D&B Business Credit Reports

A Deep Dive into Managing Risk and Making Better Credit Decisions
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Introduction

When it comes to making business credit decisions, it’s hard to know which information to trust. There are millions of businesses around the world generating billions of data points—everything ranging from payment experiences to financial changes to social media activity. The data and analytics you rely on to manage risk and set appropriate credit terms has serious implications for your company’s financial health. But unlike consumer credit, there’s no one single “credit score” in business credit.

Consulting a business credit report is an important first step in evaluating potential business partners and vendors. This is essential for reducing your exposure to bad debt, avoiding payment defaults, and maintaining a healthy cash flow. A business credit report can contain more than just operational information and firmographic data for verification and background review. Comprehensive credit reports provide multiple types of predictive (future) and performance-based (historical) scores that showcase a company’s reliability and financial stability.

Credit decisioning requires a deep understanding of the various types of credit scores and analytics, and how they work together to provide a complete picture of a company’s likelihood to pay its bills on time. Dun & Bradstreet’s proprietary predictive and performance-based scores let you see clearly and quickly what a business’s payment behavior is really like and how that is going to affects its contractual obligations and future health. This allows you to assess risk across an organization to uncover potential hazards and make more intelligent risk decisions.

This guide will walk you through the key sections of a business credit report to explain what they mean and why they matter. Take a data-inspired deep dive to better understand how to evaluate a company’s creditworthiness. After reading this, you’ll be able to make more confident credit decisions that can ultimately help you grow better business relationships.
This introductory snapshot summarizes the basic firmographic information about any partner or vendor you need to evaluate. It includes details such as the company’s contact information, history, incorporation information, industry classification, and ownership. This information gives you an overview of a business’s size and scope, how it’s organized, and how it’s been managed.

### GORMAN MANUFACTURING COMPANY, INC.

<table>
<thead>
<tr>
<th>Failure Score</th>
<th>Delinquency Score</th>
<th>Age of Business</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>7</td>
<td>32 years</td>
<td>153</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1985 Year Started</td>
<td>120 (here)</td>
</tr>
</tbody>
</table>

#### Company Profile

- **D-U-N-S® Number**: 80-473-5132
- **Legal Form**: Corporation (US)
- **History Record**: Clear
- **Date Incorporated**: 04-01-1985
- **State of Incorporation**: California
- **Ownership**: Not publicly traded
- **Mailing Address**: United States
- **Telephone**: (650) 555-0000
- **Annual Sales**: US$ 24,602,860
- **Employees**: 153 (120 here)
- **Age (Year Started)**: 32 years (1985)
- **Named Principal**: Leslie Smith, PRCS
- **Line of Business**: Lithographic commercial printing

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1. **The Dun & Bradstreet D-U-N-S® Number** is a unique nine-digit identifier for businesses that’s used to establish business credit. D-U-N-S, which stands for Data Universal Number System, is available at no cost. It identifies, validates, correlates, and links information for businesses anywhere in the world.

2. On a scale from 1 to 100, the **Failure Score** predicts the likelihood that this business will seek credit relief or worse, go out of business. (Learn more about this indicator in the Risk Assessment section on page 9)

3. The **Delinquency Score** rates the probability that the business will pay its bills late. Higher scores indicate a lower probability of delinquency. (Jump to page 10 in the Risk Assessment section for a detailed explanation of this score.)
Legal Form indicates the type of registration, whether it's a corporation, partnership, or public limited liability company.

History Record signals whether there is enough information available for D&B's rating consideration, or if the file contains negative information about the business or its principals, like failures or criminal proceedings.

Date/State of Incorporation The current business entity's date of incorporation and the state where it was incorporated. This is helpful if you need to confirm a business registration with the Secretary of State.

Ownership defines if the business is publicly traded or privately owned.

Named Principal indicates the company's senior-most executive, which is usually only available in headquarters reports.

Line of Business The company's main industry; larger enterprises can have several different lines of business.

Dun & Bradstreet's business credit reports are trusted by lenders and potential business partners for objective credit analysis.
This section lists the fundamental information about the company’s business activities. These details can only be confirmed and updated through an independent D&B commissioned investigation.

Financing Status summarizes the company’s existing credit guarantees and indicates if assets are available to be pledged to you as a creditor. “Unsecured” shows that the company has unsecured loans that are not collateralized; “Secured” indicates the organization has pledged assets as collateral.

Financial Condition denotes the company’s overall financial statement: Strong, Good, Fair, or Unbalanced. This indicator is calculated by reviewing up to 11 financial ratios and comparing them to industry averages.

Standard Industrial Classification (SIC) and North American Industry Classification System (NAICS) are government-assigned industry codes. The codes can help recognize industries that are potentially high-risk and ensure that potential partners really operate in the business they’re registered to operate in. Industry codes are also important in portfolio management for segmenting accounts by industry for benchmarking and other indexing purposes.

Government Activity indicates whether the company has been vetted by and does business with the federal government—a valuable piece of knowledge for making risk assessments of new vendors.
The Overall Business Risk is a high-level prediction of the company’s risk of paying its bills extremely late, or its likelihood of going out of business. It is a comprehensive evaluation that considers factors such as trade payments, risk indicators, financial data, as well as a business’s size and years in operation. It scores businesses on a five-point scale, from low to high risk, with additional statements describing the business’s current and future health.

The Maximum Credit Recommendation is the greatest amount of credit that D&B suggests extending. The amount is the total value of goods and services that the average creditor should have outstanding—not necessarily the maximum amount it can afford. The recommendation is based on a historical analysis of similar companies (though not industry-specific) in D&B’s payments database.
The **D&B Viability Rating** holistically evaluates a company’s current and future health, and forecasts what the next year may look like - whether it will still be in business or end up inactive or bankrupt. (A company stops being “viable” when it goes out of business, becomes inactive, or files for bankruptcy or insolvency.) It's a highly reliable and multidimensional rating that lets you compare predictive business risk indicators against similar businesses, and the amount of data that is available on that company.

The **Portfolio Comparison Score** is a component within the Viability Rating that assesses the company's viability compared to similar businesses within the same industry and same model segment classification. Scores are based on a scale of 1-9 (1=low risk, 9=high risk). Businesses are classified into model segments based on the availability of the following data:

- Available Financial Statement Data
- Established Trade Payments
- Limited Trade Payments
- Firmographics and Business Activity
The **Failure Score** predicts the likelihood that the company will seek legal relief from creditors in the next year or cease operations and leave creditors on the hook. The score is based on a company's business history, payment habits, and industry norms. On a scale of 1 to 100, higher scores indicate a lower probability of failure. D&B also provides a bulleted list outlining the conditions used to determine the score. This is a helpful spot to learn if there are any circumstances such as UCC filings or slow payment experiences reported.

The **Business and Industry Trends** historically charts the company's Failure Score over the past 12 months and lets you see how it compares to similar business in the same industry. This type of industry-specific reporting and analysis help benchmark a company against its peers to see how they stack up in the big picture.
The Delinquency Score looks at the next 12 months and rates the business on the likelihood of it making severely delinquent payments, seeking legal relief from creditors, or ceasing operations without paying creditors. This score is concerned only with invoice payments. It’s calculated using such variables as available trade data, firmographic data, public records, and available financial data. A severely delinquent firm is defined as a business with at least 10% of its dollars more than 91 days past due. In general, fewer than 10% of businesses in the US are considered severely delinquent payers.

Like the Failure Score benchmarking index, the Business and Industry Trends maps this performance over the past 12 months in comparison to other companies in the same industry.
The PAYDEX® score is a payment index – a unique dollar-weighted assessment of the business’s credit history and payment performance over the past two years. The score is based on trade experiences reported by vendors and is derived from a weighted average of a company’s combined individual payment experiences (so larger invoice amounts weigh heavier in the overall index). A company needs at least three pieces of trade reported by at least two different vendors in order to have a PAYDEX®. It’s based on a scale of 1-100 (where 100=best and 0=worst). A score of 80 is the benchmark; it means that a company pays its bills on time, or promptly, according to its suppliers. The PAYDEX® score differs from the Delinquency score in that it only considers past payment performance.
The D&B Rating is D&B’s very own measurement system that evaluates a company’s financial strength and size, along with its Composite Credit Appraisal. The rating is based on factors such as company payments, financial information, public records, and business age.

a. The Financial Strength rating classification is based upon information from a company’s interim or fiscal balance sheet.

b. The Risk Indicator expresses the business’s Composite Credit Appraisal and overall assessment of that firm’s creditworthiness, on a scale of 1 to 4.
Trade Payments provide valuable insight to credit professionals – these records of payment behavior offer objective evidence of how the company has paid other partners. D&B has thousands of partners in its Global Trade Exchange Program that share monthly trade payment data in exchange for complimentary access to exclusive D&B tools and data.

**Trade Payments**

Trade Payments indicate how quickly a company is likely to pay its bills in the future by reviewing its payment performance with other vendors based on aging, amount of trade, and dollar amounts. The **Trade Payment Summary** offers an overview of trade experiences, displayed by key trade elements including average DBT (days beyond terms), highest credit amount currently owed, the highest credit amount received, the highest past due amount and the average high, based on the total number of tracked trade experiences.

**Trade Payments by Credit Extended**

Offers a sense of how this business handles its obligations across a range of payment categories. The chart shows the number of experiences and the total dollar value of credit extended to this business within each category.
Trade Payments by Industry is an overview of a company’s past payment performance across various industry categories, as reported to D&B. This level of distinction can help assess how you’ll be paid based on the line of business, which can vary. For example, a new restaurant can be more vulnerable to risk compared to an established manufacturing firm.

### Trade Payments By Industry

<table>
<thead>
<tr>
<th>Industry Category</th>
<th>Number of Payment Experiences</th>
<th>Largest High Credit (US$)</th>
<th>% Within Terms (Expand to View)</th>
<th>1 - 30 Days Late (%)</th>
<th>31 - 60 Days Late (%)</th>
<th>61 - 90 Days Late (%)</th>
<th>91 + Days Late (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 - Building Construction - General Contractors and Operative Builders</td>
<td>1, 50.000</td>
<td>50</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1531 - Operative builders</td>
<td>1</td>
<td>25,000</td>
<td>50</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>17 - Construction - Special Trade Contractors</td>
<td>3</td>
<td>7,500</td>
<td>11</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1796 - Erects building equip</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>20 - Food and Kindred Products</td>
<td>2</td>
<td>15,000</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2097 - Mfg extracts/syrup</td>
<td>1</td>
<td>1,000</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>2099 - Mfg food preparations</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>24 - Lumber and Wood Products, Except Furniture</td>
<td>1</td>
<td>40,000</td>
<td>50</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>2448 - Lgm wood pallets</td>
<td>1</td>
<td>40,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>26 - Paper and Allied Products</td>
<td>2</td>
<td>2,000,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2631 - Paperboard mill</td>
<td>2</td>
<td>2,000,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Trade Lines

Trade Lines list the most recent 80 trade experiences from individual suppliers. The list reflects how bills are paid in relation to the terms granted.
Understanding legal activity is crucial in identifying risk. Legal Events covers past and present legal activities that could impact a company’s financial stability and operations. Examples of legal activities that could affect your business include bankruptcies, lawsuits, liens, judgments, Uniform Commercial Code (UCC) filings, and Personal Privacy Security Act (PPSA) statements. D&B collects business-related bankruptcy information from all 276 bankruptcy courts in the US, and each bankruptcy is investigated and confirmed by an analyst before being posted to a business credit report. Also, D&B is one of the few providers to feature lawsuits in its business credit reports. Lawsuits may signal an impact to a business’ credibility, liens may indicate difficulty to pay, and judgments may mean it has large outstanding financial obligations.
The Dun & Bradstreet Family Tree lets you assess risk across different parts of a corporate family by viewing the linkage relationship between different companies and their majority-owned subsidiaries and branch locations. From multinationals with thousands of global locations to small businesses with a second branch office, the Family Tree provides insight into relationships among the millions of active companies in the global D&B database. Seeing a visual representation of a corporation’s different businesses and locations can help you assess a company’s size, understand its real estate footprint, identify potential conflicts of interests, and create more accurate reporting on large suppliers. Remember, branch locations have no legal responsibility for debt, and understanding company relationships helps to better identify risk hotspots to make sure you can properly evaluate credit limits, prioritize collections, and recognize growth opportunities.
Whether you’re engaging a new partnership or extending credit to an existing customer, proper risk management requires a comprehensive understanding of credit data and analytics. Dun & Bradstreet’s business credit reports are trusted by lenders and potential business partners for objective credit analysis. Other credit reporting tools - such as portfolio risk management and automated credit decisioning - are also available for more advanced credit needs.

Risk management is a multi-faceted discipline, and Dun & Bradstreet believes strongly in sourcing multiple datasets to tell the full story of risk. It’s important to know everything you can about the companies you do business with and make sure your decisions are backed by reliable data and intelligent insight. Dun & Bradstreet aggregates more than 30,000 sources of data to provide the insight needed to determine appropriate credit terms today – and tomorrow. Our data includes sources from trade payments, suits, legal filings, private company financial statements, and even news and social media activity. Thousands of companies, from small businesses to large global enterprises, depend on Dun & Bradstreet to help them discover truth and meaning in their data, and to find the best customers, partners, and vendors to do business with.

To learn more about D&B’s Business Credit Reports and how you can make better credit decisions for your business, call (877) 727-0664 or visit www.dnb.com.
Dun & Bradstreet (NYSE: DNB) grows the most valuable relationships in business. By uncovering truth and meaning from data, we connect customers with the prospects, suppliers, clients and partners that matter most, and have since 1841. Nearly ninety percent of the Fortune 500, and companies of every size around the world, rely on our data, insights and analytics. For more about Dun & Bradstreet, visit DNB.com.

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