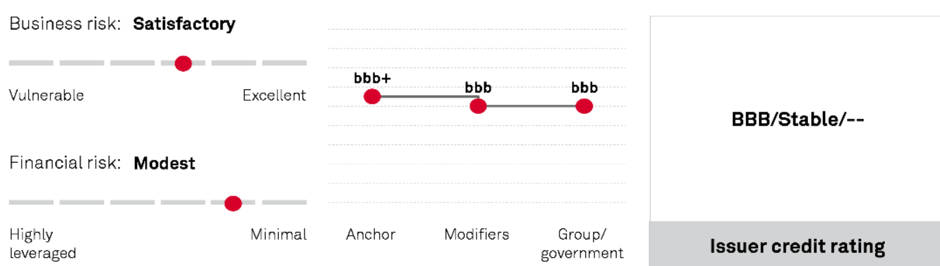
Strabag SE

August 9, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

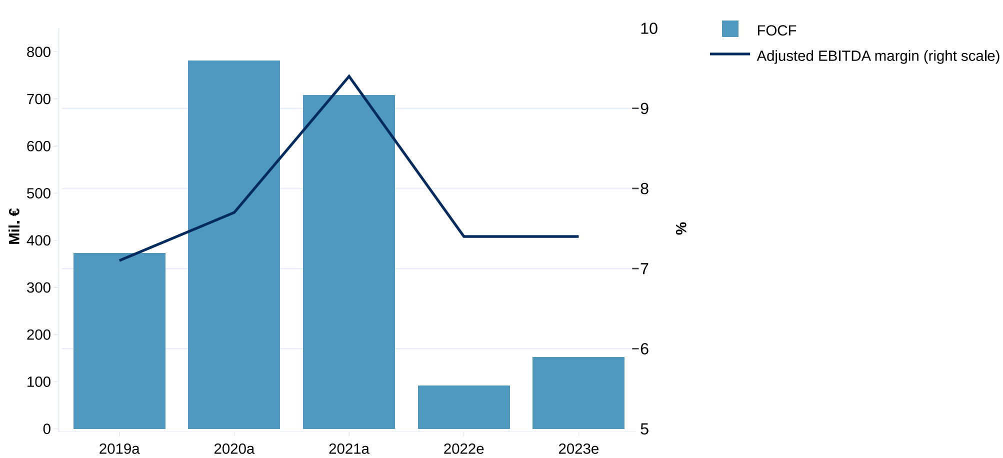
Key strengths	Key risks
Leading positions in the construction markets in Central Europe and some parts of Eastern Europe.	Exposure to the cyclical and competitive construction industry, which is subject to project risk.
Vertical integration that provides barriers to entry and strategic access to raw materials.	Volatile free cash flow generation during the year, with sizable seasonal swings in working capital.
A track record of largely stable operating margins, which indicates generally good project execution and cost management.	Lower S&P Global Ratings-adjusted EBITDA margins than the industry average, driven by Strabag's exposure to low-risk countries.
A high standing in the credit markets and solid financial stability, underpinned by a reported net cash position.	Sustained capital expenditure (capex) and working capital requirements from 2022, which we expect will reduce discretionary cash flow.

We expect that Strabag will maintain rating headroom in 2022-2023. Strabag's 2021 performance was sound, and sales rose to about 3.7% (after the negative growth of 5.8% in 2020) with an adjusted EBITDA margin of 9.4%. Free operating cash generation was higher than our previous forecasts, as the reversal of the trend in advance payments did not happen in 2021, resulting in better working capital than expected. We forecast comparatively weaker revenue growth of about 1%-2% in 2022, with end-market demand partially affected by the current inflationary environment. However, we expect debt to EBITDA to remain below 1.5x and funds from operations (FFO) to debt above 60% in 2022, indicating very comfortable rating headroom.

We do not expect any material negative impact on Strabag from sanctions against Russian shareholders The company is majority owned and controlled by the Austrian core shareholders Haselsteiner Family, Raiffeisen Group, and UNIQA Group. The Russian company MKAO "Rasperia Trading Ltd." (Rasperia), which is minority owned (but controlled) by the Russian oligarch Oleg Deripaska, holds a share of more than 25% and was part of the group of core shareholders mentioned in a syndicate agreement. This syndicate agreement no longer gives any rights to Rasperia, since EU sanctions froze Rasperia's shares in the company and thus any rights emanating from such shares. Notwithstanding that, the syndicate was already terminated before the sanctions as of Dec. 31, 2022, by Haselsteiner Family. Strabag's management board decided early in the Russia-Ukraine conflict and following international sanctions to stop dividend payments to Rasperia. Meanwhile EU sanctions prohibit such payment anyway. Furthermore, Strabag decided to wind down its Russian operations, which represents about 0.3% of group revenue. We also note that Strabag does not have any other business relations with Rasperia (or Mr. Deripaska). We do not expect any negative consequence or limitations on Strabag's operations following these developments.

Strabag's balanced capital structure, solid cash flow generation, and high cash balance support a strong liquidity profile. Strabag's cash build-up has been strong since 2017, thanks to working capital-related inflows and very solid FOCF driven by resilient earnings. By the end of 2021, the company's reported net cash position improved to about €1.9 billion from €1.7 billion at the end of 2020. We now expect higher working capital outflow in 2022-2023 in relation to reversal of advance payment. This will negatively affect FOCF generation in 2022-2023, before rising in 2024. However, we expect Strabag's liquidity profile to remain strong, and negative FOCF in 2022 not to have a material impact on the company's rating headroom.

Strabag's FOCF And EBITDA Margin



a--Actual. E--Estimate. FOCF--Free operating cash flow. Source: S&P Global Ratings.

In our view, Strabag has limited exposure to current geopolitical conflicts in Europe. We see minimal direct effects on Strabag from the Russia-Ukraine conflict, as Russia represents only 0.3% of group output in 2021. Also, the management is in the process of closing its operations in Russia. However, if the situation deteriorates further, the company could suffer indirectly in terms of supply chain disruptions and increasing raw material and energy costs. Current high inflation could weaken business and consumer confidence and reduce overall growth in 2022-2023. That said, we believe Strabag is better positioned than peers thanks to its leading position in Europe, strong brand, and effective risk management leading to lower volatility in profitability.

Outlook

The stable outlook on Austria-based construction company Strabag reflects our view that the company will continue to post an adjusted EBITDA margin of about 7.0%-7.5% in 2022 and 2023. We think that Strabag has some headroom in its leverage metrics to absorb the negative impact of increasing cost inflation, as well as some expansionary investments and selected bolt-on acquisitions. Furthermore, we believe that in 2022-2023, Strabag's financial metrics could absorb a likely reversal of the exceptionally favorable working capital trend that boosted its gross cash from 2017 to 2021. We expect that the company's adjusted FFO to debt will comfortably exceed 45% over the next two years, with adjusted debt to EBITDA remaining below 2.0x and liquidity staying strong.

Downside scenario

We could consider a negative rating action if Strabag's debt-to-EBITDA ratio rises to more than 2.0x and FFO to debt drops to less than 45% over a sustained period. We believe that a downgrade is unlikely in 2022-2023 since there is headroom for a potential weakening of the credit metrics at the current rating. However, we believe that the credit metrics could deteriorate to these downgrade trigger levels if:

- Strabag experiences meaningfully weaker operating performance and a materially adverse trend in its working capital needs; or
- There is markedly high debt, owing for instance to sizable acquisitions or increased shareholder returns that we do not reflect in our base-case scenario.

Upside scenario

We could raise the ratings if we observed a track record of materially positive discretionary cash flow, with FFO to debt more than 60% and debt to EBITDA less than 1.5x. Strabag's financial metrics are generally significantly weaker than this for most of the year, mainly reflecting seasonal working capital requirements. We expect that FOCF will remain fairly weak over the next two years, driven by a reversal of working capital and still-high capex. We would need to see a material and sustainable improvement in FOCF before considering an upgrade.

Our Base-Case Scenario

Assumptions

- We expect GDP in Germany to grow by 1.9% in 2022, 2.0% in 2023, and 1.9% in 2024; and in the eurozone by 2.6%, 1.9%, and 1.8% for the same years.
- Output volume above €16 billion in 2022, supported by a healthy order backlog and a positive business environment in the company's low-risk regions, such as Germany and Poland. However, we expect that the current geopolitical tensions could lead to lower demand growth. Hence, we expect modest revenue growth of about 1.5%-2% in 2022 and about 1%-1.5% in 2023-2024.
- Slightly lower adjusted EBITDA margins than in 2021, at about 7.0%-7.5%, mostly due to the continued inflationary cost environment leading to overall higher operating expenses.
- A reversal of the trend in advance payments from this year, resulting in higher working capital outflow in 2022-2023 and weaker FOCF for the year. Thereafter, we expect working capital requirements to normalize up to €150 million per year, which should result in solid positive FOCF.
- Maintenance of the dividend policy, which stipulates a payout of 30%-50% of net income.

Key metrics

Strabag --Key Metrics*

Mil. €	2020a	2021a	2022e	2023f	2024f
Revenue growth (%)	(5.8)	3.7	1.5-2.0	1.0-1.5	1.0-1.5

EBITDA margin (%)	7.7	9.4	7-7.5	7-7.5	7-7.5
Funds from operations (FFO)	944.4	1048.0	880-920	900-940	920-960
Capital expenditure	451.0	456.3	600-700	550-650	550-650
Debt to EBITDA (x)	N.M.	N.M.	N.M.	N.M.	N.M.
FFO to debt (%)	N.M.	N.M.	N.M.	N.M.	N.M.

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. N.M.--Not meaningful.

We expect slightly lower adjusted EBITDA margin in 2022-2023. The lower EBITDA margins in 2022-2023 reflect significantly higher raw material and other costs, such as energy and logistics, the effect of which will only be partly offset by cost-control measures.

Strong credit metrics will offer leeway to increase spending on capex and dividends. Our base-case scenario for 2022-2023 is driven by higher spending on working capital, capex, acquisitions, and a dividends payout of 30%-50%. These will partially reduce rating headroom, but we continue to forecast zero adjusted net debt in 2022-2023, providing substantial leeway to absorb the negative effects of cost inflation and continued market uncertainty.

We expect lower FOCF in 2022, mostly because of a reversal of working capital, combined with higher capex and lower earnings. The reversal of the favorable working capital trend and sustained capex will reduce FOCF generation in 2022. Nevertheless, we continue to expect that debt to EBITDA and FFO to debt will remain commensurate with the current rating. We also anticipate that Strabag's liquidity will remain strong, supported by its cash balance and undrawn bank lines.

Company Description

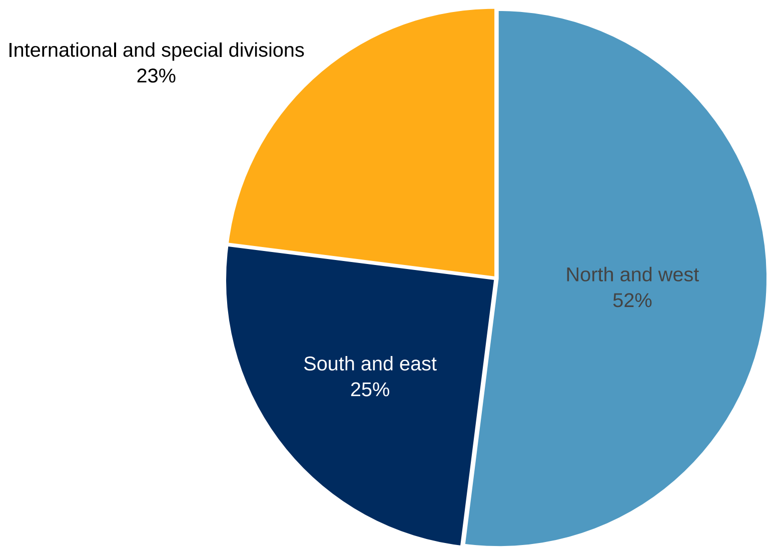
With annual output volume of about €16.1 billion in 2021, Strabag is one of Europe's largest construction groups. It operates in the following three segments:

- North and West (49% of 2021 output volume, with an EBIT margin of 6.1%), mainly including Germany, Poland, Belgium, the Netherlands, Luxembourg, and Scandinavia, and the Ground Engineering segment;
- South and East (30% of 2021 output volume, with an EBIT margin of 4%), mainly including Austria, Switzerland, the Czech Republic, Slovakia, Hungary, southeastern Europe, Russia and neighboring countries, and the Environmental Engineering segment; and
- International and Special Divisions (20% of 2021 output volume, with an EBIT margin of 9%), comprising International, Tunneling, Construction Materials (except asphalt), Property and Facility Services, Real Estate, and Infrastructure Development (concessions).

We think the company's medium-term strategy will continue to focus on maintaining margins by implementing cost-efficiency improvements and strengthening its risk management policies. We also expect that Strabag will continue to focus on both organic and inorganic growth opportunities, although we understand that management does not see many opportunities outside Europe that meet the company's requirements in terms of risk management and profitability. Therefore, the company will continue to focus on its existing markets.

Strabag is publicly listed, with a free float of 14.4%. Its core shareholders are the Haselsteiner family (28.3%), Raiffeisen/UNIQA (29.5%), and MKAO Rasperia Trading Ltd. (27.8%).

Strabag Order Backlog By Segment (2021)



Source: Company disclosures and S&P Global Ratings.

Peer Comparison

Our peer analysis includes construction companies Actividades de Construccion y Servicios S.A. (ACS), the largest construction company in Europe, and Vinci S.A., a diversified infrastructure company with a significant portion of revenue from more stable concession businesses. Webuild SpA is a midsize construction company focused on infrastructure construction contracts, with a substantial presence in the U.S. and high-risk countries. Strabag is a smaller player than ACS and Vinci, and its margins are lower (except for 2021 where margins were slightly higher), mainly because of its revenue concentration in European countries. However, Strabag has historically displayed consistently lower leverage and more resilient margins than its rated peers.

Strabag SE--Peer Comparisons

	Strabag SE	Webuild SpA	ACS, Actividades de Construccion y Servicios SA	Vinci S.A.
Foreign currency issuer credit rating	BBB/Stable/--	BB-/Stable/--	BBB-/Stable/A-3	A-/Stable/A-2
Local currency issuer credit rating	BBB/Stable/--	BB-/Stable/--	BBB-/Stable/A-3	A-/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2020-12-31	2021-12-31	2021-12-31
Mil.	EUR	EUR	EUR	EUR

Strabag SE--Peer Comparisons

Revenue	15,243	4,463	28,901	49,420
EBITDA	1,426	179	2,163	8,277
Funds from operations (FFO)	1,048	47	1,557	6,615
Interest	25	91	388	483
Cash interest paid	19	83	440	449
Operating cash flow (OCF)	1,165	119	924	7,964
Capital expenditure	456	184	342	1,983
Free operating cash flow (FOCF)	709	(65)	582	5,981
Discretionary cash flow (DCF)	(6)	(95)	(307)	3,821
Cash and short-term investments	2,915	2,455	11,589	10,321
Gross available cash	2,915	2,455	11,590	10,321
Debt	0	1,851	4,892	18,701
Equity	4,072	2,085	7,028	20,712
EBITDA margin (%)	9.4	4.0	7.5	16.7
Return on capital (%)	20.9	(5.1)	8.5	12.8
EBITDA interest coverage (x)	56.9	2.0	5.6	17.1
FFO cash interest coverage (x)	57.6	1.6	4.5	15.7
Debt/EBITDA (x)	0.0	10.3	2.3	2.3
FFO/debt (%)	NM	2.6	31.8	35.4
OCF/debt (%)	NM	6.4	18.9	42.6
FOCF/debt (%)	NM	(3.5)	11.9	32.0
DCF/debt (%)	NM	(5.1)	(6.3)	20.4

Business Risk

Strabag benefits from leading positions in Central and Eastern Europe's engineering and construction markets. Strabag is one of Europe's largest vertically integrated construction companies, and it holds the No.1 market position in Germany, Austria, Slovakia, and Romania, the No. 2 position in Czech Republic and Poland, as well as the No. 3 position in Hungary. Strabag's strong order backlog of about €23.7 billion, as at March 31, 2022--usually covering about one year of earnings--provides good visibility, although it is smaller than some peers' backlogs, mainly reflecting the lower average size of the projects. We also consider the company's cost base to be relatively flexible, which underpins its credit profile.

We assess as positive Strabag's generally effective risk management and lower volatility in profitability metrics than the industry average over the past few years. Strabag's profitability is slightly below the industry average, but it is less volatile and has proved resilient amid the pandemic. This reflects the competitive landscape in the countries and segments where the company operates, but also the less risky nature of its projects than those in emerging markets. That said, Strabag's strengthening risk management systems and its streamlining of parts of its organization have delivered operational improvements. The reported EBIT margin was 5.9% in 2021, an improvement from 4.3% in 2020. Strabag aims to post EBIT margins sustainably above 4% from 2022, supported by its ability to manage risk and improvements in strategic procurement and digitalization.

The industry's above-average operating risk constrains Strabag's business risk profile. Fixed-cost contract pricing and the potential for misjudging project expenses or timing can lead to cost overruns, which are usually the contractor's liability. In civil engineering, operating risk is heightened by competitive tenders and large projects with little insight into contract risk and performance.

Financial Risk

Strabag's modest financial risk profile reflects its robust balance-sheet structure and relatively strong core credit metrics. We expect that Strabag will maintain careful control over its debt because inherent industry risk can lead to a significant deterioration in metrics in a relatively short period. In our view, the company will continue to maintain strong liquidity even after absorbing the major portion of its working capital outflow in 2022-2023, representing a cash outflow of about €250 million-€350 million. We expect working capital-related outflows to normalize up to €150 million per year from 2024, which should improve Strabag's FOCF and help sustain its financial flexibility, which we regard as positive for its financial risk profile. Support comes from Strabag's ability to execute its projects in a timely manner and obtain progressive payments from customers.

Strabag has had a reported net cash position since 2014; at the end of 2021, cash stood at about €1.9 billion, leading to nil S&P Global Ratings-adjusted debt. Strabag was able to report a net zero debt position at the end of 2021, and we expect that this will be the case for year-end 2022 as well, despite higher working capital outflow. We expect Strabag to sustain its net cash position over the next two years, and to progressively improve its FOCF from 2024.

Strabag continues to maintain balance sheet strength as it has completed most of expansionary spending and debt-financed acquisitions in past years. After the COVID-19 outbreak, which led to double-digit sales declines in April and May 2020, management reacted quickly, cutting operating costs and capex and maintaining a sufficient liquidity buffer. This effectively reduced the hit from the pandemic on operating profits and boosted cash flow and liquidity. Despite the challenging economic environment, intensified by significant geopolitical tensions amid the Russia-Ukraine conflict, we believe that Strabag's strong liquidity and credit metrics offer good rating headroom. As a result, the company can increase spending on investments, working capital, and dividends, and resume its pipeline of bolt-on acquisitions before the credit metrics deteriorate below the downside triggers.

We expect that Strabag's FOCF will be weaker in 2022, due to reversal of favorable working capital. We anticipate that the company's adjusted net debt will remain at zero for the next two years. However, a reversal of the favorable working capital trend and sustained capex should lead to relatively weaker FOCF generation in 2022. In our base case, we incorporate capex at about 3.0%-4.0% of consolidated sales, and reversal of working capital resulting in cash outflow of about €250 million-€300 million. As a result, we expect rating headroom will partially reduce in future years and increase only when the requirement for working capital normalizes.

When calculating our adjusted credit ratios, we add to reported debt €306 million of reported lease liabilities and €485 million related to pension liabilities. Our surplus cash figure incorporates a haircut of about €300 million from cash and short-term liquid investments, which we believe would not be immediately available for debt repayment. We do not include on- and off-balance-sheet nonrecourse debt relating to the AKA motorway concessions in Hungary, the Pansuevia motorway concession in Germany, and STRABAG Scarborough in any of our adjusted leverage ratios. This is because we do not expect Strabag will provide financial support to these concessions if they need it.

Strabag SE--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	12,400	13,509	15,222	15,613	14,703	15,243
EBITDA	960	946	960	1,041	1,131	1,426
Funds from operations (FFO)	622	864	811	882	944	1,048
Interest expense	73	68	67	45	32	25
Cash interest paid	63	57	59	37	31	19
Operating cash flow (OCF)	205	1,270	673	1,020	1,233	1,165
Capital expenditure	412	458	643	647	451	456
Free operating cash flow (FOCF)	(207)	812	30	373	782	709

Strabag SE--Financial Summary

Discretionary cash flow (DCF)	(277)	711	(80)	259	676	(6)
Cash and short-term investments	1,983	2,769	2,344	2,415	2,802	2,915
Gross available cash	1,983	2,769	2,344	2,415	2,802	2,915
Debt	43	0	0	0	0	0
Common equity	3,265	3,398	3,654	3,856	4,108	4,072
Adjusted ratios						
EBITDA margin (%)	7.7	7.0	6.3	6.7	7.7	9.4
Return on capital (%)	13.4	13.8	15.5	15.2	15.0	20.9
EBITDA interest coverage (x)	13.1	13.9	14.4	23.3	35.0	56.9
FFO cash interest coverage (x)	10.8	16.1	14.6	25.1	31.1	57.6
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0	0.0
FFO/debt (%)	1,462.1	NM	NM	NM	NM	NM
OCF/debt (%)	482.6	NM	NM	NM	NM	NM
FOCF/debt (%)	(487.2)	NM	NM	NM	NM	NM
DCF/debt (%)	(652.2)	NM	NM	NM	NM	NM

Reconciliation Of Strabag SE Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	888	4,048	15,299	1,449	896	23	1,426	1,221	714	456
Cash taxes paid	-	-	-	-	-	-	(360)	-	-	-
Cash interest paid	-	-	-	-	-	-	(19)	-	-	-
Lease liabilities	306	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	485	-	-	-	-	2	-	-	-	-
Accessible cash and liquid investments	(2,621)	-	-	-	-	-	-	-	-	-
Dividends from equity investments	-	-	-	45	-	-	-	-	-	-

Reconciliation Of Strabag SE Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Deconsolid./ consolid.	(653)	-	(56)	(56)	(56)	-	-	-	-	-
Income (expense) of unconsolid. cos.	-	-	-	(13)	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	16	-	-	-	-	-
Noncontrolling/ minority interest	-	24	-	-	-	-	-	-	-	-
OCF: other	-	-	-	-	-	-	-	(56)	-	-
Total adjustments	(2,483)	24	(56)	(23)	(39)	2	(378)	(56)	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	-	4,072	15,243	1,426	857	25	1,048	1,165	714	456

Liquidity

We consider Strabag's liquidity to be strong and estimate that its liquidity sources will exceed its needs by more than 2x in 2022 and 2023. The company enjoys solid relationships with its banks. Stability in the financial markets and prudent financial risk management further support our strong liquidity assessment.

Principal liquidity sources

For the 12 months starting Jan. 1, 2022, we estimate that the company's main liquidity sources include:

- About €2.8 billion in cash;
- Access to a fully undrawn €400 million syndicated loan maturing in 2026; and
- Cash FFO of about €920 million-€960 million.

Principal liquidity uses

For the same period, we estimate that the company's main liquidity uses are:

- Capex of about €550 million annually over the next two years;
- Working capital outflows of up to €250 million-€300 million per year over the next two years.
- Bolt-on acquisitions of about €100 million annually; and
- Ordinary dividends of 30%-50% of net income.

Covenant Analysis

Compliance expectations

Headroom under the financial covenants is ample and we assume no tightening in our base case.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental, social, and governance (ESG) factors are an overall neutral consideration in our credit rating analysis of Strabag. A significant portion of its backlog is in transportation infrastructure, building construction, and civil engineering, which we see as neutral in terms of environmental risk. Strabag's backlog is not exposed to the metals and mining or oil and gas end-markets. In addition, Strabag has a track record of significantly fewer litigations than other companies operating in the same industry, which has helped preserve its creditworthiness.

Rating Component Scores

Foreign currency issuer credit rating	**BBB/Stable/--**
Local currency issuer credit rating	**BBB/Stable/--**
Business risk	**Satisfactory**
Country risk	Low
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk	**Modest**
Cash flow/leverage	Modest
Anchor	**bbb+**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**bbb**

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Engineering And Construction Industry, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013

- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (as of August 09, 2022)*

Strabag SE	
Issuer Credit Rating	BBB/Stable/--
Issuer Credit Ratings History	
22-Jun-2015	BBB/Stable/--
14-Nov-2007	BBB-/Stable/--
25-May-2007	BB+/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.