



Decide with Confidence



Risk Management  
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# D&B Risk Assessment

Know what's essential and make the right decision.

# D&B Risk Assessment

Regardless of whether new or existing clients are concerned, credit decisions are always associated with risk. When extending credit, the objective is to achieve the highest profit possible while avoiding clients that bear risk. Often, it is difficult to find reliable information about a particular company.

Many factors need to be considered to clearly determine a company's financial situation. D&B Risk Assessment enables you to play it safe with your credit decisions, terms and payment of your receivables. With D&B Risk Assessment, you can identify credit risks before they become acute and reduce the rate of payment default for both existing and new business partners. Thanks to D&B's database and high predictive quality, you can make sound decisions quickly that are based on reliable ratings and credit recommendations.



## **D&B Risk Assessment enables you to:**

Estimate the risks and potential of business relationships

Plan and monitor business relationships

Determine terms and conditions and, if necessary, security

Make credit decisions quickly and objectively

Efficiently and cost-effectively control payment reminders and collection of accounts receivable

# Assessing international credit risks

D&B assesses the default risk of companies worldwide, taking into account country-specific factors that could lead to insolvency.

D&B Risk Indicator is based on the D&B Score in the following countries: Germany, Australia, Benelux, France, United Kingdom, Ireland, Italy, Japan, Canada, Austria, New Zealand, Portugal, Switzerland, Spain, and the USA. In all other countries, other mathematical methods are used.

## D&B Analysis and Decision-Making Tools

The D&B Score can also be used independently, for example, in conjunction with analyses of your customer and supplier portfolio, for batch score monitoring or as a basis for automated decisions consistent with your credit policy.

D&B Scoring is in continuous development for your benefit!

More than 25 years ago, D&B was the first business information supplier in the world to develop scoring techniques, which are called generic score cards, and integrate them in their company information services. In Germany, D&B uses objective scoring methods for its risk assessment and has been a leader in the area for over 10 years. Moreover, D&B has raised its data volume steadily, increasing its information coverage.

For the last 25 years, the DunTrade® Program annually has fed more than 400 million pieces of billing data into the D&B data pool.

# D&B Score

## The basis for assessing the credit worthiness of your customers

The D&B Score is a statistically calculated value, compiled using the latest statistical methods. It estimates the risk that a given company could become insolvent or cease trading without paying its creditors within the subsequent 12 months. The scores are calculated with the assistance of multiple criteria, each of which contributes a specific value for the final rating. The score ranges from 1 (highest risk of failure) to 100 (lowest risk of failure).

Note: The D&B Score is a dynamic indicator that is continuously updated. Any new information obtained will influence the score, meaning you are always sure to have the most up-to-date information for your risk assessment.

## D&B Risk Indicator and D&B Score

Risk Indicator	Score Class	Probability of failure	
1	83–100	0,40 %	minimal
2 (+)	66–82	1,11 %	below average
2 (–)	49–65	1,73 %	% average: tends towards below average
3 (+)	30–48	2,53 %	average: tends to high
3 (–)	10–29	4,05 %	high
4 (+)	1–9	16,12 %	very high
4 (–)	0	100 %	insolvent
–	undetermined		undetermined

The values of the determined scores between 1 and 100 are classified as per D&B Risk Indicator. A score between 83 and 100 yields a D&B Risk Indicator of 1, i.e. minimal probability of failure. A score of 0 indicates a company that is already insolvent.

Please be aware that the table above is only an example from one country. The probability of failure may be somewhat different from country to country.

# How is the score calculated?

The failure risk of a company for the subsequent 12 months is calculated based on the following information:

## ■ Demographic data

- Company's legal form
- Date started
- Region
- Industry sector
- Number of industry sectors
- Parent company
- Number of subsidiaries
- Principal changes
- Age of principals

## ■ Financial data

- Equity
- Fixtures and Equipment
- Intangible assets
- Tangible net worth\*
- Turnover
- Retained earnings
- Short-term trade accounts payable
- Inventories
- EBITDA\*\*
- Current ratio
- Gross profit
- Profit before taxes
- Operating capital



## ■ Real payment experiences from the DunTrade® Program

- Paydex® index – 3-month average, moving
- 3-month moving average of overdue invoices
- Percentage of invoices paid within 30 days over the last 12 months
- Changes in the Paydex® over the past 6 months
- General payment behavior over the past 24 months

## ■ Negative data, e.g.

- Principals

\* Equity minus goodwill.

\*\* EBITDA = earnings before interest, taxes, depreciation and amortization

# D&B Rating

D&B provides you with all the information required to quickly identify and assess the risk to your company as derived from your deliveries and performances. The D&B Rating includes the following components:

## ■ D&B Financial Strength Indicator

The D&B Financial Strength Indicator is used to rate the financial soundness of a given company. It is based on the net worth from the latest, audited balance sheet.

An alpha-numerical code (e.g. 5A) is assigned based on the **net worth**

- + convertible debenture
- + Contribution of silent partners
- + 60% of the special reserves

as they appear in the most recent balance sheet.

If the balance sheet figures are not available, the Financial Strength Indicator is based on the capital issued to the shareholders or, in Germany, on the total assets. In this case, a number and two letters are used (e.g. 5AA).

The **total assets** comprise the following:

- Fixtures and equipment
- + Inventories
- + Accounts receivable
- Short-term trade accounts payable

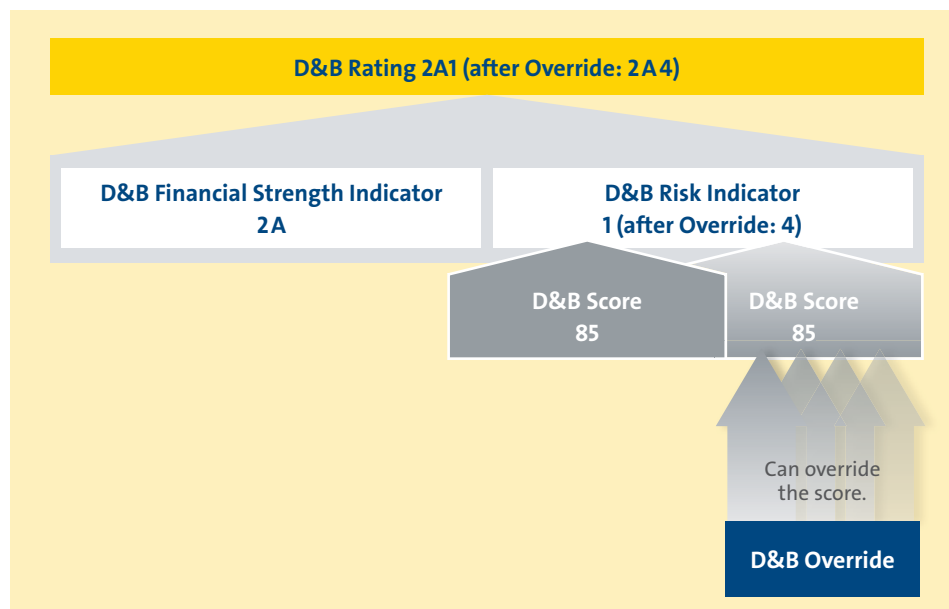
If information about the total assets is not available, registered capital, equity capital, or partners' capital are used, depending on the company's legal form. If none of these are available either, "0" is used which stands for "no capital rating possible".

See table D&B Financial Strength Indicator in the appendix.

## ■ D&B Risk Indicator

The D&B Risk Indicator shows the current failure risk classification of a respective company. See figure on page 4. The D&B Risk Indicator is derived from the D&B Score and the Overrides.

## D&B Rating Components



The D&B Risk Indicator is derived from the D&B Score. The **D&B Rating** is obtained from the Risk Indicator and the Financial Strength Indicator.

**Example:** A D&B Rating of 2A1 indicates a company with equity capital between 2,000,000 and 9,999,999 euros (Capital Indicator 2A) and a minimal failure risk (Risk Indicator 1, Score Range 83-100)

**Overrides** are used for special events that cannot be mapped by the scoring procedures. They can annul the risk classification of companies that are based solely on the D&B Score.

The company shown in the example has a calculated score of 85. However, there is a negative event, e.g. negative net worth. For this reason, an Override is used, which annuls the score: it will not be shown. In addition, the company is given Risk Indicator 4 and a credit recommendation is not issued.

# Credit Recommendation

## For an objective credit decision:

The Credit Recommendation is the amount statistically calculated by D&B of the short-term trade accounts payable that the company is able to bear. It serves as a guideline for your entrepreneurial risk-taking decisions with respect to how high a trade credit you are willing to grant.

The Credit Recommendation is calculated using the following components:

### 1. Base value

The base value is derived from the analysis of the short-term trade accounts payable and the outstanding amounts from the DunTrade® data.

### 2. Other criteria

#### ■ Demographic data

- Company's legal form
- Date started
- Region
- Industry sector

#### ■ Real payment experiences

- From the DunTrade® Program, in particular
- outstanding amounts
- payment behavior

#### ■ D&B Score

#### ■ Financial Data

- Net worth
- Fixtures and Equipment
- Intangible assets
- Tangible net worth\*
- Turnover
- Retained earnings
- Short-term trade accounts payable
- Inventories
- EBITDA\*\*
- Current ratio
- Gross profit
- Profit before taxes
- Operating capital

\* Equity minus goodwill.

\*\* EBITDA = earnings before interest, taxes, depreciation and amortization.

Like the Score, the Credit Recommendation is automatically updated as soon as new information enters the database.

**With the Credit Recommendation ...**

**... you benefit from the increased ability to make risk predictions.**

Information about economic and structural changes in the market from many different sources feeds into the Credit Recommendation.

**... you're always current.**

All data used for the calculation is updated automatically in realtime.

**... you can accept orders with confidence.**

Just compare your order value with the Credit Recommendation and the outstanding items from the DunTrade® information. Or compare your trade accounts receivable with the Credit Recommendation and you'll know what the right decision is.





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# D&B Indicators for Risk Assessment

## D&B Risk Indicator and D&B Score

Risk Indicator	Score Class	Probability of failure	
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2 (-)	49–65	1,73%	average: tends towards below average
3 (+)	30–48	2,53%	average: tends to high
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4 (+)	1–9	16,12%	very high
4 (-)	0	100%	insolvent
-	undetermined		undetermined

When a company is given a Risk Indicator of 2 (+) (Score range 66-82), it means the risk of failure is below average. In contrast, a Risk Indicator of 4+ (Score range 1-9) indicates a very high likelihood that a company will not pay.

Please be aware that the table is only an example from one country. The probability of failure may be somewhat different from country to country.

## D&B Financial Strength Indicator

Equity	Total assets/ Paid-in capital	from (in euros)	to (in euros)
5A	5AA	50.000.000	
4A	4AA	25.000.000	49.999.999
3A	3AA	10.000.000	24.999.999
2A	2AA	2.000.000	9.999.999
1A	1AA	1.000.000	1.999.999
A	AA	500.000	999.999
B	BB	250.000	499.999
C	CC	150.000	249.999
D	DD	100.000	149.999
E	EE	50.000	99.999
F	FF	25.000	49.999
G	GG	10.000	24.999
H	HH	-	9.999
N	Negative net worth		
O	Net worth is undetermined		
NB	New business		
NQ	Company has ceased its activities		

An alpha-numerical code (e.g. 5A) is assigned based on the net worth

+ convertible debenture  
+ Contribution of silent partners  
+ 60% of the special reserves

as they appear in the most recent balance sheet.

If the balance sheet figures are not available, the Financial Strength Indicator is based on the capital issued to the shareholders or, in Germany, on the total assets. In this case, a number and two letters are used (e.g. 5AA).



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## D&B Nordic Rating

Rating	Classification	Explanation	Resultant D&B Risk Indicator
AAA	Very high credit rating	Very stable company with excellent record of payment, minimal risk	1
AA	High credit rating	Good record of payment, below average risk	2
A	Average credit rating	Satisfactory record of payment, average risk	3
AN	New company	New company without significantly negative assessment	3
B	Credit risk	Company appears to be financially weak. Supplementary security recommended.	4
C	High credit risk	Company appears to be extremely financially weak. Security and special caution are recommended.	4
-	Undetermined	Due to the unavailability of suitable information, a risk assessment cannot be performed.	-

The Nordic Rating (Triple-A-Rating) is used in Denmark, Finland, Norway, and Sweden to assess the risk of doing business with companies.

## D&B Paydex®

Index	Payment record
90	Discount utilization
80	According to agreement
70	Slow up to 15 days
60	Slow up to 22 days
50	Slow up to 30 days
40	Slow up to 60 days
30	Slow up to 90 days
20	Slow up to 120 days
10	Slow up to 150 days
0	Slow up to 180 days
UN	Not available

The Paydex® is derived from real payment experiences based on more than 400 million items of billing information annually obtained from the DunTrade® Program. It is an effective monitoring indicator of potential company liquidity problems.



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## D&B Solutions

Risk Management Solutions  
Sales & Marketing Solutions  
Supply Management Solutions

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