# ABC Corporation

July 7, 2020

## Working Capital Diagnostics

A&M
Alvarez & Marsal
Insight Center

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# Executive Summary

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# Executive Summary: Working Capital Diagnostics

## Working Capital Analysis: ABC Vs. Peers

- Cash Conversion Cycle: The overall cash conversion for ABC is (85 days), they are below median performer. ABC is 2x higher than their top quartile performers (11 days). The cash conversion cycle is primarily driven by their AR, and inventory performance, improvement in DSO, DIO will enable them to free up working capital to the tune of $66Mn to $99Mn. This improvement will significantly impact on their net debt and ROCE.

## Working Capital Trending

- Peer trending suggests that cash conversion cycle is deteriorated for the peer group, CAGR of 26.7% for the period indicates that, the overall total working capital has increased by 2X. Data was not available for ABC for the same period.

## Liquidity Driver

- **The Working Capital to Total Assets:** ratio measures a company's ability to cover its short-term financial obligations (Total Current Liabilities) by comparing its Total Current Assets to its Total Assets. A moderate to low ratio indicates that ABC may have too many total current liabilities, reducing the amount of Working Capital available.
- **Cash Ratio:** A cash ratio lower than 1 does indicate a company is having financial difficulty. A low cash ratio may be an indicator of a company's strategy to have low cash reserves. However, certain industries operate with higher current liabilities and lower cash reserves. In addition, a higher cash ratio does not necessarily reflect a company's strong performance. High cash ratios may indicate that a company is inefficient in the utilization of cash or not maximizing the potential benefit of low-cost loans. ABC's cash ratio is less than 1, there are more current liabilities than cash and cash equivalents. In this situation, there is insufficient cash on hand to pay off short-term debt.
- **Quick Ratio:** A common rule of thumb is that companies with a quick ratio of greater than 1.0 are sufficiently able to meet their short-term liabilities. ABC's low or decreasing quick ratio suggests that they are over-leveraged, struggling to maintain or grow sales.

## Profitability Driver

- **SG&A Margin:** Low profits can indicate issues, such as a poor product, high expenses or management deficiencies. To improve their profits, ABC needs to explore the opportunities to reduce their SG&A expenses. Optimizing SG&A spend can enable ABC to liberate capital for more strategic leverage within operations or drive savings to the bottom line.
- **Return on Assets:** can vary substantially across different industries. This is the reason why it is recommended to compare it against company's previous values or the return of a similar company. The only common rule is that the higher return on assets is, the better, because the company is earning more money on its assets. ABC's low return on assets compared with the industry average indicates inefficient use of company's assets.
- **Cash Flow to CAPEX:** As the CF to CAPEX ratio increases, it is usually a positive sign. If a company has the financial ability to invest through capital expenditures (CAPEX), then it is thought that the company will grow. ABC's negative CF to CAPEX suggests that they are unable to invest.

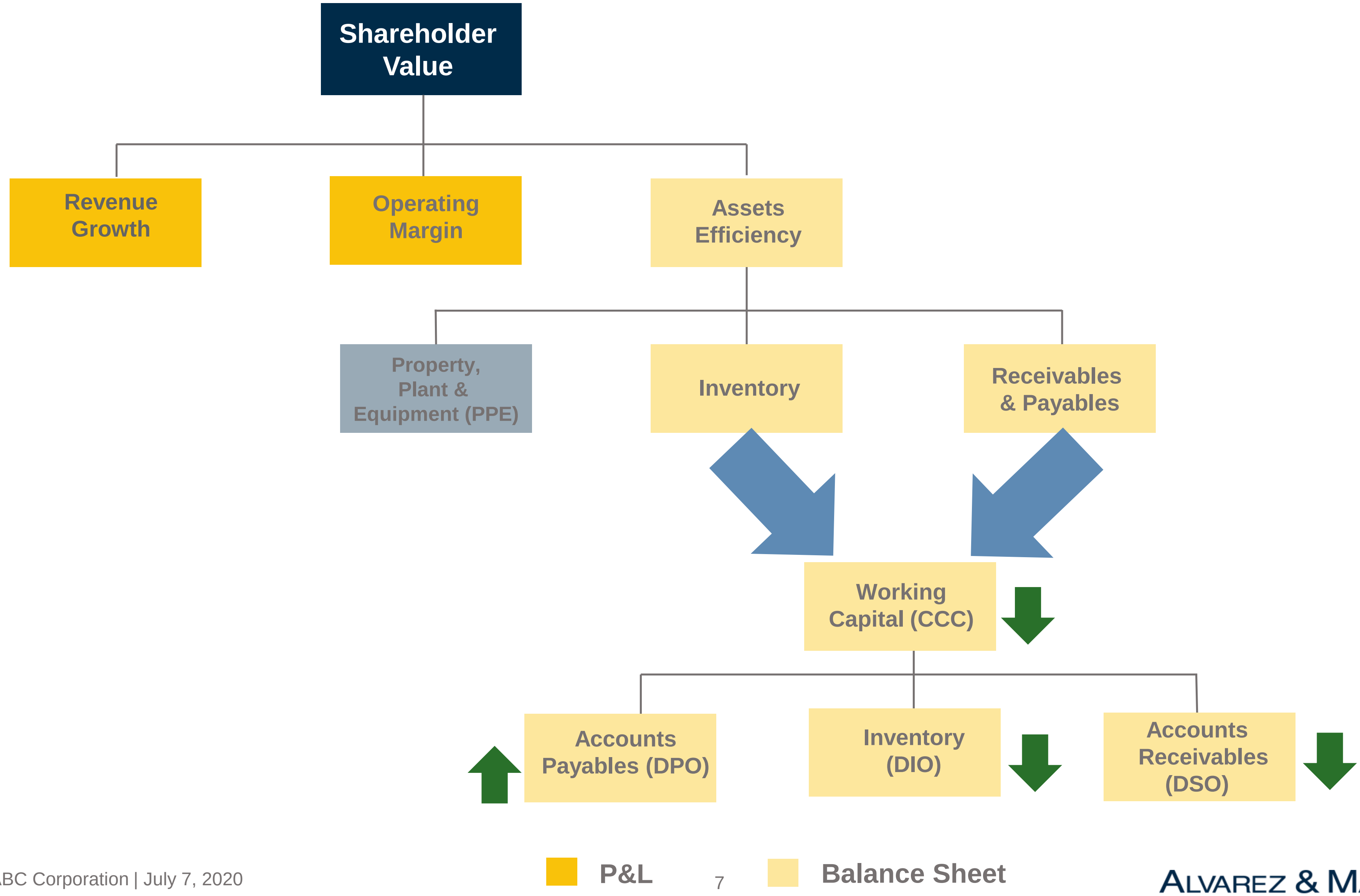
# Executive Summary: Working Capital Diagnostics

- **Turnover Driver**
  - **Total Assets Turnover:** A company's ability to service debt isn't always easy to identify in the consumer staples sector. These companies tend to have very high asset turnover rates, which means book values are fluid and require stronger-than-normal cash flows to support. Fixed assets turnover for ABC is the median performer.
  - **Receivables Turnover:** ABC is the median performer, they need to explore improving their accounts receivable turnover ratio by setting limits on the amount of credit sales. Set a dollar amount or a percentage based on current cash sales. Review their credit terms.
  - **Equity Turnover:** ABC's low equity turnover indicates that they are unable to use their equity efficiently and are not managing their equity to generate the revenue.
  - **Inventory Turnover:** Inventory turnover measures how fast a company is selling inventory and is generally compared against industry averages. A low turnover implies weak sales and, therefore, excess inventory. A high ratio implies either strong sales and/or large discounts. ABC is in the bottom quartile.
  - **Working Capital to Sales:** Managing working capital effectively means ensuring the business has neither too much nor too little working capital on hand at any one time. Analyzing the working capital life cycle is one method business owners can use to make adjustments to sales percentage predictions. High ratio as a % of sales indicates company's ability to support sales without adding additional debt.
- **Leverage Driver**
  - A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. ABC's high Debt to Equity Ratio indicates that they are associated with high levels of risks, associated with aggressive leveraging practices.
  - The ratio of retained earnings to total assets helps measure the extent to which a company relies on debt, or leverage. ABC's lower ratio indicates that, the company is funding assets by borrowing instead of through retained earnings which, again, increases the risk of bankruptcy if the firm cannot meet its debt obligations.
  - The ratio of a company's total assets to its stockholder's equity. The equity multiplier is a measurement of a company's financial leverage. Companies finance the purchase of assets either through equity or debt, so ABC's high equity multiplier indicates that a larger portion of their assets are being financed through debt.

# Working Capital Glossary & Industry Profile

# Changing gears from P&L to Balance Sheet

The excess of current assets over liabilities, comprising of accounts receivable, inventory minus accounts payable, represents the liquidity a business requires for day-to-day operations. Working capital is one of the few remaining areas which can deliver significant cash to the business in a relatively short period of time without large restructuring program.



# Working Capital Glossary

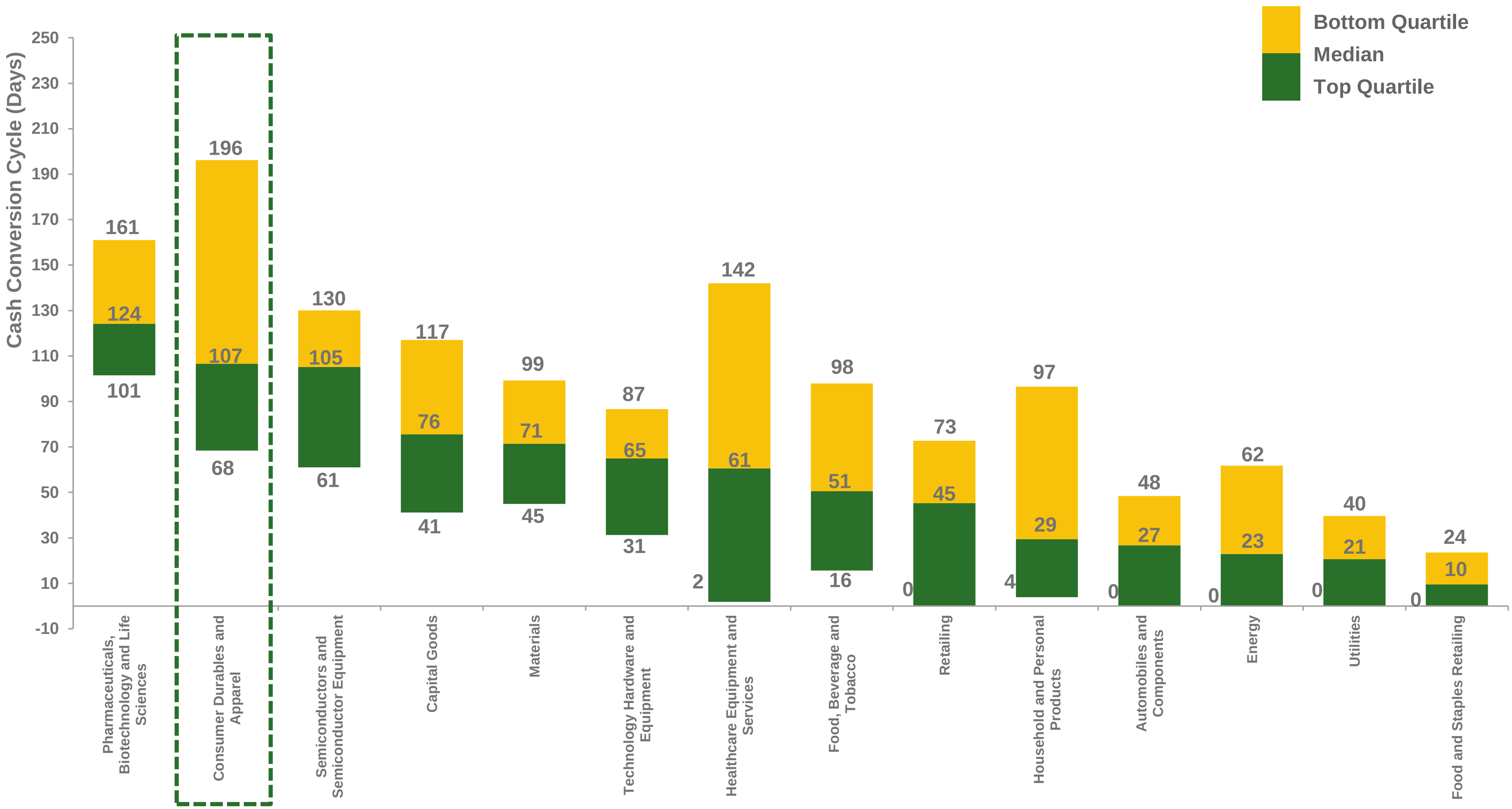
Following formulae have been used to assessing the working capital and deriving the benefit summary.

- **Days Sales Outstanding (DSO) – Year-end trade receivables divided by sales and by number of days in a year**
- **Days Inventory Outstanding (DIO) – Year-end inventories divided by Cost of Goods Sold and by number of days in a year**
- **Inventory Turns – Cost of goods sold divided by year-end inventories**
- **Days Payable Outstanding (DPO) – Year-end trade payables divided by Cost of Goods Sold and by number of days in a year**
- **Days Working Capital (DWC) - (DSO+DIO-DPO)**
- **Net Profit Impact, Debt Cost - Performance Gap*Cost of Debt**
- **Net Profit Impact, WACC – Performance Gap*WACC**
- **Net Profit Impact, ROCE – Performance Gap*ROCE**
- **Return on Capital Employed (ROCE) - EBIT/Capital Employed**
- **New ROCE - EBIT /(Capital Employed – Performance Gap)**

# Cash Conversion by Industry Group: Consumer Durables and Apparel

Optimizing cash requires balancing many things, including pricing, vendor costs, capital structure, and working capital policies. If one of these four pillars falls, a company may not generate enough cash flow to survive, irrespective of the demand for its products or services. Therefore, it's imperative for business leaders to understand the many different individuals and departments who are responsible for proper cash flow management. The cash conversion cycle for Consumer Durables and Apparel ranged from 68 days to 196 days, where median is pegged at 107 days.

Source: A&M Insight Center, analysis based on FY2019 annual financials based on 8000+ Global Companies



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# Peer Group Demographics

# Analysis Peer Group Overview

## Following peers were included for the comparison, this group was selected based on the revenue size and the primary industry code.

| Peer Name | SIC Code | SIC Inds |
|---|---|---|
| ABC Corp | 5722 | Household Durables |
| Company 1 | 3570 | Technology Hardware, Storage and Peripherals |
| Company 2 | 3714 | Auto Components |
| Company 3 | 3630 | Household Durables |
| Company 4 | 3630 | Machinery |
| Company 5 | 5064 | Distributors |
| Company 6 | 5064 | Household Durables |
| Company 7 | 5064 | Household Durables |
| Company 8 | 5064 | Household Durables |
| Company 9 | 5064 | Household Durables |
| Company 10 | 5064 | Household Durables |
| Company 11 | 5064 | Household Durables |
| Company 12 | 5064 | Household Durables |
| Company 13 | 5064 | Household Durables |
| Company 14 | 5084 | Household Durables |
| Company 15 | 3559 | Household Durables |
| Company 16 | 5084 | Household Durables |
| Company 17 | 5084 | Household Durables |
| Company 19 | 5084 | Household Durables |
| Company 20 | 3630 | Household Durables |

# Peer Group[1] Demographics & Vital Few Financial Indicators

★ ABC Corporation

The demographics details the range of the selected peer companies.

### Demographics

| | Min | 25th Percentile | Median | 75th Percentile | Max | ★ ABC Corporation |
|---|---|---|---|---|---|---|
| Net Revenue (in Mn) | $12M | $131M | $307M | $443M | $998M | $443M |
| Number of Employees | 33 | 84 | 159 | 3,078 | 14,664 | 1,012 |

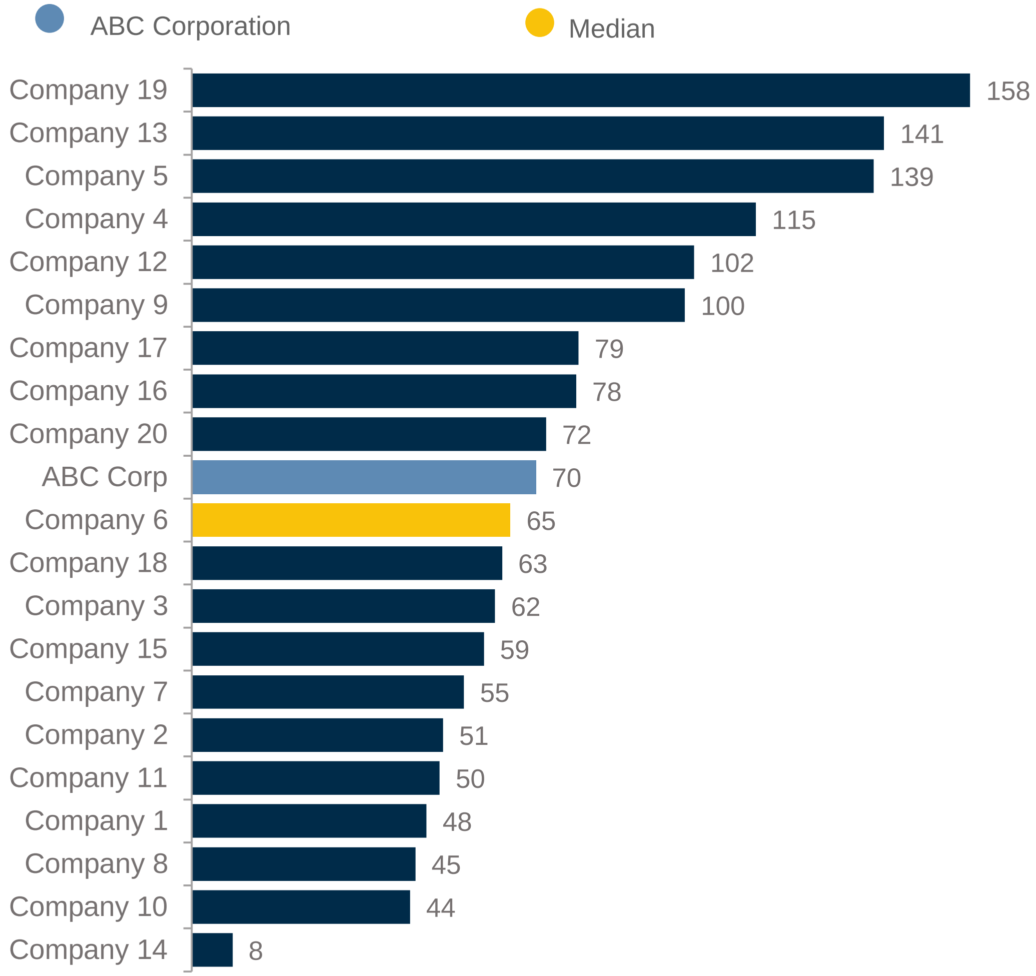
### Vital Few Financials Indicators

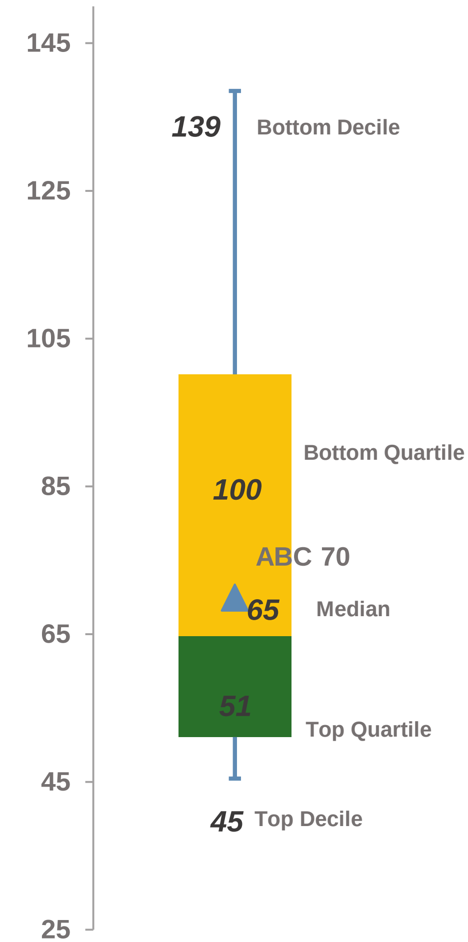
| | Worst Perf. | 25th Percentile | Median | 75th Percentile | Best Perf. | ★ ABC Corporation |
|---|---|---|---|---|---|---|
| Revenue CAGR (5 Years) | -6.9% | -4.4% | -0.8% | 1.9% | 6.1% | -0.9% |
| EBITDA Margin % | 1.5% | 2.9% | 7.0% | 9.8% | 12.0% | 9.5% |
| Revenue per Employee ($) | $88,029 | $139,019 | $261,553 | $718,375 | $843,652 | $437,747 |

1. Peers listed on pg.11 of this deck, FY2019 financial data sourced from annual financials

# Peer Group Analysis: Days Sales Outstanding

ABC needs to focus on DSO, where they are performing below than median. The Median and upper quartile comparison shows the DSO improvement opportunity in the range of $18 Mn to $27 Mn.

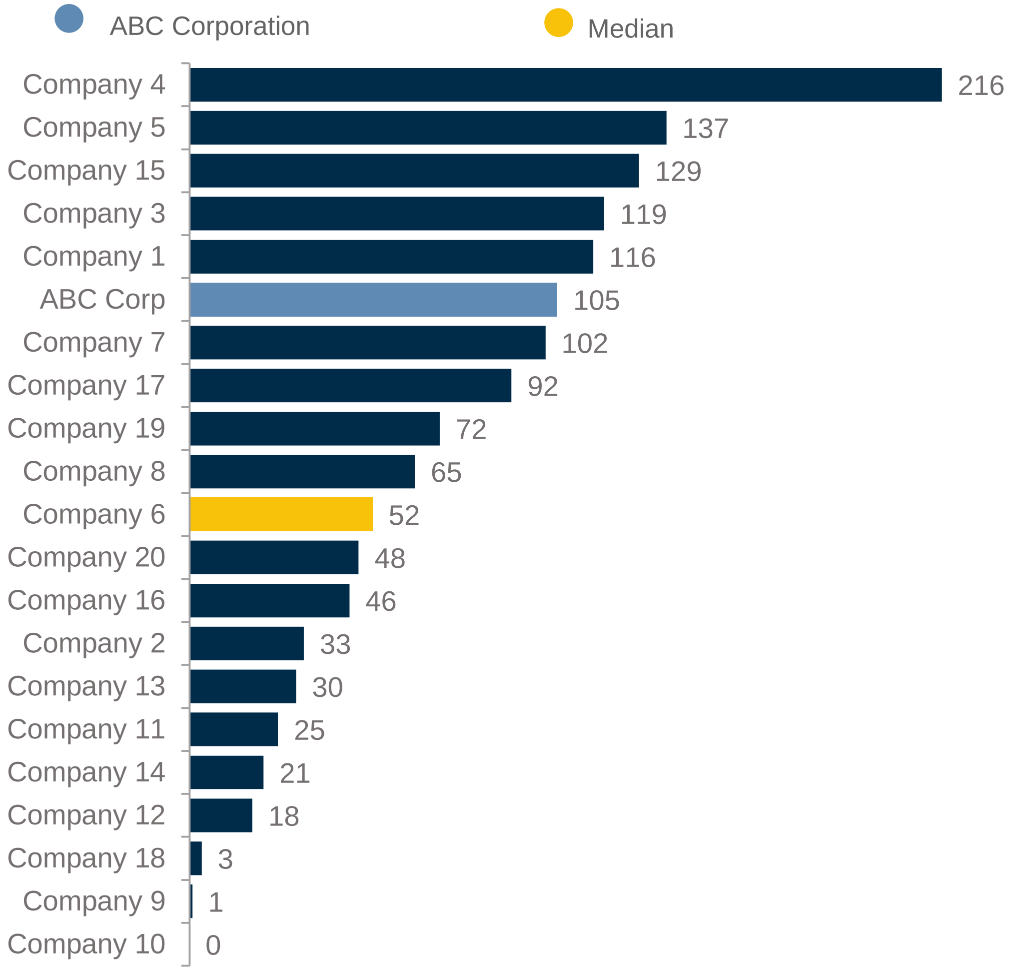


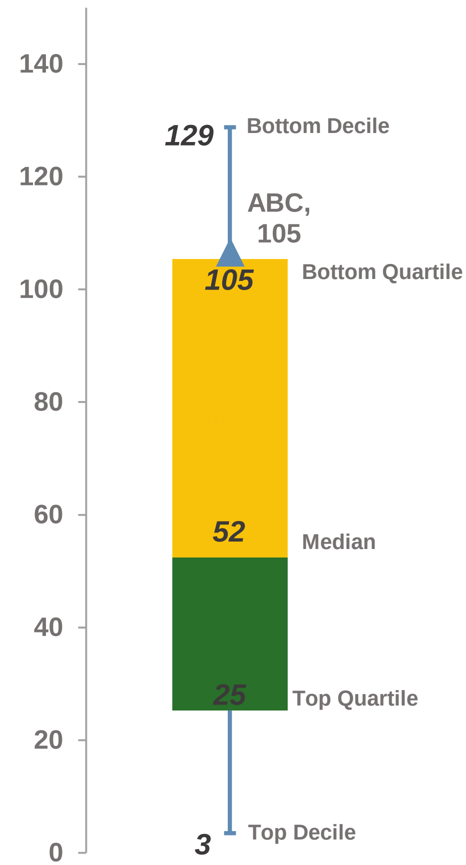




1. The DSO Improvement Opportunity is calculated by Days Sales Outstanding gaps between “Target” and the Peer Group’s Median or Top Quartile times one day sales of the “Target” company.

# Peer Group Analysis: Days Inventory Outstanding

ABC needs to focus on DIO, where they are performing below than median. The Median and upper quartile comparison shows the DIO improvement opportunity in the range of $45 Mn to $67 Mn.

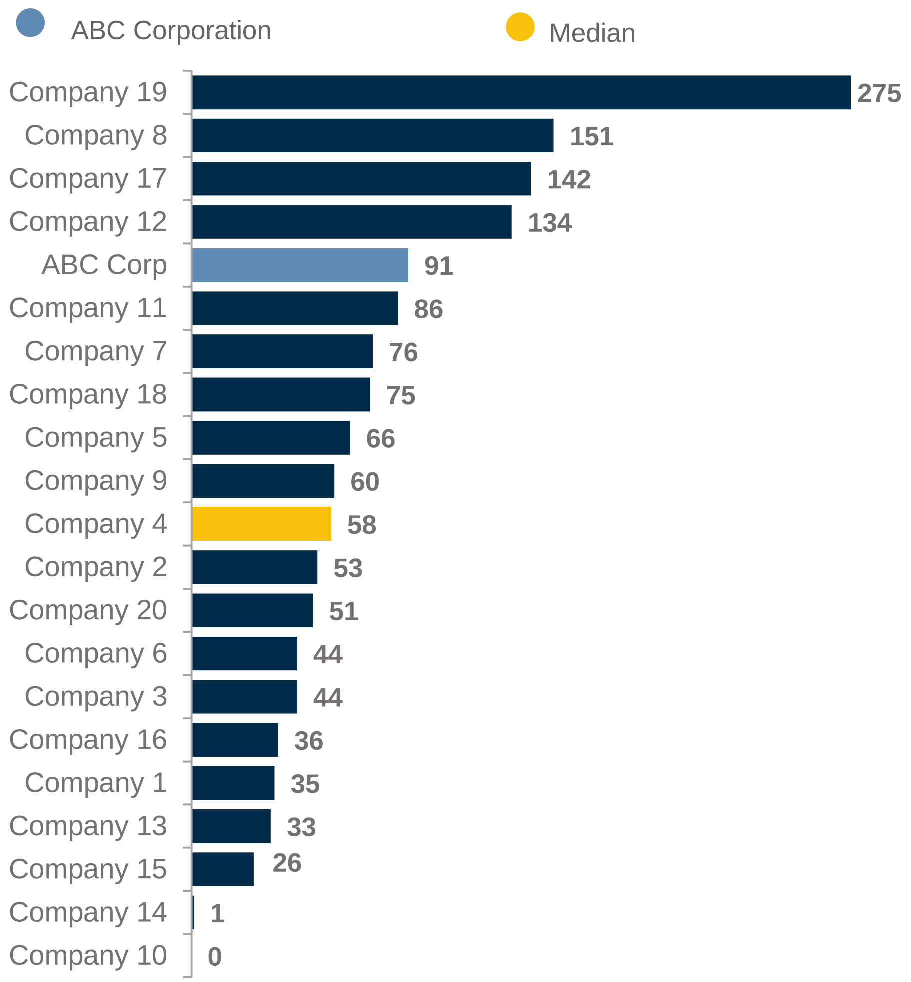


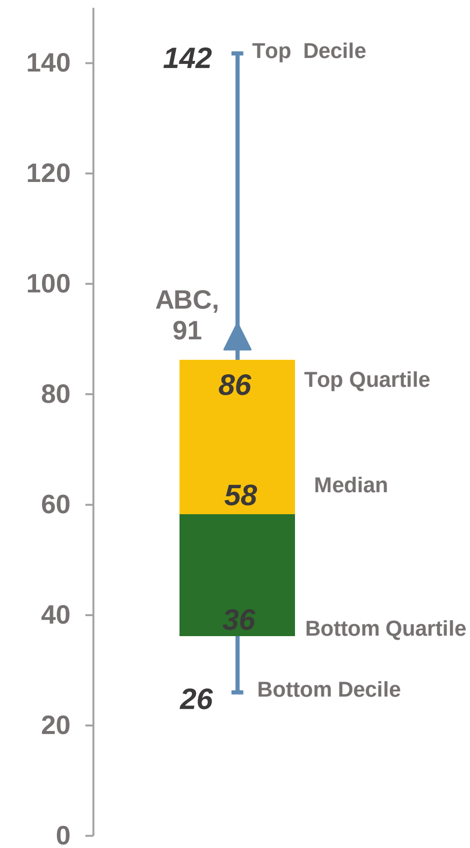




1. The DIO Improvement Opportunity is calculated by Days Inventory Outstanding gaps between "Target" and the Peer Group's Median or Top Quartile times one day cost of goods sold (COGS) of the "Target" company.

# Peer Group Analysis: Days Payable Outstanding

ABC needs to focus on all the working capital components, where they are performing below than median. The upper quartile comparison shows the total working capital improvement opportunity in the range of $66 Mn to $99 Mn.

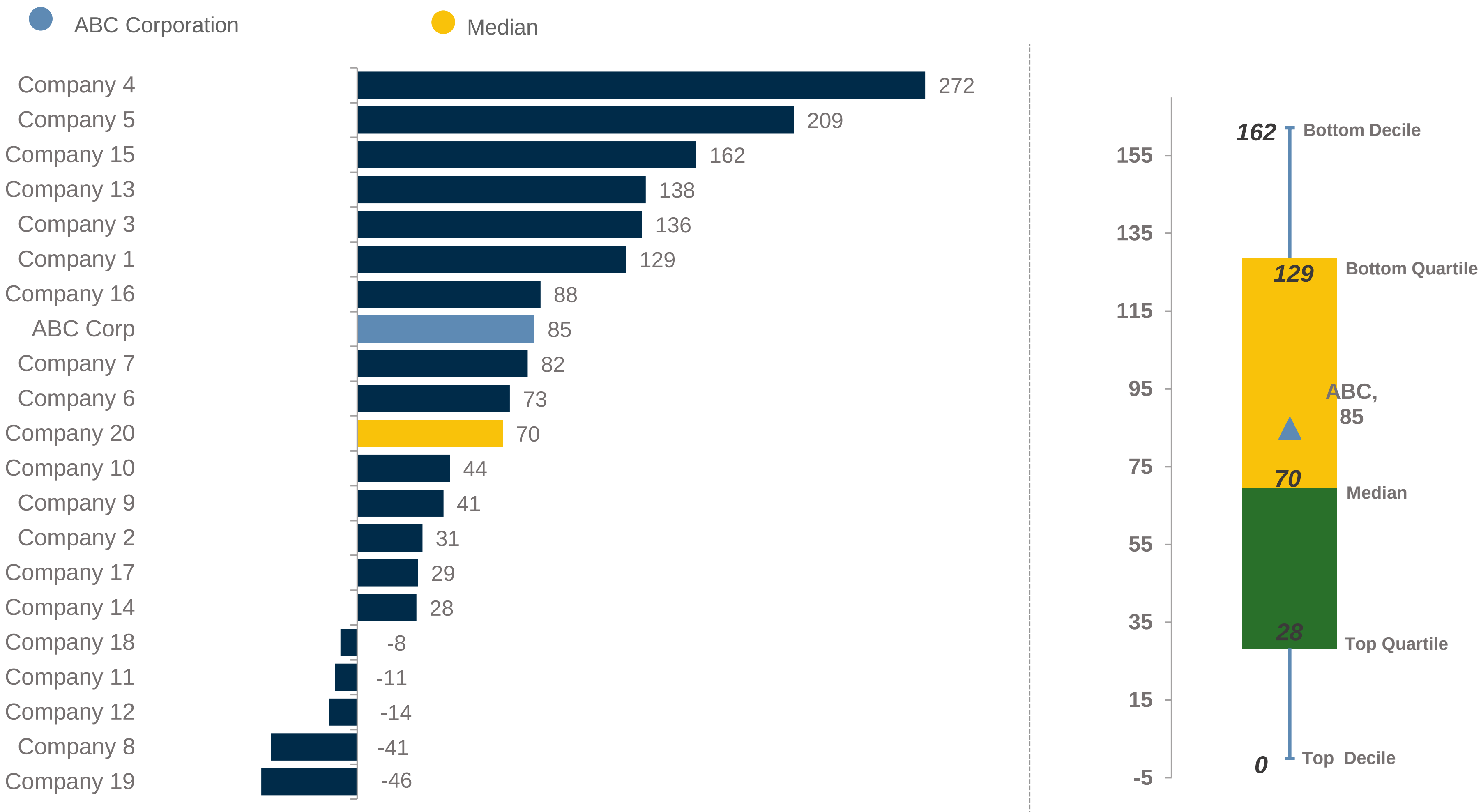



1. The DPO Improvement Opportunity is calculated by Days Payable Outstanding gaps between "Target" and the Peer Group's Median or Top Quartile times one day cost of goods sold (COGS) of the "Target" company.

# Peer Group Analysis: Cash Conversion Cycle

ABC needs to focus on all the working capital components, where they are performing below than median. The upper quartile comparison shows the total working capital improvement opportunity in the range of $69 Mn to $103 Mn.




1. The Total Working Capital Improvement Opportunity is the aggregate opportunity of the individual working capital components (DSO, DIO and DPO).



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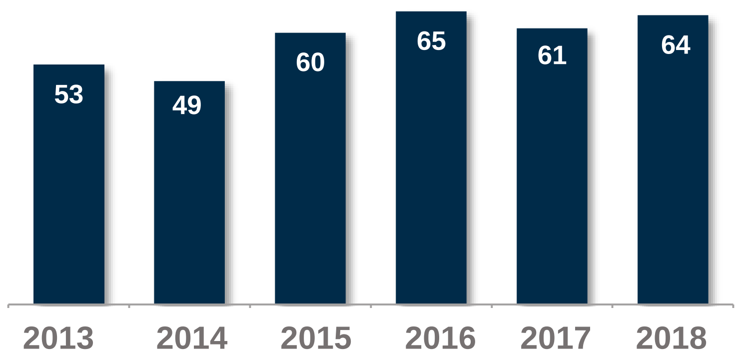
# Working Capital Components Analysis

# Working Capital Trending: ABC Vs. Vital Peer Median*

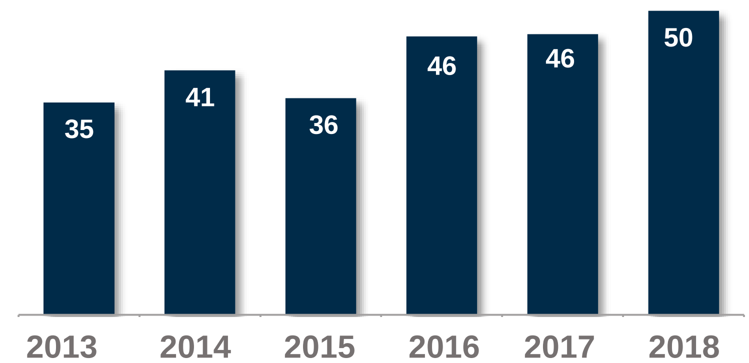
Peer trending suggests that cash conversion cycle is deteriorated for the peer group, CAGR of 26.7% for the period indicates that, the overall total working capital has increased by 2X. Data was not available for ABC for the same period.

**DSO Trending***




CAGR: 3.8%

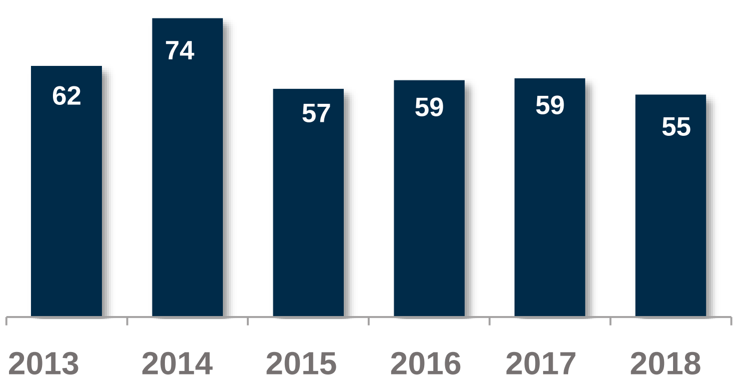
**DIO Trending***




CAGR: 7.4%

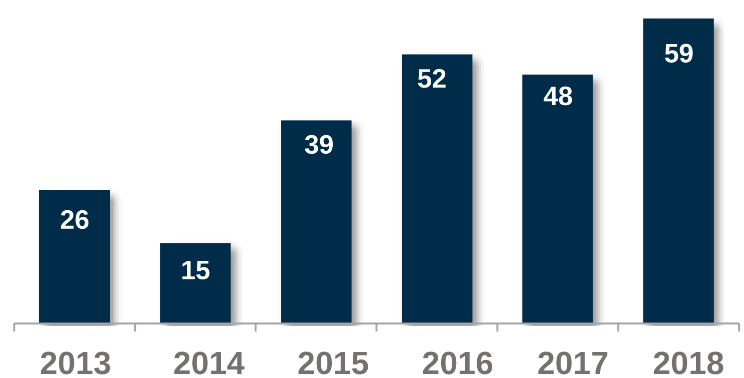
Vital Peer Median — ABC

**DPO Trending***




CAGR: -2.4%

**CCC Trending***



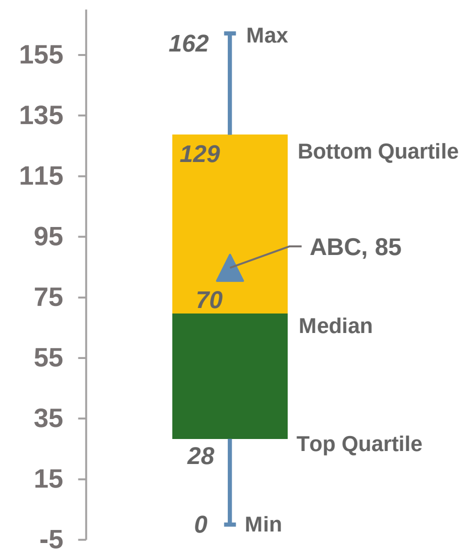

CAGR: 26.7%

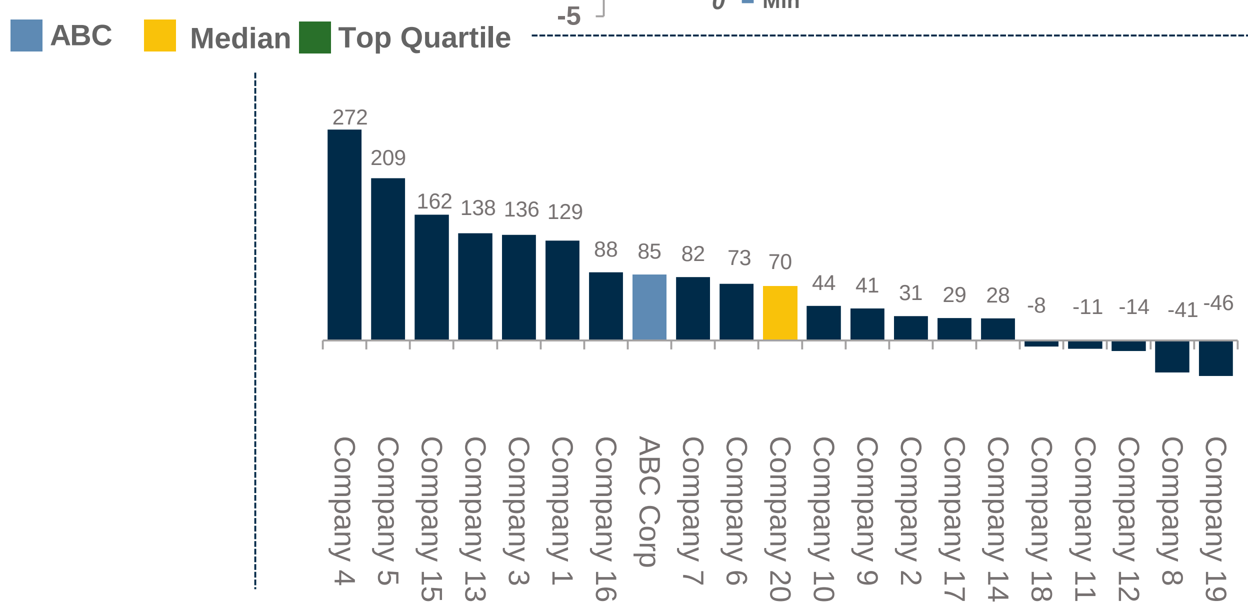
# ABC: Cash Conversion Cycle (CCC) ~ Overall Upper Quartile Benefit Summary

The overall cash conversion for ABC is (85 days), they are below median performer. ABC is 2x higher than their top quartile performers (11 days). The cash conversion cycle is primarily driven by their AR, and inventory performance, improvement in DSO, DIO will enable them to free up working capital to the tune of $66Mn to $99Mn. This improvement will significant impact on their net debt and ROCE.

| BENEFIT SUMMARY: | ABC Corporation |
|---|---|
| | |
| **TOTAL WORKING CAPITAL % SALES** | **22%** |
| | |
| **VALUE OF PERFORMANCE GAP ($)** | |
| DSO (AR) | 18M - 27M |
| DIO (INVENTORY) BASED ON COGS | 45M - 67M |
| DPO (AP) BASED ON COGS | 6M - 9M |
| | |
| **TWC (TOTAL)** | **69M - 103M** |
| | |
| **NET DEBT IMPACT** | |
| PERFORMANCE GAP % NET DEBT | 23% |
| | |
| **NET PROFIT IMPACT - LOWER FINANCIAL CHARGES ($)** | |
| DEBT COST - YEAR 1 | 3.37 M |
| WACC - YEAR 1 | -1.67 M |
| ROCE | 18.0% |
| EBIT | 41.99 |
| CAPITAL EMPLOYED | 233.83 |
| | |
| **RETURN ON CAPITAL EMPLOYED** | |
| ACTUAL ROCE | 18.0% |
| NEW ROCE WITH TWC IMPROVEMENT | 28.5% |
| | |
| TWC COMPARISON BASED ON: | UPPER QUARTILE |
| | |

Cash Conversion Cycle



# Financial Driver Analysis

# ABC: Cash Conversion Cycle (CCC) ~ Overall Upper Quartile Benefit Summary

Company 16 is a best in class performer, their overall performance is better due to their cash on hand. ABC's EBITDA performance is below median, they need to focus on their Liquidity/Cash Equivalents.

# Liquidity Driver: ABC

A measure of the extent to which an organization has cash to meet immediate and short-term obligations, or assets that can be quickly converted to do this. This driver comprises of all financial ratios/metrics which assesses the Liquidity of a company

| Liquidity Indicators | Metric Formula | Health Indicator | ABC Company | Bottom Q | Industry Median | Top Q |
|---|---|---|---|---|---|---|
| Working capital to Total Assets | (CA-CL)/Total Assets | ● | 21.8% | 17.9% | 25.9% | 31.3% |
| Cash Ratio | Cash / CL | ● | 0.08 | 0.08 | 0.16 | 0.50 |
| Cash to Total Assets | Cash / TA | ● | 2.4% | 3.9% | 8.6% | 12.7% |
| Cash To Sales | Cash / Sales | ● | 1.9% | 1.9% | 4.9% | 10.4% |
| Current Ratio | CA / CL | ● | 1.69 | 1.33 | 1.44 | 1.69 |
| Current Assets to Total Assets | CA / TA | ● | 53% | 53% | 75% | 89% |
| Current Liability Ratio | CL / Equities | ● | -0.48 | 2.24 | 1.04 | 0.40 |
| Quick Ratio | (Cash + AR)/CL | ● | 0.86 | 0.75 | 0.89 | 1.21 |
| Quick Assets to Total Assets | (Cash + AR)/TA | ● | 27% | 27% | 40% | 59% |
| Inventory to Current Assets | Inventory / CA | ● | 43% | 39% | 25% | 14% |
| **Liquidity Score** | | ● | **38%** | **39%** | **47%** | **59%** |

● Above top quartile ● Between top quartile and median ● Between median and bottom quartile ● Below bottom quartile

- **The Working Capital to Total Assets:** ratio measures a company's ability to cover its short term financial obligations (Total Current Liabilities) by comparing its Total Current Assets to its Total Assets. A moderate to low ratio indicates that ABC may have too many total current liabilities, reducing the amount of Working Capital available.
- **Cash Ratio:** A cash ratio lower than 1 does indicate a company is having financial difficulty. A low cash ratio may be an indicator of a company's strategy to have low cash reserves. However, certain industries operate with higher current liabilities and lower cash reserves. In addition, a higher cash ratio does not necessarily reflect a company's strong performance. High cash ratios may indicate that a company is inefficient in the utilization of cash or not maximizing the potential benefit of low-cost loans. ABC's cash ratio is less than 1, there are more current liabilities than cash and cash equivalents. In this situation, there is insufficient cash on hand to pay off short-term debt.
- **Quick Ratio:** A common rule of thumb is that companies with a quick ratio of greater than 1.0 are sufficiently able to meet their short-term liabilities. ABC's low or decreasing quick ratio suggests that they are over-leveraged, struggling to maintain or grow sales.

# Profitability Driver: ABC

Is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue. The profitability driver comprises of all financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time.

| Profitability Indicators | Metric Formula | Health Indicator | ABC Company | Bottom Q | Industry Median | Top Q |
|---|---|---|---|---|---|---|
| Return on Assets | Net Income / TA | ● (red) | -6.1% | 133.0% | 329.0% | 557.0% |
| Return on Equity | Net Income / Equity | ● (red) | 0.09 | 7.78 | 10.63 | 21.02 |
| Gross Profit Margin % | (Sales - COGS)/Sales | ● (green) | 38.4% | 25.6% | 30.3% | 38.4% |
| Net Profit Margin | Net Income / Sales | ● (red) | -4.7% | 0.9% | 3.0% | 5.0% |
| Operating Profit Margin % | EBIT / Sales | ● (green) | 0.09 | 0.02 | 0.05 | 0.08 |
| EBIT to Total Assets | EBIT / TA | ● (green) | 12% | 3% | 7% | 10% |
| SG&A Margin | SG&A Expenses / Sales | ● (red) | 0.29 | 0.25 | 0.13 | 0.06 |
| CF to CAPEX | CF from OPS / CAPEX | ● (red) | -3.21 | 1.37 | 2.27 | 5.18 |
| **Profitability Score** | | ● (red) | **45%** | **37%** | **50%** | **60%** |

● (green) **Above top quartile** ● (yellow) **Between top quartile and median** ● (orange) **Between median and bottom quartile** ● (red) **Below bottom quartile**

- **SG&A Margin:** Low profits can indicate issues, such as a poor product, high expenses or management deficiencies. To improve their profits, ABC needs to explore the opportunities to reduce their SG&A expenses. Optimizing SG&A spend can enable ABC to liberate capital for more strategic leverage within operations or drive savings to the bottom line.

- **Return on Assets:** can vary substantially across different industries. This is the reason why it is recommended to compare it against company's previous values or the return of a similar company. The only common rule is that the higher return on assets is, the better, because the company is earning more money on its assets. ABC's low return on assets compared with the industry average indicates inefficient use of company's assets.

- **Cash Flow to CAPEX:** As the CF to CAPEX ratio increases, it is usually a positive sign. If a company has the financial ability to invest in itself through capital expenditures (CAPEX), then it is thought that the company will grow. ABC's negative CF to CAPEX suggests that they are unable to invest.



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# Leverage Driver: ABC

The use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment. The leverage driver comprises of all the metrics pertaining to Debt, Equity, financial leverage multiplier.

| Leverage Indicators | Metric Formula | Health Indicator | ABC Company | Bottom Q | Industry Median | Top Q |
|---|---|---|---|---|---|---|
| Equity Market Value to Total Debt | Market Capital / TL | nm | | | | |
| Equity Market Value to Total Assets | Market Capital / TA | nm | | | | |
| Equity Market Value to Total Equity | Market Capital / Equity | nm | | | | |
| Debt to Equity Ratio | TL / Equity | | -2.53 | 3.09 | 1.21 | 0.44 |
| Debt to Total Assets | TL / TA | | 1.66 | 0.76 | 0.57 | 0.34 |
| Financial Leverage Multiplier | TA / Equity | | -1.53 | 1.44 | 2.21 | 4.09 |
| Fixed Assets to Equity & LT Liab | PPE/(equity + LT Liab) | | 4% | 0% | 10% | 22% |
| Retained Earnings to Total Assets | Retained Earn / TA | | -65.5% | 7% | 12% | 33% |
| **Leverage Score** | | nm | | | | |

Above top quartile | Between top quartile and median | Between median and bottom quartile | Below bottom quartile

- **Debt to Equity Ratio:** A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. ABC's high Debt to Equity Ratio indicates that they are associated with high levels of risks, associated with aggressive leveraging practices.

- **Retained earnings to Total Assets**: The ratio of retained earnings to total assets helps measure the extent to which a company relies on debt, or leverage. ABC's lower ratio indicates that, the company is funding assets by borrowing instead of through retained earnings which, again, increases the risk of bankruptcy if the firm cannot meet its debt obligations.

- **Financial leverage multiplier:** The ratio of a company's total assets to its stockholder's equity. The equity multiplier is a measurement of a company's financial leverage. Companies finance the purchase of assets either through equity or debt, so ABC's high equity multiplier indicates that a larger portion of their assets are being financed through debt.

# Turnover Driver: ABC

The number of times an asset is replaced during a financial period, the turnover driver comprises of all the working capital, equity, assets turnover related metrics.

| Turnover Indicators | Metric Formula | Health Indicator | ABC Company | Bottom Q | Industry Median | Top Q |
|---|---|---|---|---|---|---|
| Working Capital to Sales | (CA-CL)/Sales | | 17% | 8% | 17% | 27% |
| Inventory Turnover | COGS / Inventory | | 5.6 | 5.6 | 8.5 | 14.6 |
| Fixed Assets Turnover | Sales / PPE | | 36.4 | 5.9 | 24.3 | 363.2 |
| Total Assets Turnover | Sales / Total Assets | | 1.29 | 1.12 | 1.56 | 2.10 |
| Equity Turnover | Sales / Equity | | -1.97 | 1.94 | 2.34 | 9.90 |
| Inventory to Sales | Inventory / Sales | | 18% | 18% | 12% | 6% |
| Receivables Turnover | Sales / AR | | 5.22 | 3.64 | 5.22 | 6.58 |
| Quick Assets to Sales | (Cash + AR)/ Sales | | 21% | 21% | 26% | 39% |
| Current Assets to Sales | CA / Sales | | 34% | 35% | 50% | 57% |
| Working Capital Turnover | Sales / Working Cap | | 6.7 | 3.70 | 6.7 | 11.9 |
| **Turnover Score** | | | **35%** | **44%** | **53%** | **57%** |

Above top quartile | Between top quartile and median | Between median and bottom quartile | Below bottom quartile

- **Total Assets Turnover:** A company's ability to service debt isn't always easy to identify in the consumer staples sector. These companies tend to have very high asset turnover rates, which means book values are fluid and require stronger-than-normal cash flows to support. Fixed assets turnover for ABC is the median performer.
- **Receivables Turnover:** ABC is the median performer, they need to explore improving their accounts receivable turnover ratio by setting limits on the amount of credit sales. Set a dollar amount or a percentage based on current cash sales. Review their credit terms.
- **Equity Turnover:** ABC’s low equity turnover indicates that they are unable to use their equity efficiently and are not managing their equity to generate the revenue.
- **Inventory Turnover:** Inventory turnover measures how fast a company is selling inventory and is generally compared against industry averages. A low turnover implies weak sales and, therefore, excess inventory. A high ratio implies either strong sales and/or large discounts. ABC is in the bottom quartile.
- **Working Capital to Sales:** Managing working capital effectively means ensuring the business has neither too much nor too little working capital on hand at any one time. Analyzing the working capital life cycle is one method business owners can use to make adjustments to sales percentage predictions. High ratio as a % of sales indicates company’s ability to support sales without adding additional debt.

# Appendix

# Working Capital Diagnostics: Assumptions & Methodology

- All monetary units are in $ (USD)
- The peer data used in this analysis represents annual filings for FY 2019
- ***ABC*** industry peer group has been comprised of companies represented in the following SIC codes:
    - **3630,5064,5084 : Household Durables**
- "Top Quartile"  & "Best in Class" cost comparisons represent organizations operating at or below the Top Quartile (p25) and Best in Class is "Top Decile" (p10) breakpoints of the data set respectively and do not specifically infer top performance from an effectiveness perspective.

# Overall Financial Driver Methodology

This benchmarking tool creates a detailed performance measurement system uses the "Stop-Light" approach to measure the critical company specific financial value drivers which are linked to the EBITDA performance. *

- **Liquidity:** A measure of the extent to which a person or organization has cash to meet immediate and short-term obligations, or assets that can be quickly converted to do this. This driver comprises of all financial ratios/metrics which assesses the "Liquidity" of a company. The liquidity score is the average of all the percentile ranking computed for each metric for a specified peer group of a "Liquidity" driver.

- **Profitability:** is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue. The profitability driver comprises of all financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. The profitability score is the average of all the percentile ranking computed for each metric for a specified peer group of a "Profitability" driver.

- **Leverage:** The use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment. The leverage driver comprises of all the metrics pertaining to Debt, Equity, financial leverage multiplier. The leverage score is the average of all the percentile ranking computed for each metric for a specified peer group of a "Leverage" driver.

- **Turnover:** The number of times an asset is replaced during a financial period, the turnover driver comprises of all the working capital, equity, assets turnover related metrics. The turnover score is the average of all the percentile ranking computed for each metric for a specified peer group of a "Turnover" driver.

- **Composite Score:** The composite score is an average of 4 financial drivers, namely Leverage, Profitability, Turnover and Liquidity. These scores are percentile rankings computed for each company within the group. The composite score for each company is plotted against its own EBITDA score.

- **EBITDA Score:** The EBITDA score is based on the actual EBITDA Margin (%), the EBITDA score are percentile rankings computed for each company within the peer group. The EBITDA score for each company is plotted against its own Composite score.

***A&M's proprietary methodology**

# About A&M's Insight Center

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The Insight Center is A&M's global research team. The group was founded to adhere to one of A&M's founding principles: "No shooting from the hip." We provide practitioners and clients with highly relevant, industry-specific, actionable, fact-based insights derived through proprietary empirical studies and research.

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