



Decide with Confidence

D&B Rating Guide





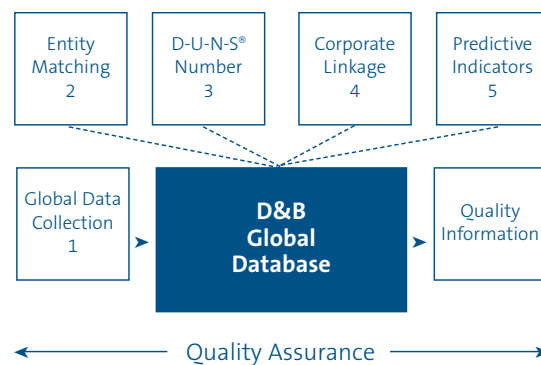
D&B Risk Assessment Explained - Decide with confidence

Understanding and minimising risk is fundamental to your organisation. Staying informed of any changes is the only way to grow your customer portfolio without increasing your risk exposure. Knowing a customer's or prospect's long-term commercial viability is critical to your organisation - It's a commercial imperative.

To evaluate risks objectively and consistently, you need to combine a multitude of business information sources with expert analysis. By choosing D&B you can be assured of accurate, up-to-date and quality assured insight supporting your decision making.

DUNSRight™ and what it means for your organisation.

All D&B data presented to our customers has undertaken the exhaustive DUNSRight™ quality process. In this process we collect, aggregate, verify and enhance data from thousands of sources daily so our customers can use our information and assessments in the confidence they are making profitable decisions for their organisations. The DUNSRight™ process includes over 2,000 separate automated and manual checks to ensure D&B data meets the high quality standards demanded by our customers.



The DUNSRight™ process has 5 Quality Drivers and works in this way:

- Global Data Collection brings together information from a variety of sources worldwide, delivering more robust and accurate information, meaning that D&B is a one-stop shop for global data around the world.
- D&B integrate the data into our database through our patented Entity Matching, which produces a single accurate picture of each business.
- We apply the D-U-N-S® Number as a unique means of identifying and tracking a business globally through every step in the life and activity of the business.
- We use Corporate Linkage to enable our customers to view their total risk or opportunity across related businesses.

The first 4 DUNSRight drivers provide the platform to produce Predictive Indicators or Scores.

- Our Predictive Indicators use statistical analysis and expert rules to indicate how an organisation is likely to perform in the future and make the information actionable.

What is a Predictive Indicator or Score?

D&B helps our customers identify organisations that are likely to fail or pay late, or will want to purchase their goods/services. This helps our customers drive growth and increase profitability by:

- Allowing automated decisions for **increased efficiency**, which will free up valuable resources to focus on more important decisions.
- Enabling more **consistent** decisions across the entire organisation.
- Applying scores across an entire portfolio to quickly identify **risk** and **opportunity**.
- Allowing **faster** processing of large volumes of transactions.

Risk Management Solutions identify prospects, customers or suppliers that are likely to fail owing money or who will pay invoices slowly:

- **D&B Failure Score** – Probability that an organisation will fail in the next 12 months with outstanding creditors.
- **D&B Delinquency Score** – Probability that an organisation will pay its suppliers very slowly or not at all.

Sales and Marketing Solutions identify the best prospects, increasing potential growth and profitability:

- **Customer Insight** – Provides an analytical view of the characteristics of a company's best customers, which can then be used to identify others like this.
- **Demand Estimators** – Show the propensity of a target customer to buy certain products or services.

D&B models are predictors based on statistical probability and are not guarantees of a particular event.

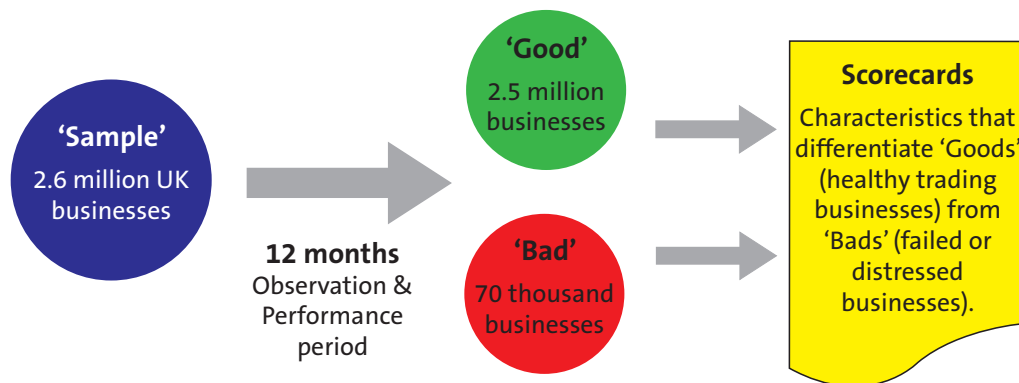
D&B Failure Score

The D&B Failure Score predicts the likelihood that an organisation will obtain legal relief from its creditors or cease operations over the next 12 month period. The Failure scorecard also looks for events signalling the onset of failure, such as a meeting of creditors, administrator appointed, bankruptcy, receiver appointed, and petition for winding-up.

The Failure Score makes risks visible, allowing our customers to reduce their bad debt and identify profitable opportunities – it also improves objectivity and consistency.

How is the D&B Failure Score calculated?

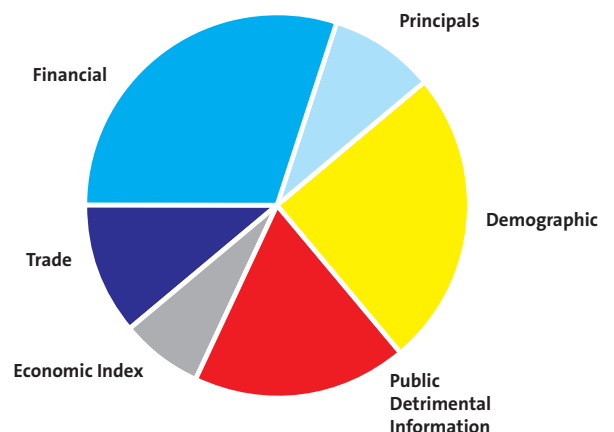
Factual information is analysed using advanced statistical modelling techniques to identify data characteristics that are common to and most predictive of organisational failure. These characteristics are then weighed by significance to form rules for our scorecards that differentiate between organisations with a high risk of failure to those with a low risk.



What Information is used to calculate the D&B Failure Score?

The areas of information used in the D&B Failure Score include:

- **Demographics** – Including business age, location, line of business and corporate linkage.
- **Principals** – The principal's experience and performance of associated businesses.
- **Financial** – Ratios and trends taken from annual and interim accounts.
- **Trade Experiences collected through the D&B Trade Programme** – Businesses regularly provide their experiences of the payment habits of businesses they are trading with.
- **Economic Index** – The Economic Index reflects the risk to different industries when the economy changes.
- **Public detrimental information** - Such as CCJs, mortgages/charges and the legal pre-failure events (administration, receivership, bankruptcy, etc).



The information used may vary from market to market as D&B scorecards are tailored to local data and legal procedures.

The D&B Failure Score is dynamic, meaning that it is recalculated every time we collect a new piece of information about an organisation, or when information changes. For example, as the age of an organisation increases its risk typically decreases and our Failure Scores will change to reflect this.

Interpreting the D&B Failure Score

The D&B Failure Score is a relative measure of risk, whereby 1 represents organisations that have the highest probability of failure and 100 the lowest. It shows how an organisation's risk of failure compares to other organisations within a country by ordering and segmenting that country's database into 100 equal percentiles. Each Failure Score represents 1% of organisations within that country with the same risk of failure. Therefore we can say:

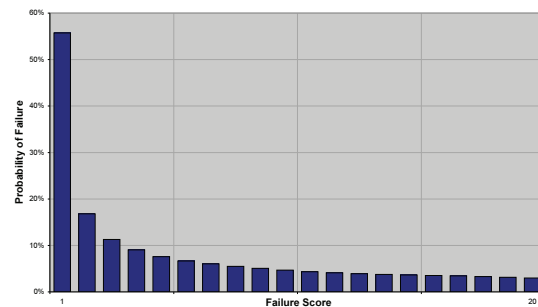


- A score of 10 means a business falls into the bottom 10% of UK businesses
- A score of 38 means that 62% of UK businesses have a lower risk of failure / delinquency. It also means that 38% of UK businesses have an equivalent or higher risk.

Probability of Failure

Behind each Failure Score is an associated probability of failure, which rises rapidly at the low end of the Failure Score range (1-10).

The probability of failure allows our customers to set cutoffs for decisions based on their own credit policy and attitude to risk. It can be used to show the expected level of 'bad' applications / accounts for each Failure Score and therefore allow our customers to balance the opportunity of revenue against the risk of bad debt.



The D&B Risk Indicator Table

The D&B Failure Score is combined with expert rules to generate the D&B Risk Indicator.

Risk Indicator	Probability of Failure	Guide to Interpretation
1	Minimum risk	Proceed with transaction - offer extended terms if required.
2	Lower than average risk	Proceed with transaction.
3	Higher than average risk	Proceed with transaction but monitor closely.
4	High risk	Take suitable assurances before extending credit - e.g. personal guarantees.
—	Undetermined	Insufficient information to assign a risk indicator - e.g. no information available to indicate trading or further investigation required.

Please note regarding “Undetermined” or “—” Risk Indicators; it is important to note this means that D&B have been unable to collect or verify certain key data elements, including some that confirm that an organisation exists or is still trading. Another reason this Indicator may be assigned is when D&B learns of an event that has not yet been published through the official channels but will affect the risk assessment for an organisation. For example a business may advise they have ceased trading but not have filed the appropriate documents yet.

Therefore, when an organisation is assigned an “Undetermined” or “-” rating we recommend that our customers should conduct further analysis and investigation before making a decision. Customers should contact D&B to understand the reason for the dash rating, why it was assigned and use that insight to influence their decision.

The D&B Financial Strength Indicator

The Financial Strength Indicator is determined by the Tangible Net Worth from the latest financial accounts and provides an indication of the strength of the organisation to cope with adverse trading periods or exploit investment opportunities. Tangible Net Worth is defined as shareholder funds less any intangible assets.

Financial Strength Indicator	Tangible Net Worth (in £)	
Net Worth	From	To
5A	35,000,000	And above
4A	15,000,000	34,999,999
3A	7,000,000	14,999,999
2A	1,500,000	6,999,999
1A	700,000	1,499,999
A	350,000	699,999
B	200,000	349,999
C	100,000	199,999
D	70,000	99,999
E	35,000	69,999
F	20,000	34,999
G	8,000	19,999
H	0	7,999
Alternate Symbols Used		
N	Negative net worth	
O	Net worth undetermined (accounts unavailable or older than 2 years)	

The D&B Rating

The D&B Rating provides an indication of credit-worthiness. The rating is made up of two parts:

- **Financial strength** - Based on Tangible Net Worth from the latest financial accounts.
- **Risk Indicator** - Derived from the D&B Failure Score but also takes into account expert rules and overrides.

The D&B Rating is presented in the following format:

2A **4**

Financial Strength

- The Financial Strength indicator is determined by the latest Tangible Net Worth.
- Based on latest filed annual accounts.

Risk Indicator

- Linked directly to the failure score and expert rules.
- Dynamically kept up-to-date.

In this example, the D&B Rating indicates a business with Tangible Net Worth of between £1,500,000 and £6,999,999 and a high risk of failure.

D&B Maximum Credit

D&B's Maximum Credit shows the total value of goods and / or services the "average" creditor should have outstanding at any one time. In the Business Information Reports this is summarised as the maximum amount on monthly open credit terms. It is not necessarily the maximum the organisation could afford.

It is calculated using:

- **Organisation Size** – Based on Turnover, Total Assets, Tangible Net Worth or number of employees.
- **Industry** – Based on the SIC Code.
- **Risk Factor** – Banded segments of the Failure Score linked to the risk of failure.

D&B Delinquency Score

The D&B Delinquency Score predicts the likelihood that an organisation will pay its bills in a severely delinquent manner over the next 12 months. "Delinquency" is defined as an organisation that, according to Trade Experiences collected by D&B, has paid less than 75% of Trade Experiences within terms and more than 10% paid 90+ days late.

How is the D&B Delinquency Score Calculated?

Similar to the D&B Failure Score, historical factual information is analysed using advanced statistical modelling techniques to identify characteristics that are most predictive of delinquency. These characteristics, which differentiate organisations with a high risk of delinquency from those with a low risk, are weighted by significance and then used to create algorithms that allocate a score based on the information held by D&B.

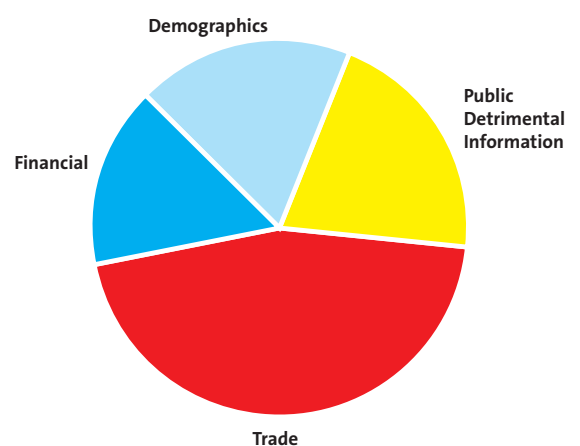
The main difference between the calculation of the D&B Failure and Delinquency Scores is that we use different data elements and weightings because we are predicting a different result.

What information is used to calculate the D&B Delinquency Score?

The areas of information used in the D&B Delinquency Score include:

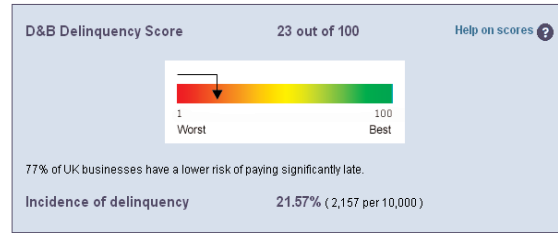
- Trade Experiences collected through the D&B Trade Programme – Businesses regularly provide their experiences of the payment habits of businesses they are trading with.
- Public detrimental information - Such as CCJs, mortgages/ charges and the legal pre-failure events (administration, receivership, bankruptcy, etc).
- Demographics – Including line of business, legal form, business age, location and principals.
- Financial – Ratios and trends taken from annual accounts.

The D&B Delinquency Score is also dynamic just like the Failure Score. Whenever we collect a new piece of information or information changes the Delinquency Score is recalculated.



Interpreting the D&B Delinquency Score

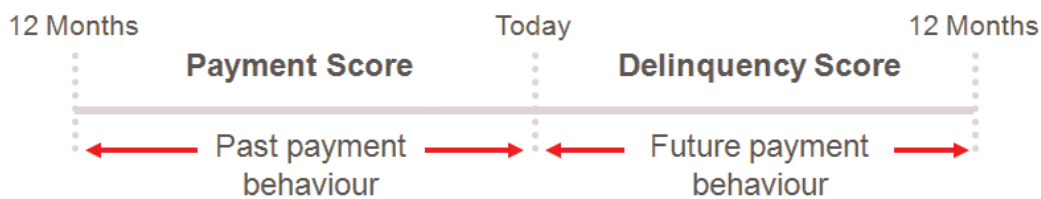
In the same way as the D&B Failure Score, the D&B Delinquency Score is a relative measure of risk, whereby 1 represents organisations that have the highest probability of delinquency and 100 the lowest. It shows an organisation's relative rank against other organisations within a country by ordering and segmenting that country's database into 100 equal percentiles. Each Delinquency Score represents 1% of organisations within that country with the same risk of delinquency.



D&B Payment Scores (Paydex)

The D&B Payment Score (or *Paydex*) is a score that evaluates an organisation's payment *history* based on trade experiences collected through D&B's Trade Programme *i.e. how the organisation has been paying its bills.*

A Paydex Score of 80 indicates prompt payments, less than 80 (down to 1) indicates slow payments, and greater than 80 (up to 100) indicates payment before due.



How do our customers use D&B scores?

Monitoring our Predictive Indicators and Scores for key changes can provide our customers with critical early warning signs of increasing risk or opportunity. D&B experience shows:

- Over 90% of organisational failures exhibit deteriorations or fluctuations in payment behaviour 3 – 6 months before bankruptcy.
- Organisations with cash flow pressures are likely to pay less important suppliers slower or not at all, so if you are a key supplier you may be one of the last to know of impending financial stress.

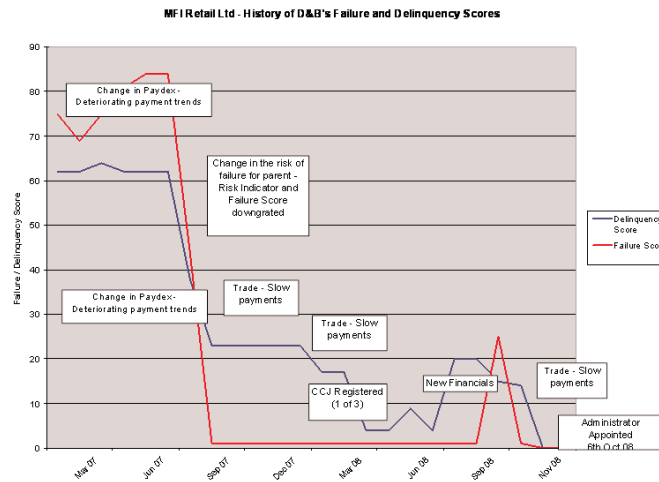
However, by pro-actively monitoring these early warning signs, corrective action can be taken before it's too late.

Combining the power of the Failure Score and the Delinquency Score allows our customers to segment their credit risk profile and focus sales teams, credit management and collections resources where they will be most effective, for example:

	Low Risk of Failure	High Risk of Failure
High Risk of Delinquency	<p>Cash Vultures</p> <ul style="list-style-type: none"> • Offer discount for prompt payment • Improve relationship with client to induce prompt payment • Charge interest on late payments • Reset payment terms accordingly 	<p>Let your competitors have them</p> <ul style="list-style-type: none"> • Increase prices to cover risks/costs • Reduce exposure – stop orders until paid • Take guarantees • Monitor vigorously – D&B e-Portfolio • Avoid new clients with this profile • Up-front payments
Low Risk of Delinquency	<p>Ideal Customers – Cultivate</p> <ul style="list-style-type: none"> • Push for more sales • Improve relationship with client • Find more like this – D&B S&MS 	<p>Monitor Closely</p> <ul style="list-style-type: none"> • Reduce exposure – minimise outstanding balances • Monitor vigorously – D&B e-Portfolio • Take guarantees

Example Case Study 1 - MFI

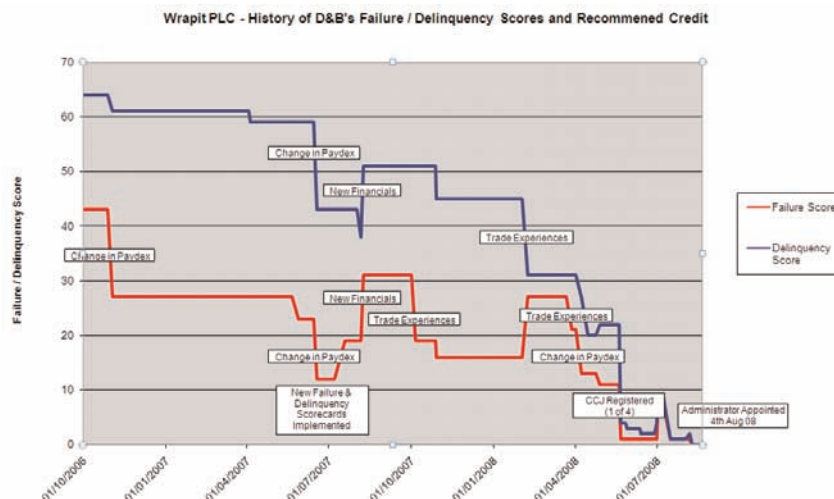
The example below is MFI, a recent, high profile failure which shows D&B Rating/Failure score over time and how the information collected impacted this rating up until Failure.



What D&B found:

A customer using D&B scores to extend credit would have been warned in July 2007 of potential failure and a change in payment habits via the Failure and Delinquency Scores. For organisations exposed to MFI as a supplier, this provided a warning to adjust credit terms and limit the risk exposure accordingly, reducing the risk of bad debt and safeguarding future cash flow.

Example Case Study 2 – WrapIT plc



What D&B found:

WrapIT's payments collected through D&B's Trade Programme clearly illustrate a downward trend of late payment – indication that creditors are not being paid within terms. Other associations of WrapIT's principals highlighted numerous businesses they had been involved with that also failed while five years of financials illustrated a company that had poor margins and a negative Net Worth.



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D&B Solutions

Risk Management Solutions
Sales & Marketing Solutions
Supply Management Solutions

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