ProfitGuard
Know The Risk *Before* You Ship

Understanding PG's Risk Model & Rating Process

Linking our Proprietary Risk Model and Measurement to our Credit Ratings and Limits

Overview

What is the ProfitGuard Credit Risk Score and Default Score?

The PG **Credit Risk Score** is a predictive score illustrating how you can expect to be paid by the customer in question. The scores range from 1 to 10, with 10 being the best (or least likely to pay late). The Credit Risk Score also correlates with suggested selling terms, based on the risk level, which can be found on our Credit Scoring Table. This score is intended to be a starting point in setting open credit terms while considering the overall credit risk.

Credit Risk Score Defined							
Credit Risk Score							
8.50 To 10.0							X
7.00 To 8.49						X	X
6.00 To 6.99						X	
5.00 To 5.99				X	X	X	
4.00 To 4.99			X	X	X	X	
3.25 To 3.99			X	X	X		
2.00 To 3.24	X	X	X	X			
1.00 To 1.99	X	X					
	G	F	E	D	C	B	A

Use this Key to Help Determine the Meaning of the Suggested Terms.	
A	Open Account (Creative Credit Terms can be Considered to Win Business)
B	Open Account (Normal Credit Terms)
C	Open Account (Short Credit Terms Recommended)
D	Consignment Terms (UCC Filing Advised)
E	Partial Payment in Advance
F	Secured (UCC Filing Advised) or Contra Agreement
G	Confirmed, Irrevocable Stand-By Letter of Credit (L/C) - or Cash in Advance

The PG **Default Score** is a predictive score that indicates the probability of the customer defaulting within the next 12 months. The scores range from 1 to 100, with 100 being the best (or least likely to default, file bankruptcy, etc.). Each assigned risk level correlates with a description of the company's risk characteristics in easy to understand terms which can be found on our Credit Scoring Table. It is important to note that a company's credit rating and or approved credit limit will be lower in cases where ProfitGuard has limited or insufficient supporting data.

Default Probability Score Defined	
Default Score	**Probability of Default Within the Next 12 Months**
90 To 100	Buyer represents exceptional credit risk characteristics -- Extremely Low Probability of Default
80 To 89	Buyer represents superior credit risk characteristics -- Low Probability of Default
70 To 79	Buyer represents excellent credit risk characteristics -- Low Probability of Default
50 To 69	Buyer represents good credit risk characteristics -- Medium to Low Probability of Default
41 To 49	Buyer represents fair credit risk characteristics; Medium Probability of Default; Overall Position Supports Extension of Credit. Risk Monitoring Advised.
31 To 40	Buyer represents marginal credit risk characteristics – Not an Immediate Risk but Could Accelerate Quickly. Risk Monitoring Advised.
20 To 30	Buyer represents weak credit risk characteristics -- Signs of Distress Present
10 To 19	Buyer represents poor credit risk characteristics -- Default Risk is High ; Going Concern is Strongly Questioned
1 To 9	Buyer represents extremely poor credit risk characteristics -- Default Highly Probable
BK	Buyer is currently operating under Bankruptcy Protection, Receivership, Restructuring, Liquidation, etc.
OR	Buyer is currently operating under some form of "Out of Court Restructuring"

What the Default Score Predicts:

The Default Score is designed to help predict the likelihood that a company will become insolvent or fail over the next 12-month period. Our risk model considers the characteristics of thousands of businesses in the ProfitGuard database and the correlation these characteristics have to the probability of a company experiencing financial distress over a 12-month period.

A financially distressed company is defined as one that:

- Filed bankruptcy under the U.S. Bankruptcy Code
- Filed for Creditor Protection in Canada under the Companies' Creditors Arrangement Act ("CCAA")
- Filed a Plan of Arrangement under the Canada Business Corporations Act ("CBCA")
- Voluntarily withdrew from business operations leaving unpaid obligations
- Is in receivership, reorganization, or has made an arrangement for the benefit of creditors
- Had an Out of Court Restructuring or completed a Distressed Debt Exchange

What is the Advised Credit Limit?

ProfitGuard's advised credit limit is a recommended credit limit based on our overall credit assessment of the subject company as of the date of the report. The recommended credit limit is intended to be a starting point, representing the total amount of open credit exposure you should carry on that customer at that time, and should not be used as a long term credit limit without monitoring credit exposure or other credit risk factors. Our credit limit and assessment is from a pure credit perspective and doesn't take into consideration other external business factors that are specific to your firm such as credit policy, risk appetite, general business conditions, etc.

Credit Approval Guidelines

ProfitGuard tailors each credit approval to the subscriber's individual request for open credit. The dollar amount of credit dictates the requisite level of supporting data required to approve the credit limit submitted. PG has five levels of information requirements based on credit requests ranging from less than $50k to over $1 million. For example, PG will not approve a limit over $500k without current financial statement data. A major pillar of our approval process is that we will not approve a requested dollar amount unless we have a full understanding of the risk.

In addition to information requirements, PG has internal authority levels and credit committee requirements that must be met to approve credit limits and assign credit ratings.

What factors are considered when rating a company?

ProfitGuard's analysts utilize a consistent framework in our rating process (illustrated below). Within that framework, data elements corresponding to each risk category are entered into our model's individual scorecards where each factor is weighted based on its predictive value.

ProfitGuard's risk model consists of two statistical models; one model was designed to be used with financial statements and one without. Whether or not an entity is private or public is also considered. Together this scoring system enhances accuracy and predictive power.

Credit Risk Model

A Consistent Framework for our Risk Scoring Process

The graphic below illustrates how our proprietary risk model works and what factors are considered. We analyze risk in four primary categories and feed this data into our scoring model. The resulting calculated score provides our analysts with a starting point. Our credit committee then reviews the overall risk profile and the final ratings are assigned.