



Where The Pain Will Strike Next

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It's been just 15 months since the implosion of two Bear Stearns [hedge funds](#) set off the first bit of sliding snow in this avalanche of a financial crisis. And, oh, how painful it's been.

Retirement plans sport gaping holes; credit flows like molasses, if at all; and consumers, many already deep in debt, are hunkering down. The financial sector--from scores of hedge funds to behemoths like **Wachovia** (nyse: [WB - news - people](#)), **AIG** (nyse: [AIG - news - people](#)) and **Lehman Brothers** (nyse: [LEH - news - people](#))--has already witnessed a stunning makeover. Dangerously short on cash, Detroit's Big Three automakers may soon follow. Even Persian Gulf nations, ostensibly flush with oil wealth, are announcing bailout plans for banks and distressed borrowers.

The pain is far, far from over. But where will it strike next?

[In Pictures: 15 Industries Poised For \(More\) Pain](#)

With the help of Sageworks, a Raleigh, N.C.-based private-company data provider, Forbes.com has assembled a list of the 15 U.S. industries that most likely will feel even more heat in the coming months. The data were drawn from financial statements gathered from some 100,000 privately held U.S. companies with annual revenues up to \$10 million, and bucketed by their Internal Revenue Service classifications. We included only industries for which Sageworks had collected data from at least 35 companies.

Getting a handle on a company's future health involves looking at it from all sides--the income statement, balance sheet and cash flow statement. Just one reason: While a company may boast rapidly rising revenues, it may not have enough cash on hand to service its debt.

We based our list on five variables: leverage (the debt-to-equity ratio); interest coverage, or EBITDA (earnings before interest, taxes, depreciation and amortization) divided by interest expense; sales growth (from 2005 to 2007); pretax profit growth (from 2005 to 2007); and cash cushion (cash as a percentage of total assets on the balance sheet).

All three balance-sheet metrics were taken as of Sept. 30, 2008. Sageworks doesn't track 12-month trailing quarterly data, which is why we didn't look at sales and income growth

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[In Pictures: Seven Small-Biz Banking Survival Tips](#)

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rates thus far in 2008. Suffice it to say, if things were looking bad at the end of 2007, they aren't looking a whole lot better now.

We then assigned each level of performance a number from zero to 10. (The highest one-tenth in each category received a 10, the second tenth a 9, and so on.) The higher the number, we assumed, the more pain that industry would suffer with respect to that specific variable. Finally, we added all the numbers together, with each variable receiving equal weight. The top 15 totals made the list.

One caveat: The data have an inherent positive survivorship bias, as some companies captured in earlier years may have failed along the way. In other words, these industries on the whole may well be hurting even worse than our analysis suggests.

Among the industries in further jeopardy:

Wood Product Manufacturing

This housing-driven sector collectively suffers from the nasty combination of declining profits and thin cash cushions. As new-home sales have stalled, lumber suppliers and other wood producers will continue to take a beating.

Motor Vehicle and Parts Dealers

With their dangerously plump debt ratios, automakers and their supply chains are in for more pain. Some analysts have predicted Chrysler and **General Motors** (nyse: [GM](#) - [news](#) - [people](#)) will run out of cash in the next year.

Credit Intermediation and Related Activities

As long as confidence and liquidity are lacking, savings-and-loans, credit unions, check cashers, specialty lenders and the like will continue to starve for growth.

Accommodation

This category includes both short- and long-term traveler accommodations: hotels, motels, and even recreational vehicle campgrounds. While their sales have held up, houses of hospitality are hugely leveraged--meaning a slumping economy will sting all the more.

Gas Stations

Profits are getting squeezed on all sides--by penny-pinching consumers, oil companies and even credit card outfits. (For more, check out "[How Small Businesses Can Survive The Storm.](#)")

Non-Internet Broadcasters

Fierce online competition has made it difficult for small radio and television stations to cover interest payments. Add to that the fact that ratings are more measurable online, allowing media buyers to drive harder bargains on price. Another problem: digital video recorders, which allow viewers to skip the ads.

For the full list and specific data on each industry, see [**"In Pictures: 15 Industries Poised For \(More\) Pain."**](#) Just don't forget the Advil