The Hackett Group®

FINANCE MARKET INTELLIGENCE
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Minimizing Exposure to Bankruptcy Risk

To prevent exposure when a customer files for bankruptcy, a company must rely on a high-quality credit and risk management process that proactively identifies financial distress before it escalates.

BANK INFORMATION RELEASE FORMS

A signed authorization allowing a creditor to access a customer's banking information – e.g., account balances, credit lines, overdraft history.

- Reveals liquidity stress (frequent overdrafts, low balances).
- Shows credit line usage.
- Helps validate payment capacity beyond financial statements.

PUBLIC RECORDS (TAX LIENS, JUDGMENTS & UCC FILINGS)

Legal filings that indicate financial or legal distress, such as tax liens (unpaid taxes), court judgments (lawsuits, collections) and UCC filings (secured creditor claims).

- Tax liens suggest cash flow problems or non-compliance
- Judgments may indicate disputes with vendors or creditors
- Frequent UCC filings can signal overleveraging

NEWS REPORTS ABOUT CUSTOMERS/PROSPECTS

Media coverage from financial news, trade publications or local outlets.

- Layoffs, executive resignations or plant closures often precede bankruptcy.
- Negative press (e.g., fraud investigations, missed earnings) can erode investor and customer confidence.

SOCIAL PRESENCE (WEBSITE & SOCIAL MEDIA ACTIVITY)

A company's digital footprint, including website functionality and updates and activity on LinkedIn, X/Twitter, Facebook, etc.

- Inactive or broken websites may signal operational shutdowns.
- Lack of social media activity can indicate disengagement or downsizing.
- Negative sentiment in comments or reviews may reflect reputational damage.

PREDICTING CUSTOMER BANKRUPTCY

Bankruptcy can be predicted – or at least anticipated with reasonable accuracy – by combining credit data, payment behavior, industry analytics and financial statement analysis.

ANALYZING CREDIT DATA

Analyzing credit data includes analyzing credit scores (e.g., D&B, Experian), outstanding debt levels, credit utilization ratios, Days Sales Outstanding (DSO) and credit limit breaches.

- A declining credit score or increasing debt-to-income ratio often precedes bankruptcy.
- Frequent credit-limit breaches signal liquidity issues.

ANALYZING PAYMENT BEHAVIOR

Payment behavior analysis includes analyzing late payments, partial payments, payment term violations and disputes or deductions.

- A pattern of late or partial payments is a strong indicator of financial instability.
- Escalating disputes may reflect internal cash-prioritization or vendor stress.

ANALYZING INDUSTRY FACTORS

This includes analyzing sector performance trends, regulatory changes, commodity price shifts and competitive pressures.

- Industry downturns increase bankruptcy risk, especially for leveraged or low-margin players.
- Regulatory changes (e.g., tax credit rollbacks, tariffs) can destabilize entire sectors.

ANALYZING FINANCIAL STATEMENTS

Persistent negative cash flow from operations and negative working capital indicate the company may struggle to meet day-to-day obligations and sustain operations.

- Continuous operating losses and declining income growth reduce the company’s ability to service debt and invest in future growth, potentially signaling financial distress.
- Rising debt levels, especially when outpacing earnings or asset growth, increase financial risk. Frequent restructuring charges may further suggest attempts to avoid insolvency.

THE STEPS INVOLVED WHEN A CUSTOMER FILES BANKRUPTCY

1 **Confirm the bankruptcy filing**
For publicly listed companies, check recent SEC filings; for privately-held companies, check bankruptcy court records.

2 **Freeze credit and halt transactions**
Prevents further exposure and ensures compliance with bankruptcy law (automatic stay).

3 **File a proof of claim**
Ensures your company is officially recognized as a creditor and eligible for repayment.

4 **Determine your creditor status**
Affects your recovery potential and negotiation leverage.

5 **Monitor SEC and court filings**
Provides insight into the company's strategy and your potential recovery.

6 **Engage legal counsel**
Legal expertise is essential for navigating complex public bankruptcies.

7 **Evaluate financial exposure**
Helps with financial reporting, provisioning, and risk mitigation.

8 **Update internal systems**
Prevents future exposure and strengthens the organization's credit policy.

9 **Communicate with stakeholders**
Ensures alignment within the organization and avoids missteps.

10 **Learn and adapt**
Turns a loss into a strategic improvement opportunity.

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