ARCHIVE | Criteria | Corporates | Industrials:

Key Credit Factors For The Business And Consumer Services Industry

November 19, 2013

*(**Editor's Note:** This article is no longer current. We have included relevant content in "Guidance: Corporate Methodology," published on July 1, 2019.)*

1. This article presents S&P Global Ratings' methodology and assumptions for the business and consumer services industry. This article aims to help market participants better understand these key credit factors. This article is related to our corporate criteria (see "Corporate Methodology," published Nov. 19, 2013, on RatingsDirect) and our criteria article "Principles Of Credit Ratings," published Feb. 16, 2011.

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SCOPE OF THE CRITERIA

3. This article presents S&P Global Ratings' criteria for the business and consumer services industry. We define business and consumer services companies as companies that derive a majority of their earnings by offering businesses a more cost effective way to carry out their noncore activities or by providing consumers with a variety of services. These criteria apply globally to ratings on issuers in the business and consumer services sectors, which include the following subsectors:

- Consumer services: Companies primarily providing services directly to consumers, typically focused on the provision of childcare, for-profit education, automated retail, consumer tax and legal, weight management, and funeral and cemetery.
- Distribution services: Companies whose primary function is to distribute products, such as food, beverages, books, pharmaceutical, medical, optical, building products, and automotive products.
- Facilities services: Companies whose primary function is to operate and/or maintain the facilities/premises of other businesses and/or provide staff to carry out these functions. Focus areas may include hospitality (i.e., food, catering, or concession), uniform and apparel, landscaping, equipment (i.e., laundry equipment, medical equipment, heating, air conditioning, or plumbing), and cleaning.
- General support services: Companies whose primary function is to provide general support services for businesses that typically have the option to insource the services. Focus areas may include sales and marketing, staffing, manned guarding, inventory and transaction processing, document management, and communications.

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- Professional services: Companies whose primary function is to provide complex services for businesses. Businesses outsource to professional services companies because of their scale, expertise, geographical reach, and reputation. Focus areas may include consulting services, information services, insurance brokerage services, financial and audit services, contract research organizations, and background investigative services.

4. These criteria are not intended to apply to oilfield services, computer services, and environmental services because the characteristics of these industries are so closely aligned with the characteristics of the industries they serve.

SUMMARY OF THE CRITERIA

5. This article presents S&P Global Ratings' criteria for analyzing business and consumer services companies, applying S&P Global Ratings' corporate criteria.

6. We view business and consumer services as an "intermediate risk" industry under our criteria, given its intermediate cyclicality risk and intermediate degree of competitive risk and growth. In assessing the competitive position of a business and consumer services issuer, we put particular emphasis on:

- The growth potential of the industry, including potential demand growth or increased outsourcing for the service;
- The risk of lower demand for the service or increased insourcing of the service; and
- Current and forecasted profit margins.

In our assessment of the financial risk profile, we consider industry or company-specific fixed and working capital characteristics, shareholder policies, and the effect of those factors on cash flow and leverage ratios.

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METHODOLOGY

Part I: Business Risk Analysis

A. Industry Risk

9. Within the framework of S&P Global Ratings' criteria for assessing industry risk, we view business and consumer services as an "intermediate risk" industry (category 3). We derive our industry risk assessment for business and consumer services companies from our intermediate risk (3) cyclicality assessment, and our intermediate risk (3) competitive risk and growth assessment.

10. In our view, demand for business and consumer services is derived from GDP growth, business and consumer confidence, employment growth, and government spending. Demand is generally derived from these broader macroeconomic factors because business and consumer services companies sell a broad range of products and services into many different end-markets. These broader macroeconomic factors have a stronger influence on demand when the products and services are more discretionary in nature.

1. Cyclicality

11. We assess the cyclicality of business and consumer services as intermediate risk (3). Based on our analysis of global Compustat data, business and consumer services experienced an average peak-to-trough (PTT) decline in revenue of about 4.4% and a decline in EBITDA margin of about 10.2% during recessionary periods since 1952 (see "Methodology: Industry Risk," published Nov. 19, 2013). During the recent global economic downturn, revenue showed higher volatility by declining nearly 10% compared with only declining by up to 3% in the prior four recessions. However, EBITDA margin exhibited lower volatility by only declining up to 4% in the three most recent recessions and declining about 10% in the recessions of the 1970s and early 1980s.

12. We attribute the smaller revenue decline relative to many other sectors to the broad nature of the service offerings within the industry (some of which are nondiscretionary offerings) and the strong customer diversification of most business and consumer services issuers. The larger revenue decline in the most recent recession is attributable to the severity of the recession relative to the prior four recessions. We attribute the larger EBITDA margin decline relative to the revenue decline in the prior recessions to a tendency for companies to delay staff reductions--a significant component of the expense structure--during prior recessions. It is difficult for companies to quickly and accurately right-size staff over the short term (less than 12 months), but easier over the intermediate term (12 to 36 months). In the most recent recession, EBITDA margin declined by less than revenue, which points to a transition to more flexible staffing strategies, generally leading to better margin management.

2. Competitive risk and growth

13. We assess competitive risk and growth of business and consumer services companies as intermediate risk (3). To assess competitive risk and growth, we assess four sub-factors as low, medium, or high risk. These sub-factors are:

- Effectiveness of industry barriers to entry;
- Level and trend of industry profit margins;
- Risk of secular change and substitution by products, services, and technologies; and
- Risk in growth trends.

a) Effectiveness of industry barriers to entry--medium risk

14. Barriers to entry are moderate, even though the industry is not particularly capital intensive. Some barriers exist for companies able to integrate their service offering into a customer's operations, perhaps through information technology or staff. This increases a customer's switching costs. Customers may prefer to retain the incumbent provider because of reluctance to switch to new software or new staff of a new provider. The complexity of the service offering could also decrease the customer's willingness to switch service providers. Customers view switching providers as a risk, especially if the service is crucial to maintaining smooth operations. Customers generally prefer to maintain consistency with their service providers so long as service quality remains satisfactory and pricing remains reasonable.

15. With markets tending to be highly fragmented beyond the top few national or global service companies, pricing can be competitive and, typically, the cost for a new competitor to enter a market is low. Also, services requiring a local presence and frequent customer visits (i.e., facilities

services) tend to restrict consolidation because the benefits are limited. The benefits are limited because there is less opportunity to create a competitive advantage through greater scale. The need for a local presence allows sole proprietors to remain competitive. Barriers to entry are lowest when consolidation benefits are limited.

b) Level and trend of industry profit margins--medium risk

16. Margins for many business and consumer services issuers are under moderate pressure from competitive pricing in mostly fragmented markets. The ability to sustain or increase margin generally comes from expense management, usually stemming from lower employee turnover, limited wage and benefit growth, and increased fixed-cost absorption from increased scale following acquisitions. Personnel expenses are a significant element of the expense structure and affect margin performance. The nature of the service performed affects the flexibility of the expense structure. Companies performing less complex services have more flexible expense structures because they can more quickly adjust their staff levels to align with demand. This does not necessarily apply for companies with a highly unionized work force. Companies performing more complex services have less flexible expense structures because they must maintain consistent staff levels given the time and expense required to train new staff should demand suddenly increase. Typically, more complex service offerings have higher margins to compensate for the less flexible expense structure. Staff compensation policy can also affect the flexibility of an expense structure. Companies with personnel compensation that has a large variable component (such as commission-based compensation for sales-oriented service companies and professional consulting firms) can better sustain margins should demand decline.

17. Demand is not subject to a high degree of seasonality, and it generally tracks GDP and inflation trends. Demand is generally stable during periods of modest economic weakness because customers tend to continue outsourcing noncore services even during recessions. However, customers may seek pricing concessions or fewer services during recessions. Pricing pressure exists when corporate profits are falling. Demand may be less stable for certain industries, such as personnel staffing, which is highly dependent on employment conditions.

c) Risk of secular change and substitution by products, services, and technologies--low risk

18. Most business and consumer services issuers provide their customers with more cost-efficient alternatives than undertaking noncore activities in-house. In addition, businesses choosing to outsource tend to continue outsourcing because it is costly to return services in-house once the outsourcing decision has been made. This reduces substitution risk and helps boost customer retention rates for many service companies.

19. Companies that have a significant proportion of their customer contracts with governmental agencies face the risk of shifts in political influence, which could give preference to competitors or even decrease the use of service contractors in favor of internal government departments. This risk has increased with the prevalence of government austerity measures in recent years. Only a few of the service companies we rate have significant exposure to governmental agencies.

20. Services companies become the experts in the respective noncore activities, which limits substitution risk from outside the industry. This explains why many outside companies use acquisitions to establish a new business line or to expand their presence in an existing business line.

d) Risk in growth trends--medium risk

21. Organic revenues tend to grow at slightly less than, or in line with, GDP growth, in part because service companies provide services for companies participating in nearly all areas of the economy. When price competition is intense, organic growth tends to slightly lag GDP growth. For companies servicing a specific industry, growth may also correlate to the cycles of the underlying industry. (For example, revenue growth for insurance brokers is tied to the insurance rate cycle.)

22. Many of the rated business and consumer services issuers supplement organic growth with growth through acquisitions, especially those participating in highly fragmented markets. Acquisition risk is especially relevant in highly fragmented, consolidating markets, such as food distribution and background screening. Integration risks for business and consumer services issuers are similar to the risks that issuers in other sectors face. Some notable risks surround employee morale and continuity of service. Declining employee morale is a risk because meaningful staff reductions usually follow a merger. Maintaining continuity of service to the customer is important, especially when direct customer interaction with the company is frequent. It is common for competitors to attempt to take share from the merged company following a merger, especially when there are changes to terms or meaningful disruptions as a result of the merger. Understanding management's acquisition methodology and track record for minimizing integration risks following acquisitions can be useful in deriving forecasts of future growth.

B. Country Risk

23. Country risk plays a critical role in determining all ratings on companies in a given country. Country-related risk factors can have a substantial effect on company creditworthiness, both directly and indirectly. While our sovereign credit ratings suggest the general risk local entities face, the sovereign ratings may not fully capture the risk applicable to the private sector. We look beyond the sovereign rating to evaluate the specific economic, demographic, and other country risks that may affect the entity's creditworthiness. In assessing country risk for business and consumer services companies, our analysis uses the same methodology as with other corporate issuers (see our corporate methodology). We generally determine exposure to country risk using revenue or EBITDA, rather than fixed assets, because most business and consumer services companies are not asset-intense.

C. Competitive Position (Including Profitability)

24. Under our corporate criteria, a company's competitive position is assessed as (1) excellent, (2) strong, (3) satisfactory, (4) fair, (5) weak, or (6) vulnerable. In assessing the competitive position for business and consumer services companies, in line with all corporates, we review a company's:

- Competitive advantage;
- Scale, scope, and diversity;
- Operating efficiency; and
- Profitability.

25. We assess the first three components as either: (1) strong, (2) strong/adequate, (3) adequate, (4) adequate/weak, or (5) weak. We assess profitability through the combination of two subcomponents--level of profitability and volatility of profitability.

26. After separately assessing competitive advantage; scale, scope, and diversity; and operating efficiency, we determine the preliminary competitive position by ascribing a specific weight to each component. The applicable weightings will depend on the company's Competitive Position Group Profile (CPGP).

27. The CPGP we assign to most business and consumer services companies is "Services and Product Focus." Services and Product Focus components are weighted as follows:

- Competitive advantage (45%).
- Scale, scope, and diversity (30%).
- Operating efficiency (25%).

28. We would assign the "Capital or Asset Focus" CPGP to those few service companies requiring sizable capital investment and asset infrastructure to sustain competitive position. The corporate criteria generally consider a capital-intensive company as having ongoing capital spending to sales of greater than 10%, or depreciation to sales of greater than 8%. We may assign this CPGP to a company with a lower capital spending or depreciation to sales ratio than stated above if a sizable asset base and infrastructure is crucial to its operation. For example, some distributors have capital spending to sales ratios of less than 3%, yet its fleet and warehouse infrastructure is an important aspect of its competitive position. Capital or Asset Focus components are weighted as follows:

- Competitive advantage (30%).
- Scale, scope, and diversity (30%).
- Operating efficiency (40%).

1. Competitive advantage

29. In assessing the competitive advantage of a business and consumer services company, we consider:

- Business strategy;
- Brand equity and reputation; and
- Market position.

30. In reviewing business strategy, we consider a company's relative success, or lack thereof, at establishing leadership positions in the markets in which it competes, and at protecting or growing market shares in a profitable manner. We assess market shares by key markets and regions, when available. We also look for trends in share and consider the attractiveness of the key markets and regions in which the business operates. We compare the relationship between revenue growth and sales force or advertising growth. A sound marketing strategy and effective sales force is especially important for companies pursuing a differentiation strategy or looking to expand into new segments. If successful, revenue growth should follow advertising growth and sales force hiring. We also review a company's acquisition strategy to assess how it may increase or decrease competitive advantage. Many business and consumer services issuers supplement organic growth with growth through acquisitions, especially those participating in highly fragmented markets. Over time, a successful acquisition strategy can enhance competitive advantage, especially in highly fragmented markets when scale can provide an advantage.

31. In reviewing brand equity and reputation, we consider a company's brand strength, or lack thereof.

Brands commanding a clear price premium demonstrate strong brand equity and reputation. Companies successfully leveraging existing brand names into new service categories also show strong brand equity and reputation. Brand strength is typically confirmed with market share gains, above average profitability, and premium pricing. Asset impairments or the potential for asset impairments may indicate poor brand equity and reputation.

32. In reviewing market position, we consider how a company's position may create barriers to entry. The company's ability to integrate its service offerings into a customer's operations enhances its market position. Also, a company's ability to bundle services helps its market position. Selling multiple services to a customer increases switching costs, reflected in higher customer retention rates and contract renewal rates.

33. A business and consumer services issuer with a "strong" or "strong/adequate" competitive advantage assessment is characterized by a combination of:

- Business strategy capable of supporting its leadership in the marketplace. The company's strategy may be either cost leadership or differentiation (in few cases both), and its actions should be consistent with its strategy. Competitors find it difficult to achieve a comparable low cost position or to provide a comparable service offering. The company's customer retention rates are above its peers. A consistent business strategy maximizes opportunities and mitigates risks relative to competition.
- Strong brand equity and reputation created through a superior track record of service quality that convinces customers that their purchase has the right balance between price and quality. Superior quality helps a company attract and retain customers. High contract retention rates and the ability to cross-sell new services typically reflect superior service quality and customer satisfaction.
- Favorable market position with the existence of barriers to entry that effectively reduce, or even eliminate, the threat of new market entrants. Barriers exist when companies are able to integrate their service offering into a customer's operations, perhaps through information technology or staff. Barriers also exist when companies have the ability to perform multiple services on a national or multinational basis. Customers with national or multinational reach usually prefer to limit its number of service providers, which creates entry barriers for new competitors.

34. A business and consumer services issuer with a "weak" or "adequate/weak" assessment of its competitive advantage typically is characterized by a combination of:

- Business strategy inconsistent or not well adapted to marketplace conditions. The company lacks cost leadership or differentiation, or its actions are inconsistent with its strategy. Competitors typically have either a better cost position or better differentiation. The company's customer retention rates are below its peers. An inferior business strategy misses opportunities and increases risks relative to competition.
- Poor brand equity and reputation with a portfolio of services proven to be susceptible to extraneous factors, including aggressive actions by competitors. The inability to increase the volume of existing service offerings or to expand through new service offerings typically reflects weakness relative to competition.
- Unfavorable market position with a lack of barriers to entry that make the company vulnerable to competitor actions. Revenue typically declines from relatively small pricing movements by competitors. A lack of differentiation, poor service quality, and ease of migration to a new provider typically make companies most vulnerable to competitive pressure.

2. Scale, scope, and diversity

35. In assessing the scale, scope, and diversity of a business and consumer services company, we consider:

- The relative size of its revenue base and that of its target markets; and
- The degree of revenue and profit diversity, as measured through customer, supplier, geography, and service mix.

36. We assume that participation in a variety of attractive target markets and operating scale will generally result in greater financial performance stability during market downturns. As such, we consider the size of a company's revenue base relative to close competitors. The size of the company's target markets also influences our assessment. Scale is especially important for a company seeking a cost leadership strategy.

37. We assess diversity through a variety of measures. We measure customer, end-market, and service diversity by revenue and profitability, depending on information availability. We also examine a company's revenue and profit mix between developing and developed markets. We also measure purchases from top suppliers as a percent of total purchases.

38. A business and consumer services issuer with a "strong" or "strong/adequate" assessment of scale, scope, and diversity typically is characterized by a combination of:

- Not reliant on a particular customer or end-market, or on a group of customers or end-markets. Group purchasing organizations (GPO) either do not exist or exist but have little negotiating power.
- Not reliant on a particular supplier or group of suppliers.
- Broad geographic diversification and not overly dependent on a single regional or local market.
- Offers a wide range of services.

39. A business and consumer services issuer with a "weak" or "adequate/weak" assessment of scale, scope, and diversity typically is characterized by a combination of:

- Reliant on a particular customer or end-market, or on a group of customers or end-markets. GPOs exist and have strong negotiating power.
- Reliant on a particular supplier, or on a group of suppliers. This is particularly relevant for distributors exposed to the pricing of the products it distributes, especially if the product demand is discretionary. The distributor's exposure can be direct or indirect. Indirect exposure relates to the potential volume decline because of reduced consumption following a price increase.
- Narrow geographic focus and reliant on a single regional or local market.
- Offers a limited range of services and does not demonstrate the ability to expand its service offering over the foreseeable future.

3. Operating efficiency

40. In assessing the operating efficiency of a business and consumer services company, we consider:

- Expense structure;

- Working capital management;
- Per unit metrics;
- Reinvestment needs; and
- The ability to withstand lower demand or input cost pressures relative to industry peers.

41. In reviewing expense structure, we consider a company's ability to flex staff or inventory levels without hurting service quality. We assess trends in direct labor expense as a percent of revenue, when available. We also assess fill rates when inventory is a major part of the business model, which is the case for distribution services.

42. In reviewing working capital management, we consider a company's cash conversion cycle and total asset turnover. With the exception of distribution services companies, accounts receivable trends are generally the driver of working capital because most service companies have low inventory requirements.

43. In reviewing per unit metrics, we generally consider revenue and profit per employee, per facility, and per vehicle. Per employee metrics are generally most relevant for asset-light general support services and professional services companies, whereas per facility and per vehicle metrics are generally most relevant for asset-intense distribution services companies. These metrics are most useful for comparison among close competitors operating in similar markets.

44. In reviewing reinvestment needs, we consider the level of reinvestment necessary to maintain existing operations. Maintenance capital expenditures, as a percent of revenue, is the most common metric we use in our assessment. We either use our own estimate of maintenance capital expenditures, or we receive management's estimate of maintenance capital expenditures. A company's historical overinvestment or underinvestment in its operations influence its reinvestment needs.

45. A business and consumer services issuer with a "strong" or "strong/adequate" operating efficiency is characterized by a combination of:

- Superior cost position to permit above-average profitability even if capacity utilization or demand levels are below ideal levels. For example, distributors with good route density allows for a superior cost position.
- Ability to adjust staff levels to changes in demand without hurting product and service quality. For example, sales and marketing agencies demonstrate the ability to flex staff levels to match demand through the use of full-time, part-time, and seasonal staff, even while maintaining a national presence.
- Superior working capital management, with a track record of consistent working capital levels.
- Solid investment in technology and infrastructure has helped revenue and profit growth prospects.

46. A business and consumer services issuer with a "weak" or "adequate/weak" operating efficiency is characterized by a combination of:

- Limited capability to manage fixed costs (mostly staffing costs).
- Inferior cost position relative to peers, possibly from union labor or inefficient facilities.
- Poor working capital management, with a track record of volatile swings in working capital, typically from delayed receipt of customer payments. For example, a company with significant revenue from government agencies is vulnerable to payment delays.

- Lack of investment in technology and infrastructure that leads to a higher cost structure and less efficient operations relative to its peers.

4. Profitability

47. Profitability can confirm or modify the preliminary competitive position assessment. Profitability consists of two components: (1) The level of profitability and (2) the volatility of profitability. We combine the two components into the final profitability assessment using a matrix.

a) Level of profitability

48. We assess the level of profitability on a three-point scale: "above average," "average," or "below average" (see table 1).

49. The ranges in table 1 are guidelines within the respective business and consumer services subsectors listed below. Because the business and consumer services industry contains a diverse universe of companies, a company's level of profitability category and its EBITDA margin may not always align with the table.

50. One reason it may not align is its standing relative to its most direct competitors. For example, most foodservice distributors have EBITDA margins between 2% and 6%. Therefore, a foodservice distributor with an EBITDA margin of 6% could receive a level of profitability assessment of above average, even though the matrix shows distributors with 6% EBITDA margin as average.

51. Another reason it may not align is a company with high inventory or asset turnover may generate strong absolute profitability even with low margins. For example, a company with a mid-single-digit EBITDA margin could have a return on capital ratio above 20% because of high asset turnover.

Table 1

EBITDA Margin

Subsector	Above average	Average	Below average
Consumer services	Above 24%	18% to 24%	Below 18%
Distribution services	Above 9%	5% to 9%	Below 5%
Facilities services	Above 20%	10% to 20%	Below 10%
General support services	Above 25%	15% to 25%	Below 15%
Professional services	Above 30%	20% to 30%	Below 20%

b) Volatility of profitability

52. We assess volatility of profitability on a six-point scale, from "1" (lowest volatility) to "6" (highest volatility).

53. In accordance with our corporate criteria, we assess the volatility of profitability using the standard error of regression (SER), subject to having at least seven years of historical annual data. We use either EBITDA, EBITDA margin, or return on capital to determine the SER for business and consumer services issuers. When a company's EBITDA is distorted as a result of significant acquisitions or currency fluctuations, we will determine SER based on EBITDA margins or return on capital, if, in our opinion, those measures provide a more accurate picture of the underlying

stability of earnings. We will not use return on capital for companies that have undergone significant M&A transactions. Significant M&A transactions--most typically LBOs--distort the return-on-capital ratio, given the write-up of asset values (typically goodwill) following these transactions. In accordance with the corporate criteria, we may--subject to certain conditions--adjust the SER by up to two categories upward (less volatile) or downward (more volatile). If we do not have sufficient historical information to determine the SER, we follow the corporate criteria guidelines to determine the volatility of profitability.

Part II: Financial Risk Analysis

D. Accounting And Analytical Adjustments

54. In assessing the accounting characteristics of business and consumer services companies, the analysis uses the same methodology as with other corporate issuers (see "Corporate Methodology"). Our analysis of a company's financial statements begins with a review of the accounting to determine whether the statements accurately measure a company's performance and position relative to its peers and the larger universe of corporate entities. To allow for globally consistent and comparable financial analyses, our rating analysis may include quantitative adjustments to a company's reported results. These adjustments also enable better alignment of a company's reported figures with our view of underlying economic conditions. Moreover, they allow a more accurate portrayal of a company's ongoing business. Adjustments that pertain broadly to all corporate sectors, including these sectors, are discussed in "Corporate Methodology: Ratios And Adjustments," published Nov. 19, 2013. There are no unique accounting characteristics and analytical adjustments that apply to the business and consumer services sectors.

E. Cash Flow/Leverage Analysis

55. In assessing the cash flow/leverage for business and consumer services companies, our analysis uses the same methodology we use with other corporate issuers (see "Corporate Methodology"). We assess cash flow/leverage on a six-point scale, ranging from (1) minimal to (6) highly leveraged, by aggregating the assessments of a range of credit ratios, predominantly cash flow based, which complement each other by focusing attention on the different levels of a company's cash flows in relation to its obligations.

1. Core ratios

56. For each company, we determine two core ratios--FFO/debt and debt/EBITDA--in accordance with S&P Global Ratings' ratios and adjustments criteria.

2. Supplemental ratios

57. In addition to our analysis of a company's core ratios, we also consider supplemental ratios in order to develop a fuller understanding of a company's credit risk profile. It is important to assess and understand the important components of the cash flows, including working capital, capital expenditures, and dividends. This helps guide which ratios are most useful in the cash flow adequacy/leverage assessment. We consider all of the supplemental ratios referenced in the corporate criteria (see "Corporate Methodology").

58. We generally use free operating cash flow (FOCF) to debt for issuers with low working capital and capital expenditure requirements. For these issuers, there is a small difference between funds from operations (FFO) and FOCF. Therefore, based on the FFO to debt indicative ratios, the FFO-to-debt ratio may understate an issuer's cash flow available for debt service because it does not consider the low working capital and capital expenditure requirements, thereby understating the cash flow adequacy and leverage assessment.

59. We generally use discretionary cash flow (DCF) to debt for issuers with low working capital and capital expenditure requirements yet high-dividend payout ratios. For these issuers, DCF to debt is a more appropriate ratio because it assesses cash flow available after dividends. Excluding DCF to debt from the ratio analysis may overstate an issuer's true cash flow available for debt service, thereby overstating the cash flow adequacy and leverage assessment.

60. Many business and consumer services issuers that are owned by financial sponsors have debt with noncash interest. For these issuers, we give greater importance to FFO cash interest coverage as a supplemental ratio.

Part III: Rating Modifiers

F. Diversification/Portfolio Effect

61. In assessing diversification/portfolio effect for business and consumer services companies, our analysis uses the same methodology we use with other corporate issuers (see "Corporate Methodology").

G. Capital Structure

62. In assessing capital structure for business and consumer services companies, our analysis uses the same methodology we use with other corporate issuers (see "Corporate Methodology").

H. Liquidity

63. In assessing liquidity for business and consumer services companies, our analysis uses the same methodology we use with other corporate issuers (see "Corporate Methodology").

I. Financial Policy

64. In assessing financial policy for business and consumer services companies, our analysis uses the same methodology we use with other corporate issuers (see "Corporate Methodology").

J. Management And Governance

65. In assessing management and governance for business and consumer services companies, our analysis uses the same methodology we use with other corporate issuers (see "Corporate Methodology").

K. Comparable Ratings Analysis

66. In assessing the comparable ratings analysis for business and consumer services companies, our analysis uses the same methodology we use with other corporate issuers (see "Corporate Methodology").

REVISIONS AND UPDATES

This article was originally published on Nov. 19, 2013. These criteria became effective on Nov. 19, 2013.

Changes introduced after original publication:

- Following our periodic review completed on March 21, 2017, we updated the contact information.
- Following our periodic review completed on March 18, 2018, we added the "Revisions And Updates" section.
- On May 1, 2019, we republished this criteria article to make nonmaterial changes to update the contact information.

RELATED CRITERIA AND RESEARCH

Superseded Criteria

- Key Credit Factors: Criteria For Rating Insurance Brokers, May 29, 2013
- Key Credit Factors: Global Criteria For Rating Companies In The Service Sector, Nov. 12, 2012
- Recovery Ratings On The Debt Of Speculative-Grade Companies In The Insurance Sector, June 24, 2008

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Criteria: Ratios And Adjustments, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles of Credit Ratings, Feb. 16, 2011

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as

Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.