

Financial Health Assessment Worksheet



WHAT THIS TOOL IS

The Financial Health Assessment Worksheet is a comprehensive due diligence framework designed to evaluate the financial stability and viability of potential vendors, suppliers, and business partners. This systematic tool guides users through professional financial analysis techniques used by credit analysts, procurement specialists, and risk managers to assess whether a company can reliably fulfill its contractual obligations.

Important Note: This worksheet provides general financial analysis guidelines applicable across most industries. However, financial benchmarks and risk tolerances vary significantly by industry, company size, and business model. Customize the benchmark ratios and risk criteria to reflect your specific industry standards and organizational risk tolerance.

WHY FINANCIAL HEALTH ASSESSMENT IS CRITICAL

1 Prevents Supply Chain Disruption:

Financial distress is the leading cause of vendor failures. Companies experiencing cash flow problems may struggle to fulfill orders, maintain quality, or stay in business, creating costly disruptions to your operations.

2 Protects Against Financial Losses:

Vendors with poor financial health pose risks of non-delivery, incomplete projects, warranty claims going unfulfilled, and potential losses from prepayments or deposits.

3 Enables Better Contract Terms:

Understanding a vendor's financial position allows you to negotiate appropriate payment terms, security requirements, and performance guarantees that match their risk profile.

4 Supports Strategic Planning:

Financial health assessment helps identify vendors suitable for long-term partnerships versus those appropriate only for short-term, low-risk transactions.

5 Ensures Regulatory Compliance:

Many industries require financial due diligence on vendors, especially for critical suppliers or when handling sensitive data/materials.

HOW TO USE THIS ASSESSMENT

Before Starting:

- Gather at least 3 years of financial data when possible. For newer companies, analyze available data and adjust risk assessment accordingly.

During Analysis:

- Focus on trends rather than single-year snapshots. A temporarily weak ratio may be acceptable if the trend is improving, while declining ratios in a strong company may signal emerging problems.

Key Interpretation Guidelines:

- **Liquidity Ratios:** Measure ability to pay short-term obligations
- **Profitability Ratios:** Indicate operational efficiency and sustainability
- **Leverage Ratios:** Show debt management and financial risk
- **Red Flags:** Require immediate attention and may disqualify vendor
- **Reference Checks:** Provide real-world validation of financial data

Vendor Name: _____ **Date:** _____

Assessment Period: _____

Evaluator: _____

STEP 1: FINANCIAL DOCUMENTATION REVIEW

Why This Matters: Audited statements provide verified financial data, while references offer practical insights into payment behavior and reliability.

Documents to Request:

- Most recent audited financial statements (3 years)
- Current year interim financial statements
- Credit report from major credit agency
- Bank references
- Trade references (3-5 suppliers)
- Surety bonding information (if applicable)

STEP 2: KEY FINANCIAL RATIOS ANALYSIS

Why This Matters: Financial ratios reveal the company's ability to pay bills, generate profits, and manage debt - the core indicators of business sustainability.

Liquidity Ratios

Measures the company's ability to meet short-term obligations

Ratio	Formula	Year 1	Year 2	Year 3	Benchmark
Current Ratio	Current Assets ÷ Current Liabilities	___	___	___	>1.5
Quick Ratio	(Current Assets - Inventory) ÷ Current Liabilities	___	___	___	>1.0
Cash Ratio	Cash ÷ Current Liabilities	___	___	___	>0.2

Profitability Ratios

Indicates operational efficiency and long-term sustainability

Ratio	Formula	Year 1	Year 2	Year 3	Benchmark
Net Profit Margin	Net Income ÷ Revenue	___%	___%	___%	>5%
ROA	Net Income ÷ Total Assets	___%	___%	___%	>5%
ROE	Net Income ÷ Shareholders' Equity	___%	___%	___%	>10%

Leverage Ratios

Shows debt management and financial risk exposure

Ratio	Formula	Year 1	Year 2	Year 3	Benchmark
Debt-to-Equity	Total Debt ÷ Total Equity	___	___	___	<1.0
Debt-to-Assets	Total Debt ÷ Total Assets	___%	___%	___%	<40%
Interest Coverage	EBIT ÷ Interest Expense	___	___	___	>3.0

STEP 3: FINANCIAL RED FLAGS CHECKLIST

Why This Matters: These warning signs often precede business failures and should trigger additional investigation or disqualification.

Critical Warning Signs

- Declining revenue for 2+ consecutive years
- Negative cash flow from operations
- Current ratio below 1.0
- Debt-to-equity ratio above 2.0
- Late payments to suppliers (verified through references)
- Recent bankruptcy or financial restructuring
- Qualified auditor opinions or going concern notices
- Significant related-party transactions
- High employee turnover in finance department
- Delayed or refused financial statement provision

Moderate Concerns

- Inconsistent profitability
- High dependence on single customer (>25% of revenue)
- Seasonal cash flow challenges
- Limited credit history or banking relationships
- Recent management changes
- Industry declining or highly volatile

STEP 4: REFERENCE CHECK QUESTIONS

Why This Matters: References provide real-world validation of financial data and reveal payment patterns that may not be visible in financial statements.

Bank References

1. How long has the vendor maintained accounts with you?
2. What is their average account balance and payment history?
3. Have they requested credit increases or exhibited cash flow stress?
4. Would you extend additional credit to this company?

Trade References

1. How long have you supplied this company?
2. What are their typical payment terms and actual payment patterns?
3. Have you experienced any payment delays or disputes?
4. What is their credit limit with your company?
5. Would you recommend them as a reliable business partner?

STEP 5: FINANCIAL RISK ASSESSMENT

Why This Matters: This synthesis helps translate complex financial data into actionable business decisions.

Overall Financial Strength

- Strong** - Excellent ratios, stable growth, strong references
- Adequate** - Acceptable ratios, some volatility, generally positive references
- Concerning** - Weak ratios, declining trends, mixed references
- High Risk** - Poor ratios, significant red flags, negative references

Specific Risk Factors

- Industry Risk** - Cyclical, declining, or highly competitive market
- Customer Concentration** - Over-dependence on few large customers
- Geographic Risk** - Operations in economically unstable regions
- Currency Risk** - Significant foreign exchange exposure
- Regulatory Risk** - Heavy regulatory environment or pending changes

STEP 6: FINANCIAL MONITORING PLAN

Why This Matters: Financial health can change rapidly. Ongoing monitoring helps detect problems before they impact your business.

For Approved Vendors

- Annual financial statement review**
- Quarterly credit report monitoring**
- Payment pattern tracking**
- Early warning system for:**
 - Payment delays beyond terms
 - Credit rating downgrades
 - Negative industry news
 - Bankruptcy filings in their industry

FINAL ASSESSMENT

Financial Risk Rating:

- Low Risk** - Strong financial position, approve for normal terms
- Medium Risk** - Adequate finances, consider shorter payment terms or guarantees
- High Risk** - Weak finances, require prepayment or additional security
- Unacceptable** - Cannot recommend for business relationship

Recommended Actions:

Monitoring Requirements:

Assessed by: _____ **Date:** _____

BEST PRACTICES FOR FINANCIAL ASSESSMENT

Industry-Specific Considerations:

- **Manufacturing:** Focus on inventory turnover and working capital management
- **Construction:** Emphasize bonding capacity and project cash flow
- **Technology:** Consider R&D spending and customer concentration
- **Service Companies:** Analyze accounts receivable and human capital metrics

Red Flag Investigation:

- Request management explanations for any concerning trends
- Verify explanations through independent sources when possible
- Consider industry context (e.g., seasonal businesses may show cyclical patterns)
- Look for improvement plans and track progress

Documentation Requirements:

- Maintain assessment files for audit and legal purposes
- Update assessments annually or when major changes occur
- Share findings with relevant stakeholders while maintaining confidentiality
- Use results to inform contract terms and monitoring frequency