

Risk Score

A unique predictive scoring model has been developed, aimed at enabling you to detect those limited companies at risk of corporate failure within the next 12 months.

How We Built The Score

In developing the score, the database was split into two samples, those companies with a turnover above £1 million and those below. The main reason for this was that it was felt that smaller companies, especially those filing modified accounts, may well exhibit different characteristics to larger companies.

We were keen to develop a performing risk model which took into account all possible influential criteria whatever the size or business activity of the company. To this end, historical data was taken to identify the two sample sets - companies which had become involuntarily insolvent and companies which had continued to trade.

Up to ten years worth of financial data was analysed to identify patterns and trends - ratios were compared against industry sectors, and county court judgements and audit qualifications were also taken into account.

The strongest criteria were then applied and tested against further random samples. At the end of the exercise a robust set of elements were firmly identified for building the score calculation.

Quick Reference Guide To The Score

The new score measures all companies against the proven criteria identified. As a rough guide to what the score means the following table provides a quick look up for assessing how any company ranks against the average risk rate.

Risk Score	New Score	Companies above the band	Risk Band
Extreme Caution. Very high risk. Guarantees required with these accounts.	1-20	98.9%	at least 10x than average rate
	21-29	96.9%	at least 5x than average rate
	30-35	94.0%	3 to 5x than average rate
	36-40	88.9%	2 to 3x than average rate
	41-46	79.3%	just above average risk rate
Caution. Marked risk, ranging from: a) companies with limited credit capacity b) accounts requiring constant monitoring and measured exposure	47-50	71.2%	average risk rate
Normal. Limited Risk, normal terms can be granted to these accounts.	51-53	62.8%	just less than average risk rate
	54-57	53.6%	half the average risk rate
Confidence. Very Low Risk, favourable terms can be offered to such accounts.	58-63	38.5%	2 to 3x less than the average rate
	64-68	26.9%	3 to 4x less than the average rate
	69-71	20.8%	4 to 5x less than the average rate
	72-81	6.1%	at least 5x less than the average rate
	82-100		at least 10x less than the average rate

Credit Limit

The Credit Limit is an absolute measure of a company's ability to settle potential credit transactions.



Credit Limit Method

UK Data Ltd currently gauges the ability to settle, by use of the following three values:

Cash Flow (CF) = Pre-tax Profit + Depreciation charged against that Profit.

Working Capital (WC) = the difference between Total Current Assets and Total Current Liabilities.

Net Worth (NW) = Total Assets - Total Liabilities where the former is also adjusted to eliminate any Intangible Assets.

The average of these 3 components is then taken as a guide for the credit capacity of the company. The final figure calculated will depend on the previously derived Credit Score. The % applied is directly proportional to credit score, i.e. the greater the score the higher the %. The % applied ranges from 2 to 20.

There are exceptions to this formula which are industry specific. There are some companies that will not have a credit limit attached. These companies will have scored below 15 or alternatively all elements from the balance sheet and cash flow will be negative. See page 3 'No Risk Score / Credit Limit' for more information.



Credit Limit Period

The credit limit should be regarded as a yardstick for the possible level of acceptable credit, or alternatively the maximum amount one is happy to be owed by an applicant at any one time. It has no time period in consideration, it is advising an overall credit amount.



Credit Limit Calculation (How the "average" works)

If the WC or CF from operations is negative then it is assigned as zero when the average of the 3 values is calculated but NW is always treated as a genuine absolute. Also note that NW from a UK Data perspective may differ from the disclosed value on a set of accounts because intangible assets are excluded. If the average of the 3 figures is positive, then a limit will be given but if the overall average is negative, the limit will be zero.

Please note that on Subset (the smaller companies on the database) we do not have CF details, hence the average will be based on 2 values (NW & WC). On Superset the CF details are not always given, hence an estimate (Profit + Depreciation) is used instead.

Example to illustrate the above:

NW = +100, WC = -50, CF from Ops = +80. The average = $(100 + 0 + 80)/3 = +60$.
The limit is then taken as a % of 60.

NW = -120, WC = +50, CF = +40. The average = $(-120 + 50 + 40)/3 = -10$.
Because the overall average is negative, the limit will be zero

NW = -120, WC = +100, CF = +50. The average = $(-120 + 100 + 50)/3 = +10$.
The limit is then taken as a % of 10.

Any intangibles are deducted from the stated figure. We do show however, the data on our analysed Balance Sheet in line with the original presentation. We believe that such assets should be disregarded when assessing the credit worthiness of a company.



Contract Limit

The contract limits are calculated as a percentage of Turnover. The latest disclosed Turnover reflects the level of successful contracts completed, hence gives an indication of future capacity.

Where Turnover is not disclosed (Abridged Accounts), an estimated figure is used based on asset values and appropriate industry data. This measurement views the applicant as a supplier of goods and services, whereas a credit limit assesses the applicant as a purchaser.



No Risk Score / Credit Limit

Not all businesses will be scored or have limits. This depends on the information available.

Where a company has no risk score or credit limit, it can be due to one or more of the following reasons:

- There is insufficient information on a business
- The business has more than 4 outstanding County Court Judgements in the last 6 months and less than 25 employees
- The value of CCJs is greater than £2,000 in the last 24 months
- There have been more than 3 CCJs in the last 12 months
- There are more than 10 CCJs in total

Where a company has no risk score or credit limit, it is likely to be due to the following:

- There is not enough information to estimate financial strength
- The business is engaged in certain financial activities, making an estimate of financial strength inappropriate

County Court Judgements

Information is received from the Registry Trust about County Court Judgements or Scottish Decrees brought against companies for non-payment.

The matching is done on name only and shows exact, probable and possible matches. A judgement must be paid within a month of being issued. If the judgement is paid off within the month it is removed and will not be shown in the report. If the judgement is paid after one month then the details remain on the system but will show the judgement as satisfied.

The Full Report shows the total number of CCJs, the total amount owed and also a cumulative total over 3 month intervals. Details confirming the date, amount, court, case number and reference number are given for the latest 10 judgements.

Company Monitoring

With ukdata.com's FREE company monitoring service, you can keep right up to date on the performance of your competitors, customers and suppliers.



Getting Started

- ▶ Simply go to www.ukdata.com and find the subject company using the form on the homepage.
- ▶ Click 'Monitor this company' at the top of the company details page and enter a valid email address.
- ▶ That's it. We will send you a password via email so you can log in later and add or edit companies.

There is no limit to the number of companies you can monitor. So don't stop at your potential clients, have a snoop at your competitors too. It's free until you actually choose to download the report.

To monitor multiple companies you can either complete the monitor request form, download and complete the company monitoring spreadsheet or call the office and we can set up your monitors over the telephone. Visit our monitoring homepage for more information:

<http://www.ukdata.com/monitor>



How Monitoring Works

Once the company monitor is set up, we will alert you as soon as a document is filed at the registry such as the latest annual accounts or annual return, if a new mortgage or charge is filed, or a county court judgement is filed.

We will also alert you if the company credit report changes, for example the credit limit increases or decreases. You choose when we alert you and can edit your alert settings at any time under your 'My Monitors' area.



Alert Options

- ▶ **Credit Report changes**
This includes change in risk score and credit limit.
- ▶ **Accounts filings**
This includes company accounts, interim accounts and other accounts related document filings.
- ▶ **Annual Return filings**
This includes Annual Return, Shareholders and Director filings.
- ▶ **Charges**
All information or filings related to mortgages, charges and County Court Judgements.
- ▶ **Liquidation / Receivership**
All notifications of liquidation and receivership filings

We can also send reports and documents to your email inbox automatically. To set this up, go to your 'My Monitors' area and choose edit next to the company in question. You can then choose which documents to be sent automatically.

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