Moody's
ANALYTICS

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

**Moody's Analytics**, CreditEdge Team

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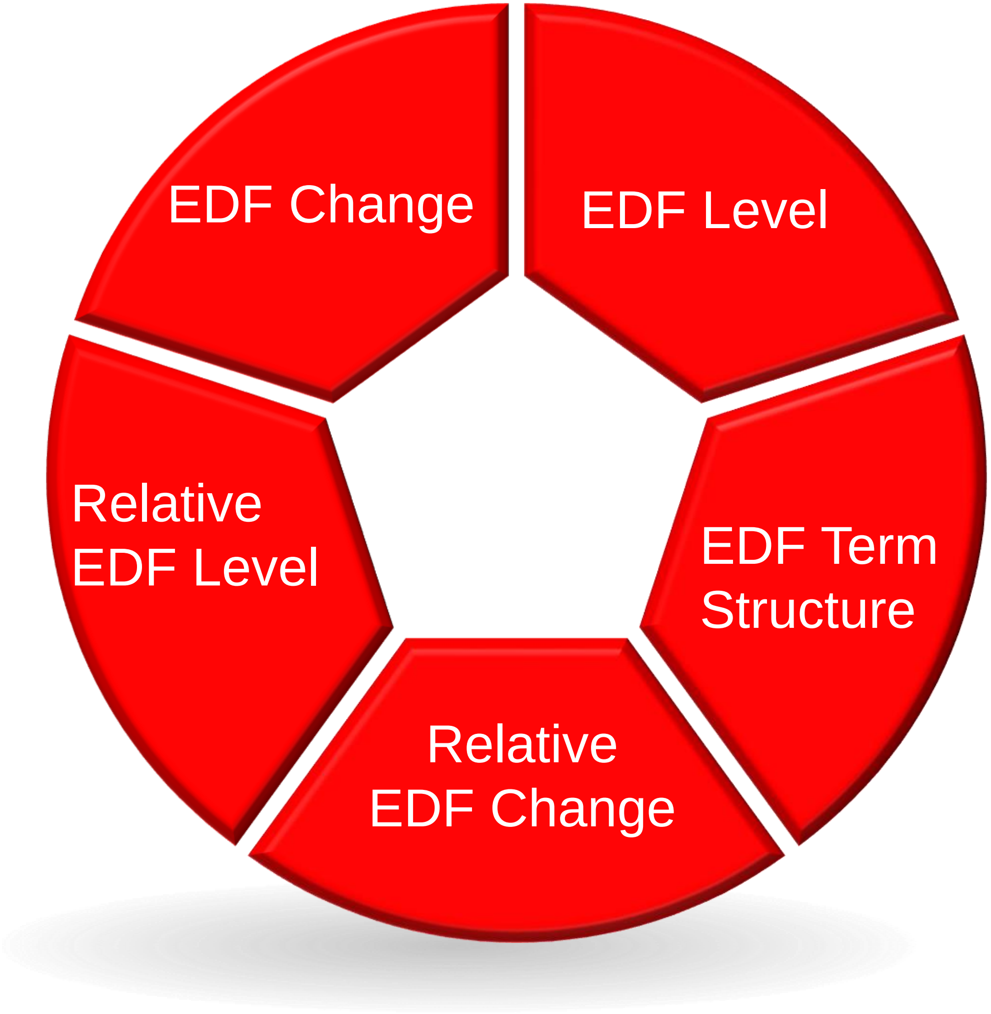
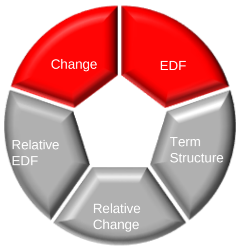
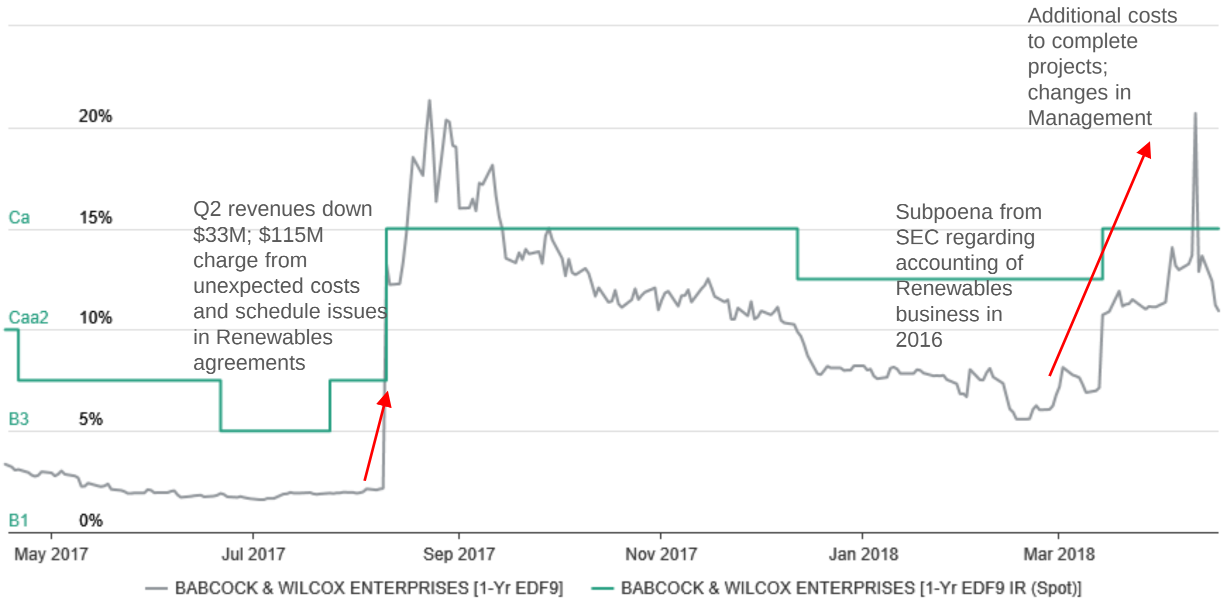
# Babcock & Wilcox demonstrates High Risk for all 5 Early Warning factors



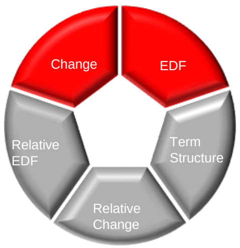

# Babcock & Wilcox's EDF first signaled heightened credit risk in August 2017

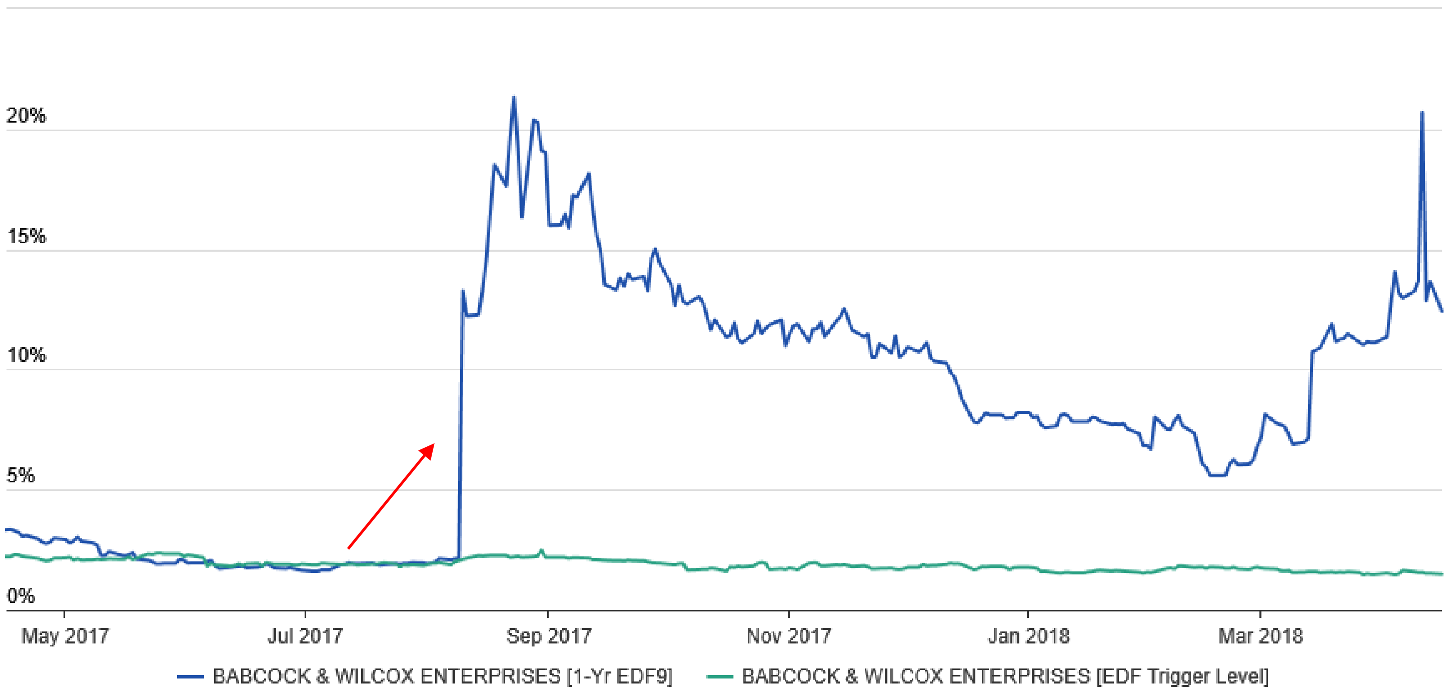



- » Over the past year, B&W's EDF measure has worsened from 3.35% to 12.40% (**4x higher** than the Global Machinery & Equipment Group Trigger Level of 3.09%)
- » The EDF first rose sharply in **August 2017** and began its ascent again in Q1 of 2018
- » The rating implied by its EDF measure also deteriorated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

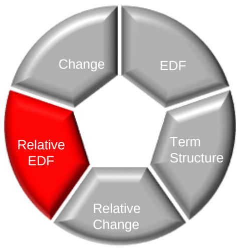
# The EDF has remained above its industry EDF trigger level* since August 2017



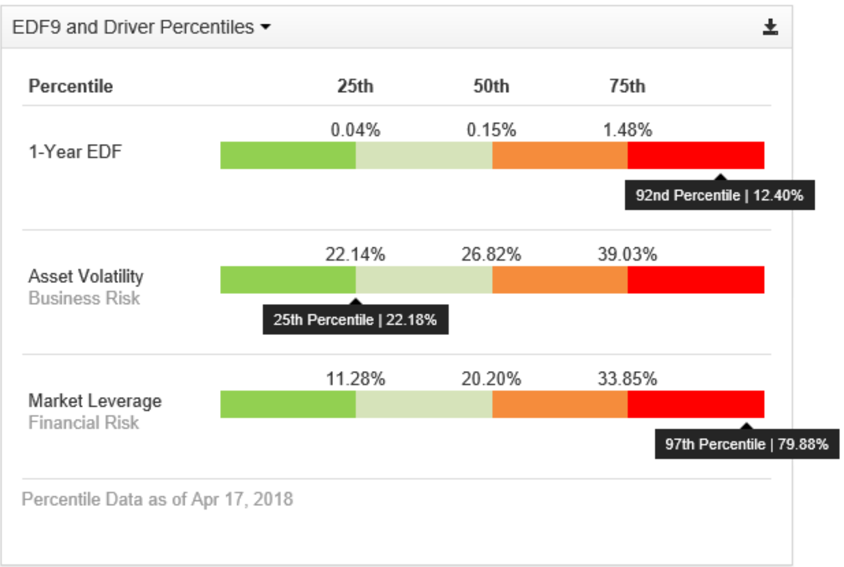

**Level above which firms have historically been at highest risk of default*

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



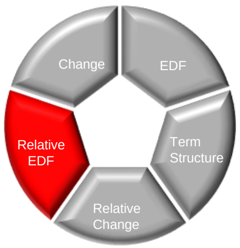

EDF Level vs Peers

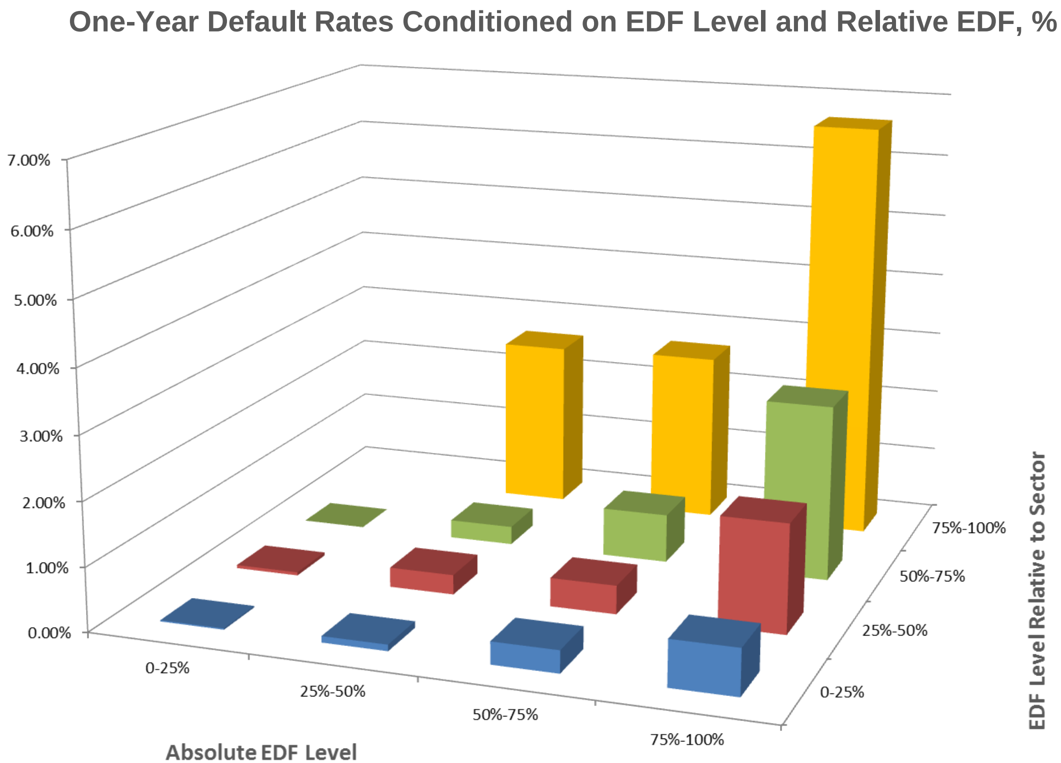

EDF Level vs Driver Percentiles




- 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 90$^{th}$ percentile of its peer group over the past year, exceeding it in March 2018.
- Asset volatility is in line with the 25$^{th}$ percentile, while market leverage is in the 97$^{th}$ percentile compared to its peer group.

# Companies that underperform their industry sectors historically experience higher default risk



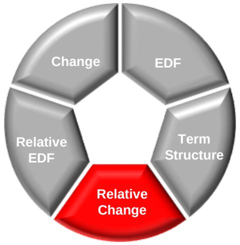



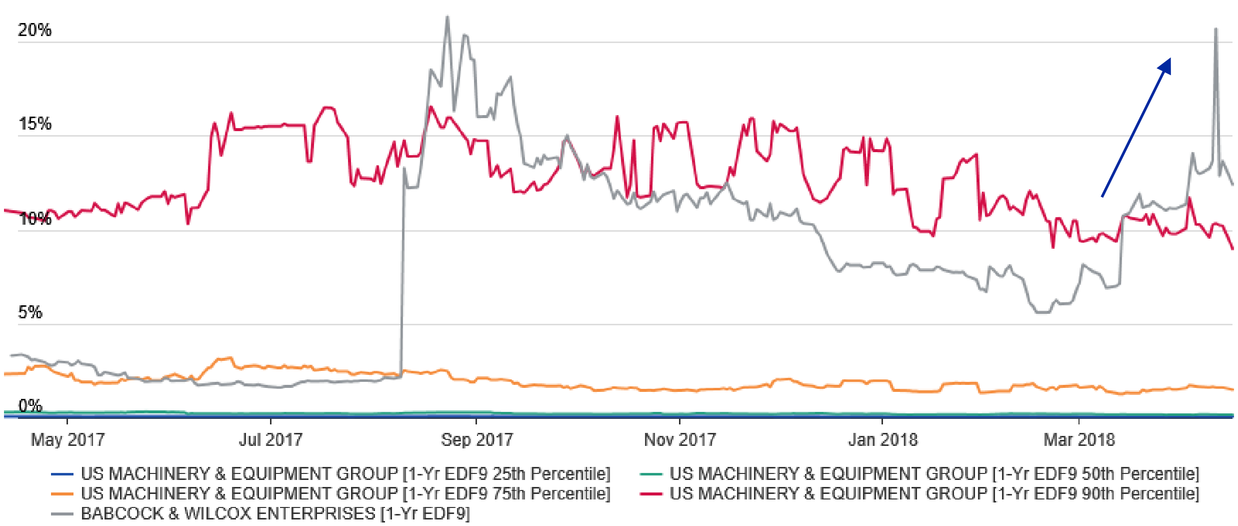

» The graph to the right shows one-year historical corporate default rates bucketed (into quartiles) by their absolute EDF level and EDF level relative to industry sector.

» 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.

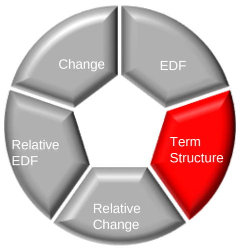
# B&W's EDF measure has been consistently trending with the 90th percentile

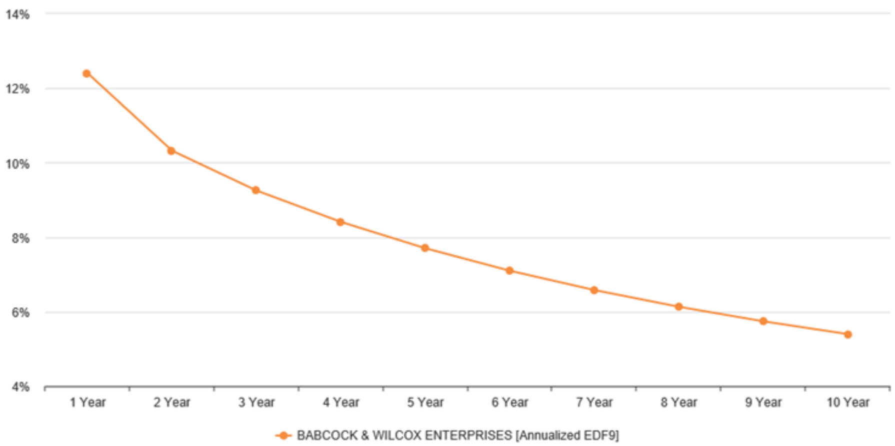


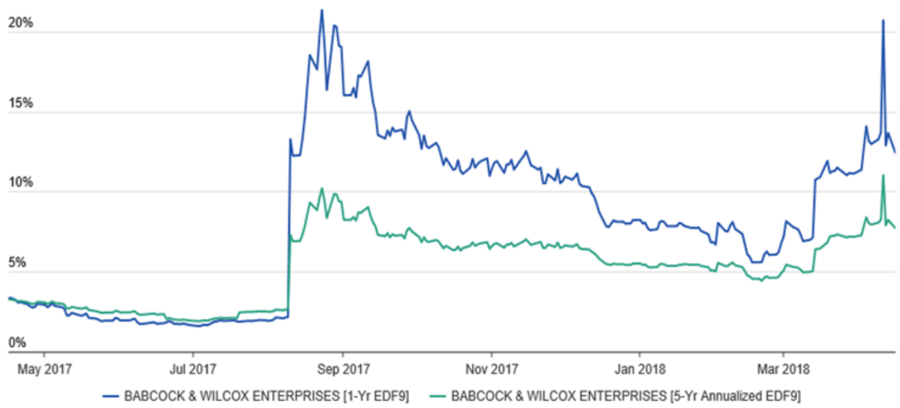




- B&W's EDF was in the highly risky 75% percentile beginning in May 2017, until it rose to the 90th percentile in mid-August 2017.
- Since then, the EDF has been in line with or close to the 90th percentile, until mid-March 2018 when it crossed the 90th percentile and remains there today.

# B&W’s term structure demonstrates a downward sloping shape



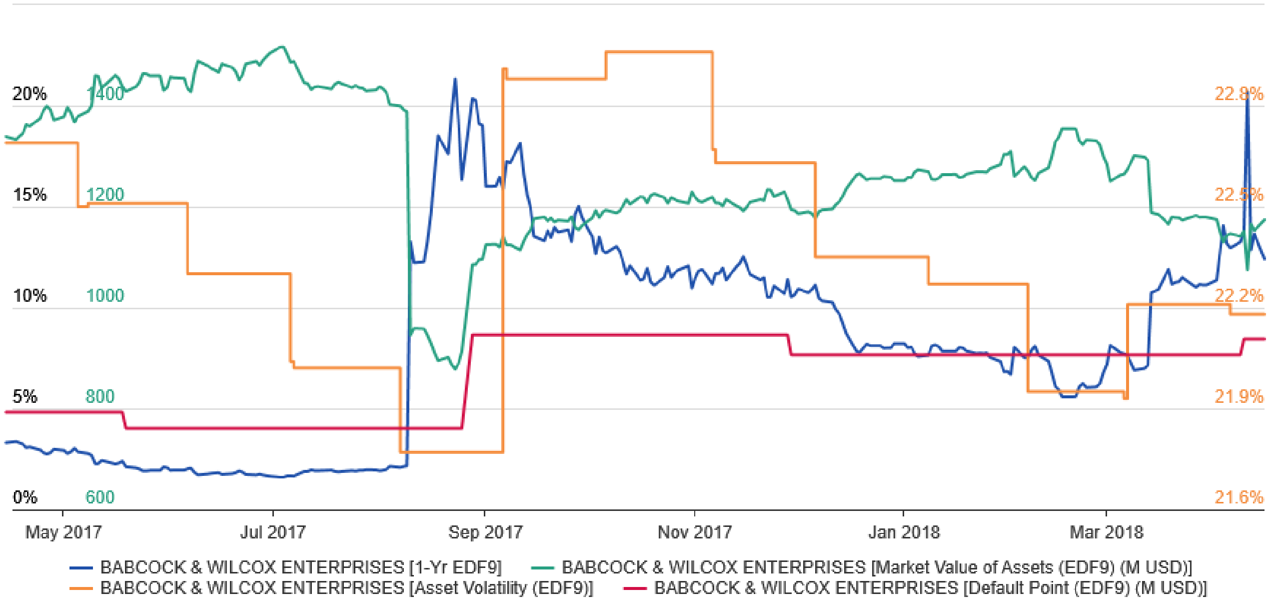




» A company's term structure tends to be upward-sloping during an economic expansion, unless it is in distress. Our research shows that firm’s that experience inverted term structures (1yr EDF > 5yr EDF) are 13x more likely to default than firms that experience a normal upwards sloping term structure.

» 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…



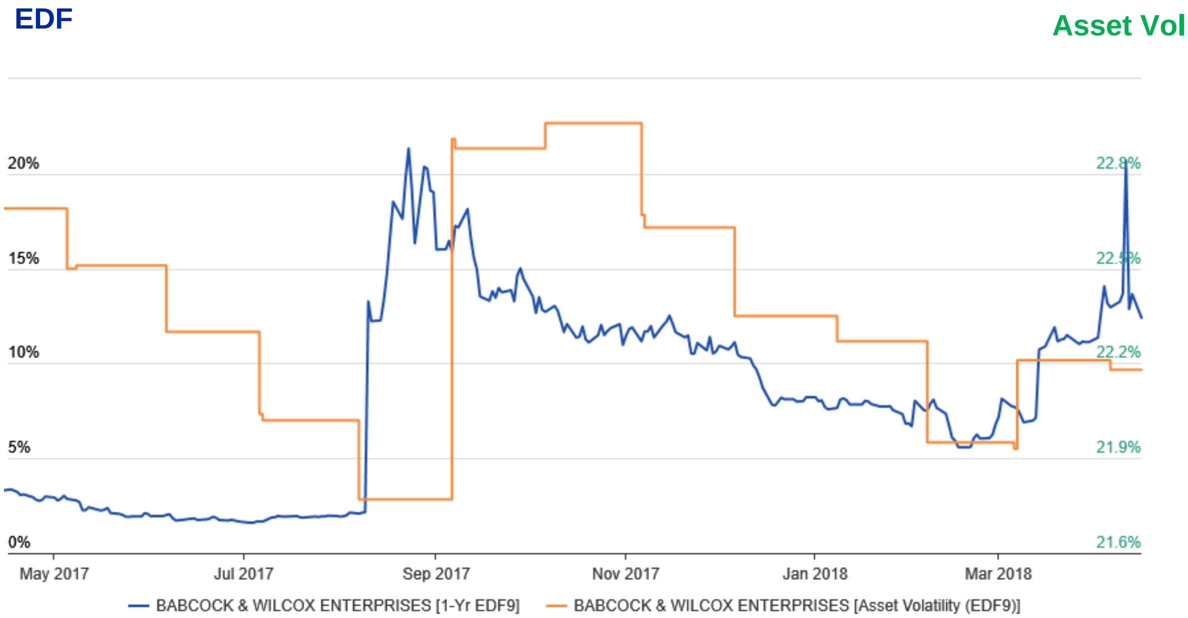

» Market leverage measures the financial risk of a firm and is forward looking.

» 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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