AEMT Guidelines for Determining Business Stability

Dated: October 2024

As part of AEMT's commitment to promoting best practices and ensuring the credibility of its members, we will be assessing various indicators of financial and operational stability. This process is designed to maintain standards across the industry and build trust with customers, suppliers, and other stakeholders. Below are the key areas we will evaluate:

1. Credit Rating

A company's credit rating is a fundamental indicator of its financial health. We will closely monitor this as a primary tool in assessing business stability. Specifically:

Credit Score Monitoring: AEMT will regularly review members' credit ratings through reputable credit rating agencies. This will help us gauge the likelihood of a company meeting its financial obligations.

Lower Percentile Concerns: If a business's credit rating falls into the bottom 25th percentile for their industry, this will prompt a review and further discussions to understand any underlying issues. We understand that fluctuations in credit ratings can occur, but consistent poor performance or deterioration will raise red flags.

2. Director History

The track record of company directors is another crucial element in assessing a business's long-term stability.

Director Insolvency: AEMT will review the history of company directors, specifically focusing on any that have overseen multiple businesses that have gone insolvent. This pattern can indicate poor management practices or strategic challenges that may pose risks to the current enterprise.

Governance Practices: Strong governance and leadership practices are vital for business success. We encourage members to demonstrate that their leadership team is committed to transparency, ethical practices, and sound management.

3. Balance Sheet Health

A healthy balance sheet reflects a company's ability to maintain liquidity, manage debt, and sustain growth. Key areas we will assess include:

Assets vs Liabilities: A business must demonstrate that its assets exceed its liabilities. A strong ratio indicates that the company is in a position to cover its obligations and continue operations smoothly.

Cash Flow: Consistent positive cash flow shows that the company is generating enough revenue to support its operational expenses and growth activities. Any signs of cash flow issues, especially those that affect day-to-day operations, will warrant further investigation.

Debt Levels: A reasonable debt-to-equity ratio is crucial. High levels of debt may indicate risk, especially if the company's revenues are not growing proportionately.

Profit Margins: Steady or increasing profit margins are another sign of a well-managed business. Declining margins over time may suggest issues with pricing, cost control, or market demand.

Investment in Infrastructure: Companies that invest in maintaining and upgrading their equipment, technology, and human resources show commitment to long-term success. Regular investments indicate a forward-thinking approach that benefits both the company and the industry.

5. Other Financial Indicators

We may also review additional financial performance metrics, such as:

Revenue Growth: Businesses that consistently show revenue growth are generally more stable than those with stagnant or declining revenue.

Return on Investment (ROI): A healthy ROI is an indication that the business is effectively utilising its capital and resources.

6. Review and Feedback

If any areas of concern are identified during the assessment process, AEMT will engage in a dialogue with the company to understand the underlying issues. Our goal is to support members in improving their business practices and maintaining stability, not just flagging concerns. Businesses that demonstrate improvement or have mitigating circumstances will be given the opportunity to provide further information or rectify issues before any formal actions are taken.