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## Research Update:

# Bertelsmann SE & Co. KGaA's Hybrid Equity Content Revised To "Intermediate"; 'BBB+/A-2' Ratings Affirmed

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## Research Update:

# Bertelsmann SE & Co. KGaA's Hybrid Equity Content Revised To "Intermediate"; 'BBB+/A-2' Ratings Affirmed

## Overview

- Germany-based media group Bertelsmann SE & Co. KGaA has waived a certain call option right in its hybrid security documentation.
- As a result, we have revised our assessment of the equity content of Bertelsmann's hybrid to "intermediate."
- We are affirming our 'BBB+' corporate credit ratings on Bertelsmann and its core subsidiary RTL Group S.A. The outlook remains stable.

## Rating Action

On Nov. 13, 2015, Standard & Poor's Ratings Services affirmed its 'BBB+/A-2' long- and short-term corporate credit ratings on Bertelsmann SE & Co. KGaA and its core subsidiary RTL Group S.A. The outlook remains stable.

We also affirmed our 'BBB+' issue credit rating on the senior unsecured debt and our 'BBB-' issue credit rating on the hybrid capital issued by Bertelsmann (ISINs XS1222594472 and XS1222591023).

## Rationale

The affirmation reflects our revised assessment of the equity content of Bertelsmann's hybrid capital to "intermediate" from "minimal" following Bertelsmann's announcement that it has, by a legally binding declaration of waiver, unconditionally and irrevocably waived a certain call option for the hybrid related to a "rating event" appearing in the hybrid's documentation.

The call option in question gives Bertelsmann the right to call the hybrid if "equity content" is lowered as a result of a change in Bertelsmann's rating. As we explained in our announcement of our removal of equity content from various issuances (see "Standard & Poor's Affirms Various Ratings Following Review Of Corporate Hybrid Equity," published on Oct. 27, 2015, on RatingsDirect), this type of clause weakens our expectation that the issuance will remain a permanent part of the issuer's capital structure.

In line with the appendix that we have added to "Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions," to address several frequently asked questions (see "S&P Explains Treatment Of Step-Ups, Deeds, And Waivers For Certain Hybrids," published Nov. 13, 2015, for more

details), we considered the terms of the waiver, its public nature, the circumstances under which it could be modified, the likelihood of its breach, and whether the other features of the hybrid are consistent with "intermediate" equity content. We concluded that Bertelsmann's waiver of the call option sufficiently mitigates the risks of call and have accordingly reassessed the equity content of Bertelsmann's hybrid security to "intermediate" from "minimal." As a consequence, we now regard the hybrid securities as 50% equity when calculating credit ratios. Although we have revised Bertelsmann's credit ratios, the change is within the tolerance of the ratings and outlook and, accordingly, none of the ratings on Bertelsmann are affected by the revision of equity content to "intermediate."

## Ratings Score Snapshot

Corporate credit rating: BBB+/Stable/A-2

Business risk: Satisfactory

- Country risk: Very low
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/leverage: Intermediate

Anchor: bbb

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable ratings analysis: Positive (+1 notch)

## Related Criteria And Research

### Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Media And Entertainment Industry - December 24, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments, April 1, 2013
- Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And

Replacement Provisions, Oct. 22, 2012

- Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers - February 10, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

### Related Research

- S&P Explains Treatment Of Step-Ups, Deeds, And Waivers For Certain Hybrids , Nov. 13, 2015
- Standard & Poor's Affirms Various Ratings Following Review Of Corporate Hybrid Equity, Oct. 27, 2015

## Ratings List

Ratings Affirmed

Bertelsmann SE & Co. KGaA

RTL Group S.A.

Corporate Credit Rating BBB+/Stable/A-2

Bertelsmann SE & Co. KGaA

Senior Unsecured (1,2) BBB+

Senior Unsecured BBB+

Junior Subordinated BBB-

(1) Guarantor: Bertelsmann SE & Co. KGaA

(2) Issuer: Bertelsmann U.S. Finance, Inc.

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