Nordic
Credit
Rating

2022-05-20

Model description
Corporate forecast model

PURPOSE OF THE MODEL

1. We use our corporate forecast model (corporate model) as an input when rating non-financial companies (excluding real-estate management companies), according to our Corporate Rating Methodology.
2. The corporate model supports our standalone credit assessment in accordance with our criteria.
3. The corporate model is a tool to create a forward-looking estimate of a corporate entity's key financial ratios by forecasting its income statement, balance sheet and cash flow for up to four years.
4. The corporate model outputs have no direct impact on specific rating factors or scoring, though our assessments of key rating components are driven by forecast credit metrics which result from the analytical inputs into the model.

DESCRIPTION OF THE MODEL

5. The corporate model consists of debt information, estimates, historical and forecast financial statements, and key credit metrics, as well as an overview of the adjustments made in our calculations. The model also includes our assessment of liquidity sources and uses and financial covenant headroom (with relevant adjustments). It also includes a leasing schedule for forecasting leasing liabilities and a template for assessing expected recovery values for corporate entities rated 'BB+' or lower.
6. The corporate model enables analysts to forecast financial statements and other major components of corporate ratings, such as key credit metrics, profitability margins and liquidity metrics.
7. The projections form the basis of the standard key metrics published in our full reports on rated corporate issuers.
8. In rating committees, forecast ratios are compared with figures set out in our scoring guidelines for operational and financial ratio analysis. However, the final decision on individual rating subfactors is never directly based on forecast or historical ratios; rather the ratios act as key inputs alongside other relevant considerations for each rating factor.

ASSUMPTIONS UNDERLYING THE MODEL/KEY RATING ASSUMPTIONS

9. No assumptions are made in the forecast model that are not subject to analytical inputs that can affect the final rating.

INPUTS

10. Historical financial statements are input into the corporate model from NCR's internal database.
11. Analysts are responsible for inputting assumptions of forecast revenues, operating and central administrative costs, debt information, capital spending, acquisitions, debt issuance, amortisation, equity issues, dividends and other key information. A

"recovery template" enables analysts to input estimated realisable values and/or going concern values along with estimated administrative costs in a theoretical default scenario. Certain fields within the corporate model are locked and cannot be modified, but analysts have some flexibility to adjust their inputs in the case of specific issuers. Analytical inputs are saved separately and can be reloaded into the corporate model for future use.

DATA USED IN THE MODEL

12. The corporate model is a forecasting tool designed for use with data prepared under established financial reporting standards.

THE LIMITS AND WEAKNESSES OF THE MODEL

13. The corporate model could be subject to incorrect inputs which subsequently result in inaccurate forecast metrics. We use analytical judgement and the committee process to establish if a forecast conforms with our expectations.

MATERIAL CHANGES TO THE MODEL

14. The corporate model includes a version updating log and changes require rigorous approval (four-eyes signoff). Checks and balances flag input errors and/or missing data and semantic versioning is used for all updates, no matter how minor. Previous versions are maintained separately.

RELATED METHODOLOGY AND PRINCIPLES

15. Corporate Rating Methodology
16. Group and Government Support Rating Methodology
17. Rating principles

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