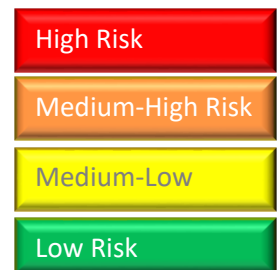
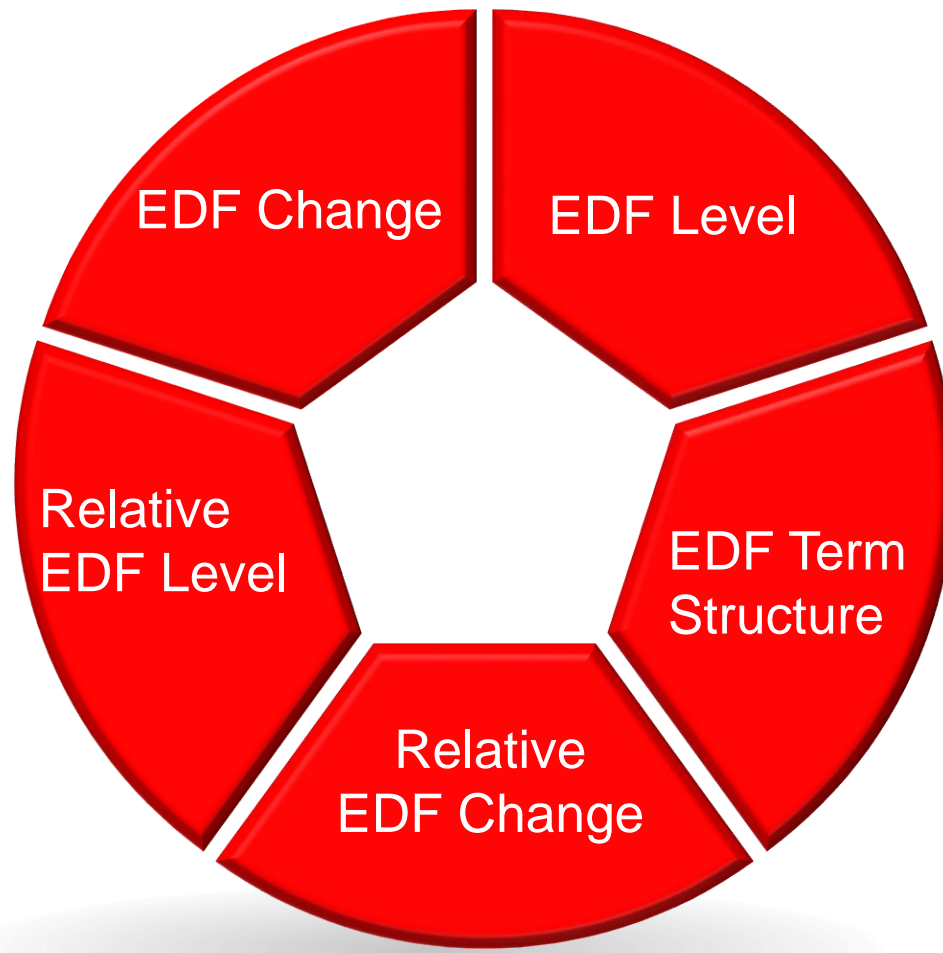
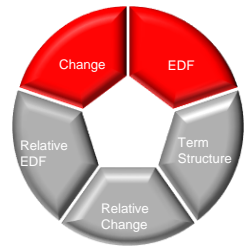


The Early Warning Toolkit in practice: Babcock & Wilcox Enterprises, Inc.

Babcock & Wilcox demonstrates High Risk for all 5 Early Warning factors

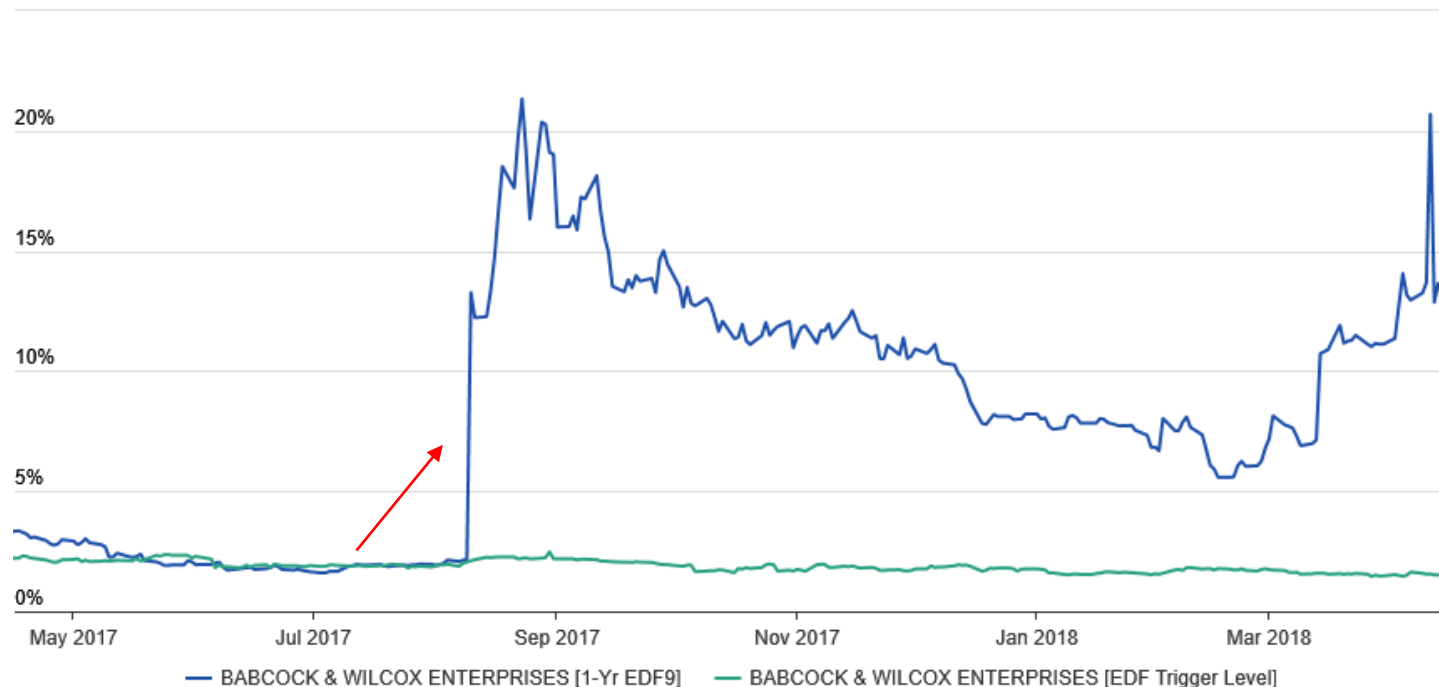
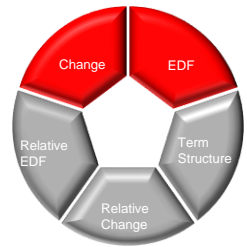


Babcock & Wilcox's EDF first signaled heightened credit risk in August 2017



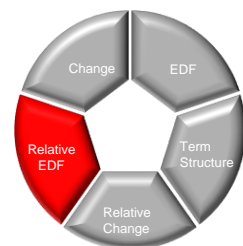
- » Over the past year, B&W's EDF measure has worsened from 3.35% to 12.40% (**4x higher** than the Global Machinery & Equipment Group Trigger Level of 3.09%)
- » The EDF first rose sharply in **August 2017** and began its ascent again in Q1 of 2018
- » The rating implied by its EDF measure also deteriorated 2 notches from Caa2 to Ca.

The EDF has remained above its industry EDF trigger level* since August 2017



**Level above which firms have historically been at highest risk of default*

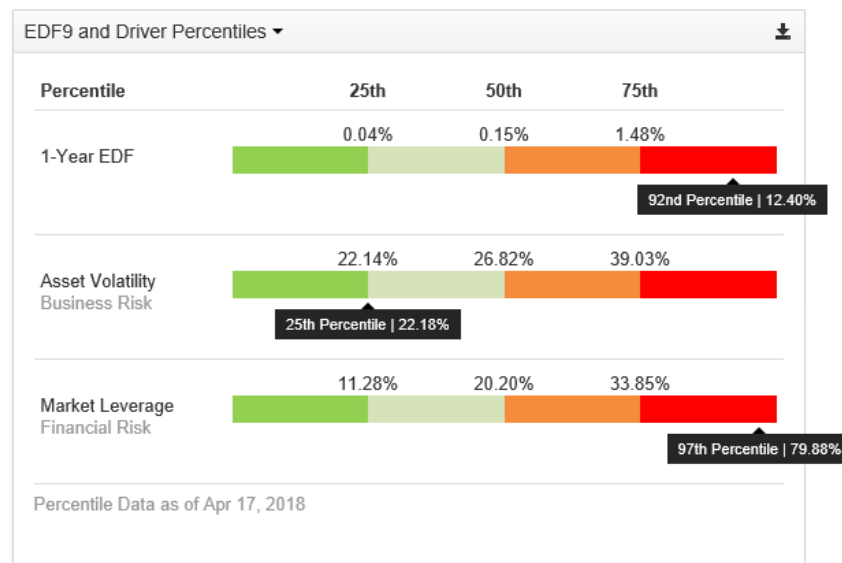
B&W's EDF measure was in line with the riskier names in its industry peer group over the last year



EDF Level vs Peers

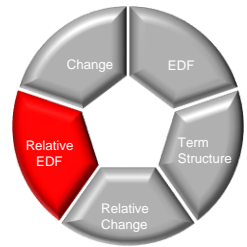


EDF Level vs Driver Percentiles

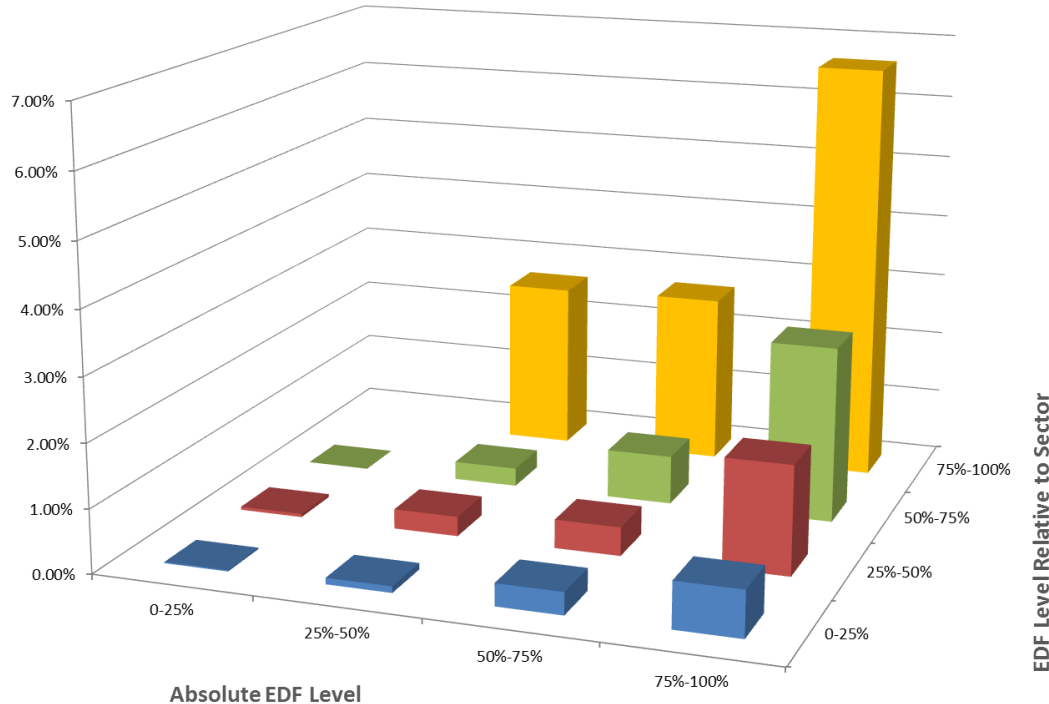


- » Moody's Analytics research shows that a company is 10x more likely to default if its EDF is greater than the median of its peer industry group.
- » B&W's EDF has been trending closely with the 90th percentile of its peer group over the past year, exceeding it in March 2018.
- » Asset volatility is in line with the 25th percentile, while market leverage is in the 97th percentile compared to its peer group.

Companies that underperform their industry sectors historically experience higher default risk

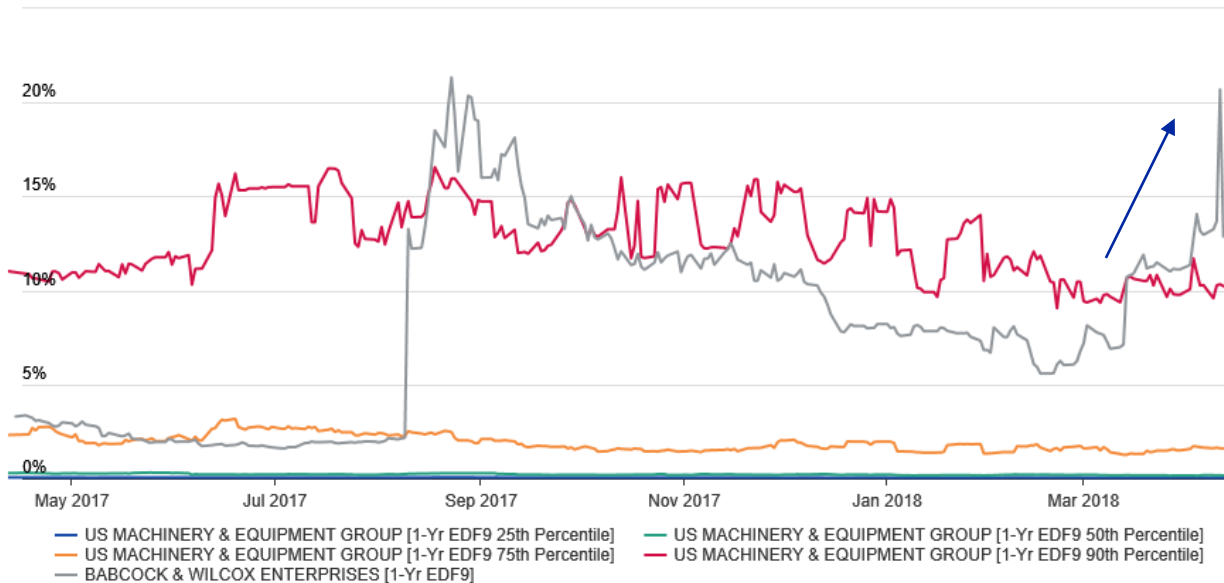
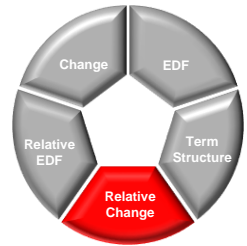


One-Year Default Rates Conditioned on EDF Level and Relative EDF, %



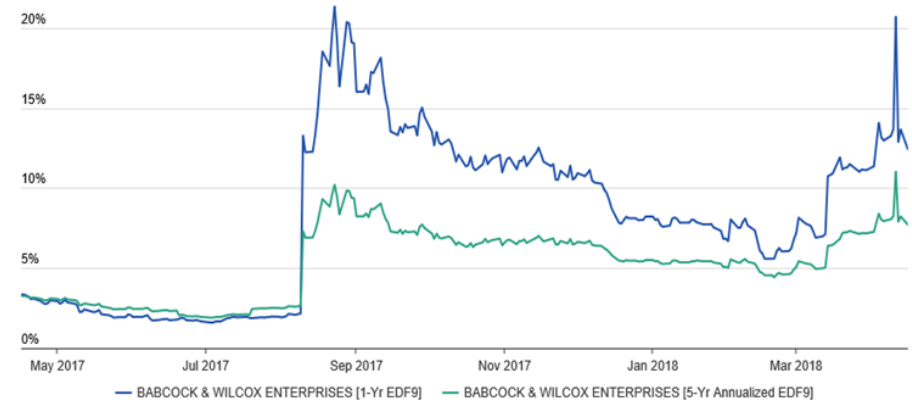
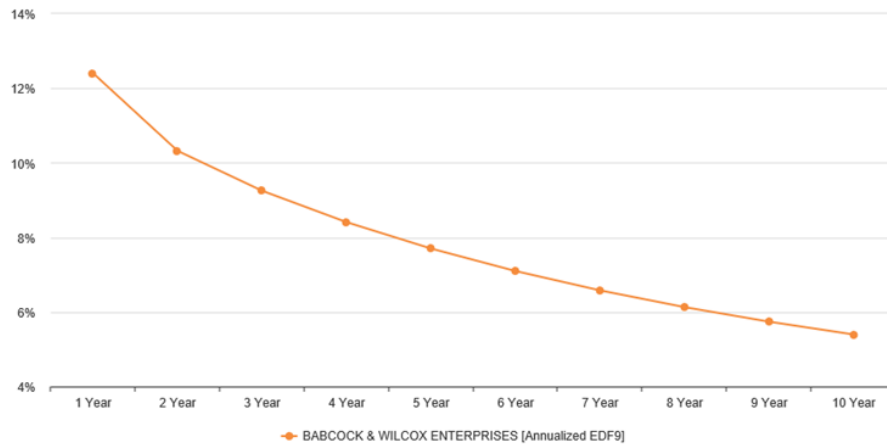
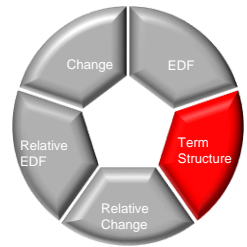
- » The graph to the right shows one-year historical corporate default rates bucketed (into quartiles) by their absolute EDF level and EDF level relative to industry sector.
- » The graph shows that firms whose default probabilities are worse than 75% of the companies in their industry sector (the yellow bars) experience much higher risk of default.
- » B&W's EDF measure is in the 92nd percentile of US Machinery & Equipment Group, due primarily to high financial risk.

B&W's EDF measure has been consistently trending with the 90th percentile



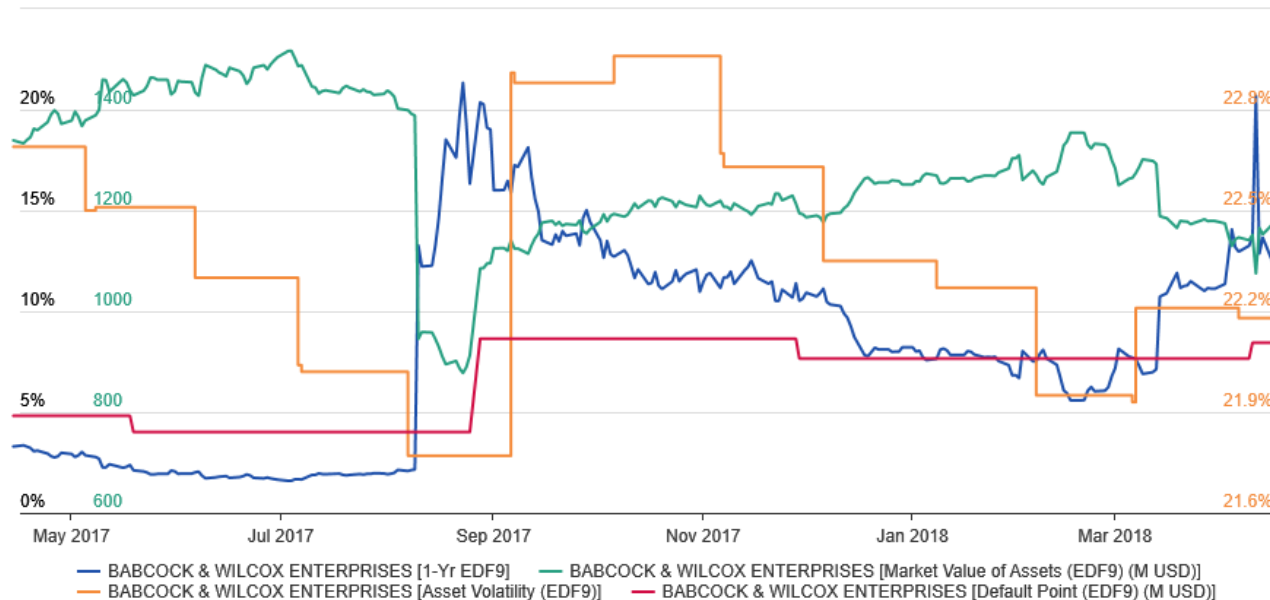
- » B&W's EDF was in the highly risky 75% percentile beginning in May 2017, until it rose to the 90th percentile in mid-August 2017.
- » Since then, the EDF has been in line with or close to the 90th percentile, until mid-March 2018 when it crossed the 90th percentile and remains there today.

B&W's term structure demonstrates a downward sloping shape



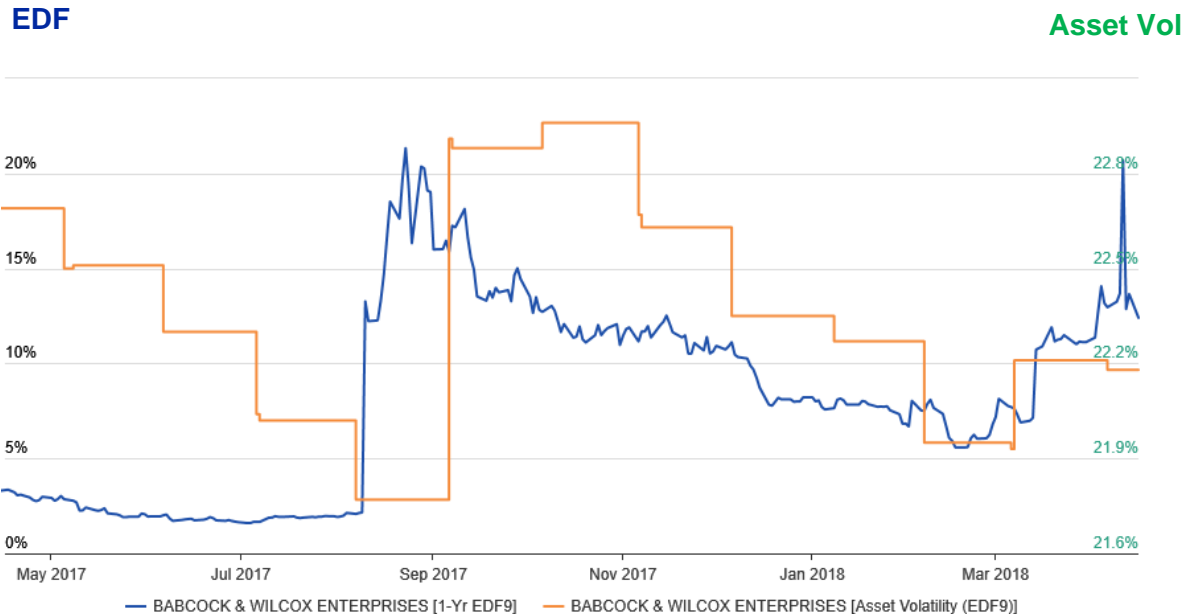
- » A company's term structure tends to be upward-sloping during an economic expansion, unless it is in distress. Our research shows that firm's that experience inverted term structures (1yr EDF > 5yr EDF) are 13x more likely to default than firms that experience a normal upwards sloping term structure.
- » B&W's 1yr EDF has been above its 5yr EDF since mid-August 2017.

B&W's high default risk is reflected by its increased leverage...



- » Market leverage measures the financial risk of a firm and is forward looking.
- » Over the last year, B&W's market leverage has worsened by 35%
- » The main reason for this is added short term and long term liabilities to its books, coupled with a market value of assets lessened by 12%.
- » As of April 2018, B&W announced that it found \$51M in additional costs to complete projects – forcing them to refinance.

...while its business risk has somewhat improved



- » B&W's asset volatility improved by 2% over the past year, and has been trending downward since its high point in October 2017.
- » In its Q2 earnings release, B&W outlined plans to optimize growth areas (Power, Industrial) and make its Renewables business profitable.
- » In March 2018, B&W issued a common stock rights offering in an effort to meet its liquidity needs for the next year.

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