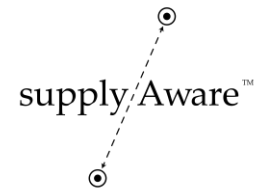


Case Study: Early Detection of Financial Distress in a Key Automotive Supplier



Overview

Elm Analytics helped identify early signs of severe financial instability in a privately owned automotive supplier—well before bankruptcy struck.

This advanced warning enabled affected OEMs and Tier 1s to prepare mitigation strategies that reduced operational exposure and transition costs.

- **Initial Monitoring:** Elm began reviewing the supplier's financials and flagged a concerning *Elm Financial Rating (EFR)* of **below 2.0**, signaling elevated risk.
- **Quarterly Red Report:** By the end of the subsequent quarter, a Red Report was issued. Indicators included:
 - Excessive **leverage**
 - Weak **liquidity**
 - Declining **profitability**
 - Mounting **outstanding payables** suggesting late payments to suppliers and supplier relationship stress
- **Financial Ratios Signaling Distress:**
 - High **Net Debt/EBITDA**
 - Elevated **Debt-to-Equity**
 - Low **Current Ratio**
 - These ratios combined indicated a growing risk of default.

	2022	2023
RISK RATING (EFR)	● 2.05	● 1.45
LEVERAGE	0	10
LIQUIDITY	12	0
PROFITABILITY	50	30

Red Flags Beyond the Financials

Elm's analysts flagged additional concerns:

1. Private Equity Ownership

The supplier was owned by a private equity firm—often associated with:

- High leverage financing
- Aggressive cost-cutting
- Short-term ROI mandates

These dynamics increase the likelihood of financial strain.

2. Cessation of Reporting

Right after receiving a Red rating, the supplier **stopped submitting financials**.

This act drastically reduced visibility into their condition and often precedes crisis events.

We advised our clients of the following implications:

- **Liquidity and Cash Flow:**

The company is experiencing limited cash flow generation and may face challenges in managing inventory levels and fulfilling customer orders.

- **Covenant Breaches:**

If the company is at risk of breaching loan covenants, it could face potential disruptions in its financial stability, including the availability of credit and supplier relationships.

- **Supply Chain Disruptions:**

Falling behind on payments to its suppliers could result in supply chain disruptions and delays in your own production or delivery schedules.

	FOR FISCAL YEAR ENDING 31-DEC-2023	ASSESSMENT
Net Debt to EBITDA	12.025681	
Total Debt to Equity	46.916050	
Interest Expense to EBITDA	-21.79%	
Operating Cash Flow to Net Debt	0.026207	
Quick Ratio	0.457671	
EBITDA to Net Sales	6.37%	
Return on Sales	0.73%	
Sales Delta (Current Period to Prior Period)	5.68%	
Current Ratio	0.885518	
Total Revenue to Total Assets	1.059096	

Outcome

18 months after the initial Red Rating, the supplier filed for **Chapter 11 bankruptcy**. The Elm Analytics clients that followed our advice had **ample time to plan countermeasure strategies** and avoid being caught up in the subsequent, **costly** bankruptcy process.

Why Early Risk Visibility Matters

Elm Analytics doesn't just provide a score, we offer **context, guidance, and foresight**.

In this case, customers who acted on the Red Report and followed our **High-Risk Supplier Playbook** had better continuity outcomes than those who delayed.

Elm can only assess risk based on available data. When transparency ceases, the value of proactive diligence becomes even more critical.

We encourage customers to use Red Reports as *alerts to act*, not just observe.

Resources to Help You Act

We have an extensive resource library with lessons learned from decades of experience managing distressed suppliers within global manufacturing companies.

Inside our customer portal, you'll find resources documents such as:

- Potential Signs of Supplier Financial Distress
- What to do with a New or Worsening "Red" Supplier
- Your Supplier Just Filed Bankruptcy, What Happens Next?
- Basics of Supplier Working Capital Financing

These documents walk you through step by step how to analyze the information provided as well as suggested next steps for your organization to proactively manage these difficult situations

Don't let operational disruptions catch you off guard. Elm Analytics empowers you to **see ahead—and act early**.

