

MARCH 2011 DEFAULT CASE STUDY

Moody's Analytics Quantitative
Research Group

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Public Firm Default Report: Geopharma Inc (GORXQ)

Default Event

On March 23, 2011, **Geopharma Inc**, a large drug company, filed for Chapter 11 of US bankruptcy protection with listed assets of \$1 million to \$10 million and liabilities of \$10 million to \$50 million.

Company Profile

Working under several names, GeoPharma hopes to create a world of pharmaceuticals. Its Innovative Health Products subsidiary has the capacity to provide contract manufacturing of nutritional supplements. GeoPharma's Belcher Pharmaceuticals manufactures and markets skin care products and vitamins. Its American Antibiotics subsidiary is preparing to develop and manufacture oral and injectable generic antibiotics. The company's sole pharmaceutical product is Vetprofen, a generic version of a non-steroidal anti-inflammatory drug for veterinary use. Chairman Jugal Taneja, his son, CEO Mihir Taneja, and their families hold some 30% of the company's shares.

EDF Credit Measure and EDF Drivers

EDF value as of March 23, 2011: 35.00%

Traditional ratings, such as those used by major rating agencies, are currently more commonplace than default probabilities. Therefore, to help facilitate user's understanding, we translate the EDF credit measure into an equivalent Credit Category. Geopharma Inc's Credit Category (not an agency rating) at default was C.

Figure 1. One-year Geopharma Inc's EDF Values

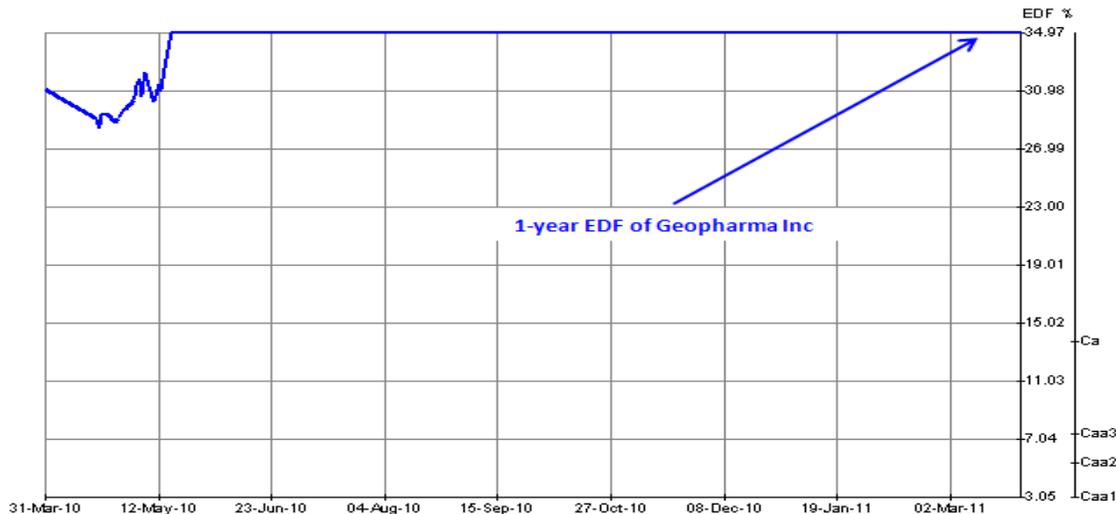


Figure 1 shows that Geopharma Inc's EDF credit measure was rising since March 2010 and reached 35% in May 2010, ten months prior to default.

Figure 2. Drivers of Geopharma Inc's EDF Values

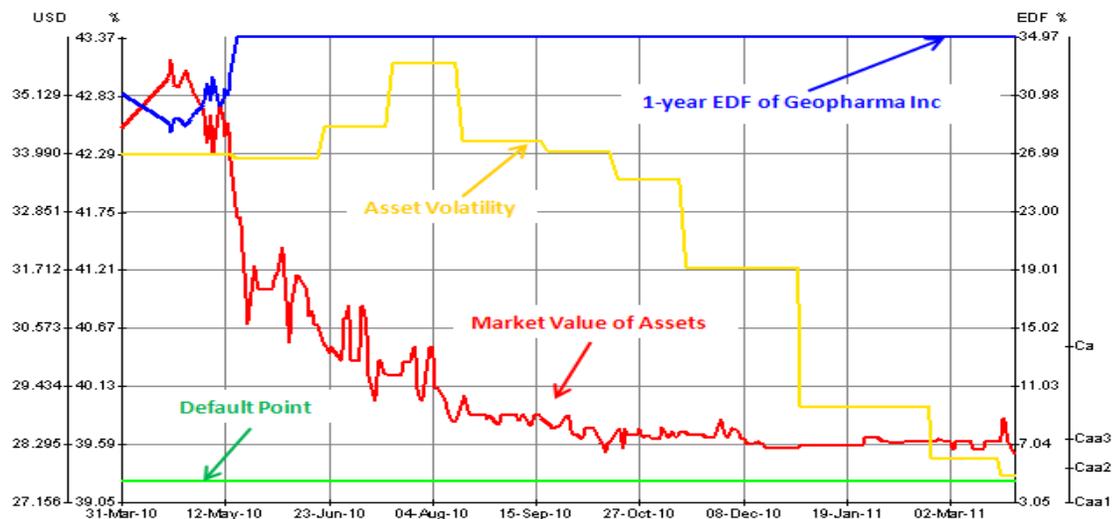


Figure 2 shows the time series of EDF values and EDF drivers, which include market value of assets, asset volatility, default point, and market leverage. Table 1 summarizes the definitions of EDF drivers.

In April 2010, the market value of assets was \$36 million. During the past two year, the company has sold its operating subsidiary, laid off workers and restructured its debt to be alive through a severe cash crunch. In the end, the company's market value of assets sharply dropped to \$28 million in February 2010, close to the default point of \$27 million. The company's asset volatility had stayed high around 41% since August 2010. High financial risk combined with deteriorating business value led the company to default.

Table 1. Drivers for EDF Values

EDF DRIVERS	DEFINITION
Market Value of Assets	The market's view of the enterprise value of the firm as determined by the firm's equity value, equity volatility, and liability structure
Default Point	The liabilities that matter in case of default. If the market value of assets falls below this value, it is assumed that the firm will be unable to sell assets or raise additional capital to pay its debt. A firm's default point is a value close to its short-term liabilities plus half of its long-term liabilities
Market Leverage	Ratio indicating how much of the market value of assets is financed by debt. It is calculated as the default point/market value of assets
Asset Volatility	Standard deviation of the annual change in the market value of the assets

The two main EDF value drivers are asset volatility and market leverage. **Figure 3** depicts a meter showing the level of risk on each of the two measures. The levels are relative values computed on the United States and Canada Mid-Size Corporates Group.

Figure 3. United States and Canada Mid-Size Corporates Group



- » **Asset Volatility.** EDF credit measures for United States and Canada Mid-Size Corporate issuers such as Geopharma Inc reflect an average of asset volatility levels over the past three years. As of the default date, Geopharma Inc's asset volatility was 39.29%, within the 25th percentile relative to the US and Canada Mid-Size Corporates Group.
- » **Market Leverage.** Geopharma Inc's market leverage is 95.75%, which falls within the 99th percentile of the entire US and Canada Mid-Size Corporates Group.

Relative Analysis

The relative analysis feature allows users to chart EDF, fundamental data, and bond values for a selected company or group relative to other companies and/or groups. Users may manually select their own list of peer companies or groups for comparison, or view a Moody's Analytics predefined peer list, based on an automated algorithm. To determine peers for each company, Moody's Analytics finds all the companies that share the company's Bloomberg Subgroup. Users can also customize and save their own peer company and peer group choices for future use.

Figure 4. One-year Geopharma Inc vs. US Pharmaceutical Group

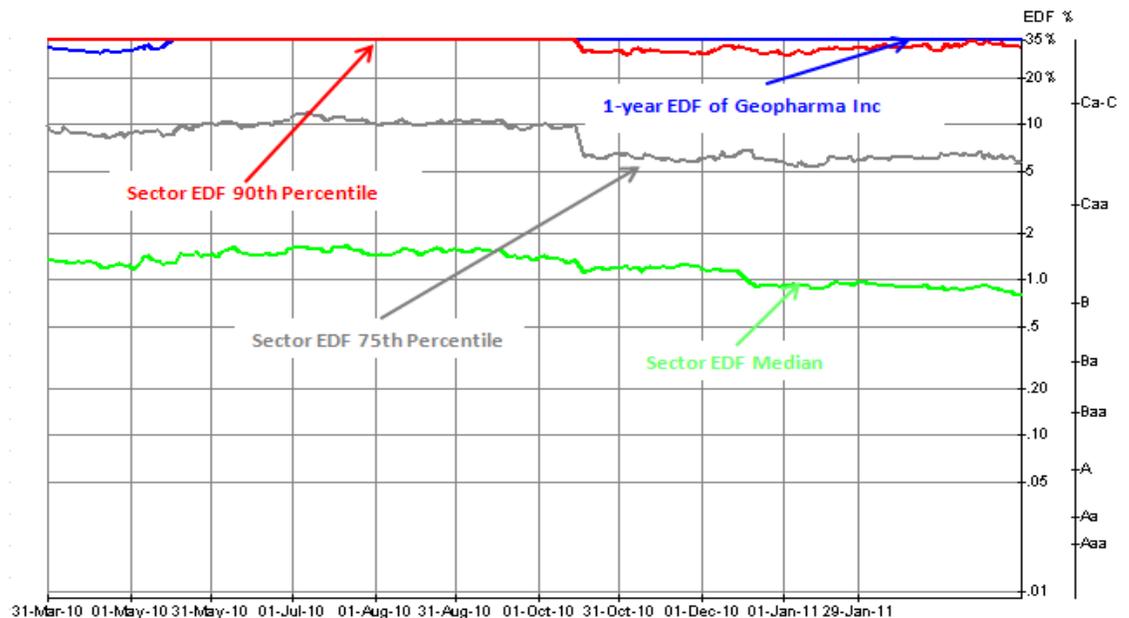


Figure 4 shows Geopharma Inc's EDF value was surpassing the 90th percentiles of the US Pharmaceutical Group since April 2010. The company bankrupted in March 2011.

Conclusion

Geopharma Inc's EDF Credit Measure indicated high default risk before default occurred. Firm EDF values remained above the 90th percentile relative to the peer group of US Pharmaceutical Group beginning in April 2010. High financial risk combined with deteriorating business value led the company to default.

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