Capital Structure & Rating Advisory Annual Insights 2025

Tariffs, Treasury & Transition

standard chartered

Executive Summary

Geopolitical Backdrop: Complexities of what some are referring to as “Trump 2.0” and the current geopolitical landscape have disproportionately impacted various sectors, but most remain unimpacted

Shareholder Returns: Equity markets helped boost shareholder returns but capital allocation remained broadly conservative with muted M&A investment or cash returns

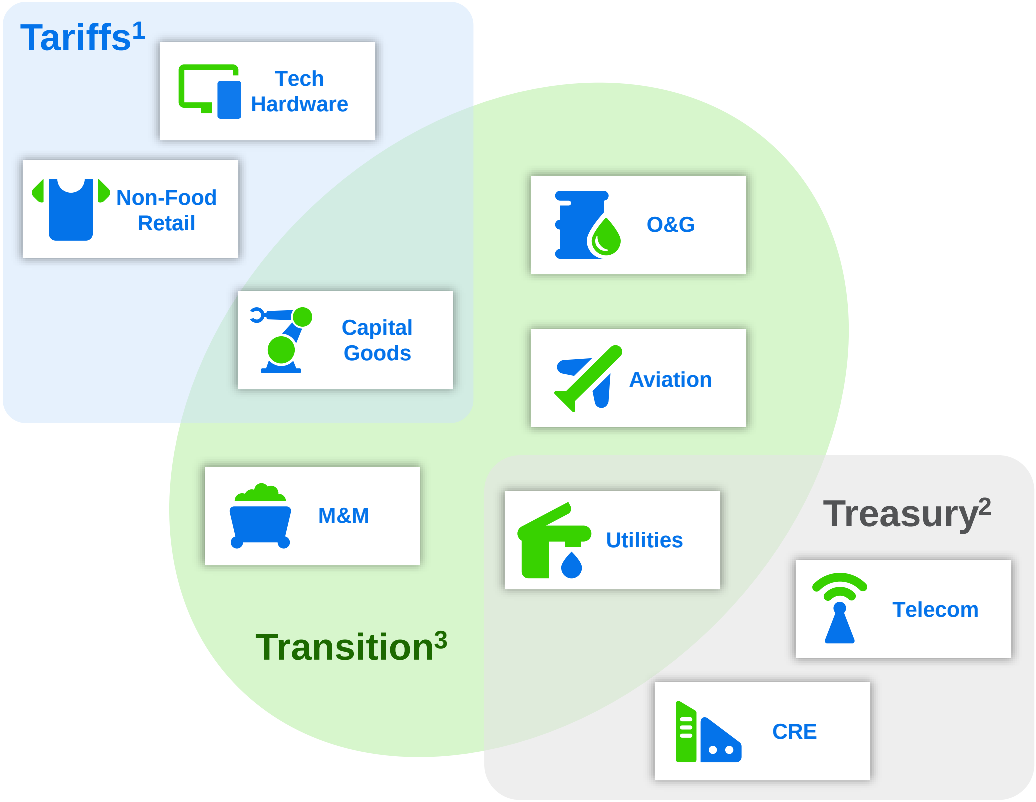
Indebtedness: As most corporates remained cautious, balance sheets became stronger and arguably have significant untapped headroom for investments or additional shareholder returns

Efficiencies: On the other hand, working capital cycles have moved negatively for many sectors and liquidity may be considered inefficiently high

ESG: Focus on disclosures has helped most sectors improve their ratings and it may be prudent to continue focusing on this important aspect of the investment story

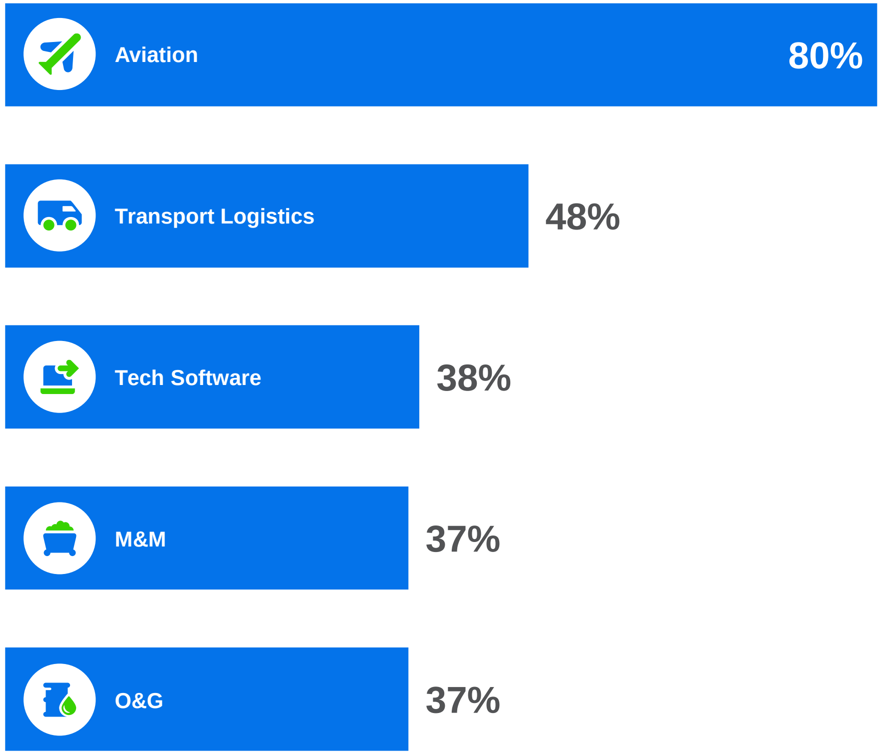
While Trump 2.0 and broader geopolitics drive uncertainties, some themes will have a disproportionate impact on corporate sectors

Nine of the 18 corporate sectors will likely to be impacted by one of the Big Three geopolitical themes to various degrees



At least three of these sectors, alongside two others, continue to demonstrate significant historical earnings volatility

10-year EBITDA Volatility[4]



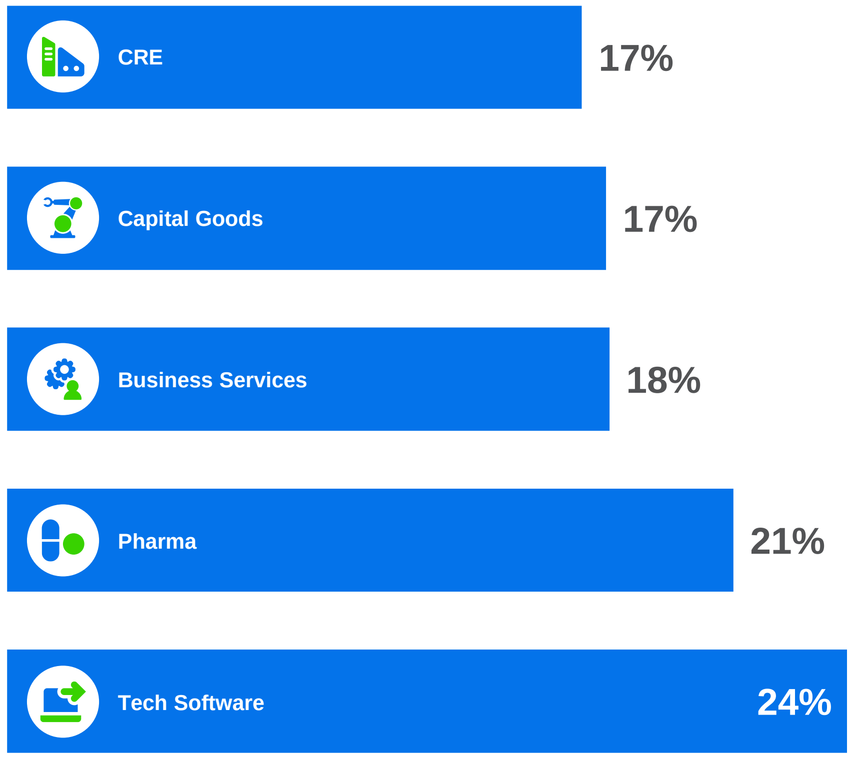
Sources: SCB Analysis, Bloomberg, Capital IQ, Sustainable Fitch

Notes: **(1)** Based on number of counts of S&P 500 corporates mentioning 'Tariffs' on investors calls in Q4 2024, defining low as <20 mentions, medium 20-50 and high >50. SCB qualitative overlay applied for M&M sector; **(2)** Based on latest Sep 2024 LTM net debt to EBITDA ratios, defining low as <1x; medium 1.0-3.0x; and high >3.0x; **(3)** Based on Fitch's Climate Vulnerability Signal Scores (by 2035), defining low as < below 40; medium 40 – 44; and high > 45; **(4)** Volatility is defined as: Coefficient of Variation = Standard Deviation of Sector Aggregated EBITDA (2014-2023) / Average of Sector EBITDA (2014-2023)

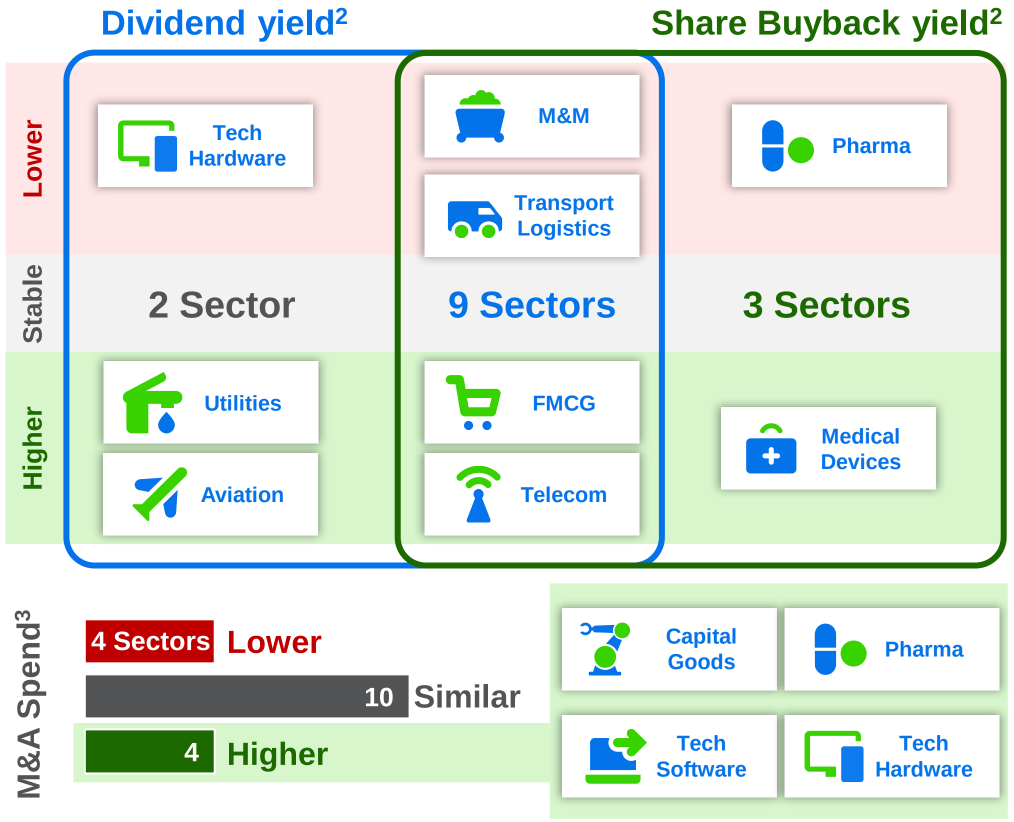
Although TSR[1] benefited from a bumper share price yield, cash returns to shareholders and investment remained muted

Better earnings drove higher share price yields for most sectors as valuation multiples remained relatively stable

9 Month 2024 Share Price Yield



Across most sectors, dividend (14) and buyback (15) yields were lower or stable, whilst M&A investment remained low (14)



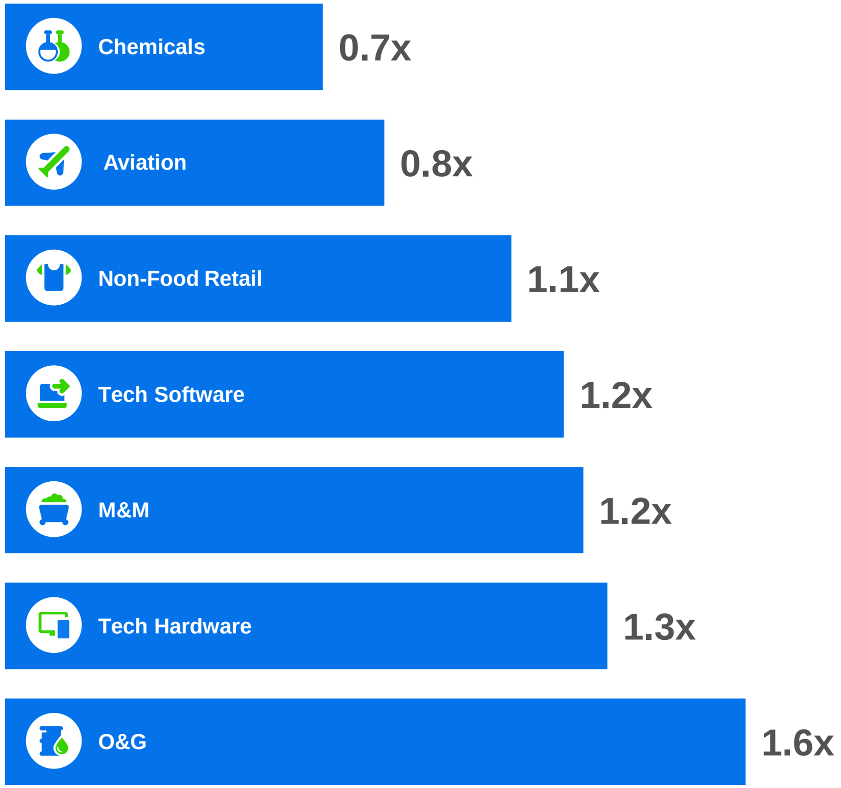
Sources: SCB Analysis, Bloomberg, Capital IQ, S&P, Company Reports & Announcements

Notes: **(1)** Total Shareholder Returns; **(2)** Dividend and share buyback yield calculated as dividend / share buyback paid as % of market capitalization at the beginning of the relevant year. Cumulative data; **(3)** As a percentage of Cashflow from Operations

As a result, there is still significant untapped balance sheet headroom and credit ratings outlooks are marginally better

Five sectors enjoyed significant debt capacity (>1x EBITDA) and stable earning profiles to be able to increase leverage

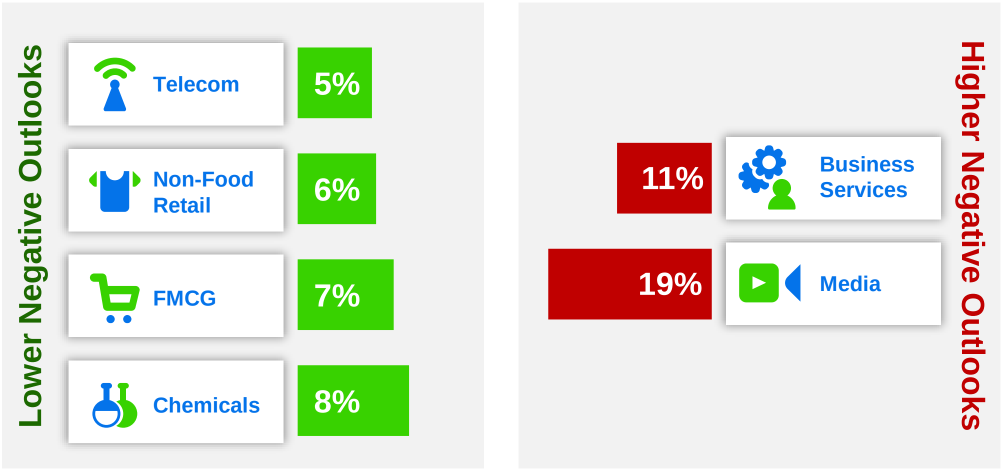
Leverage Headroom[1]



Average ratings for all sectors improved or remained steady, whilst number of negative rating outlooks also decreased

Average Sector Credit Rating[2]

Change in Credit Rating Negative Outlooks (ppt)[2]



Sources: SCB Analysis, Bloomberg, Capital IQ, S&P, Company Reports & Announcements

Notes: **(1)** Headroom based on S&P average sector anchor rating and implied thresholds (mid-point) for Net Debt to EBITDA in line with S&P methodology, data on cumulative basis; **(2)** Based on S&P, Q4 2024 vs Q4 2023

Working capital days deteriorated this year, with possible negative implications for returns[1], while excess liquidity[2] persisted

Six sectors are operating at the most inefficient Cash Conversion Cycles (CCC) since 2019[2]

Highest (inefficient) Cash Conversion Cycles[2]

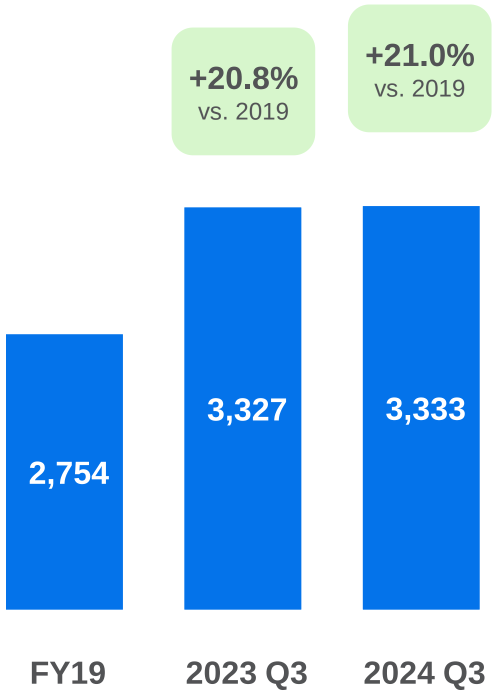
- Chemicals
- Pharma
- Medical Devices
- Tech Hardware
- Transport Logistics
- Utilities

Does CCC Outperformance[2,3] Matter?

	Higher ROIC	Better EV/EBITDA multiples
No	7 Sectors	6 Sectors
Yes	10 Sectors	11 Sectors

Corporates continue to retain significant cash buffers from the Covid period with only a few exceptions

Corporate Liquidity[2] (USDbn)



Reduction in Liquidity

- Pharma
- Tech Software
- Aviation

Increase in Liquidity

- Utilities

Sources: SCB Analysis, Capital IQ

Notes: **(1)** Defined as Average ROIC or EV/EBITDA multiple for top vs bottom quartile CCC performers; **(2)** Analysis only limited to 2019, 2022 to 2023, as 2020 and 2021 were covid impacted. Liquidity defined as cash/equivalents and short-term investments; **(3)** Excludes CRE due to unique working capital dynamics in the sector

Stakeholder based approach has helped most sectors improve their ESG ratings and it may be prudent to retain this attention

Corporates have made significant progress in improving their ESG story

ESG Rating Upgrade[1]

Chemicals	22
FMCG	23
Non-Food Retail	27
Tech Software	33
Pharma	63

However, material gap between emerging and developed markets persists

	Developed Markets	Emerging Markets
Risk Exposure Score[2]	3.9	3.9
Risk Management Score[2]	5.0	3.8
Governance Pillar Score	7.8	6.7

This gap exists across all sectors and can be quite meaningful in some

ESG Score Gap[3]

Materials	3.4
Tech Hardware	3.4
Transport Logistics	3.8
Capital Goods	3.9
M&M	3.9

Sources: SCB Analysis, MSCI

Notes: **(1)** Based on MSCI scoring latest vs 2023; **(2)** Equally-weighted environmental and social key issue score in December 2024; **(3)** Based on average MSCI score

What does this mean? For some sectors it's time to invest while others may need to refocus on balance sheet efficiency

Is it time to invest or create buffer for more volatility?

Volatile Sectors & Stretched Balance Sheets

- Capital Goods
- Transport Logistics

>1x EBITDA Debt Headroom

- O&G
- M&M
- Tech Hardware
- Non-Food Retail
- Tech Software

Are working capital or liquidity strategies inefficient?

Inefficient Working Capital

- Chemicals
- Tech Hardware
- Medical Devices
- Utilities
- Transport Logistics
- Pharma

Inefficient Liquidity

- O&G
- Aviation
- CRE

Is it time to reign in ESG focus and spending?

Largest DM[1] vs EM[1] ESG Rating Gap

- Capital Goods
- Tech Hardware
- Materials
- M&M
- Transport Logistics

Transition Focused Sectors

- M&M
- Transport Logistics
- Aviation
- Utilities
- O&G

Key questions for management - SCB CSRA can provide tailored insights on these topics

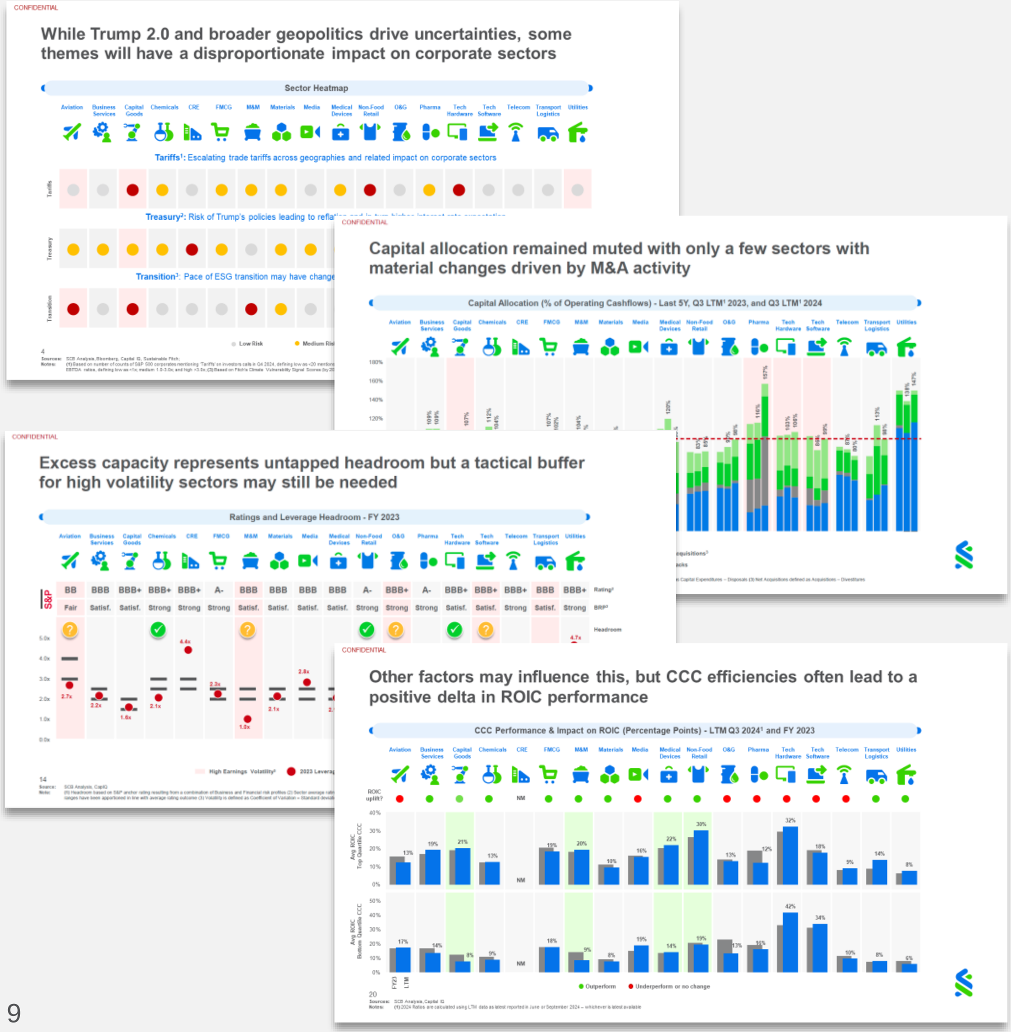
- Is the leverage target too low?
- What is an efficient downside buffer?
- Is the dividend policy conservative?
- What is the acquisition debt capacity?

- What is the minimum liquidity needs?
- Have liquidity needs evolved?
- Can working capital improvements help returns or create surplus capital?

- Can ESG leaders capture lasting competitive advantages?
- Should I delay transition investments?
- What is the long-term cost of inaction?

Notes: **(1)** Developed Markets vs Emerging Markets

Detailed sector analysis available upon request



For bespoke insights, reach out to SCB Capital Structure & Rating Advisory

Our Advisory Offerings

Financial Strategy	Rating Narrative	Efficiency	Event-Driven
Policy Optimization	ESG Ratings	Liquidity	M&A Capacity
ESG Strategy	Credit Ratings	Working Capital	IPO Planning

Contact Us

Pierre Paoli
Head, Strategic Advisory & Solutions
Pierre.Paoli@sc.com

Shoaib Yaqub
Global Head, CSRA
Shoaib.Yaqub@sc.com

Anh Khuat
ASA Cluster Lead, CSRA
DieuAnh.Khuat@sc.com

Andrew Leung
GCNA Cluster Lead, CSRA
Andrew.Leung@sc.com

Raza Piracha
AME Cluster Lead, CSRA
Raza.Piracha@sc.com

Fabio Pasquale
Europe Cluster Lead, CSRA
Fabio.Pasquale@sc.com

Jong Boo Yoo
Americas Cluster Lead, CSRA
JongBoo.Yoo@sc.com

Micah Judish
Head ESG Rating, CSRA
Micah.Judish@sc.com

Disclaimer

Regulatory Disclosure:-

Banking activities may be carried out internationally by Standard Chartered Bank, its branches, representatives, any of its relevant holdings companies, subsidiaries, related corporations and affiliates (collectively the "Standard Chartered Group") in any jurisdiction according to local regulatory requirements. With respect to any jurisdiction in which there is a Standard Chartered Group entity, this document is distributed in such jurisdiction by, and is attributable to, such local Standard Chartered Group entity. Recipients in any jurisdiction should contact the local Standard Chartered Group entity in relation to any matters arising from, or in connection with, this document. Not all products and services are provided by all Standard Chartered Group entities. For further information on our regulatory disclosures and the financial standards we adhere to, please visit:- https://www.sc.com/en/regulatory-disclosures.

LIBOR Discontinuation:-

*If you transact any financial products linked to an interbank offer rate ("**IBOR**") such as LIBOR, or any synthetic rate that uses an IBOR in its calculation, there is a risk that such IBOR may be discontinued prior to the maturity of the financial contract. There are ongoing consultations by different financial regulators and industry groups to reform or replace certain IBOR rates, and the contractual fallbacks that will apply in the event of an IBOR discontinuation. When these consultations are finalised, they could cause a positive or negative change in the value of existing financial contracts, and market participants may be required to incorporate changes into existing financial contracts by way of amendment. In addition, there is no assurance that the changes will be applied consistently across all financial products (such as loans and derivatives) so potential mismatches could occur. Please consult your own independent advisers to consider the potential implications for financial contracts (including the transaction contemplated by this proposal) before you transact.* For further information about LIBOR and risks related to the use of benchmarks in loans and in debt securities, please see https://www.sc.com/en/banking/libor/ and https://www.sc.com/en/banking/libor/risks-related-to-benchmarks/.

Subject Companies:-

Standard Chartered Group makes no representation or warranty of any kind, express, implied or statutory regarding this document or any information contained or referred to in this document.

Market-Specific Disclosures: If you are receiving this document in any of the markets listed below, please note the following:

Australia: Standard Chartered Bank has the following Australian Registered Business Number (ARBN: 097571778) and is the holder of an Australian Financial Services Licence (No: 246833). Australian counterparties should note that this document was prepared for "wholesale clients" only within the meaning of section 761G of the Corporations Act 2001 (Cth) (Act) and the Corporations Regulations. This document is not directed at persons who are "retail clients" as defined in the Act. Standard Chartered Bank (Hong Kong) Limited is exempt from the requirement to *hold* an Australian financial services licence under the Corporations Act of Australia in respect of the financial services it provides. Standard Chartered Bank (Hong Kong) Limited is regulated by the Hong Kong Securities and Futures Commission under the laws of Hong Kong, which differ from Australian laws.

China: This document is being distributed in China by, and is attributable to, Standard Chartered Bank (China) Limited which is mainly regulated by China Banking Regulatory Commission (CBRC), State Administration of Foreign Exchange (SAFE) and People's Bank of China (PBoC).

European Economic Area: In Germany, Standard Chartered Bank AG, a subsidiary of Standard Chartered Bank, is authorised by the European Central Bank and supervised by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht-"BaFin") and the German Federal Bank (Deutsche Bundesbank). This document is directed at persons Standard Chartered Bank AG can categorise as Eligible Counterparties or Professional Clients (such persons constituting the target market of this communication following Standard Chartered Bank AG's target market assessment) as defined by the Markets in Financial Instruments Directive II (Directive 2014/65/EU) ("**MiFID II**") and the German Securities Trading Act ("WpHG"). No other person should rely upon it. In particular, this is not directed at Retail Clients (as defined by MiFID II and WpHG) in the European Economic Area. Nothing in this document constitutes a personal recommendation or investment advice as defined by MiFID II and WpHG.

Hong Kong: This document is being distributed in Hong Kong by, and is attributable to, Standard Chartered Bank (Hong Kong) Limited which is regulated by the Hong Kong Monetary Authority.

India: This document is being distributed in India by Standard Chartered Bank (India) which is a scheduled commercial bank licensed by the Reserve Bank of India (RBI) and holding registration as merchant banker with Securities and Exchange Board of India (SEBI).

Japan: This document is being distributed to the Specified Investors, as defined by the Financial Instruments and Exchange Law of Japan (FIEL), for information only and not for the purpose of soliciting any Financial Instruments Transactions as defined by the FIEL or any Specified Deposits, etc. as defined by the Banking Law of Japan.

Korea: This document is being distributed in Korea by, and is attributable to, Standard Chartered Securities Korea Limited which is regulated by the Financial Supervisory Service.

Singapore: This document is being distributed in Singapore by Standard Chartered Bank (Singapore) Limited (UEN No.: 201224747C) only to Accredited Investors, Expert Investors or Institutional Investors, as defined in the Securities and Futures Act, Chapter 289 of Singapore. Recipients in Singapore should contact Standard Chartered Bank (Singapore) Limited in relation to any matters arising from, or in connection with, this document.

South Africa: Standard Chartered Bank is licensed as a Financial Services Provider in terms of Section 8 of the Financial Advisory and Intermediary Services Act 37 of 2002. Standard Chartered Bank is a Registered Credit Provider in terms of the National Credit Act 34 of 2005 under registration number NCRCP4.

UAE (DIFC): Standard Chartered Bank, Dubai International Financial Centre (SCB DIFC) having its offices at Dubai International Financial Centre, Building 1, Gate Precinct, P.O. Box 999, Dubai, UAE is a branch of Standard Chartered Bank and is regulated by the Dubai Financial Services Authority ("DFSA"). This document is intended for use only by Professional Clients and is not directed at Retail Clients as defined by the DFSA Rulebook. In the DIFC, we are authorised to provide financial services only to clients who qualify as Professional Clients and Market Counterparties and not to Retail Clients. As a Professional Client, you will not be given the higher retail client protection and compensation rights and if you use your right to be classified as a Retail Client, we will be unable to provide financial services and products to you as we do not hold the required license to undertake such activities. In respect of sukuk transactions, Standard Chartered Bank is acting under the supervision of its Global Shariah Supervisory Committee. Relevant information on Standard Chartered Bank's Global Shariah Supervisory Committee is currently available on the Standard Chartered Bank website in the Islamic Banking section at http://www.standardchartered.com/en/banking-services/islamic-banking/shariah-supervisory-committee.html.

United Kingdom: In the United Kingdom, Standard Chartered Bank is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. This document is directed at persons Standard Chartered Bank can categorise as Eligible Counterparties or Professional Clients (such persons constituting the target market of this communication following Standard Chartered Bank's target market assessment) as defined by the FCA Handbook. No other person should rely upon it. In particular, this is not directed at Retail Clients (as defined by the FCA Handbook) in the UK. Nothing in this document constitutes a personal recommendation or investment advice as defined by the FCA Handbook.

United States: Except for any documents relating to foreign exchange, rates or commodities, distribution of this document in the United States or to U.S .persons is intended to be solely to major institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document, by their acceptance thereof, represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities. Any U.S. recipient of this document wanting additional information or to effect any transaction in any security or financial instrument mentioned herein, must do so by contacting a registered representative of Standard Chartered Securities (North America) Inc., 1095 Avenue of Americas, New York, NY 10036, US, tel: +1 212 667 1000.

WE DO NOT OFFER OR SELL SECURITIES TO U.S. PERSONS UNLESS EITHER (A) THOSE SECURITIES ARE REGISTERED FOR SALE WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION AND WITH ALL APPROPRIATE U.S. STATE AUTHORITIES; OR (B) THE SECURITIES OR THE SPECIFIC TRANSACTION QUALIFY FOR AN EXEMPTION UNDER THE U.S. FEDERAL AND STATE SECURITIES LAWS NOR DO WE OFFER OR SELL SECURITIES TO U.S. PERSONS UNLESS (i) WE, OUR AFFILIATED COMPANY AND THE APPROPRIATE PERSONNEL ARE PROPERLY REGISTERED OR LICENSED TO CONDUCT BUSINESS; OR (ii) WE, OUR AFFILIATED COMPANY AND THE APPROPRIATE PERSONNEL QUALIFY FOR EXEMPTIONS UNDER APPLICABLE U.S. FEDERAL AND STATE LAWS.

The information in this document is provided for information purposes only and is not intended to create any legally binding obligations or fiduciary duties on the part of Standard Chartered Group. It does not constitute independent research or a research recommendation, nor does it constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy in relation to any securities or other financial instruments, nor does it constitute any prediction of likely future movements in rates or prices or any representation that any such future movements will not exceed those shown in any illustration. This document is for general evaluation only, it does not take into account the specific investment objectives, financial situation, particular needs of any particular person or class of persons and it has not been prepared for any particular person or class of persons. Users of this document should seek advice regarding the appropriateness of investing in any securities, financial instruments or investment strategies referred to in this document and should understand that statements regarding future prospects may not be realised.

Opinions, assumptions, forecasts, projections and estimates are as of the date indicated and are subject to change without prior notice. Past performance is not indicative of comparable future results and no representation or warranty is made regarding future performance. The value and income of any of the securities or financial instruments mentioned in this document can fall as well as rise and an investor may get back less than invested. Future returns are not guaranteed, and a loss of original capital may be incurred. Foreign-currency denominated securities and financial instruments are subject to fluctuation in exchange rates that could have a positive or adverse effect on the value, price or income of such securities and financial instruments.

Data, opinions and other information appearing herein may have been obtained from public sources, the Standard Chartered Group makes no representation or warranty as to the accuracy or completeness of such information, whether obtained from public sources or otherwise. You are advised to make your own independent judgment (with the advice of your professional advisers as necessary) with respect to any matter contained herein and not rely on this document as the basis for making any trading, hedging or investment decision.

While all reasonable care has been taken in preparing this document, the Standard Chartered Group makes no representation or warranty as to its accuracy and completeness. The Standard Chartered Group is under no obligation to inform you about the change (whether known or apparent to the Standard Chartered Group) to the information in this document. The Standard Chartered Group expressly disclaims any liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental, consequential, punitive or exemplary damages) from your use of or reliance on this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents or associated services. This material is strictly private and confidential and for the use of intended recipients only. The contents may not be forwarded, reproduced, redistributed, copied in whole or in part or otherwise made available for any purpose and to any person without the prior express consent of the Standard Chartered Group. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors. This document does not represent the views of every function within the Standard Chartered Group, particularly those of the Global Research function

The Standard Chartered Group is not a legal or tax adviser, and is not purporting to provide you with legal or tax advice. If you have any queries as to the legal or tax implications of any investment you should seek independent legal and/or tax advice. The Standard Chartered Group, and/or a connected company, may have a position in any of the instruments or currencies mentioned in this document.

Standard Chartered Bank and/or any member of the Standard Chartered Group or its respective directors, officers, employee benefit programmes or employees, including persons involved in the preparation or issuance of this document, may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities or financial instruments referred to in this document and on the website or have a material interest in any such securities or related investment, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments. Within the last three years, the Standard Chartered Group may be involved in activities such as dealing in, holding, acting as market makers or liquidity providers, or performing financial or advisory services including but not limited to acting as manager or co-manager for a public offering of securities of issuers referred to herein. The Standard Chartered Group may have received or may expect to receive remuneration for investment banking services from companies mentioned herein. Accordingly, the Standard Chartered Group may have a conflict of interest that could affect the objectivity of this document. The Standard Chartered Group has in place policies and procedures and physical information walls between its Research Department and differing public and private business functions to help ensure confidential information, including material non-public or inside information, is not disclosed unless in line with its policies and procedures and the rules of the regulators.