

RapidRatings

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Carroll International

DISA TEMS Presentation

08/21/2024

About Carroll International



- Company Formed in 2006/ Entered Fed. in 2016
- SDVOSB & HUBZone Certified Small Business Both Renew in 2025
- 225+ Prime Contracts Completed Successfully
- Former DoD Protégé of General Dynamics Mission Systems (2018-2023)
- GD-MS Supplier of the Year Award for 2020
- Corning Optical Fiber Co. Top 10 Partners of the Year
- American Red Cross recognized for outstanding service in 2021
- 2021 Nunn Perry Award winner DoD
- 2023 Export Achievement Award
- VIP Grad; SOFWERX Boot Camp Participant



- Safeguards global supply chains against costly disruption
- Predicts risk with accurate analysis
- Produces ratings from private and public company financial statements
- Partners with world's largest supply chains

We see what others don't.



PROTECTING GLOBAL SUPPLY CHAINS

The logo for Fortune Brands, featuring the text 'FORTUNE BRANDS' in a sans-serif font.

The logo for Teva, featuring the word 'teva' in a lowercase, sans-serif font.

The logo for Chick-fil-A, featuring the brand name in a cursive script with a chicken head icon.

The logo for Lam Research, featuring a stylized 'L' icon followed by the text 'Lam RESEARCH'.

The logo for Unilever, featuring a stylized 'U' icon followed by the text 'Unilever'.

The logo for Spirit Aerosystems, featuring the word 'SPIRIT' above 'AEROSYSTEMS' with a star icon.

The logo for McDonald's, featuring the golden arches icon.

The logo for Nokia, featuring the word 'NOKIA' in a bold, sans-serif font.

The logo for Harley-Davidson, featuring the brand name inside a shield-shaped emblem.

The logo for Eaton, featuring the word 'EATON' in a bold, sans-serif font.

The logo for New York Life, featuring the words 'NEW YORK LIFE' inside a square frame.

The logo for BNP Paribas, featuring a stylized 'B' icon followed by the text 'BNP PARIBAS'.

The logo for Under Armour, featuring a stylized 'UA' icon followed by the text 'UNDER ARMOUR'.

The logo for Cummins, featuring a stylized 'C' icon followed by the text 'Cummins'.

Current Economic Conditions Are Impacting Supply Chains



High Interest Rates

Rate cuts will be slow and rates will remain high for an extended period.



Looming Debt Bomb

As debt matures, refinancing will become more challenging for private companies.



Lingering Inflation

Reduced spending for companies and consumers drastically shifts forecasts.



Working Capital Constraints

Threatened strikes, warehouse constraints, and building buffer inventory has slowed turnovers and cash conversion cycles.



Fractured Global Supply Chains

Port congestions and Red Sea crisis continue to impact shipping costs and lead times



Geopolitical Risks

Impending elections in more than 60 countries, conflict in Middle East, and Russia/Ukraine war creates more uncertainty.

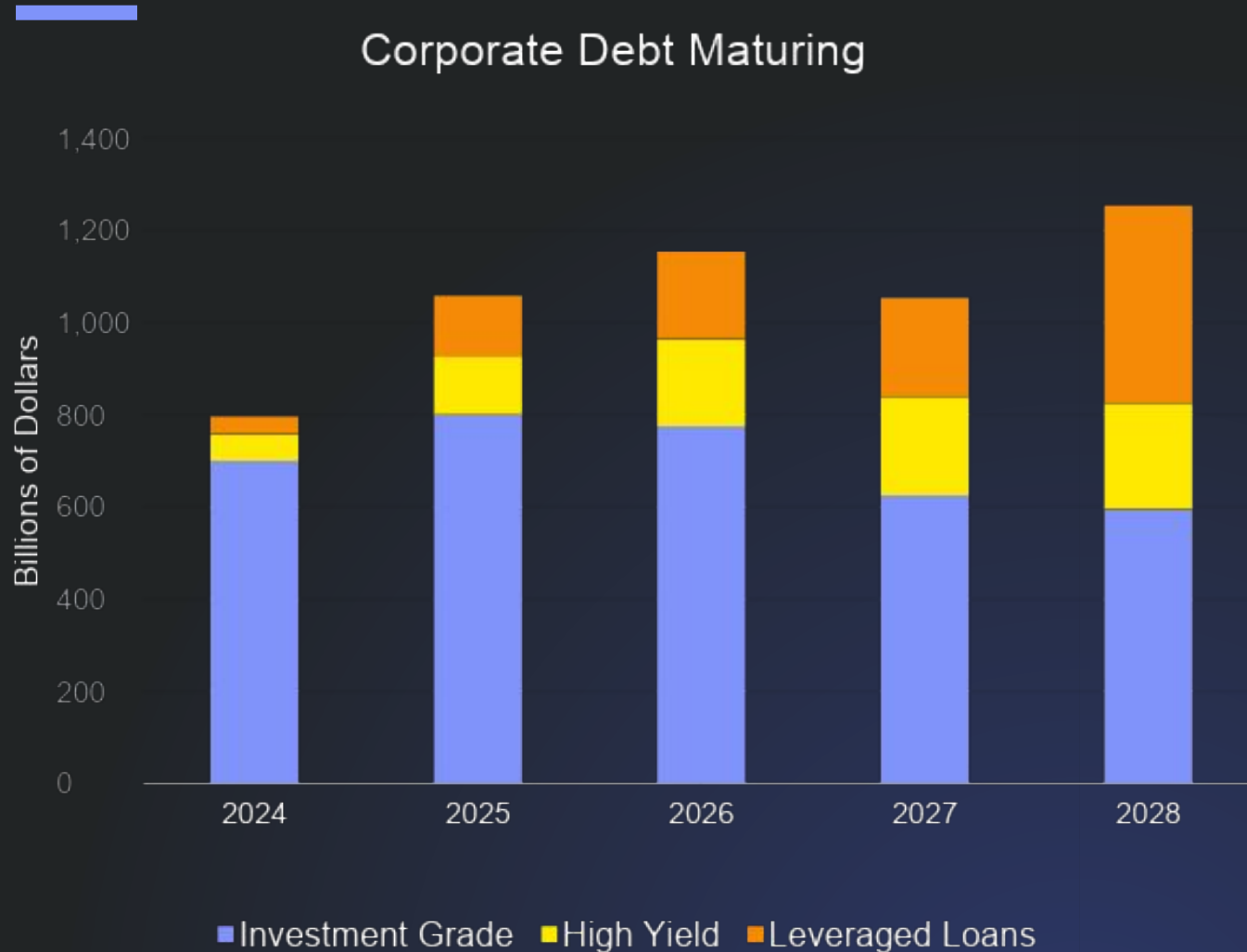


Market Trends are Getting Worse

- US Commercial Chapter 11 Filings **Increased 72%** in 2023
- Private company failures were **9x** those of public companies

Private Companies are under significant financial pressure	2019 vs 2023	
	Private	Public
EBITDA (earnings before interest, tax, depreciation & amortization)	-39%	+16%
NPAT (Net profit after tax)	-233%	+27%
Leverage	+139%	-9%
Interest Coverage	-73%	+9%

Maturing Debt Will Cause Private Companies to Fail



Private companies will fail to keep pace & **can't afford to refinance** due to high rates and inflation

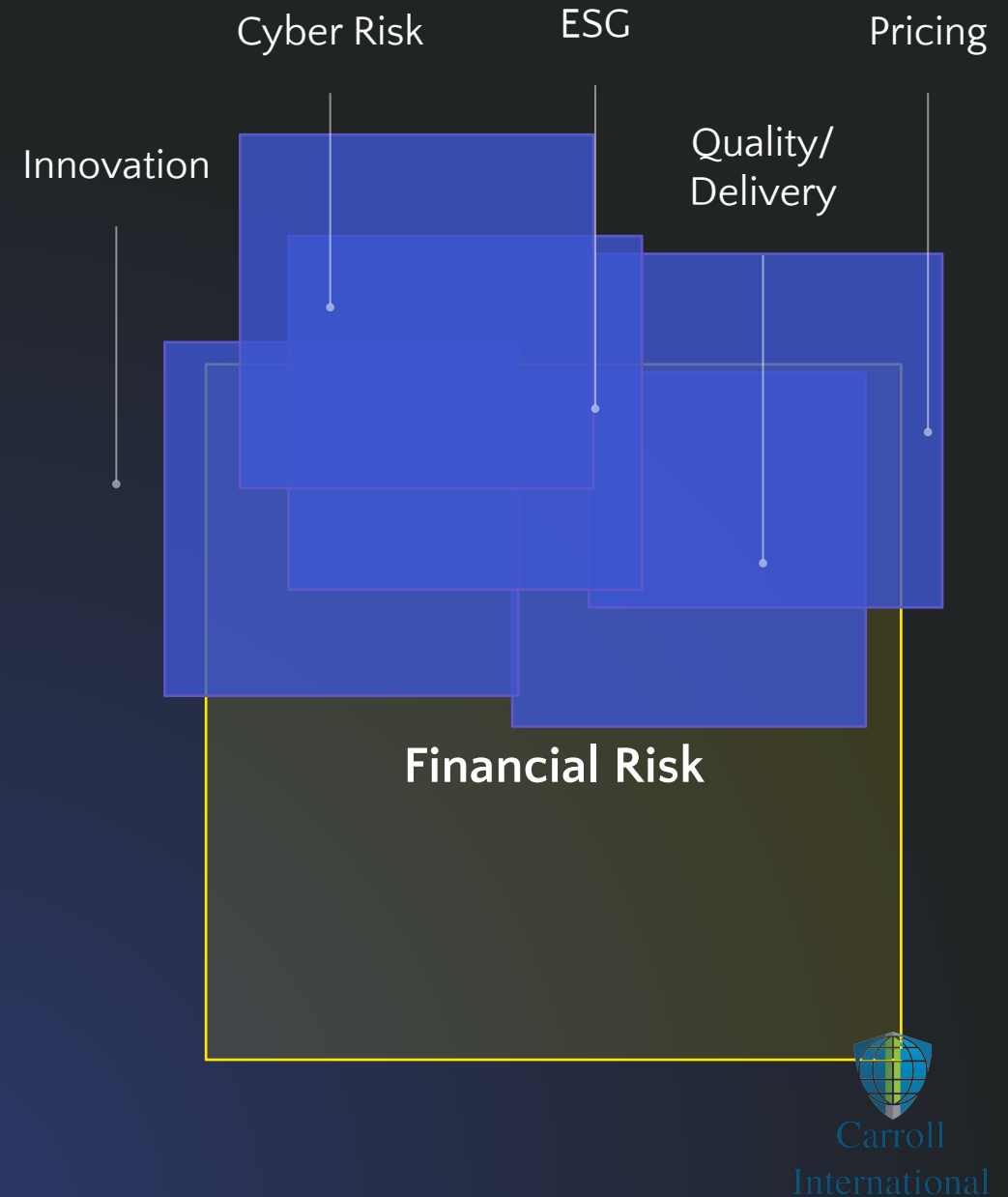
Data Source: Bloomberg, Goldman Sachs Global Investment Research



Financial Health Connects ALL Risk Domains

Poor Financial Health Causes:

- 2x Quality Issues
- 2.6x Delivery Issues



Suppliers under duress disrupt your business

- Struggle to achieve SLAs
- Increase their costs
- Deliver late or incomplete orders
- Compromise on quality
- **Risks *multiply***

Disruption affects every aspect of your business

- Productivity drops
- Costs rise
- Business or orders are lost
- Credibility is lost
- **Damage *multiplies***



What We Hear

What We Deliver

“Our financial risk indicators for suppliers are not reliable.”

Un-rivalled transparency of financial risk prediction for public **and** private companies

“Buyers aren’t equipped to have financial **discussions** with suppliers.”

Clear, actionable reports that support decisions. We tell you **exactly** what the risks mean and the questions to ask

“We’ve missed delivery commitments and have increased costs due to supplier disruption.”

Predictive analysis on companies that helps prevent costly disruption

“I lack visibility into my private suppliers’ financial health and don’t have the resources to get it.”

Dedicated resources to manage financial data collection, analysis and reporting on private companies

“I need to integrate multiple risk indicators”

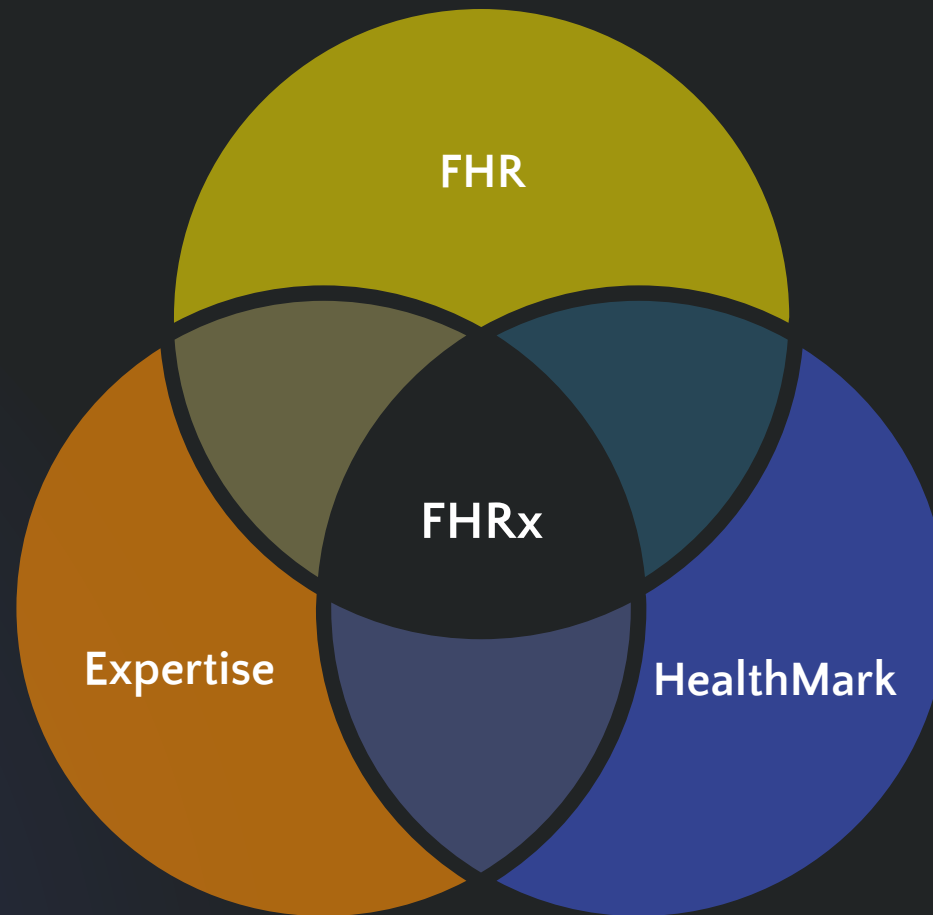
API and portfolio tools easily integrated into SCRM strategy and platforms



The Solution

The FHR® and HealthMark® combine precision and agility so you can apply the necessary level of analysis for every supplier in your network.

Expert reports and customizable views guide your management of supplier relationships throughout the lifecycle.



FHR®

Financial Health Ratings for all critical and high-spend suppliers

HealthMark®

Instant risk-scores for long-tail and non-critical suppliers

Subject Matter Expertise

Reports, tools and professional services to manage risk effectively



FHR® Accurate & Predictive

- The FHR, a quantitative analysis of financial statement data, models default risk consistently for both public and private companies.
- The FHR was built specifically to capture early warnings of financial deterioration, often as early as 36 months prior to default.
- We give our clients ample time and warnings to address financial risks before their business becomes negatively impacted by supplier failure.

Avg FHR at
36 months prior

42

Avg FHR at
12 months prior

33

Avg FHR at
Default

25

Very Low Risk

80-100

EPD: <0.005%

Low Risk

60 – 79

EPD: 0.01-0.08%

Medium Risk

40 – 59

EPD: 0.14-0.73%

High Risk

20 – 39

EPD: 1.28-8.71%

Very High Risk

0 – 19

EPD: >11.40%

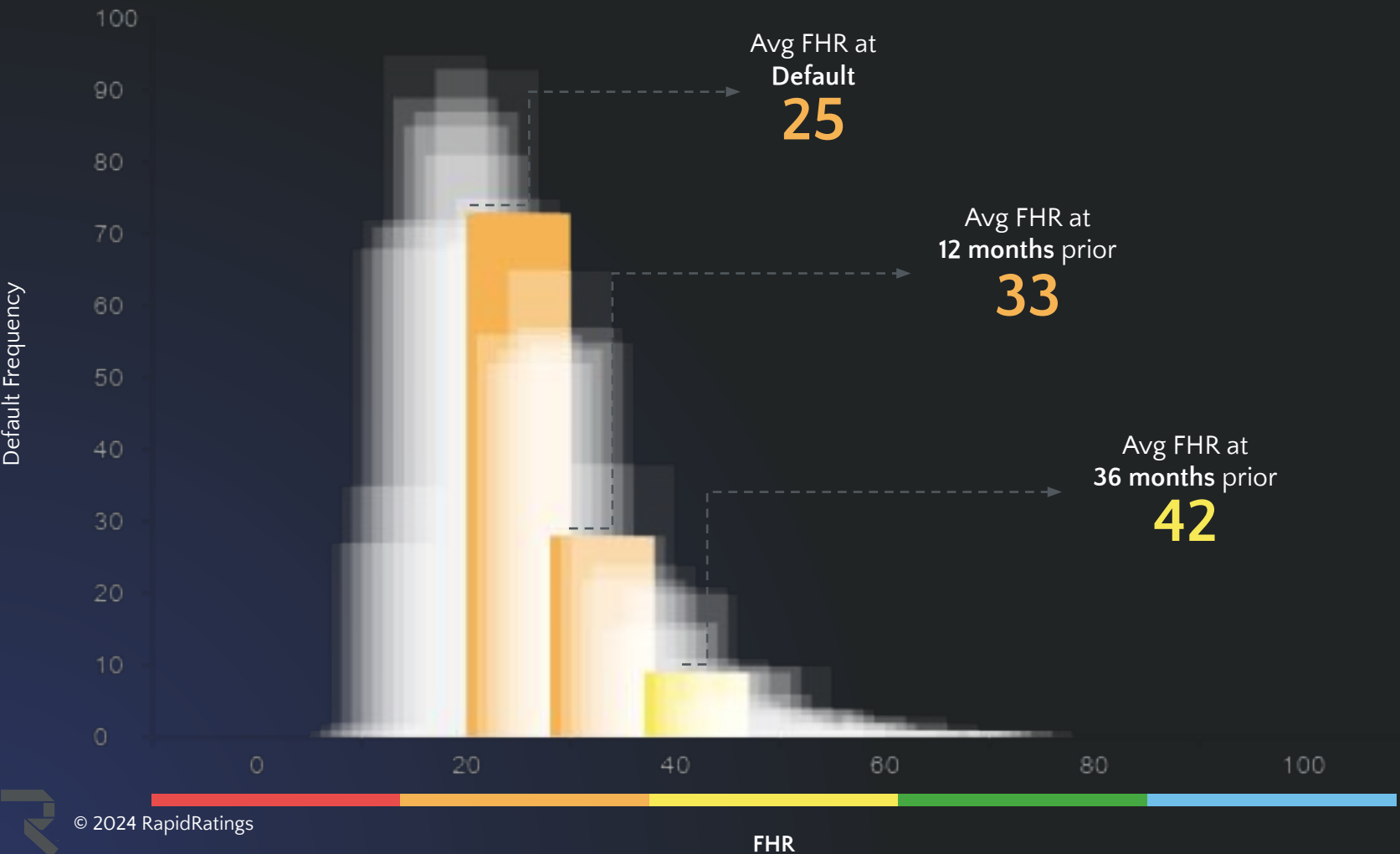


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FHR® Annual Default Review

Ratings at Default for 1,800+ US companies from 1991-2023



Key Findings from 2024 Annual Default Review

95%

Of companies that filed for bankruptcy in 2023 had an FHR signaling **High Risk** or **Very High Risk** at the time of default

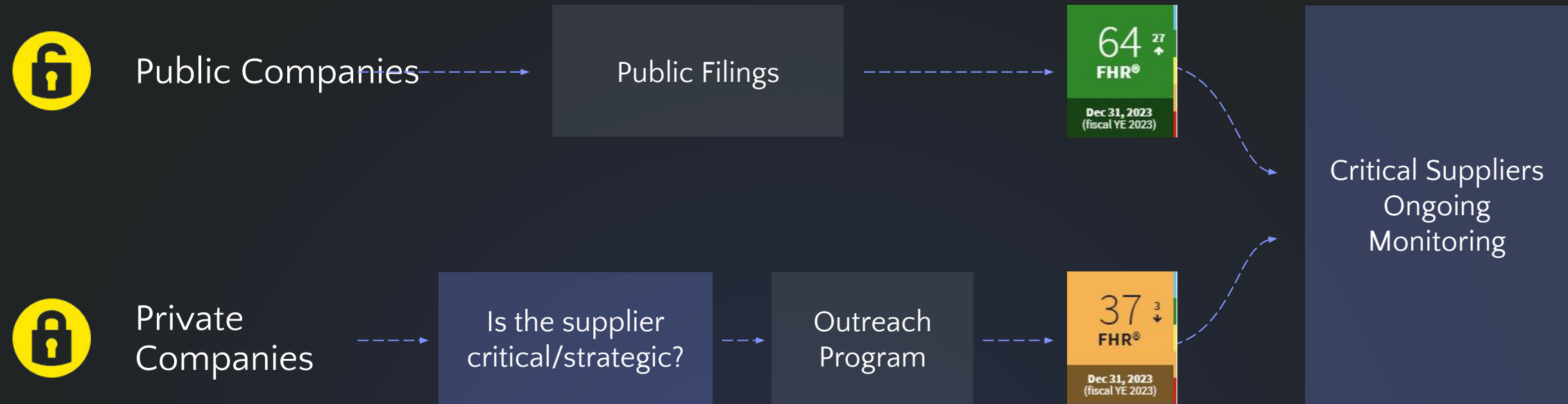
100%

Of companies that filed for bankruptcy in 2023 had been flagged with concerns in their **Financial Dialogue** going into 2023

- ✓ Highly Accurate
- ! Low False Alarm Rate

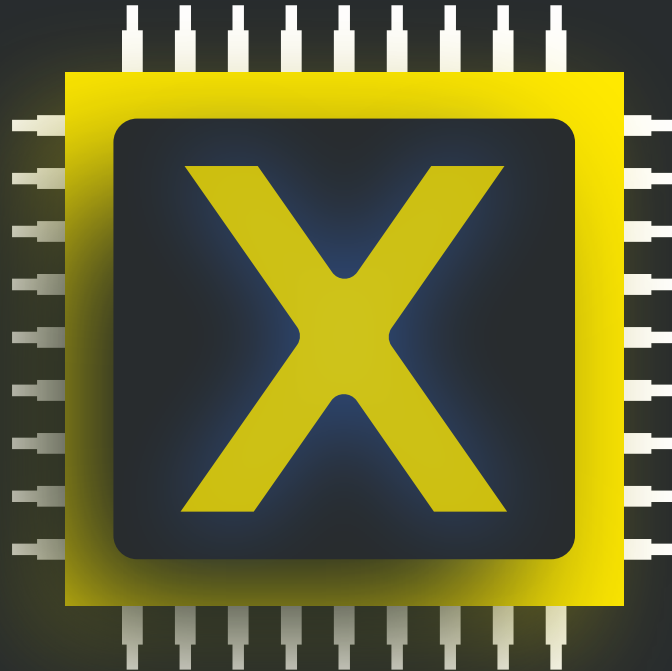
How the FHR® Process Works:

How We Evaluate Private and Public Company Ratings



FHR_x Secure Exchange of Accurate Ratings

The FHR Exchange™ is a secure membership platform where clients can request and access their suppliers' financial health ratings, reports and analytics to grow and protect their businesses.



Private Companies Share
Financial Data



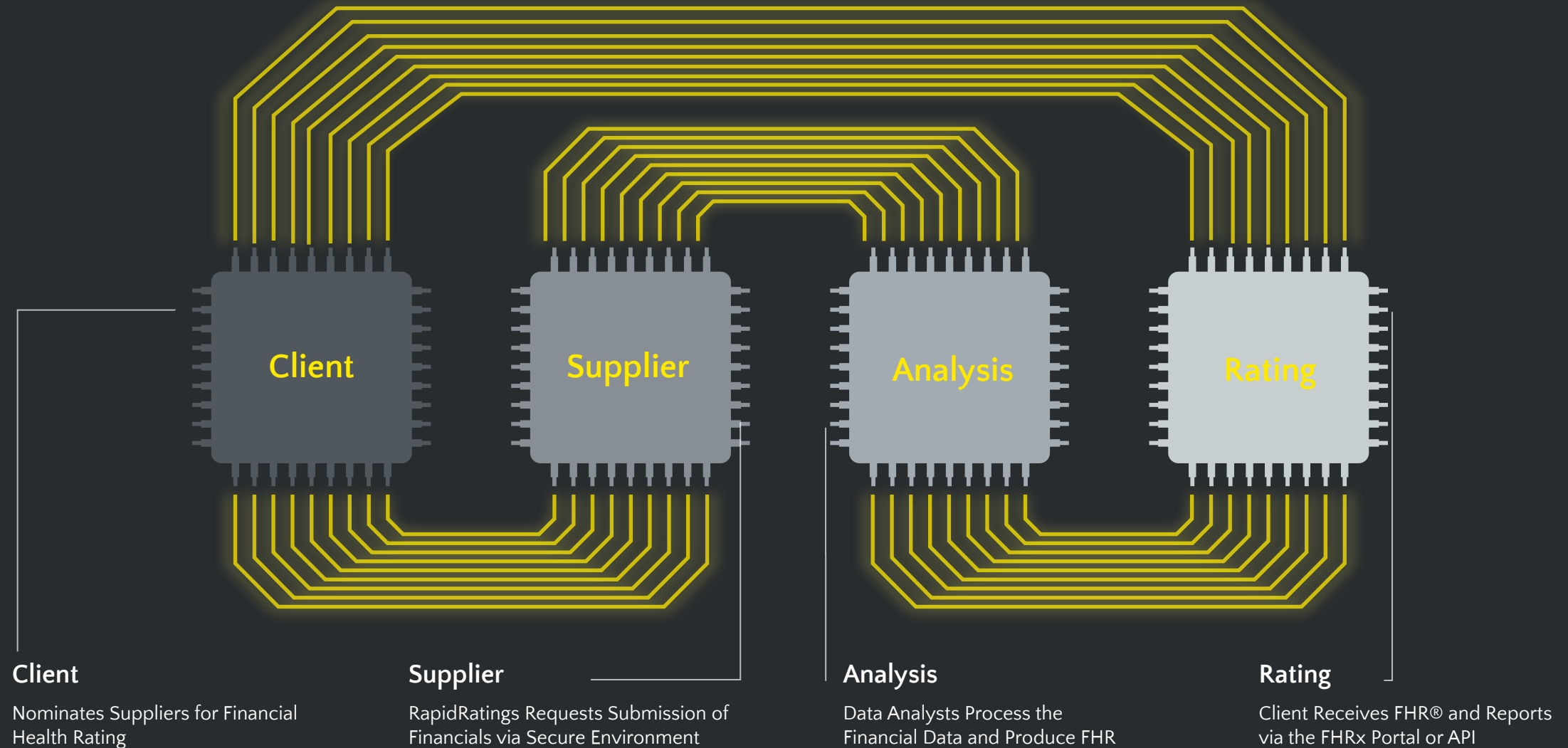
Data Collected, Analyzed and
Rated by RapidRatings



Data is Processed Within a Secure
Environment

Financial Health Rating **Process**

How Your Supplier becomes an **FHRx Member**





Balance
Sheet



Cash Flow
Statements



Income
Statement



SIC/NAICS
Code

Private Company Data Used to Produce an **FHR**

- Data is submitted via a secure portal
ISO 27001:2013 and SOC 2
- Financial statements are accepted in
multiple languages
- Multiple periods of data are collected to
provide **financial health trend analysis**
- Greater than 80% success rates globally

POC: Defense Logistics Agency

(Data via SAM.gov)

- 154 unique private suppliers, worth over \$3B in spend already rated in the FHR Exchange
- 32 suppliers High or Very High Risk, worth \$212M in contracts
- 424 publicly traded suppliers covered “off the shelf” worth over \$41B in contracts
- Over \$4B in supplier contracts at Risk

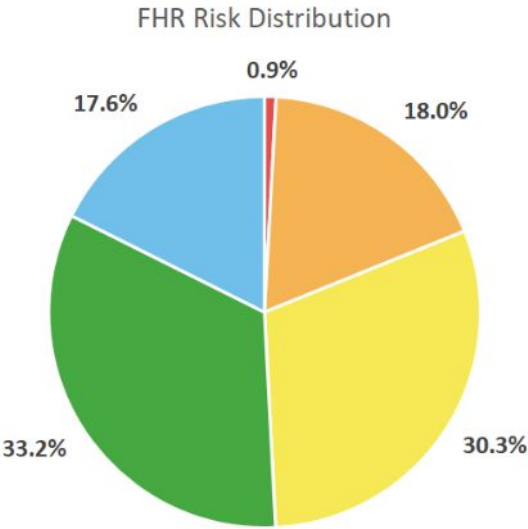
Private Spend Coverage Breakdown		
Risk Level	Count	Spend
Very Low Risk	49	\$ 650,000,000
Low Risk	40	\$ 2,000,000,000
Medium Risk	31	\$ 300,000,000
High Risk	29	\$ 200,000,000
Very High Risk	3	\$ 12,000,000

Public Spend Coverage Breakdown		
Risk Level	Count	Spend
Very Low Risk	66	\$ 8,200,000,000
Low Risk	164	\$ 13,500,000,000
Medium Risk	157	\$ 14,750,000,000
High Risk	36	\$ 4,000,000,000
Very High Risk	1	\$ 15,000,000



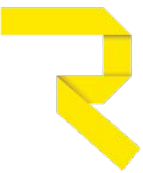
FHR Risk Level & Sector Trends

Latest Stmt as of August 11, 2024	Short Term Default Risk - Financial Health Rating					Total Companies
	Very High Risk (0-19)	High Risk (20-39)	Medium Risk (40-59)	Low Risk (60-79)	Very Low Risk (80-100)	
Public Companies	13 0.9%	274 18.0%	461 30.3%	505 33.2%	268 17.6%	1,521 100.0%



Industry Sectors in Analysis

Industry Sector	# Public Companies	% of Total	Avg. FHR Latest Stmt	Annual Chg in Avg. FHR
Electronics and Semiconductors	413	27.2%	58.6	(1.2)
Computer Services	302	19.9%	59.1	1.2
Equipment and Machinery	301	19.8%	60.8	0.2
Business Products and Services	271	17.8%	59.8	0.0
Metals and Fabrication	141	9.3%	55.9	(1.8)
Aerospace and Defense	93	6.1%	56.1	(1.3)
Total	1,521	100.0%	58.9	(0.3)



Sampling of Electronics and Semiconductors Sector Suppliers

The average FHR is 58.6 (Medium Risk) and is down 1.2 points over the last year.

Look for outliers bucking the industry trend – both posi

Average	8.6%	2.6	28%
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Company	Country	Current FHR	Current FHR Level	Prior Year FHR	Prior Year FHR Level	Chg In FHR	Operating Margin	Current Ratio	Debt to Equity
HyVISION SYSTEM Inc	South Korea	88	Very Low Risk	62	Low Risk	26	18.2%	2.5	1.0%
Xiamen Faratronic Co., Ltd.	China	78	Low Risk	85	Very Low Risk	(7)	29.8%	2.7	16.8%
SigmaTron International Inc	United States	72	Low Risk	22	High Risk	50	12.1%	2.3	127.1%
Apacer Technology Inc	Taiwan	66	Low Risk	81	Very Low Risk	(15)	7.8%	2.6	6.8%
Xiaomi Corp	China	63	Low Risk	52	Medium Risk	11	6.2%	1.8	16.5%
Calnex Solutions PLC	United Kingdom	60	Low Risk	92	Very Low Risk	(32)	(3.8%)	4.1	1.5%
Team Group Inc	Taiwan	59	Medium Risk	31	High Risk	28	4.5%	1.2	34.3%
Benchmark Electronics Inc	United States	59	Medium Risk	38	High Risk	21	4.2%	2.3	26.4%
inTest Corp	United States	59	Medium Risk	70	Low Risk	(11)	3.6%	2.2	21.2%
Broadex Technologies Co Ltd	China	59	Medium Risk	70	Low Risk	(11)	3.6%	4.3	29.8%
Evertop Wire Cable Corp	Taiwan	56	Medium Risk	35	High Risk	21	6.0%	1.8	29.2%
Wuxi Yoshioka Precision Technology	China	55	Medium Risk	67	Low Risk	(12)	10.3%	2.0	25.6%
Broadcom Inc	United States	55	Medium Risk	78	Low Risk	(23)	30.8%	1.3	105.8%
Komputronik SA	Poland	53	Medium Risk	85	Very Low Risk	(32)	0.1%	2.5	11.9%
Rohm Co Ltd	Japan	49	Medium Risk	81	Very Low Risk	(32)	5.4%	2.2	39.4%
QuickLogic Corp	United States	48	Medium Risk	37	High Risk	11	5.8%	1.2	96.4%
GoerTek Inc	China	40	Medium Risk	38	High Risk	2	2.3%	1.2	57.4%
SoundThinking Inc	United States	39	High Risk	58	Medium Risk	(19)	(2.1%)	0.8	9.4%
Shenzhen Fastprint Circuit Tech Co Ltd	China	37	High Risk	40	Medium Risk	(3)	1.7%	1.6	78.4%
Powerchip Semiconductor Manufacturng	Taiwan	34	High Risk	71	Low Risk				

Average	4.5%	1.7	53%
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FHR Methodology

Core Health

+

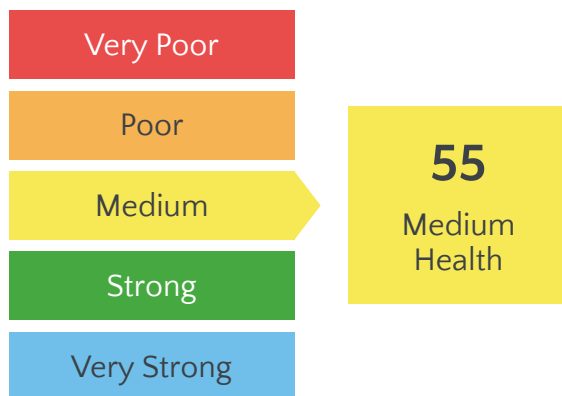
Resilience Indicators

=

FHR

A measure of underlying
efficiency using 62 ratios

The Core Health Score (CHS) measures the medium-term viability of the company.

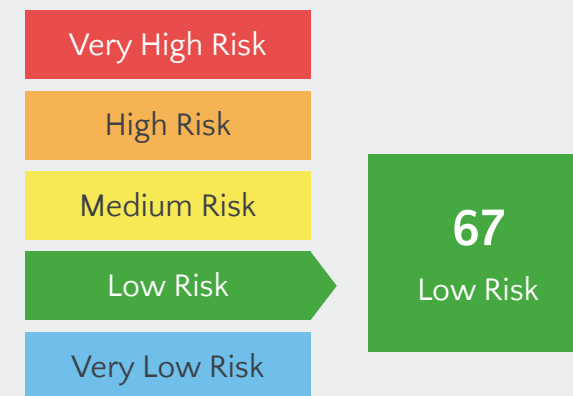


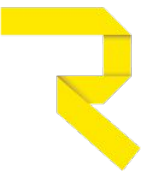
Dynamically overlay 11 resilience ratios focused on short-term default risk

Leverage		
Weak	Adequate	Strong
Liquidity		
Weak	Adequate	Strong
Earnings Performance		
Weak	Adequate	Strong

This produces the **FHR, Risk Level, and PD%**

The Financial Health Rating (FHR) measures the near-term default risk.

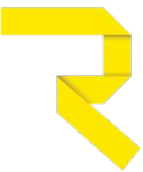




Quadrant Analysis

- Combines medium term fundamental financial viability (CHS) with short term default probability (FHR).
- Triage vendors that need immediate attention based on Quadrant location
- Monitor movement between Quadrant locations to proactively identify and mitigate risks

		Short Term Default Risk - Financial Health Rating				
		Very High Risk (0-19)	High Risk (20-39)	Medium Risk (40-59)	Low Risk (60-79)	Very Low Risk (80-100)
Medium Term Viability - Core Health Score	Very Strong Health (80-100)	Quadrant D These companies have medium or better Core Health, however challenges remain in the short-term given their elevated probability of default over the next 12 months.		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.		
	Strong Health (60-79)					
	Medium Health (40-59)					
	Poor Health (20-39)	Quadrant C These companies demonstrate poor to very poor Core Health (suggesting the need for efficiency improvements) combined with a high to very high risk of default over the next year.		Quadrant B While risk of default is unlikely in the short-term, the level of Core Health suggests a need for efficiency improvements, and current performance may not be sustainable over the medium-term.		
	Very Poor Health (0-19)					



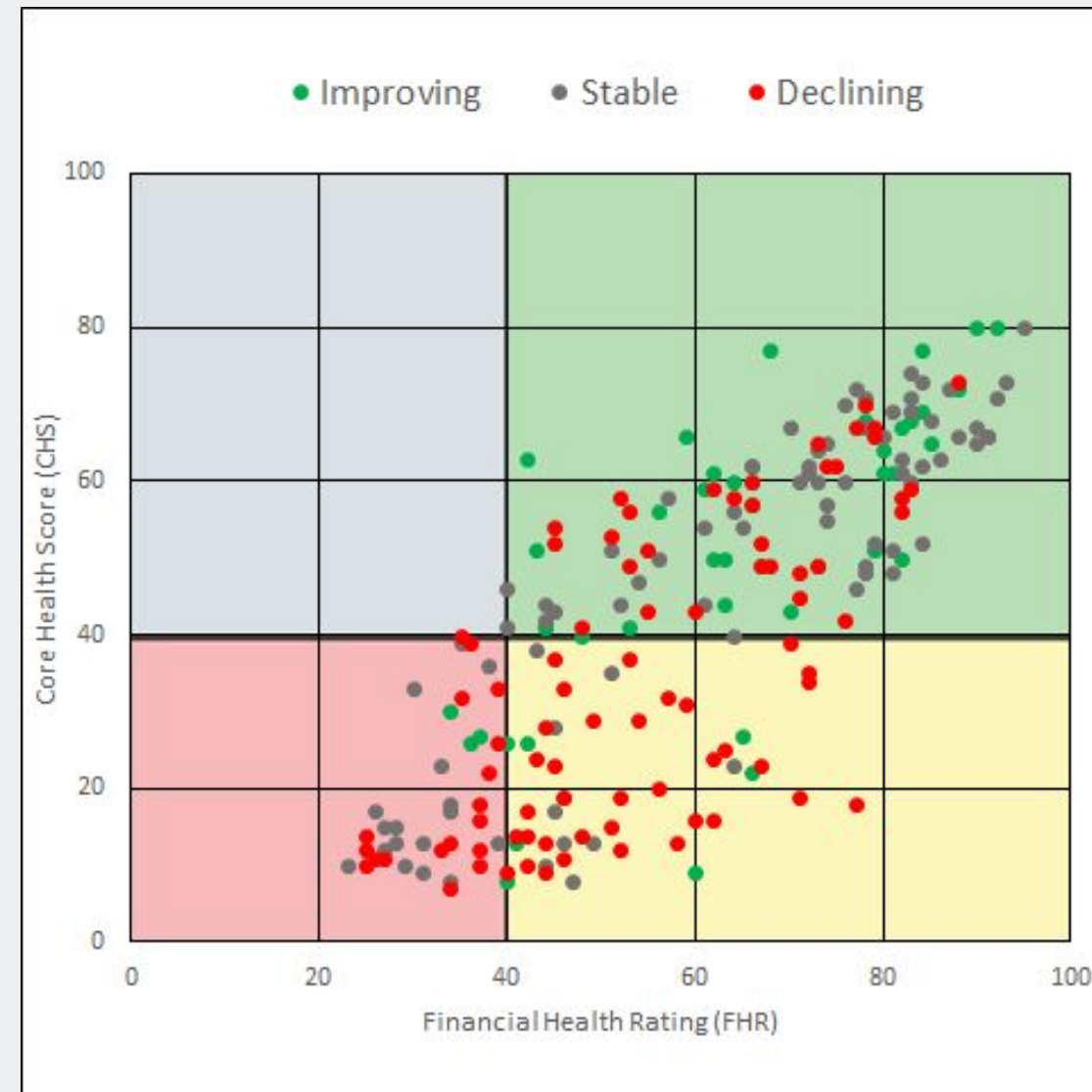
Quadrant View (Electronics and Semiconductors)

North America



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Asia



Manage. Monitor. Mitigate.

1

Manage

Manage risk with **FHR ratings and reports** for your critical suppliers

2

Monitor

Create **customizable reports, portfolio views and alerts** to monitor risk

3

Mitigate

Use the **Financial Dialogue Report** to guide risk mitigation conversations

Powerchip Semiconductor ManufacturingCrp

Financial Health Rating (FHR):	36, High Risk	Estimated Probability of Default (EPD):	1.41%
Core Health Score (CHS):	8, Very Poor Health	Financial Period:	June 30, 2024 (Q2 2024)

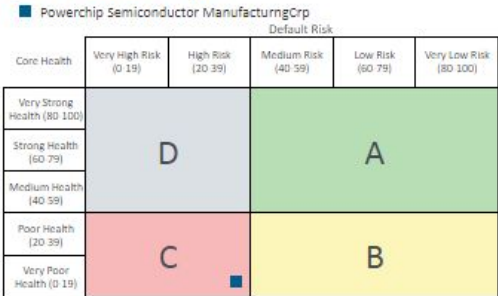
High default risk, with very poor Core Health.

Quadrant C: These companies demonstrate poor to very poor Core Health (suggesting the need for efficiency improvements) combined with a high to very high risk of default over the next year.

Dialogue Context:

Companies which fall into Quadrant C should be able to discuss their plan to deliver significant improvement/relief in some or all of the areas discussed in this report within a reasonable time frame.

Figure 1: Risk Quadrant Analysis



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 06/30/2024.

Table 1: Prioritized Items of Concern for Discussion

Items of Concern (4)	
1. Profit Margins: Profitability performance was poor. Both the company's operating profit margin (-15.5%) and net profit margin (-11.1%) show a loss. What caused the losses and what are your profitability improvement plans?	See Page 2
2. Interest Coverage: The company was unable to cover any of its interest (NT\$993 M) with operating profit as it is currently running with an operating loss (NT\$6,724 M). Do you expect your interest obligation to change materially over the next year, and do you expect to cover this through operating profit or cash balances?	See Page 3
3. CFO: Cash From Operations (CFO) for the period is positive (NT\$4,284 M), however was still only 0.14x of current liabilities. What are your expectations for CFO in the next fiscal year?	See Page 4
4. Change in Sales: Sales for the trailing 12 months have decreased 1.2% since the prior year end. What has caused the decline in sales?	See Page 5

Table 2: Strengths and General Items for Discussion

Notable Strengths (1)	
5. Cash Ratio: The company's cash balance (NT\$31,074 M) is very strong given its current liabilities (NT\$31,090 M). Is there any reason you expect your Cash Ratio (99.9%) will change going forward?	See Page 6

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RapidRatings Financial Dialogue®
Powerchip Semiconductor Manufacturing Corp, Aug 19, 2024

Discussion Point 2 (Concern):

Interest Coverage: The company was unable to cover any of its interest (NT\$993 M) with operating profit as it is currently running with an operating loss (NT\$6,724 M). Do you expect your interest obligation to change materially over the next year, and do you expect to cover this through operating profit or cash balances?

Extended Discussion

The company's interest coverage was negative because of the operating loss. While the loss is a concern on its own, the risk is magnified by the interest obligation requirements. Furthermore, interest expense has increased from NT\$627 M to NT\$993 M in recent periods.

- What do you expect next year's interest obligations to be?
- Do you expect to generate operating profits in excess of these obligations?
- If no, how will you manage your working capital to ensure the obligations can be serviced without affecting normal operations?



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