

# D&B Failure Risk Score (DRS)

## Fact Sheet

### Description

The Failure risk score (DRS) predicts the likelihood that a business will seek legal relief from its creditors or cease operations leaving unpaid debts in the next 12 months.

The legal events which constitute failure include:

- Forced change of control (e.g. Receiver Manager, Administrator or Controller appointed)
- Forced business closure (e.g. Insolvency or Liquidation)
- Involuntarily Deregistration

### Eligibility

The Failure risk score (DRS) is available on approximately 2 million businesses. It is not available on entities that fall into any of the following categories:

- Foreign Registered Businesses
- Inoperative Entities
- Unincorporated Entities
- Businesses in industries that do not lend themselves to scoring through this type of model. These include Government departments, Insurance companies, Law firms, Accounting practices and the Banking industry
- Deregistered Entities
- Entities in Strike-Off Action

### Factors

Data elements used in the model to assess the likelihood of business failure include:

- Trade payment information unique to D&B.
- D&B collections data.
- Company financial information.
- Company demographic information.
- Directorship information.
- Public record information

### Products

The following D&B® products include Risk base rankings:

- D&B Report
- Risk of failure report (Dynamic Risk Score report)
- Portfolio Health Check (PHC)
- Market Insight

## Performance

The following table provides the delinquency rates for each risk class and associated score range.

### Australia

| Score Range | Distress Probability | Relative Risk Level | Dun & Bradstreet Recommendation  |
|-------------|----------------------|---------------------|----------------------------------|
| 1508 - 1999 | 0.09%                | Minimal             | Extend terms to encourage growth |
| 1474 - 1507 | 0.21%                | Very Low            | Extend terms to encourage growth |
| 1424 - 1473 | 0.40%                | Low                 | Extend terms                     |
| 1359 - 1423 | 1.09%                | Average             | Extend terms                     |
| 1323 - 1358 | 2.35%                | Moderate            | Extend terms and monitor         |
| 1298 - 1322 | 4.12%                | High                | Review terms and monitor         |
| 1232 - 1297 | 9.66%                | Very High           | Review terms and monitor closely |
| 1001 - 1231 | 30.93%               | Severe              | C.O.D                            |

### New Zealand

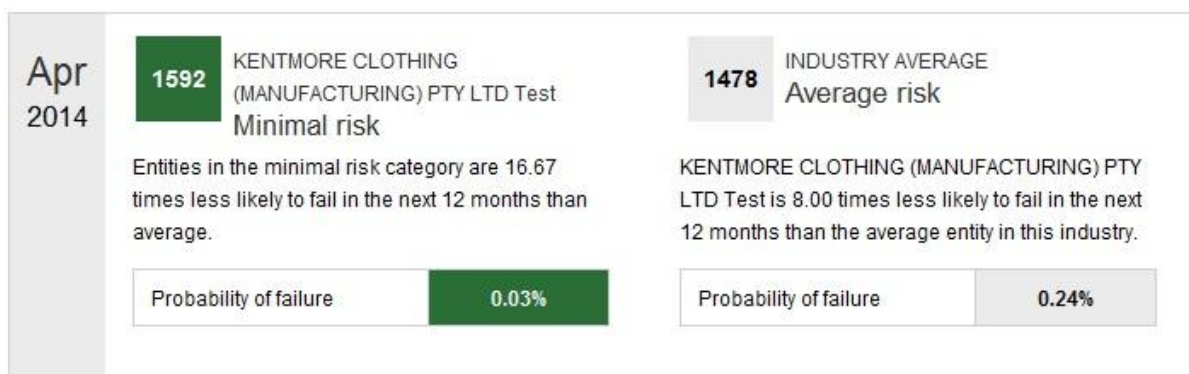
| Score Range | Distress Probability | Relative Risk Level | Dun & Bradstreet Recommendation  |
|-------------|----------------------|---------------------|----------------------------------|
| 1482-1999   | 0.15%                | Minimal             | Extend terms to encourage growth |
| 1448-1481   | 0.26%                | Very Low            | Extend terms to encourage growth |
| 1421-1447   | 0.49%                | Low                 | Extend terms                     |
| 1387-1420   | 0.86%                | Average             | Extend terms                     |
| 1373-1386   | 1.26%                | Moderate            | Extend terms and monitor         |
| 1329-1372   | 2.26%                | High                | Review terms and monitor         |
| 1279-1328   | 5.74%                | Very High           | Review terms and monitor closely |
| 1001-1278   | 10.80%               | Severe              | C.O.D                            |

## Features

### 1. Failure risk score (DRS)

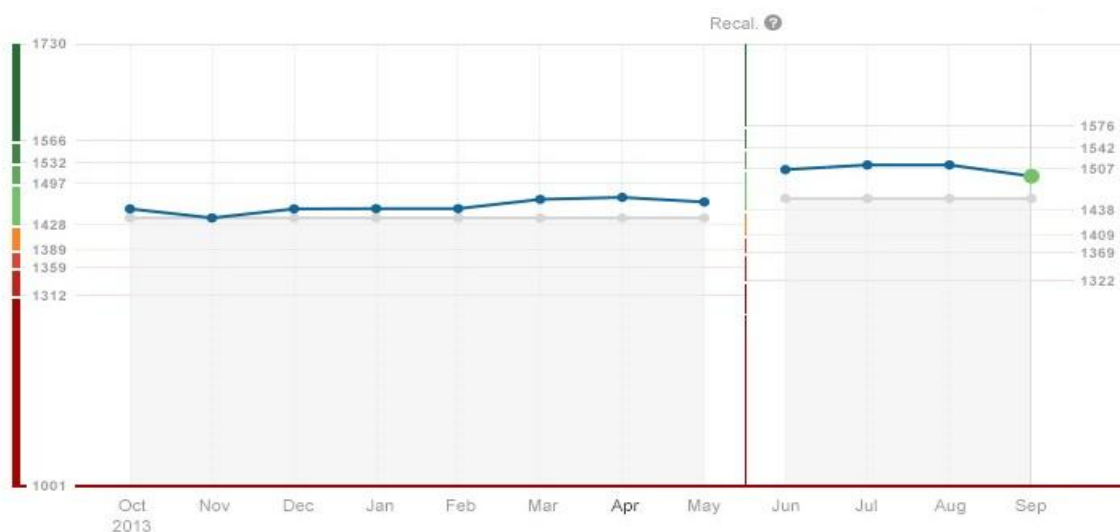
- The 1001 to 1999 score is the raw output of the Failure risk scoring model.
- **1001** represents the *highest* risk and **1999** represents the *lowest* risk of financial distress.
- Each Failure risk score (within the range 1001-1999) has a related probability of business failure within a 12-month period.
- The Failure risk score (DRS) enables customers to determine granular cut-offs in driving decision-making processes.

- Industry averages are also provided as a benchmark to compare companies within the same industry.



## 2. Failure risk score (DRS) trend

- The Failure risk score (DRS) trend displays the previous 12 months historical scores.



## 3. D&B Rating

- The D&B Rating is a global rating system comprising of a financial strength rating and a risk indicator.
  - The financial strength rating '5A' through 'G' reflects the strength of an entity base on its tangible net worth.
  - A financial rating of 'N' denotes a negative tangible net worth
  - A financial rating of 'O' denotes that the net worth is undetermined.
  - A financial rating of 'NQ' represents no scores are available.
- The Risk Indicator represents the risk associated with an entity experiencing financial distress in the next 12 months.
- A risk indicator of '1' represents a *minimal* risk of financial distress and a composite appraisal of '4' represents a *severe* risk of business failure.

| Financial Strength |                                                                                        |
|--------------------|----------------------------------------------------------------------------------------|
| Rating             | AUD\$                                                                                  |
| 5A                 | 50,000,000 and over                                                                    |
| 4A                 | 10,000,000 to 49,999,999                                                               |
| 3A                 | 5,000,000 to 9,999,999                                                                 |
| 2A                 | 1,000,000 to 4,999,999                                                                 |
| A                  | 600,000 to 999,999                                                                     |
| B                  | 300,000 to 599,999                                                                     |
| C                  | 100,000 to 299,999                                                                     |
| D                  | 40,000 to 99,999                                                                       |
| E                  | 12,000 to 39,999                                                                       |
| F                  | 4,000 to 11,999                                                                        |
| G                  | up to 3,999                                                                            |
| O                  | Net worth undetermined. Accounts unavailable or older than 18 months                   |
| N                  | Negative tangible net worth. Negative balance of equity after deduction of intangibles |
| NQ                 | No Score Available                                                                     |

| Risk Indicator | Condition | Level of Risk | Guide to Interpretation                                                                                                                          |
|----------------|-----------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| 1              | Strong    | Minimal Risk  | Proceed with transaction - offer extended terms if required                                                                                      |
| 2              | Good      | Low Risk      | Proceed with transaction                                                                                                                         |
| 3              | Fair      | Moderate Risk | Proceed with transaction but monitor closely                                                                                                     |
| 4              | Limited   | Severe Risk   | Review each case before extending credit and obtain more information. Take suitable assurances before extending credit, guarantees may be needed |

#### 4. Key Influencing Factor

- The *Key Influencing Factor* in a D&B report provides an explanation on the factors that influence the Failure risk score
- An Example of the Key Influencing Factors in a report:-

### Key influencing factors

- The size of this firm indicates a potentially lower risk of failure
- Evidence of satisfactory trade experiences exist for this firm in the D&B database
- Directorship characteristics indicate a potentially lower risk of failure
- The tenure of directors indicates a potentially higher risk of failure

D&B's failure score predicts the likelihood that a business will experience stress or failure within the next 12 months. The average entity has a 1.6% likelihood of failure.

### 5. Report Summary

- The D&B Inteflow Core Report summary page displays both the relative risk and the probability of business failure associated with its Failure risk score.



#### Failure risk

KENTMORE CLOTHING  
(MANUFACTURING) PTY  
LTD Test has a 3.47%  
probability of failure in the  
coming 12 months.

### Access & Delivery

The Late Payment Risk Score (DDS) can be accessed using existing D&B<sup>®</sup> delivery systems:

- D&B Inteflow Core
- Credit Gate
- D&B Express
- D&B Direct
- Data Integration Toolkit
- Managed Inteflow
- Batch delivered files

### Further Enquiries

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