

# S&P Global Ratings

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## Disruption And Australian Corporates

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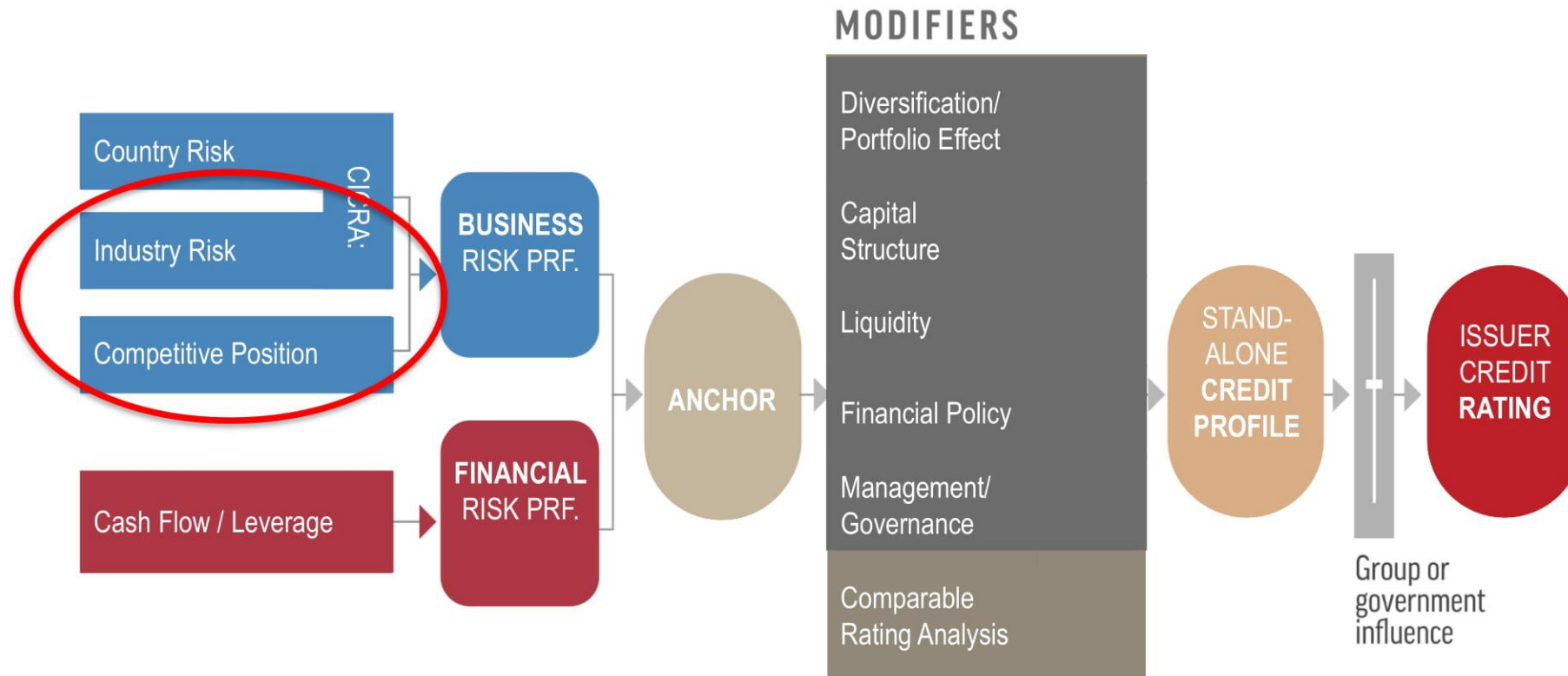
“How did you go bankrupt?” Bill asked.

“Two ways,” Mike said. “Gradually and then suddenly.”

- Ernest Hemmingway, *The Sun Also Rises*

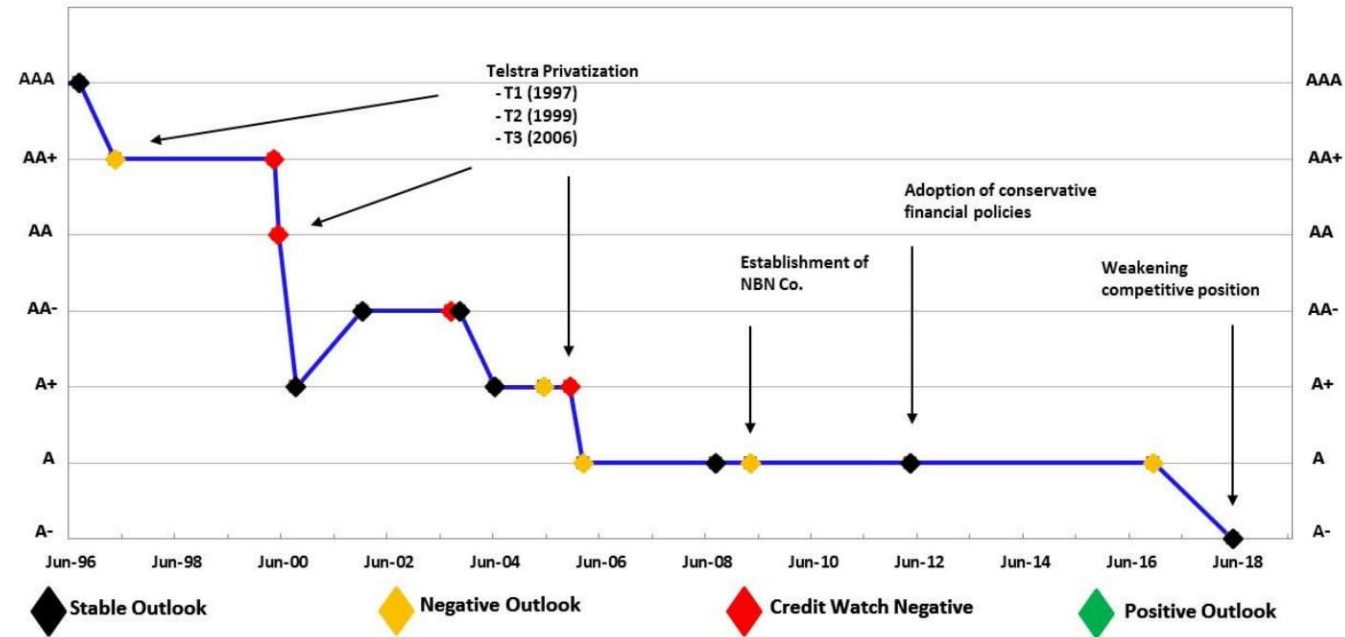
# S&P Corporate Criteria Framework

Operating strategy and financial policies matter



# Telstra Corp. Ltd. Rating History

First downward rating action since 'T3' privatization



# Telstra Corp. Ltd.'s Anchor Score:

## Combining The Business And Financial Risk Profiles To Determine The Anchor

--Financial risk profile--						
Business risk Profile	1 (minimal)	2 (modest)	3 (intermediate)	4 (significant)	5 (aggressive)	6 (highly leveraged)
1 (excellent)	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
2 (strong)	aa/aa-	a+ / a	a-/bbb+	bbb	bb+	bb
3 (satisfactory)	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
4 (fair)	bbb/bbb-	bbb-	bb+	bb	bb-	b
5 (weak)	bb+	bb+	bb	bb-	b+	b/b-
6 (vulnerable)	bb-	bb-	bb-/b+	b+	b	b-

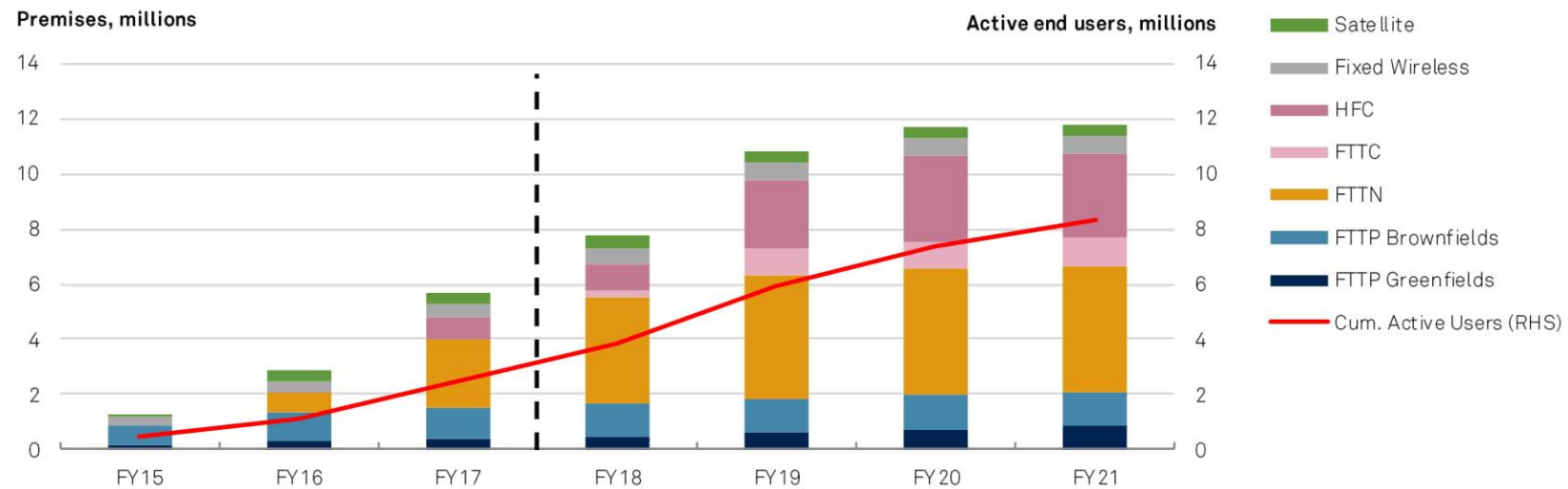
### When two anchor outcomes are listed for a given combination of business and financial risk:

- If the FRP is 4 or stronger the anchor will be based on the comparative strength of the business risk profile. In other words, issuers with stronger business risk profiles for the range of anchor outcomes will be assigned the higher anchor.
- If the FRP is 5 or weaker the anchor will be based on the comparative strength of its financial risk profile.

# National Broadband Network (NBN) Rollout

The NBN rollout is beginning to gather pace

## NBN Premises Ready For Service Vs. Activated



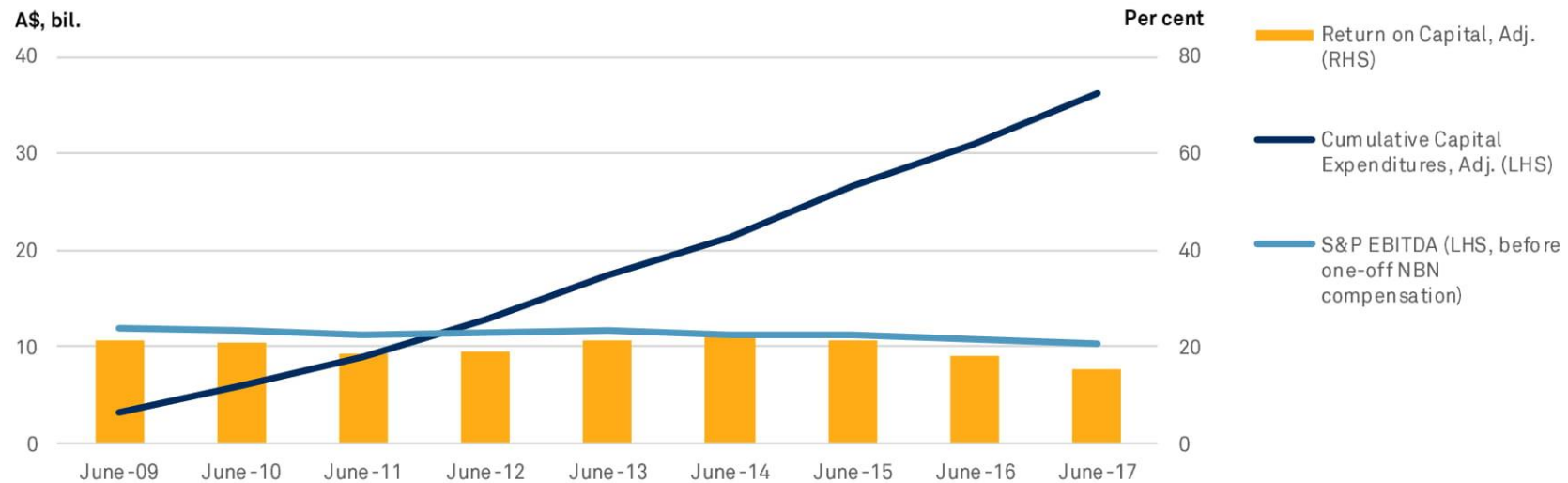
Source: Company reports, S&P Global Ratings estimates



# Capital Expenditure Vs. Profitability

Elevated levels of capital expenditure have been unable to fill the NBN gap

## Telstra's Cumulative Capital Expenditure Vs. Profitability



Source: Company reports, S&P Global Ratings

# Digital transformation

## Ability to streamline operations and enhance productivity:

- Traditional business models
- New revenue-generating ideas
- Cybersecurity no longer a peripheral issue

## Ratings considerations:

- New forces of creative destruction?
  - 'Structural break' vs 'slow burn'
  - 'Transformation program' vs 'permanent war'
- Are risks identified and addressed?
  - Governance and oversight (incl. Management and Board expertise)
  - In-house vs out-sourced
- Capital allocation is critical
  - Is the response proportionate to the opportunity/threat?
- Traditional risks predominate



# Thank You!

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