

The logo for the Association of Independent Corrugated Converters (AICCC) features the letters 'AICCC' in a bold, stylized, white font with a blue outline, set against a dark blue rectangular background. The background of the entire slide is a dark blue gradient with a faint, glowing globe and a white swoosh.

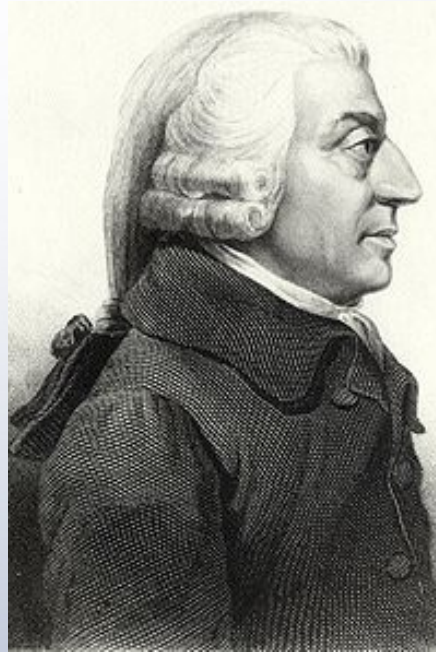
Association of  
Independent  
Corrugated  
Converters

## *Managing Trade Risk and Business Credit Insurance*

Association of Independent Corrugated Converters

Sept 11, 2009

"Capitalism without failure is like religion without sin...  
...it just doesn't work."



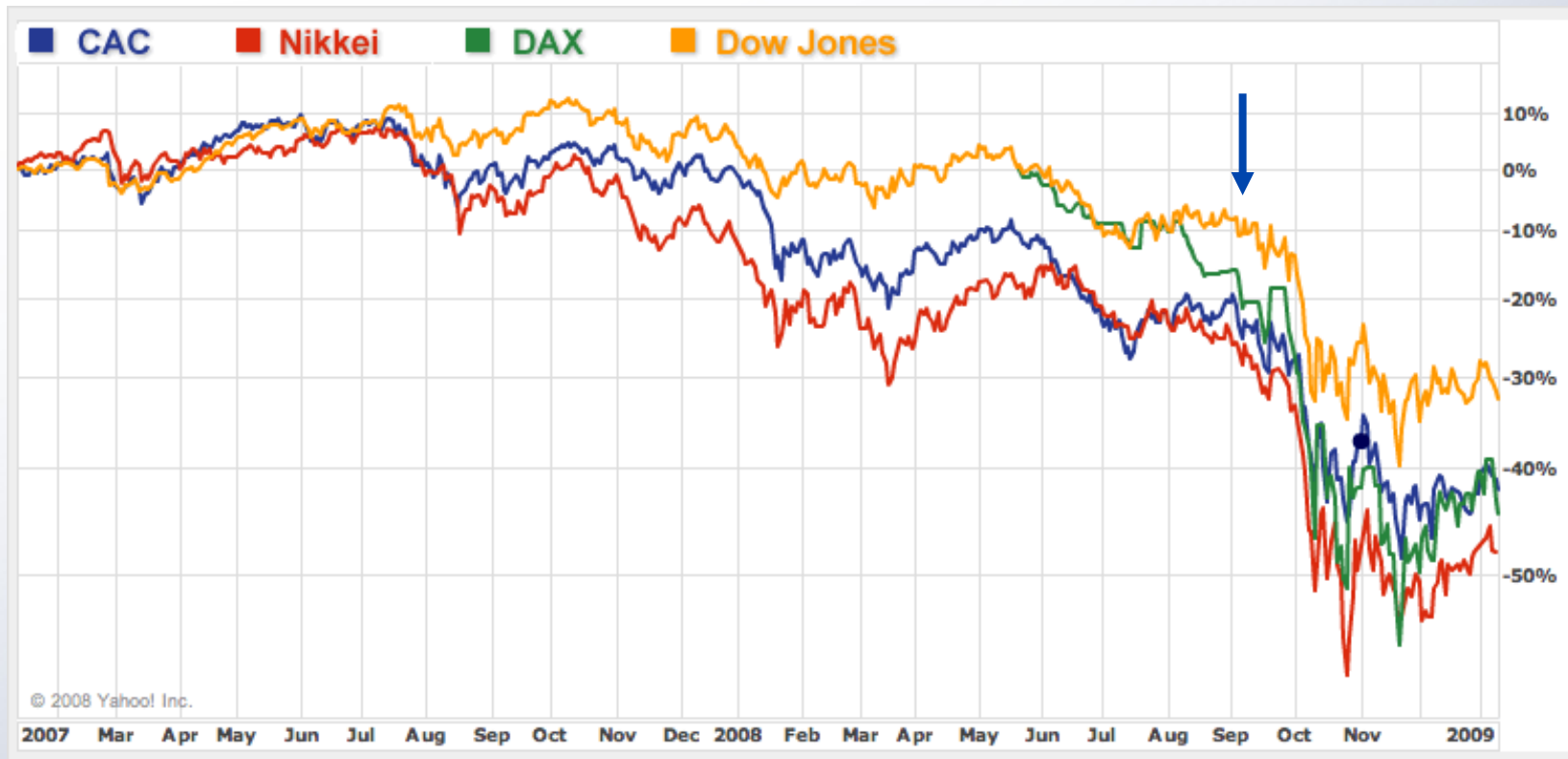
Adam Smith, Economist 1723-1790

# Violent Downturn in Financial Markets

The extreme turmoil in the financial markets and the ensuing credit seizure in the second half 2008 created a drag on an economy already challenged by rising energy costs, collapse of the housing market and over-tightening actions by the Federal reserve.



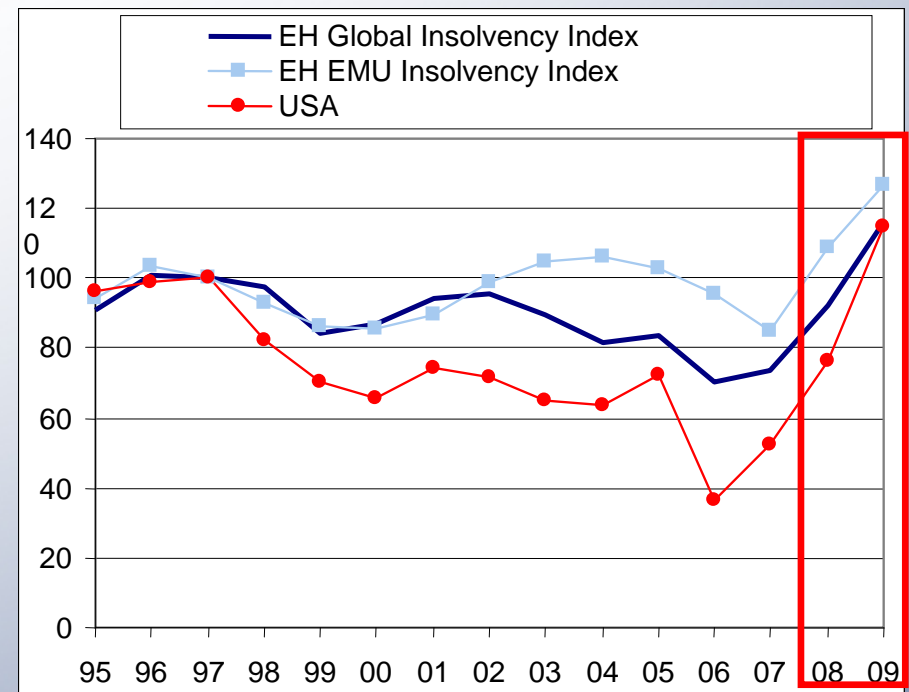
Domino Effect: Sudden End to Global Growth Period 2002-2007



## Domino Effect: Real economic consequences across industry sectors.

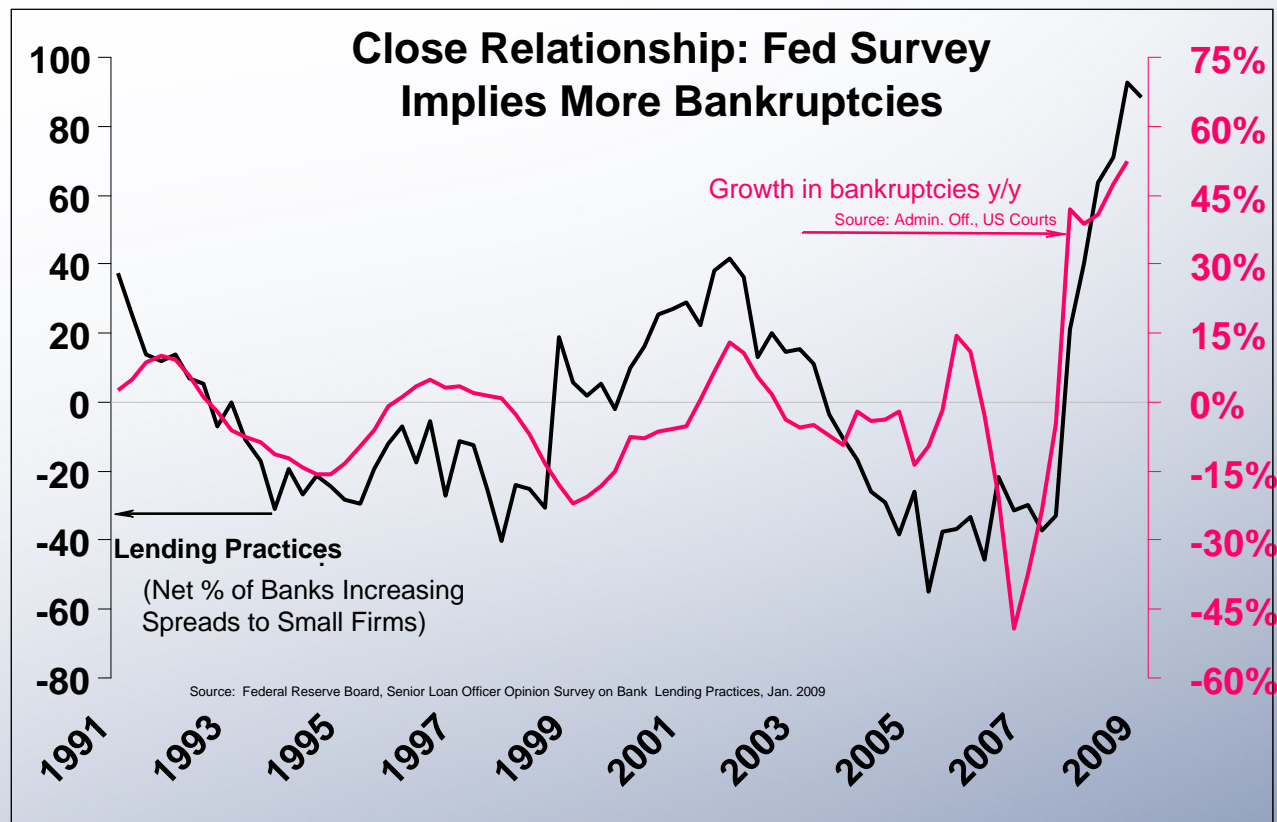
- Deteriorating confidence and low demand
  - Reduced industry investments
  - Collapse of private consumption
  
- Restriction of resources and added margin pressures
  - Energy/Materials
  - Decline in value of inventories (especially in sectors dependent on volatile commodities or imported raw materials)
  - Rise in Unemployment
  
- Less liquidity
  
- Tightening credit environment
  
- Rise in business insolvencies
  
- Government intervention

**Global Insolvency Index +25% in 2008 and in 2009**

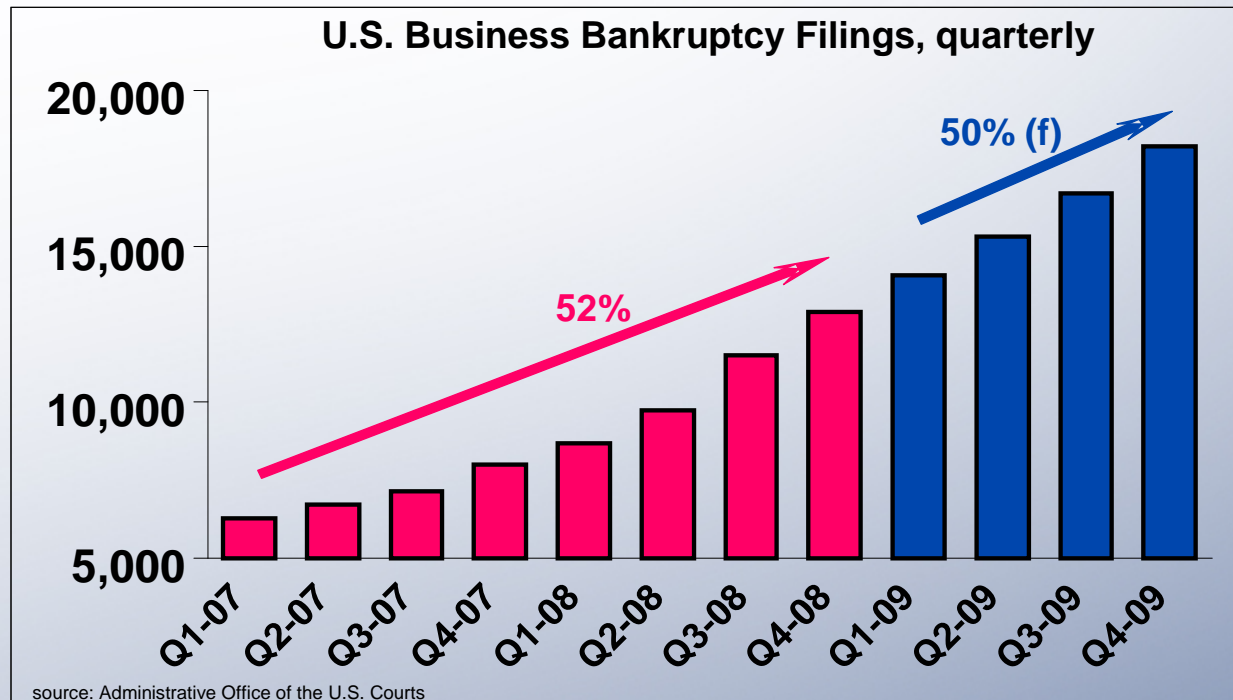


Sources : Global Insight, Euler Hermes forecasts (Nov. 2008 EH Insolvency outlook)  
GDP 2007 weighting at current exchange rates

High correlation between tight lending environment and continued rise in bankruptcy rate.



The dramatic increase in bankruptcy filings is expected to continue through fourth quarter 2009, as companies experience declining revenues and subsequent operating losses. Companies that do not act quickly to aggressively shore up their balance sheet may be in peril.



Protection against unexpected bad debt losses due to the insolvency or protracted default (slow pay) of business customers.

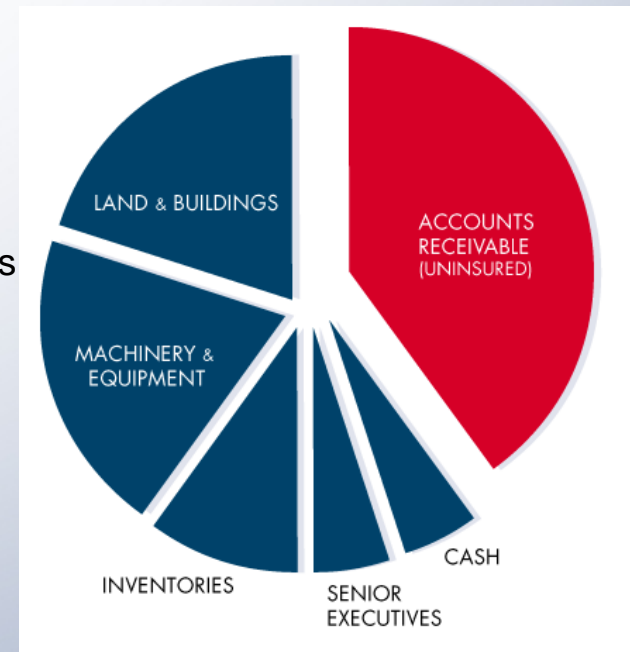
- Insolvency can be a Ch. 7, 11, 13, bulk sale, receivership, general meeting of creditors, etc.
  
- Everything else falls into the slow pay “bucket”.
  - Slow pay claims must be filed within 90 days from due date or 180 days from ship date, whichever is longer.
  
  - Insurance provider acts as collection company with the guarantee...if we don't collect we pay policyholder and the named bank beneficiary.
  
  - If insurance provider collects debt then the business is assessed a collection fee. Under these circumstances, the deductible or coinsurance do not apply.

**Which company assets are secured by an Insurance program?**

**Where does the A/R fall on most companies' balance sheet?**

- Typically represents from 40% to 70% of a company's assets
- Most vulnerable to unexpected losses
- Likely to be affected by business cycles
- Provides cash flow for the business
- Only under-leveraged asset with financial lender
- Few companies can effectively compete without extending credit to their buyers

**What amount of loss may seriously impact a company's annual profit? How many accounts have credit extended over that amount?**



???

- Bankruptcies are inevitable...and can happen to big and small name companies alike.
- Failures come from increasingly unpredictable sources.
- Large bankruptcies can cause a “domino effect” with suppliers.
- Public Company Bankruptcy Statistics:
  - 1<sup>st</sup> Qtr 2007 = 16 companies w/ assets of \$1,079,774,604
  - 1<sup>st</sup> Qtr 2008 = 30 companies w/ assets of \$11,638,611,188
  - 1<sup>st</sup> Qtr 2009 = 64 companies w/ assets of \$100,967,544,123

## ▪ Catastrophic Loss Prevention and Cash Flow Protection

- Prevent disruptive losses to one of company's largest, unprotected assets
- Reduce the risk of key account concentration levels
- Cap exposure to bad debt loss and smoothes financial results over the business cycle – unlike an allowance for doubtful accounts...accomplishes this with tax deductible premium.

## • Support Sales Expansion

- Safely extending more credit to new or existing customers
- Mitigate the risk of expanding sales into more volatile or new markets
- Enhance customer relationships – profitable cooperation between sales and credit functions.
- Increase ability to offer more competitive terms to export customers...
  - *No need for letters of credit and collateral requirements on foreign shipments.*
  - *Open terms permit buyers to reserve their own working capital line for other uses.*

## ▪ **Strengthen Lender Relationship**

- Improve borrowing power and increase available capital by converting receivables into a performing asset...take full advantage of A/R, possible improve cost of funds.
- Eliminate concern over account concentration
- Enable eligibility of foreign receivables
- Reduce need for personal security requirements

## ▪ **Improve Financial Monitoring and Operational Efficiency**

- Strengthen structure and discipline for credit decision making
- Improve credit risk intelligence using unparalleled third party evaluations of prospective customers, industries and countries.
- Install on-going and consistent key account analysis, supply chain monitoring and back-up support for your credit management program
- Increase leverage over troubled accounts by utilizing insurer's expertise and global resources

## • **Political Risk Protection**

- Protect against political events in foreign markets that could make accounts receivable uncollectible.

- **It's only for large companies--**

No. Companies of all sizes utilize credit insurance. As demand for this product has skyrocketed during this economic downturn, many insurers actively pursue smaller and less complex exposures, which presents significant opportunity for mid-size companies to expand their credit management controls.

- **It's only for companies with large bad debt losses--**

No. Companies with all levels of bad debt loss experience install this protection in order to guard against default by their business partners. Credit insurance is truly a risk mitigation tool to safeguard a company's revenue stream, as well as to improve their overall credit profile.

- **It's only valuable for companies that export--**

No. 70-75% of new policies issued exclusively cover only domestic receivables.

- **Credit insurance replaces a company's internal credit functions--**

No. Insurance is not a substitute for prudent credit management practices. *You don't buy automobile insurance and start driving with your eyes closed!*

- **It is not affordable--**

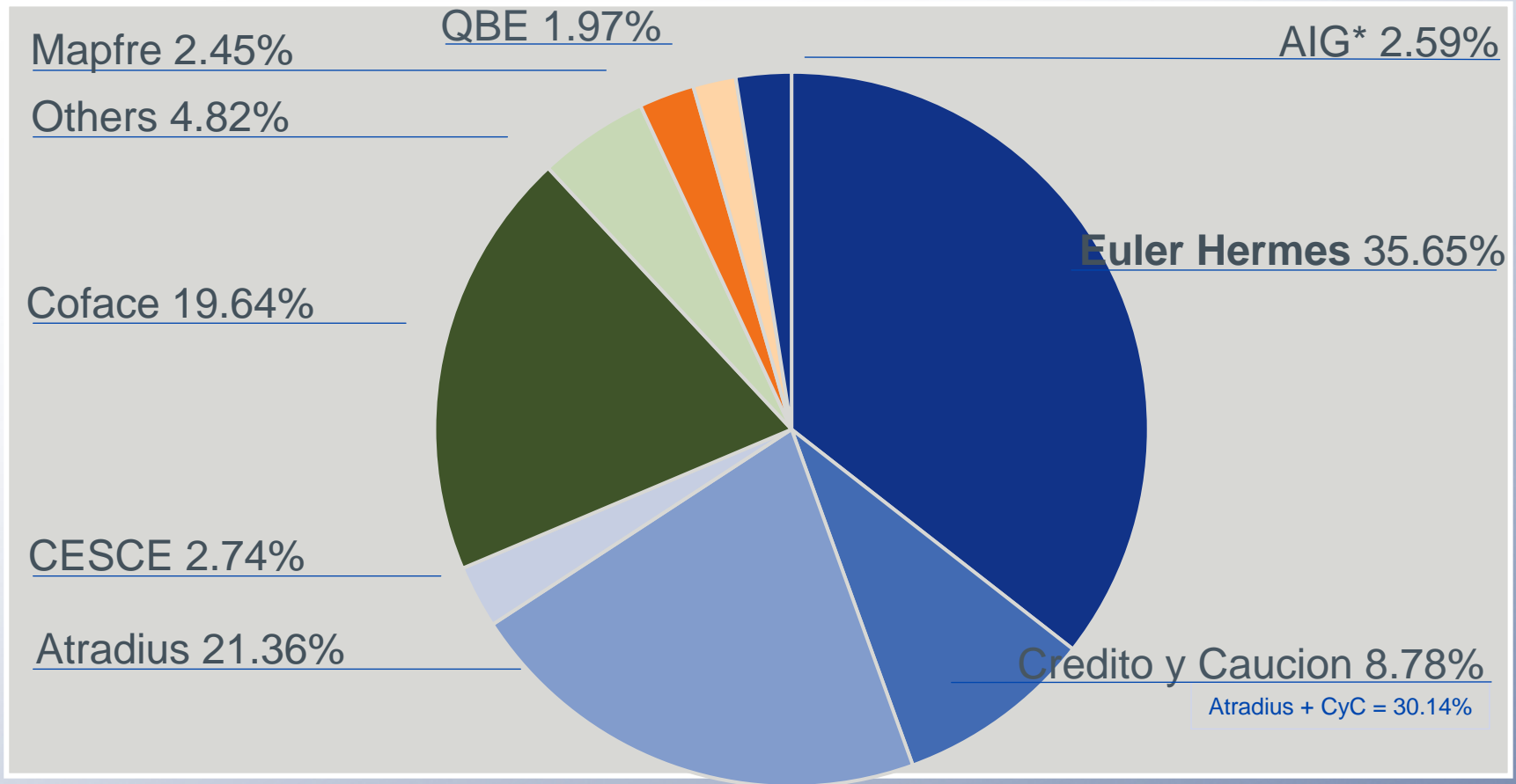
Credit insurance is one of the more versatile insurance products. A program can be structured to cover an entire portfolio or concentrate on key accounts and/or specific business segments. Based on a company's appetite for risk and flexibility in program structure, this insurance can be highly cost effective. Premium is typically a fraction of 1% of the covered sales.

Euler Hermes is global leader for trade credit insurance and other risk mitigation solutions

- 115 years of experience with a 37% share of the world credit insurance market
- 56,000 customers globally with more than 20,000 credit limit requests processed daily
- Insure over \$900 billion in commercial transactions annually in over 200 countries
- Rated A+ (Superior) by A.M. Best and AA- by Standard & Poor's
- Euler Hermes is ultimately owned by German financial services giant, Allianz.
- Established international risk management presence spanning six continents with local risk analysts strategically positioned in 53 countries in close proximity to each customer's clients.
- Proprietary risk management database with intelligence on more than 43 million companies worldwide. Provides coverage on shipments to more than 200 countries around the globe.
- Comprehensive and convenient on-line policy management system
- With over nine decades of collection expertise, Euler Hermes UMA (United Mercantile Associates) also offers a suite of account receivable management services including commercial third party collections, receivables management outsourcing, international collections, and other debt mitigation services.

## Global Credit Insurance Market

### Market shares – ICISA members



Total market volume € 4,608 bn



# Questions and Answers

Thank you for your time today!

I thank you for the opportunity to present our company and our services.

I look forward to becoming a trusted and important resource to your company.

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**Thank you for your time today!**