

RapidRatings

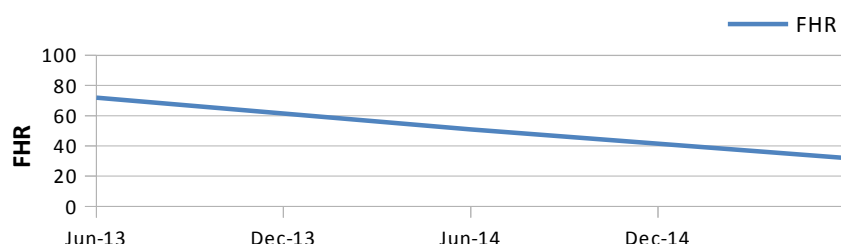
Financial Health Ratings

COATES ENGINEERING GROUP LIMITED

High default risk, with poor Core Health.

Our View: COATES ENGINEERING GROUP LIMITED's Financial Health Rating (FHR™) was an unimpressive 32 (0=worst, 100=best) for the four quarters ending March 31, 2015, and represents a 19 point downgrade as compared to a year earlier. This rating lowers the company to the top half of our High Risk group, with an estimated probability of default of 2.27% over the next 12 months. This FHR and the default risk level are the result of Poor Core Health and current weakness in liquidity.

Figure 1: FHR Trend, YE 2013 to YE 2015



The FHR™ Report

Corporate Risk Analysis

Financial Period: Mar 31, 2015, (fiscal YE 2015)

Publication Date: January 20, 2016

Ticker: PV102167

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FHR: 32

Risk Level: High Risk

Estimated Probability of Default: 2.27%

Annual Delta: -19 rating points

Core Health: 28 (Poor Health)

Table 1: Key Data and Ratios (GBP M)

	2013	2014	2015
Financial Health Rating	72	51	32
Core Health Score	67	46	28
Simulated FHR	72	51	32
	2013	2014	2015
Total Assets (M)	6.22	7.16	7.81
Total Liabilities (M)	3.82	4.66	5.23
Total Revenues (M)	9.21	11.49	12.72
EBITDA (M)	0.65	0.40	0.38
Cash from Ops (M)	0.58	0.40	0.02
Total Rev / Total Asset	1.48	1.61	1.63
Op Profit / Total Rev (%)	4.72	1.18	0.28
Op Profit / Interest Exp	13.06	2.39	0.69
FCF / Total Debt	1.05	0.56	0.02
ROCE (%)	13.63	3.93	0.94

■ Very Low Risk (80 – 100)
 ■ Low Risk (60 – 79)
 ■ Medium Risk (40 – 59)
 ■ High Risk (20 – 39)
 ■ Very High Risk (0 – 19)

n/a: This data point is either Not Available or Not Applicable

Figure 2: Core Health and Default Risk Quadrant Analysis

■ COATES ENGINEERING GROUP LIMITED

Core Health	Default Risk				
	Very High Risk (0-19)	High Risk (20-39)	Medium Risk (40-59)	Low Risk (60-79)	Very Low Risk (80-100)
Very Strong Health (80-100)	D		A		
Strong Health (60-79)					
Medium Health (40-59)					
Poor Health (20-39)	C		B		
Very Poor Health (0-19)					

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.

The **Core Health Score (CHS)** is a measure of medium-term sustainability based on operational efficiency and competitiveness.

The **Financial Health Rating (FHR)** is a measure of default risk in the short-term. It is derived from Core Health and Resilience analysis, which incorporates a company's facility to meet internal and external obligations in the short-term.

Section 1: Executive Summary

High Default Risk and Poor Core Health: A Core Health Score of 28 suggests low levels of efficiency and a performance which is not sustainable over the long-term. Within the Resilience Indicators we see some weakness, and at this Core Health level these Resilience Indicators are critical in determining default risk. Companies with this combination of Core Health and Resilience have a troubling short and medium- term outlook that will require a lot of work.

Insufficient Resilience: COATES ENGINEERING GROUP LIMITED demonstrates weakness in liquidity but adequate results in earnings performance and some strength in leverage. Significant improvement in one or more of these areas is imperative.

Core Health is Poor: For the most recent period, the 12 months (rolling quarters) ended Mar 31, 2015, COATES ENGINEERING GROUP LIMITED has suffered a very significant decline in Core Health, as evidenced by an 18 point CHS decrease, largely reflecting deterioration in the company's performance in net profitability and cost structure efficiency. Net profitability and operating profitability are at low levels relative to the global data set. COATES ENGINEERING GROUP LIMITED demonstrates strength in capital structure efficiency and leverage relative to the global industry set.

Name:	COATES ENGINEERING GROUP LIMITED
FHR:	32
Risk Level:	High Risk

Substantial underperformance in generating returns: The Return on Capital Employed (ROCE) for the most recent period, which at 0.94% represents a substantial underperformance and is a moderate decline as compared to the previous full year at 3.93%, constitutes the low point of the time studied. This measure is substantially below the high point of 13.63% achieved in YE 2013. The range over the past three years has been between 0.94% and 13.63%.

The bottom line: COATES ENGINEERING GROUP LIMITED is situated in our High Risk group, displays weakness in three of our seven performance categories, demonstrates substantial underperformance in ROCE and was downgraded in the most recent period. If current trends persist it would be logical to expect that COATES ENGINEERING GROUP LIMITED will face serious default risk this coming year and will struggle with efficiency and competitiveness problems over the medium-term; thus, the outlook is negative.

Section 2: FHR History and Performance Category Analysis

Table 2 presents the FHR and Performance Category trends for COATES ENGINEERING GROUP LIMITED. Each rating period is labeled with the financial period end of the most recent financial reports incorporated into that FHR.

Core Health is an analysis of efficiency and competitiveness, whereas Resilience is based on empirical correlations with default probability. The two perspectives may not always be in alignment and they dynamically interact in their contribution to overall Financial Health.

Table 2: COATES ENGINEERING GROUP LIMITED's Ratings and Performance Category Trends, YE 2013 to YE 2015

	FHR History		
	YE 2013	YE 2014	YE 2015
Financial Period End	3/31	3/31	3/31
Financial Health Rating	72	51	32
FHR Annual Delta	n/a	-21	-19
Core Health Score	67	46	28

■ Very Low Risk (80 – 100) ■ Low Risk (60 – 79) ■ Medium Risk (40 – 59) ■ High Risk (20 – 39) ■ Very High Risk (0 – 19)

Core Health Performance Scores: Medium-Term Outlook (0-100)

Operating Profitability	42	11	12
Net Profitability	81	46	10
Capital Structure Efficiency	54	64	66
Cost Structure Efficiency	77	73	51

Resilience Indicators: Short-Term Outlook (W - Weakness, A - Adequate, S - Strength)

Leverage	S	S	S
Liquidity	W	W	W
Earnings Performance	A	A	A

Note: n/a indicates that data and ratings for this period are not available. This is either due to critical errors in the financials for that period, or the company not reporting on a quarterly basis at that time.

Section 3: The Deeper Dive: What We Like, What We Don't Like

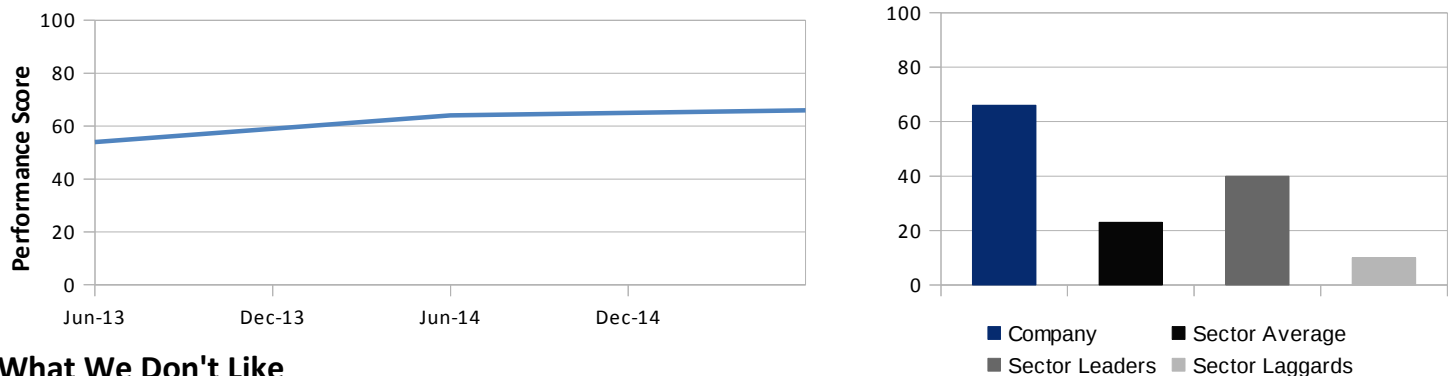
In this section, we take a closer look at COATES ENGINEERING GROUP LIMITED, pinpointing current areas of notable strength and weakness in relation to past performance and in relation to other sector participants. The Sector Leaders and Sector Laggards indicate the performance of companies in the top and bottom tenth percentile of the sector for that performance measure.

What We Like

While the company shows strength in the following category, it must also be remembered that this company is operating at an elevated level of risk.

Capital Structure Efficiency (66): Capital Structure Efficiency examines the main elements of the capital structure (current liabilities, term liabilities, total liabilities, equity, current assets and total assets) relative to various bases such as total capital employed, operating revenue, total liabilities and total assets. COATES ENGINEERING GROUP LIMITED's score, which modestly improved over the previous 12 months, depicts a company which represents a 66% best practice profile match against its global reference set.

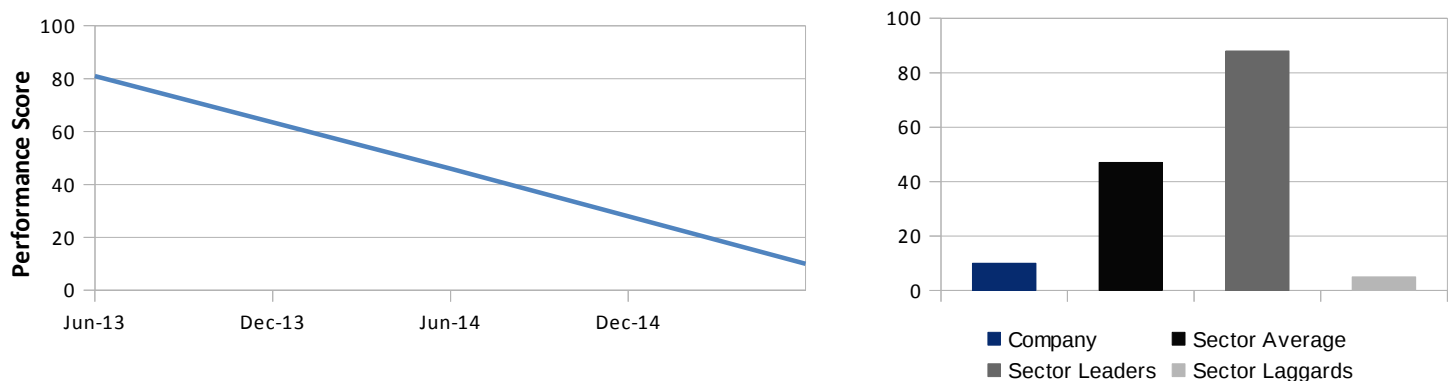
Figure 3: COATES ENGINEERING GROUP LIMITED's Capital Structure Efficiency Performance Score over time and Sector Measures for the YE 2015 period



What We Don't Like

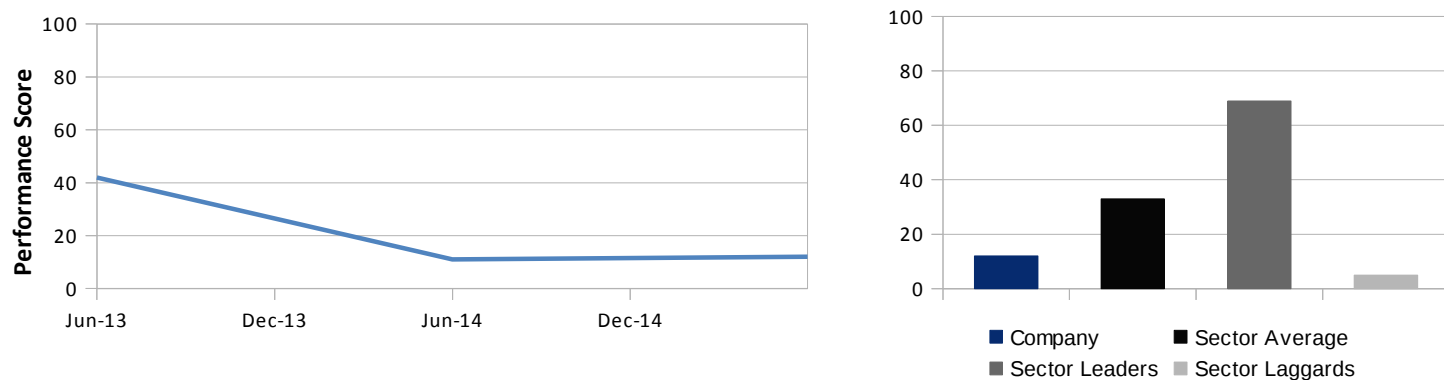
Net Profitability (10): Net Profitability provides a downstream scan of the efficiency in generating profitability and includes Net Operating Profit After Tax, Net Profit After Tax and Net Profit Before Tax relative to several important denominators, notably total capital employed, equity, total assets, and operating revenue. COATES ENGINEERING GROUP LIMITED depicts a company which represents a 10% best practice profile match against its global reference set over the last 12 months ending March 31, 2015.

Figure 4: COATES ENGINEERING GROUP LIMITED's Net Profitability Performance Score over time and Sector Measures for the YE 2015 period



Operating Profitability (12): Operating Profitability provides an upstream scan of the efficiency in generating profitability and encompasses gross profit, EBIT and EBITD relative to several important denominators, notably capital employed, equity, total assets, and operating revenue. COATES ENGINEERING GROUP LIMITED depicts a company which represents a 12% best practice profile match against its global reference set over the last 12 months ending March 31, 2015.

Figure 5: COATES ENGINEERING GROUP LIMITED's Operating Profitability Performance Score over time and Sector Measures for the YE 2015 period



Section 4: COATES ENGINEERING GROUP LIMITED's Simulated FHR to adjust for Abnormal Items

COATES ENGINEERING GROUP LIMITED's current rating is unaffected by abnormal items.

Current FHR:	32	High Risk
Simulated FHR:	32	High Risk

Simulated FHR is 32, High Risk. The company does not have any

abnormal items this period which are affecting the rating.

The company's year-on-year rating delta using the simulated rating is -19 compared to the published delta of -19.

Table 3: Simulation Factors and Results

FHR Simulation Review	FHR History		
	YE 2013	YE 2014	YE 2015
Financial Period End	3/31	3/31	3/31
Actual FHR	72	51	32
Actual Annual Delta	n/a	-21	-19
Simulated FHR (adjusted for abnormal item)	72	51	32
Simulated Annual Delta	n/a	-21	-19
Financial Item Review (GBP M)			
Pre-Abnormal Item Operating Profit	0.44	0.14	0.04
Abnormal Item	–	–	–
Abnormal Item / Pre-Ab. Item Op. Profit (%)	0%	0%	0%
Post-Abnormal Item Operating Profit	0.44	0.14	0.04

n/a: This data point is either Not Available or Not Applicable

General Information Regarding Abnormal Items.

While there is temptation to disregard the actual rating in favor of the simulated rating, this should only be done with consideration to the potential cost should the abnormal item prove symptomatic of larger issues within the organization.

An isolated negative abnormal event may only be a temporary setback and hence should be put in perspective in terms of your relationship with the firm. It is common for firms to occasionally report abnormal items. Abnormal Items can generally be found under operating expenses as Other Gains/Charges. They include non-recurring one-time items such as goodwill impairment charges, restructuring charges, non-recurring legal fees and expenses related to natural disasters. The key is how management handles the shock if there is a loss and whether or not the company returns to financial health quickly if there is a loss. Thus, closer scrutiny is called for if the abnormal leads to a loss.

This simulation does not account for the tax implications of excluding the abnormal item from the company's performance.

Section 5: Cash Flow Section

Free Cash Flow (FCF) is cash that a company is able to generate after accounting for the cost of maintaining or expanding its asset base. COATES ENGINEERING GROUP LIMITED's FCF has been positive for the past 3 years, ranging from a peak of \$0.58M (2013 YE) to a low of \$0.02M (2015 YE). For the most recent 12 months, ending with fiscal 2015 FY, FCF fell from \$0.40 to

\$0.02M.

The debt load grew, from \$0.71M at 2014 YE to \$0.94M at 2015 YE. The higher debt level combined with weaker FCF to produce lower FCF/TD, from 56% in 2014 FY to a very weak 2% in 2015 FY. FCF/TD levels of this magnitude can indicate a challenged solvency profile.

Table 4: COATES ENGINEERING GROUP LIMITED's Cash Flow Summary, as of the most recent annual period

GBP Millions	2013	2014	2015
	3/31/2013	3/31/2014	3/31/2015
Net Income	0.43	0.24	0.09
Adjustments to reconcile net earnings:			
Depreciation	0.22	0.27	0.35
Other Non-cash expenses	–	–	–
Total Non-Cash Working Capital Changes	–	–	–
Accounts Receivable *	–	0.58	-0.27
Inventories *	–	-0.04	-0.22
Accounts Payable *	–	0.82	0.26
Other changes in WC	–	–	–
Net Cash from Operations	0.58	0.40	0.02
Net Cash from Investing Activities	–	–	–
Net Cash from Funding Activities	–	–	–
Net change in Cash and Cash Equivalents	–	–	–
Capital Expenditure	–	–	–
Free Cash Flow	0.58	0.40	0.02
Total Debt	0.55	0.71	0.94

* These figures may be estimations derived from balance sheet inputs in some cases

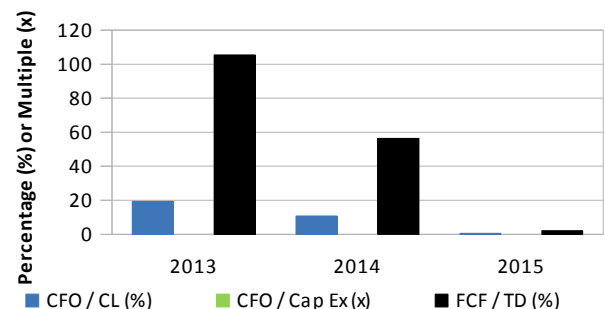
COATES ENGINEERING GROUP LIMITED's CFO to Current Liabilities (0.45%) indicates a weak level of cash flow coverage, but the FCF to Total Debt (2.13%) indicates a very weak level of cash flow coverage.

Table 5: Cash Flow Ratios

	2013	2014	2015	Level
CFO / CL (%)	19.40	10.72	0.45	Weak
CFO to Cap Ex (x)	n/a	n/a	n/a	n/a
FCF to Total Debt	105.45	56.34	2.13	Very Weak

n/a: This data point is either Not Available or Not Applicable

Figure 6: Cash Flow Ratios



Section 6: Liquidity Module

Liquidity: COATES ENGINEERING GROUP LIMITED's liquidity position is weak, and additional strengthening is desired given the company's Poor Core Health. The company's working capital and its Cash Ratio have both decreased. The Cash Ratio shows that the firm has \$0.02 in Cash for each \$1.00 of Current Liabilities.

Figure 7: Liquidity Ratios

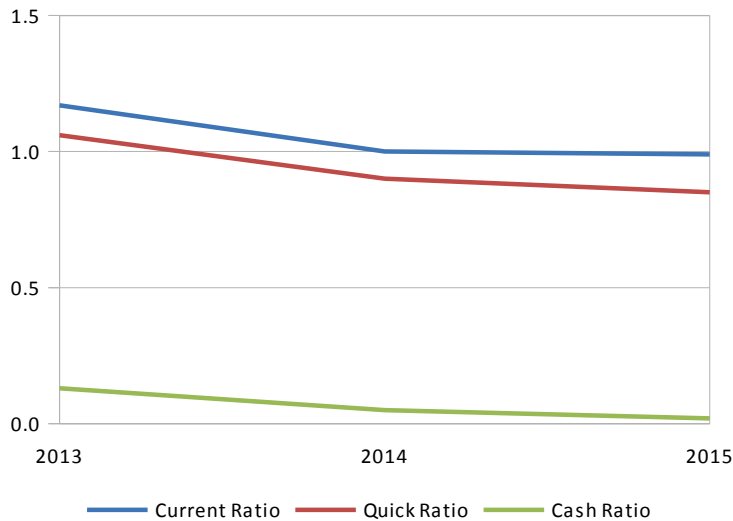


Table 6: Liquidity Ratios

	2013	2014	2015	Direction
Current Ratio	1.17	1.00	0.99	FALLING
Quick Ratio	1.06	0.90	0.85	FALLING
Cash Ratio	0.13	0.05	0.02	FALLING
WC to Assets	0.08	0.00	-0.01	n/a

n/a: This data point is either Not Available or Not Applicable

Definitions

In each case, the higher the better.

Current Ratio: Current Assets / Current Liabilities

Quick Ratio: (Cash + Accounts Receivable) / Current Liabilities

Cash Ratio: Cash / Current Liabilities

WC to Assets: Working Capital (CA – CL) / Total Assets

Section 7: Activity Module

Activity: Inventory turnover has been rising and the firm currently takes an average of 23.9 days to produce and sell its inventory. Currently, COATES ENGINEERING GROUP LIMITED collects from its customers in only 43.0 days, but waits an average of 82.5 days to pay its suppliers, a cash advantage of 39.5 days. The Cash Conversion Cycle shows that the firm is taking -15.6 days to convert its inputs into cash. In terms of how effectively the firm is utilizing its assets, Asset Turnover shows that in the most recent 12-month period, the firm has generated \$1.63 for each dollar of assets. Performance on this metric has been rising.

Figure 8: Activity Ratios

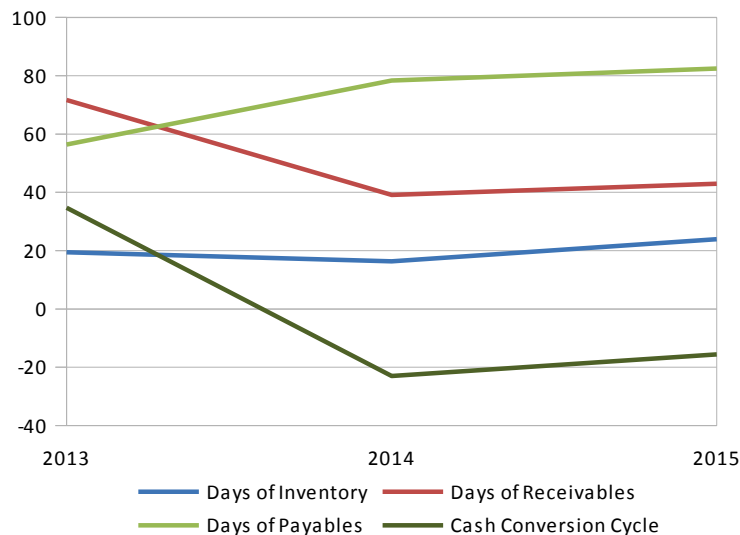


Table 7: Activity Ratios

	2013	2014	2015	Signal
Days of Invent.	19.4	16.3	23.9	RISING
Days of Receiv.	71.7	39.1	43.0	RISING
Days of Pay.	56.4	78.4	82.5	RISING
Cash Conv. Cyc.	34.7	-23.0	-15.6	RISING
Asset Turnover	1.48	1.61	1.63	RISING

Section 8: DuPont ROA Analysis

The Operating Margin measures how much operating profit a firm generates for each dollar of revenue. This excludes interest, tax and any investment expenses or income. COATES ENGINEERING GROUP LIMITED has an Operating Margin of 0.31%, indicating that it produces \$0.31 of operating profit for each \$100 of revenue.

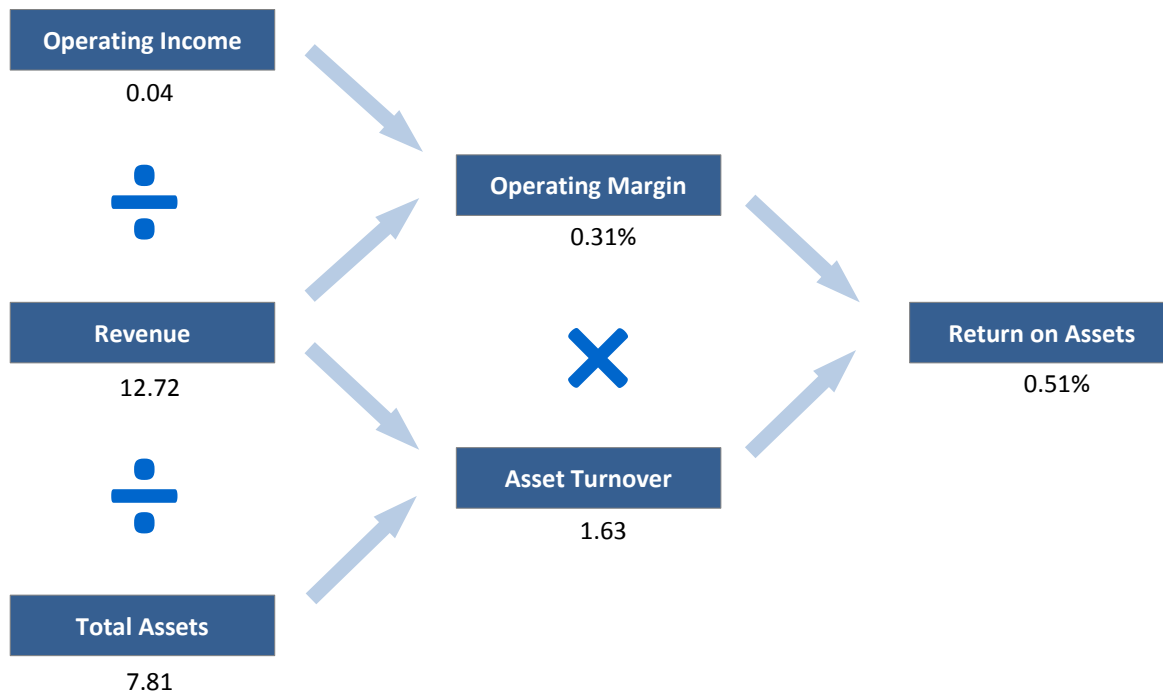
Asset Turnover measures how much revenue a firm generates for each dollar in total assets. COATES ENGINEERING GROUP

LIMITED has an Asset Turnover of 1.63, indicating that it generates \$163 in revenue for every \$100 of total assets.

Operating Margin and Asset Turnover can be multiplied to obtain Return on Assets, which measures the Operating Profit generated for each dollar of total assets. COATES ENGINEERING GROUP LIMITED has a Return on Assets of 0.51%, which means the firm has \$0.51 of operating profit for each \$100 of total assets.

Currency:	GBP Millions
Period:	Mar 31, 2015

Figure 9: COATES ENGINEERING GROUP LIMITED DuPont Analysis, 12 months ending YE 2015



DuPont Analysis permits a quick overview of a firm's financial position and performance. It provides valuable insights into the efficiency of firm performance by separating operations (how effectively does the firm convert sales to profit) and financing (how effectively does the firm convert its assets into sales). The Operating Margin and Asset Turnover provide us insight into these two dimensions of efficiency. When multiplied, we can see how they combine to produce Return on Assets, which is a sound measure for comparing the financial performance of this firm to its peers. DA serves many different purposes and as such, many variations exist on the core tools. We present a version here that is focused on operational efficiency, an important driver of Financial Health.

Section 9: COATES ENGINEERING GROUP LIMITED Balance Sheet

The company's headquarter address was unavailable.

Table 8: COATES ENGINEERING GROUP LIMITED balance sheet as of March 31, 2015

(in GBP M)	2013	2014	2015
Assets			
1. Bank, Cash Balances	0.39	0.17	0.08
2. Accounts Receivable	1.81	1.23	1.50
3. Total Inventories	0.33	0.37	0.59
4. Prepayments	–	–	–
5. Other Current Assets	0.98	1.97	2.22
6. Total Current Assets (1+2+3+4+5)	3.51	3.73	4.39
7. Fixed Assets	2.15	2.62	2.70
8. Financial Assets	–	–	–
9. Intangible Assets	0.56	0.80	0.72
10. Other Term Assets	0.00	0.00	0.00
11. Total Term Assets (7+8+9+10)	2.71	3.42	3.42
12. Total Assets (6+11)	6.22	7.16	7.81
Liabilities			
13. Bank Overdraft	0.00	0.00	0.00
14. Accounts Payable	0.96	1.78	2.04
15. Debt owed within one year	0.08	0.13	0.60
16. Short-Term Provisions	–	–	–
17. Other Current Liabilities	1.95	1.81	1.82
18. Total Current Liabilities (13+14+15+16+17)	2.99	3.73	4.46
19. Term Loans	0.47	0.58	0.33
20. Provisions	–	–	–
21. Deferred Taxation	0.24	0.25	0.33
22. Other Term Liabilities	0.12	0.11	0.10
23. Total Term Liabilities (19+20+21+22)	0.83	0.93	0.77
24. Total Liabilities (18+23)	3.82	4.66	5.23
Shareholders' Equity			
25. Retained Earnings	1.92	2.16	2.25
26. Subscribed Capital	0.00	0.00	0.00
27. Minority Interests	–	–	–
28. Other Equity Items	0.48	0.34	0.34
29. Total Shareholders' Equity (25+26+27+28)	2.40	2.50	2.59

Section 10: COATES ENGINEERING GROUP LIMITED Income Statement

Table 9: COATES ENGINEERING GROUP LIMITED Income Statement for the 12 months ending March 31, 2015

(in GBP M)	2013	2014	2015
Revenue			
1. Sales Revenue	9.21	11.49	12.72
2. Other Income	0.00	0.00	0.00
3. Total Revenue (1+2)	9.21	11.49	12.72
Cost of Goods Sold			
4. Cost of Goods Sold	6.21	8.29	9.02
5. Gross Profit (1-4)	3.00	3.20	3.70
Operating Expenditure			
6. Salaries and Wages	–	–	–
7. Depreciation	0.17	0.21	0.27
8. Amortization	0.05	0.06	0.08
9. Other Operating Expenditure	2.35	2.79	3.32
10. Total Operating Expenditure (6+7+8+9)	2.56	3.06	3.66
11. Total Cash Expenditure	8.56	10.98	12.28
12. Other Income (as per item 2)	0.00	0.00	0.00
13. Abnormal Items	–	–	–
14. Other Operating Items (12 + 13)	0.00	0.00	0.00
15. Operating Profit (5-10+14)	0.44	0.14	0.04
Net Investment Income			
16. Investment Income	–	–	–
17. Interest Received	–	0.00	–
18. Interest Expense	0.03	0.06	0.05
19. Other Investment Expense	0.00	0.00	0.00
20. Net Investment Income Total (16+17-18-19)	-0.03	-0.06	-0.05
21. Net Profit Before Tax (NPBT; 15+20)	0.40	0.08	-0.02
22. Company Tax Expense	-0.03	-0.16	-0.10
23. Net Profit After Tax (NPAT; 21-22)	0.43	0.24	0.09
24. Minority Interests	–	–	–
25. Net Extraordinary Income	–	–	–
26. Net Surplus (23-24+25)	0.43	0.24	0.09

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Rating Scale Explanation

FHR Range	Average EPD (%)	Risk Category
95-100	<0.001	Very Low Risk
90-94	0.001	
85-89	0.002	
80-84	0.005	
75-79	0.01	Low Risk
70-74	0.02	
65-69	0.04	
60-64	0.08	
55-59	0.14	Medium Risk
50-54	0.24	
45-49	0.42	
40-44	0.73	
35-39	1.28	High Risk
30-34	2.31	
25-29	4.35	
20-24	8.71	
0-19	>11.40	Very High Risk

Core Health Score (CHS)	Core Health Category
80-100	Very Strong Health
60-79	Strong Health
40-59	Medium Health
20-39	Poor Health
0-19	Very Poor Health

Rapid Ratings' financial health rating scale defines a range of performance from worst practice at 0 to best practice at 100. The scale is separated into 20 vintiles of 5 point each, and with four vintiles per quintile. The quintiles are our main risk assessment categories, notably very low risk from 80-100, low risk from 60-79, medium risk from 40-59, high risk from 20-39 and very high risk from 0-19. While the Rapid Ratings scale appears to be linear, this is not really the case. Owing to the way the statistical distributions underlying the models for each sector have been constructed, and the sector specific-weights for each variable, companies make non-linear movements over time on Rapid Ratings' scale.

	Very High Risk (FHR 0-19)	High Risk (FHR 20-39)	Medium Risk (FHR 40-59)	Low Risk (FHR 60-79)	Very Low Risk (FHR 80-100)
Very Strong Health (CHS 80-100)	Quadrant D – These companies have medium or better Core Health, however challenges remain in the short-term given their elevated level of default risk.		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 level of default risk over the next 12 months.		
Strong Health (CHS 60-79)					
Medium Health (CHS 40-59)					
Poor Health (CHS 20-39)	Quadrant C – These companies demonstrate poor to very poor Core Health (suggesting the need for improved efficiency), and a high to very high risk of default within the next 12 months.		Quadrant B – While default is unlikely in the short-term, the level of Core Health suggests a need for efficiency improvements in order to reach medium-term sustainability.		
Very Poor Health (CHS 0-19)					

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