Retail and Wholesale Rating Methodology

Corporates

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1. Introduction

This methodology is the latest update of the Retail and Wholesale Rating Methodology and complements the General Corporate Rating Methodology, superseding it in event of conflict, inconsistency or ambiguity. The different issuer-specific and rating-relevant characteristics laid out in this methodology must not be seen as a predetermined ranking or scorecard. We apply the underlying criteria in an opinion-driven way at the issuer level.

This updated version introduces the following non-material changes: i) alignment of the industry matrix with the General Corporate Methodology; ii) update of the Country Retail Strength table based on most recent data from the World Bank; iii) additional guidance on how we assess the diversification of grocers vs. non-grocers; iv) additional guidance on the assessment of profit margin volatility; v) clarification of the relevance of Scope-adjusted Free operating cash flow/Debt as a rating driver of the financial risk profile, as capturing the risk associated with the operating lease payments. This updated version also includes minor editorial changes to better align this methodology with the General Corporate Rating Methodology.

Our Corporate Rating Methodology lays down the key principles and criteria which we apply when assigning ratings to corporate issuers and their debt instruments.

The Retail and Wholesale Rating Methodology complements our Corporate Rating Methodology and provides further guidance on our business risk profile analysis of a retail or wholesale corporate. With some exceptions (listed below), our financial risk profile assessment remains largely based on the metrics set out in the Corporate Rating Methodology. The Retail and Wholesale Rating Methodology solely applies to the analysis of retail and wholesale companies and is applicable globally.

We define as a retail corporate any company generating the majority of EBITDA from selling finished and physical goods, procured from a supplier to an end-customer, which can be either a company (B2B) or households (B2C). The trade is accomplished either physically via traditional brick-and-mortar premises or online via an e-commerce platform. These companies are therefore the intermediary between goods producers and final consumers. They do not transform or add value to products.

Our definition of retailers excludes consumer goods companies which manage their own integrated distribution channels. We consider operating risks to be slightly higher for such companies due to their need to manage pre-distribution risks such as those stemming from R&D, design and manufacturing. We define retailers and wholesalers as the intermediary between producers and final consumers, and therefore most product-related risks do not apply to them. This definition also excludes companies involved in trading.

This methodology applies to both retailers and wholesalers. Any reference to retailers will also apply to wholesalers unless stated otherwise.

2. The retail and wholesale industry

The retail industry is diverse, ranging from retailers that generate billions of euros in revenue each year and operate in several continents, to small, local companies and bazaar operators (unorganised retailers). This diversity is accompanied by a variety of business models, procurement and distribution channels, and types of consumer goods.

In developed countries, markets are fairly concentrated with few players and limited market share development potential, leading to fierce price competition. The situation in developing countries is different: markets are often disparate, with unorganised retail playing an important role in total national consumption. The latter is more common in food retailing, while in non-food retailing the trend is increasingly towards concentration, even in developing countries.

The development of the internet and e-commerce has improved the ability among consumers to compare the features and prices of products. Retailers have been forced to lower prices as many products are now interchangeable. Most retailers are therefore putting pressure on their suppliers in a bid to maintain high market shares and increase marginal gross profitability.

There has also been a rapid rise in private-label entities. These are consumer goods companies with low brand recognition that sell their products to retailers, which the retailer then sells as a more profitable option to branded consumer goods. This development has contributed to the appearance of discounters in many markets, putting pressure on historical market leaders.

Most retailers have shifted away from a vast geographical outreach to focus on their home markets to remain competitive, maximise market shares and, if possible, increase profitability. These strategic changes have led to numerous M&A operations in both major and peripheral markets over the last few years. Many retailers are also now providing non-core ancillary services or activities.

The retail sector is heavily dependent on consumer behaviour. The industry has seen major shifts in the last few decades, from the rise of hypermarkets outside city centres with a 'one stop for all' approach, to the development of discounters competing with hypermarkets by putting pressure on prices. Nowadays, the retail industry tends to focus on a satisfying shopping experience, by allying online and offline platforms to increase customer loyalty. Going forward, the development of specialised products, such as organic and free trade, will raise sourcing requirements and is likely to put pressure on food retailers and their suppliers. The reinforcement of consumer finance and other complementary services enhances the shopping experience, contributing to customer loyalty.

As retailers are essentially intermediaries between consumers and producers, our analysis segments the sector by product category. This allows us to compare products in terms of their reactions to macro-cyclicality, marginal price changes and purchase frequency.

We divide the retail industry into two main segments, non-discretionary and discretionary. Listed below are examples of products in each segment.

Figure 1 – Scope division of consumer goods for retail corporates

Non-discretionary retail	Discretionary retail
Food and beverages	Clothing and other wearable items
Care products	General merchandise
Books and paper	Household products
Do it yourself (DIY) items	Automotive parts
	Consumer electronics

Source: Scope Ratings

Wholesale, recreational and non-finished goods will be classified on a case-by-case basis. In exceptional cases, we may classify a company selling general merchandise (e.g. department stores) under non-discretionary retail if non-discretionary consumer goods contribute most to its EBITDA.

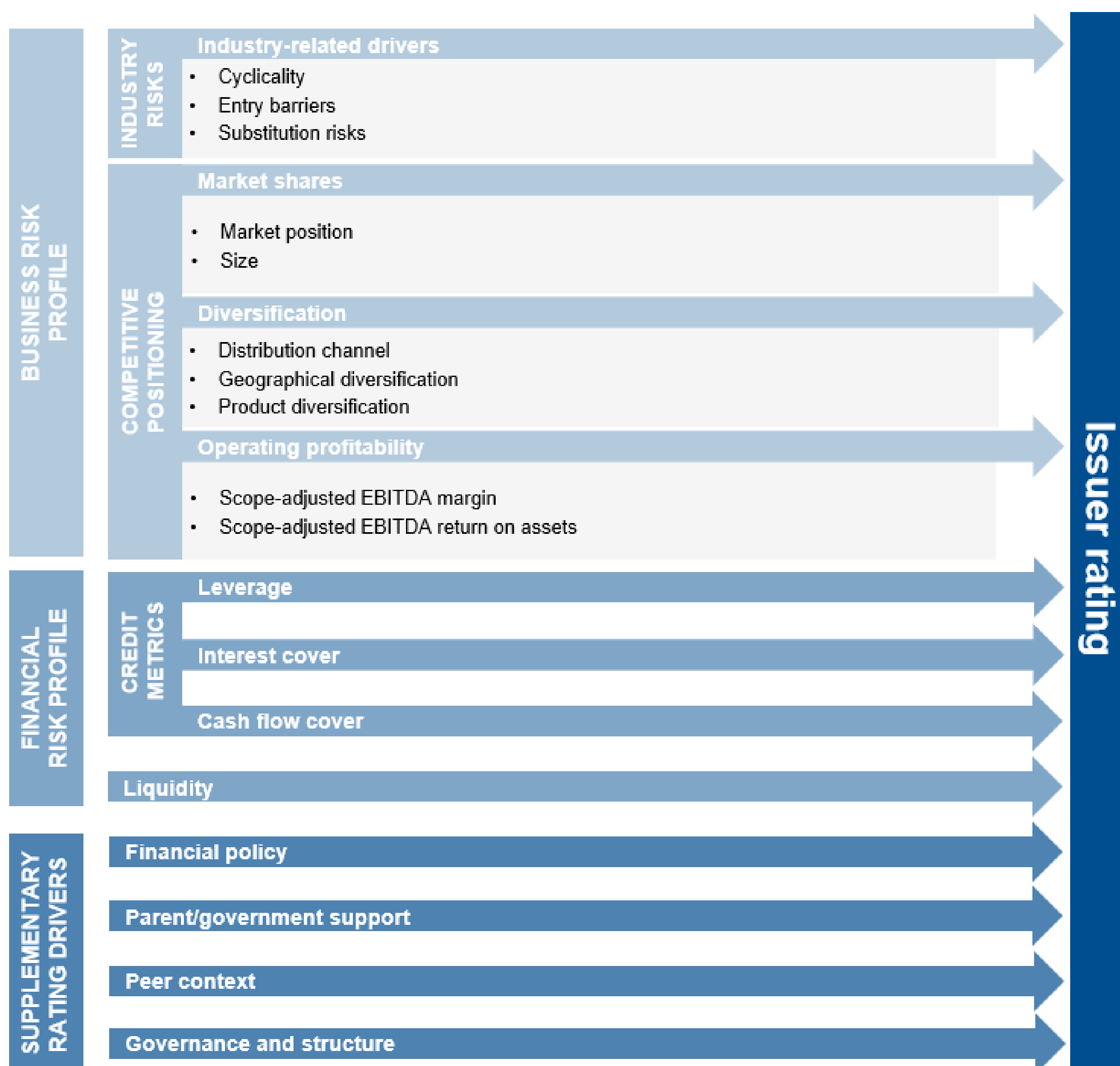
An investment grade-rated retail company typically has a large scale combined with strong competitive positioning, a stable presence in several regions, and broad diversification of segments, distribution channels and products. Investment grade companies benefit from stable profitability and strong financial measures.

In contrast, a small size, weak competitive position compared to peers, and weak geographical and segment diversification can indicate a non-investment grade rating. The cash flows of non-investment grade companies tend to be less predictable and more volatile. Furthermore, these companies often have volatile profitability and weaker financial measures.

3. Rating drivers

We apply our rating methodology for the retail and wholesale corporates as outlined in Figure 2. The rating analysis takes into account credit risk factors specific to this sector as well as factors common to all industries such as management, liquidity, legal structure, governance and country risks which are explained in more details in the General Corporate Rating Methodology. The following business risk and financial risk indicators are non-exhaustive and may overlap; some may not apply to certain corporates. We may add issuer-specific rating factors, and a company's business model is decisive for the applicable indicators. No rating driver has a fixed weight in the assessment. Please refer to the General Corporate Rating Methodology for more detail.

Figure 2 – General rating grid on retail and wholesale corporates



Source: Scope Ratings

3.1 Business risk profile

3.1.1 Industry-related drivers

We assess the industry fundamentals of retail corporates by examining the following drivers:

- Cyclicality
- Entry barriers
- Substitution risks

Cyclicality

The cyclicality of retailers tends to depend on whether they operate in the discretionary or non-discretionary segment.

Non-discretionary consumer goods are generally not vulnerable to macro-changes because they relate to daily necessities. These goods are bought frequently, leading to a continuous purchaser base. Cyclicality is therefore low.

Discretionary consumer goods come with more volatility as they are purchased less frequently. They 'enhance quality of life' and may therefore no longer be purchased or have their purchase delayed in the event of negative macro developments. They also are affected by product ramp-ups as well as fashion/technological risk. Cyclicality is therefore medium.

Entry barriers

We consider entry barriers to be low. The retail sector does not generally suffer from restrictive legislation or the need for significant industrial know-how or patents.

Substitution risks

Substitution risk in the retail sector is low as new purchasing behaviours are systematically integrated into the industry. Given the logistical and associated costs involved in distributing goods to end-customers, retailers are a necessary intermediary between consumer goods entities and the final customers. Some consumer goods companies have sufficient brand strength to use their own distribution channels, but they are the exception.

Figure 3 – Scope's industry risk assessment on retail and wholesale sub-segments

Cyclicality \ Entry barriers	Low	Medium	High
High	CCC/B	B/BB	BB/BBB
Medium	(1) B/**BB**	BB/BBB	BBB/A
Low	(2) BB/**BBB**	BBB/A	A/AA

Source: Scope Ratings

We assign the following industry risk levels depending on certain factors:

1. Discretionary retail: industry risk assessed at BB based on low entry barriers, medium cyclicality and low substitution risk.
2. Non-discretionary retail: industry risk assessed at BBB based on low entry barriers, low cyclicality and low substitution risk.

Some retailers share traits with those in other sectors (typically linked to consumer goods manufacturers). In such cases, the industry risk profile rating is based on the actual EBITDA contribution (or sales contribution if the EBITDA split is not available) of each sector as per the annual financial results.

A company's business risk profile is a key indicator of its credit quality over the economic cycle and thus of its long-term viability. It shows to what extent a company's competitive positioning, diversification and profitability protect it from adverse market movements and competitors.

3.1.2 Competitive positioning

Market shares

The market shares criterion is one of the most important in our business risk profile assessment. Most retailers aim to maximise their market shares in their main countries of operation by increasing customer loyalty and preventing new entrants from gaining market size. It often comes at the expense of higher legacy geographical exposures and has led to major M&A in recent years.

Figure 4 – Market shares by rating category

		AA and above	A	BBB	BB	B	CCC and below
Market position	Home market[1] has 'High' CRS[2]	Strong market shares globally	Strong position[3] with significant market shares beyond home market	Strong position	Medium position[4]	Weak position[5]	n/a
	Home market has 'High-medium' or 'Medium-low' CRS	n/a	n/a	Strong position with significant market shares beyond home market	Strong position	Medium position	Weak position
	Home market has 'Low' CRS	n/a	n/a	n/a	Strong position	Medium position	Weak position
Sales (EUR bn)		**> 30**	**30 to 15**	**15 to 7.5**	**7.5 to 1.5**	**1.5 to 0.1**	**< 0.1**

Source: Scope Ratings

Our market position assessment differentiates between countries based on their country retail strength (CRS) scores. This approach provides a better context for the country in which the retailer operates. A retailer operating in a country with a 'High' CRS score is expected to be well protected from new entrants and existing competitors' sales developments but might have a higher risk regarding purchasing behaviours given the maturity of the market. A retailer in a country with a 'Low' CRS is likely to be more affected by different risks (e.g. regarding the supply chain, new entrants, M&A and regulations) and is less expected to have activities abroad. This split therefore seeks to attain higher transparency in the analysis and allows us to ensure an appropriate comparability of peers. Examples of our assessment of market position are provided in appendix 6.1.

The size of a retailer indicates its level of brand recognition among customers and suppliers and implies higher physical footfall and online traffic.

Diversification

A broad range of product categories, distribution channels and geographical exposures can offset negative macroeconomic swings for retailers. High diversification also protects a retailer's market share (in terms of products or regions) against new competitors. Furthermore, it is much easier to expand outreach if a retailer has a reasonably diversified cash flow stream.

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[1] Home market is defined as the country where the retailer generates the majority of its EBITDA (if EBITDA not disclosed, the majority of its sales)
[2] CRS stands for 'country retail strength', which indicates the strength of a country's retail market based on maturity and size. More detail is contained in appendix 6.1.
[3] 'Strong' position typically signifies a top-tier retailer that dominates its home market.
[4] 'Medium' position typically signifies a second-tier retailer with robust market shares in its home country.
[5] 'Weak' position typically signifies a third-tier retailer with limited market shares in its home country.

Figure 5 – Diversification by rating category

	AA and above	A	BBB	BB	B	CCC and below
Distribution channels	Hybrid model with high percentage of sales generated via each channel		High sales via other distribution channels in addition to primary distribution channel	Low sales via other distribution channels in addition to primary distribution channel	Single channel distributor	
Geographical diversification	No country with > 30% of revenue	No country with > 50% of revenue	No country with > 70% of revenue	Operates in one country and its immediate neighbours	Active in one country	
Product diversification[6]	Large range of products sold across more than two consumer goods categories		Products sold across two consumer goods categories	Products sold belong to one consumer goods category deemed non-cyclical	Products sold belong to one consumer goods category deemed cyclical	

Source: Scope Ratings

The division between online and brick-and-mortar operations has broken down with the emergence of integrated models and the reinforcement of omni channels. We therefore give credit to retailers that have pioneered an omnichannel approach and are successfully using each distribution format. At the same time, we do not assess this factor using general quantitative criteria due to the differences in online integration across countries and retail sub-sectors. We instead evaluate this factor qualitatively. The countries in which the retailer operates may influence the distribution channel diversification assessment. For example, a retailer using only one distribution channel in a 'High' CRS market (implying high competition and a mature market) is more likely to see a loss of earnings and of brand recognition. In such cases, we therefore overweight the distribution channel criteria. By contrast, a 'Low' CRS often implies an emerging market where the integration of omnichannel is often more difficult due to less modern logistics infrastructure, which results in lower customer demand. Consequently, online transition risks are less important in such cases, and we would underweight the distribution channel criteria.

Geographical diversification beyond a company's home market has become less prevalent in the last decade, with many retailers exiting non-strategic countries and refocusing investment domestically to remain competitive. That said, a broad geographical outreach is still positive as it lessens dependency on a single country's macro-economic swings as well as offering growth opportunities which may be lacking in countries with concentrated markets. The latter is particularly true for non-discretionary retailers (such as grocers), which are less affected by macroeconomic trends. Nevertheless, geographic diversification remains important to ensure the growth capacity of non-discretionary retailers. Moreover, non-discretionary retailers focused on a single country/region, could still be negatively affected by political instability, regulatory changes or natural disasters in that country.

The number of consumer goods segments in which a retailer sells its products is another rating driver. Most retailers' business models focus on a single product category and obtaining high market shares. However, some retailers have chosen to branch out into a number of segments at the expense of high market shares in a single category. This multi-segment approach leads to a higher diversification of consumer goods and a lower reliance on the ramp-up and development of certain types of products. This criterion does not apply to food retailers as they are not affected by cyclicality or seasonality, but it could apply if a food retailer generates enough revenues from non-food and beverage consumer goods to provide diversification. Ancillary services, such as financing, insurance, repairs etc. have also become an important diversification driver. Even if they do not contribute enough EBITDA to be considered as a separate product line, we believe that the presence of these services is important to retain customers and consolidate market share. For example, a good customer service can help improve customer satisfaction and loyalty. In addition, in times of low consumer confidence, the provision of repair and maintenance services or insurance could provide alternative sources of income, that would partially compensate for low demand.

Most retailers and wholesalers are well-diversified in terms of customers and suppliers. Therefore, concentration risk is often not a factor in the diversification assessment. However, we could still lower the assessment of diversification, even by multiple notches, if we see a strong dependency on one customer or supplier.

[6] Not applicable to retailers operating purely in food.

We will consider 'CCC and below' category ratings if we observe the issuer's business model to be highly vulnerable to internal and/or external elements. For example, a retailer with a very weak supply chain (CCC category product diversification) could see its range of products constricted, leading to a significant loss of earnings.

Operating profitability

Due to fierce competition between retailers and the ease with which customers can compare prices nowadays, the profitability of retailers is lower than in most other industries. Retailers do not create, transform or generate an intrinsic value for the product sold, leading to slim margins and low cash flow. Maximising profitability while maintaining a high market share is essential as it gives retailers headroom to invest in, expand or enhance the shopping experience, ultimately leading to a more robust market share.

Figure 6 – Operating profitability by rating category

	AA and above	A	BBB	BB	B	CCC and below
Scope-adjusted EBITDA margin	> 10%	10 to 8%	8 to 6%	6 to 4%	4 to 1%	< 1%
Volatility of EBITDA margin	Low		Medium		High	
Scope-adjusted EBITDA return on assets	> 45%	45 to 35%	35 to 25%	25 to 15%	15 to 5%	< 5%

Source: Scope Ratings

We measure profitability using two main ratios: the Scope-adjusted EBITDA margin and the Scope-adjusted EBITDA return on assets. The first ratio provides an overview of a retailer's profitability under normal market conditions. The second ratio reflects EBITDA relative to the net assets that the retailer owns (property, plant and equipment and inventory) and/or uses (under right-to-use criteria in IFRS 16). It also reflects the ability to generate EBITDA based on the asset structure. The higher the ratio, the more efficient the use of capital as less assets are needed to generate EBITDA. This definition of the ratio is solely applied to the retail sector.

The calculation method for the two ratios is provided in Appendix 6.2.

We also consider the following points when assessing operating profitability:

- Volatility of margins: our operating profitability assessment may apply a more conservative approach if we observe a volatile EBITDA margin over a five-year period. In such scenarios, a retailer's business model is more likely to be vulnerable to internal and external elements that put pressure on not only the stability of its internal financing but also its long-term growth.
- Sourcing and gross margin: when pricing power over customers is limited, sourcing capabilities can lead to differences in gross margins between comparable companies. We assess a retailer's gross margin as a supplementary driver, ensuring comparability between suppliers and consumer profiles for similar consumer goods categories. We also look at the percentage of private labels in a retailer's product assortment, with a high percentage generally leading to greater profitability because private labels have higher margins than branded goods. Retail alliances and their impact on business models tend to be difficult to assess due to confidentiality clauses between consumer goods companies and retailers. We therefore consider the presence of a dedicated integrated/consolidated sourcing entity as a potential indicator of higher margins.
- Shop ownership, operations and franchises: the number of new shops owned and operated by retailers has decreased in recent years as many retailers have instead opted to expand through franchise partnerships. The type of franchise contract has a significant effect on a retailer's revenue, profitability and operational risk. In this context, a high share of franchised shops usually dilutes the total addressable profitability of the stores and therefore could indicate low profitability (and vice versa).
- Cash conversion cycle: this is a key ratio that complements the Scope-adjusted EBITDA return on assets. It assesses a retailer's brand strength, mainly in terms of bargaining power with suppliers, as well as efficiency in collecting receivables and, more importantly, in liquidating inventory. The cash conversion cycle indicates the time needed to i) sell inventory; ii) collect receivables; and iii) pay supplier bills. It is measured as the number of days. A very negative number shows that the company has strong negotiating power. This criterion is qualitative as there could be strong variations depending on whether the company is a retailer or wholesaler, the category of goods sold and local supplier payment regulations. Similar to the gross margin, we mainly focus on assessing the cash conversion cycle for comparable retailers to improve comparability between supplier and consumer profiles. The ratio is also considered part of our financial risk profile assessment (see below).

3.2 Financial risk profile

Our assessment of a retail and wholesale company's financial risk profile follows the general guidance in our General Corporate Rating Methodology. We focus on recent and forward-looking financial data. Key parameters include leverage, interest cover and cash flow. Liquidity is also assessed and is central to our analysis of non-investment grade issuers.

The financial risk profile indicates a company's financial flexibility and viability in the short to medium term. A company with a strong financial risk profile is more likely to be resilient to economic downturns, adverse industry dynamics, unfavourable regulation or an unexpected loss of a revenue source. The ability to retain financial flexibility during an economic downturn is a rating driver for retail and wholesale companies as it indicates an ability to invest at all phases of the economic cycle.

3.2.1 Credit metrics

Our general assessment of credit metrics (e.g. leverage, interest cover and cash flow cover) is outlined in the General Corporate Rating Methodology. For the avoidance of doubt, we give FOCF/Debt equal weight compared to the other credit metrics in our assessment of the financial risk profile. This metric is particularly relevant for companies that have significant lease financing as it captures the risk associated with operating lease payments.

Apart from our assessment on restricted cash (see below), we do not perform a sector-specific assessment of a retailer's credit metrics. Guidance on typical credit metrics for rating categories is provided in our General Corporate Rating Methodology.

We generally assume that not all cash on the balance sheet is available to retailers operating mostly in brick and mortar as physical shops need some liquidity to conduct daily operations. Consequently, we will apply a haircut on the cash balance in our credit metrics calculations, with the amount depending on the percentage of brick-and-mortar to online sales.

While credit ratios ultimately define the financial risk profile, changes in the cash conversion cycle can differentiate ratings between retail peers. A negative cash conversion cycle indicates a retailer's ability to partially finance operations by delaying supplier payment. The analysis of the days payable outstanding can also indicate a retailer's solvency from the point of view of a supplier. For example, all things being equal, a positive cash conversion cycle driven by a low days payable outstanding tends to show that suppliers are tightening commercial terms with the retailer, implying a loss of confidence regarding the retailer's creditworthiness. On the other hand, a downward trend in the cash conversation cycle level reflects supplier perception that the retailer's creditworthiness is improving.

We adjust our metrics for retailers whose activities include financial services to support their operations (captives). In such cases, we exclude from our calculations the financial impact of significant captive finance operations, e.g. on the P&L, balance sheet and cash flow statement. In the context of a rating of a wholesaler, we will have a closer look at the variation of net working capital.

3.2.2 Liquidity

Our general assessment of liquidity is outlined in the General Corporate Rating Methodology.

To better quantify liquidity risk, we may also consider a company's use of reverse factoring, especially for those with a non-investment grade financial risk profile. This follows our view that the termination of reverse factoring arrangements at a time of stress is likely to lead to significant working capital outflow over a matter of months, maybe even weeks.

3.3 Supplementary rating drivers

3.3.1 Financial policy

Our assessment of financial policy as part of the supplementary rating drivers is described in the General Corporate Rating Methodology.

3.3.2 Parent/government support

Our assessment of parent support is described in the General Corporate Rating Methodology. When assessing the credit quality of a retailer and wholesaler that may benefit from government support, we incorporate the sovereign's or sub-sovereign's capacity and willingness to bail out a retailer or wholesaler in financial distress, as laid out in Scope's rating methodology for Government Related Entities.

3.3.3 Peer context

Our assessment of peer context as part of the supplementary rating drivers is described in the General Corporate Rating Methodology.

3.3.4 Governance and structure

Our assessment of governance and structure as part of the supplementary rating drivers is described in the General Corporate Rating Methodology.

3.4 Environmental, social and governance (ESG) assessment

Credit-relevant environmental and social factors are implicitly captured in the rating process, while corporate governance is explicitly captured at the 'governance and structure' analytical stage (see 3.3.4).

The rating analysis focuses on credit quality and credit assessment drivers. An ESG factor is only credit-relevant when it has a discernible and material impact on the issuer's cash flow, and, by extension, its overall credit quality.

Our rating analysis remains focused on credit quality and credit assessment drivers. We only consider an ESG factor relevant to our credit rating process if it has a ubiquitously discernible and material impact on the rated entity's cash flow profile and, by extension, its overall credit quality. For example, for retailers, we consider reputational risks (e.g. linked to consumer goods sold or labour force management) to be critical for the social aspect. The environmental management of a shop (costs related to refurbishment or energy) and the environmental footprint linked to logistics are main elements for the environmental aspect.

Credit-relevant ESG factors can directly and indirectly affect all elements of the business risk profile, financial risk profile and supplementary rating drivers. This is in contrast to ESG ratings, which are largely based on quantitative scores on various rating dimensions.

The General Corporate Rating Methodology provides further detail on how ESG factors and supplementary rating drivers are incorporated in the credit analysis.

4. Issuer rating

The final issuer rating is based on our analysis of the business risk profile, financial risk profile and supplementary rating drivers. The rating committee decides on the relative importance of each rating driver. The business risk profile and financial risk profile are generally weighted equally for companies perceived as crossovers between investment-grade and non-investment -grade. The business risk profile is typically emphasised for investment-grade companies, while the financial risk profile is mostly the focus of ratings assigned to companies that are perceived as having high yield credit profiles. However, the latter also depends on the level of the financial risk profile. Less focus is granted to strong financial risk profiles of companies showing a weak/vulnerable business risk profile (in the B or low BB category) since for such companies, the financial risk profile is subject to higher volatility. This takes into account that the credit rating of companies with business risks that reflect weak or moderate credit quality should not be bolstered by a temporary strong financial risk profile. Hence, the weighting between the business risk and financial risk profiles is adapted to each issuer's business model and market(s).

5. Additional methodology factors

For more details on our rating Outlooks for corporate issuer ratings, long-term and short-term debt ratings, the recovery analysis see the General Corporate Rating Methodology.

6. Appendix

6.1 Country retail strength (CRS)

- Our assessment of country retail strength (CRS) supports our analysis by bringing in local context. To this end, we estimate the maturity and size of the retail sectors in 148 countries.
  - The maturity of a retail sector is assessed in terms of its Logistics Performance Index (LPI), a World Bank index that measures the maturity of a country's retail market by aggregating its scores on customs, infrastructure, international shipments, logistics competence, tracking, tracing and timeliness. While some of the criteria are geared more towards assessing a country's e-commerce development, the index also shows how easily end-customers can be reached and the quality of the delivery infrastructure. We assume that the higher a country scores on this index, the lower the share of unorganised retail and therefore the higher the maturity of the market.
  - The size of a retail sector is assessed in terms of households' final consumption expenditure as defined by the World Bank. This set of data measures disposable and discretionary income after tax left to households. As it is provided as an absolute value and not per capita, we use this metric to assess the overall size of a country's retail market. We will assign higher sub-ratings to countries with a large internal market.
- The CRS ranks a country by its retail sector's maturity and size, allowing a better understanding of the **contextual risks** faced by retailers in their countries of operation**.** Online penetration rates, household demand changes, supply risks, infrastructure and the requirement of dedicated services vary from one country to another. The CRS aims to refine the assessment of such risks and allow smoother comparisons between retailers in a given country.
- Our application of the CRS is illustrated in the following examples.
  1. A retailer benefits from a 30% share of its home market of Germany, its sole country exposure. Germany has a 'High' CRS based on our table of CRS scores (see next page). We consider the retailer to have a strong market position, implied by the 30% market share, and therefore assess market position within the BBB category based on Figure 4. The final result (i.e. BBB+, BBB or BBB-) will depend on the stability of the market share, which is linked to new entrants and/or potential M&A, and the retailer's ability to outperform the market's growth. The 'High' CRS also implies that the retailer needs to have strong distribution channel diversification to remain competitive.
  2. A wholesaler benefits from a 5% share of its home market of Lithuania and 3% in three neighbouring countries. Lithuania's CRS is 'High-medium' based on the CRS table (next page). We consider a 5% national market share as weak, or medium if the market is fragmented. Based on Figure 4, this wholesaler's market position is likely assessed in the B or BB categories. The exact level would depend on the stability of the market share and the wholesaler's ability to remain competitive (like in the previous example) and incorporate the exposures in the three neighbouring countries.

Scope's assessment of country retail strength (CRS) by country:

Country	CRS	Country	CRS	Country	CRS	Country	CRS
Afghanistan	Low	**Denmark**	High	**Kenya**	High-medium	**Peru**	High-medium
Albania	Medium-low	**Djibouti**	Medium-low	**Korea**	High	**Philippines**	High-medium
Algeria	Medium-low	**Dominican Republic**	Medium-low	**Kuwait**	High-medium	**Poland**	High
Angola	Low	**Ecuador**	High-medium	**Kyrgyzstan**	Low	**Portugal**	High-medium
Argentina	High-medium	**Egypt**	High-medium	**Lao PDR**	Low	**Qatar**	High-medium
Armenia	Medium-low	**El Salvador**	Medium-low	**Latvia**	High-medium	**Romania**	High-medium
Australia	High	**Equatorial Guinea**	Low	**Lebanon**	Medium-low	**Russia**	High-medium
Austria	High	**Eritrea**	Low	**Lesotho**	Low	**Rwanda**	Medium-low
Azerbaijan	Medium-low	**Estonia**	High-medium	**Libya**	Low	**Saudi Arabia**	High
Bahamas, The	Medium-low	**Ethiopia**	Medium-low	**Lithuania**	High-medium	**Senegal**	Low
Bahrain	High-medium	**Fiji**	Low	**Luxembourg**	High-medium	**Serbia**	Medium-low
Bangladesh	High-medium	**Finland**	High	**Madagascar**	Low	**Sierra Leone**	Low
Belarus	Medium-low	**France**	High	**Malaysia**	High	**Singapore**	High
Belgium	High	**Gabon**	Low	**Maldives**	Medium-low	**Slovakia**	High-medium
Benin	Medium-low	**Gambia**	Low	**Mali**	Medium-low	**Slovenia**	High-medium
Bhutan	Low	**Georgia**	Medium-low	**Malta**	Medium-low	**South Africa**	High
Bolivia	Low	**Germany**	High	**Mauritania**	Low	**Spain**	High
Bosnia & Herzegovina	Medium-low	**Ghana**	Medium-low	**Mauritius**	Low	**Sri Lanka**	High-medium
Botswana	Medium-low	**Greece**	High	**Mexico**	High-medium	**Sudan**	Medium-low
Brazil	High-medium	**Guatemala**	Medium-low	**Moldova**	Low	**Sweden**	High
Bulgaria	High-medium	**Guinea**	Medium-low	**Mongolia**	Low	**Switzerland**	High
Burkina Faso	Low	**Guinea-Bissau**	Medium-low	**Montenegro**	Medium-low	**Tanzania**	High-medium
Burundi	Low	**Haiti**	Low	**Morocco**	Medium-low	**Thailand**	High
Cambodia	Low	**Honduras**	High-medium	**Mozambique**	Medium-low	**Togo**	Low
Cameroon	Low	**Hungary**	High-medium	**Myanmar**	Low	**Tunisia**	Medium-low
Canada	High	**Iceland**	High-medium	**Namibia**	Medium-low	**Turkey**	High
Chad	Low	**India**	High	**Nepal**	Medium-low	**Uganda**	Medium-low
Chile	High-medium	**Indonesia**	High-medium	**Netherlands**	High	**Ukraine**	High-medium
China	High	**Iran, Islamic Rep.**	Medium-low	**New Zealand**	High-medium	**United Arab Emirates**	High
Colombia	High-medium	**Iraq**	Medium-low	**Nicaragua**	Low	**United Kingdom**	High
Congo, Dem. Rep.	Medium-low	**Ireland**	High-medium	**Niger**	Low	**United States**	High
Congo, Rep	Medium-low	**Israel**	High	**Nigeria**	High-medium	**Uruguay**	Medium-low
Costa Rica	High-medium	**Italy**	High	**Norway**	High	**Uzbekistan**	Medium-low
Cote d'Ivoire	High-medium	**Jamaica**	Low	**Oman**	High-medium	**Venezuela, RB**	Medium-low
Croatia	High-medium	**Japan**	High	**Pakistan**	High-medium	**Vietnam**	High-medium
Cyprus	Medium-low	**Jordan**	Medium-low	**Panama**	High-medium	**Zambia**	Low
Czech Republic	High-medium	**Kazakhstan**	High-medium	**Paraguay**	Medium-low	**Zimbabwe**	Medium-low

6.2 Definition of financial items and key performance indicators applicable only to the retail and wholesale industry

The General Corporate Rating Methodology defines in detail the indicators used in our financial risk profile assessments.

The following additional key performance indicators are used for the assessment of retail and wholesale corporates.

Indicator	Description
Scope-adjusted EBITDA return on assets Operational efficiency measure $\frac{\text{Scope-adjusted EBITDA}}{\text{Net property, plant and equipment + right-of-use assets + inventory}}$	This ratio compares profitability against related assets used. Long-term assets (property, plant and equipment and right-of-use of assets) are calculated using the average over the year. Right-of-use assets are either taken from the balance sheet if the company reports under IFRS 16 or estimated via a proxy by discounting future operating lease payments by 5%. Inventory is calculated as an average between the amounts reported at year-end and at the first half of the year, to flatten potential seasonality effects.
Days inventory outstanding (DIO) Operational efficiency measure $\frac{\text{Average inventory} \times 365}{\text{Cost of goods sold}}$	This ratio counts the number of days a retailer would normally need to sell its entire inventory. The ‘average inventory’ is calculated as the average of the value recorded for the last two years on the balance sheet. Smaller ratios are better as they indicate rapid sales and better turnover potential.
Days sales outstanding (DSO) Operational efficiency measure $\frac{\text{Average commercial receivables}}{(\text{Revenues} \div 365)}$	This ratio counts the average number of days needed to collect cash generated from sales. Average receivables are calculated as the average of the value recorded for the last two years on the balance sheet.
Days payables outstanding (DPO) Operational efficiency measure $\frac{\text{Average commercial payables}}{(\text{Cost of goods sold} \div 365)}$	This ratio counts the number of days that the retailer holds cash that will be used pay suppliers. Average payables are calculated as the average of the value recorded for the last two years on the balance sheet.
Cash conversion cycle Operational efficiency measure Cash conversion cycle = DIO + DSO - DPO	The cash conversion cycle factors in the DIO, DPO and DSO (see above) and measures the time needed to convert investments in assets into cash.

6.3 Related documents

For more information, please refer to the following documents:

- General Corporate Rating Methodology
- Government Related Entities Rating Methodology
- Credit Rating definitions
- Consumer Products Rating Methodology

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