Company Bankruptcy Prediction

Predicting bankruptcy risk through
Machine Learning Classification

Cindy Su - 10/29/2021

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Introduction

- Goal: Predicting bankruptcy and possible financial distress of public companies through financial ratios.
- Client: Bank, Creditors or Investors

Data & Methodology

Data & Methodology

TAIWAN STOCK EXCHANGE

- Taiwan Economic Journal
- 800-900 listed companies
- From 1999 to 2009
- rows: 6819
- features: 96

matplotlib

seaborn

Online MERGENT

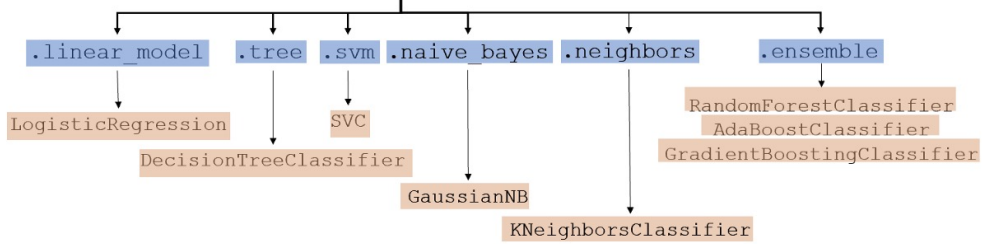
- S&P500

pandas

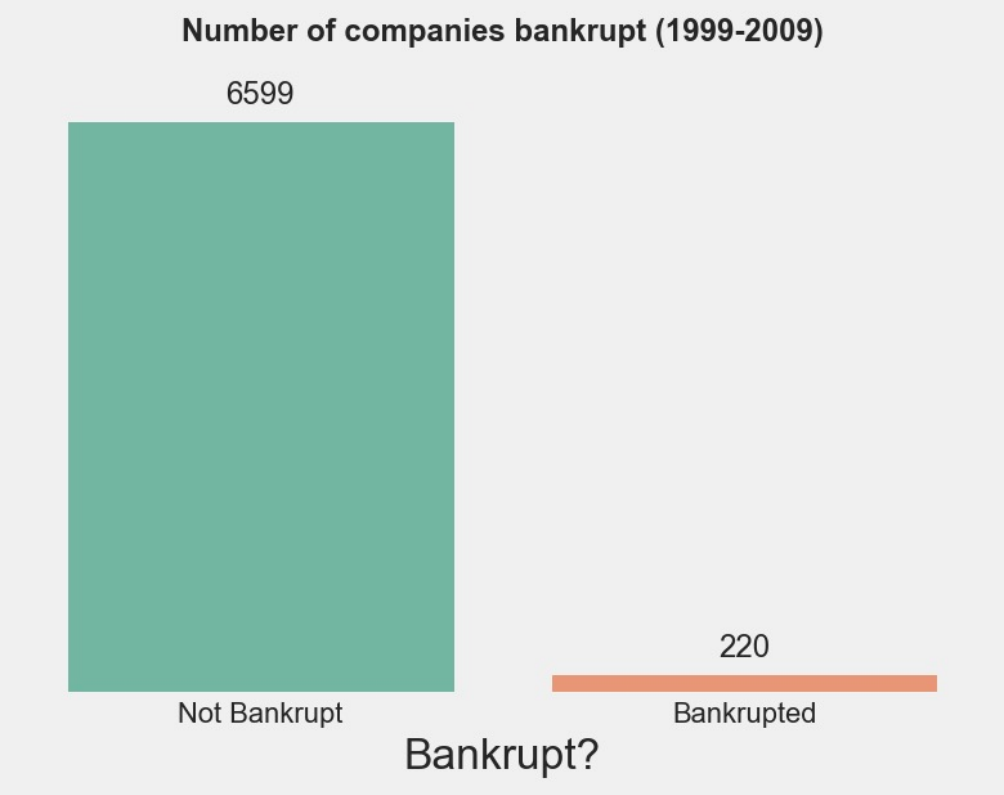
NumPy

- Feature selection & Dimensionality reduction

scikit learn classifiers

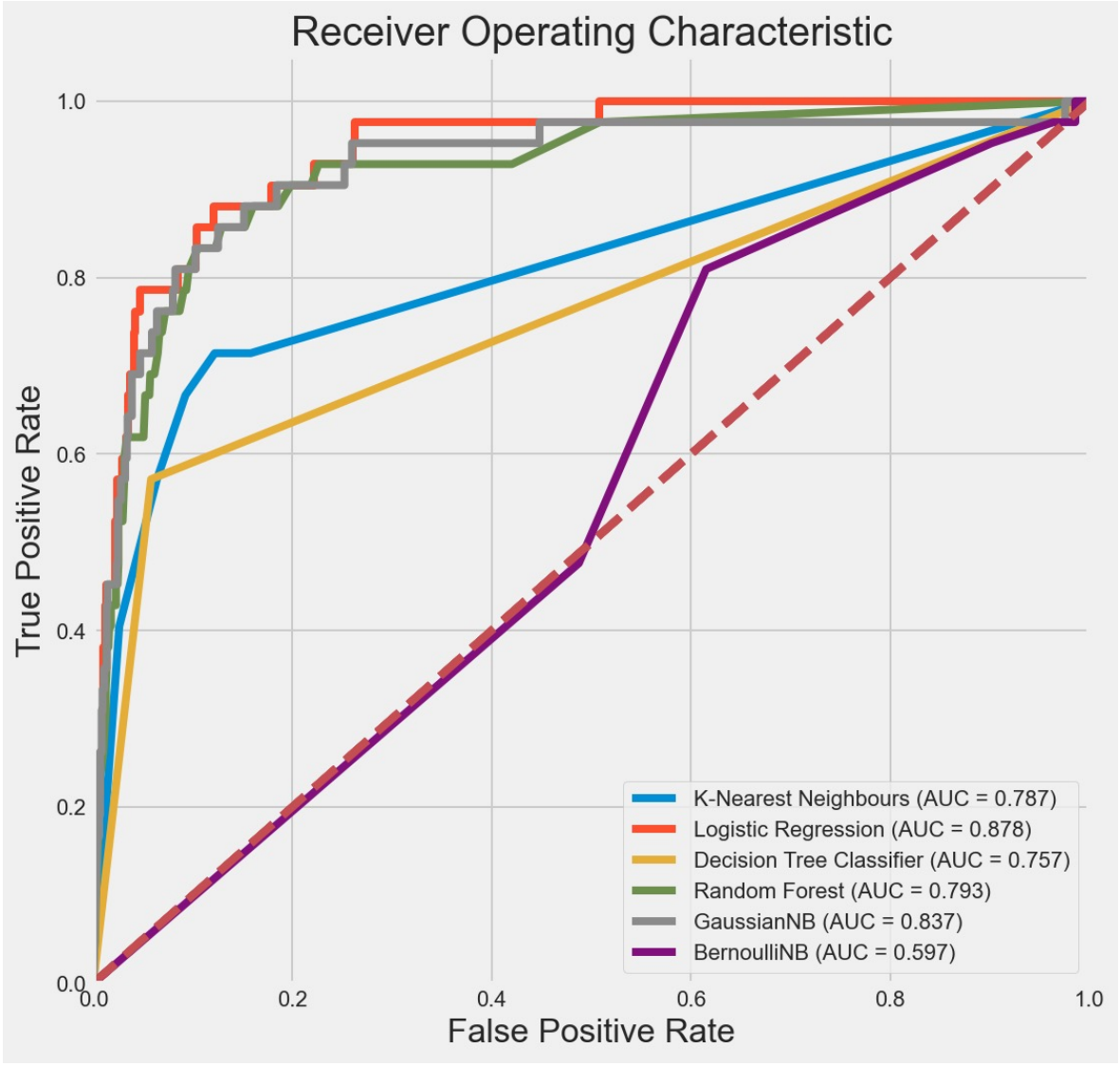


Exploratory Data Analysis



- True Class: Bankrupted
- False Class: No bankrupt
- Goal: Minimize False Negative ➔ Maximize Recall

$$Recall = \frac{TP}{TP + FN}$$



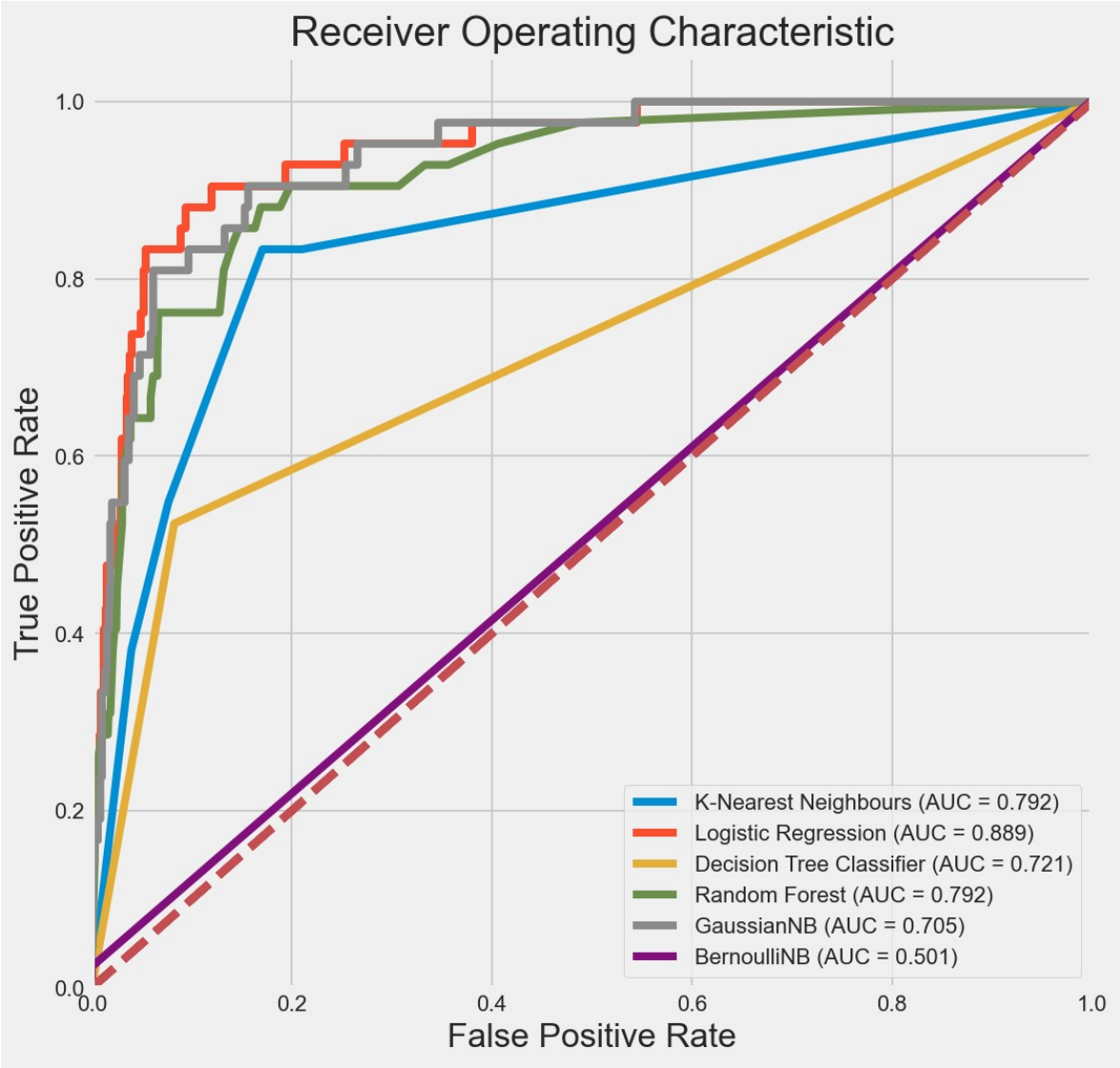
Naïve Result

Top 2 Models

- Logistic Regression
- Gaussian Naive Bayes

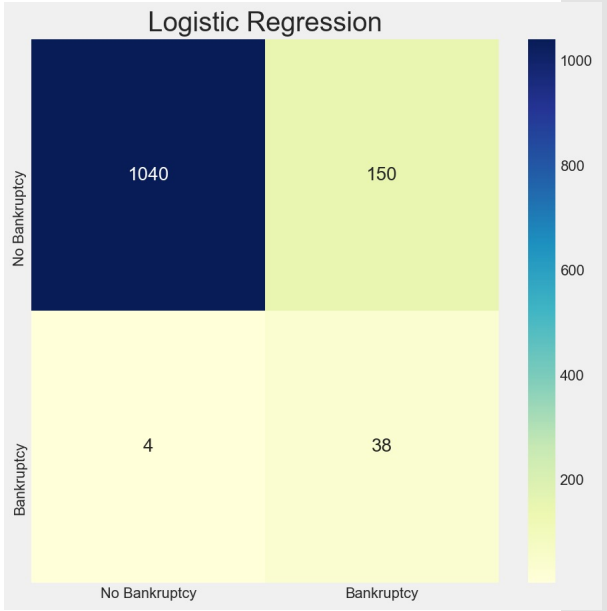
Tuned Result

- Removing multicollinearity



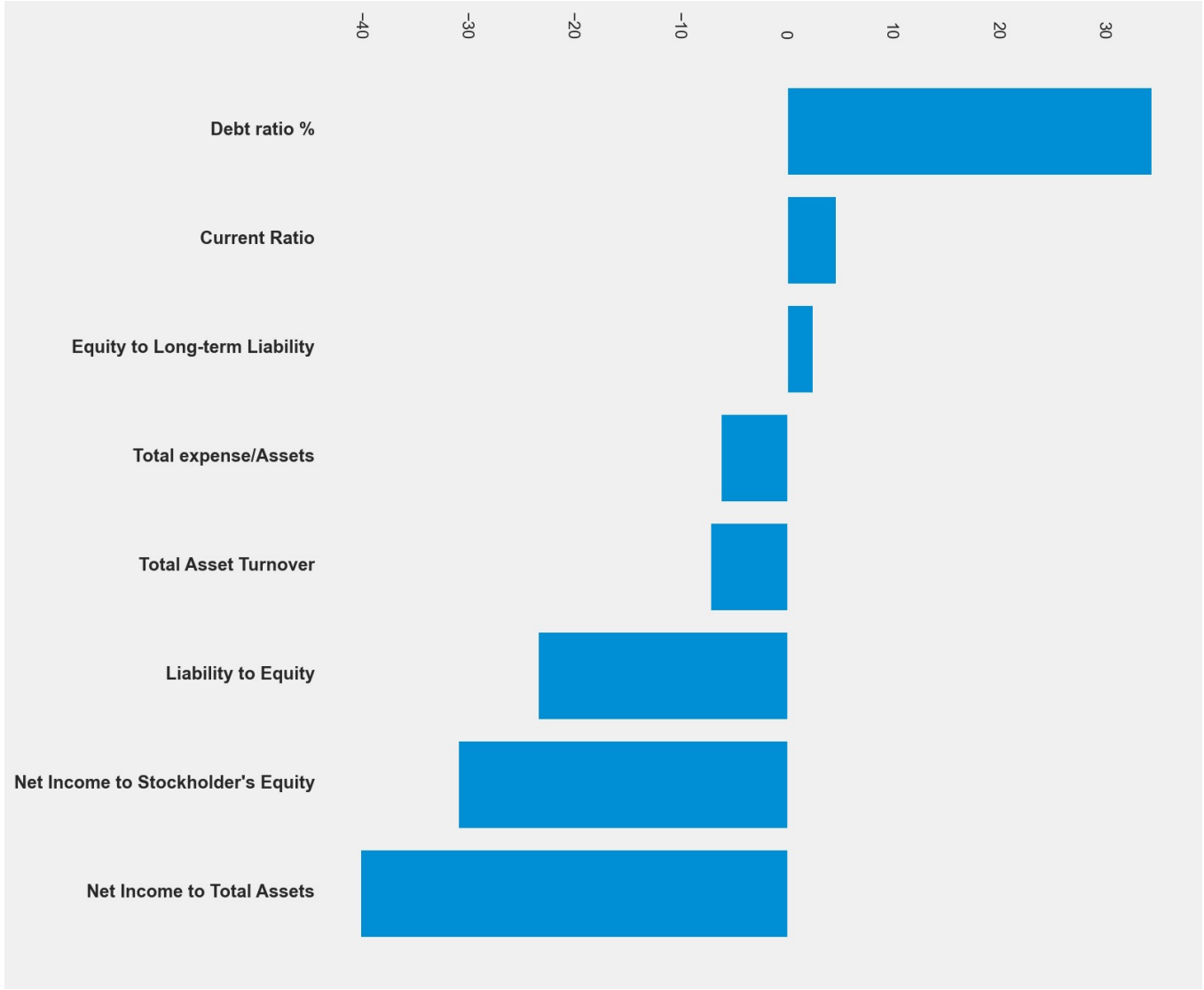
Result

Model	Baseline	Tuned	
Recall	88%	90%	0.02
Precision	20%	20%	
F1	0.32	0.33	0.01
ROC_AUC	0.88	0.89	0.01



Logistic Regression

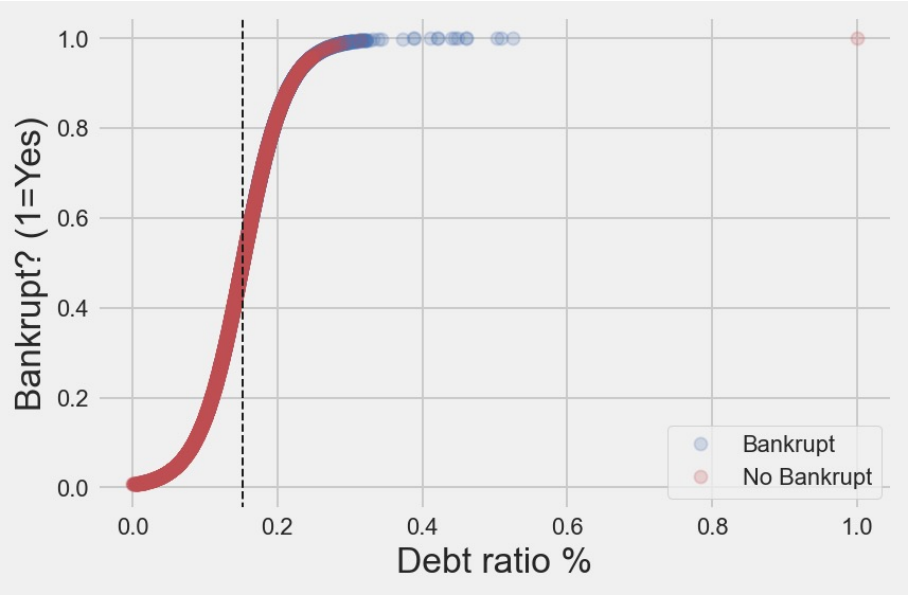
Feature	Feature Coefficient
Debt ratio %	34.34437
Current Ratio	4.62239
Equity to Long-term Liability	2.40398
Total expense/Assets	-6.22252
Total Asset Turnover	-7.189
Liability to Equity	-23.468
Net Income to Stockholder's Equity	-30.9835
Net Income to Total Assets	-40.1931

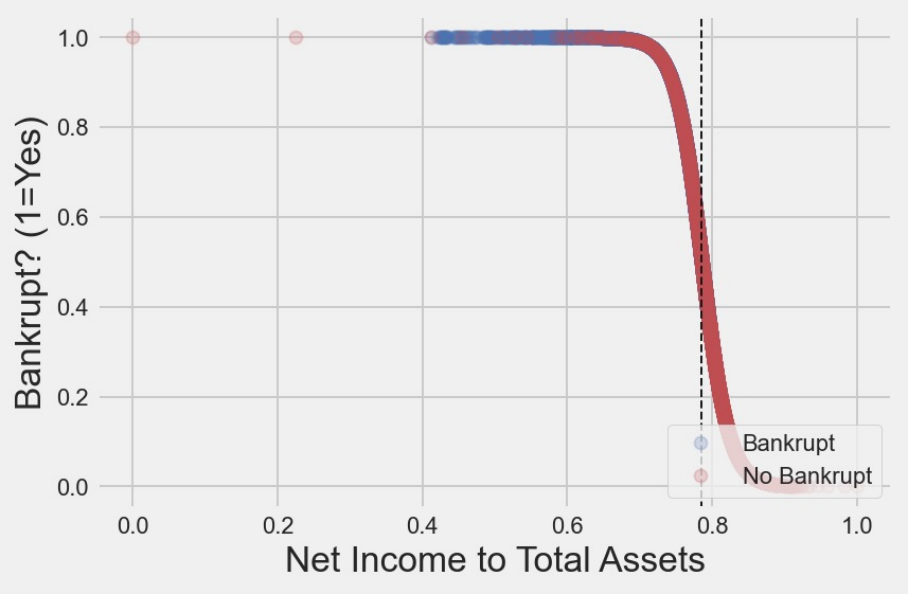


- Reduced to 12 features

Tuned Result

- Removing multicollinearity



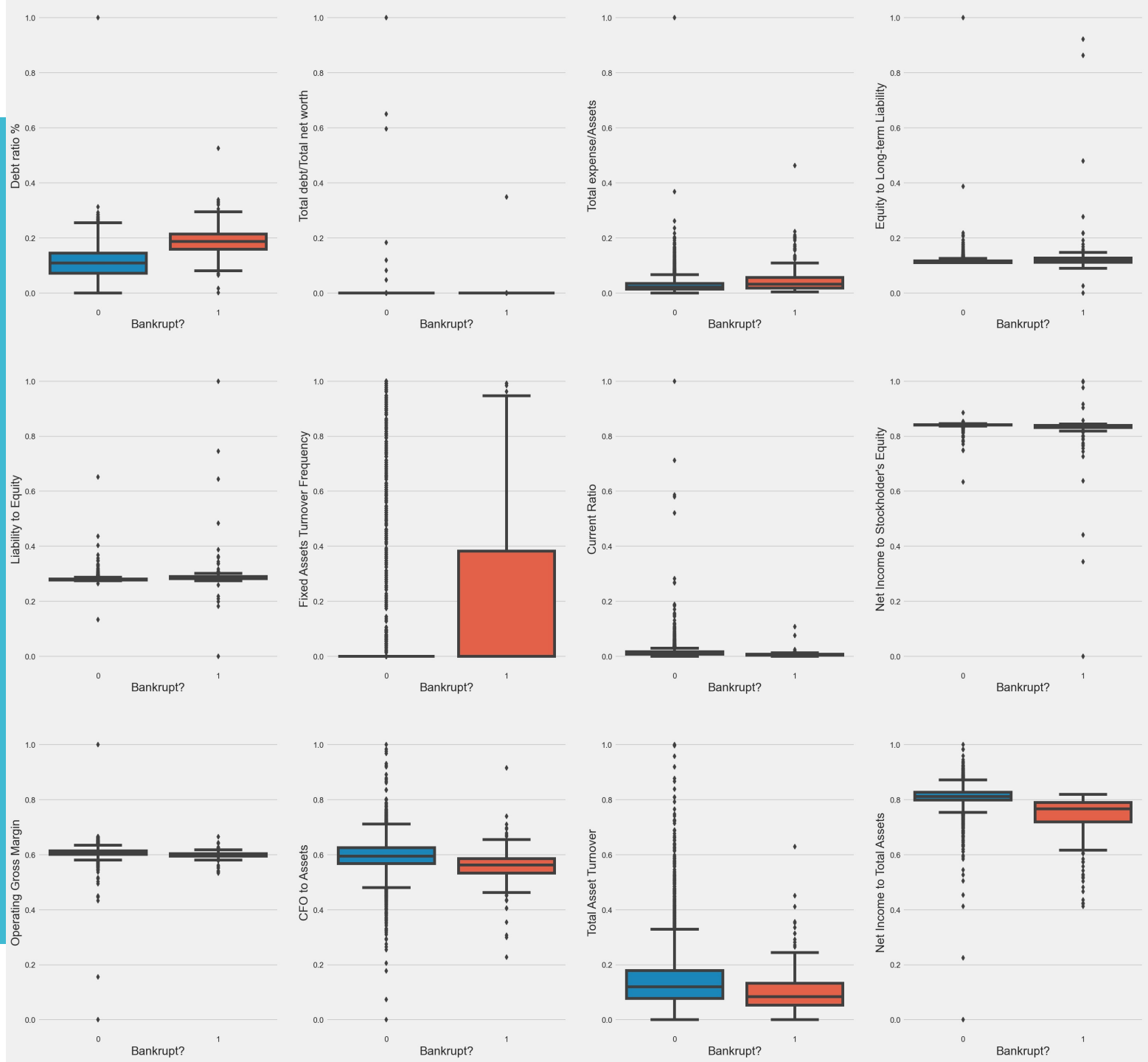


S&P500 Top identified companies

- Diamondback Energy, Inc.
- SBA Communications Corp (New)
- AutoZone, Inc
- Autodesk Inc

Thank you

Feature Classification Performance



Pairplot of 12 features