

Overview: Rapid Ratings International Inc. is a quantitatively-based research firm covering more than 6,500 public companies and thousands of private companies (the latter on an identical but confidential basis) in 31 different global industry sectors. RRI's coverage is not restricted to companies with outstanding indebtedness. RRI is paid only by its users; it accepts no fees from the companies it rates, as a demonstration of the total independence necessary in publishing its timely and rigorously objective opinions. The result is the Financial Health Rating (FHR™), RRI's proprietary and innovative measure of risk.

RRI applies 62 different financial and operating ratios to 27 elements of a company's quarterly and annual financial reports; these ratios address the company's debt service management, leverage, working capital efficiency, sales, cost structure and overall profitability. RRI employs these ratios according to the proprietary weightings assigned to each of 24 unique industry models. The weightings, in turn, result from exhaustive and continuing analysis of RRI's singular data base – financial reporting from more than 300,000 companies of all sizes in more than a dozen countries over the course of more than 30 years, companies that have succeeded as well as companies that have not. The sum of these weightings becomes the rated company's individual FHR (zero = worst to 100 = best).

The FHR measures a company's absolute and relative ability to compete with its global industry peers. With the assignment of its FHR comes the company's precise ranking among and distance from its competitors. Indeed, the rating marks the company's place in RRI's entire coverage universe. Comparing the company's present rating to past ratings illustrates its health trend.

The FHR measures how near to, or far from, long-term stability and success a company really is. In contrast to Merton-based analytical systems such as KMV, which use market inputs such as volatilities, CDS spreads or stock prices, the FHR involves no market inputs at all. It is a strictly quantitative, market-indifferent, baseline on top of which the user can ascribe the user's own qualitative views of the company in question – its management, its strategy, its size and brand strength, etc.

Rapid Ratings typically leads the three major rating agencies by years in detecting the changing credit fundamentals of companies and industries – especially on the downside. It often leads share price and credit spread indicators by lengthy intervals, as well. Multiple independent modeling exercises have demonstrated the strong correlations between FHR ratings and probabilities of default. Rapid Ratings' conclusions are clear, broadly based and actionable in equity, debt and derivatives markets. Subscribers use RRI's company and sector reports to create alpha, mitigate risk, obtain second opinions on internal or third-party research views and oversee their collective exposures among outside managers. Company and sector reports aid pairs trading decisions in equity and credit markets. Sector and Sector-Comparison reports serve macro trading decisions in both equity and debt markets. For participants in the distressed-debt market, RRI's downgrade screenings identify likely candidates on which to focus attention ahead of the events whose headlines quickly draw crowds.

Rapid Ratings stands for independence, scale, breadth, depth and timeliness – when the incumbent rating agencies have been found wanting by regulators and investors everywhere.

Methodology: The FHR system is a set of multivariate econometric pseudo panel data models that serve as a multi-dimensional, multi-time period risk and opportunity calculator and predictor. The System assembles insight into a corporation's intrinsic financial health and ability to remain competitive in future environments. The ratings are scientifically derived, weighted risk scores based on the level of significance of the 62 financial ratios in predicting financial deterioration, distress, turnarounds and success in each industry. Please see figure 1 below for more detail of the ratios employed in the industrial models.

Figure 1: Rapid Ratings Ratios

<p>Debt Management Ratios</p> <ul style="list-style-type: none"> • interest exp/total liabilities • NOPAT/interest exp • EBIT/interest exp <p>Leveraging Ratios</p> <ul style="list-style-type: none"> • term liabilities/cap employed • total liabilities/sales • equity/assets • total liabilities/total assets <p>Cost Structure Ratios</p> <ul style="list-style-type: none"> • COGS/total revenue • COGS/total expenditure • staff cost/total revenue • staff cost/total expenditure • other operating exp/total rev • other operating exp/total exp • gross interest exp/total revenue • gross interest exp/total exp • depreciation/total revenue • depreciation/total expenditure • tax/total revenue • tax/total expenditure <p>Working Capital Efficiency Ratios</p> <ul style="list-style-type: none"> • quick assets/sales • quick assets/current assets • quick assets/total assets • quick assets/current liabilities • quick assets/cap employed • current assets/current liabilities • current assets/total liabilities • current assets/total asset • current liabilities/total liabilities • current liabilities/total assets • working capital/total revenue • working capital/total assets 	<p>Profitability Ratios</p> <ul style="list-style-type: none"> • EBIT/total assets • EBIT/sales • EBIT/capital employed • EBIT/equity • (EBIT & dep)/sales • (EBIT & dep)/total assets • (EBIT & dep)/equity • (EBIT & dep)/capital employed • NOPAT/capital employed • NOPAT/sales • NOPAT/total assets • NOPAT/equity • ROCE • ROE • GP/assets • NPBT/sales • NPBT/equity • NPAT/capital employed • NPAT/equity • NPAT/assets • NPAT/sales • NPBT/assets • NPBT/capital employed • GP/capital employed • GP/sales <p>Sales Ratios</p> <ul style="list-style-type: none"> • sales/capital • sales/inventories • sales/working capital • sales/equity • sales/assets • sales/staff costs
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Sectors: There are 31 industrial and finance sectors covered in monthly individual reports; a companion Sector Overview provides a rank order of all sectors against our US benchmark index workflows. See figure 2 below for a list of our sectors.

Figure 2: Rapid Ratings Sectors

Sectors

- Aerospace and Defense
- Autos and Related Equipment
- Banks
- Biotechnology
- Builders and Building Materials
- Business Products and Services
- Chemicals
- Communications Technology
- Computer Services
- Computer Technology
- Consumer Products
- Consumer Services
- Drugs and Pharma
- Electronics and Semiconductors
- Energy Miscellaneous
- Equipment and Machinery
- Financial Diversified
- Food, Beverage and Tobacco
- Forest Products
- Health Products
- Health Services
- Leisure
- Media
- Metals and Fabrication
- Multi- Sector and Other Misc
- Oil - Drilling and Equipment
- Oil - Integrated
- Oil - Producers
- Retail
- Transportation
- Utilities