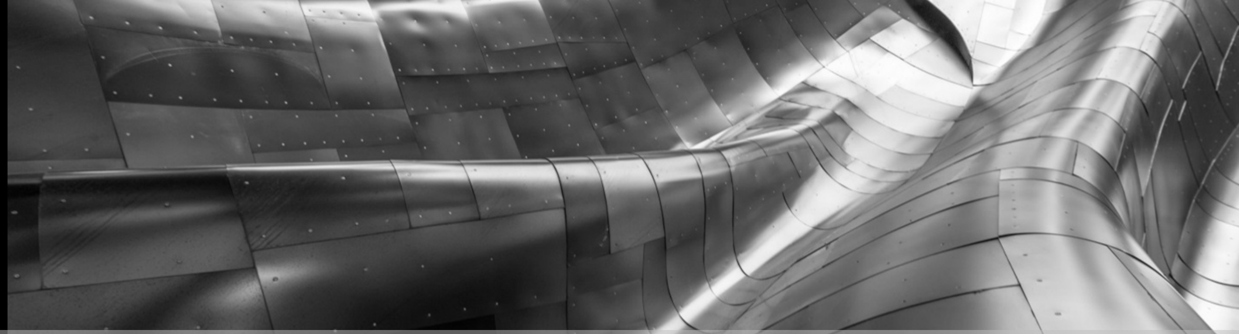


Credit Outlook: Metals Sector

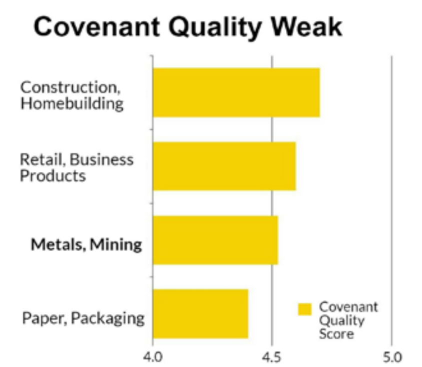
Key Risks

- Corporate leverage is at a 10 year high; low cost of borrowing has caused a major debt binge
- Tightening credit availability as certain lenders withdrawal from the sector
- Waning credit cycle; low growth and volatile global markets point to fragile credit market

Current Environment

In our view, metal segment credit risk remains elevated due to persistent pricing pressure and global market fundamentals. These factors, along with imminent interest rate increases, tightening credit conditions, and high debt leverage are supporting our negative outlook for credit risk in the near term.

Metal prices over the past nine months have been mixed but we feel they have stabilized overall with some recovering well and others remaining soft. Oil prices remain low which is placing pressure on commodities in general. A key trend we are seeing is that companies are focused on balance sheet strengthening, improving liquidity, and operational efficiencies to control costs in an effort to maintain credit quality.



Moody's Covenant Quality Index for High Yield Debt ranges from 1 being best and 5 being worst. 14 sectors are ranked, Metals being 3rd weakest.

Improved pricing has translated into better results in Q2 and Q3 for some. However, liquidity, debt, and cash flow metrics remain under pressure. On the weaker side of the spectrum cash balances are low and covenant compliance is becoming more difficult. Also, these debtors typically have significant debt leverage. On the stronger side of the risk spectrum, we are seeing profitability stabilizing along with liquidity but the key difference being that these debtors have a larger cash cushion for now.

Also positively impacting many debtors is extended maturity schedules at favorable interest rates with covenant light loans. The imminent rate hike will increase debt service costs across the board in the not too distant future and refinancing risk could increase as credit availability tightens in the sector.

Overall credit risk remains moderately high and our near term outlook is negative. With the U.S credit cycle in its peaking stage, years of lenient credit may be abating soon. This means less accommodative credit at higher costs.

ProfitGuard
Know The Risk *Before* You Ship

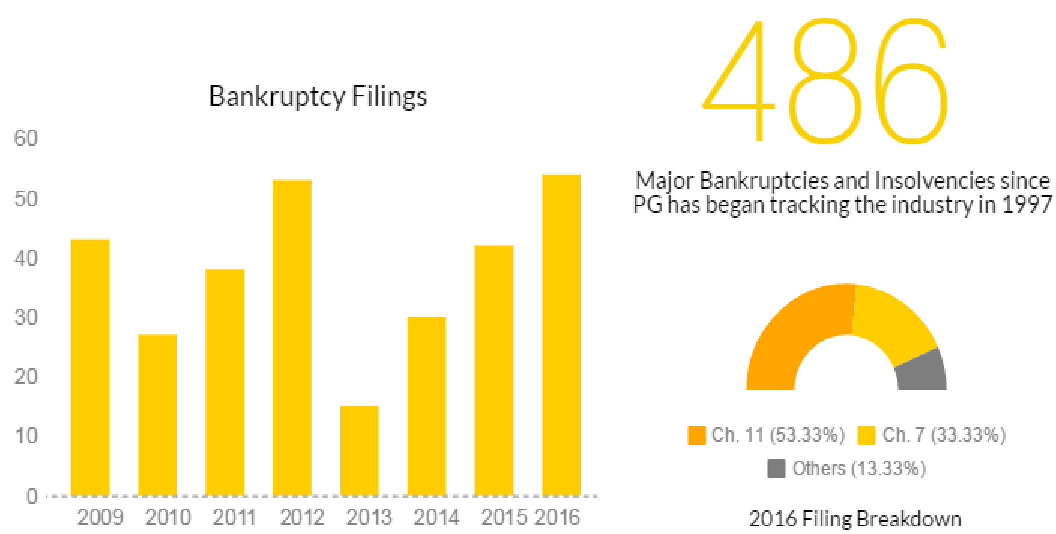
Bankruptcy Trends

PG has tracked a rise in corporate defaults year to date in the metals segment and the list is growing. Since January, the tally has already surpassed all of 2015 as the pace of defaults accelerates. These defaults included Chapter 7's, Chapter 11's, receiverships, and out of court restructurings. One of the biggest contributing factors for defaults in the last 18 months has been weak metal prices coupled with high debt leverage.

According to Epiq Systems, Inc., a bankruptcy data tracking firm, U.S. commercial bankruptcy filings during the first nine months of the year increased 28 percent to 28,789 over the 22,444 filings during the same period in 2015. Much of the distress was in the oil and gas industry; however, the metals segment was the next largest segment for defaults.

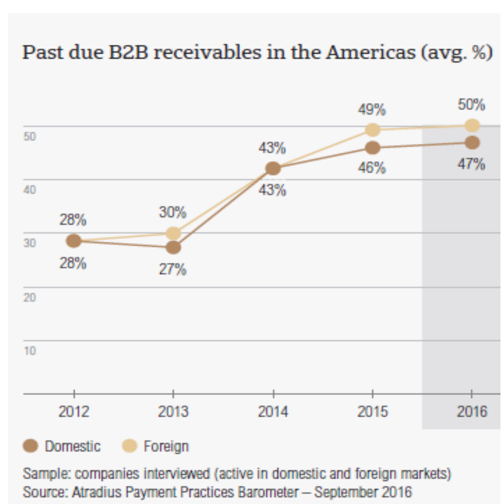
As you can see in the figure below, PG has tracked 54 bankruptcies year to date versus 42 for all of 2015. Persistently low commodity prices continue to pressure companies and their cash flow from our vantage point. As a result, we see this trend continuing in the next 12 months as credit tightens for certain participants, making it difficult to refinance debt or extent current financing arrangements.

Sector bankruptcy filings & distress continues to climb YTD



Trade Payment Behavior

According to a recent survey of businesses by Atradius, a trade credit insurer, they found that in the US, businesses are experiencing upward pressure on insolvencies. A major factor causing rising insolvencies in Canada (+4%), and to a lesser extent in the US (+3%), is low commodity prices. In the US, 43% of the total B2B sales value was reported to be transacted on credit (no change over the past year). In Canada, the percentage of credit based sales amounts to 44%. On average, 47.1% of the total value of domestic B2B sales on credit was paid late (up from 46.1% last year) in the Americas Survey.



What this means for Corporate Credit

In times of rising corporate credit risk, it's important to reevaluate your overall risk appetite and tolerance. PG recommends taking an overarching look at your company and credit strategy factoring in things like the financial condition of your firm, the industry outlook, credit protection in place, and where your credit policy sits today– meaning liberal, restrictive, or normal. As changes in the market occur, it's important to rebalance and adjust parameters you can control to minimize the impacts of things you cannot.

We highly recommend reevaluating your customer credit risk now before an unexpected risk event occurs. PG can assist you with reviewing buyer risk, recommending appropriate credit limits, and monitoring your key accounts. Also, PG can assist with insuring your credit risk through its sister company Global Commercial Credit.

To find out how ProfitGuard can help your business, please contact us at **(866) 990-1099** or visit **eprofitguard.com**.

ProfitGuard is the leading provider of business credit information to the metals industry of North America. PG assists its clients in managing trade credit risk with valuable credit analysis, credit risk ratings, recommended credit limits, and risk monitoring of their customer portfolios. With PG's information service, businesses are able to make more informed credit decisions, minimize bad debt losses, and more effectively manage credit risk to remain competitive in today's rapidly changing marketplace.