Understanding the H-Score®

What factors are taken into account when it comes to calculating a company's H-Score®?

What is an H-Score®?

The H-Score® looks at a company's published financial results in order to measure its financial health. Companies are ranked on a scale of 0 (weakest) to 100 (strongest).

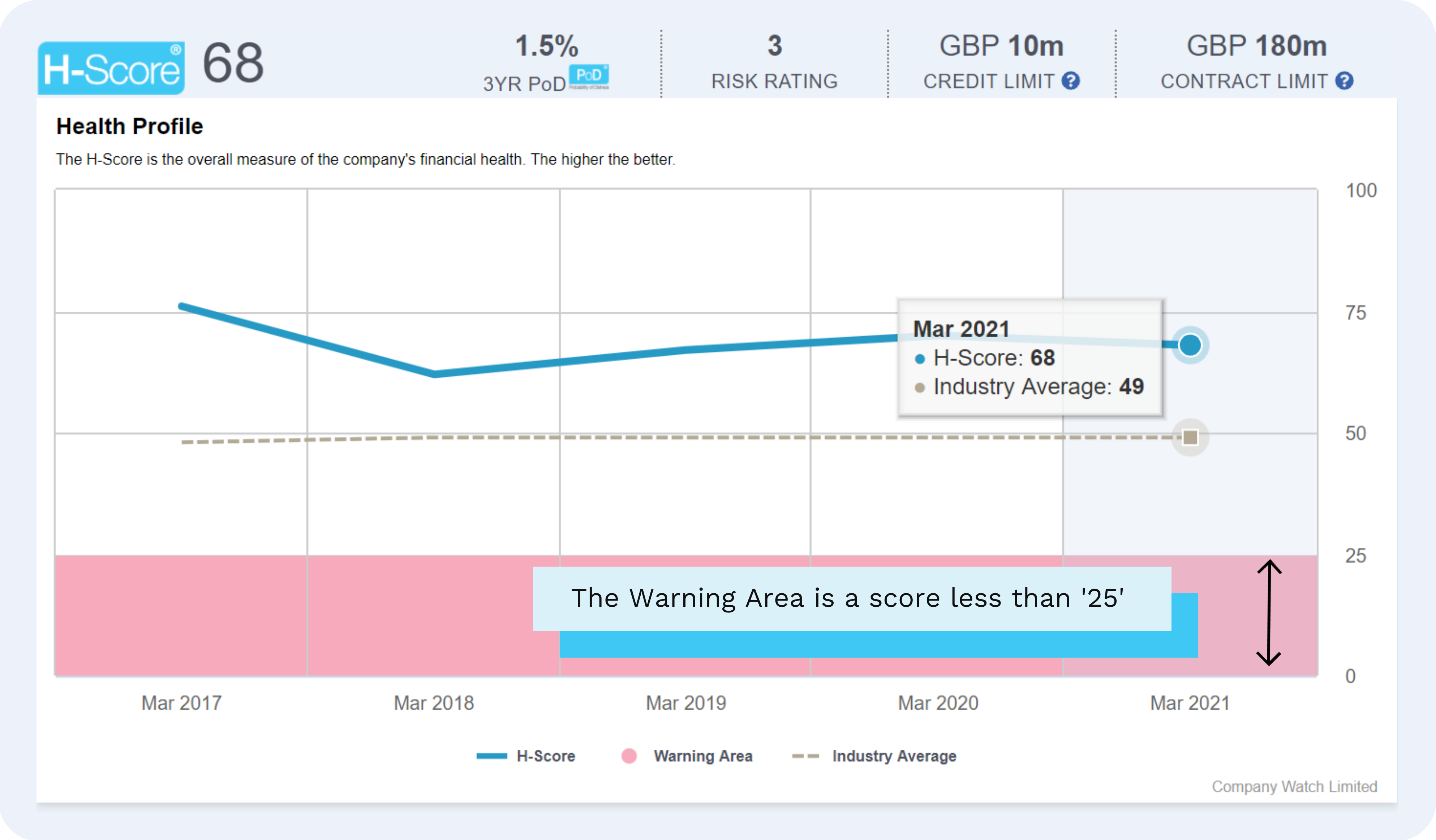
Warning Area

Companies with an H-Score® of 25 or less are in the 'Warning Area' and are displaying characteristics of companies that historically go on to fail. Typically, about one in four companies in the 'Warning Area' will either fail or require a major reconstruction to survive.

Companies are ranked 0-100

Areas of strength

A company can be weak on a range of measures. But as long as it has sufficient strength in other areas, it can stay out of the 'Warning Area'.



The H-score® measures a company's overall health. The higher the score the better.

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Seven factors are combined to establish the H-Score®:

The contribution power of each factor depends on the financial structure of the company being assessed. It's different for each industry too e.g. real estate companies versus retailers versus airlines. In addition, the H-Score® takes into account the size of a company.

7 factors considered for H-Score®

1. Profitability

We measure the extent to which a company is generating profits sufficient to meet the company's short-term commitments. The more profitable the company, the better.

2. Liquidity

We review the liquid assets of debtors and cash in relation to the rate of expenditure. The higher the debtors and cash in relation to current liabilities, the better.

3. Stock and Debtors

We look at how working capital is managed. The lower the stock and debtor levels the better. High stock and debtor levels mean they're not being converted into cash fast enough.

4. Current Assets

We measure the extent to which the current assets provide cover over the company's liabilities. The higher the current assets in relation to total liabilities, the better.

5. Equity Base

We measure the adequacy of the equity base in relation to its liabilities. The higher the level of shareholders' funds and minority interest in relation to other liabilities, the better.

6. Current Funding

We measure the extent to which a company is funding its total assets using current liabilities. The higher the dependence on current liabilities, the worse it is.

7. Debt Dependency

We look at the dependence of a company on debt for the funding of its tangible assets. The higher the level of bank debt (with particular emphasis on short-term debt), the worse it is.

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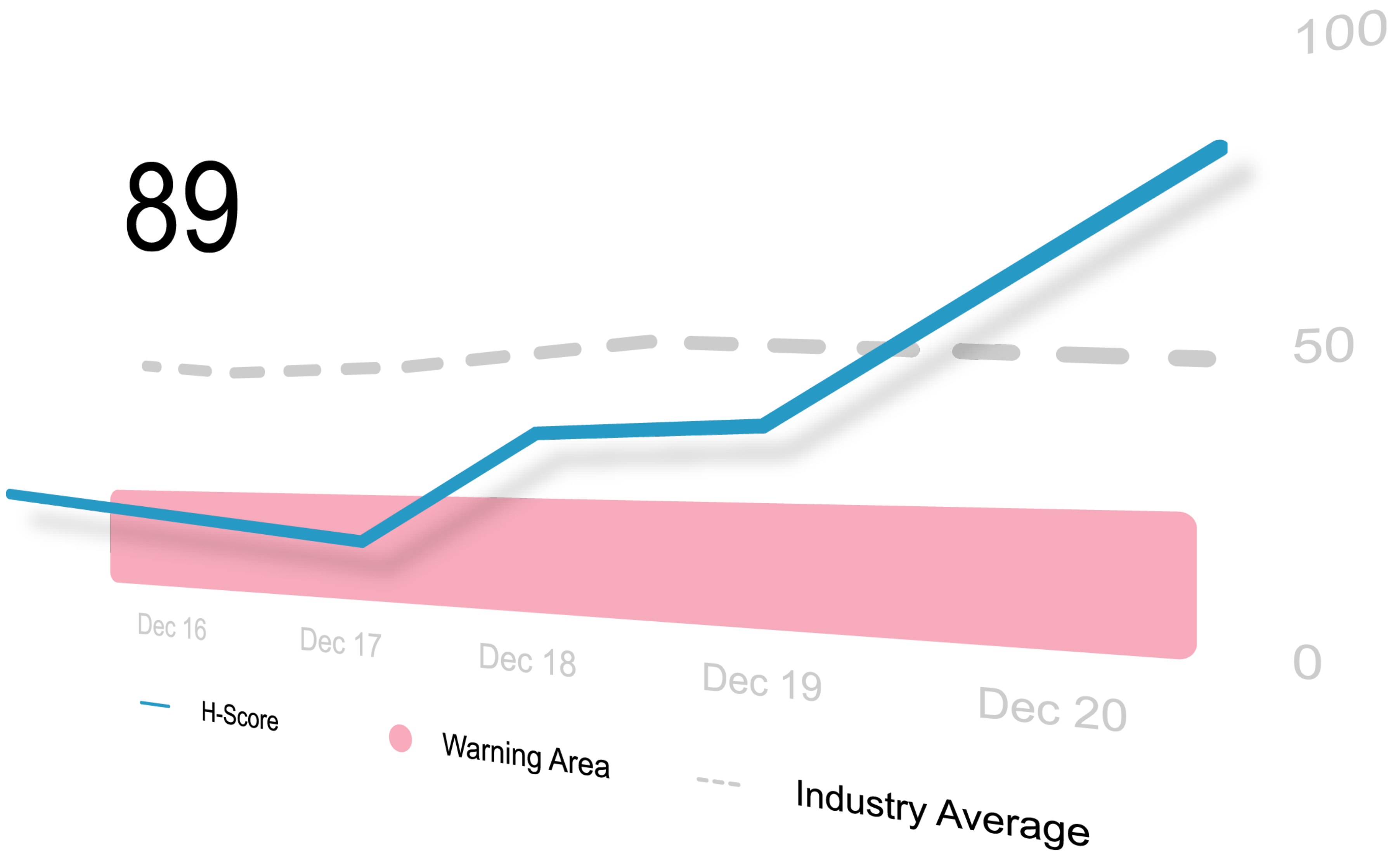
Looking at intangible assets

The H-Score® does not give value to intangible assets (usually goodwill, but can also include trademarks, brand names etc.) because the core value of these items is regarded as being inconsistent.

Handling abridged accounts

We only consider financial information in the public domain such as accounts filed at Companies House. However, 'Small Companies' (defined as companies which do not exceed more than one of: £10.2m sales, £5.1m total assets, 50 employees) are allowed to file abridged accounts (balance sheet only, no P&L).

When the H-Score® is calculated, assumptions about profits are made by using the year-to-year movement in retained profits as disclosed in the balance sheet. If a dividend is paid, this may cause a negative movement in retained profits, which may have a significant negative impact on the H-Score®.



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