

EXAMPLE RISK RATING GRID FOR QUALITATIVE FACTORS

Risk Rating	1	2	3	4
Label ⇒ ↓ area	Minimal risk, (superior)	Modest risk (exceptional)	Average risk	Acceptable risk
Industry/ Industry segment	<ul style="list-style-type: none"> Minimal cyclical Not capital intensive Favorable legal, regulatory, labor outlook 	<ul style="list-style-type: none"> Modest cyclical Modest capital needs Neutral legal, regulatory, labor outlook 	<ul style="list-style-type: none"> Average cyclical Serious industry downturn not likely Neutral legal, regulatory, labor outlook 	<ul style="list-style-type: none"> Intensely cyclical industry Uncertain industry outlook Low barriers to entry Demanding legal, regulatory, labor outlook
Market risk (Position within industry and level of competition)	<ul style="list-style-type: none"> Leader with large share in stable industry Pricing leader and low-cost producer Performance ratios rank high 	<ul style="list-style-type: none"> Reasonable market share nationally or strong regional presence May dominate local market Competitive pricing with good margins Above average performance ratios 	<ul style="list-style-type: none"> Price follower with average market share Stable demand Established and loyal customers Smaller firm with strong local position Performance ratios generally better than peers 	<ul style="list-style-type: none"> Position within industry is weak or deteriorating Maintenance of market share is difficult and expensive Customer/supplier relations price-driven Smaller firm with average local presence
Management and controls	<ul style="list-style-type: none"> Highly experienced management with continuity and depth Excellent internal controls and reporting 	<ul style="list-style-type: none"> Broad industry experience with good continuity Depth in key positions High level of internal controls with quality reporting 	<ul style="list-style-type: none"> Reasonable industry experience with modest depth at key positions Good internal controls Proven character and ability to deal with adversity Principals' ability and willingness to inject capital Good labor relations Low litigation potential 	<ul style="list-style-type: none"> Limited industry experience with little depth Actual or potential friction between owners or potential successors Internal controls marginal with some manual processes Acceptable character Higher litigation risk High owner compensation relative to revenues and earnings