

A person's hands are shown holding a map, with a dark overlay and a yellow horizontal bar. The map shows a street grid with labels like 'Marszałkowska' and 'Poznańska'.

Credit RISK

The Current Environment

Tools and Resources to Safely Navigate 2019

Presented in
collaboration with ISRI:



Speakers



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Webinar Overview

Topics Covered

State of Corporate Credit

Credit Environment in Scrap Segment

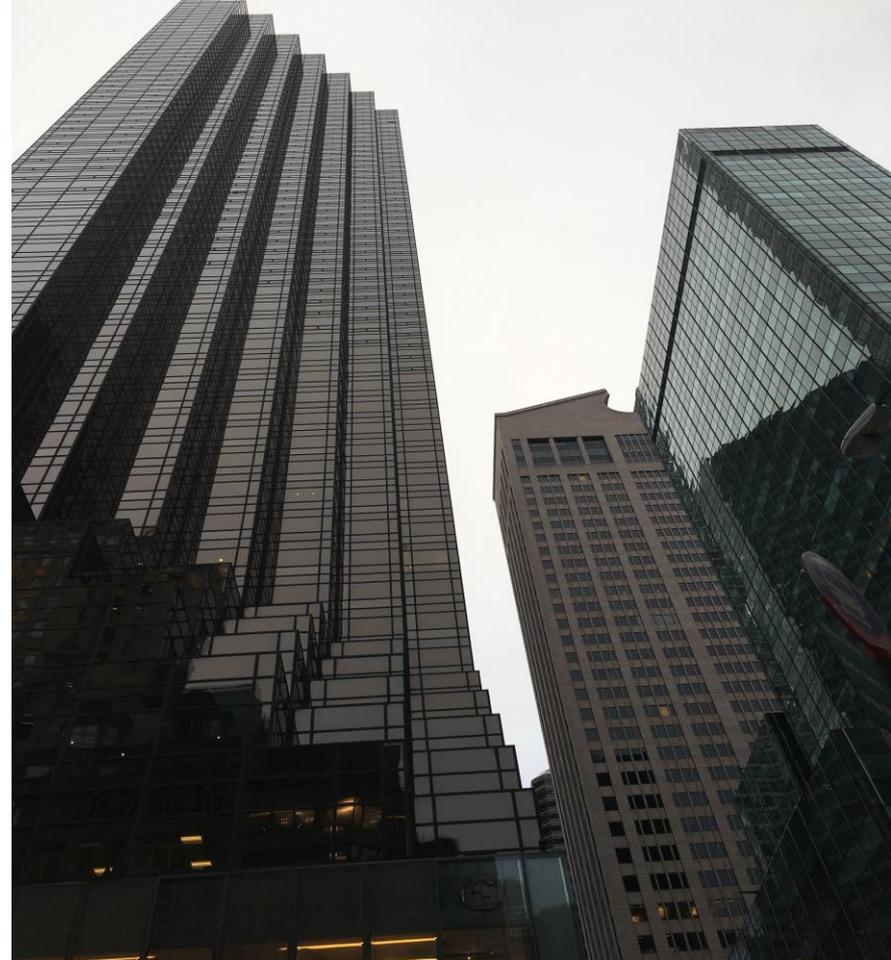
Primer on Credit Risk – What is it?

Types of Risk

Best Practices

Tools Available to Manage Credit Risk

Q&A Session



State of Corporate Credit

Corporate Debt Levels

Balance sheet leverage is currently at historic levels; exceeding pre-crisis levels.

Credit Availability

Lending remains mostly favorable for stronger companies.

Bankruptcy Trends

Overall insolvency filings are down from 2016 highs; still 79 bankruptcies filed in past 24 months.

2019-2020 Forecast

Modestly tighter credit conditions and uptick in defaults in the sector.

Credit Conditions: Metals Recycling Segment

Overall credit remains supportive but cracks on surface

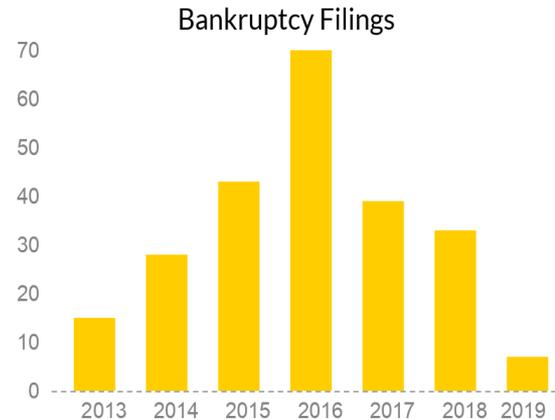
Increase in alternative Insolvencies

Pockets of elevated risk remains

Segment heavily relies on borrowing

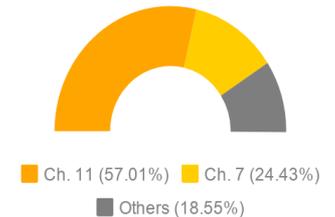
Increasing incidence of loan covenant breaches

Decreasing lender appetite for marginal borrowers



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Major Bankruptcies and Insolvencies since 2013



2013-2019 Total Filing Breakdown

Credit Outlook: Top risks to watch

Risk Level



Credit Cycle Turns negative

Market stresses could resurface, disrupting liquidity and debt affordability

Risk Level



Global Trade Tension

Uncertain trade policy still weighing heavy on supply chains – could accelerate trade slowdown

Risk Level



Slowing Credit Expansion

Banks will look to tighten credit standards as risk appetites lessen

What is Trade Credit Risk

Simply put, it's the risk of a customer not paying an invoice.

Credit risk is created when you ship on open account, Net terms.



Types of Credit Risk



Expected Risk

- Can be identified
- Managed with information
- Minimized with good decisions

Unexpected Risk

- Difficult to predict
- No time to react
- Best to be managed upfront

Credit Best Practices

Five things you should be doing now



Adhere to
Written Credit
Policy



Manage
exposure to
set credit
limits



Manage risk
levels to your
risk tolerance
threshold



Effective
communication
with sales &
customers



Dispute
Resolution





Complacency

Common signs of complacency

1. Inadequate monitoring of old familiar customers
2. Dependence on oral info vs. reliable financial data
3. Relying on industry “word of mouth” or Rumor
4. Optimistic interpretation of known credit weaknesses
5. Over-reliance on internal payment history
6. Ignoring warning signs

Tools Available to Manage Credit Risk

Credit Information

General Credit bureau info (D&B, Experian, CRM)

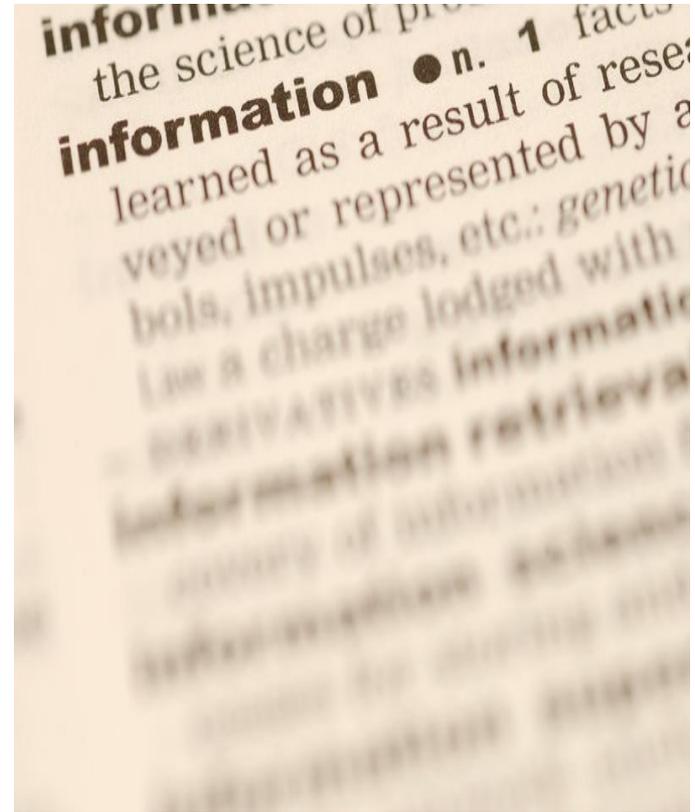
3rd Party Debt Rating Firms (S&P, Moody's, Fitch)

Niche industry specific credit info (**ProfitGuard**)

Public company financials (SEC filings)

Industry Credit Groups

Credit & Financial data you collect yourself



Credit Insurance

What does it protect?

- Non-payment of trade receivables
- Insolvency or Bankruptcy
- Protracted Default
- Biggest Asset – A/R
- Political Risks

What are the benefits?

- Catastrophic Loss Protection
- Safe Sales Expansion
- Increased Borrowing
- Lower Bad Debt Reserve
- Excess Credit Limits to Increase Market Share
- Credit Risk Effectively Transferred off Balance Sheet

Other Tools Available to Manage Credit Risk

Financial Tools

Put Options

Factoring

Forfaiting – similar to factoring

Letters of credit

Documentary collection Methods



Tips on Avoiding Preference Claims

What is it? A demand from a bankruptcy trustee to recover a preferential payment within 90 day prior to filing. The creditor that receives a preferential payment recovers 100% on its claim where, in all likelihood, other unsecured creditors receive less. The court tries to level the field for all creditors.

Be Proactive on the front end!

- 1) Cash in Advance – Creates New Value Defense
- 2) Irrevocable L/C – as long as its 90+ days before BK

Other credit docs can also reduce exposure

- 3) Preserve Ordinary Course Defense

How you apply payment is important

Weigh risks when you change payment methods/terms

Disclaimer: I am not an attorney. I advise speaking to a BK attorney for further details



About ProfitGuard

PG is the leading provider of business credit information to the metals industry in USA & Canada.

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Back Story

- Founded in 2000
- Sister company of GCC
- 25 year ISRI Members



PG Clients Enjoy Access To:

- Credit Reports with Analyst Comments
- Credit Limit Recommendations
- Risk Monitoring
- Analyst Support
- Maximize Value of Credit Insurance Policy

Thank you!

Questions?

