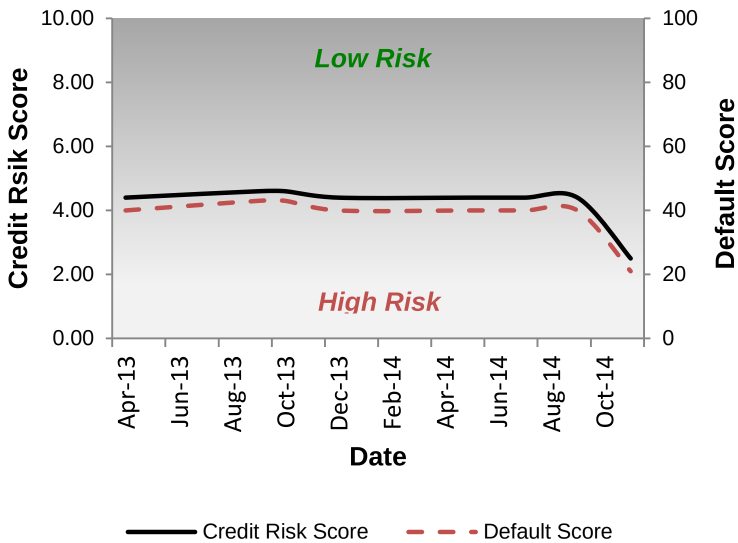
ProfitGuard
Know The Risk *Before* You Ship

Credit Alert !

Report Date: November 19, 2014

Sample Private Company
Bingham Farms, MI

Trend Analysis



Scoring History

Date	Credit Risk Score	Default Score
May 25, 2012	4.4	42
July 2, 2012	4.4	40
Feb. 25, 2013	4.6	43
Dec. 17, 2013	4.4	40
Nov. 19, 2014	2.5	21

Recent Developments:

We have recently completed a credit review on Sample Private Company and at this time, believe the company represents weak credit risk characteristics. We feel a downgrade to the company's credit scores is warranted after learning that the company is considering a debt restructuring that could negatively affect its creditors.

Bloomberg reported that Sample Private Company is encouraging creditors to hire advisers as the unit contemplates reorganizing its $525 million of bonds with the help of its own restructuring team. Sample Private Company reported a negative third quarter EBITDA of $5.7 million, compared with $22.6 million in positive EBITDA a year earlier. Sample Private Company drew nearly everything available on its $150 million revolving credit facility to get cash, ending the quarter with about $117 million. After the announcement, the corporate bonds of Sample Private Company were trading as low as 58.0 cents on the dollar on November 18, 2014, compared with 97.5 cents on the dollar on October 30, 2014.

ProfitGuard has been unsuccessful in our attempts to secure updated confidential information after the recent news item. As such, we recommend reducing exposure and holding all shipments until more clarity is provided by Sample Private Company on the current situation. Please note we will reevaluate the company's credit risk if additional confidential information is provided. PG will continue to monitor the company on the alert service and will notify you of any changes in credit risk.

- The company has been in business since **2013** under current management / control.
- The company operates as a wholly owned subsidiary of **SPC Holdings Inc.**, which is a wholly owned subsidiary of **Sample Private Company Holdings Inc.**, which is controlled by **Sample Private Company LLC of California.**
- The company's ProfitGuard Credit Risk Score is **2.5** (scale of 1 to 10, with 10 being lowest risk).
- The company's ProfitGuard Default Score is **21** (scale of 1 to 100, with 100 being lowest likelihood of default).
- The company's payment experience has ranged from 6 to 15 days beyond payment terms over the past year, currently paying its vendors approx. 8 days beyond terms.
    - Based on 114 total payment experiences of which 22 have been reported as slow
    - We find no indication of any negative payment items (Collection, Dispute, or NSF).
    - Highest Credit $1,000,000.
- We find no presence of open suits, liens, or judgments.

Recent Events

- On November 17, 2014, it was reported that Sample Private Company Inc. is encouraging creditors to hire advisers as the unit contemplates reorganizing its $525 million of bonds with the help of its own restructuring team, according to three people familiar with the comments.
    - Executives of the auto-parts maker ended a private Nov. 14 conference call to discuss an unprofitable third quarter by announcing they had engaged firms that specialize in debt and operational restructuring, said the people, who asked not to be identified because the discussion was private. The company said it engaged a financial adviser, law firm, and consultants to pursue "strategic alternatives," according to two of the people.
    - "As the company works with these advisers, it would be beneficial for the noteholders to organize and retain professionals," the company said in the presentation, according to one of the people.
    - Sample Private Company, which supplies parts to carmakers including General Motors Co. (GM) and Bayerische Motoren Werke AG (BMW), produced a $5.7 million third-quarter loss before interest, taxes, depreciation, and amortization, compared with $22.6 million in positive Ebitda a year earlier, one of the people said. The manufacturer drew nearly everything available on its $150 million revolving credit facility to get cash, ending the quarter with about $117 million, two of the people said.
    - A spokesman for Sample Private Company said the company "does not respond to requests for comments."
    - Sample Private Company's $375 million of 9.25 percent notes fell to 59.1 cents on the dollar to yield 28 percent after the conference call yesterday, down from 97.5 cents on Oct. 30, according to Trace, the bond-price reporting system of the Financial Industry Regulatory Authority.
    - The less-active $150 million of 10 percent senior unsecured notes due December 2018, issued by the parent Sample Private Company Holdings Inc., last traded Nov. 7 at 70.3 cents on the dollar to yield 21 percent, Trace data show. Those notes are subordinated to the operating company debt, according to a document marketing the securities to investors. *Press Release Source*
- On December 11, 2013, Sample Private Company LLC backed auto supplier Sample Private Company Holdings Inc. announced plans to raise $125 million in debt financing to fund a dividend payment mainly to its private equity owners, according to ratings agency Standard & Poor's. *Press Release Source*

- On December 2, 2013, Sample Private Company announced it would be closing its Wisconsin facility between February and April 2014. *Press Release Source*

Third Party Credit Data

Bond Rating Company 1

On June 12, 2014, Bond Rating Company 1 affirmed its 'B-' corporate credit rating on the auto supplier SPC Holdings Inc. (SPC). The outlook is stable. The company intends use the proceeds of the proposed $25 million add-on to an existing $350 million of 9.25% senior secured notes due 2018 at the borrower Sample Private Company Inc. to repay borrowings under its asset-backed revolver (ABL; unrated). We also affirmed the 'CCC' issue rating to the $125 million payment-in-kind (PIK) toggle notes due 2018, issued by Sample Private Company Holdings Inc., a holding company in the group structure. The company also plans to increase the size of its ABL revolver by $25 million to $150 million.

- The ratings affirmation reflects our view that SPC's financial policy will remain very aggressive and its credit metrics remain weak but consistent with our prior expectations. We expect the group's ratio of debt to EBITDA (including our adjustments, mainly for operating leases) will exceed 5.0x in 2014, with negative free operating cash flow (FOCF) likely to persist in 2014. We expect capital expenditures to remain atypically high into 2014 and to normalize toward historical levels in 2015; prior investments typically support programs/platform cycles of more than five years.
- SPC manufactures casts and machines and assembles fully engineered chassis and powertrain components and modules for mostly U.S.-based automotive original equipment manufacturers and tier 1 suppliers.
- SPC's business risk profile assessment reflects the combined entity's concentrated customer mix and limited geographic diversity amid multiple industry risks that automotive suppliers face, including volatile demand, high fixed costs, intense competition, and severe pricing pressures, which largely offsets our expectation that North American production, should continue to rise.
- Further constraining the rating are the group's weak, albeit gradually improving, EBITDA margins compared with peers. We believe the market is still fragmented. Some competitors are the in-house operations of larger companies or automakers, while others are smaller and more vulnerable. More than three-fourths of SPC's revenues tie directly or indirectly to U.S. automakers' domestic operations and--although not in our base case--this will likely magnify the company's credit risk if U.S. automaker production declines even modestly over the next 12-18 months.
- These weaknesses somewhat offset our view of SPC's sizable market share in its main segments and its potential to improve this over the longer term, given its current installed capacity and full-service capabilities across casting and machining for aluminum and iron. SPC's contracts with its customers appear to provide a reasonable buffer against raw-material cost increases. This is critical because volatile raw-material costs hurt certain acquired operations under the previous owners. Another positive is the potential to benefit from the trend toward aluminum-related sourcing from some large customers.
- We expect SPC to sustain its recently reported improvement in EBITDA margins at its important iron foundry, after facing operational issues in the past, as a result of what we assume was underinvestment in prior years--before Sample Private Company LLC assumed ownership. Despite the operational issues and the ongoing execution risk involved in managing new launches over the next few quarters, we assume in our base case that the company's implemented plan

and additional investments to improve plant efficiency and increase capacity will improve margins somewhat over the next 12-18 months.

- Our macro assumptions include North American light vehicle production improving by 2.8% in 2014 and about 3.2% in 2015, roughly consistent with our economists' forecasts for U.S. GDP growth in both years. Our base-case scenario assumptions for SPC's operating performance over the next two years include:
    - Organic revenue growth well above overall light vehicle production growth in 2014 given higher demand and increased content on new model launches, followed by a slower growth in 2015;
    - An adjusted EBITDA margin of about 7.5%-9.0% over the next 12-18 months, with most of the improvement in 2014 as a result of some integration-related synergies (related to increased purchasing scale and in-sourcing) and actions to address operational inefficiencies and lower variable overheads after certain products are launched;
    - Negative FOCF in 2014, given our assumptions of integration-related cash costs related to the integration of Sample Private Company and its subsidiary and increased year-over-year capital expenditure requirements to support product launches, coupled with higher investments in some of its plants; and
    - No further meaningful dividends to shareholders following the December 2013 issuance of $125 million PIK toggle notes to fund a dividend payment, mainly to its private equity owners.
- We believe SPC has "adequate" liquidity. Our assessment of SPC's liquidity profile incorporates the following expectations and assumptions:
    - We expect sources of liquidity, including available cash and funds from operations, to exceed uses by 1.2x or more over the next 12 months.
    - We believe net sources will remain positive even if EBITDA declines by 15%.
    - Liquidity sources, following the proposed add-on, will include about $124 million (at March 31, 2014) of availability under its ABL facility, which is subject to a borrowing base; the amount available may change depending on seasonal needs.
    - However, in 2012, one of the merged entities, SPC, was able to sustain liquidity with a higher-than-anticipated drawdown under its unrated ABL and some capital support from Sample Private Company LLC, which we expect will be the case going forward if a liquidity shortfall were to occur.
    - We expect cash balances to be minimal.
- Liquidity uses mostly include capital expenditure requirements of more than 5% of sales over the next 6 months--abating to more normalized levels of 2.5%-3.0% of sales in 2015--to support product launches over the next 12-18 months, with modest working capital investments and no debt maturities.
- There are no maintenance covenants on the notes. The ABL facility includes a minimum fixed charge coverage ratio of 1:1 based on thresholds on the undrawn availability under the facility, which we do not believe will trigger over the next 12-18 months.
- The stable rating outlook reflects our view that SPC's credit metrics and liquidity will remain consistent with the 'B-' rating over the next 12 months because we believe the company's ongoing vertical integration efforts and additional investments to improve plant efficiency and increase capacity could improve margins over the next 12 months. For the rating, we expect SPC to sustain a debt leverage ratio of less than 6x over the next two years, including our adjustments (primarily the operating leases' present value) with credible prospects for positive FOCF by 2015.

- We could lower the ratings if weaker-than-expected operating performance decreased liquidity and increased prospects for negative FOCF in 2015. This could occur if the company increases borrowings under its ABL facility for meaningfully higher-than-anticipated investments to upgrade certain facilities and to fund product launch-related costs, further weakening its liquidity. This could also occur if it appears unlikely that EBITDA margins would improve to our base case in 2014, and revenue growth and working capital performance are less favorable than we expect.
- Rating upside is currently limited because of the group's current capital structure, negative FOCF, and financial policies on leverage and dividends. That said, we could consider a positive rating action if SPC shows credit metrics at levels we deem commensurate with the "aggressive" category, such as adjusted total debt to EBITDA sustainably less than 5x, with FOCF to debt consistently in the low-single digits.

Bond Rating Company 2

On June 12, 2014, Bond Rating Company 2 commented that Sample Private Company, Inc.'s proposed $25 million add-on to its $350 million 9.25% senior secured notes has no impact on the company's ratings, including the Caa1 corporate family rating or stable outlook. The proposed add-on also has no impact on the company's 9.25% senior secured operating company notes rated Caa1 or the Sample Private Company Holdings, Inc. $150 million PIK toggle notes rated Caa3.