RAPIDRATINGS

SOLUTION BRIEF

# Financial Dialogue

Rapid Ratings' Financial Dialogue identifies and prioritizes the most relevant financial questions you should be asking your suppliers. Concisely delivering the top five financial health questions as a guide for your financial evaluation will substantially decrease prep time and effort for supplier 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 supplier 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. The key questions we identify offer a balanced perspective, from the supplier's unique challenges to their notable strengths.

## Business-Focused Discussion Points to Guide Conversation

Strengthen communication and collaboration with suppliers 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, 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 supplier risk management process:

- Enable procurement and supply chain professionals with various levels of financial expertise to engage confidently with their suppliers in financial health reviews
- 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**

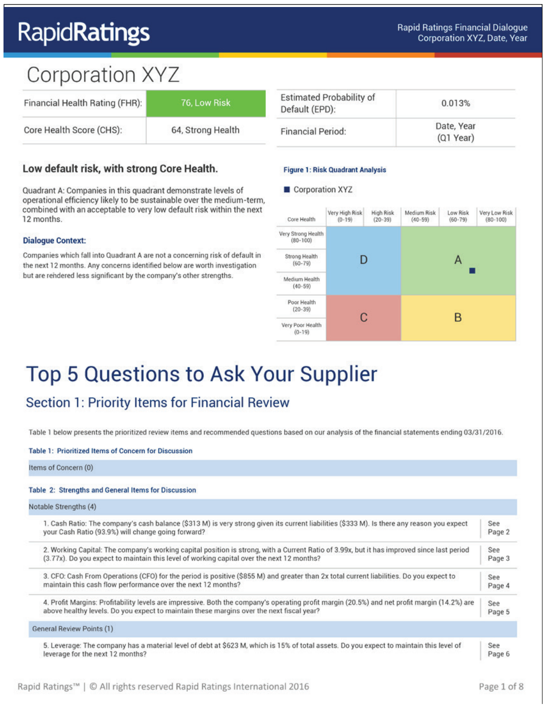
# Financial Dialogue Features

## 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 on their financial condition.



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Rapid Ratings Financial Dialogue
Corporation XYZ, Date, Year

Corporation XYZ

| | | | |
|---|---|---|---|
| Financial Health Rating (FHR): | 76, Low Risk | Estimated Probability of Default (EPD): | 0.013% |
| Core Health Score (CHS): | 64, Strong Health | Financial Period: | Date, Year (Q1 Year) |

**Low default risk, with strong Core Health.**

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 default risk within the next 12 months.

**Dialogue Context:**

Companies which fall into Quadrant A are not a concerning risk of default in the next 12 months. Any concerns identified below are worth investigation but are rendered less significant by the company's other strengths.

**Figure 1: Risk Quadrant Analysis**



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 03/31/2016.

**Table 1: Prioritized Items of Concern for Discussion**

| Items of Concern (0) |
|---|

**Table 2: Strengths and General Items for Discussion**

| Notable Strengths (4) | |
|---|---|
| 1. 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? | See Page 2 |
| 2. Working Capital: The company's working capital position is strong, with a Current Ratio of 3.99x, but it has improved since last period (3.77x). Do you expect to maintain this level of working capital over the next 12 months? | See Page 3 |
| 3. CFO: Cash From Operations (CFO) for the period is positive ($855 M) and greater than 2x total current liabilities. Do you expect to maintain this cash flow performance over the next 12 months? | See Page 4 |
| 4. Profit Margins: Profitability levels are impressive. Both the company's operating profit margin (20.5%) and net profit margin (14.2%) are above healthy levels. Do you expect to maintain these margins over the next fiscal year? | See Page 5 |
| **General Review Points (1)** | |
| 5. Leverage: The company has a material level of debt at $623 M, which is 15% of total assets. Do you expect to maintain this level of leverage for the next 12 months? | See Page 6 |

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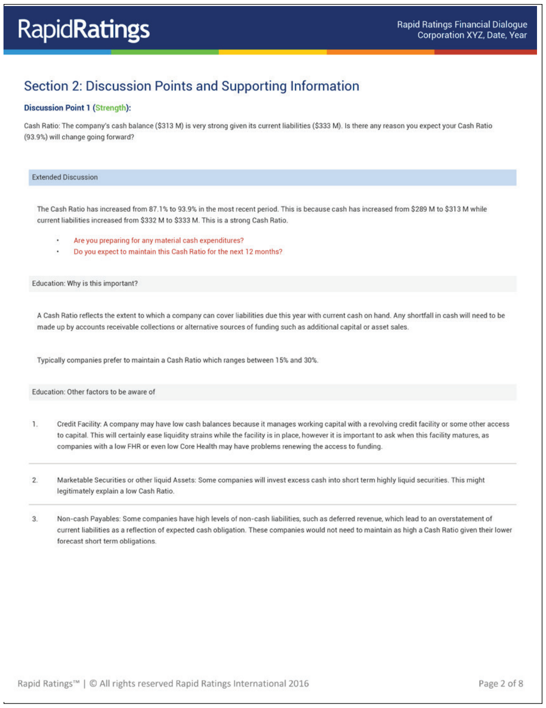

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Corporation XYZ, Date, Year

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?

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