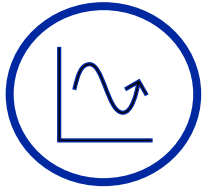


Credit Impacts on the UK Corporate Sector: Evaluating the Implications of a Volatile Environment

Damian Watson, Senior Director, Predictive Analytics

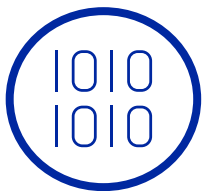
March 2023

Topics of Discussion



The credit environment is going through continuing turbulence and volatility.

- What is the current state of health and what is the outlook.



There is a lot for Credit Managers to focus on and market shocks can create further disruption.

- How Early Warning systems can focus attention on portfolio vulnerabilities and help navigate uncertainty.

Credit Impacts on the UK Corporate Sector: Evaluating the Implications of a Volatile Environment



George Anagnostopoulos
Advisor - Risk Executive - NED



Damian Watson
Senior Director, Predictive Analytics
Moody's Analytics

Who we are

MOODY'S | Better decisions



Background to Analysis

Summary of approaches for the analysis

Macro-economic forecast:

- Model-based relationship between historical PD and Macro-economic factors
- Relationship established at country, sector and rating-level
- Allows forecasting of firm-level PD based on future macro-economic scenarios

Financial Statement forecast:

- Connect macro-economic data and scenarios to financial statement forecasting assumptions
- Map real output and input/output prices to sectoral sales and cost dynamics
- Allows analysis of financial performance and drivers of forecast credit worthiness

Early Warning :

- Approach allows identification of rising risk for a firm, relative to peers/
- Relative firm risk based on comparison of pre-defined peer group trigger and the firms' PIT 1-year PD
- Allows specific actions to be assigned to each EW risk rating

Notes on Scope of Firms

1. Only includes Firms with turnover over £100k and have complete financial statement information required for our financial statement analysis.
2. We consider our forecast samples representative since the industry composition remains very similar to the overall sample.
3. Financial and Real Estate firms are excluded from the analysis.

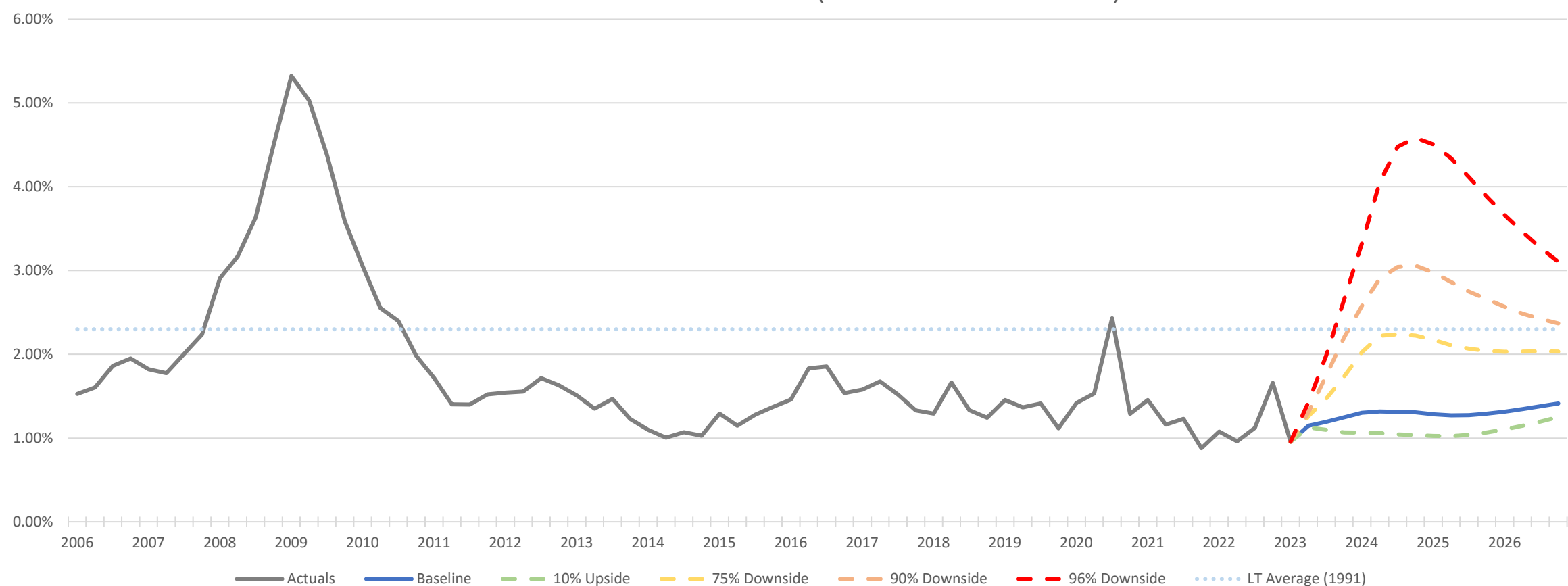
Scope

Sector	Firms in analysis
A - Agriculture, Forestry and Fishing	296
B - Mining and Quarrying	198
C - Manufacturing	3,477
D - Electricity, Gas, Steam and Air Conditioning Supply	969
E - Water Supply; Sewerage, Waste Management and Remediation Activities	189
F - Construction	2,141
G - Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	6,170
H - Transportation and Storage	1,185
I - Accommodation and Food Service Activities	1,486
J - Information and Communication	2,826
M - Professional, Scientific and Technical Activities	8,594
N - Administrative and Support Service Activities	2,171
Q - Human Health and Social Work Activities	4,101
R - Arts, Entertainment and Recreation	2,062
S - Other Service Activities	4,861
Unassigned	296
Total	40,726

Turnover	Firms in analysis
>£100M	2,755
£45-£100M	2,401
£10M-£45M	9,071
£1M-£10M	12,724
£200K-£1M	9,820
£100K-£200K	3,955
Total	40,726

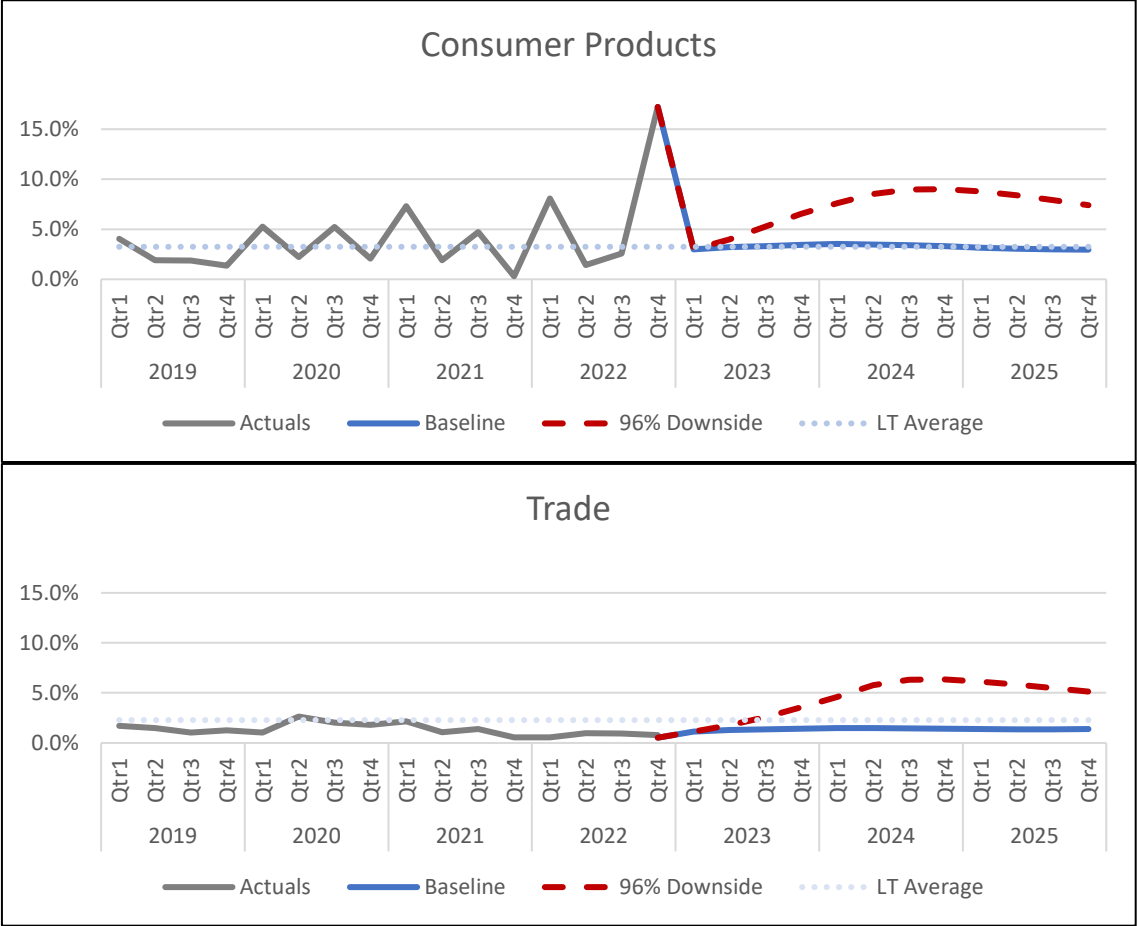
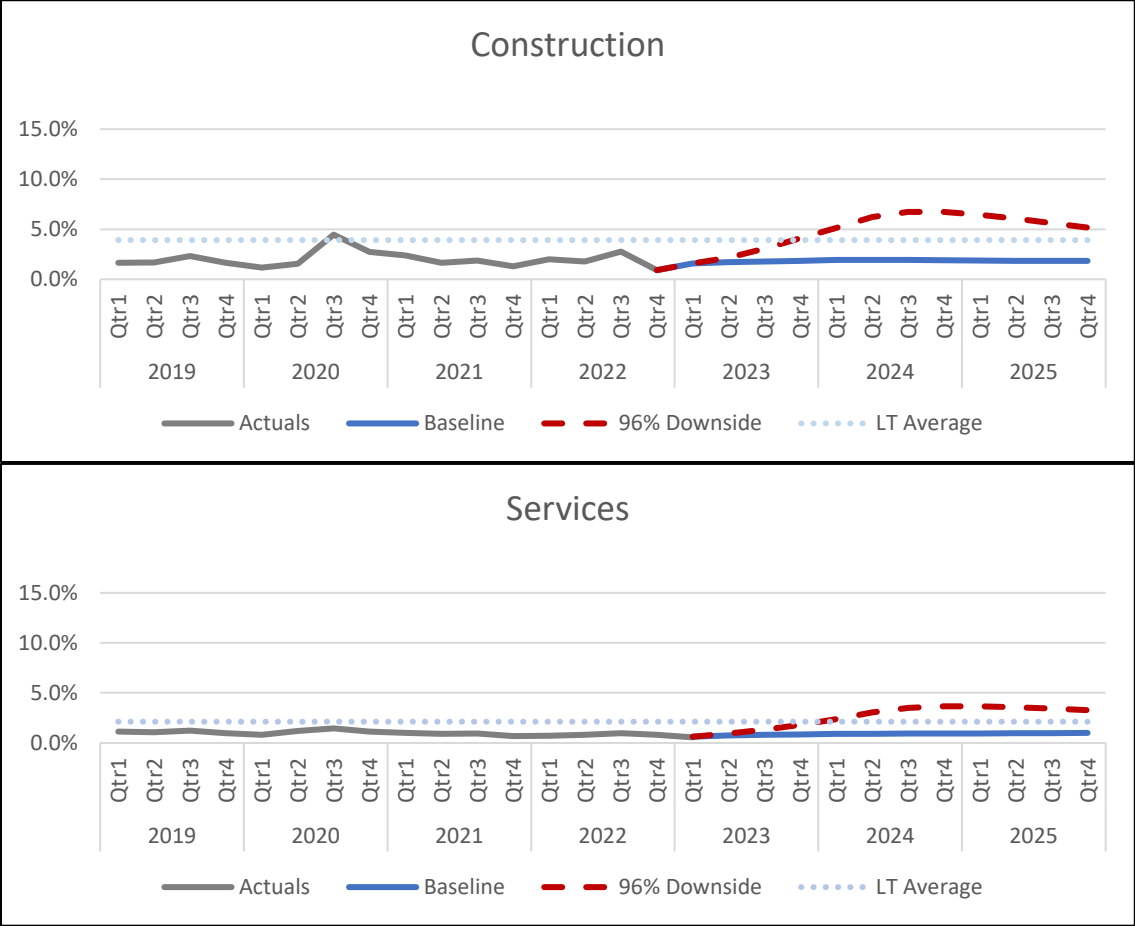
Forecast increase in firm default levels under baseline scenario, but remaining below historical levels

UK Corporate Sector Probability of Default forecast
from macroeconomic scenarios (firms > £100k turnover)

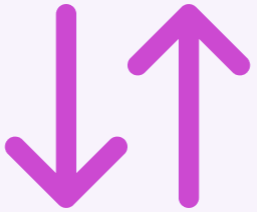


Sector level forecasts reflect limited deterioration in risk, but could be exposed in event of downturn

UK Corporate Sector Probability of Default forecast
from macroeconomic scenarios (firms > £100k turnover)



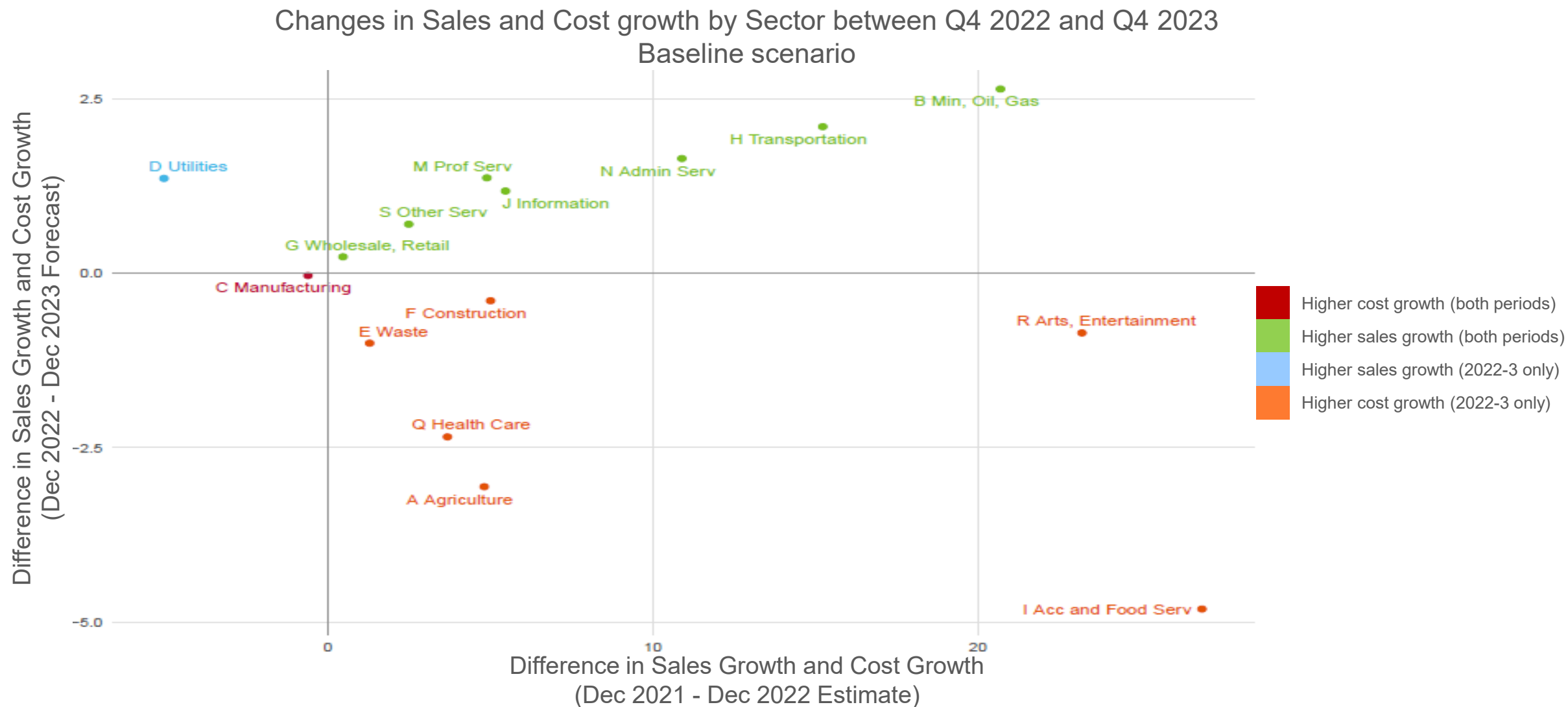
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In order of severity (highest to lowest) – what risks do you see as most material to your portfolios?

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Firm balance sheet forecasts highlight sources of headwinds...



...which show a varied picture of financial performance across sectors

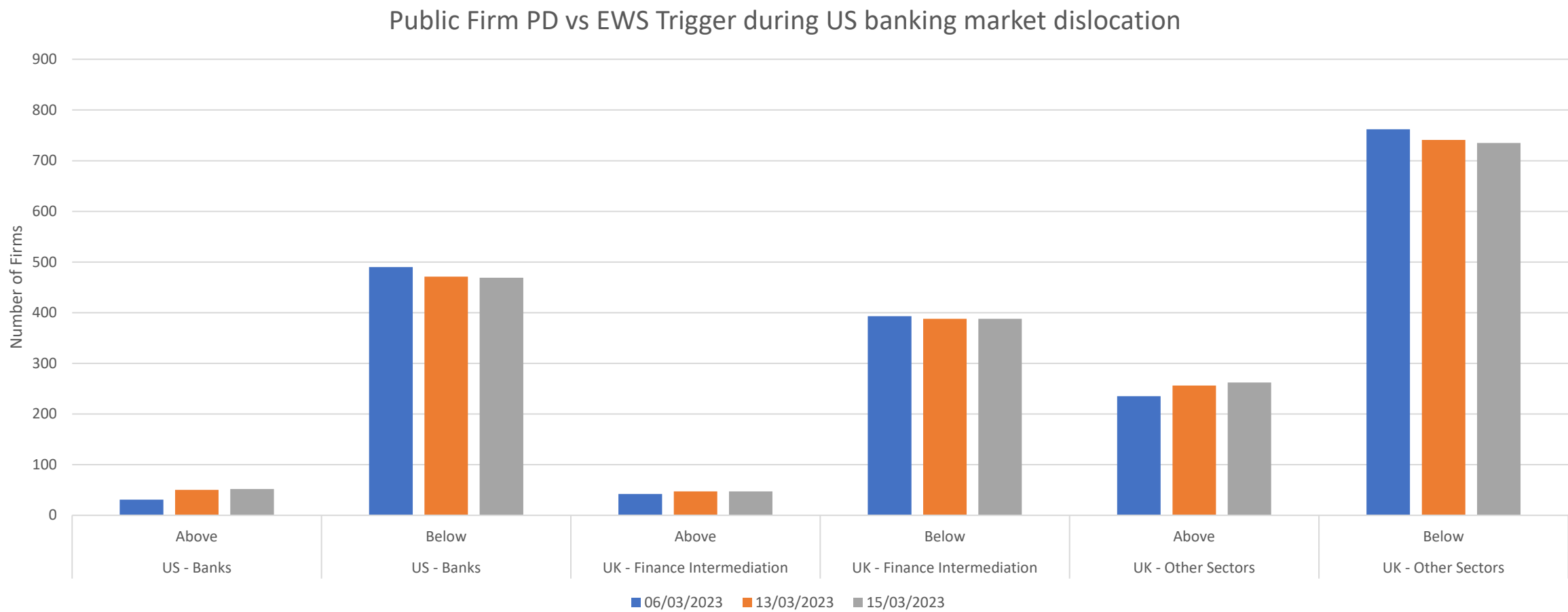
	Change in Financial Ratio			EDF		
	Dec 2022 (Estimates) - Dec 2023 (Baseline Forecast)					
Sector	Profit Margin	Liquidity	Debt Coverage	Dec-22 (Estimate)	Dec-23 (Forecast)	EDF Change (%)
(A) Agriculture	-3.96	15.0	-71.93%	0.46	0.75	-62.6%
(B) Mining, Oil & Gas	2.68	1.1	-26.57%	2.17	2.11	2.7%
(C) Manufacturing	-1.40	0.1	-60.05%	1.94	2.53	-30.5%
(D) Utilities	-0.05	-0.8	-8.41%	1.32	1.55	-17.3%
(E) Waste	-2.24	-3.0	-65.05%	1.11	1.51	-36.5%
(F) Construction	-0.98	15.1	-50.85%	2.18	2.22	-2.0%
(G) Wholesale & Retail	-0.38	3.3	-48.45%	1.23	1.39	-12.8%
(H) Transportation	1.51	23.2	-35.19%	1.18	1.00	15.7%
(I) Accommodation & Food Services	-4.39	20.7	-62.54%	2.07	2.36	-13.7%
(J) Information	0.23	2.3	-47.23%	2.11	2.19	-4.0%
(M) Professional Services	0.05	4.4	-40.65%	1.78	1.88	-5.7%
(N) Admin Services	-1.90	5.7	-38.45%	1.84	1.86	-1.1%
(Q) Health Care	-3.99	-43.0	-91.16%	0.89	1.48	-65.5%
(R) Arts & Entertainment	0.51	32.5	-39.24%	0.79	0.72	9.0%
(S) Other Services	0.18	-5.6	-38.49%	0.98	1.12	-13.5%

Debt Coverage = EBITDA divided by Interest Expense. Change is calculated as percentage change.

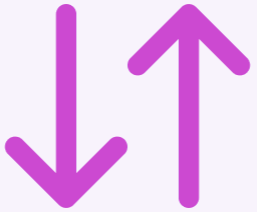
Liquidity = Cash plus Marketable Securities divided by Current Liabilities. Change is calculated as simple change.

Profit Margin = Net Profit Turnover. Change is calculated as simple change.

At the same time, EWS measures indicate recent market events are contained...for now?



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Which are most challenging elements to get right in your Early Warning System (Most to Least)

① Start presenting to display the poll results on this slide.

A decorative graphic at the top of the slide features a stream of glowing red and blue particles, resembling a data flow or a stylized wave, set against a dark blue background.

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ANALYTICS

