Protecting Your Receivables in These Uncertain Times

25th Annual Windy City Conference

May 19, 2011

Stellar Risk Management Services, Inc.

Steven P. Gan, President, CPA, Certified Credit Executive

4528 Lindenwood, Suite 101B, Northbrook, IL 60062

Tel: 847-714-0121   Fax: 847-714-0104

www.stellarrisk.com   info@stellarrisk.com

STELLAR
RISK MANAGEMENT SERVICES, INC.

They Called Me
"The Debt Collection Evangelist"

"The Blue Eyed Debt Collector, His Struggle"

- Lived in Japan for 15 years.
- Operated my own debt collection agency in Tokyo, Advance & Associates, for 12 years.
- Supported 800 active clients.
- Handled 10,000 consumer & commercial cases per month.

What Is Debt Collection?

- It's an after sales activity to "mop up" and collect what you can when a customer fails to pay you.

  but unfortunately,

- It does not guarantee that payment will be collected and it cannot continue when a customer declares bankruptcy.

Welcome To Today's Risky World

- Revolutions in the Middle East
- Earthquake, Tsunami, and

  Radiation Fallout in Japan
- Tornados in the South
- Possible Global Terrorist Attacks
- Donald Trump

Still Going Bankrupt & No End In Sight!

US Bankruptcy Filings

	2008	2009	2010
Business	38,651	58,721	58,322
Consumer	1,042,993	1,402,816	1,596,355

It's estimated that business and consumer bankruptcy losses have totaled in the trillions of dollars.

Source: Administrative Office of the U.S. Courts

Here's A Simple Definition of "Credit Risk"

Simply stated, Credit Risk is the risk that

your customer, for whatever reasons, cannot

pay you. End of story.

And When Your Customer Can't Pay You, It Can:

- Bring cash flow to a halt.
- Impact company productivity.
- Create and / or increase financial losses.
- Really make you quite angry and depressed.

But You Have Never Had Losses Because:

- You really know your customers and they would never default on you!

and

- You carefully watch your receivables and would see a problem coming.

and

- You are a “clairvoyant” and can predict when catastrophic events that could impact your customer’s payment will occur!

Let’s be serious, almost every company has experienced a receivable loss that was unforeseen, significant, and really hurt!

The Hard & Cold Reality Is That:

You Never Know Your

Customer‘s

Customer’s

Customer

So You Need To Take A Preemptive Approach

- Every major natural, political, and economic disaster can ripple through the global economy bringing down even the biggest and most profitable companies.

- And if Company-A cannot pay to Company-B, then Company-B may not be able to pay Company-C, which could be <u>your company</u>. ***Here in lies the Credit Risk.***

- Unless you‘re like Nostradamus and can predict when your customer’s customer will fall on hard times, <u>**YOU NEED TO PROTECT YOUR RECEIVABLES!**</u>

Two Ways to Protect Your Receivables

- Accounts Receivable Insurance

  (also known as Credit Insurance)

- Accounts Receivable Put Options

These are <u>“before sales”</u> credit risk products.

What Exactly Is Credit Insurance?

- It‘s a product that protects your receivables in the event that your customer either:
  - defaults on payment or
  - goes bankrupt

How Does Credit Insurance Work & The Cost?

- You can cover one customer, the top customers, all your customers, or only domestic or only international customers. Basically you can “slice & dice” your customer portfolio to meet your risk and coverage needs.

- Very broadly, in today’s market it’s about .15% ~ .25% of the sales on covered customers.

Important: Banks love when receivables, used as collateral for loans, are covered by Credit Insurance. It greatly enhances your borrowing power!

But What Are The Real Cost & Real Value?

- If for example you had a loss of a $100,000 receivable containing a 25% gross profit, it would take an additional $400,000 ($100,000 / .25) in additional sales to make up for that loss.
  This is the real cost of a receivable loss.

- If for example without credit insurance you would give a customer credit and sell only up to $50,000 -- but with credit insurance you would sell up to $100,000 -- then you have just doubled your profit.
  The real value of Credit Insurance is that it helps you to expand your sales safely.

And The Payout On Losses?

- Generally you will receive 80% ~ 90% against a loss.

- Believe me, you will be relieved when a large loss has been paid.

What Is An Accounts Receivable Put Option?

- It is has the same function as credit insurance but is used to protect your receivables when selling to publicly traded companies that are distressed and credit insurance is not available.
- It only covers bankruptcy.

How Does A Put Option Work, The Cost & Payout?

- You can only cover one customer at a time.
- Very broadly, in today's market it's about .50% ~ 1% of the face value of the Put Option. The more distressed the company, the higher the rate.
- The Payout is 100%.

Are You Doing Business With Any Of These Distressed Companies?

- Alcatel Lucent
- AutoZone Inc.
- Best Buy
- Bon Ton
- Burlington
- Coat Factory
- Del Monte Produce
- Dollar General
- Dynegy Corp.
- GoodyearTire
- Hertz
- Jones NY
- Kmart
- Kroger
- Liz Claiborne
- Macy‘s
- Michaels Stores
- Neiman Marcus
- Office Depot
- Rite Aid
- Sears
- Sprint Nextel
- Supervalu Inc
- Spartech Corp.
- TargetToys R Us
- Virgin Mobile USA

Put Options on the above companies are being actively purchased.

So What Are You Waiting For?

Since you now clearly understand that:

- Your Accounts Receivables are the life blood of your company,

  and

- In these uncertain times, even your best customer could become a payment problem,

  You need to at least investigate to what extent a Credit Insurance or Put Option Protection Program will help you.

For Further Information…

And to discuss any questions or issues, please contact Steven Gan at Stellar Risk Management Services, Inc.

Tel: 847-714-0121

Email: s.gan@stellarrisk.com

Web: www.stellarrisk.com

STELLAR
RISK MANAGEMENT SERVICES, INC.

Thank you.