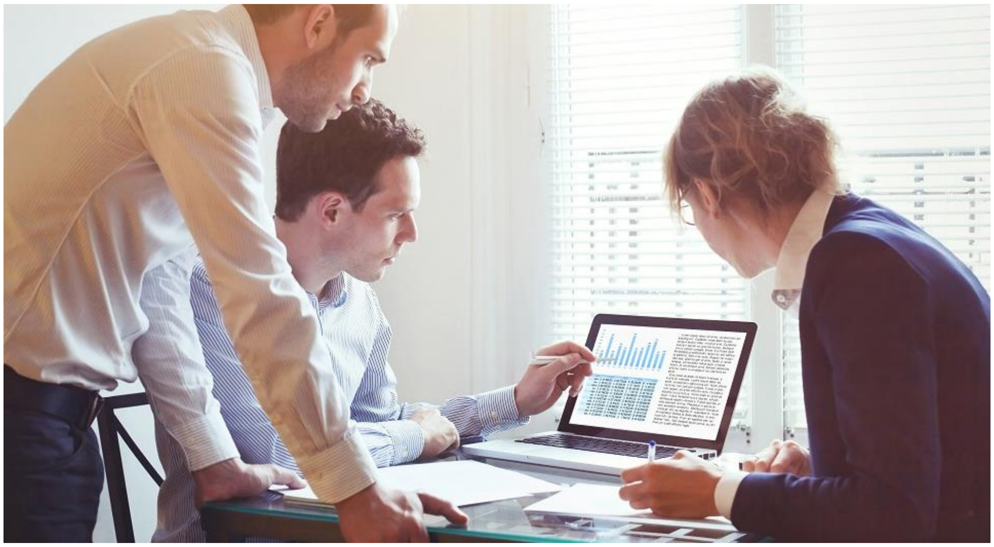


Retail Bankruptcy Chronicles:

Toys R Us

Early Warning Signs Traditional Credit Reporting Missed

Executive Summary

This document exposes the early warning signs that signaled the dramatic decline of long-time retailer Toys R Us. The type of insights outlined are uniquely available to members of the Cortera Credit Exchange which captures purchase and payment behaviors, a leading financial health indicator, across 20M business locations and $1.4T in annual B2B spend.

The Early Warning Signs Traditional Credit Reporting Missed

Toys R Us was a top shopping destination for children's birthday and holiday gifts. When the company filed for Chapter 11 bankruptcy in 2017, many creditors were shocked. Once a favorite spot for toddlers and teens, the retailer's sales were slumping for years, dating back to 2005 when consumers began shopping more frequently online.

Immediately following the bankruptcy declaration, chairman and CEO Dave Brandon stated the court filing would enable the company and its investors to work with debtors and creditors to restructure the debt, positioning the retailer on a profitable track for growth again.

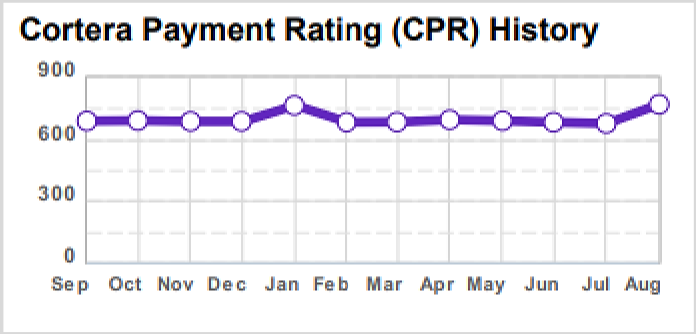
While many Toys R Us creditors were blindsided by the bankruptcy and unable to adjust credit limits in time to protect themselves, members of the Cortera Credit Exchange were receiving detailed notifications of the changes in risk. These notifications included declines in spend and financial news alerts before the bankruptcy took place.

Empowered by the mission to fuel economic growth with smarter business intelligence, Cortera helps customers predict opportunity and risk from point of credit origination through payment. In this whitepaper, we will demonstrate how the Cortera Credit Exchange provided early warning signs of the Toys R Us decline.

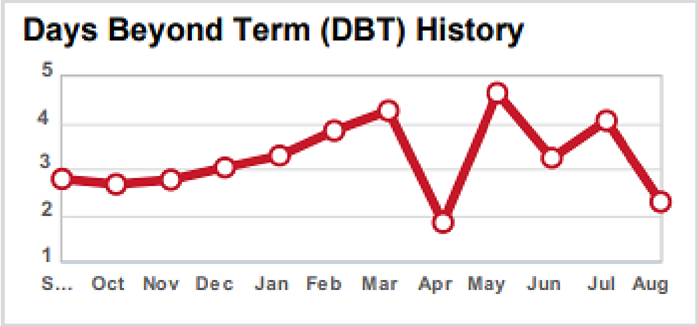
A Misleading View: **Payment Behavior**

For years, payment behavior was used by legacy B2B data providers to score the credit worthiness and risk of companies. There's no denying that payment behavior provides useful insight to how a certain company pays its creditors. The catch is, it doesn't provide a full view of the company's financial health.

As you'll see below, Toys R Us showed little change in their payment behavior throughout the year leading up to their bankruptcy. Most data providers would have scored the Toys R Us company as "low risk".



Cortera Payment Rating translates to the average Days Beyond Terms (DBT). A score greater than 600 would signal that the average days beyond terms is less than 5 days.



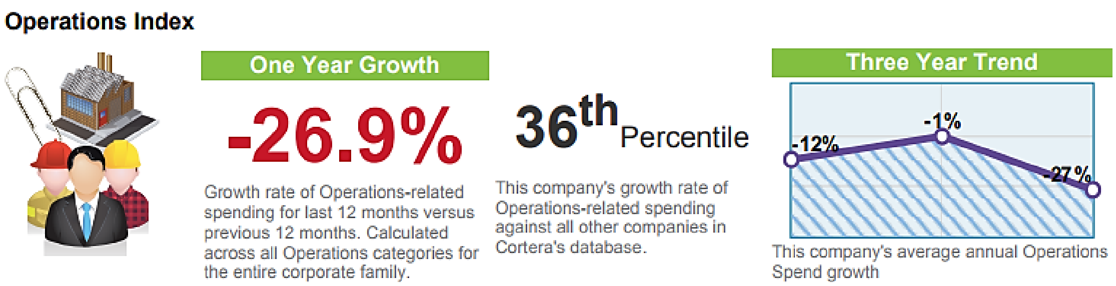
DBT showed some fluctuation, but an increase was not consistent nor predictive in terms of any demise.

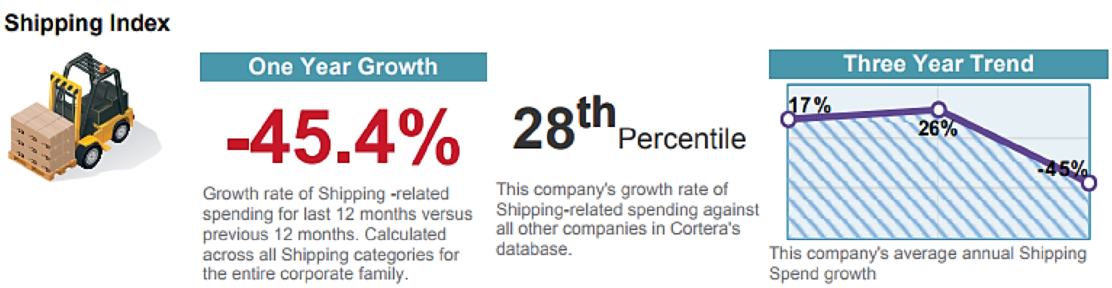
Companies will continue to pay their most important bills for as long as possible, even if they know they are headed towards bankruptcy or potential closing of their business. For this reason, creditors need to incorporate additional information into their scoring process. At Cortera, we call this purchase behavior or "spend & trend".

Warning Signs Exposed: **Purchase Behavior**

The purchasing trends of Toys R Us were on the decline for three years leading up to its bankruptcy. Even though Toys R Us continued to pay its creditors for goods already bought, they were purchasing less which was a signal to a slow down in growth. A red flag for creditors.

While a company may continue to pay its bills on time, showing no warning signs on the surface, a drop in spend is a leading indicator of financial struggle.





It’s also important to note the category with which spending declined. Cortera segments purchase and payment behaviors across 45 supply chain categories to show creditors what companies buy and how they pay different types of businesses. For Toys R Us, the decline in shipping index was key. A store whose survival depends on moving product should be spending a significant amount of money on shipping. Toys R Us was doing the opposite.

Without purchase behaviors from Cortera, Toys R Us looked like a great candidate for credit with minimal risk.

Traditional payment behavior does not provide a clear enough picture into the overall financial health and operational risk of a business.

Purchase behavior – what companies buy and how those trends change over time – is the most predictive way to stay ahead of B2B credit risk and minimize financial loss.

Learn more about the Cortera Credit Exchange and how it uniquely offers its members the ability to predict opportunity and risk from point of credit origination through payment.

Call 866.589.0664 or visit Cortera.com