

ABC Inc

Medium default risk, with poor Core Health.

Our View: ABC Inc's Financial Health Rating (FHR™) was 45 (0=worst, 100=best) for the four quarters ending March 31, 2020, and represents a 10 point upgrade as compared to a year earlier. This rating elevates the company to the bottom half of our Medium Risk group, with an estimated probability of default of 0.52% over the next 12 months. This FHR and the default risk level are primarily due to the company's Poor Core Health.

Figure 1: FHR Trend, Q1 2012 to Q1 2020



The FHR™ Report

Corporate Risk Analysis

Financial Period: Mar 31, 2020, (fiscal Q1 2020)

FHR Release Date: May 01, 2020

Ticker: ABC

Sector: Autos and Related Equipment

Address: ABC street address

FHR: 45

Risk Level: Medium Risk

Estimated Probability of Default: 0.52%

Annual Delta: +10 rating points

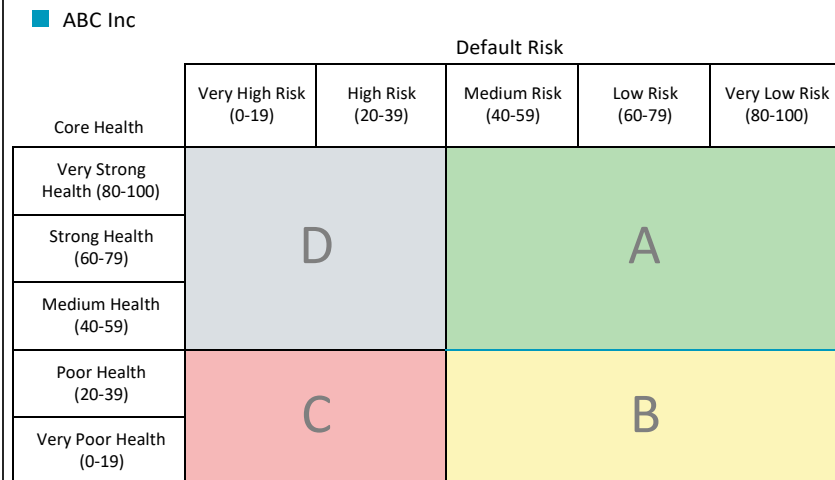
Core Health: 38 (Poor Health)

Table 1: Key Data and Ratio (USD B)

	2018	2019	Q1 2020
Financial Health Rating	36	41	45
Core Health Score	17	21	38
Simulated FHR	36	41	47
	2018	2019	Q1 2020
Total Assets (B)	29.74	34.31	37.25
Total Liabilities (B)	23.43	26.20	26.58
Total Revenues (B)	21.46	24.58	26.02
EBITDA (B)	1.56	2.17	2.99
Total Rev / Total Asset	0.72	0.72	0.70
Op Profit / Total Rev (%)	-1.81	-0.28	2.83
Op Profit / Interest Exp	-0.59	-0.10	1.06
FCF / Total Debt	-0.02	0.07	0.07
ROCE (%)	-2.12	-0.32	2.99

■ Very Low Risk (80 - 100)
 ■ Low Risk (60 - 79)
 ■ Medium Risk (40 - 59)
 ■ High Risk (20 - 39)
 ■ Very High Risk (0 - 19)

Figure 2: Core Health and Default Risk Quadrant Analysis



Quadrant B: While risk of default is unlikely in the short-term, the level of Core Health suggests a need for efficiency improvements, and current performance may not be sustainable over the medium-term.

The **Core Health Score (CHS)** is a measure of medium-term sustainability based on operational efficiency and competitiveness.

The **Financial Health Rating (FHR)** is a measure of default risk in the short-term. It is derived from Core Health and Resilience analysis, which incorporates a company's facility to meet internal and external obligations in the short-term.

Section 1: Executive Summary

Name:	ABC Inc
FHR:	45
Risk Level:	Medium Risk

Medium Default Risk although Poor Core Health: A Core Health Score of 38 suggests low levels of efficiency and a performance which is not sustainable over the long-term. Within the Resilience Indicators we see a mixed result, and at this Core Health level these Resilience Indicators are critical in determining default risk. Companies with this combination of Core Health and Resilience have mediocre short and medium-term prospects.

Varying Resilience: ABC Inc demonstrates an adequate result in liquidity but some weakness in leverage and earnings performance. Across the varying indicators we see sufficient strength to attain a Medium Risk rating, however the position is tenuous and improvement is required before the company reaches a position of comfort.

Core Health is Poor: For the most recent period, the 12 months (rolling quarters) ended Mar 31, 2020, ABC Inc has experienced a strong improvement in Core Health, as evidenced by a 19 point CHS increase, largely reflecting progress made in delivering improvements in capital structure efficiency, operating profitability, net profitability and cost structure efficiency. The company evidenced no notable rating subcategory strengths during the period. ABC Inc demonstrates weakness in capital structure efficiency, net profitability, operating profitability, earnings performance and leverage relative to the global industry set.

The cash flow story is mixed: While ABC Inc generated positive cash from operations in the most recent year-end period, overall performance was mixed. Although cash flow coverage of capital expenditures was strong, free cash flow coverage of debt was modest.

Substantial underperformance in generating returns: The Return on Capital Employed (ROCE) for the most recent period, which at 2.99% represents a substantial underperformance but is a significant increase as compared to the previous full year at -1.78%, constitutes the high point of the time studied. This measure is dramatically above the low point of -80.99 achieved in Q3 2012. The range over the past three years has been between -13.93% and 2.99%.

The bottom line: Although recently upgraded, ABC Inc is situated in the bottom half of our Medium Risk group, displays weakness in five of our seven performance categories and demonstrates substantial underperformance in ROCE. If current trends persist it would be logical to expect that ABC Inc will face medium default risk this coming year and will struggle with efficiency and competitiveness problems over the medium-term; thus, the outlook is mixed but could deteriorate.

Section 2: FHR History and Performance Category Analysis

Table 2 presents the FHR and Performance Category trends for ABC Inc. Each rating period is labeled with the financial period end of the most recent financial reports incorporated into that FHR.

Core Health is an analysis of efficiency and competitiveness, whereas Resilience is based on empirical correlations with default probability. The two perspectives may not always be in alignment and they dynamically interact in their contribution to overall Financial Health.

Table 2: ABC Inc's Ratings and Performance Category Trends, YE 2012 to Q1 2020

	Annual							Quarterly				
	YE 2012	YE 2013	YE 2014	YE 2015	YE 2016	YE 2017	YE 2018	Q1 2019	Q2 2019	Q3 2019	YE 2019	Q1 2020
Financial Period End	12/31	12/31	12/31	12/31	12/31	12/31	12/31	03/31	06/30	09/30	12/31	03/31
Financial Health Rating	25	59	37	33	36	33	36	35	42	39	41	45
FHR Annual Delta	-5	34	-22	-4	3	-3	3	6	14	5	5	10
Core Health Score	15	16	14	14	15	14	17	19	25	22	21	38

■ Very Low Risk (80 - 100)
 ■ Low Risk (60 - 79)
 ■ Medium Risk (40 - 59)
 ■ High Risk (20 - 39)
 ■ Very High Risk (0 - 19)

Core Health Performance Scores: Medium-Term Outlook (0-100)

Operating Profitability	5	5	5	5	5	5	14	17	27	23	21	37
Net Profitability	5	8	6	5	7	6	8	8	16	13	12	33
Capital Structure Efficiency	9	18	5	5	18	5	5	5	5	5	5	18
Cost Structure Efficiency	48	44	43	41	41	39	38	39	38	38	38	54

Resilience Indicators: Short-Term Outlook (W - Weak, A - Adequate, S - Strong)

Leverage	W	A	W	A	A	A	W	W	W	W	W	W
Liquidity	W	S	A	W	W	W	W	W	A	A	A	A
Earnings Performance	W	A	W	W	W	W	W	W	W	W	W	W

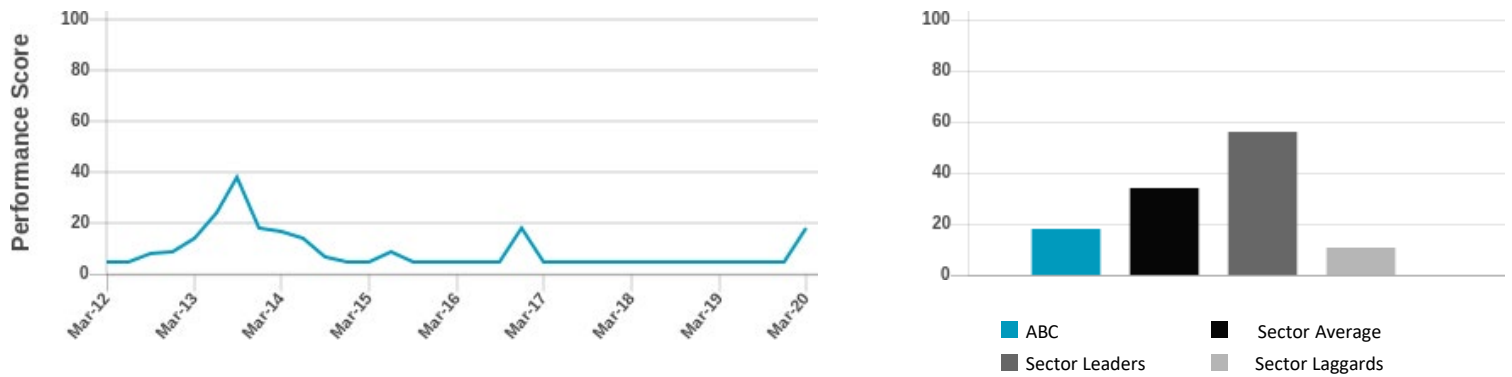
Section 3: Core Health Deeper Dive: What We Like, What We Don't Like

In this section, we take a closer look at ABC Inc, pinpointing current areas of notable strength and weakness in relation to past performance and in relation to other sector participants. The Sector Leaders and Sector Laggards indicate the performance of companies in the top and bottom tenth percentile of the sector for that performance measure.

What We Don't Like

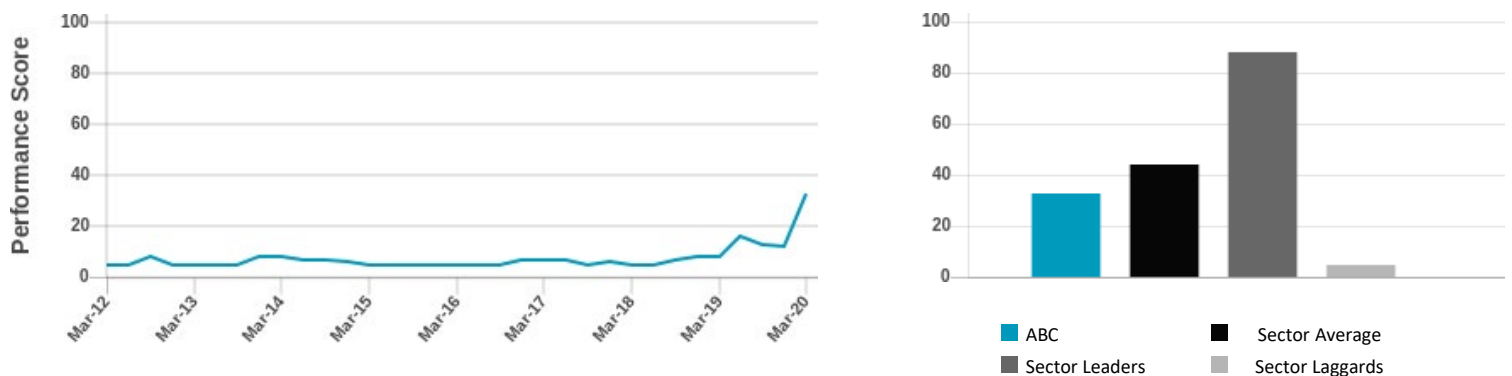
Capital Structure Efficiency (18): Capital Structure Efficiency examines the main elements of the capital structure (current liabilities, term liabilities, total liabilities, equity, current assets and total assets) relative to various bases such as total capital employed, operating revenue, total liabilities and total assets. ABC Inc's score depicts a company which represents an 18% best practice profile match against its global reference set over the last 12 months ending March 31, 2020.

Figure 3: ABC Inc's Capital Structure Efficiency Performance Score over time and Sector Measures for the Q1 2020 period



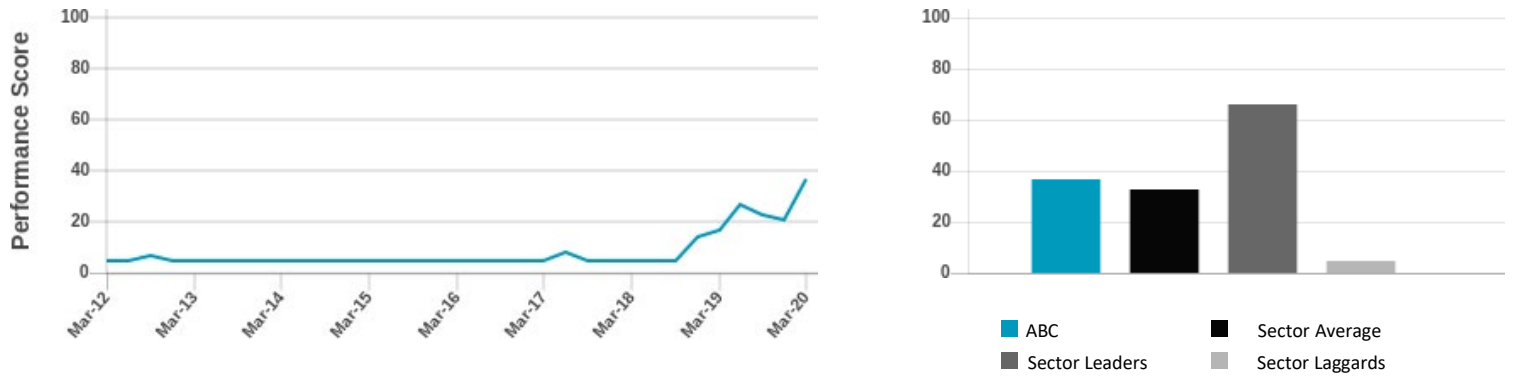
Net Profitability (33): Net Profitability provides a downstream scan of the efficiency in generating profitability and includes Net Operating Profit After Tax, Net Profit After Tax and Net Profit Before Tax relative to several important denominators, notably total capital employed, equity, total assets, and operating revenue. ABC Inc depicts a company which represents a 33% best practice profile match against its global reference set over the last 12 months ending March 31, 2020.

Figure 4: ABC Inc's Net Profitability Performance Score over time and Sector Measures for the Q1 2020 period



Operating Profitability (37): Operating Profitability provides an upstream scan of the efficiency in generating profitability and encompasses gross profit, EBIT and EBITD relative to several important denominators, notably capital employed, equity, total assets, and operating revenue. ABC Inc depicts a company which represents a 37% best practice profile match against its global reference set over the last 12 months ending March 31, 2020.

Figure 5: ABC Inc's Operating Profitability Performance Score over time and Sector Measures for the Q1 2020 period



Section 4: ABC Inc's Simulated FHR to adjust for Abnormal Items

ABC Inc's current rating is marginally affected by abnormal items.

Current FHR:	45	Medium Risk
Simulated FHR:	47	Medium Risk

Simulated FHR is 47, Medium Risk: This period includes an abnormal item. When the rating for this period is simulated with the abnormal item excluded, the company's health is marginally better suggesting the line item is having little effect on the rating for this period.

The simulated risk category remains Medium Risk.

The company's year-on-year rating delta using the simulated rating is 12 compared to the published delta of 10.

ABC Inc's current trailing twelve month financial period includes an abnormal loss of \$0.11 billion USD. This item represents 12.53% of pre-item operating income, and has had a marginal effect on the rating.

Table 3: Simulation Factors and Results

FHR Simulation Review	Annual					Quarterly				
	YE 2014	YE 2015	YE 2016	YE 2017	YE 2018	Q1 2019	Q2 2019	Q3 2019	YE 2019	Q1 2020
Financial Period End	12/31	12/31	12/31	12/31	12/31	03/31	06/30	09/30	12/31	03/31
Actual FHR	37	33	36	33	36	35	42	39	41	45
Actual Annual Delta	-22	-4	3	-3	3	6	14	5	5	10
Simulated FHR (adjusted for abnormal item)	37	33	36	33	36	35	43	39	41	47
Simulated Annual Delta	-22	-4	3	-3	3	6	15	5	5	12
Financial Item Review (USD B)										
Pre-Abnormal Item Operating Profit	-0.19	-0.72	-0.73	-1.63	-0.25	-0.13	0.33	0.15	0.08	0.84
Abnormal Item	0.00	0.00	0.06	-	-0.14	-0.18	-0.19	-0.17	-0.15	-0.11
Abnormal Item / Pre-Ab. Item Op. Profit (%)	0%	0%	9%	0%	53%	133%	58%	110%	186%	13%
Post-Abnormal Item Operating Profit	-0.19	-0.72	-0.67	-1.63	-0.39	-0.31	0.14	-0.01	-0.07	0.74

n/a: This data point is either Not Available or Not Applicable

General Information Regarding Abnormal Items.

While there is temptation to disregard the actual rating in favor of the simulated rating, this should only be done with consideration to the potential cost should the abnormal item prove symptomatic of larger issues within the organization.

An isolated negative abnormal event may only be a temporary setback and hence should be put in perspective in terms of your relationship with the firm. It is common for firms to occasionally report abnormal items. Abnormal Items can generally be found under operating expenses as Other Gains/Charges. They include non-recurring one-time items such as goodwill impairment charges, restructuring charges, non-recurring legal fees and expenses related to natural disasters. The key is how management handles the shock if there is a loss and whether or not the company returns to financial health quickly if there is a loss. Thus, closer scrutiny is called for if the abnormal leads to a loss.

This simulation does not account for the tax implications of excluding the abnormal item from the company's performance.

Section 5: Cash Flow Section

As of December 31, 2019, The cash flow story is mixed: While ABC Inc generated positive cash from operations in the most recent year-end period, overall performance was mixed. Although cash flow coverage of capital expenditures was strong, free cash flow coverage of debt was modest.

Coverage of capital expenditures by internally generated cash flow was a strong 167%. Capital expenditures are dramatically below the current year's depreciation and amortization, suggesting a potentially substantial degree of underinvestment.

Free Cash Flow (FCF) is cash that a company is able to generate after accounting for the cost of maintaining or expanding its asset base. ABC Inc's FCF switched from negative to positive in the

current period. Over the past 5 years the company has ranged from a peak of \$0.97B (2019 YE) to a low of \$-4.14B (2017 YE). For the most recent 12 months, FCF strengthened, entering positive territory, as the measure grew from a negative \$-0.22 B to a positive \$0.97B.

The debt load grew, from \$12.02B at 2018 YE to \$13.42B at 2019 YE. FCF is now in positive territory, and was a modest 7% in 2019 YE. FCF/TD levels of this magnitude can indicate a challenged solvency profile.

Table 4: ABC Inc's Cash Flow Summary, as of the most recent annual period

USD Billions	2015	2016	2017	2018	2019
	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Net Income	-0.89	-0.67	-1.96	-0.98	-0.86
Adjustments to reconcile net earnings:					
Depreciation	0.42	0.95	1.64	1.90	2.15
Other Non-cash expenses	-	0.70	1.04	1.20	1.38
Total Non-Cash Working Capital Changes	-	-1.10	-0.50	0.06	-0.35
Accounts Receivable *	-	-0.21	-0.02	-0.50	-0.37
Inventories *	-	-2.47	-0.18	-1.02	-0.43
Accounts Payable *	-	1.86	0.53	1.01	0.37
Other changes in WC	-	-0.28	-0.82	0.56	0.08
Net Cash from Operations	-0.52	-0.12	-0.06	2.10	2.40
Net Cash from Investing Activities	-1.67	-1.42	-4.42	-2.34	-1.44
Net Cash from Funding Activities	1.52	3.74	4.41	0.57	1.53
Net change in Cash and Cash Equivalents	-0.67	2.20	-0.03	0.31	2.51
Capital Expenditure	-1.63	-1.28	-4.08	-2.32	-1.44
Free Cash Flow	-2.16	-1.40	-4.14	-0.22	0.97
Total Gross Debt	2.67	6.85	10.31	12.02	13.42

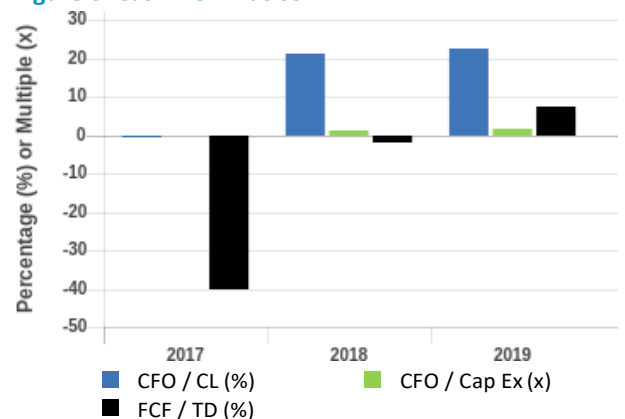
* These figures may be estimations derived from balance sheet inputs in some cases

ABC Inc's CFO to Current Liabilities (22.55%) indicates a Weak of cash flow coverage, but CFO to Cap Ex (1.67x) indicates a Strong level of cash flow coverage, and FCF to Total Debt (7.21%) indicates a Modest level of cash flow coverage.

Table 5: Cash Flow Ratios

	2017	2018	2019	Level
CFO / CL (%)	-0.79	20.99	22.55	Weak
CFO to Cap Ex (x)	-0.01	0.90	1.67	Strong
FCF to Total Debt (%)	-40.16	-1.84	7.21	Modest

Figure 6: Cash Flow Ratios



Section 6: Liquidity Module

Liquidity: ABC Inc's liquidity position is adequate, and additional strengthening is desired given the company's Poor Core Health. The company's working capital and its Cash Ratio have both increased. The Cash Ratio shows that the firm has \$0.67 in Cash for each \$1.00 of Current Liabilities.

Figure 7: Liquidity Ratios

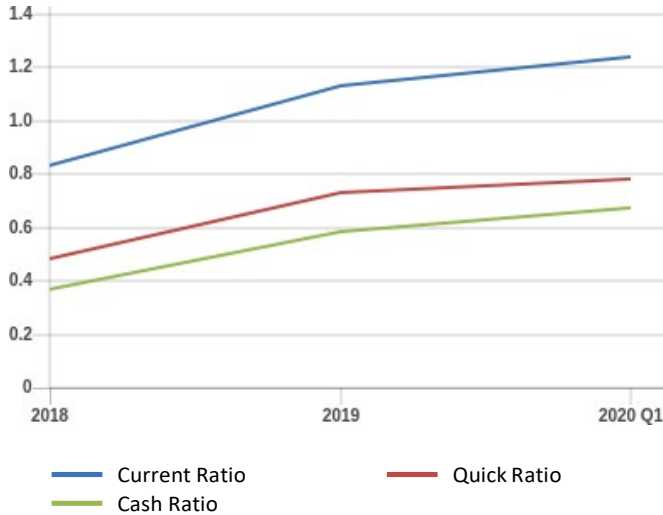


Table 6: Liquidity Ratios

	2018	2019	Q1 2020	Direction
Current Ratio	0.83	1.13	1.24	RISING
Quick Ratio	0.48	0.73	0.78	RISING
Cash Ratio	0.37	0.59	0.67	RISING
WC to Assets	-0.06	0.04	0.08	RISING

Definitions

In each case, the higher the better.

Current Ratio: Current Assets / Current Liabilities

Quick Ratio: (Cash + Accounts Receivable) / Current Liabilities

Cash Ratio: Cash / Current Liabilities

WC to Assets: Working Capital (CA – CL) / Total Assets

Section 7: Activity Module

Activity: Inventory turnover has been rising and the firm currently takes an average of 77.07 days to produce and sell its inventory. Currently, ABC Inc collects from its customers in only 17.9 days, but waits an average of 68.1 days to pay its suppliers, a cash advantage of 50.2 days. The Cash Conversion Cycle shows that the firm is taking 26.86 days to convert its inputs into cash. In terms of how effectively the firm is utilizing its assets, Asset Turnover shows that in the most recent 12-month period, the firm has generated \$0.70 for each dollar of assets. Performance on this metric has been falling.

Figure 8: Activity Ratios

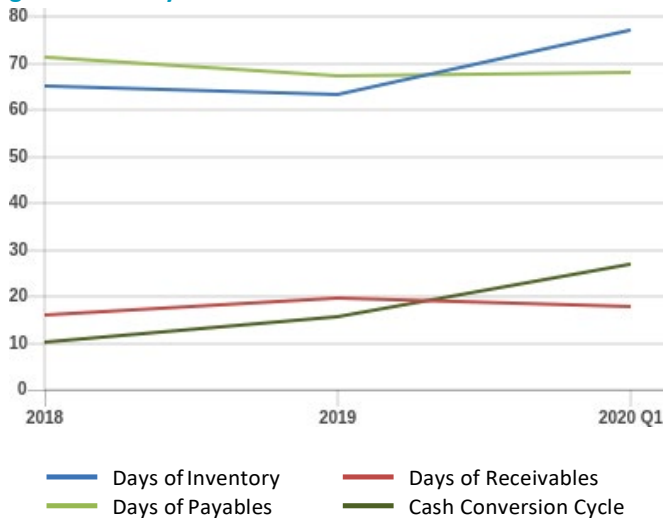


Table 7: Activity Ratios

	2018	2019	Q1 2020	Signal
Days of Invent.	65.2	63.2	77.1	RISING
Days of Receiv.	16.1	19.7	17.9	FALLING
Days of Pay.	71.3	67.1	68.1	RISING
Cash Conv. Cyc.	10.0	15.8	26.9	RISING
Asset Turnover	0.72	0.72	0.70	FALLING

Section 8: DuPont ROA Analysis

The Operating Margin measures how much operating profit a firm generates for each dollar of revenue. This excludes interest, tax and any investment expenses or income. ABC Inc has an Operating Margin of 2.83%, indicating that it produces \$2.83 of operating profit for each \$100 of revenue.

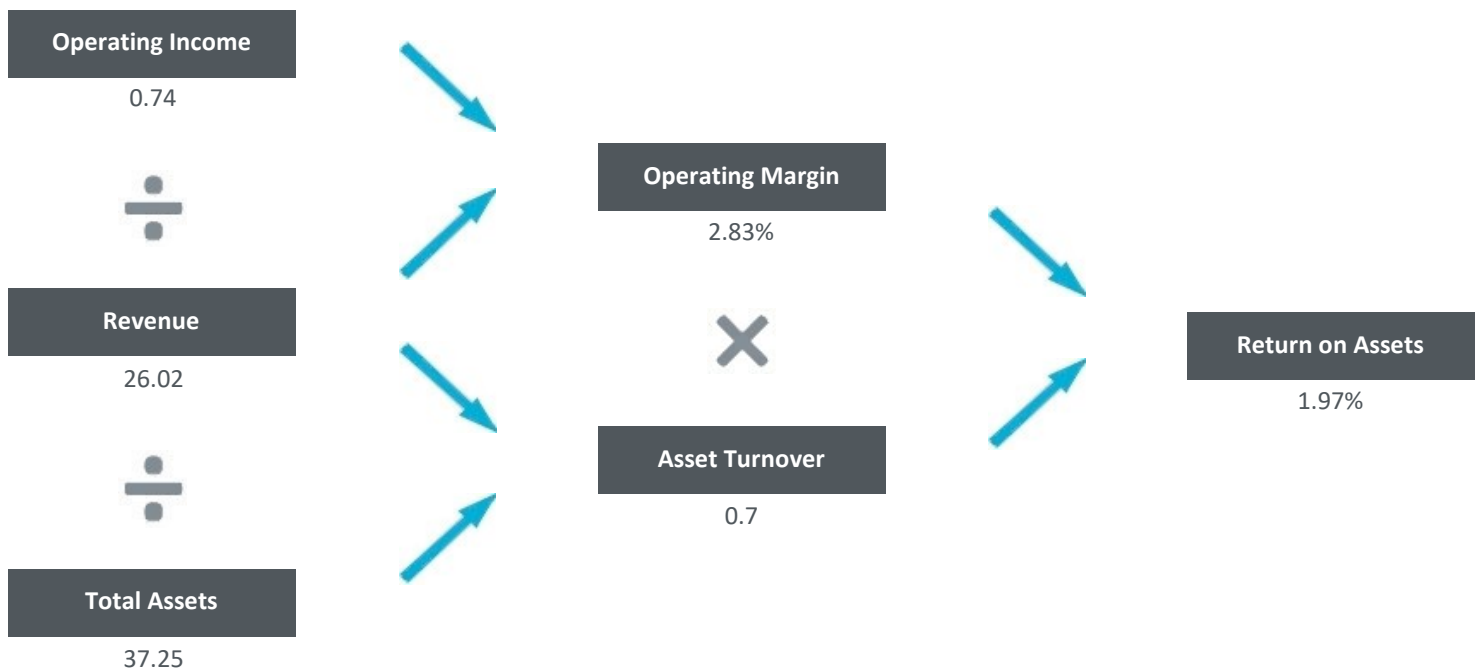
Asset Turnover measures how much revenue a firm generates for each dollar in total assets. ABC Inc has an Asset Turnover of 0.70,

indicating that it generates \$70 in revenue for every \$100 of total assets.

Operating Margin and Asset Turnover can be multiplied to obtain Return on Assets, which measures the Operating Profit generated for each dollar of total assets. ABC Inc has a Return on Assets of 1.97%, which means the firm has \$1.97 of operating profit for each \$100 of total assets.

Currency:	USD Billions
Period:	Mar 31, 2020

Figure 9: ABC Inc DuPont Analysis, 12 months ending Q1 2020



DuPont Analysis permits a quick overview of a firm's financial position and performance. It provides valuable insights into the efficiency of firm performance by separating operations (how effectively does the firm convert sales to profit) and financing (how effectively does the firm convert its assets into sales). The Operating Margin and Asset Turnover provide us insight into these two dimensions of efficiency. When multiplied, we can see how they combine to produce Return on Assets, which is a sound measure for comparing the financial performance of this firm to its peers. DA serves many different purposes and as such, many variations exist on the core tools. We present a version here that is focused on operational efficiency, an important driver of Financial Health.

Section 9: ABC Inc Balance Sheet

The company's headquarters are located at 3500 Deer Creek Road, Palo Alto, CA 94304, United States.

Table 8: ABC Inc balance sheet as of March 31, 2020

(in USD B)	2012	2013	2014	2015	2016	2017	2018	2019	Q1 2020
Assets									
1. Bank, Cash Balances	0.20	0.85	1.91	1.20	3.39	3.37	3.69	6.27	8.08
2. Accounts Receivable	0.03	0.05	0.23	0.17	0.50	0.52	0.95	1.32	1.27
3. Total Inventories	0.27	0.34	0.95	1.28	2.07	2.26	3.11	3.55	4.49
4. Prepayments	-	-	0.09	-	0.19	0.27	0.37	0.71	1.04
5. Other Current Assets	0.03	0.03	0.02	0.15	0.11	0.16	0.19	0.25	-
6. Total Current Assets (1+2+3+4+5)	0.52	1.27	3.20	2.79	6.26	6.57	8.31	12.10	14.89
7. Fixed Assets	0.55	0.74	1.83	3.40	5.98	20.49	19.69	20.20	20.47
8. Financial Assets	0.00	0.00	0.00	0.00	0.51	0.46	0.42	0.39	-
9. Intangible Assets	-	0.00	0.00	-	0.38	0.42	0.35	0.54	0.52
10. Other Term Assets	0.04	0.41	0.82	1.90	9.54	0.71	0.97	1.08	1.37
11. Total Term Assets (7+8+9+10)	0.59	1.15	2.65	5.30	16.40	22.08	21.43	22.21	22.36
12. Total Assets (6+11)	1.11	2.42	5.85	8.09	22.66	28.66	29.74	34.31	37.25
Liabilities									
13. Bank Overdraft	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
14. Accounts Payable	0.34	0.30	0.78	-	1.86	2.39	3.40	3.77	3.97
15. Debt owed within one year	0.06	0.01	0.61	0.00	0.98	0.90	2.57	1.78	3.22
16. Short-Term Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
17. Other Current Liabilities	0.14	0.36	0.72	2.63	2.98	4.39	4.02	5.11	4.80
18. Total Current Liabilities (13+14+15+16+17)	0.54	0.68	2.11	2.63	5.83	7.67	9.99	10.67	11.99
19. Term Loans	0.41	0.60	1.88	2.67	5.87	9.42	9.45	11.63	10.73
20. Provisions	-	-	-	-	-	-	-	-	-
21. Deferred Taxation	0.00	0.00	0.00	0.00	0.00	-	-	-	-
22. Other Term Liabilities	0.04	0.48	0.95	1.66	5.05	5.93	3.98	3.90	3.87
23. Total Term Liabilities (19+20+21+22)	0.45	1.07	2.83	4.33	10.92	15.35	13.43	15.53	14.59
24. Total Liabilities (18+23)	0.99	1.75	4.94	6.96	16.75	23.02	23.43	26.20	26.58
Shareholders' Equity									
25. Retained Earnings	-1.07	-1.14	-1.43	1.13	-3.00	-4.97	-5.32	-6.08	-6.10
26. Subscribed Capital	1.19	1.81	2.35	0.00	7.77	9.18	10.25	12.74	15.39
27. Minority Interests	0.00	0.00	0.00	0.00	1.15	1.40	1.39	1.49	1.50
28. Other Equity Items	0.00	0.00	0.00	0.00	-0.01	0.03	-0.01	-0.04	-0.11
29. Total Shareholders' Equity (25+26+27+28)	0.12	0.67	0.91	1.13	5.91	5.63	6.31	8.11	10.67

Section 10: ABC Inc Income Statement

Table 9: ABC Inc Income Statement for the 12 months ending March 31, 2020

Note: Rapid Ratings employs a trailing 12 month perspective with regard to income statement data. Hence, the 2020 Q1 period represents the sum of the four quarters ending with 2020 Q1.

(in USD B)	2012	2013	2014	2015	2016	2017	2018	2019	Q1 2020
Revenue									
1. Sales Revenue	0.41	2.01	3.20	4.05	7.00	11.76	21.46	24.58	26.02
2. Other Income	0.00	-0.00	-0.00	0.00	0.00	-	-	-	-
3. Total Revenue (1+2)	0.41	2.01	3.20	4.05	7.00	11.76	21.46	24.58	26.02
Cost of Goods Sold									
4. Cost of Goods Sold	0.38	1.56	2.32	3.12	5.40	9.54	17.42	20.51	21.28
5. Gross Profit (1-4)	0.03	0.46	0.88	0.92	1.60	2.22	4.04	4.07	4.74
Operating Expenditure									
6. Salaries and Wages	0.00	0.00	0.00	0.00	0.00	0.21	-	0.48	0.49
7. Depreciation	0.03	0.11	0.01	0.42	0.48	1.64	1.90	2.15	2.24
8. Amortization	0.00	0.00	0.22	0.00	0.47	-	-	-	-
9. Other Operating Expenditure	0.39	0.40	0.84	1.22	1.38	2.01	2.39	1.35	1.17
10. Total Operating Expenditure (6+7+8+9)	0.42	0.51	1.07	1.64	2.33	3.85	4.29	3.99	3.90
11. Total Cash Expenditure	0.78	2.00	3.26	4.47	7.01	11.53	20.53	23.14	23.73
12. Other Income (as per item 2)	0.00	-0.00	-0.00	0.00	0.00	-	-	-	-
13. Abnormal Items	-0.00	-0.01	0.00	0.00	0.06	-	-0.14	-0.15	-0.11
14. Other Operating Items (12 + 13)	-0.00	-0.01	-0.00	0.00	0.06	-	-0.14	-0.15	-0.11
15. Operating Profit (5-10+14)	-0.39	-0.06	-0.19	-0.72	-0.67	-1.63	-0.39	-0.07	0.74
Net Investment Income									
16. Investment Income	0.00	0.02	0.00	0.00	0.11	-	0.02	0.04	-
17. Interest Received	0.00	0.00	0.00	0.00	0.01	0.02	0.02	0.04	0.05
18. Interest Expense	0.00	0.03	0.10	0.12	0.20	0.47	0.66	0.69	0.70
19. Other Investment Expense	0.00	0.00	0.00	0.04	0.00	0.13	-	-	0.03
20. Net Investment Income Total (16+17-18-19)	-0.00	-0.01	-0.10	-0.16	-0.08	-0.58	-0.62	-0.60	-0.69
21. Net Profit Before Tax (NPBT; 15+20)	-0.40	-0.07	-0.28	-0.88	-0.75	-2.21	-1.00	-0.67	0.05
22. Company Tax Expense	0.00	0.00	0.01	0.01	0.03	-0.69	0.06	0.11	0.09
23. Net Profit After Tax (NPAT; 21-22)	-0.40	-0.07	-0.29	-0.89	-0.77	-1.52	-1.06	-0.78	-0.04
24. Minority Interests	0.00	0.00	0.00	0.00	-0.10	-0.28	-0.09	0.09	0.11
25. Net Extraordinary Income	0.00	0.00	0.00	0.00	0.00	-0.72	-	-	-
26. Net Surplus (23-24+25)	-0.40	-0.07	-0.29	-0.89	-0.67	-1.96	-0.98	-0.86	-0.14

Contact Details

Corporate and Sales

86 Chambers Street, Suite 701
 New York, NY 10007
 Ph: +1-646-233-4600
 Email: information@rapidratings.com
 www.rapidratings.com

Client Services and Rating/Technical Support:

Ph: +1-646-233-4563
 Email: support@rapidratings.com

Rating Scale Explanation

FHR Range	Average EPD (%)	Risk Category
95-100	<0.001	Very Low Risk
90-94	0.001	
85-89	0.002	
80-84	0.005	
75-79	0.01	Low Risk
70-74	0.02	
65-69	0.04	
60-64	0.08	
55-59	0.14	Medium Risk
50-54	0.24	
45-49	0.42	
40-44	0.73	
35-39	1.28	High Risk
30-34	2.31	
25-29	4.35	
20-24	8.71	
0-19	>11.40	Very High Risk

Core Health Score (CHS)	Core Health Category
80-100	Very Strong Health
60-79	Strong Health
40-59	Medium Health
20-39	Poor Health
0-19	Very Poor Health

RapidRatings' financial health rating scale defines a range of performance from worst practice at 0 to best practice at 100. The scale is separated into 20 vintiles of 5 points each, and with four vintiles per quintile. The quintiles are our main risk assessment categories, notably very low risk from 80-100, low risk from 60-79, medium risk from 40-59, high risk from 20-39 and very high risk from 0-19. While the RapidRatings scale appears to be linear, this is not really the case. Owing to the way the statistical distributions underlying the models for each sector have been constructed, and the sector specific-weights for each variable, companies make non-linear movements over time on RapidRatings' scale.

	Very High Risk (FHR 0-19)	High Risk (FHR 20-39)	Medium Risk (FHR 40-59)	Low Risk (FHR 60-79)	Very Low Risk (FHR 80-100)
Very Strong Health (CHS 80-100)	Quadrant D – These companies have medium or better Core Health, however challenges remain in the short-term given their elevated level of default risk.		Quadrant A – Companies in this quadrant demonstrate levels of operational efficiency likely to be sustainable over the medium-term combined with an acceptable to very low level of default risk over the next 12 months.		
Strong Health (CHS 60-79)					
Medium Health (CHS 40-59)					
Poor Health (CHS 20-39)	Quadrant C – These companies demonstrate poor to very poor Core Health (suggesting the need for improved efficiency), and a high to very high risk of default within the next 12 months.		Quadrant B – While default is unlikely in the short-term, the level of Core Health suggests a need for efficiency improvements in order to reach medium-term sustainability.		
Very Poor Health (CHS 0-19)					

Disclaimer:

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