



Ratings, Interest Coverage Ratios and Default Spread

What is this? This is a table that relates the interest coverage ratio of a firm to a "synthetic" rating and a default spread that goes with that rating. The link between interest coverage ratios and ratings was developed by looking at all rated companies in the United States. The default spreads are obtained from traded bonds. Adding that number to a riskfree rate should yield the pre-tax cost of borrowing for a firm.

Date of Analysis: Data used is as of January 2017

For large non-financial service companies with market cap > \$ 5 billion

| <i>If interest coverage ratio is</i> | <i>Column1</i> | <i>Column2</i> | <i>Column3</i> |
|--------------------------------------|----------------|----------------|----------------|
| > | ≤ to | Rating is | Spread is |
| 8.50 | 100000 | Aaa/AAA | 0.60% |
| 6.5 | 8.499999 | Aa2/AA | 0.80% |
| 5.5 | 6.499999 | A1/A+ | 1.00% |
| 4.25 | 5.499999 | A2/A | 1.10% |
| 3 | 4.249999 | A3/A- | 1.25% |
| 2.5 | 2.999999 | Baa2/BBB | 1.60% |
| 2.25 | 2.499999 | Ba1/BB+ | 2.50% |
| 2 | 2.2499999 | Ba2/BB | 3.00% |
| 1.75 | 1.999999 | B1/B+ | 3.75% |
| 1.5 | 1.749999 | B2/B | 4.50% |
| 1.25 | 1.499999 | B3/B- | 5.50% |
| 0.8 | 1.249999 | Caa/CCC | 6.50% |
| 0.65 | 0.799999 | Ca2/CC | 8.00% |
| 0.2 | 0.649999 | C2/C | 10.50% |
| -100000 | 0.199999 | D2/D | 14.00% |

For smaller non-financial service companies with market cap < \$ 5 billion

| <i>If interest coverage ratio is</i> | <i>Column1</i> | <i>Column2</i> | <i>Column3</i> |
|--------------------------------------|----------------|----------------|----------------|
| > | ≤ to | Rating is | Spread is |
| 12.5 | 100000 | Aaa/AAA | 0.60% |
| 9.5 | 12.499999 | Aa2/AA | 0.80% |
| 7.5 | 9.499999 | A1/A+ | 1.00% |
| 6 | 7.499999 | A2/A | 1.10% |
| 4.5 | 5.999999 | A3/A- | 1.25% |
| 4 | 4.499999 | Baa2/BBB | 1.60% |
| 3.5 | 3.9999999 | Ba1/BB+ | 2.50% |
| 3 | 3.499999 | Ba2/BB | 3.00% |
| 2.5 | 2.999999 | B1/B+ | 3.75% |

| | | | |
|---------|----------|---------|--------|
| 2 | 2.499999 | B2/B | 4.50% |
| 1.5 | 1.999999 | B3/B- | 5.50% |
| 1.25 | 1.499999 | Caa/CCC | 6.50% |
| 0.8 | 1.249999 | Ca2/CC | 8.00% |
| 0.5 | 0.799999 | C2/C | 10.50% |
| -100000 | 0.499999 | D2/D | 14.00% |