Retail and Wholesale Rating Methodology

Corporates

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1. Introduction

This methodology is the update of the 'Rating Methodology: Retail and Wholesale Corporates', which provides guidance on our rating approach for retail and wholesales corporates and complements the 'Corporate Rating Methodology' published on 6 July 2021 > Click here to download. The methodology update has no impact on outstanding ratings.

Key changes to the methodology

This updated version introduces:

- Extended guidance on the assessment of retail and wholesale corporates' business risk profiles, including on the 'A' and 'AA and above' as well as a 'CCC and below' categories
- Renaming of the terms denoting the two categories in the industry risk profile; criterion 'market share' now called 'market position'
- Modification of the use of the 'country retail strength' criterion into a contextual assessment of the developmental phases and sizes of countries, in order to enhance the assessment of a retailer's main country of operation and channel diversification
- Adjustment to the geographical diversification assessment to give better granularity on investment grade levels
- Clarification and recalibration of the Scope-adjusted EBITDA return on assets calculation to lessen the impact of seasonality on the ratio and more accurately track the change in the asset balance over a period
- Recalibration of the lowest range of the Scope-adjusted EBITDA margin
- Introduction of restricted cash as a credit metrics adjustment
- Introduction of reverse factoring into the general liquidity assessment
- Minor editorial changes
- Introduction of reverse factoring into our general liquidity assessment .
- Clarification on our approach on captive finance treatment.

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 a household (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. Methodology highlights

Our assessment of business risk starts by distinguishing between discretionary and non-discretionary products, which allows us to establish the industry's risk rating. The second step is an analysis of competitive positioning based on three risk drivers: i) market shares; ii) diversification; and iii) profitability.

For each of these risk drivers, we assess the competitive positioning of a retailer. Notably, we establish a country's retail strength as a proxy to define more accurately the home country in which the retailer operates. We do this by assessing the country's maturity and size.

We assess a retailer's long-term sustainability and ability to adapt its business model to consumer behaviour by assessing its diversification in terms of products, countries and distribution channels. These criteria allow us to test the vulnerability of a retailer to macro-economic changes and support our forecasts of its market shares and profitability.

We use the Scope-adjusted EBITDA return on assets to measure the asset-intensity needed to achieve a certain EBITDA. This metric captures the specificities of a company's business model in terms of number of shops or inventory management and complements the EBITDA margin ratio as part of our profitability assessment.

This methodology provides further guidance on our financial risk profile assessment of retail and wholesale corporates and should be read in conjunction with our general Corporate Ratings Methodology. The financial risk profile assessment focuses on recent and forward-looking data, including key parameters such as leverage, interest cover, cash flow cover and liquidity.

3. 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 the 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 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 their 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

Wholesalers, 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.

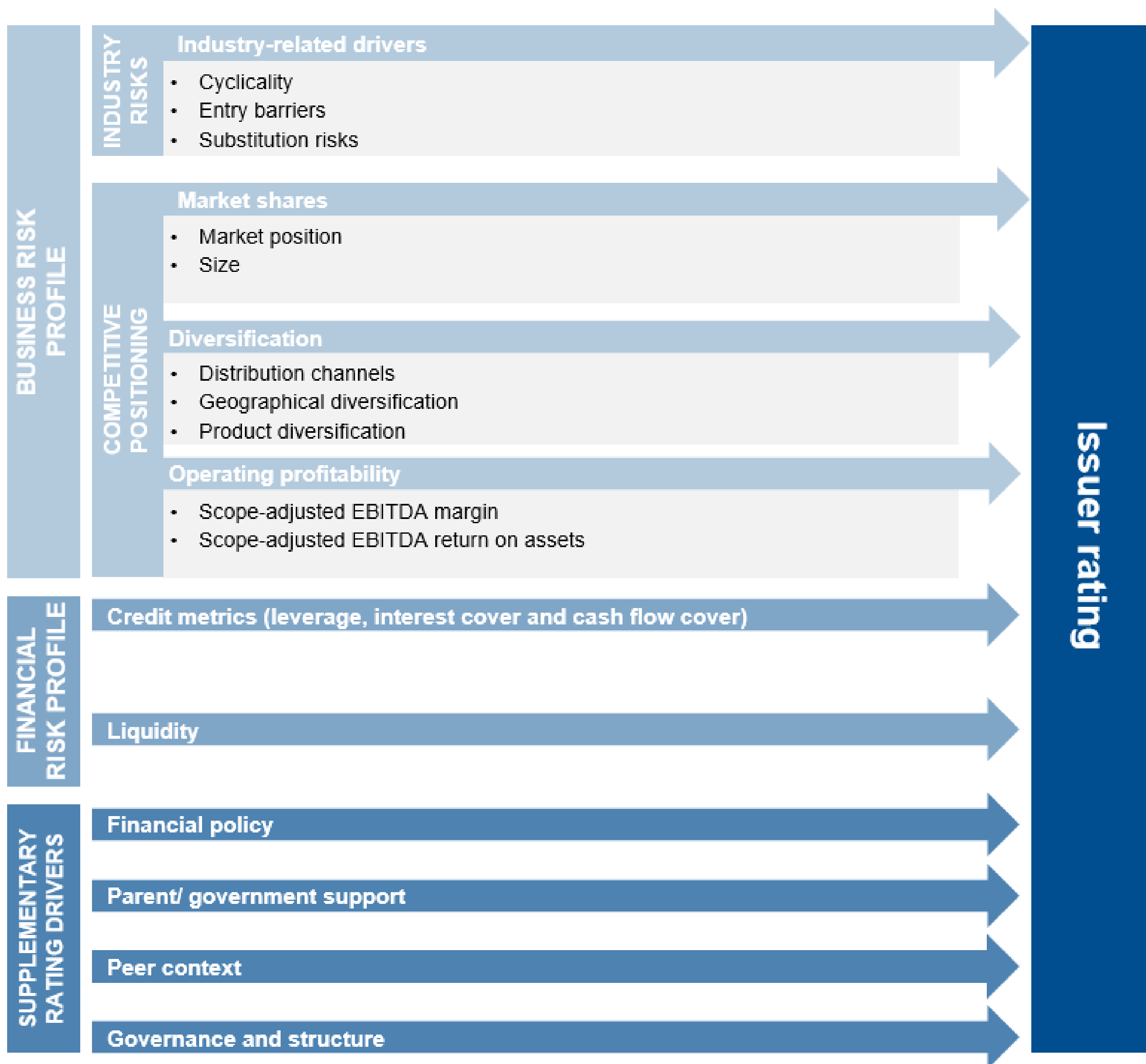
An investment grade-rated retail company typically has a large scale combined with strong competitive positioning, a stable presence in several regions, and broad diversification of segments, distribution channels and products. Investment grade companies benefit from stable profitability and strong financial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

4. Rating drivers

We apply the methodology to retail companies as outlined in Figure 2 below.

Figure 2 – Scope's general rating grid for retail and wholesale corporates



4.1. Business risk profile

4.1.1. 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 entrance 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 for different retail segments

Cyclicality \ Entry barriers	Low	Medium	High
High	CCC/B	B/BB	BB/BBB
Medium	B/**BB**	BB/BBB	BBB/A
Low	BB/**BBB**	BBB/A	AA/AAA

Non-discretionary retail: The segment's BBB industry risk represents low cyclicality, low entry barriers and low substitution risk.

Discretionary retail: The BB industry risk represents medium cyclicality, low entry barriers 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.

4.1.2. Competitive positioning

Market shares

Market shares are one of the most important criteria 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 assessment by rating category

		AA and above	A	BBB	BB	B	CCC and below
Market position	Home market[1] has a 'High' CRS[2]	Global strong market shares	Strong position[3] with significant market shares abroad	Strong position	Medium position[4]	Weak position[5]	
	Home market has a 'High-medium' or 'Medium-low' CRS			Strong position with significant market shares abroad	Strong position	Medium position	Weak position
	Home market is classified as 'Low' CRS				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

In our market position assessment, we differentiate between countries based on their 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. At the same time, a retailer might have a higher risk regarding purchasing behaviours given the maturity of the market. A retailer in a country classified as 'Low' 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. Examples on the assessment of the market position are provided in the appendix 5.1.

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

[1] Home market is defined as the country where the retailer is generating the majority of its EBITDA (if EBITDA non-disclosed, majority of its sales)
[2] CRS stands for 'country retail strength'. To know more, refer to the appendix 5.1.
[3] 'Strong position' defines, typically, a top-tier retailer with clear leadership in term of market shares within the main country of operation
[4] 'Medium position' defines, typically, a tier-two retailer with robust market shares within the main country of operation.
[5] 'Weak position' defines, typically, a tier-three retailer with limited market shares within the main country of operation.

Diversification

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

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 assortment of products sold across more than two consumer goods categories		Products sold belong to two consumer goods categories	Products sold belong to one consumer goods category which is deemed non-cyclical	Products sold belong to one consumer goods category which is deemed cyclical	

The division between online and brick-and-mortar operations has broken down with the emergence of integrated models and the reinforcement of omnichannels. 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 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 omnichannels 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 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 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.

[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%
Scope-adjusted EBITDA return on assets	> 45%	45 to 35%	35 to 25%	25 to 15%	15 to 5%	<5%

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 5.2.

We also consider the following points when assessing the operating profitability:

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).

Volatility of margins: Our operating profitability assessment may apply a more conservative approach if we observe a volatile EBITDA margin over the years. 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.

4.2. Financial risk profile

Our assessment of a retailer's financial risk profile follows the general guidance presented in our Corporate Rating Methodology. We focus on recent and forward-looking financial data, including key parameters like leverage, interest cover and cash flow. Liquidity is also assessed and is a central element for non-investment grade issuers.

4.2.1. Credit metrics

A company's financial risk profile indicates its short- to medium-term financial flexibility and viability. A company with a strong financial risk profile is better able to soften the negative effects of economic cycles, industry dynamics, regulatory changes and an unexpected loss of its revenue base. Financial flexibility during an economic downturn is an important rating driver for retail companies as it also indicates a greater ability to make new investments, even in worsening economic conditions.

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 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 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, the evolution of 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 ability to pay bills. On the other hand, a downward trend in the cash conversation cycle level reflects supplier perception that the retailer's credit worthiness is improving.

If relevant, we may also adjust the metrics for retailers whose activities include some financial services to support their operations, by stripping out of our adjusted metrics, components seen as captive finance and related impacts on the P&L, balance sheet and cash flow statements. In the context of a rating of a wholesaler, we will have a closer look at the variation of net working capital.

4.2.2. Liquidity

We do not carry out a sector-specific assessment of a retailer's liquidity. Our general liquidity assessment is described in our 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.

4.3. Supplementary rating drivers

4.3.1. Financial policy

Our ratings capture management's 'risk appetite' for discretionary spending (such as on acquisitions, dividends and share buybacks) and the extent to which these are funded with debt. The ratings also capture management's rating commitment, both credit-positive and credit-negative. For example, in cases of debt-funded acquisitions that lead to short-term deviations from the stated financial policy, we believe family-owned companies are more committed to maintaining the credit rating than non-owner-managed companies. We reflect this in our financial policy assessment, which is based on the company's track record and level of rating commitment.

4.3.2. Parent/government support

In assessing credit quality of an entity that may benefit from parent support, we incorporate the owner's capacity and willingness to support an entity/subsidiary under financial distress. We aim to capture potential support (or even a 'malus') that results from the ownership structure, which can have both credit-positive and negative implications. In terms of a rating impact, all options are possible: from full equalisation of subsidiary's ratings to the parent's (and, in the case of high strategic importance, name equality, debt guarantees or other supportive factors) to no notch at all. An ownership malus could be due to a weaker parent and the parent's inability to support its subsidiary. We assess the degree of the subsidiary's strategic importance in relation to the parent.

This could be strategically significant or less significant. Further considerations are the degree of actual support the parent could extend to its subsidiary in the form of explicit guarantees, letters of credit or other considerations. More implicit forms of parent commitment could be provided by name equality or using the same banking relations, or even through common treasury operations. When assessing parent or government support, we apply our 'Government Related Entities Rating Methodology'.

4.3.3. Peer context

Our ratings reflect additional considerations in a peer group context which aim at ensuring consistency across the rating spectrum; with both credit-positive and negative implications.

4.3.4. Governance and structure

In its rating analysis, we assess the corporate's management and management track record (as described in the Corporate Rating Methodology). A solid track record is considered a positive factor for the rating and provide us with confidence in the company's forecasts.

Although a corporate governance structure does not drive up a retailer's rating, it is an important factor in determining our credit ratings. Adequate corporate governance forms the minimum standard for a rating, but weak corporate governance can drive down a rating.

4.4. Additional methodology factors – ESG

For further details on how we incorporate ESG in our analysis, rating Outlooks for corporate debt ratings, short-term ratings, recovery analysis and individual instrument ratings or rating categories, please see our Rating Methodology Corporate Ratings from in sections 3.1.3 and 6.

During the rating process, we implicitly capture general environmental, social and governance (ESG) factors that have a material credit impact. We conduct an explicit corporate governance assessment during the rating process (see 3.3.4).

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. We consider reputation risks (linked to consumer goods sold or labour force management) to be a critical element for the social criteria. 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.

Contrary to ESG ratings, which are largely based on quantitative scores for different rating dimensions, credit relevant ESG factors can directly or indirectly affect all the rating elements which make up our assessment of an issuer's business risk profile, financial risk profile and supplementary rating drivers. ESG awareness is increasingly affecting the retail and wholesale industry and exposing companies to ESG risks, not only directly (i.e., via headline risk) but also indirectly through ESG risks in the value chain.

4.5. Corporate issuer rating

The final issuer rating is based on our analyses of business risk and financial risk profiles as well as the potential effects of supplementary rating drivers. The rating committee decides on the relative importance of each rating driver. In general, business risk and financial risk profiles are weighted equally for BB/BBB rated companies. The analysis of investment grade companies (rated BBB- and above) focuses more on the business risk profile. B (and below) ratings are assigned with a stronger focus on the financial risk profile. The weighting between the business risk and financial risk profiles may be adjusted for specific business models and markets.

5. Appendix

5.1. Country retail strength (CRS)

Our assessment of country retail strength (CRS) supports our analysis by bringing additional local context. To this end, we estimate the maturity and size of the retail sector in 148 countries.

- The maturity of the 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 the retail sector is assessed in terms of households' final consumption expenditure, 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 countries by its retail sector's maturity and size, allowing a better understanding on the **contextual risks** faced by retailers in their countries of operation**.** The penetration rate of online sales, household demands change, supply risks, the level of infrastructure and the requirement of dedicated services will 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 the table below. 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 should have a 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 table below. 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 the Country Retail Strength per country:

Country	CRS	Country	CRS	Country	CRS	Country	CRS
Afghanistan	Low	**Denmark**	High	**Kenya**	High-medium	**Peru**	High-medium
Albania	Medium-low	**Djibouti**	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
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-medium
Bahamas	Medium-low	**Ethiopia**	Medium-low	**Lithuania**	High-medium	**Senegal**	Low
Bahrain	High-medium	**Fiji**	Low	**Luxembourg**	High-medium	**Serbia**	Medium-low
Bangladesh	Medium-low	**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**	Low	**Malta**	Medium-low	**South Africa**	High
Bolivia	Low	**Germany**	High	**Mauritania**	Low	**Spain**	High
Bosnia & Herzegovina	Medium-low	**Ghana**	Medium-low	**Mauritius**	Medium-low	**Sri Lanka**	Medium-low
Botswana	Medium-low	**Greece**	High-medium	**Mexico**	High-medium	**Sudan**	Low
Brazil	High-medium	**Guatemala**	Medium-low	**Moldova**	Low	**Sweden**	High
Bulgaria	High-medium	**Guinea**	Low	**Mongolia**	Low	**Switzerland**	High
Burkina Faso	Medium-low	**Guinea-Bissau**	Low	**Montenegro**	Medium-low	**Tanzania**	High-medium
Burundi	Low	**Haiti**	Low	**Morocco**	Medium-low	**Thailand**	High
Cambodia	Medium-low	**Honduras**	Medium-low	**Mozambique**	Medium-low	**Togo**	Low
Cameroon	Medium-low	**Hungary**	High-medium	**Myanmar**	Medium-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.**	High-medium	**New Zealand**	High-medium	**United Arab Emirates**	High
Colombia	High-medium	**Iraq**	Low	**Nicaragua**	Medium-low	**United Kingdom**	High
Congo, Dem. Rep.	Low	**Ireland**	High-medium	**Niger**	Low	**United States**	High
Congo, Rep	Low	**Israel**	High-medium	**Nigeria**	Medium-low	**Uruguay**	Medium-low
Costa Rica	Medium-low	**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	**Kazakhstan**	High-medium	**Paraguay**	Medium-low	**Zimbabwe**	Low

5.2. Definition of financial items and key performance indicators applicable only to the retail sector

For further details on definitions of the financial indicators used in our financial risk profile assessment, refer to our Corporate Rating Methodology.

Scope-adjusted EBITDA return on assets	
Operational efficiency measure	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.
$$\frac{\text{Scope-adjusted EBITDA}}{\text{Net property, plant and equipment + right-of-use assets + inventory}}$$	

Days inventory outstanding (DIO)	
Operational efficiency measure	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.
$$\frac{\text{Average inventory} \times 365}{\text{Cost of goods sold}}$$	

Days sales outstanding (DSO)	
Operational efficiency measure	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.
$$\frac{\text{Average commercial receivables}}{(\text{Revenues} \div 365)}$$	

Days payables outstanding (DPO)	
Operational efficiency measure	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.
$$\frac{\text{Average commercial payables}}{(\text{Cost of goods sold} \div 365)}$$	

Cash conversion cycle	
Operational efficiency measure	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.
Cash conversion cycle = DIO + DSO - DPO	

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