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Identifying European (Non-Financial) Companies with Potential Higher Exposure to an Adverse Credit Environment

Key Takeaway

In an attempt to identify European (non-financial) companies whose financials are more likely to be affected by the current credit squeeze, we identified (1) companies with significant short-term debt exposure and weak cash flow, (2) companies with significant overall debt exposure and poor liquidity profile, and (3) companies reliant on debt capital to finance their acquisition driven growth. We also highlight companies common to two or more sets of analyses as especially noteworthy as they may be more exposed than the other identified companies in this report.

Summary

1. Companies with Significant Short Term Debt Exposure and Weak Cash Flow

- This analysis helps identify companies which may be impacted more than others in the near term by the current credit market conditions given their relatively higher exposure to short term debt and weak cash flow. A higher exposure to short term debt may make these companies less attractive to lenders in the currently strained credit environment.
- We identified 58 such companies with potentially near-term financing needs; 6 of these companies had short term debt in excess of 40% of their total capital.

2. Companies with Significant Overall Debt Exposure and Poor Liquidity Profile

- This analysis helps identify companies whose financials may be adversely impacted by the current adverse credit environment given their significant leverage and poor liquidity profile. As the criteria used in this analysis are in part based on those typically used by lenders as debt covenants, the analysis also attempts to identify companies with a higher likelihood of potentially breaching those covenants.
- We identified 28 such highly geared companies with a poor liquidity profile; 16 of these companies had negative free cash flow in either the last fully reported fiscal year or in the last 12 month period or in both.

3. Companies Using Debt Capital to Finance their Acquisition Driven Growth

- This analysis helps identify companies which have been reliant on debt in order to finance their acquisition driven growth strategy. The current credit crunch may therefore constrain these companies' near term growth prospects.
- We identified 18 such highly acquisitive companies reliant on debt financed acquisitions; the ratio of debt/capital in 3 of these companies increased by more than 3000bps in the last three years.

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