S&P Global
Ratings

Engineering and Construction

E&C continues to expand on sound infrastructure spending

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This report does not constitute a rating action.

Contacts

Fernanda Hernandez
New York
+1 212 438 1347
fernanda.hernandez
@spglobal.com

Renato, Panichi
Milan
+39 0272111215
renato.panichi
@spglobal.com

Stephen Chan, CPA
Hong Kong
+852 2532 8088
stephen.chan
@spglobal.com

Jarrett Bilous
Toronto
+1 416 507 2593
jarrett.bilous
@spglobal.com

Pascal Seguier
Paris
+33 1 40 75 25 89
pascal.seguier
@spglobal.com

What's changed?

E&C issuers will grow at a more moderate pace in 2024 and 2025, relative to their peak levels in 2022 and 2023. Most are poised to expand over the next several years, supported by the sound infrastructure spending in most regions amid favorable project funding conditions, the energy transition, and the exponential demand for data centers. Conversely, in China we expect the E&C sector's output will rise by the low-single digit percent area in 2025 on a high base and declining new orders.

What are the key assumptions for 2025?

Lower interest rates will accelerate investments, though not immediately. We assume additional rate cuts during 2025 will support construction activity but anticipate a lag from planning to execution will lead to a more material impact in the back half of 2025 and 2026.

Moderating revenue growth in China. Given elevated leverage pressure and the government's tighter control on investment projects, Chinese E&C companies will also likely exhibit a reduced appetite for debt-funded growth.

What are the key risks around the baseline?

Materials cost increases and trade policies. In the U.S., the magnitude of tariffs imposed could increase construction materials prices, potentially leading to cost overruns or project delays.

Skilled labor availability remains a risk in both the U.S. and Europe. The availability of skilled labor could worsen in the U.S. due to the immigration policies of the incoming administration.

Narrowing ratings headroom for Chinese E&C companies, due to worse-than-expected receivables turnover and impairment ratios stemming from prolonged payment cycles because of weaker financial conditions for project owners (e.g. local governments in lower-tier cities).

Ratings Trends: Capital Goods

Chart 1

Ratings distribution

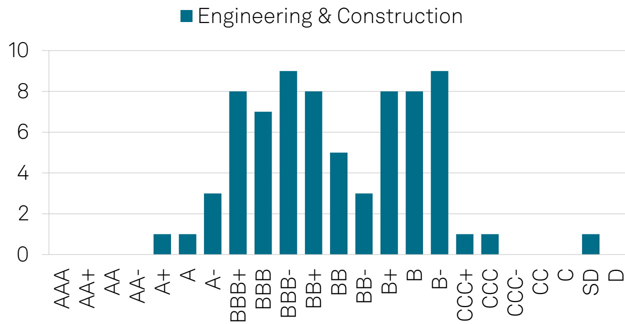


Chart 2

Ratings distribution by region

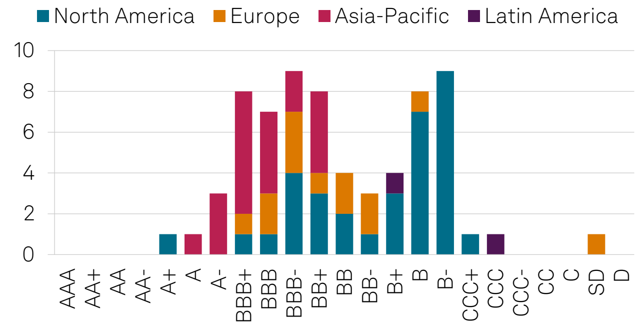


Chart 3

Ratings outlooks

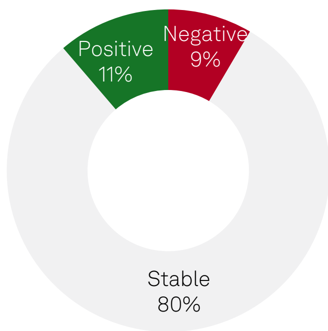


Chart 4

Ratings outlooks by region

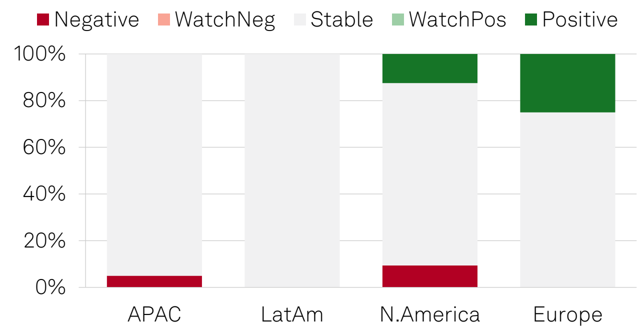


Chart 5

Ratings outlook net bias

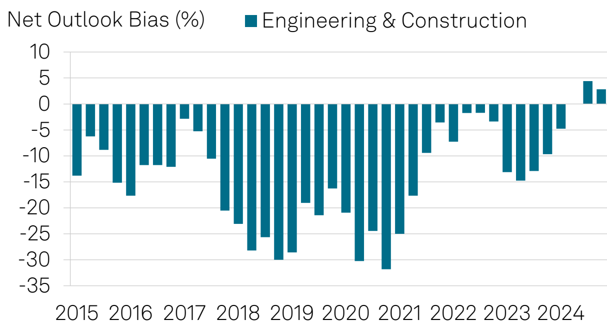
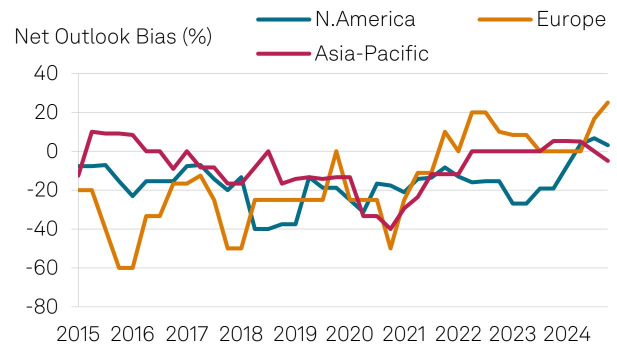


Chart 6

Ratings net outlook bias by region



Source: S&P Global Ratings. Ratings data measured at quarter-end.

Industry Outlook

Ratings trends and outlook

We have stable outlooks on 80% of the issuers in our rated E&C universe and a modest net positive outlook bias (3%). We expect our ratings on these companies will remain relatively stable over the next 12 months, supported by low- to mid-single digit percent revenue growth and mildly improving operating margins. Other than in China, steady industrial investment and the constructive backdrop in most sectors, particularly transportation and water and power infrastructure, will be the key sources of growth.

E&C issuers with good scale, low leverage, and healthy cash flow generation are well positioned to capture above-average growth, supporting modestly improving credit metrics. In Europe and the U.S., this has led to several positive rating actions over the past year, including 9 upgrades and 6 outlook revisions to positive, which by far outpaced the number of negative rating actions. We believe positive rating activity will continue to outweigh negative actions in 2025, though likely at a reduced pace.

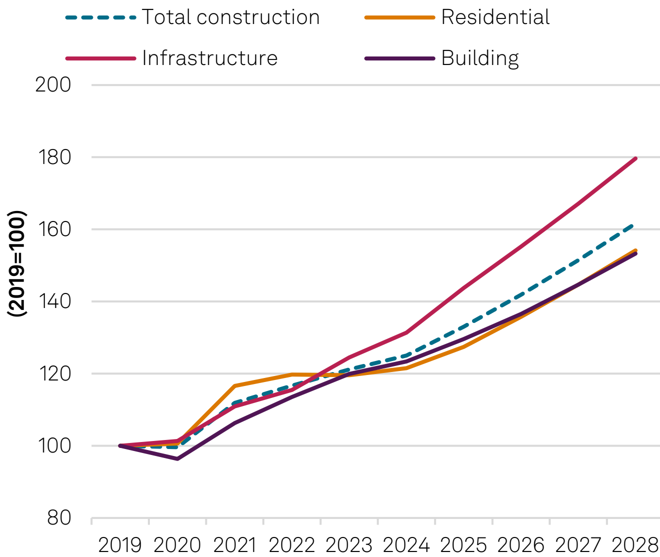
In the U.S., the positive ratings bias is geared toward issuers that we expect will realize outsized benefits from power and infrastructure project opportunities. Strong business prospects will likely underpin improved cash flows and leverage metrics, like what occurred in 2024. Provisions to protect margins, cost efficiencies, and a commitment to balance sheet stability will be notable tailwinds for certain issuers.

We also took some positive rating actions on Europe-based issuers in 2024 to reflect continued business growth, both domestically and internationally (namely in Australia and the U.S.), and reduced leverage. Our rating bias remains slightly positive, which incorporates our expectation for continued revenue growth from contract wins, solid backlogs, and the expected mitigation of persistent inflationary pressures.

S&P Global expects nominal global construction spending will reach $14.7 trillion in 2024 and $15.6 trillion in 2025, which represents a 3.2% and 6.4% year-over-year increase, respectively (see chart 7). Infrastructure spending is the key driver and accounts for about 33% of total construction. We expect steady growth across all regions, albeit at a varying pace (see chart 8). We anticipate the highest rate of business expansion will be in Europe, the Middle East, and Africa (EMEA). In the Americas, we assume growth will slow modestly in 2025 to more-normalized levels following an outsized peak, particularly in 2023.

Chart 7

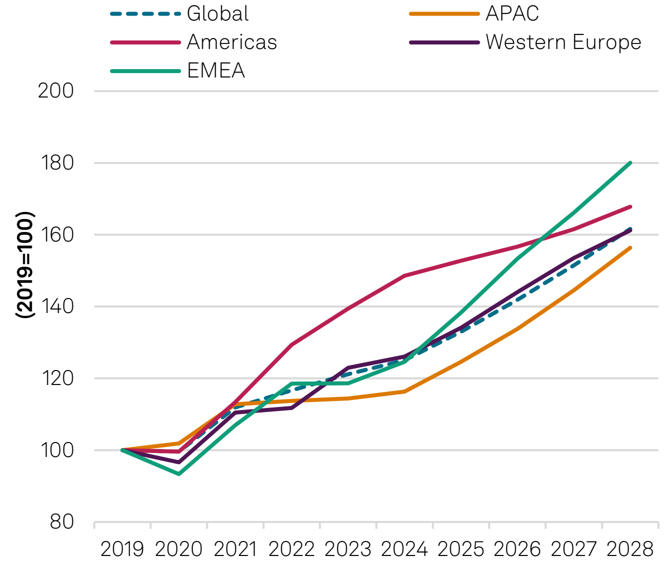
Global construction outlook



Source: S&P Global Market Intelligence data insight as of October 2024.

Chart 8

Construction outlook by region

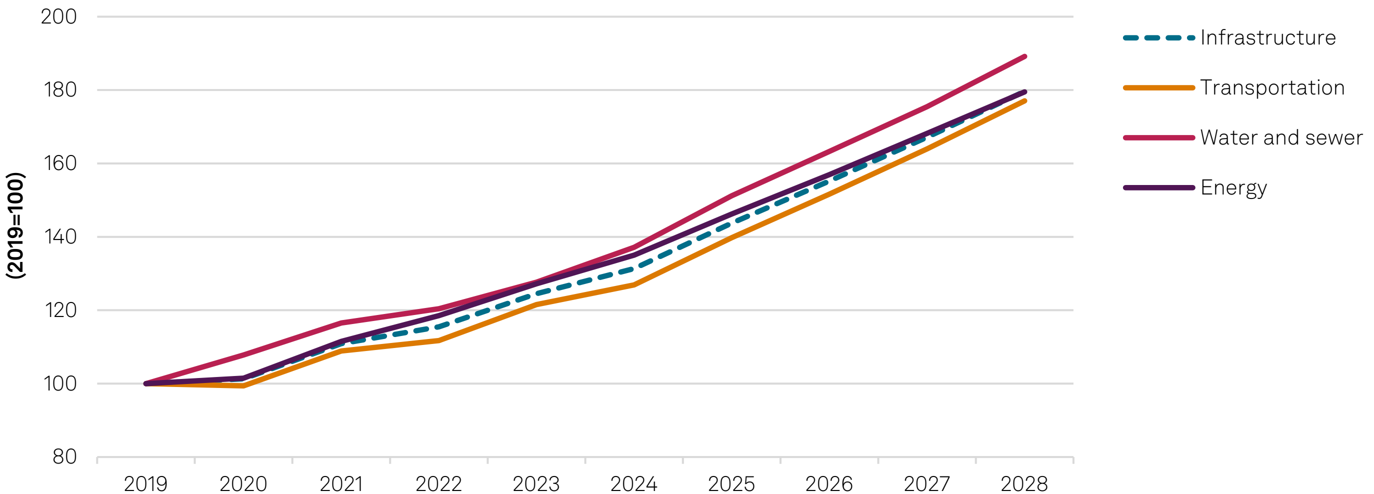


Source: S&P Global Market Intelligence data insight as of October 2024.

We expect global infrastructure funding will remain sound (see chart 9). Our positive outlook for infrastructure construction spending is a key driver in the U.S., Europe, Australia, and Canada, as well as in certain emerging markets such as India, Saudi Arabia, and Singapore. We expect global infrastructure spending will rise by about 9.4% in 2025, outperforming other non-residential construction sectors. We expect the Transportation and Water and Sewer sectors will experience outsized growth and expand by about 10% in 2025. We expect the Infrastructure Investment and Jobs Act (IIJA) and autumn budget in the U.S., the Next Generation EU plan in the EU, and AMP8 in the U.K. will drive growth for our E&C issuers (except for Chinese issuers), led by infrastructure projects.

Chart 9

Global infrastructure spending



Source: S&P Global Market Intelligence data insight as of October 2024.

Megatrends for the energy transition will support multi-year green capex. We believe the trends toward grid modernization and security, system hardening initiatives, electric vehicle adoption, and load growth will be key growth opportunities. Carbon capture, low-emission fuels, electrification, renewables, nuclear, and battery storage will support increasing energy consumption globally, which will provide growth opportunities for many of our rated E&C issuers over the next several years. In our view, larger issuers with an established presence and solutions across the value chain have a competitive edge to capture the growth stemming from utilities and energy customers.

The surge in data center demand will further support the long-term growth of the sector. Data center growth has been exponential amid the digitization of the global economy, boosted by cloud migration and further propelled by the broad adoption of artificial intelligence (AI). The E&C issuers we cover have benefitted from the spillover from data center buildouts, power generation (including renewables, natural gas, and nuclear power), electricity distribution and transmission, and connectivity requirements; and we observed a rapid increase in their backlogs supported by expanding scope and complexity.

E&C is a highly fragmented industry, which tempers the rating upside for many issuers. S&P Global Ratings rates many of the largest and leading industry participants, which we consider to be best positioned to benefit from the strong underlying fundamentals. A strong track record of completing projects on time and on budget are key differentiators when winning awards. In addition, we consider scale as an advantage because it enables companies to mitigate the risks arising from supply chain disruptions and skilled labor availability constraints. Many of our rated E&C issuers have well outlined training and development processes and provide attractive compensation that keep their attrition rates below the industry average.

Pandemic-induced project delays and cost increases underscored the risks associated with fixed-price contracts. Following a wave of contract repricings and an increased focus on cost efficiencies, the margins of E&C issuers are well positioned to expand modestly over the next couple of years. We expect these companies will maintain a more-conservative approach to the bidding process, incorporating contingencies and wider cost-escalation ranges. We also expect issuers, particularly those that engage in civil infrastructure projects, will seek more favorable contract models and commercial terms to protect their margins. Issuers are increasingly migrating toward cost-plus and variable-price contracts and using delivery methods such as progressive design-build. The latter emphasizes early collaboration between the design and construction phases, which reduces the risk for cost overruns due to order changes and delays. In addition, E&C issuers with a higher focus on value-added services are seeing incremental margin gains.

A different story in China. In China, E&C output will likely see muted growth in 2025. The expansion in China's E&C output moderated to 2.5% year over year in the first nine months of 2024, which compares with 5.8% in 2023. The industry's new E&C contracts declined by 5.9% year over year for the 12 months ended September 2024. We believe this was due to a high base, weaker demand for housing construction, tightened controls on public-private partnership (PPP) projects, and the generally tightening fiscal capacities of local governments. With a high base and declining new orders, the pace of expansion in the E&C industry will likely further moderate in 2025.

Meanwhile, our base case assumes EBITDA expansion and slowing debt growth on more-cautious financial management at the Chinese E&C issuers we rate in 2025. That said, some of their rating headroom narrowed in 2024 amid enlarging working capital outflows due to longer receivable collection cycles stemming from the financial constraints facing project owners (e.g. local governments and their financing vehicles).

Main assumptions about 2025 and beyond

1. We estimate a mid- to high-single digit percent revenue expansion for our U.S. portfolio.

We anticipate high infrastructure spending and stronger energy and data consumption will support sustained growth for U.S.-based E&C issuers.

2. In Europe, the volume recovery will be gradual and sustained by civil engineering.

The European construction outlook remains gloomy in 2025, especially in Germany and Italy. Growth is unlikely to improve until the second half of 2025 when we anticipate a progressive recovery in the volume of residential construction, mainly driven by renovations. Nonresidential building construction will likely display modest growth. In contrast, civil engineering volumes continue to rise, supported by new public-funded investments.

3. A moderate profitability improvement amid flattish revenue growth in China.

This will mainly be supported by more-stringent cost controls at major E&C companies to mitigate the intense competition amid slowing growth.

We expect a sustained—though uneven—expansion across our global E&C portfolio, stemming from infrastructure spending, energy transition tailwinds, and government support, over the next few years. We expect the revenue growth among U.S. E&C issuers will outpace the expansion in other regions, supported by the issuers' record backlogs and energy transition momentum relative to other regions. We expect a sustained flow of public and private funding will support an about 6% revenue increase in 2025 for our E&C portfolio. We expect issuers with higher exposure to transportation, water, and power infrastructure will capture above-industry average growth boosted by contributions from the IIJA.

Following the approval of the $1.2 trillion IIJA in 2021, there has been a constant flow of new projects that will continue to fuel an expansion in the backlogs of the bulk of our rated E&C issuers. The impact of the infrastructure bill will be direct for E&C issuers that engage in civil infrastructure projects. However, it will also have a cascade effect for several other service providers and contractors in other end markets, such as communications, through the Broadband Equity Access and Deployment Program (BEAD) program ($42 billion). Year to date, the government has only disbursed one third of these funds, which bodes well for domestic U.S. activity over the next few years. That said, there are questions regarding the sustainability of the IIJA due to the incoming Trump administration. However, in our view, the bipartisan nature of the bill, the successful economic spillover (including for Republican-led states), and the upside from remaining awards make this unlikely. We anticipate infrastructure spending will rise by about 9.3% in 2025 (6.9% on a real basis) in the U.S. and exceed the global average.

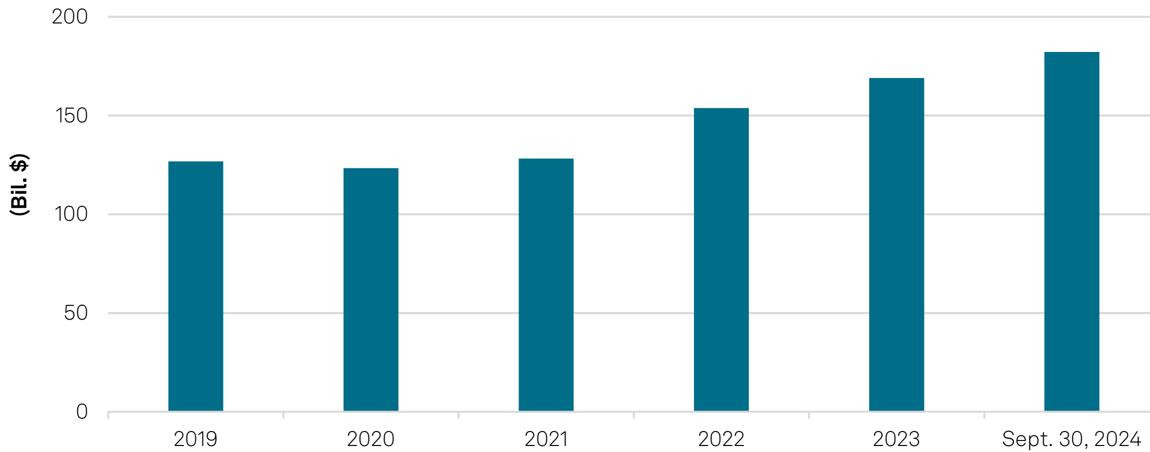
For non-residential construction, we anticipate sound growth for communications as the government allocates construction funds through the BEAD program beginning in the second half of 2025. This follows a slowdown in the sector due to reduced capex on wireless infrastructure. Other industrial end markets that we expect will show sustained growth over the next couple of years include advanced technology, such as data centers, semiconductors, and life sciences. Conversely, we expect commercial construction will remain somewhat challenged and office construction will continue to decline due to the secular shift toward e-commerce and remote work.

This is boosted by investments in wind, solar, and battery storage assets, which support strong secular tailwinds as companies invest to achieve their energy transition goals. In our view, the E&C issuers with the highest exposure to maintenance-related revenue will likely experience a lower level of volatility in their earnings and cash flow relative to other firms.

As of Sept. 30, 2024, the backlog for our selected rated U.S. E&C issuers rose by nearly 8% from year-end 2023, which we believe provides them with good revenue visibility over the next 12 months (see chart 10).

Chart 10

Backlog of selected rated U.S. E&C issuers

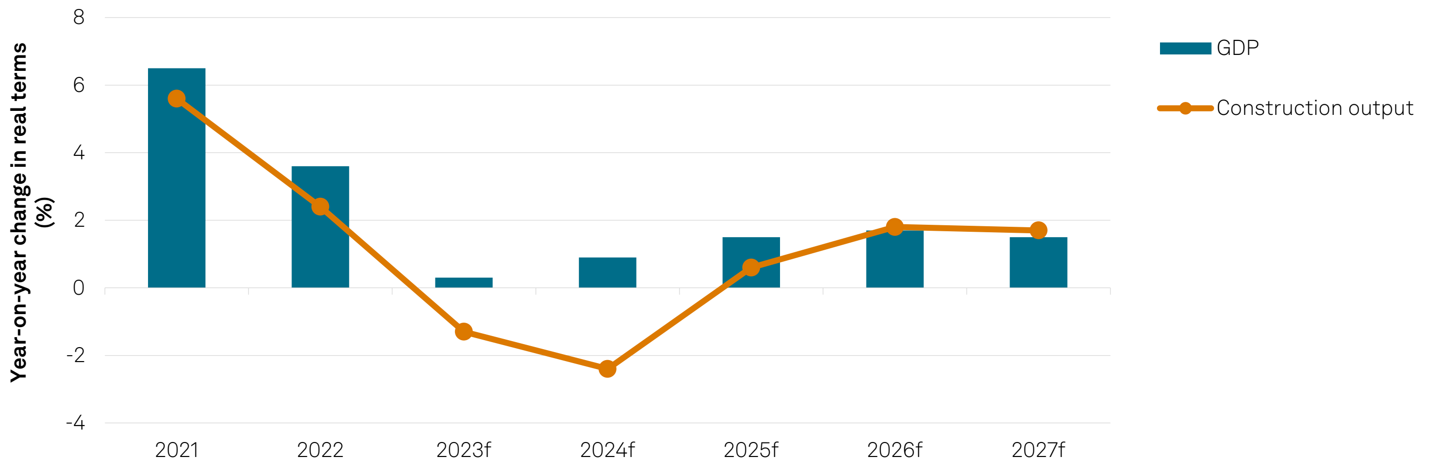


Source: S&P Global Ratings' calculations based on company disclosures.

In Europe, civil engineering construction will be the key determinant of the sector's growth. We assume construction output improves modestly (by 0.6%) in 2025, which compares with the contractions experienced over the past two years (see chart 11). We assume the fiscal stimulus announced by the EU and national governments to boost economies following the COVID-19 pandemic were the key driver of this rebound. This includes the multiannual financial framework (2021–2027)—the EU's long-term budget—and the Next Generation EU (NGEU) program, which is one of the largest stimulus packages ever financed in Europe. Specifically, the Recovery and Resilience Facility (RRF), which forms the centerpiece of the NGEU, has supported public investment in infrastructure projects in EU member states since its launch in 2021 and will remain a key driver of this segment's growth over the medium term. The RRF makes available €648 billion of grants (€357 billion) and loans (€291 billion) to support various investments and reforms outlined in EU member states' Recovery and Resilience Plans (RRPs) by the end of 2026.

Chart 11

GDP and construction output in Europe (EC-19, % change)



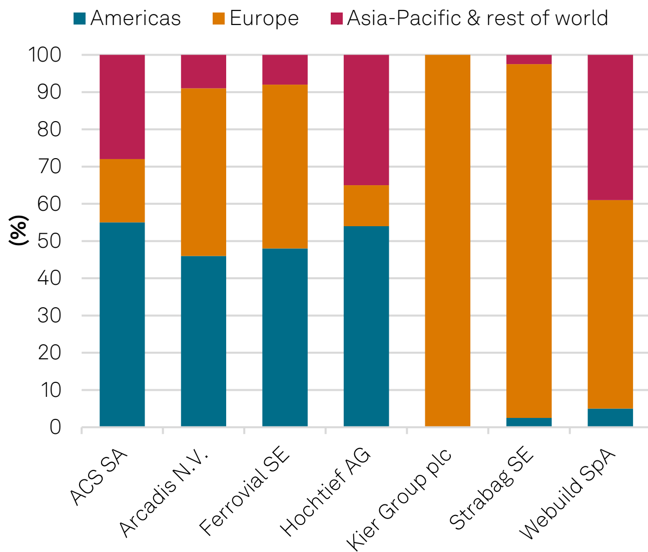
f—Forecast. Source: Euroconstruct.

The green transition and digital transformations are key priority areas. Green initiatives have grown in importance, with 42% of total RRF funds earmarked for climate objectives. More than half of the RRF funds have been disbursed to member states so far in 2024 (or 37% of the total EU budget). This suggests that disbursements will likely ramp up in the final two years of the RRF, although there are concerns around whether some member states will be able to complete the projects needed to unlock all of the approved funding by the 2026 deadline. Transportation will be the key driver of infrastructure spending in Europe in 2025-2026. In the U.K., the National Infrastructure and Construction Pipeline outlines £164 billion of planned investment in major infrastructure and construction projects over the next two years.

Most rated construction companies based in Europe will continue to increase revenue for their local business in both 2025 and 2026. This is because they mainly operate in the civil engineering and non-residential construction spaces. Furthermore, our rated European companies benefit from their significant geographic diversity, particularly in North America and Australia where they derive a material proportion of their business (see chart 12). The order intake of European-based construction companies remains solid thanks to new projects in the infrastructure segment across Europe, the U.S., and Australia. The backlog to revenue levels among these companies are well above 1x on average. Webuild SpA displays the highest revenue visibility in 2024-2026 because of its backlog (see chart 13).

Chart 12

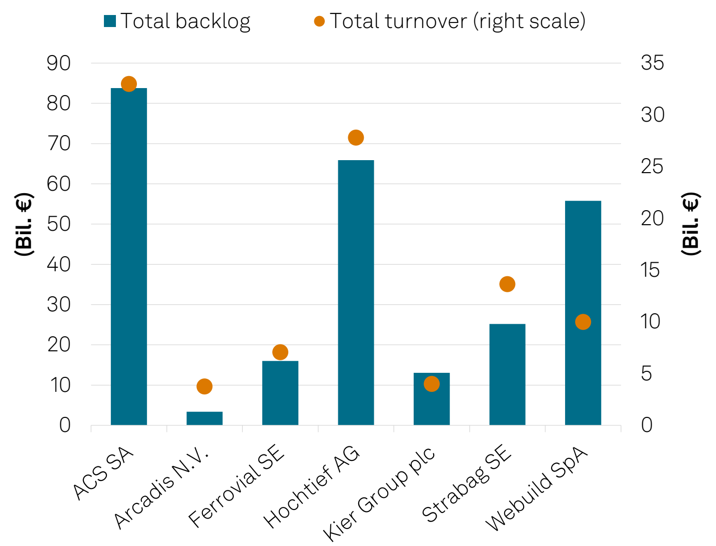
Total revenues by geography



Data as of Dec. 31, 2023.
Source: S&P Global Ratings.

Chart 13

Total backlog and total turnover



Backlog as of June 30, 2024. Turnover as of Dec. 31, 2023.
Source: S&P Global Ratings.

Revenue growth among major E&C companies in China will likely remain weak in the low-single-digit percent area in 2025. Despite the declining volume of new contracts in the industry, Chinese E&C companies generally have sufficient orders on hand to support a moderate increase in their revenue during the year. Amid an anticipated market slowdown and elevated leverage pressure, they will likely prioritize improving their margins and operating cash flow (OCF), over aggressively expanding their business scale, to protect their credit profiles.

We expect slightly improving profitability for major Chinese E&C companies in 2025. Although fierce competition will continue to weigh on the margins of E&C projects, we believe major E&C companies will step up their cost-control measures in 2025 to mitigate this margin pressure.

Meanwhile, proposed debt swaps for the hidden debts of local governments could increase their spending power. This could support faster receivable collection for E&C companies and likely lower their receivables impairment ratio, leading to a mild improvement in their EBITDA margins and OCF during the year.

Credit metrics and financial policy

Overall, we expect the leverage metrics of our global E&C portfolio will improve, supported by higher earnings and stronger free cash flows as issuers across the globe focus on cost efficiencies, protecting their project margins, and working capital management.

Rated U.S. and European E&C issuers remained strongly focused on improving their working capital cycles, leading to reductions in their days sales outstanding (DSOs) and higher cash conversion. We believe these improvements are sustainable and will support stronger cash flow generation in 2025. In addition, many of the large issuers we rate have an increased exposure to renewables projects, which are typically working capital positive due to the advanced payments for crew mobilizations. Free cash flow improved substantially over the past two years, and we expect this trend will continue as the backlog of renewable projects grows.

In the U.S., the median S&P Global Ratings-adjusted FOCF to debt improved to 7% in 2023, from below 1% in 2022, and we expect it will approach 10% in 2025. We consider the likelihood for incremental debt as low and estimate these issuers' S&P Global Ratings-adjusted debt to EBITDA will decline by about half a turn as of year end 2024, relative to 2023, and a further 0.2x in 2025. We expect issuers will use their discretionary cash flow primarily for acquisitions and opportunistic shareholder rewards, with higher earnings supporting an improvement in their leverage. However, a high share of our rated issuers are owned by financial sponsors, which typically adopt more-aggressive financial policies that preclude material sustained deleveraging.

In Europe, we expect E&C issuers' credit metrics will remain supportive on strong order intake, notably outside of Europe, and good working capital management. Several rated issuers, such as the ACS group and Webuild, continue to bid and win large projects in the U.S. and Australia. For example, a consortium including the ACS Group was recently awarded the construction and operation of the SR400 Express Lane in Atlanta, with a construction value of more than $4.6 billion (€4.2 billion). On average, their backlog to revenue ratios are well above 1.0x (see chart xx). We also anticipate that European E&C issuers will continue to leverage global megatrends such as digitalization and electrification. As such, these companies have expanded into the construction of datacenters. For example the ACS group, through its U.S. subsidiary Turner, will form part of the consortium that will build datacenters for Meta for $10 billion in Richland Parish, La.

In China, we believe our rated issuers will focus on improving their earnings and cash flow over the next one to two years. At the same time, they will likely incur moderately lower capex due to their tightened control on PPP projects. That said, the rating headroom amid rated Chinese E&C companies is diverging. Anticipated EBITDA expansion and slowing debt growth in 2025 will likely lead to elevated uncertainties depending on the degree of fiscal capacity improvement among local governments during the year.

Key risks or opportunities around the baseline

1. Materials cost increases and trade policies.

In the U.S., the magnitude of tariffs imposed could push construction materials prices higher, for example for steel and lumber, potentially leading to cost overruns or project delays and cancellations due to budget revisions.

2. Skilled labor availability and wage inflation remain risks in both the U.S. and Europe.

So far, companies have managed this risk well; however, it may become challenging for contractors to deliver all of their projects on time, given their currently high backlogs.

3. Worse-than-expected receivables turnover and impairment ratios will narrow the rating headroom of China's E&C companies.

Further delays in the payment cycles of project owners could elevate the receivable impairment ratios of E&C companies. This could also reduce their operating cash inflows and push up their debt leverage. Such a scenario could stem from worsened funding conditions for project owners (e.g. local governments in lower-tier cities) whose payment capability deteriorated during the prolonged property market downturn.

Geopolitical tensions are a key threat for E&C issuers globally due to inflation and supply chain disruptions from extended and escalating conflicts. Governments around the world aim to increase infrastructure spending to fuel economic growth, though a global economic slowdown, high sovereign indebtedness, and a reliance on the successful implementation of government programs pose a risk to the cadence of the top-line expansion among our rated E&C issuers.

Under the incoming Trump Administration in the U.S., we believe there is a risk some of these sectors will slow because the President-elect leans toward favoring fossil fuels, which could lead to a potential reduction or elimination of subsidies for green energy and tax credits under the Inflation Reduction Act (IRA). Under this scenario, we think issuers with a diversified end-market platform would better weather these headwinds.

Inflationary pressures have subsided but not disappeared. Cost increases for construction materials have plateaued at elevated prices and we do not expect a decline. In the U.S., Trump's universal tariffs pose an additional risk for the construction industry and increase construction materials costs, such as for steel and lumber. For example, we assume hot rolled coil prices (a common benchmark for other grades of steel) in the $700-$800 per ton area on average over the next two years, which is only modestly above prevailing levels. Although the majority of materials are domestically sourced, they are influenced—to an extent—by the price of imports.

At the same time, wage inflation is persistent due to the scarce availability of skilled labor in the sector, which we believe will remain the key driver for cost increases over the next couple of years. In addition, Trump's immigration policies could further increase wages, given the sector's high reliance on immigrant workers.

According to the U.S. Census Bureau, the percentage of immigrant workers in the construction industry stood at nearly 30% in 2023, representing a 5% compound annual growth rate since 2020. However, the magnitude and timing of the impact from the incoming administration's immigration policies is uncertain.

Project cost inflation remains a risk to profit margins in most markets across the globe. Larger issuers with stronger bargaining power and self-perform approaches are less exposed. In Europe, most rated E&C issuers continue to focus on projects in low-risk countries or regions such as

Western Europe and the U.S. These companies have reduced their presence in the emerging markets, where the infrastructure and legal frameworks are less supportive, over time. However, some legacy projects remain outstanding in the emerging markets. We believe that E&C issuers' credit metrics could, at times, be affected by the risks of cost overruns, operational issues, and litigation, as they have been in the past.

We also note that the Europe-based rated issuers are increasing their presence in the Middle-East, given that several countries have initiated large government-led infrastructure projects. The most important one is Neom, an urban area construction project in Saudi Arabia with a budget of over $1,000 billion, which is part of the Saudi Vision 2030 program. While these mega-projects could be an important source of activity over the coming years, these companies have a limited track record on such projects, which could see further changes to their characteristics. For example, The Line, a futuristic project under Neom, was recently scaled down amid funding challenges.

In China, cash flow improvement remains the key for anticipated deleveraging among E&C companies. Further delays in receivable collection from project owners could worsen the working capital outflows and OCF generation of China's E&C companies, which would ultimately elevate their debt leverage. The downside risks will increase if such situations persist absent signs of improvement.

Related Research

- Global Engineering And Construction 2024 Outlook Update, July 25, 2024
- Record U.S. Infrastructure Spending Is Colliding With Higher Construction Costs And Other Hurdles, May 14, 2024
- China Engineering & Construction 2024 Industry Outlook: Rated E&C Companies Should Ride Through The Speed Bump, Jan. 15, 2024

Industry Forecasts: Engineering and Construction

Chart 14

Revenue growth (local currency)

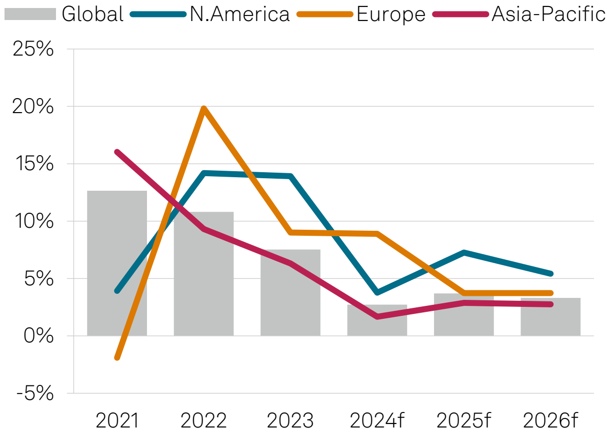


Chart 15

EBITDA margin (adjusted)

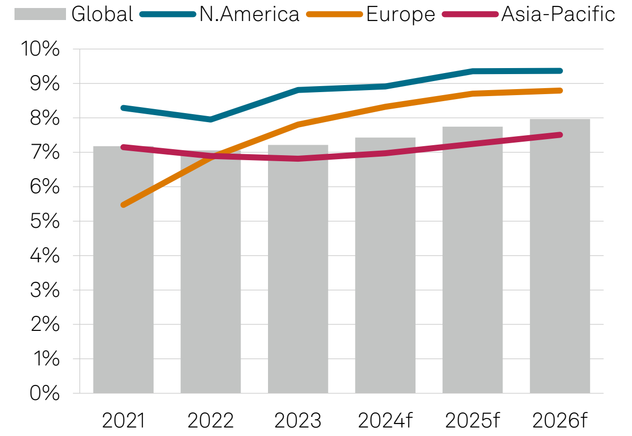


Chart 16

Debt / EBITDA (median, adjusted)

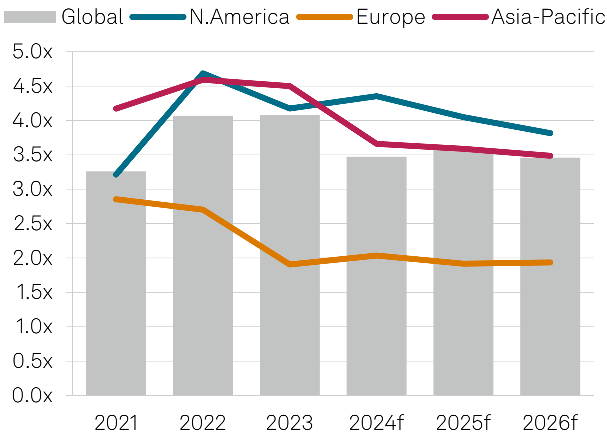
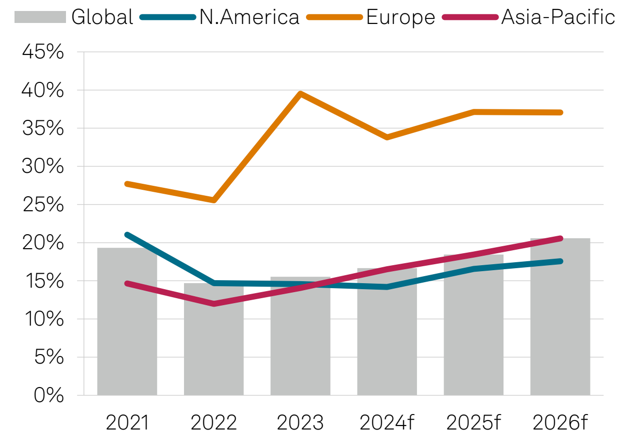


Chart 17

FFO / Debt (median, adjusted)



Source: S&P Global Ratings. f = forecast.
Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Cash, Debt, And Returns: Engineering and Construction

Chart 18

Cash flow and primary uses

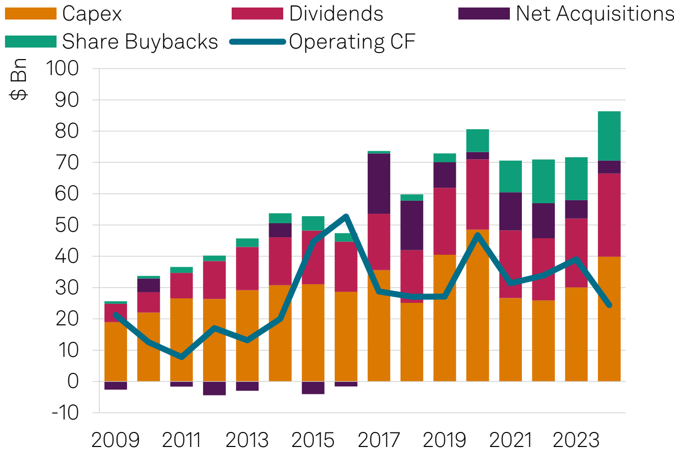


Chart 19

Return on capital employed

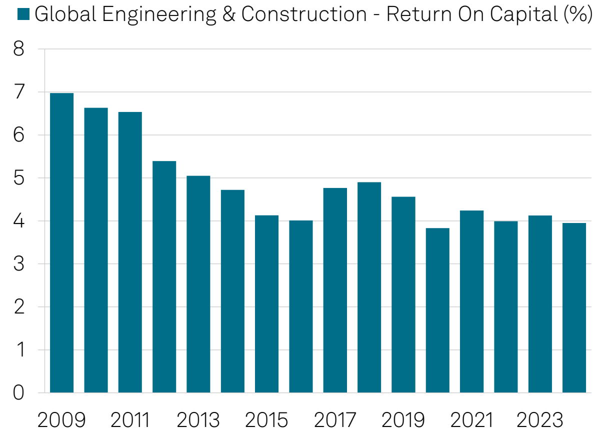


Chart 20

Fixed- versus variable-rate exposure

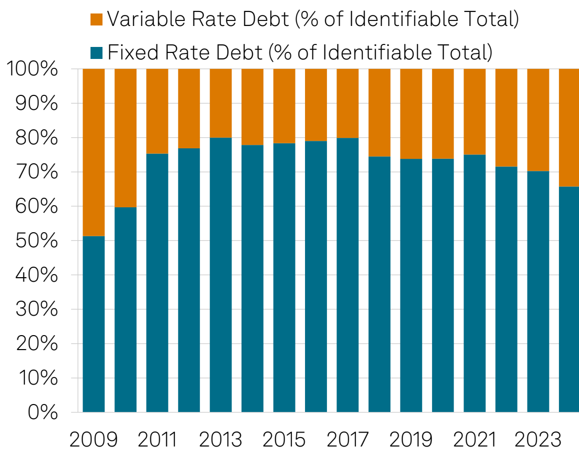


Chart 21

Long-term debt term structure

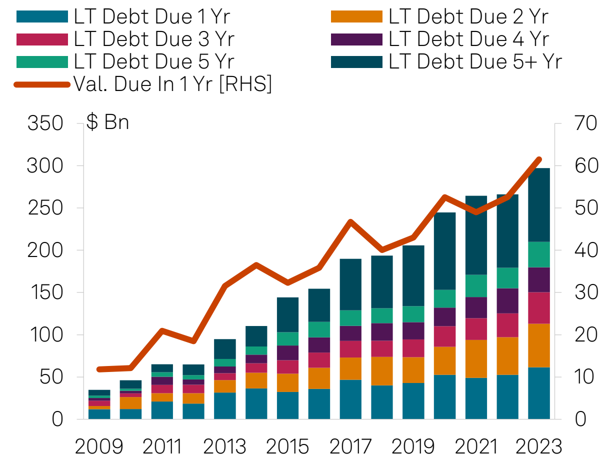


Chart 22

Cash and equivalents / Total assets

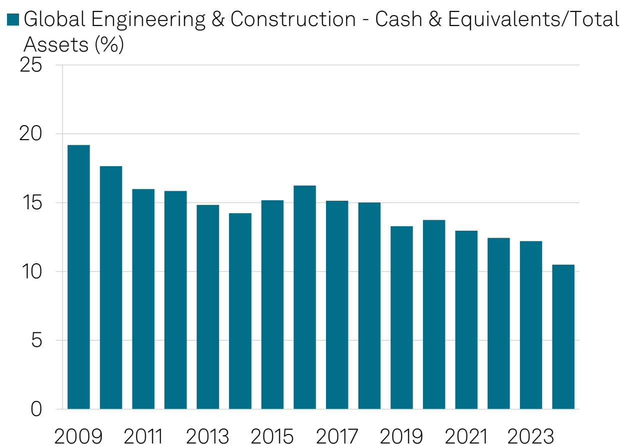
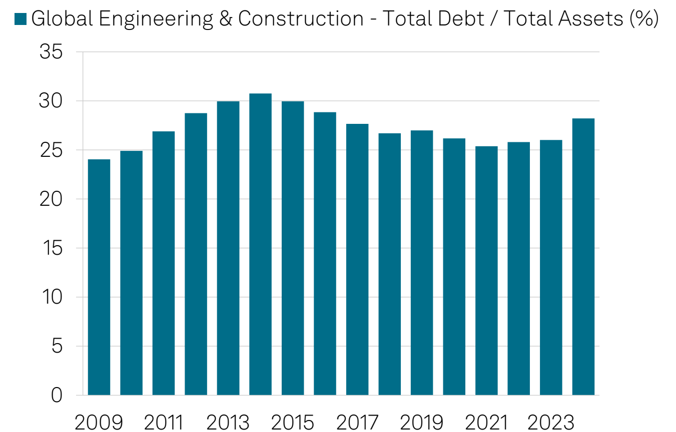


Chart 23

Total debt / Total assets



Source: S&P Capital IQ, S&P Global Ratings calculations. Most recent (2024) figures use the last 12 months' data.

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