

# Asset-Based Lending Credit Rating Framework

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# Asset-Based Lending Credit Rating Framework Overview

Rating for the ABL facility is derived from assessments of individual asset categories and their weighting in the borrowing base

## Illustrative Example:

	Receivables	Inventory	Equipment	Description
<b>Credit Assessment</b>	<b>BBB-</b>	<b>BB+</b>	<b>BB+</b>	<ul style="list-style-type: none"> <li>Approach to deriving credit assessments for the individual asset categories is described on the following pages</li> </ul>
<b>Borrowing Base Weighting</b>	<b>40%</b>	<b>30%</b>	<b>30%</b>	<ul style="list-style-type: none"> <li>Individual asset assessments are weighted based on proportion of each asset category in the amount of the Borrowing Base for the ABL</li> </ul>
<b>Weighted Assessment</b>				<ul style="list-style-type: none"> <li>Result of weighting of individual asset credit assessments based on the Borrowing Base composition</li> </ul>
<b>Modifier 1: Structure</b>		--		<p><i>If the following structure requirements are not present, highest possible rating is B+</i></p> <ul style="list-style-type: none"> <li>Borrowing Base applicable to <u>eligible</u> assets, reported at least monthly</li> <li>Lockbox account and periodic asset quality monitoring requirements</li> </ul>
<b>Modifier 2: Liquidity</b>		--		<p><i>If the following liquidity requirement is not satisfied, highest possible rating is B-</i></p> <ul style="list-style-type: none"> <li>Available cash and borrowing base &gt; 10% of the ABL balance, <u>OR</u></li> <li>DSCR &gt; 1.1x</li> </ul>
<b>Final ABL Credit Rating</b>	<b>BB+</b>			

**Please refer to the following pages for the detail of derivation of Credit Assessment for individual asset categories**

# Receivables Credit Assessment

## *Matrix of Receivables Credit Assessment Derivation based on Advance Rate and Quality Score*

Advanced rate is applied to eligible receivables, typically excluding receivables >90 days from invoice date (based on aging schedule)

Advance Rate:	<70%	70%-75%	75%-80%	80%-85%	85%-90%	>90%
<i>Receivables Quality Score Range:</i>						
4.5 – 5.0	AA	A+ to A	A- to BBB+	BBB to BBB-	BB+ to BB-	B+ to B
3.5 – 4.5	A+ to A	A- to BBB+	BBB to BBB-	BB+ to BB-	B+ to B	B to B-
2.5 – 3.5	A- to BBB+	BBB to BBB-	BB+ to BB-	B+ to B	B to B-	CCC
1.5 – 2.5	BBB to BBB-	BB+ to BB-	B+ to B	B to B-	CCC	CCC
1.0 – 1.5	BB+ to BB-	B+ to B	B to B-	CCC	CCC	CCC

***Please refer to the following page for detail of derivation of the Receivables Quality Score***

# Receivables Quality Score (Scale of 1 to 5; 5 is highest quality)

*Derived as the average of the individual scores in the three categories listed below*

Receivables Quality Score:	5	4	3	2	1
<b>Quality Score Categories:</b>					
<b>A. DSO vs. Industry Average</b>	Industry Average minus $\geq 10$	Industry Average minus 5-10	Industry Average +/- 5	Industry Average plus 5-10	Industry Average plus $\geq 10$
<b>B. Bad Debt Ratio</b>	$\leq 0.2\%$	0.2%-0.5%	0.5%-1.0%	1.0%-2.0%	$\geq 2.0\%$
<b>C. Customer Credit Strength</b>	<ul style="list-style-type: none"> <li>• Very high credit scores</li> <li>• Very positive customer industry trends</li> <li>• Very broadly diversified</li> </ul>	<ul style="list-style-type: none"> <li>• High credit scores</li> <li>• Positive customer industry trends</li> <li>• Broadly diversified</li> </ul>	<ul style="list-style-type: none"> <li>• Solid credit scores</li> <li>• Solid customer industry trends</li> <li>• Diversified</li> </ul>	<ul style="list-style-type: none"> <li>• Adequate credit scores</li> <li>• Stable customer industry trends</li> <li>• Some concentration</li> </ul>	<ul style="list-style-type: none"> <li>• Weak credit scores</li> <li>• Weak customer industry trends</li> <li>• Meaningful concentration</li> </ul>

- DSO levels are industry-specific; borrower's DSO levels are compared to average DSO levels typical for the borrower's industry
- Bad debt ratio ranges are not intended to be industry-specific, the ratio provides a point of comparison across industries

# Inventory Credit Assessment

## *Matrix of Inventory Credit Assessment Derivation based on Advance Rate and Quality Score*

Advanced rate is applied to the Net Orderly Liquidation Value (NOLV) of eligible inventory, typically excluding work-in-progress and slow-moving inventory

<b>Advance Rate:</b>	<b>&lt;50%</b>	<b>50%-55%</b>	<b>55%-60%</b>	<b>60%-65%</b>	<b>65%-70%</b>	<b>&gt;70%</b>
<i>Inventory Quality Score Range:</i>						
<b>4.5 – 5.0</b>	AA	A+ to A	A- to BBB+	BBB to BBB-	BB+ to BB-	B+ to B
<b>3.5 – 4.5</b>	A+ to A	A- to BBB+	BBB to BBB-	BB+ to BB-	B+ to B	B to B-
<b>2.5 – 3.5</b>	A- to BBB+	BBB to BBB-	BB+ to BB-	B+ to B	B to B-	CCC
<b>1.5 – 2.5</b>	BBB to BBB-	BB+ to BB-	B+ to B	B to B-	CCC	CCC
<b>1.0 – 1.5</b>	BB+ to BB-	B+ to B	B to B-	CCC	CCC	CCC

***Please refer to the following page for detail of derivation of the Inventory Quality Score***

# Inventory Quality Score (Scale of 1 to 5; 5 is highest quality)

*Derived as the average of the individual scores in the two categories listed below*

Inventory Quality Score:	5	4	3	2	1
<b>Quality Score Categories:</b>					
<b>A. Inventory Turnover vs. Industry Average</b>	Industry Average plus $\geq 5$	Industry Average plus 2-5	Industry Average +/- 2	Industry Average minus 2-5	Industry Average minus $\geq 5$
<b>B. Inventory Marketability</b>	<ul style="list-style-type: none"> <li>• Very high proportion of liquid inventory categories</li> <li>• Very strong demand for inventory assets</li> <li>• Very broadly diversified</li> </ul>	<ul style="list-style-type: none"> <li>• High proportion of liquid inventory categories</li> <li>• Strong demand for inventory assets</li> <li>• Broadly diversified</li> </ul>	<ul style="list-style-type: none"> <li>• Solid proportion of liquid inventory categories</li> <li>• Solid demand for inventory assets</li> <li>• Diversified</li> </ul>	<ul style="list-style-type: none"> <li>• Adequate proportion of liquid inventory categories</li> <li>• Adequate demand for inventory assets</li> <li>• Some concentration</li> </ul>	<ul style="list-style-type: none"> <li>• Low proportion of liquid inventory categories</li> <li>• Weak demand for inventory assets</li> <li>• Meaningful concentration</li> </ul>

- **Inventory turnover levels are industry-specific; borrower’s inventory turnover levels are compared to average levels typical for the borrower’s industry**
- **Inventory category relative liquidity:**
  - **Higher liquidity categories: Finished goods, marketable raw materials; Lower liquidity categories: customized, specialized, perishable**
  - **Work-in-progress and slow-moving inventory considered ineligible (see prior page)**

# Equipment Credit Assessment

## *Matrix of Equipment Credit Assessment Derivation based on Advance Rate and Quality Score*

Advanced rate is applied to the Net Orderly Liquidation Value (NOLV) of eligible equipment, typically excluding obsolete or damaged equipment and any equipment not subject to a lien in favor of the lenders

Advance Rate:	<75%	75%-80%	80%-85%	85%-90%	90%-95%	>95%
<i>Inventory Quality Score Range:</i>						
4.5 – 5.0	AA	A+ to A	A- to BBB+	BBB to BBB-	BB+ to BB-	B+ to B
3.5 – 4.5	A+ to A	A- to BBB+	BBB to BBB-	BB+ to BB-	B+ to B	B to B-
2.5 – 3.5	A- to BBB+	BBB to BBB-	BB+ to BB-	B+ to B	B to B-	CCC
1.5 – 2.5	BBB to BBB-	BB+ to BB-	B+ to B	B to B-	CCC	CCC
1.0 – 1.5	BB+ to BB-	B+ to B	B to B-	CCC	CCC	CCC

***Please refer to the following page for detail of derivation of the Equipment Quality Score***

# Equipment Quality Score (Scale of 1 to 5; 5 is highest quality)

*Derived as the average of the individual scores in the three categories listed below*

Equipment Quality Score:	5	4	3	2	1
<b>Quality Score Categories:</b>					
<b>A. Equipment Liquidity</b>	<ul style="list-style-type: none"> <li>Very high proportion of liquid equipment categories</li> </ul>	<ul style="list-style-type: none"> <li>High proportion of liquid equipment categories</li> </ul>	<ul style="list-style-type: none"> <li>Solid proportion of liquid equipment categories</li> </ul>	<ul style="list-style-type: none"> <li>Adequate proportion of liquid equipment categories</li> </ul>	<ul style="list-style-type: none"> <li>Low proportion of liquid equipment categories</li> </ul>
<b>B. Equipment Competitiveness</b>	<ul style="list-style-type: none"> <li>Very modern and competitive equipment</li> </ul>	<ul style="list-style-type: none"> <li>Modern and competitive equipment</li> </ul>	<ul style="list-style-type: none"> <li>Solidly competitive vs. alternatives</li> </ul>	<ul style="list-style-type: none"> <li>Adequately competitive vs. alternatives</li> </ul>	<ul style="list-style-type: none"> <li>Equipment approaching obsolescence</li> </ul>
<b>C. Equipment Condition</b>	<ul style="list-style-type: none"> <li>Significant remaining useful life – very new</li> <li>Very minor wear and tear</li> <li>Very high quality maintenance</li> </ul>	<ul style="list-style-type: none"> <li>Long remaining useful life – new</li> <li>Minor wear and tear</li> <li>High quality maintenance</li> </ul>	<ul style="list-style-type: none"> <li>Near midpoint of useful life</li> <li>Some wear and tear</li> <li>Solid maintenance</li> </ul>	<ul style="list-style-type: none"> <li>Past midpoint of useful life</li> <li>Meaningful wear and tear</li> <li>Adequate maintenance</li> </ul>	<ul style="list-style-type: none"> <li>Low remaining useful life – approaching depreciation</li> <li>Material wear and tear</li> <li>Low quality maintenance</li> </ul>

- Equipment that is viewed to be obsolete or not in working condition (i.e. quality scores <1 under B or C) is excluded from NOLV as ineligible
- Equipment category relative liquidity:
  - Higher liquidity categories: Construction equipment, vehicles (e.g. trucks), standard warehouse/foodservice/office equipment
  - Lower liquidity categories: Customized machinery, specialized equipment (narrow use case), large/less mobile equipment