Food & Beverages Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Market Position
The analysis covers intensive risk assessments on the company's competitive dynamics and advantages (a dominant player tends to be a price leader, flexible to protect margins, strong position in bargaining and maintaining relationship with suppliers and retailers, and etc), the company's market shares in specific core businesses and products, the company's size of businesses (growing, declining or stagnant), the company's brand equity and franchises (sustainable, growing or eroding), the company's market shares vulnerability to customers' changing preferences (health vs. price consciousness), behaviors, pattern of purchasing and other related factors.

Diversification
The analysis includes careful risk reviews on the company's ability to manage diversification both geographically and by products, ability to exploit synergies in varieties of products for procurement savings, and other ability and creativity to diversify products and markets in an effort to stimulate consumers' interests in buying to ensure revenue stability.

Raw Material Procurement
The analysis covers intensive risk assessments on the company's capability to ensure the flow of raw material needs, the company's ability to get consistent quality standard of raw materials, capability in bargaining power to control/manage cost of raw materials, ability to manage production flow to maintain sustainable throughputs, ability to maintain quality product outputs in an effort to support brand equity, and other related factors that support the sustainability of the company's raw material procurement and productions.

Marketing and Distribution
The analysis covers thorough risk examinations on the company's strategy to distribute products (how well the company adopts to the needs of retailers, how well the distribution matches the retail forms, how well the company manages distributors, what kind of linkage/relationship/agreement between the company and distributors) and examinations on others related factors that can ensure continuous product availability in the market in an effort to support sales. Furthermore, risk assessments on the company's marketing including commitments on advertising, creativity on advertising, ability to identify targeted customers and markets, ability to capture the trends in consumers' preferences, as well as ability to keep consistent marketing strategy to build brand loyalty.

Operating Management
The analysis includes risk assessments on the company's strategy and ability to control costs given strong selling price pressures due to competitive market as well as ability to maintain operating efficiency (optimum capacity utilization, manage fixed costs vs. variable costs, and etc.). The analysis on operating margins (EBIT and EBITDA) is also assessed by comparing the company's ratios with other players in the same industry or other industry with similar characteristic, which is important in analyzing the company's competitiveness. The analysis is helpful to measure operating efficiency and the company's flexibility in adjusting selling price.

FINANCIAL RISK ASSESSMENT

Financial Policy
The analysis includes a review of management’s philosophy, strategy and policies toward financial risk (historical, current and future). It also includes examination of management's financial targets (growth,
leverage, debt structure and dividend policy), hedging and other policies in an effort to reduce the company's overall financial risk (historical vs. future). The company's track record on fulfilling its previous financial obligations is also examined to determine the degree of its commitments and willingness and consistency to pay obligations on a timely basis.

**Capital Structure**
The analysis covers careful examination of the company's historical, current and projected leverage (total and net debt in relation to equity and EBITDA), debt structures and composition (rupiah vs. foreign currencies, short-term debt vs. long-term debt, fixed rate vs. floating rate). Management of its liabilities is also thoroughly reviewed.

**Cash Flow Protection and Liquidity**
The analysis covers thorough reviews of the company's cash flow generation and capability to meet its short-term and long-term financial obligations. The degree of its debt-servicing capability level is measured by the company's interest and debt coverage ratio. The degree of its liquidity in fulfilling its short-term liabilities relative to its sources of cash is also thoroughly assessed. The sources of cash are assessed, which include cash balance, estimated cash from operations, unused credit facilities, and other sources of cash. The uses of cash other than short-term liabilities, such as capital expenditure, are also assessed.

**Financial Flexibility**
The analysis covers combined evaluations of all the financial measures above to arrive at an overall view of the company's financial health. Analysis of other related factors or figures that are not specifically examined above, such as insurance coverage, restrictive covenants in loan/bond agreements or parental linkage and support, are also covered. Other analytical tasks covered are the evaluation of the company's options under stress, including contingency plans and other capabilities and flexibility to deal with various adverse scenarios. Shareholder support and commitment are also greatly considered.
DISCLAIMER

The rating contained in this report or publication is the opinion of PT Pemeringkat Efek Indonesia (PEFINDO) given based on the rating result on the date the rating was made. The rating is a forward-looking opinion regarding the rated party’s capability to meet its financial obligations fully and on time, based on assumptions made at the time of rating. The rating is not a recommendation for investors to make investment decisions (whether the decision is to buy, sell, or hold any debt securities based on or related to the rating or other investment decisions) and/or an opinion on the fairness value of debt securities and/or the value of the entity assigned a rating by PEFINDO. All the data and information needed in the rating process are obtained from the party requesting the rating, which are considered reliable in conveying the accuracy and correctness of the data and information, as well as from other sources deemed reliable. PEFINDO does not conduct audits, due diligence, or independent verifications of every information and data received and used as basis in the rating process. PEFINDO does not take any responsibility for the truth, completeness, timeliness, and accuracy of the information and data referred to. The accuracy and correctness of the information and data are fully the responsibility of the parties providing them. PEFINDO and every of its member of the Board of Directors, Commissioners, Shareholders and Employees are not responsible to any party for losses, costs and expenses suffered or that arise as a result of the use of the contents and/or information in this rating report or publication, either directly or indirectly. PEFINDO generally receives fees for its rating services from parties who request the ratings, and PEFINDO discloses its rating fees prior to the rating assignment. PEFINDO has a commitment in the form of policies and procedures to maintain objectivity, integrity, and independence in the rating process. PEFINDO also has a “Code of Conduct” to avoid conflicts of interest in the rating process. Ratings may change in the future due to events that were not anticipated at the time they were first assigned. PEFINDO has the right to withdraw ratings if the data and information received are determined to be inadequate and/or the rated company does not fulfill its obligations to PEFINDO. For ratings that received approval for publication from the rated party, PEFINDO has the right to publish the ratings and analysis in its reports or publication, and publish the results of the review of the published ratings, both periodically and specifically in case there are material facts or important events that could affect the previous ratings. Reproduction of the contents of this publication, in full or in part, requires written approval from PEFINDO. PEFINDO is not responsible for publications by other parties of contents related to the ratings given by PEFINDO.