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Meet the Only 2 Game-Changing Businesses With a Higher Credit Rating Than the U.S. Government

By Sean Williams – Oct 24, 2024 at 5:21AM



KEY POINTS

- Rating agencies like Standard & Poor's (S&P), Fitch Ratings, and Moody's, are tasked with assessing the riskiness of corporate and government debt.
- S&P and Fitch cut their credit rating for the U.S. to AA+ from AAA in 2011 and 2023, respectively.
- In 2024, S&P reaffirmed its AAA credit rating for two colossal companies that are industry leaders and cash-flow machines.

In 1980, around five dozen publicly traded companies held the highest possible credit rating (AAA) from Standard & Poor's. Today, there are only two left.

If you've ever tried to make a large purchase, such as a home or car, you're well aware of the importance of your credit rating. The higher your credit score, the more

amicable the lending terms will be, and the likelier it is that lenders will fight for your business.

However, credit ratings extend well beyond individual borrowers. Ratings agencies, such as Fitch, **Moody's**, and Standard & Poor's (S&P), the latter of which is a subsidiary of **S&P Global**, are counted on wade through corporate and government debt to assess its riskiness/creditworthiness.

In August 2011, just a few years after the financial crisis gripped America, S&P downgraded the U.S. credit rating from AAA, the highest possible rating, to AA+, the second-highest possible rating. In August 2023, Fitch Ratings followed suit and cut the U.S. credit rating from AAA to AA+. While AA+ ratings from S&P and Fitch signal that the U.S. government has a *very* good chance of servicing and repaying its outstanding debts with a low chance of default, it's no longer the pristine rating the U.S. government once had.



IMAGE SOURCE: GETTY IMAGES.

The same can be said for much of corporate America. In 1980, around 60 publicly traded companies possessed the highly coveted AAA credit rating. But following four-plus decades of acquisitions, mergers, bankruptcies, innovation, and economic shifts, only two public companies still hold this pristine credit rating.

Johnson & Johnson

The first of two absolute industry juggernauts that still possesses a AAA credit rating from Standard & Poor's is healthcare conglomerate **Johnson & Johnson (JNJ -0.11%)**, which is best-known as "J&J."

In April, S&P reaffirmed its AAA credit rating on J&J, albeit with a negative outlook. The ratings agency pointed to the acquisitions of Abiomed, Laminar, and Shockwave Medical, as adding to Johnson & Johnson's long-term debt and increasing its adjusted net leverage above a level that would typically be acceptable for a AAA-rated business. However, S&P also pointed to levers J&J has at its disposal to quickly reduce its leverage as the reason for leaving its rating unchanged.

Additionally, S&P recognized the uncertainties surrounding lawsuits J&J is facing regarding its now-discontinued talcum-based baby powder. Two previous settlement offers were rejected in court, and Wall Street tends to dislike uncertain financial overhangs.

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NYSE: JNJ

Johnson & Johnson

Today's Change

(-0.11%) -US$0.18

Current Price

US$162.81



YTD 1W 1M 3M 6M 1Y **5Y** PRICE VS S&P

KEY DATA POINTS

Market Cap	**$392B**
Day's Range	**US$161.10 - US$163.15**
52wk Range	**US$140.68 - US$169.99**
Volume	**1,620**
Avg Vol	**9,120,729**
Gross Margin	**68.71%**
Dividend Yield	**3.05%**

Despite these concerns, Johnson & Johnson has, for decades, demonstrated that it's a cash-flow machine

J&J's management team has overseen a steady shift in focus toward the company's pharmaceutical segment. Brand-name drugs offer substantial pricing power and considerably juicier margins than medical devices or its consumer health division, **Kenvue**, which was recently spun off. J&J has demonstrated a willingness to aggressively reinvest in internal innovation, as well as collaborations, to sustain growth for this high-margin operating segment.

But don't overlook the role medical technologies can play over the long term. As one of the world's largest medical-device companies, J&J is perfectly positioned to benefit as the domestic and global population age and gain access to medical care.

Another reason Johnson & Johnson has been such a steady grower is continuity at key leadership positions. You can count how many CEOs J&J has had since its founding in 1886 using the fingers on your two hands. Executives sticking around for the long run ensures that growth initiatives are being properly implemented and overseen from start to finish.

I'd be remiss if I failed to point out that healthcare companies are also highly defensive. People will continue to develop illnesses and ailments regardless of how well or poorly the U.S. and global economy are performing. This leads to highly predictable cash flow in any economic climate for Johnson & Johnson.



IMAGE SOURCE: GETTY IMAGES.

Microsoft

The only other publicly traded company, other than J&J, which sports a higher credit rating than the U.S. government is software goliath **Microsoft (MSFT 2.58%)**.

In July, Standard & Poor's reaffirmed its AAA rating on the company. But unlike Johnson & Johnson, S&P has a "stable" outlook on Microsoft, which would suggest there's no near-term danger of the third-largest publicly traded company in the U.S. losing this pristine credit rating.

Microsoft's success is based on a number of factors, including its innovation, its legacy operating segments, and its cash-rich balance sheet.

In terms of innovation, Microsoft's future is heavily reliant on cloud services and artificial intelligence (AI) solutions being integrated into its cloud-driven segments. Perhaps the best example is generative AI solutions being incorporated into its Azure platform. Azure is the world's No. 2 cloud infrastructure service platform by

enterprise spending, and it's enjoyed incremental revenue growth as a result of AI integration.

Collapse

NASDAQ: MSFT
Microsoft

Today's Change
(2.58%) US$9.79
Current Price
US$388.56



YTD 1W 1M 3M 6M 1Y **5Y** PRICE VS S&P

KEY DATA POINTS

Market Cap	**$2.9T**
Day's Range	**US$379.51 - US$390.23**
52wk Range	**US$376.91 - US$468.35**
Volume	**26,639**
Avg Vol	**23,018,288**
Gross Margin	**69.41%**

Dividend Yield	**0.81%**

But it's equally important to recognize that Microsoft's legacy operations are still playing a key role in generating plenty of cash flow. Although Windows and Office aren't the growth stories they were two decades ago, they still possess impressive market share and generate high margins. The cash Microsoft brings in from these predictable segments can be deployed into higher-growth initiatives.

When fiscal 2024 came to a close for Microsoft on June 30, it was holding more than $75 billion in cash, cash equivalents, and short-term investments on its balance sheet. It also bought in more than $118 billion in operating cash flow in fiscal 2024. This treasure chest allows Microsoft to take chances that most others businesses can't afford to.

As an example, Microsoft purchased gaming company Activision Blizzard for nearly $69 billion in cash last year, and it's been an aggressive investor in OpenAI, the company behind popular chatbot service, ChatGPT. This inorganic growth is the final puzzle piece that's helped Microsoft maintain relevance and hang onto its top-notch credit rating.

Sean Williams has no position in any of the stocks mentioned. The Motley Fool has positions in and recommends Kenvue, Microsoft, Moody's, and S&P Global. The Motley Fool recommends Johnson & Johnson and recommends the following options: long January 2026 $13 calls on Kenvue, long January 2026 $395 calls on Microsoft, and short January 2026 $405 calls on Microsoft. The Motley Fool has a disclosure policy.

STOCKS MENTIONED

Johnson & Johnson
JNJ
$162.81 (-0.11%) $0.18

Motley Fool *Stock Advisor's* Latest Pick
Get Access
830% Avg Return*

Microsoft
MSFT
$388.56 (2.58%) $9.79

**Average returns of all recommendations since inception. Cost basis and return based on previous market day close.*

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