

XYZ Credit
Risk
Management
Analysis

I. Additional Sales Needed To Replace A Credit Loss (Without Credit Insurance)

		<u>Scenario 1</u>	<u>Scenario 2</u>
A	Sales:	\$38,000,000	\$38,000,000
B	Gross Margin %:	10%	10%
C	Gross Margin Dollars:	\$3,800,000	\$3,800,000
D	Write-off due to Loss of Customer:	\$380,000	\$1,900,000
C - D	Gross Margin After Loss	\$3,420,000	\$1,900,000
D / B	Incremental Sales to Recover Lost Gross Profit:	\$3,800,000	\$19,000,000
D / B / A	<u>Sales Increased Needed to Recover Lost Profit:</u>	<u>10%</u>	<u>50%</u>

* **Scenario 1** assumes one average customer default: 1%

* **Scenario 2** assumes one large customer default: 5%

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II. Incremental Sales to Pay for Credit Insurance Premium (With Credit Insurance)

A	Sales:	\$38,000,000
B	Gross Margin:	10%
C	Average Accounts Receivable	\$7,600,000
D	DSO	60 Days
E	A/R turns per year	5
F	Estimated Premium (Weighted Average of 0.04 & 0.22)	0.043
A x F	Estimated Premium	\$163,400
A x F/ B	<u>Incremental Sales to Offset Policy Premium:</u>	<u>\$1,634,000</u>
AxF/B/E	<u>Additional Credit Lines Need to Pay for Policy:</u>	<u>\$326,800</u>