TRaiCE

Early Portfolio Risk Detection With TRaiCE

A CASE STUDY ON PINK ENERGY (A.K.A. POWERHOME SOLAR)

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SYNOPSIS

In today's uncertain fiscal and geopolitical environment, portfolio risks can emerge without a moment's notice. Crucially, such impromptu risks often go unnoticed by traditional quantitative risk models that are dependent on quarterly/annual company reports. There is, therefore, a need for supplementary risk detection techniques today that allow financiers to monitor their counterparties constantly and detect portfolio risks as early as possible. The use of the TRaiCE platform is an effective way to do just that. This case study looks into the platform's utility in enabling early portfolio risk detection using the example of Pink Energy, a North Carolina-based solar energy company.

The Pink Energy bankruptcy explained

Formerly known as Powerhome Solar, Pink Energy was one of the largest solar energy providers in the US. It was launched in 2014 by self-proclaimed billionaire CEO and flamboyant motivational speaker Jayson Waller. At its peak, it had annual revenue of $700 million, an impressive $1 billion valuation[1], over 2000 employees, and operations in 15 states. Along the way, it also had several prominent sports partnerships with the company installing its solar panels in stadiums and training facilities used by teams such as the Detroit Lions, Indianapolis Colts, and Cleveland Browns.

Unfortunately, these high-profile deals and purported financial gains proved to be a red herring that diverted everyone's attention from the company's many problems. These included overpriced panels, faulty installations, false sales claims, major layoffs, and a litany of customer complaints. Essentially, the company promised their users the sun but left them with hefty loans and bulky systems that didn't work instead. All of this in combination with increased competition in the space resulted in a drastic decline in sales for the company. And despite last-ditch efforts to re-brand itself as Pink Energy, the business closed shop on September 21, 2022, and declared bankruptcy a month later.

Pink Energy had some very red flags

The Pink Energy bankruptcy not only left customers in the dark but also threw its investors and financiers under the bus. The company reportedly owes its creditors close to $140 million[2]. Counterparties such as its point-of-service lending partners too stand to lose millions[3] from suspended loans and write-downs. However, none of this should have come as a surprise to anyone as Pink Energy had some very red flags flying much before it went defunct and declared bankruptcy.

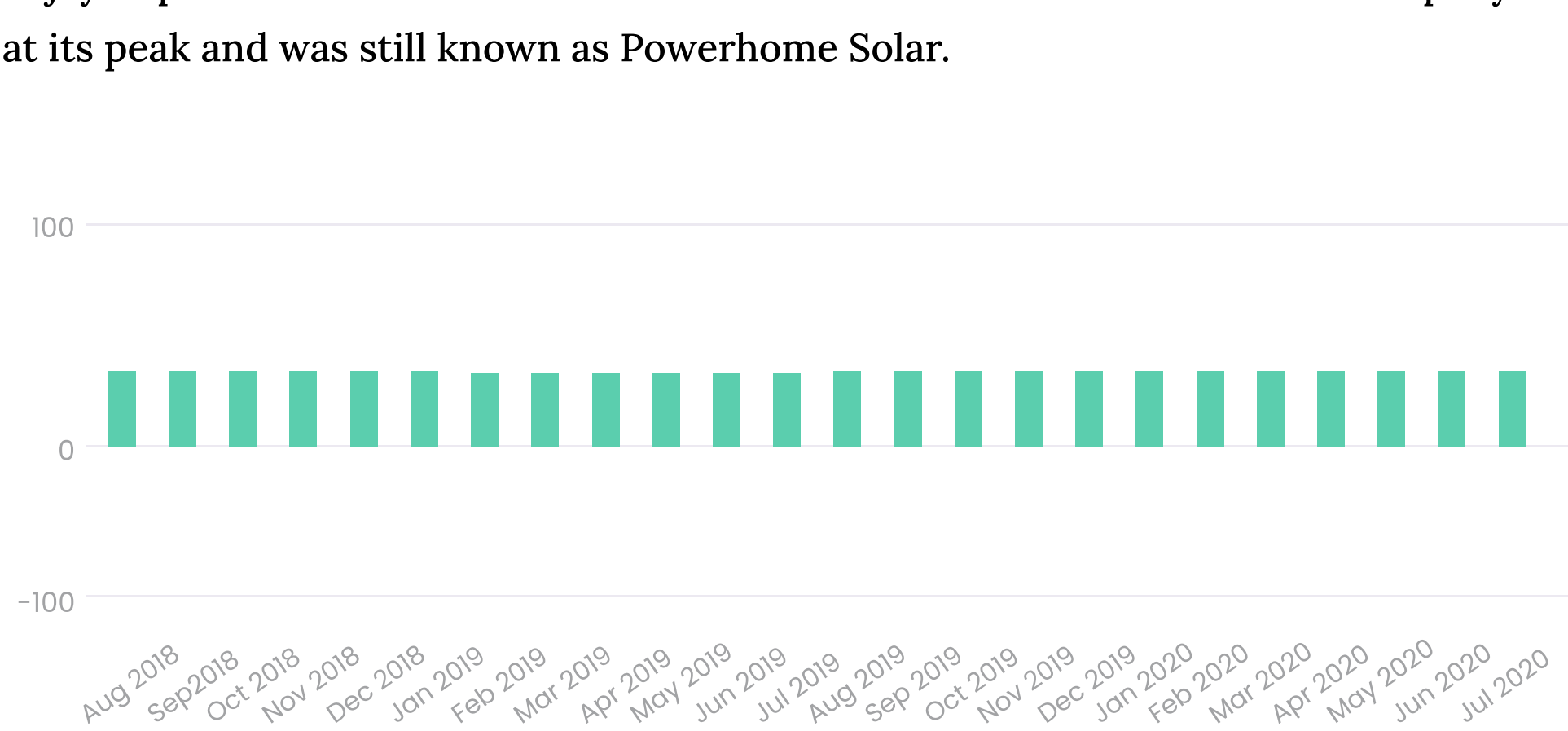
To start with, the company was beset with hundreds of customer complaints and unfavorable Reddit discussions[4], many dating back to the last quarter of 2020. Details of the same became common knowledge when both CBS4[5] and Fox2[6] came out with explosive investigative reports on the company's dubious practices in the first quarter of 2022.

These and other news reports[7] soon paved the way for multiple state investigations[8] and a consumer alert[9] being issued by the Better Business Bureau against Pink Energy. All of this happened 3 to 6 months before the company collapsed. In the end, Pink Energy's eventual bankruptcy was just a culmination of a series of red flags that had been building up steadily for some time.

What the TRaiCE Digital Risk Index detected on Pink Energy

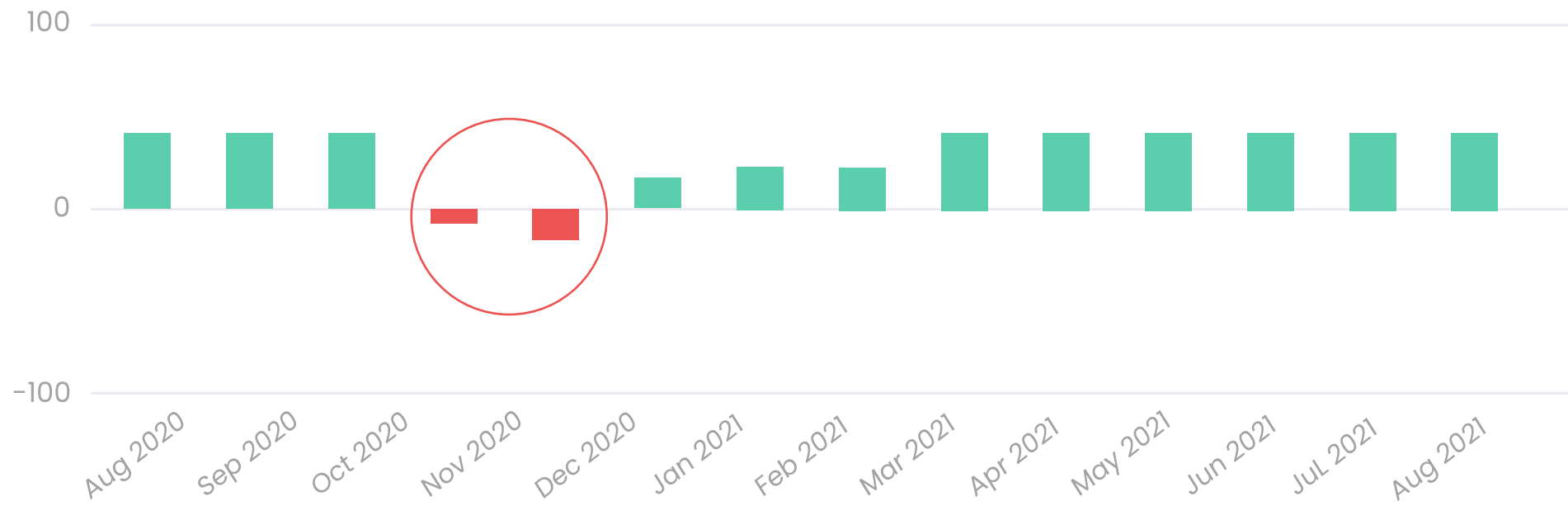
The TRaiCE platform's proprietary algorithms scour the vast digital ocean daily and pick up data on the companies it monitors. It then organizes and analyzes this data to compute a digital risk score that denotes how risk-prone each company is. This is the TRaiCE Digital Risk Index.

To showcase how TRaiCE helps detect risk early, we're looking back at over 50 months' worth of data, i.e., from Aug 2018 to October 2022. As graphs 1 and 2 show, Pink Energy enjoyed positive risk index scores until October 2020. This is when the company was at its peak and was still known as Powerhome Solar.



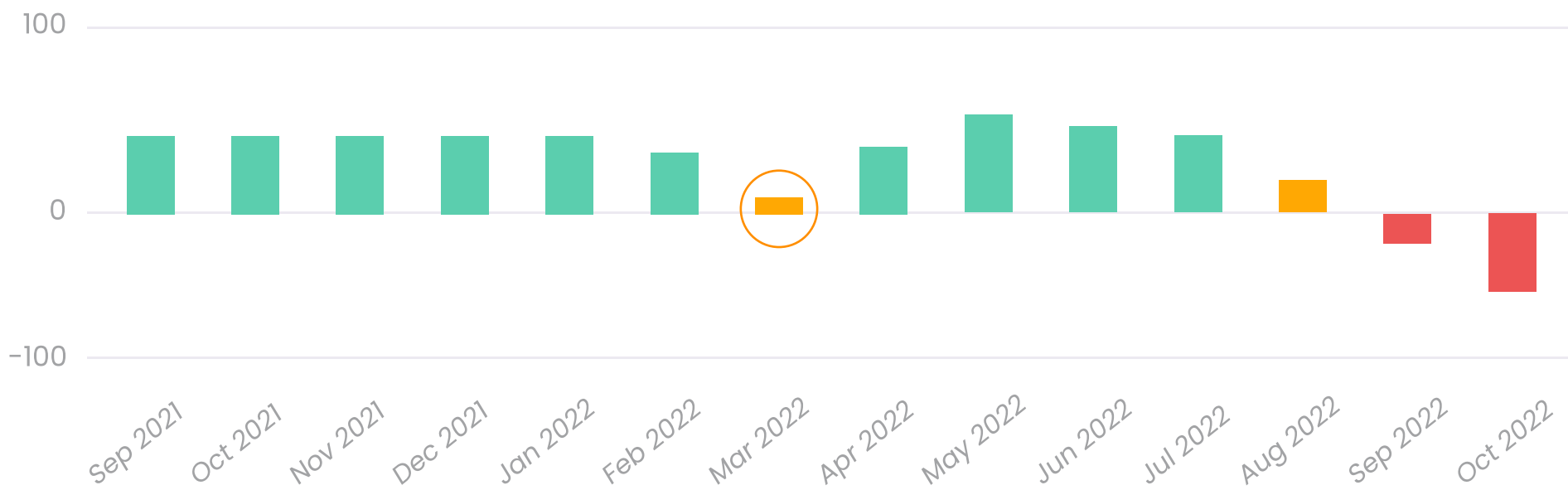
Graph 1

All that changed in November and December 2020, when the company's risk scores plunged dramatically from a robust +25 to -11 (graph 2) . This is reflective of the flood of customer complaints and news reports that came out on Pink Energy's misleading sales ploys[10] and botched panel installations[11].



Graph 2

The TRaiCE platform caught these negative events as soon as they happened and signaled it with an alarming drop of over 30 points in its risk index scores (circled in red above). Such a sudden and steep descent in risk scores should be taken as a warning sign and act as a prompt for risk managers to dig deeper into the company's financial and day-to-day operations to see if there are underlying operational or reputational risks that could derail the business in the future.



Graph 3

In Pink Energy's case, this was sadly a sign of things to come. Instead of addressing its issues, the company launching a series of PR ventures that included free-car giveaways[12] and sports partnerships[13]. As the TRaiCE risk index indicates, this worked for a while. Ultimately, this wasn't enough to sustain the company. Just over a year later, in March 2022, Missouri's attorney general opened an investigation[14] into the company. The TRaiCE risk index caught this once again, which is why the business's risk score dropped almost 20 points in the same month (circled in orange in graph 3).

The investigation and concurrent negative news reports proved to be the final nail in the solar company's coffin. As a last-ditch attempt, the company tried another PR exercise, this time rebranding itself as Pink Energy. And while this created a buzz and a minor rise in sentiment, its fate was sealed.

Pink Energy's risk scores reflect this too. As you can see, they show a downward descent from June 2022 onwards, 4 months before its bankruptcy. Once again, such prolonged dips in risk scores should act as a call for financiers to take a closer look at the entity in question. Had investors done the same with Pink Energy, they would have had a chance to de-risk before the company collapsed.

TAKEAWAY

Early risk detection can often be the difference between profit and loss. That's why the TRaiCE platform serves as a good supplement to traditional risk detection techniques as it gives you insights that financial analysis will most likely miss. In addition, it enables daily portfolio monitoring, which is crucial when it comes to identifying emerging risk scenarios as early as possible. *In the case of Pink Energy, the platform identified red flags and alerted users of the same over 20 months before the company's collapse.* Such prescient alerts can prove invaluable in today's volatile risk environment.

Want to experience early portfolio risk detection with TRaiCE? Try us out with a free 2-week trial or schedule a demo today!

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