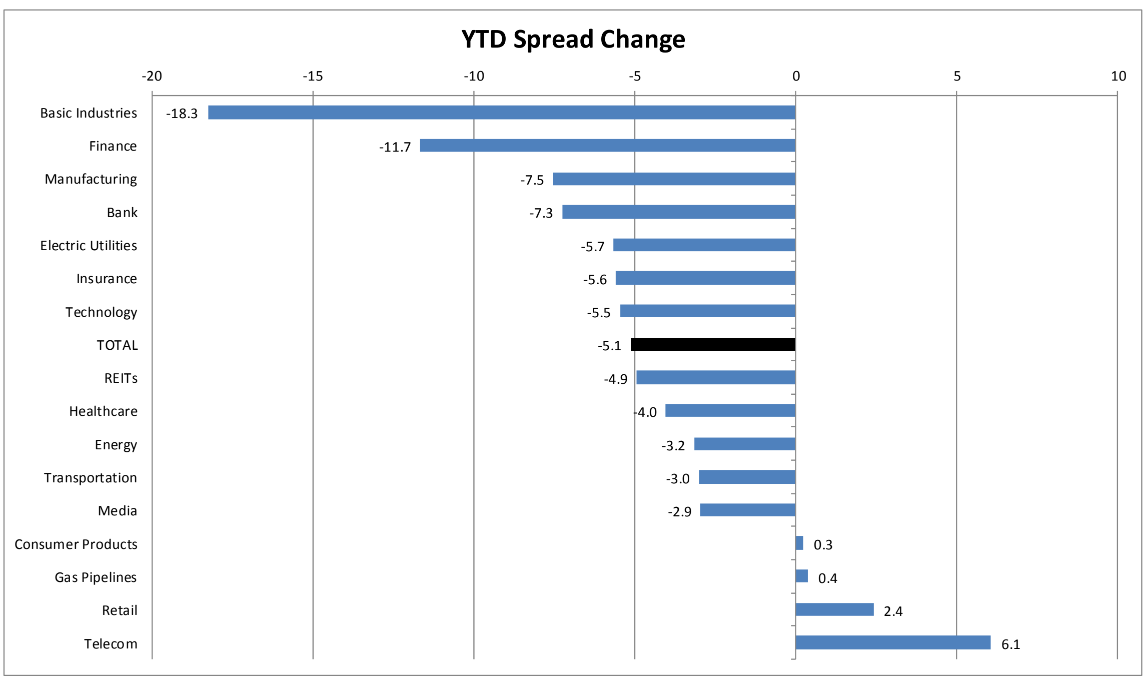
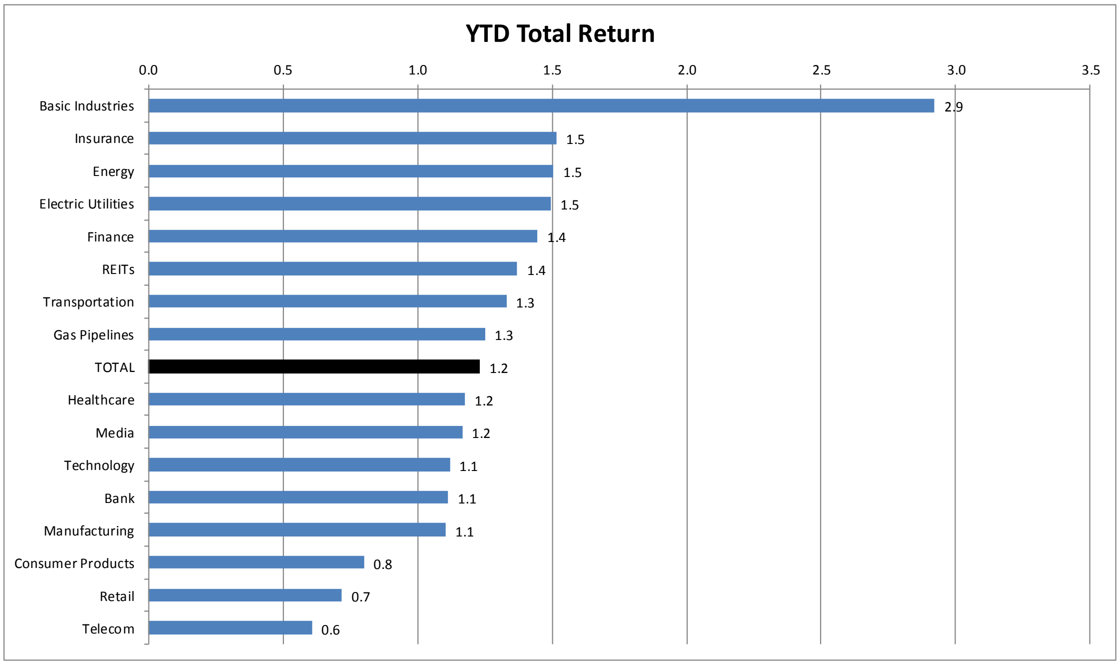


Exhibit 5 Morningstar, Inc. Corporate Bond Index YTD Return



Credit Rating Actions

► Rating Changes

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
Best Buy BBY	BBB-	BB
M&T Bank MTB	A-	BBB+

► Rating Affirmations

Issuer/Ticker	Current Issuer Credit Rating	Previous Issuer Credit Rating
Xilinx XLNX	A	A
Nordstrom JWN	BBB+	BBB+
State Street STT	A	A
Allergan AGN	BBB-	BBB-
JPMorgan Chase JPM	A-	A-
General Mills GIS	BBB+	BBB+
Kellogg K	BBB	BBB

Best Buy's Rating Upgraded to BBB-; Outlook Stable

Morningstar Credit Ratings, LLC is upgrading Best Buy Co., Inc.'s rating to BBB- and revising the outlook to stable. MCR's upgrade is based on successful profitability improvements, an excellent liquidity profile, and declining leverage, along with a leading position in the retail consumer electronics market.

Best Buy's Business Risk score reflects its position as the largest consumer electronics retailer in the U.S., operating nearly 1,600 stores, including international, with an estimated mid-teens share of the industry. Competitive advantages include a well-known brand intangible asset, high-traffic retail locations, store-based shipment capabilities, a growing online platform, and store-within-store partnerships. Still, electronics retailing is characterized by intense price competition, minimal customer switching costs, and reliance on continuous product innovation. The threat from online retailers is only increasing, mass merchants are ever willing to provide price discounts, and consumer product vendors are increasingly selling direct to the customer. Morningstar's Equity Research Group has assigned an economic moat of none to Best Buy reflecting these considerations.

Best Buy has posted substantial improvement in its operating results over the past several years, despite generally flat revenue growth. In fiscal 2017 (ended Jan. 28), Best Buy reported a modest 0.3% revenue decline to $39.4 billion, reflecting 0.3% comparable-store sales growth offset by modest store closures. Results have been supported by domestic online revenue growth, which increased 17.5% in the fourth quarter due to increased traffic and higher conversion rates, and represented 18.6% of total domestic revenue. In the final year of the company's Renew Blue plan, EBITDA grew over 8% to $2.5 billion while margins expanded 50 basis points to 6.4%, aided by gross margin enhancement and lower costs. Going forward, challenges remain to execute on additional cost-reduction efforts, to improve merchandising, and to maintain margins. MCR forecasts modest average annual revenue declines over the next several years, due to flat to slightly declining comparable-store growth coupled with the closing of underperforming stores, and for margins to remain relatively flat.

In fiscal 2017, free cash flow generation approached $2 billion, aided by working capital adjustments. After approximately $500 million in dividends and $700 million in share repurchases, Best Buy reduced debt balances nearly $400 million to about $1.4 billion. Adjusting for $6.1 billion of capitalized operating leases, total adjusted debt was $7.5 billion. The ratio of adjusted debt/EBITDAR was 2.3 times (1.1 times net) at the end of fiscal 2017, down from 2.6 times one year earlier. The credit agreement contains financial covenants that require Best Buy to maintain a maximum quarterly cash flow leverage ratio and a minimum quarterly interest coverage ratio. Best Buy maintains excellent liquidity, and its balance sheet is in a net cash position. At the end of fiscal 2017, liquidity included $2.2 billion in cash, $1.7 billion in short-term investments (largely consisting of commercial paper and time deposits), and full availability under its $1.25 billion revolver. While shareholder distributions declined to $1.2 billion from $1.5 billion one year earlier, we anticipate payouts will increase over the next two years. The company announced a 21% increase in its dividend and a new $3 billion share-repurchase program that will be completed over the next two years.

The stable outlook reflects MCR's expectation that Best Buy will continue to generate solid free cash flow despite challenges to increase revenue and will maintain its existing liquidity and leverage profile. The rating could be raised if management is successful at achieving additional substantial operating improvement along with the maintenance of its balance sheet strength. The rating could be lowered if competitive threats accelerate, weakening the company's profitability and returns, or if management's financial policies become more aggressive, either of which could negatively affect the Solvency Score.

M&T's Rating Upgraded to A- on Improved Solvency Score Metrics; Outlook Revised to Stable
Morningstar Credit Ratings, LLC is upgrading M&T Bank Corp.'s credit rating to A- from BBB+ to reflect to reflect the company's higher Solvency Score since our prior rating. In addition, we believe M&T's good Business Risk and Stress Test scores position the company more appropriately in the A- rating category relative to peers. We have revised our outlook on the company to stable from positive.

M&T's fair Solvency Score is characterized by solid profits that compare favorably with a broad set of U.S. banks as well as deposit and tangible common equity levels that we consider roughly average. These measures include a return on average assets of 1.06% and a return on average common equity of 8.2% for 2016. By our calculations, M&T's tangible common equity ratio ended the year at 8.9% with compares favorably to a peer average around 8%. The bank's regulatory capital levels, including a common equity Tier 1 capital ratio of 10.7% and a Tier 1 ratio of 11.9% under transitional measures, are roughly average. Following its acquisition of Hudson City Bancorp in November 2015, M&T's deposit base--which we consider its lowest-cost and stickiest source of funding--improved to over 89% of liabilities at year-end from 86% before the merger, which contributed positively to the Solvency Score. Negative aspects of M&T's Solvency Score measure include nonperforming asset levels and loan-loss reserves that are below average relative to our peer group.

M&T Bank also benefits from an above-average Business Risk score characterized by a stable funding mix and diverse revenue sources. Similar to regional banking peers, revenue during 2016 was split between net interest income, representing about 65.5% of 2016 revenue, and fee-based sources, including trust and investment income, which contributed the remainder of revenue. By segment, revenue sources are well diversified across commercial and business banking, retail and residential mortgage banking, and commercial real estate lending. M&T's focus on cost control contributed to an efficiency ratio of 56% during 2016, which compares favorably with a peer average in the mid-60s. In addition to a history of low operating costs, M&T's results also benefit from low funding and credit costs, which have influenced Morningstar's Equity Research Group narrow moat assessment, a factor that contributes positively to our Business Risk score. M&T Bank also benefits from a solid funding mix with deposits representing over 89% of liabilities and long-term debt representing about 9%. M&T's solid capital levels and asset quality, combined with our profit expectations, contribute to a good Stress Test score. In addition, M&T scores strongly in our Distance to Default assessment, which includes equity market risk measures as a risk indicator.

Our stable outlook on M&T Bank implies that we are unlikely to change our rating within the next year. Our rating assumes that the company maintains above-average profitability measures during our forecast horizon near levels observed during recent years, including a return on average assets around 1.0%. Our rating also assumes that the company maintains capital levels near current levels. If realized profits were to fall below our expectations, we could consider a negative outlook or a lower rating. In addition, lower levels of tangible capital relative to tangible assets or lower levels of reserves relative to nonperforming assets could also lead to a lower Solvency Score and a lower rating. A riskier loan portfolio or lower underwriting standards could contribute to a lower Stress Test score and a lower credit rating. Conversely, higher levels of deposits relative to total liabilities or higher levels of preprovision profits relative to average assets could contribute to a higher Solvency Score and a higher Business Risk score. Higher capital levels relative to tangible assets could also lead to a higher Solvency Score and a higher credit rating.

Affirming Xilinx Rating at A, Outlook Stable

Morningstar Credit Ratings, LLC is affirming its corporate credit rating on Xilinx Inc. at A and maintaining a stable outlook. Our rating on Xilinx reflects a moderate and stable Business Risk Score and a strong Solvency Score, supported by high returns on invested capital and a low debt level. Morningstar's Equity Research Group assigns Xilinx a narrow economic moat, supported by high switching costs for engineering and training faced by customers if they change vendors. Xilinx is one of two dominant players in a duopolistic market for programmable logic devices. After a slowdown in late 2015 into early 2016, revenue growth has been recently improved as a result of improved order flow from telecom, including 4G deployment in China and India as well as preparatory buildouts for 5G technology.

At December 2016, Xilinx reported $3.3 billion in cash and investments (including $1.8 billion held in the U.S.), supporting $1.6 billion in debt. In addition, Xilinx has access to a $400 million undrawn credit facility, which matures in 2021. Like many semiconductor firms, Xilinx has historically generated high margins and solid free cash flow. Total debt is now close to 2.1 times EBITDA, up modestly in recent years as a result of a slowdown in operating performance during 2016. However, liquidity remains well supported by a substantial amount of cash reserves in excess of debt. Management has committed to increase return to shareholders, though we don't yet view it as likely to drive a material increase in leverage.

We expect event risk to remain elevated amid general consolidation in the semiconductor industry, though our outlook on Xilinx remains stable. We believe revenue growth over next a few years will be supported by market share gains of PLDs over nonprogrammable ASIC circuitry. While revenue has historically exhibited cyclicality, we view this as mitigated by Xilinx's low capital needs, maintenance of solid cash reserves, and historically conservative debt levels.

We may consider an upgrade of the rating if management can sustainably improve the Cash Flow Cushion. 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.

Nordstrom's Rating Affirmed at BBB+; Outlook Revised to Negative

Morningstar Credit Ratings, LLC is affirming Nordstrom Inc's rating at BBB+ and revising the outlook to negative. MCR's affirmation is based on Nordstrom's solid competitive market position and financial policies that target the maintenance of a moderately leveraged balance sheet, despite recent profit weakness. The negative outlook reflects the possibility that the rating could be lowered if investments fail to stabilize profitability.

Nordstrom's Business Risk score reflects the company's strong competitive position in apparel retailing, which has been supported by substantial investments in store expansion and e-commerce initiatives to maintain brand intangible asset and profit margins. Nordstrom has built a brand that commands significant pricing power, a localized merchandising strategy, and a diverse strategy that includes 123 full-price Nordstrom stores (51% of sales), the full-price Nordstrom.com business (18% of sales), 215 off-price Nordstrom Rack stores (26% of sales), and various high-growth online businesses (5% of revenue). Morningstar's Equity Research Group has assigned Nordstrom a narrow economic moat. Over the past five years, Nordstrom has increased investments in technology and fulfillment to support its omnichannel initiatives. These investments now represent about 40% of total annual capital expenditures. Nordstrom's online business now represents 23% of revenue compared with 8% six years ago. Nevertheless, Nordstrom's investments in e-commerce technologies, the supply chain, and new markets have hurt margins. Retail EBIT margins declined to an adjusted 6.2% in 2016 from 11.5% in 2010.

Nordstrom's comparable-store sales have recently been pressured, including a 0.4% decline in 2016. Total revenue increased 2.2% to $14.8 billion, aided by new stores and online growth. EBITDA declined only 0.5% in 2016 after a 4.2% decline in 2015. EBITDA was $1.7 billion in 2016, while margins were 11.8% about 30 basis points lower versus last year. Nordstrom's third- and fourth-quarter results indicated EBITDA growth and margin expansion, demonstrating potential stabilization in profitability. Over the next five years, MCR forecasts that revenue can grow in the low single digits and margins can expand moderately.

Nordstrom maintained a commitment to a strong balance sheet in 2016. Free cash generation was near $800 million for the year, which adequately funded $533 million in dividends and share repurchases. These distributions were substantially lower compared with $2.4 billion of shareholder distributions in 2015 following the sale of the accounts receivable portfolio. Nordstrom indicated it is making further adjustments to reduce expenses and spending over the next few years, including lowering capital expenditures to 4% of sales, a reduction of approximately $300 million annually.

Over the past several years, debt leverage has remained relatively stable. With gross debt of $2.8 billion and a $1.8 billion adjustment for operating leases and pension obligations, the ratio of adjusted debt/EBITDAR ended the year at 2.4 times. Liquidity included $1 billion in cash and an $800 million senior unsecured revolving credit facility. Net adjusted leverage was 1.8 times at year-end. There were no borrowings under the revolver that expires in 2020, and covenants include a requirement to maintain EBITDAR leverage ratio under 4.0 times. Nordstrom's policy is to manage debt levels to maintain an investment-grade credit rating and operate with an efficient capital structure.

The negative outlook reflects the possibility that the rating could be lowered if investments fail to stabilize profitability. Given the negative outlook, a rating upgrade is unlikely. However, the outlook could be revised to stable if Nordstrom's profitability stabilizes along with returns, thus supporting the Solvency Score.

Affirming State Street's A Rating Based on Strong Competitive Position; Outlook Stable

Morningstar Credit Ratings, LLC is affirming its A credit rating and maintaining its stable outlook on State Street Corp. Positive attributes of our rating include the company's strong Business Risk score, which benefits from a low-risk business model and solid profitability, the positive effects of which are partly offset by mediocre tangible capital levels.

State Street's Business Risk score benefits from its position as a top-tier global custodian bank of $28.8 trillion in assets under custody and as an asset manager of over $2.5 trillion assets under management as of December 2016. Morningstar's Equity Research Group assigns the company a wide economic moat rating because of economies of scale and high switching costs associated with changing custodial banks for its asset-management clients, which supports the company's strong Business Risk score. Unique to its business model, most the company's revenue is derived from fee-based sources, including investment servicing fees, representing 49.7% of 2016 revenue, and investment management fees, which represented 12.7%. Interest income from lending and securities represents 20.4% of 2016, which is below an average above 50% for commercial banks.

The company's business model also contributes to a good score on our Stress Test. State Street holds a relatively small loan portfolio of secured loans to investment funds and financial institutions, which we consider to be low risk. During 2016, the portfolio produced just 2 basis points of net write-offs, and just 0.08% of loans were considered nonperforming at year-end, a level that compares favorably with a broader set of banks. In addition, about 55% of assets, or roughly 2 times average, are very liquid in nature. However, below-average tangible capital levels mitigate the Stress Test score.

State Street's average Solvency Score is characterized by very low levels of nonperforming and delinquent assets and strong protection for loan losses, the positive effects of which are partially offset by low levels of tangible capital relative to tangible assets and relatively low levels of deposits to liabilities compared with a broad set of U.S. banks. Relative to this broad peer group, profitability is roughly average. State Street reported return on common equity of 10.5% and a return on average assets of 0.93% during 2016. We expect that higher interest rates during the next two years of our forecast horizon will contribute to higher net interest income and lower fee waivers for money market portfolios to produce net interest income growth of around 9% and return on common equity around 14%. However, tangible common equity/tangible assets was just 4.4% at year-end as we calculate it, which trails a peer average around 6.5% and an average around 9.0% for all U.S. banks and represents a negative factor in our credit assessment. Because State Street operates a lower-risk business model and holds generally high-quality assets, regulatory capital levels are much higher. At year-end, State Street maintained a common equity Tier 1 capital ratio of 11.6% and a Tier 1 ratio of 14.8%, which were modestly higher than peers.

Our stable outlook on State Street implies that we are unlikely to change our rating within the next year. Our rating could be negatively affected by lower preprovision income relative to average assets or by lower levels of tangible capital relative to tangible assets, which could lead to a lower Solvency Score. Regulatory or business changes that reduce the company's competitive positioning could contribute to lower scale benefits and lower profits, which could contribute to a lower Business Risk score. Higher levels of short-term wholesale funding could also contribute to a lower Business Risk score. A riskier loan portfolio or lower underwriting standards could contribute to a lower Stress Test score and a lower credit rating. Conversely, higher levels of deposits relative to total liabilities could contribute to a higher Solvency Score and a higher Business Risk score. In addition, higher capital levels relative to tangible assets could also lead to a higher Solvency Score and a higher credit rating.

Allergan's Rating Affirmed at BBB-; Outlook Revised to Positive on Potential Deleveraging
Morningstar Credit Ratings, LLC is affirming Allergan plc's BBB- credit rating to reflect the firm's diverse specialty therapeutics portfolio balanced against its stubbornly elevated leverage. We are also changing the rating outlook to positive from stable, given our belief that the company may make meaningful progress toward its gross leverage goal in the next two years.

After selling its generic medicine segment to Teva in August 2016, Allergan is focused on areas where it has established leadership, notably aesthetics, ophthalmology, and gastroenterology. The firm also has a solid presence in the neuroscience, antibiotic, women's health and biosimilar markets, which provides diversification and helps maintain a good Business Risk pillar despite the sale of its generic drug unit. As a testament to its broad medicine chest, only two treatments are at a blockbuster level--neuromodulator Botox (19% of total revenue) and dry-eye drops Restasis (10% of sales). Since the beginning of 2016, Allergan introduced 21 new pharmaceuticals and medical devices despite the many disruptions associated with Allergan's transformation over the past two years, including the generics divestment, failed Pfizer merger, and constant asset integration. These new medicines and devices along with modest drug patent expiration exposure (likely Namenda in 2017 at 4% of total sales) give us confidence that Allergan can generate more than 6% revenue growth through 2021 compounded annually. We see margins getting a boost from the sale of the lower-margin generic division and helping EBITDA increase in the low double digits compounded annually over the next five years. Almost two years after the Allergan-Actavis merger, gross leverage remained above management's goal of gross debt/EBITDA of 3.0-3.5 times. As this metric eases, our Cash Flow Cushion, Solvency Score, and Distance to Default pillars may improve, which informs our positive outlook.

Allergan stretched its balance sheet from significant acquisition activity in recent years, which has resulted in presently high debt burden and elevated financial leverage. Due to these activities, gross debt rose to $42.7 billion by the end of 2015 from $1 billion in 2011. The debt load has since eased to $32.8 billion at the end of 2016 after Allergan used some proceeds from the sale of its generic unit (around $39 billion including about $34 billion in cash) for repayment of all outstanding term loans ($8.3 billion) throughout the year. Accordingly, gross debt leverage dropped to 4.3 times at the end of 2016 from around 5 times on a pro forma basis at the end of 2015 but remains above management's gross leverage target. With $13.2 billion of cash and investments left at the end of 2016 after around $15 billion in share repurchases during the year, net debt leverage stood at 2.6 times. We anticipate that Allergan may use its cash balance and solid free cash flow generation of $6 billion on average over the next five years, in our estimation, to repay coming senior unsecured debt maturities of about $6.5 billion in 2017 and 2018. This debt paydown coupled with sustained operational improvement may help Allergan achieve its gross leverage goal by 2018. We remain concerned about the firm's tendency to aggressively acquire assets as well as greatly reward shareholders via share repurchasing. If the firm significantly steps up these activities in the next two years, debt-reduction efforts may be hindered.

While estimated operational performance is encouraging, we are hesitant to upgrade our credit rating until we see the firm make better progress in deleveraging toward its gross leverage goal in the next few years. If the company successfully hits its target, which would benefit our Cash Flow Cushion and Solvency Score pillars, we may upgrade the rating. If, on the other hand, Allergan uses its cash balance and promising free cash flow generation to further gratify shareholders through share repurchasing and to consummate materially cash-draining business development, such that debt repayment is jeopardized, our Cash Flow Cushion and Solvency Score pillars would be impaired, and a negative rating action may ensue.

JPMorgan's A- Rating Affirmed on Solid Profits and Stable Credit Metrics; Outlook Stable
Morningstar Credit Ratings, LLC is affirming its A- credit rating and stable outlook on JPMorgan Chase & Co. The company's credit rating benefits from a diverse business mix and solid profits through difficult market conditions, the positive effects of which are partially offset by a reliance on wholesale funding. Our rating also benefits from improved regulatory capital levels since our prior review.

JPMorgan's good Business Risk score benefits from the company's diverse operations and leadership positions in many of its competitive markets, as well its vast size and scale. With over $2.4 trillion of assets at year-end, JPMorgan is the largest of the global U.S. banks. Although its operations are broad and often complex, over 60% of managed revenue in 2016 came from operations that we would consider lower-risk. The company organizes its operations into four operating segments: a domestically focused consumer bank, which includes retail and small business banking, mortgage services, and credit card lending, generated about 45.5% of managed 2016 net revenue; a corporate and investment bank, which includes advisory, underwriting, trading functions, generated about 35.5% of net revenue; a commercial bank which includes lending activities to medium and large clients, generated 7.5% of revenue; and a wealth and asset management segment, which generated the remaining 12.1% of revenue. The corporate and investment bank includes a top-tier global custodian with over $20.5 trillion of assets under custody at year-end, which generated about 3.6% of managed revenue. Although the investment bank represents a more volatile revenue source, many of the segment's business lines held leading market share positions for the year, including global investment banking fees, global debt and global equity underwriting, and loan syndications fees. In addition, JPMorgan is the largest U.S. credit card issuer. Further, Morningstar's Equity Research Group assigns JPMorgan a narrow economic moat rating because of cost advantages in its core banking operations and intangible assets in its investment banking and wealth management operations, a factor that positively influences the company's Business Risk assessment. However, JPMorgan's deposit levels relative to total liabilities imply a significant need for wholesale funding sources, which negatively affects our Business Risk score.

Based on our criteria, JPMorgan generates a fair Solvency Score. Positive attributes of our assessment include solid earnings power as illustrated by pre/provision profit/average assets, which ranked above average relative to a broad set of U.S. banks. Return on average assets for the year, a related measure, was 1.02% as we calculate it, which compares favorably with a peer average around 0.85%. Similarly, JPMorgan's return on average common equity for the year was 10.1% by our calculations, which compares favorably with an average of 8.6% for a broad set of U.S. banks. We consider JPMorgan's asset quality approximately average relative to the peer set. Nonperforming assets represented 0.9% of loans and other real estate owned at year-end, which was largely unchanged from the prior year. Net of issuance for share-based compensation, the company returned around 67% of net income to shareholders during 2016, which restrained further capital growth and improvement in the company's Solvency Score measure. Relative to our peer set, JPMorgan's ratio of tangible common equity/tangible assets was 7.4% by our calculations, which ranked below average and detracted from our Solvency Score calculation. However, the company's regulatory capital measures compare favorably with a broad set of U.S. banks with a common equity Tier 1 capital ratio of 12.4% and a Tier 1 capital ratio of 14.1% compared with averages around 11.5% and 12.5%, respectively, for the group. JPMorgan's relatively low level of deposit funding detracts from the company's Solvency Score. Deposits represented about 61.5% of liabilities at year-end, which ranks in the bottom decile relative to a broad set of U.S. banks and detracts from the Solvency Score.

JPMorgan generates a strong score on our Stress Test, which compares favorably with banking peers. The company benefits from a diverse loan portfolio that is relatively evenly split between consumer loans, which represented 56.6% of loans as of December 2016, and commercial loans, which represented 43.4%. By category, we consider JPMorgan's loans to represent either average or below-average credit risk. Results on the Stress Test reflects JPMorgan's initial capital position and solid levels of loan-loss reserves and our expectations for above-average levels of preprovision profits over our forecast horizon. Taken together, forecast capital levels are maintained at decent levels under our stress-case assumptions.

Our stable outlook on JPMorgan Chase implies that we are unlikely to change our rating within the next year. Our rating assumes that the company maintains above-average profitability measures during our forecast horizon near levels observed during recent years, including a return on average assets around 1.0% and return on common equity around 11.0%. Our rating also assumes that the company maintains capital levels near current levels. If realized profits were to fall below our expectations, we could consider a negative outlook or a lower rating. In addition, lower levels of tangible capital relative to tangible assets or lower levels of reserves relative to nonperforming assets could also lead to a lower Solvency Score and a lower rating. A riskier loan portfolio or lower underwriting standards could contribute to a lower Stress Test score and a lower credit rating. Conversely, higher levels of deposits relative to total liabilities or higher levels of preprovision profits relative to average assets could contribute to a higher Solvency Score and a higher Business Risk score. Higher capital levels relative to tangible assets could also lead to a higher Solvency Score and a higher credit rating.

General Mills' BBB+ Rating Affirmed; Stable Outlook.
Morningstar Credit Ratings, LLC is affirming General Mills Inc.'s BBB+ credit rating and assigning a stable outlook. The rating is supported by the company's market leadership and competitiveness across multiple food categories, including cereal, yogurt, refrigerated baked goods, and grain snacks. General Mills' shelf presence and the strength of its brand power can drive store traffic, making the company a valued partner for retailers and resulting in Morningstar's Equity Research Group assigning General Mills a narrow economic moat rating. However, pricing power and growth has been challenging because of consolidation among supermarkets, heightened competition, and changing consumption toward organic, less processed food, which has resulted in lower sales in some of the company's categories, particularly cereal, yogurt, and products sold in the center of the store.

General Mills recently reported that third-quarter sales declined 5% to $3.8 billion, reflecting particular weakness in soups and refrigerated baking products. Adjusted operating profit increased 5.5% to $620 million, resulting from the success of the company's restructuring and cost-saving programs. We believe General Mills' new, innovative, and organic products in cereal and yogurt under its Annie's, Yoplait, and Liberté brands align well with current consumer demand and combined with marketing support will increase the company's competitiveness. General Mills' multiyear restructuring initiatives to increase efficiency by consolidating and eliminating excess production capacity and redirecting a portion of those savings into high-growth areas are sound strategies to restore long-term growth and improve operating margins.

We anticipate that increased investment in marketing, advertising, and promotion will support new product introductions and help defend its competitive position. However, industry dynamics currently suppressing top-line growth are not expected to dissipate in the near or intermediate term. We are forecasting very low-single-digit revenue growth and that adjusted operating margin improves slightly above 19% in the intermediate term.

General Mills' credit measures constrain our positive view of its business risks. The company's Cash Flow Cushion is particularly low, as General Mills pays out a substantial portion of its cash flow in dividends and more than half of its debt matures over the next five years. Also, General Mills' credit measures may periodically weaken because of potential acquisition activity. We project that the company will repurchase 2% of its stock annually, which will be a further drain on cash flow. General Mills spent $1.7 billion on share repurchase for the latest 12-month period ended Feb. 26, 2017. Free cash flow (cash flow from operations less capital expenditures and dividends) for the last 12 months was approximately $465 million, or 4.4% of total debt.

General Mills' total debt was $10.6 billion at Feb. 26, including $869.2 million of redeemable interest, $604.7 million of current maturities, and $1.9 billion of commercial paper issuances and bank borrowings. General Mills' cash balance was $809.7 million at period-end, which the company indicated that a substantial portion is held in foreign jurisdictions and expected to be used to fund foreign operations and acquisitions. General Mills' leverage and coverage ratios are highly stable and we estimate total debt/adjusted EBITDA for the fiscal year ending May 31, 2017, will be about 3.0 times and adjusted EBITDA/interest expense in the low double digits, consistent with the prior year and in line with the rating category. The company's lease-adjusted leverage was 3.4 times for the latest 12-month period.

Commercial paper support, additional liquidity, and financial flexibility are provided by General Mills' committed credit facilities totaling $2.9 billion, composed of a $2.7 billion facility expiring in May 2021, and a $0.2 billion facility expiring in June 2019. The committed credit facilities contain a financial covenant that requires the company to maintain a fixed-charge coverage ratio of at least 2.5 times, which we view as easily achievable.

A positive rating action could occur if General Mills restores revenue growth, commits to lower leverage, and maintains its operating margins and returns on invested capital. An extension of near-term maturities thereby reducing the company's reliance on short-term financing would also be positive for the rating. These actions are likely to improve the company's Cash Flow Cushion and Solvency Score. Conversely, prolonged declines in revenue or higher debt levels, particularly short-term debt that increases General Mills' reliance on debt capital markets, would weaken the company's Cash Flow Cushion and Solvency Score and negatively affect the company's ratings.

Kellogg's BBB Rating Affirmed; Stable Outlook

Morningstar Credit Ratings, LLC is affirming Kellogg Co's BBB rating and assigning a stable outlook. The rating reflects Kellogg's leadership in the highly profitable ready-to-eat cereal category and its competitive position in snack foods. Kellogg has a narrow economic moat as assigned by Morningstar's Equity Research Group, reflecting the strength of its brands and the efficient scale that results from its global distribution network, but despite meaningful returns on invested capital, the company is challenged to obtain sufficient pricing to offset inflation and meaningfully increase the top line. Furthermore, the cereal category continues to shrink as consumption of yogurt, cereal bars, and breakfast sandwiches grows. Diversification efforts in snack foods have been successful, but we believe

Kellogg's product mix is slightly overindexed to breakfast consumption. These issues are balanced by our expectations that efficiency improvements and investments in marketing and product innovation will benefit Kellogg over our forecast period.

To reduce costs further and simplify distribution, Kellogg will discontinue its direct store delivery system in the U.S., which will free up capital to reinvest in the business but may also result in some revenue variability in 2017. Management has maintained its guidance for a 3% revenue decline for the year. Following that announcement, Kellogg revised its cost-saving target to $600 million-$700 million through 2019 from $425 million-$475 million by 2018. MCR anticipates that operating margins will improve to 17% throughout the period. Barring acquisitions, we forecast debt/adjusted EBITDA to remain at about 3 times in the near to intermediate term and adjusted EBITDA/interest to be 8-9 times during the period. These measures are appropriate for the rating category.

Kellogg's total debt was $7.8 billion as of Dec. 31, 2016, including $631 million of current maturities of long-term debt and $438 million of commercial paper and bank borrowings. Kellogg's cash balance was $280 million at year-end, which is probably the minimum needed to run the business. Approximately 40% of the firm's debt matures over the next five years, and as Kellogg pays out more than 60% of its cash flow to shareholders through dividends, it results in Cash Flow Cushion weakness. Commercial paper support and financial flexibility are provided by the company's $2.3 billion senior unsecured five-year credit agreement that expires in 2019, of which $2.0 billion may be borrowed on a revolving basis. Virtually all of the credit facility was unused and available at year-end. The credit facility contains an interest expense coverage ratio covenant that requires the ratio of EBITDA/interest expense to be no less than 4.0/1.0 for any four consecutive fiscal quarters, which the company can easily meet. Added financial flexibility is also provided by Kellogg's $800 million unsecured 364-day revolving credit agreement, which expires Jan. 31, 2018.

Kellogg's pension plans are currently funded at approximately 82%, and the company's estimated minimum contributions for the defined-benefit pension and postretirement benefit plans are less than $50 million annually until 2019. However, Kellogg had a $1.0 billion pension liability at year-end. Kellogg made dividend payments totaling $716 million in 2016, which was slightly more than 63% of its $1.1 billion of the operating cash flow after capital expenditures. Net share repurchases were $58 million, meaningfully lower than the prior year's $470 million. We estimate that Kellogg has in excess of $1.0 billion remaining under its $1.5 billion share-repurchase authorization.

A positive rating action could occur if Kellogg meaningfully extends debt maturities, restores revenue growth, and maintains the improvements in operating margin, thereby improving its return on invested capital, Cash Flow Cushion, and Solvency Score. Conversely, declining revenue and an inability to maintain margin improvement would weaken the Cash Flow Cushion and Solvency Score and negatively affect the company's ratings.

Recent Notes Published by Credit Analysts

Heineken NV Offering 10-Year and 30-Year Bonds

Market New Data

Heineken NV (rating: A-, negative) is in the market today offering 10-year and 30-year bonds. Proceeds are expected to be used to refinance short-term debt.

For comparison purposes, we examine bonds issued by ABI InBev SA/NV (rating: BBB+, stable) and similarly rated Diageo PLC (rating: A-, stable) with pricing provided by Advantage Data.

Intermediate term:
Heineken NV 2.75% bonds due 2023 recently traded at a spread of +73 basis points over the nearest Treasury'
Anheuser-Busch InBev SA/NV 3.65% bonds due 2026 recently traded at a spread of +115 basis points.
Diageo PLC 2.875% bonds due 2022 were recently indicated at a spread of +63 basis points.

Long term:
Heineken NV 4.0% bonds due 2042 recently traded at a spread of +127 basis points.
Anheuser-Busch InBev SA/NV 4.9% bonds due 2046 recently traded at a spread of +137 basis points.
Diageo PLC 4.125% bonds due 2042 were recently indicated at a spread of +121 basis points.

MCR Credit Risk Assessment

Our rating on Heineken reflects the strength of its intangible assets from the company's premium namesake brand, global scale, and balanced diversification between developed and emerging markets. These elements provide stability to Heineken's operating earnings and cash flows that support our Business Risk score and creates a narrow economic moat, assigned by Morningstar's Equity Research Group. We affirmed our ratings in January 2017 and assigned a negative outlook to Heineken due to sustained acquisition leverage and a weakened Cash Flow Cushion and Solvency Score. The company announcement in December 2016 that it would acquire a portfolio of 1,900 pubs across the United Kingdom for a total enterprise value of approximately EUR 1.4 billion that will push its net debt/adjusted EBITDA beyond its target of 2.5 times.

Heineken's market share of about 9% places it in the No. 2 position globally behind ABI InBev, the industry's behemoth. Heineken is the second largest brewer in Western Europe and owns one of the best-selling imported brands in the U.S. Heineken also controls a significant percentage of the Mexican beer market, 10% of the Brazilian beer segment, and is expanding distribution of its premium branded beers in these countries. Its focus on fewer, but larger, markets allows the firm to leverage its volume and obtain economies of scale. The performance gap between Heineken and the leading global brewers is clear. For example, ABI InBev's operating margin is approximately double Heineken's. However, Heineken's moat trend is positive, reflecting its position as the leader in the international premium segment, which should deliver above-average long-term improvements to returns on capital and narrow the profitability gap over time. Heineken's organic growth of 4.4% in 2016 was supported by 3.7% premium volume growth, which was in line with our expectations. Operating margins improved 54 basis points for the year. ABI InBev's volume has been under pressure for several quarters, and in fiscal year 2016 total volume was down 2.0%. ABI InBev's debt/adjusted EBITDA is above 5.0 times, reflecting the over $110 billion acquisition of SABMiller in October 2016. We do not expect the company to reach its goal of net debt/EBITDA of approximately 2.0 times within the intermediate-term time horizon.

Similar-rated Diageo is the world's largest spirits producer and owns seven of the world's 20 top-selling brands, including Guinness beer. The company has a substantial global distribution, marketing scale, and unmatched brand strength. Diageo generates operating margins of 30% and returns on invested capital in the low teens, well above its weighted average cost of capital. With its broad geographic footprint and category depth and range, Diageo is able to leverage its strength to gain shelf space and successfully negotiate with distributors and retailers on pricing. Diageo's management demonstrates financial discipline as the balance sheet is currently leveraged at net debt/EBITDA of 2.5 times, within the company's targeted range.

Medtronic Issuing New Debt for General Corporate Purposes

Market News and Data

Medtronic PLC (rating: A+, stable) is reportedly in the market issuing new 2-year (floating- and fixed-rate notes) and 10-year notes while also issuing more of its existing 4.625% notes due 2045. The stated use of proceeds from these notes is general corporate purposes, which may include debt refinancing, acquisition-related payments, and other activities. The firm's closest credit comparables are Stryker Corp (rating: A+, stable) and C.R. Bard Inc (rating: A+, negative). All of the following bond data is sourced from Advantage Data and Finra Trace.

In the approximate 10-year maturity bucket, bonds from these issuers recently traded over the nearest Treasury as follows:

Medtronic PLC's 3.50% notes due in 2025 at +94 basis points.
Stryker Corp's 3.50% notes due in 2026 at +103 basis points.
C.R. Bard Inc's 3.00% notes due in 2026 at +112 basis points.

For comparison with the roughly 10-year maturities, the Morningstar Corporate Bond Index is +91 basis points at A+, +101 basis points at A, and +113 basis points at A-.

In the approximate 30-year maturity bucket, bonds from these issuers recently traded over the nearest Treasury as follows:

Medtronic PLC's 4.63% notes due in 2045 at +118 basis points.
Stryker Corp's 4.63%% notes due in 2046 at +140 basis points.

MCR Credit Risk Assessment

Our A+ rating reflects Medtronic's strong advantages in the medical device industry and manageable leverage. Medtronic's Business Risk pillar remains better than its pure-play medical device peers, as

Medtronic operates one of the most diverse and advantaged medical device businesses in the world. The wide economic moat assigned by Morningstar's Equity Research Group is rooted in Medtronic's dominant presence in highly engineered medical devices to treat chronic diseases. Medtronic historically has been the market leader in cardiac devices, spinal products, insulin pumps, and neuromodulators for chronic pain. The combination with Covidien added a dominant position in medical instrumentation, which is a niche that also enjoys high switching costs and an oligopolistic nature. However, Medtronic's leverage remains elevated from historic levels since the 2015 Covidien merger. As of January, Medtronic owed $32 billion in debt, or 3.6 times adjusted EBITDA on a trailing 12-month basis, and $11 billion of cash and investments pushed that down to 2.3 times on a net leverage basis. Although it has deleveraged by about a turn since the merger, Medtronic's leverage has remained roughly stagnant in the past few quarters, which informs our stable outlook.

BlackRock Offering 10-Year Senior Notes

Market News and Data

Asset manager BlackRock, Inc. (rating: AA-, stable) is reportedly in the market offering $500 million 10-year senior notes. The lion's share of the proceeds are expected to be put toward the redemption of a portion of 6.25% $700 million senior notes scheduled to mature in September 2017, with the company stating that any remaining proceeds will be used for general corporate purposes. For comparison purposes, we look to other asset manager credits. According to pricing service Advantage Data, these bonds are indicated over the nearest Treasury as follows:

BlackRock, Inc. 3.50% due 2024 at +60 basis points.
Franklin Resources, Inc. (rating: AA-, negative) 2.85% due 2025 at +105 bps.
Invesco Ltd. (rating: A-, stable) 3.75% due 2026 at +118 bps.
Eaton Vance Corp. (rating: A-, stable) 3.625% due 2023 at +127 bps.
Legg Mason Inc. (rating: BBB, negative) 3.95% due 2024 at +161 bps.

MCR Credit Risk Assessment

BlackRock's AA- credit rating is supported by the company's substantial scale, diverse revenue streams, and overall low leverage. Diversified products provide a high degree of resilience to downturns in any single asset class or market. BlackRock is the largest provider of exchange-traded funds via iShares, totaling roughly $1.3 trillion out of $5.1 trillion of assets under management at year-end 2016. Passive and actively managed strategies account for roughly 63% and 29% of AUM, respectively, with the remaining 8% balance in short-term cash management and advisory services. Long-term assets under management by product type are split so that approximately 52% of total AUM is in equity strategies, 30% is in fixed income, and 10% is in multi-asset and alternative class products. With more than 80% of its AUM sourced from institutional clients, BlackRock is less susceptible to the volatility that often characterizes retail investors. The firm is also globally diversified, with 29% of its AUM coming from investors domiciled in Europe, the Middle East, and Africa and 7% from Asia-Pacific areas.

Aside from its size and diversification, BlackRock's stellar operating performance is evidenced by its consistently strong operating margins both on an absolute basis and relative to peers, with the company reporting a 41.6% margin at year-end 2016. Overall returns are more in line with competitors as BlackRock reported an 11% return on equity for 2016. Financial leverage, reported at 14.5%, is also lower than most peers and is expected to approximate this level going forward, which we view as a credit positive, though we note that timing differences between issuance of the $500 million notes and redemption of the notes maturing in 2017 may lead to a temporary spike in leverage.

Credit Contacts

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

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

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

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

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

Financials – Banks
Chris Baker, CFA
christopher.baker@morningstar.com
+1 312 244-7533

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

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

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

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

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

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

REIT
Mike Magerman
mike.magerman@morningstar.com
+1 267 960 6022

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

About Morningstar® Credit Research

Morningstar Credit Research provides independent, fundamental equity research differentiated by a consistent focus on sustainable competitive advantages.

For More Information

Gregg Novek
+1 646 560-4529
gregg.novek@morningstar.com

22 West Washington Street
Chicago, IL 60602 USA