RAPIDRATINGS®

SOLUTION BRIEF

Financial Dialogue

RapidRatings' Financial Dialogue identifies and prioritizes the most relevant financial questions you should be asking your suppliers, third parties & counterparties. Concisely delivering the top five financial health questions as a guide for your financial evaluation will substantially decrease prep time and effort for reviews. Straightforward discussion points and informative content surrounding financials will help you digest the information and assess potential impact to your business. We provide the questions - you get the answers.

Prioritization of Top 5 Financial Issues

Efficiently manage third-party risk despite challenges of time or financial expertise required to prepare a deeper discussion on financial health. The Financial Dialogue prioritizes and concisely presents the most significant financial issues to address during a financial discussion with a supplier or counterparty. The key questions we identify offer a balanced perspective, from their unique challenges to their notable strengths.

Business-Focused Discussion Points to Guide Conversation

Strengthen communication and collaboration with partners by engaging in the right kind of conversation using our open-ended questions based on solid financial data. We provide concise discussion points for each key question in a way that is easily digestible by individuals. The Financial Dialogue serves as a conversation guide to lead intelligent discussions on financial health.

Education on Financial Impact to a Business

Increase your understanding of the significance of financial issues regardless of your financial background. The Financial Dialogue provides a detailed explanation of the impact and relevance of financial ratios, how those numbers affect a supplier, and why certain questions are important for that supplier or vendor, allowing you to focus on questions about business activities underlying the financials in order to get to the root of the issue or concern.

Business Benefits

The Financial Dialogue provides valuable benefits to your third-party & counterparty risk management process:

- Enable procurement, supply chain, and finance professionals with various levels of financial expertise to engage confidently in a financial health review
- Substantially decrease time spent analyzing financials and preparing talking points for these reviews
- Create a trusting and collaborative relationship with suppliers by providing a balanced agenda of targeted key concerns while acknowledging notable strengths

"Identifying the most significant financial items was the biggest benefit. Instead of spending time analyzing results to figure out what questions I want to ask my suppliers, I can get on the phone and start going."

–Major Supply Chain Logistics Company

"Our goal is to arm our people with a tool that can guide an intelligent conversation about the vendor's current financial status and what's driving it. This product helps drive that conversation."

– Fortune 100 Company

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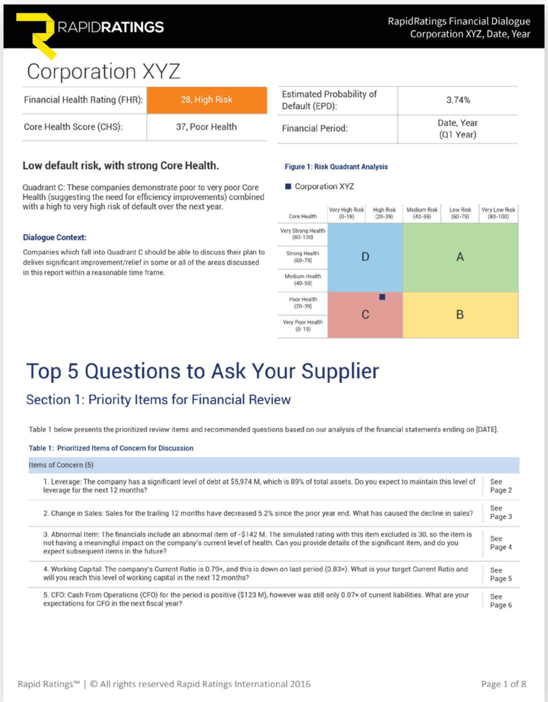
Financial Dialogue Features

Overall Risk Analysis

The company's financial risk level and probability of default is clearly identified at the start of the report.

Priority Discussion Points

Presents critical information and the top 5 talking points. Concise, business friendly commentary is presented to support your conversation with the supplier or vendor on their financial condition.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Corporation XYZ

Financial Health Rating (FHR):	28, High Risk	Estimated Probability of Default (EPD):	3.74%
Core Health Score (CHS):	37, Poor Health	Financial Period:	Date, Year (Q1 Year)

Low default risk, with strong Core Health.

Quadrant C: These companies demonstrate poor to very poor Core Health (suggesting the need for efficiency improvements) combined with a high to very high risk of default over the next year.

Dialogue Context:

Companies which fall into Quadrant C should be able to discuss their plan to deliver significant improvement/relief in some or all of the areas discussed in this report within a reasonable time frame.

Figure 1: Risk Quadrant Analysis

■ Corporation XYZ

Core Health	Very High Risk (0-19)	High Risk (20-39)	Medium Risk (40-59)	Low Risk (60-79)	Very Low Risk (80-100)
Very Strong Health (80-100)	D		A		
Strong Health (60-79)					
Medium Health (40-59)					
Poor Health (20-39)	C		B		
Very Poor Health (0-19)					

Top 5 Questions to Ask Your Supplier

Section 1: Priority Items for Financial Review

Table 1 below presents the prioritized review items and recommended questions based on our analysis of the financial statements ending on [DATE].

Table 1: Prioritized Items of Concern for Discussion

Items of Concern (5)	
1. Leverage: The company has a significant level of debt at $5,974 M, which is 89% of total assets. Do you expect to maintain this level of leverage for the next 12 months?	See Page 2
2. Change in Sales: Sales for the trailing 12 months have decreased 5.2% since the prior year end. What has caused the decline in sales?	See Page 3
3. Abnormal Item: The financials include an abnormal item of -$142 M. The simulated rating with this item excluded is 30, so the item is not having a meaningful impact on the company's current level of health. Can you provide details of the significant item, and do you expect subsequent items in the future?	See Page 4
4. Working Capital: The company's Current Ratio is 0.79×, and this is down on last period (0.83×). What is your target Current Ratio and will you reach this level of working capital in the next 12 months?	See Page 5
5. CFO: Cash From Operations (CFO) for the period is positive ($123 M), however was still only 0.07× of current liabilities. What are your expectations for CFO in the next fiscal year?	See Page 6

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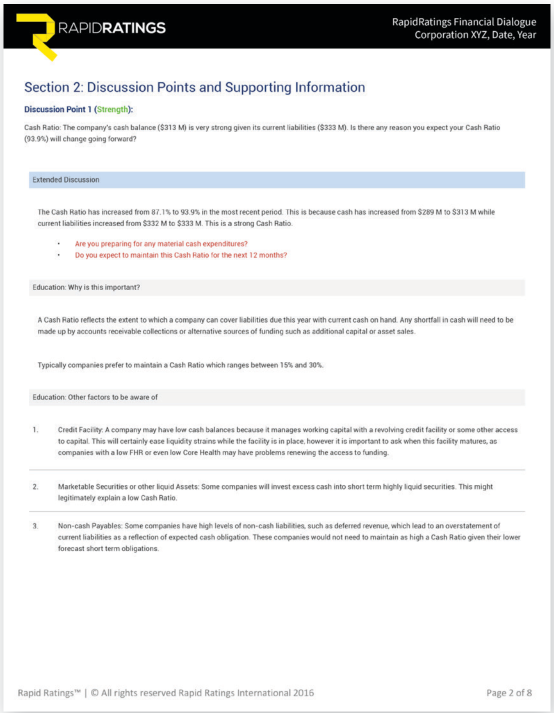
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Section 2: Discussion Points and Supporting Information

Discussion Point 1 (Strength):

Cash Ratio: The company's cash balance ($313 M) is very strong given its current liabilities ($333 M). Is there any reason you expect your Cash Ratio (93.9%) will change going forward?

Extended Discussion

The Cash Ratio has increased from 87.1% to 93.9% in the most recent period. This is because cash has increased from $289 M to $313 M while current liabilities increased from $332 M to $333 M. This is a strong Cash Ratio.

- Are you preparing for any material cash expenditures?
- Do you expect to maintain this Cash Ratio for the next 12 months?

Education: Why is this important?

A Cash Ratio reflects the extent to which a company can cover liabilities due this year with current cash on hand. Any shortfall in cash will need to be made up by accounts receivable collections or alternative sources of funding such as additional capital or asset sales.

Typically companies prefer to maintain a Cash Ratio which ranges between 15% and 30%.

Education: Other factors to be aware of

1. Credit Facility: A company may have low cash balances because it manages working capital with a revolving credit facility or some other access to capital. This will certainly ease liquidity strains while the facility is in place, however it is important to ask when this facility matures, as companies with a low FHR or even low Core Health may have problems renewing the access to funding.
2. Marketable Securities or other liquid Assets: Some companies will invest excess cash into short term highly liquid securities. This might legitimately explain a low Cash Ratio.
3. Non-cash Payables: Some companies have high levels of non-cash liabilities, such as deferred revenue, which lead to an overstatement of current liabilities as a reflection of expected cash obligation. These companies would not need to maintain as high a Cash Ratio given their lower forecast short term obligations.

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Educational Background

Deeper reading is provided for each of the top 5 discussion points flagged in the report.

Know in advance:

- Why is this information important?
- What should you be prepared to hear in response?

RapidRatings | 86 Chambers Street, Suite 701 | New York, NY 10007 | P 646 233 4600 | info@rapidratings.com