CREDIT MANAGEMENT BEST PRACTICE 2013

Optimising Credit Management Practices in tune with Today’s Economy

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  - Is the market improving, or are there zombies around every corner?
- Impact of trade credit on market
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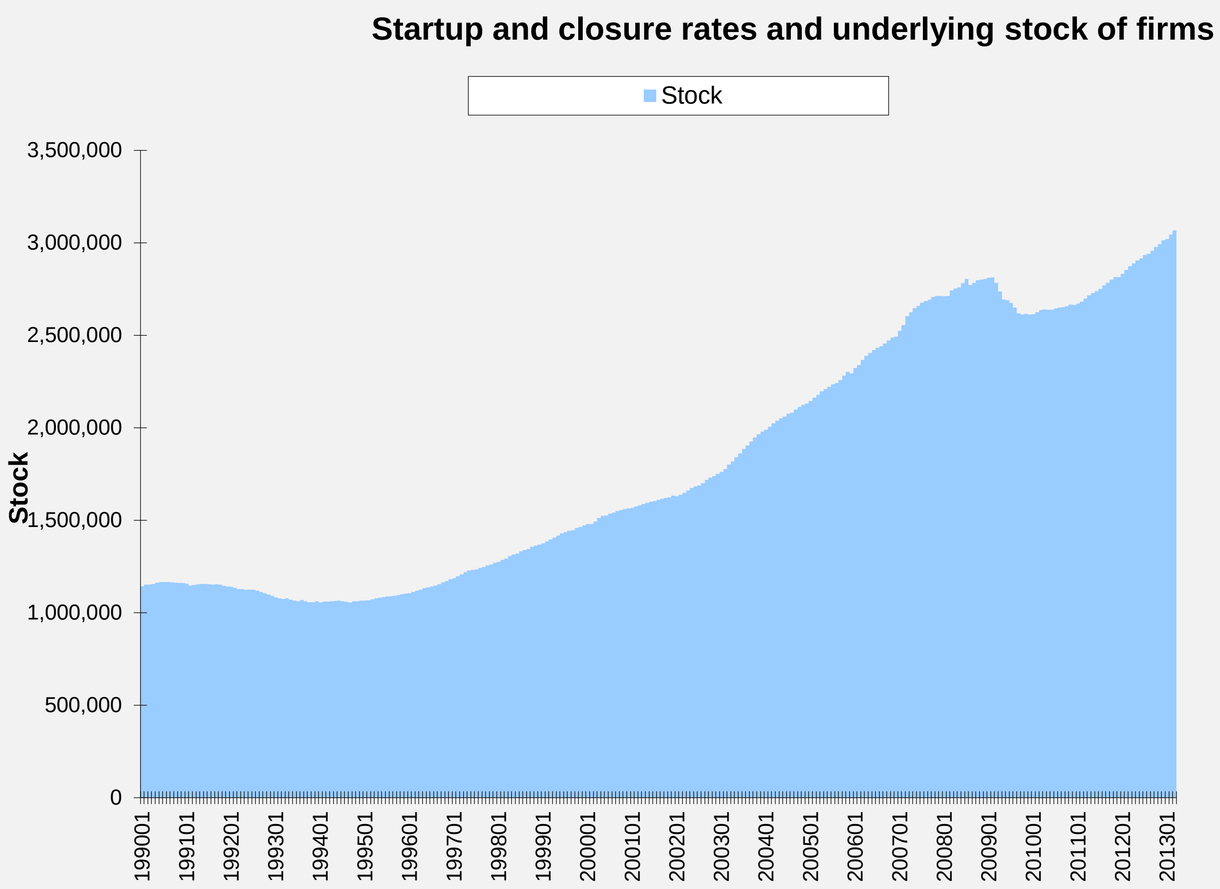
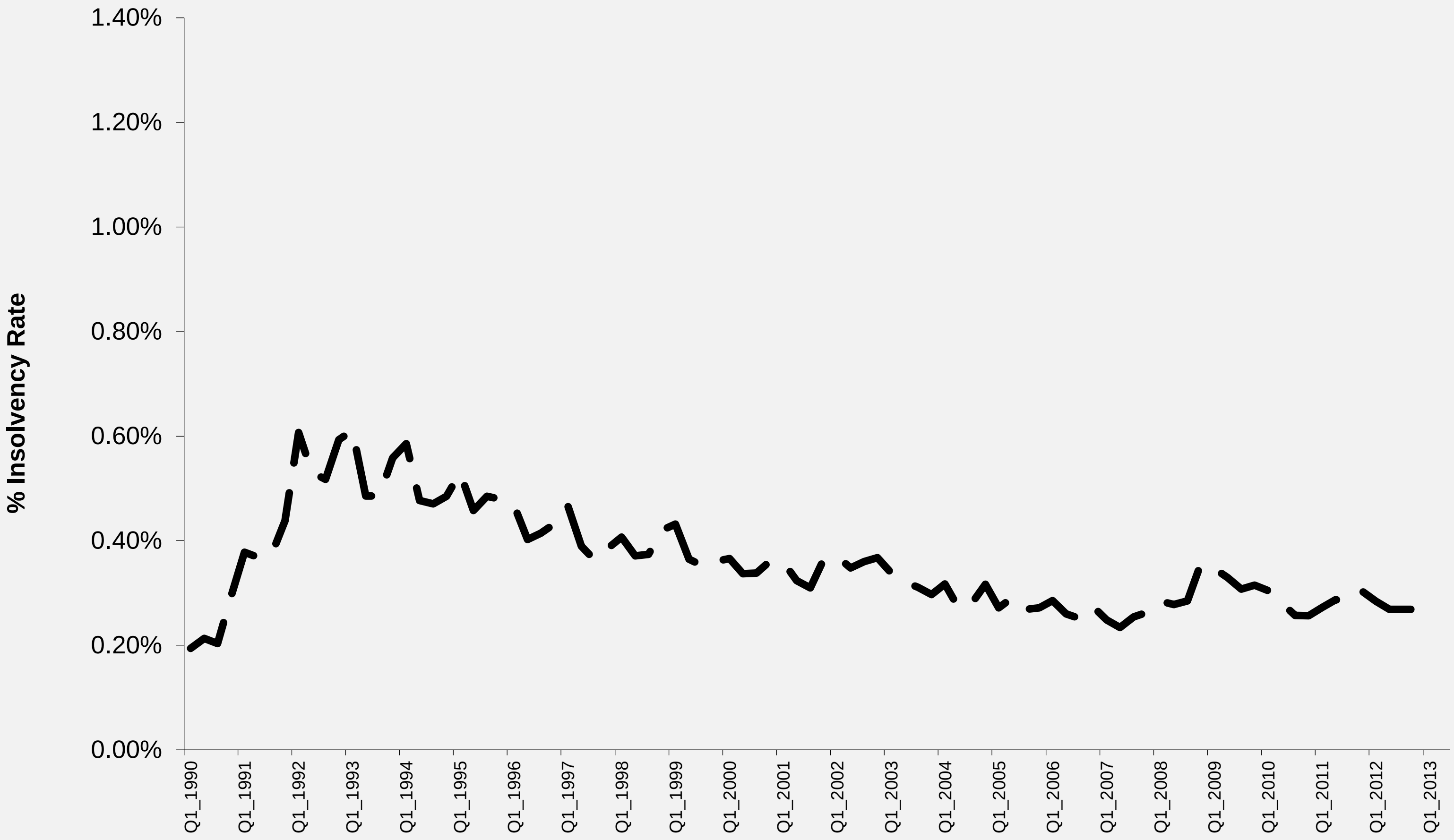
The clear out of companies in the 2009 recession was steep but short lived

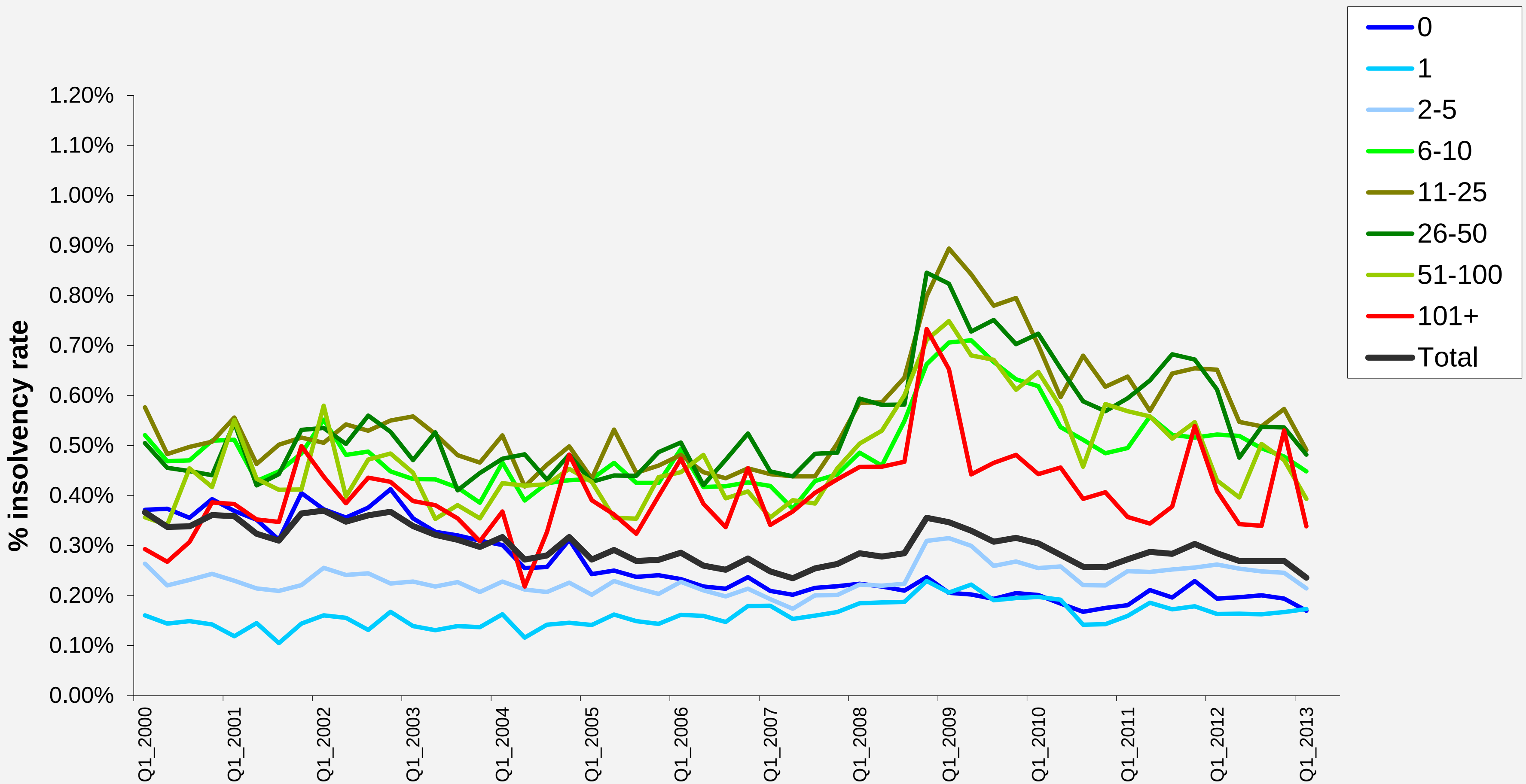


- Stock now greater than pre recession
- Overall start up and closure rates now more similar to 00s again

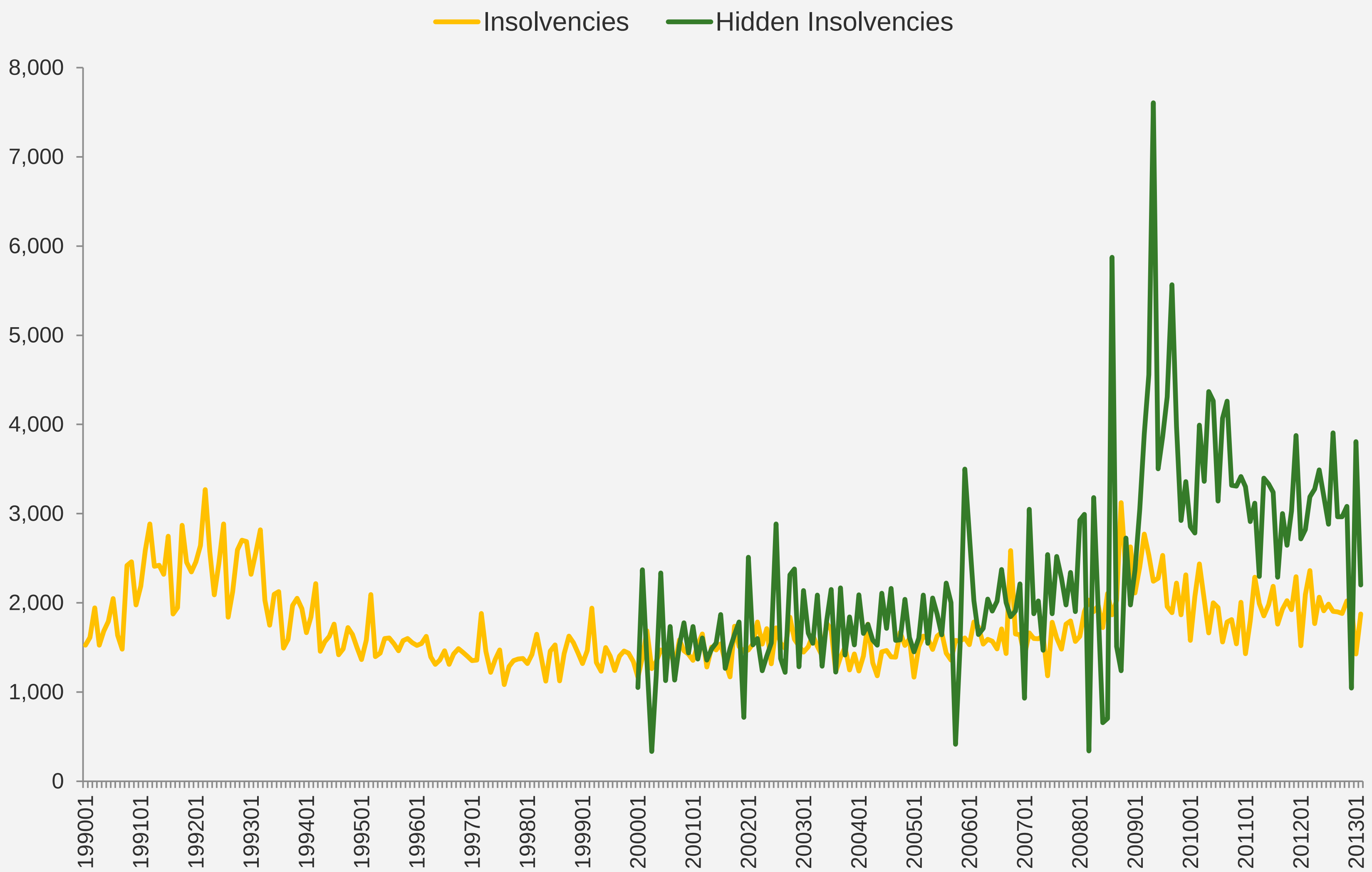
The overall insolvency rate of this recession is significantly lower than in 1990



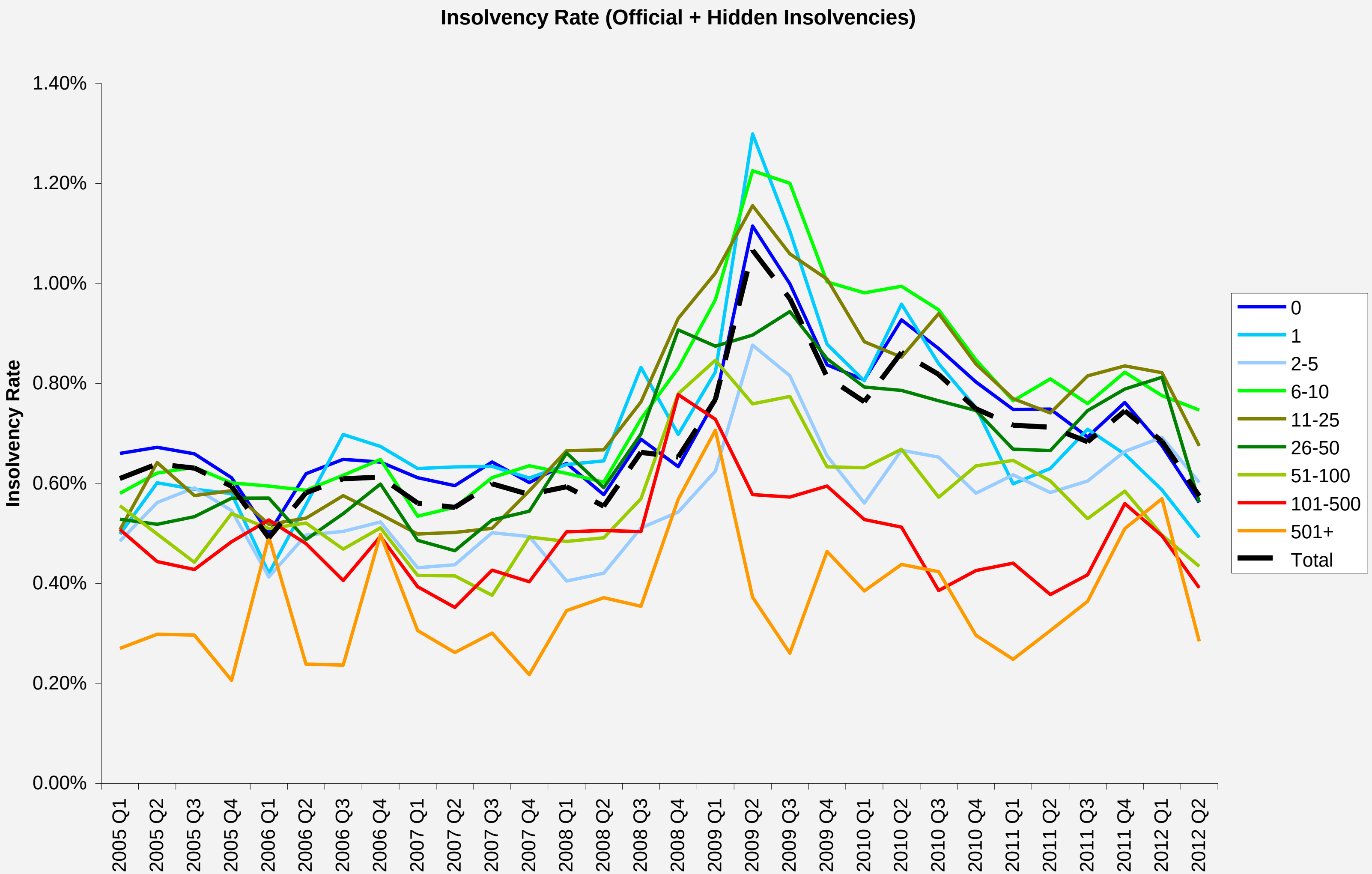
The picture by company size shows the smallest companies 'escaping' the recession, which has led to much publicity about 'Zombies'



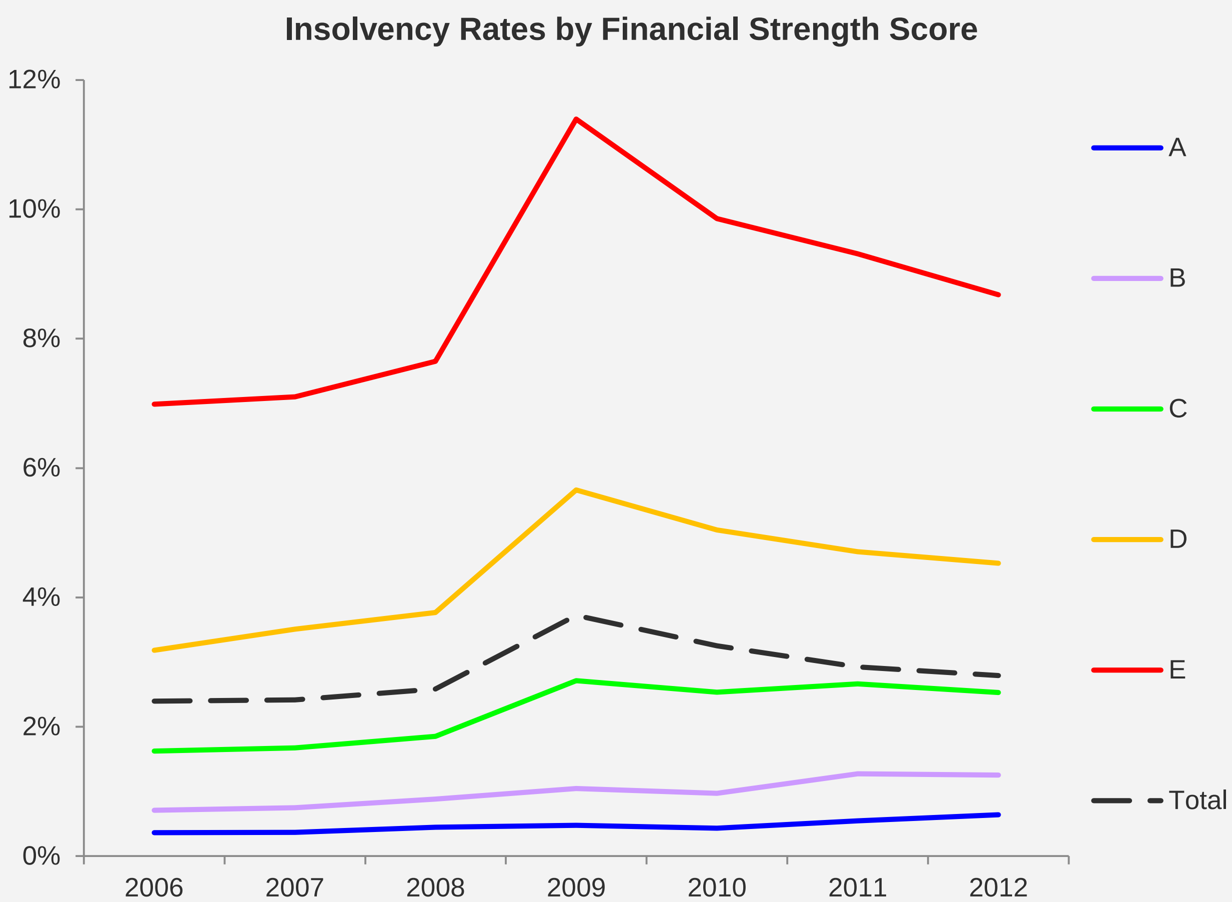
In fact, if we include 'hidden' insolvencies the overall pattern is very different



And the picture by employment then becomes more intuitive



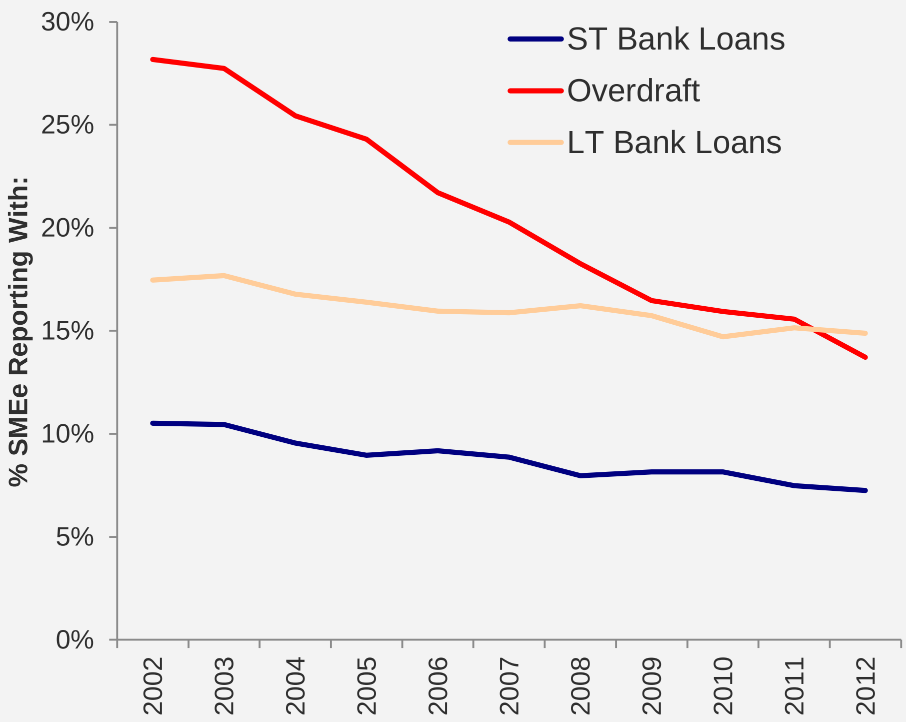
In addition, it is clearly the weakest (from a credit risk perspective) that have been cleared out



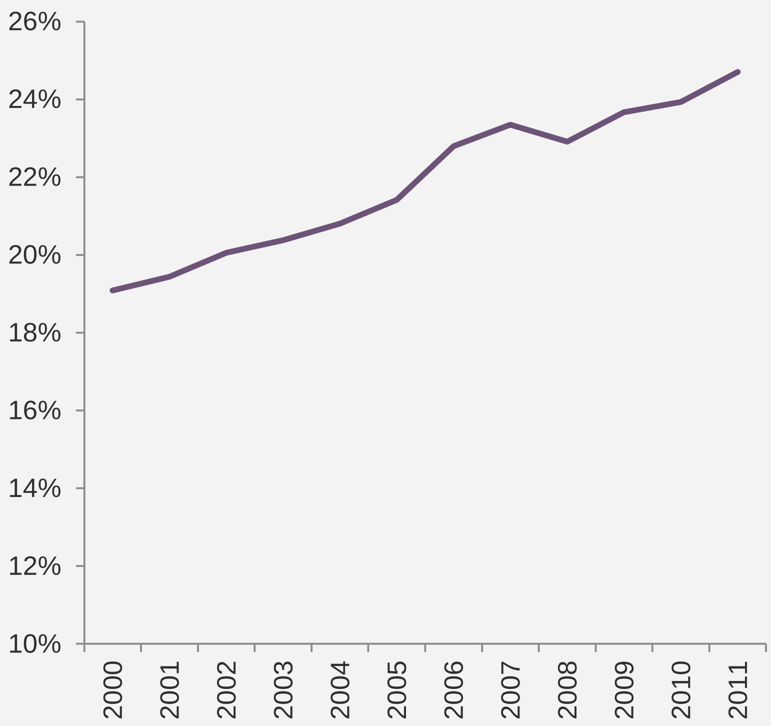
- The financial strength score allows through-the-cycle analysis of insolvency rates
- Firms rated D & E have significantly increased insolvency rates since the onset of recession
- In contrast, the better rated have stayed flat, or, in the case of the best rated, even improved

We can see a long term deleveraging in Bank borrowing, and a net increase in cash to liabilities

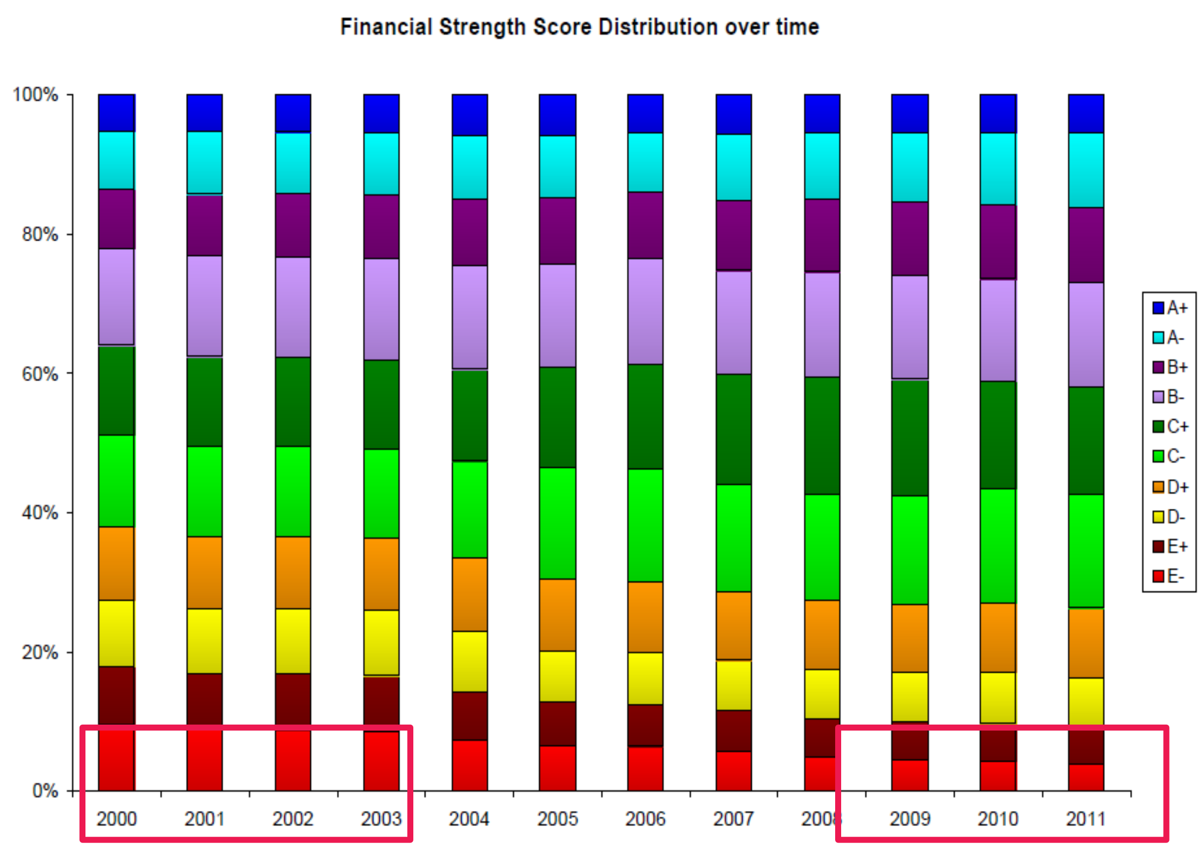
Incidence of Bank debt over time



Cash / Short Term Liabilities

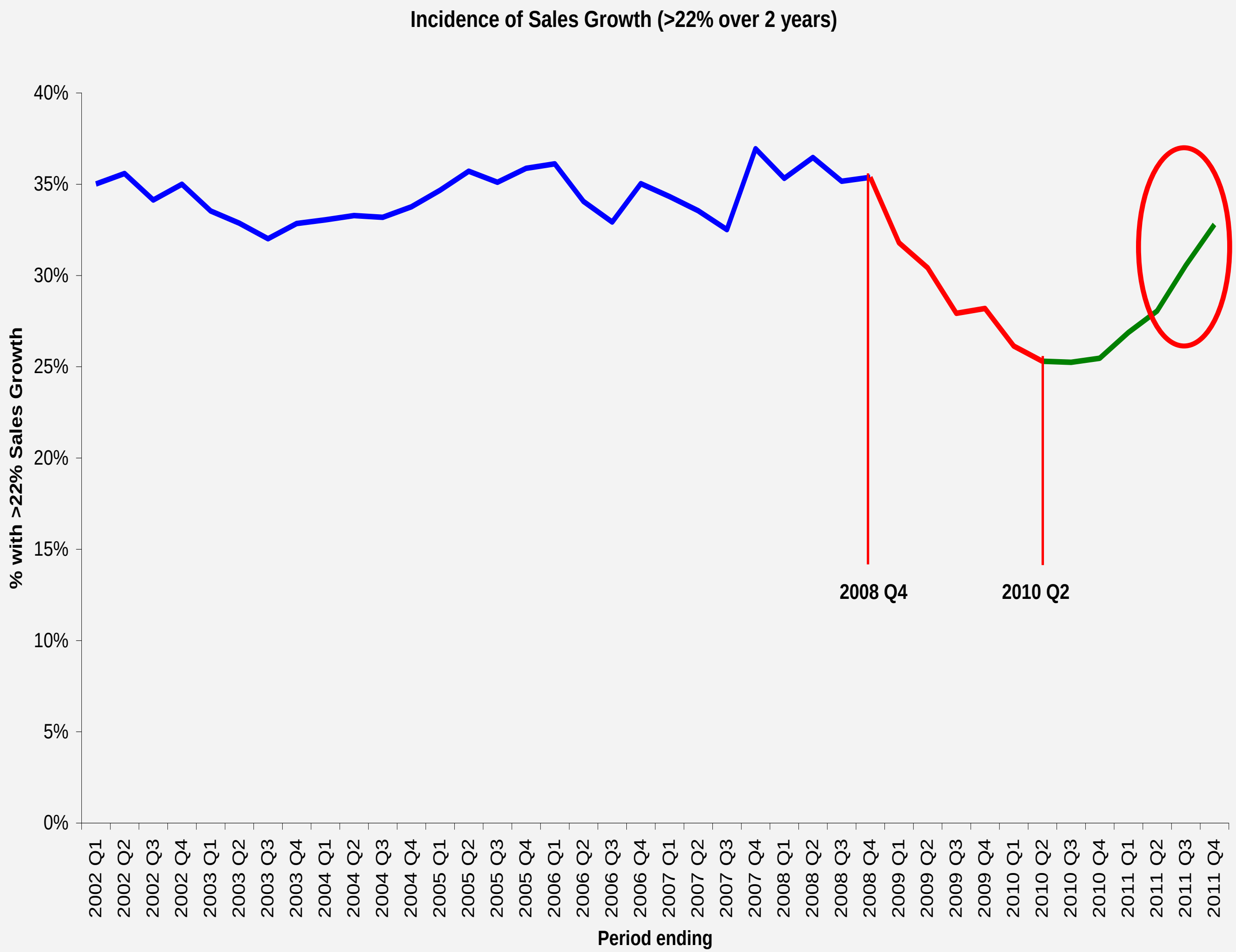


The result of insolvencies and deleveraging over time is an <u>improvement</u> in mix by financial score



- Proportion of weaker companies left in market is now lower due to insolvency impact
- Long term deleveraging, combined with increased insolvency among borrowers, leaves a generally more deleveraged population
- Net impact is a cleaner population now than for a decade

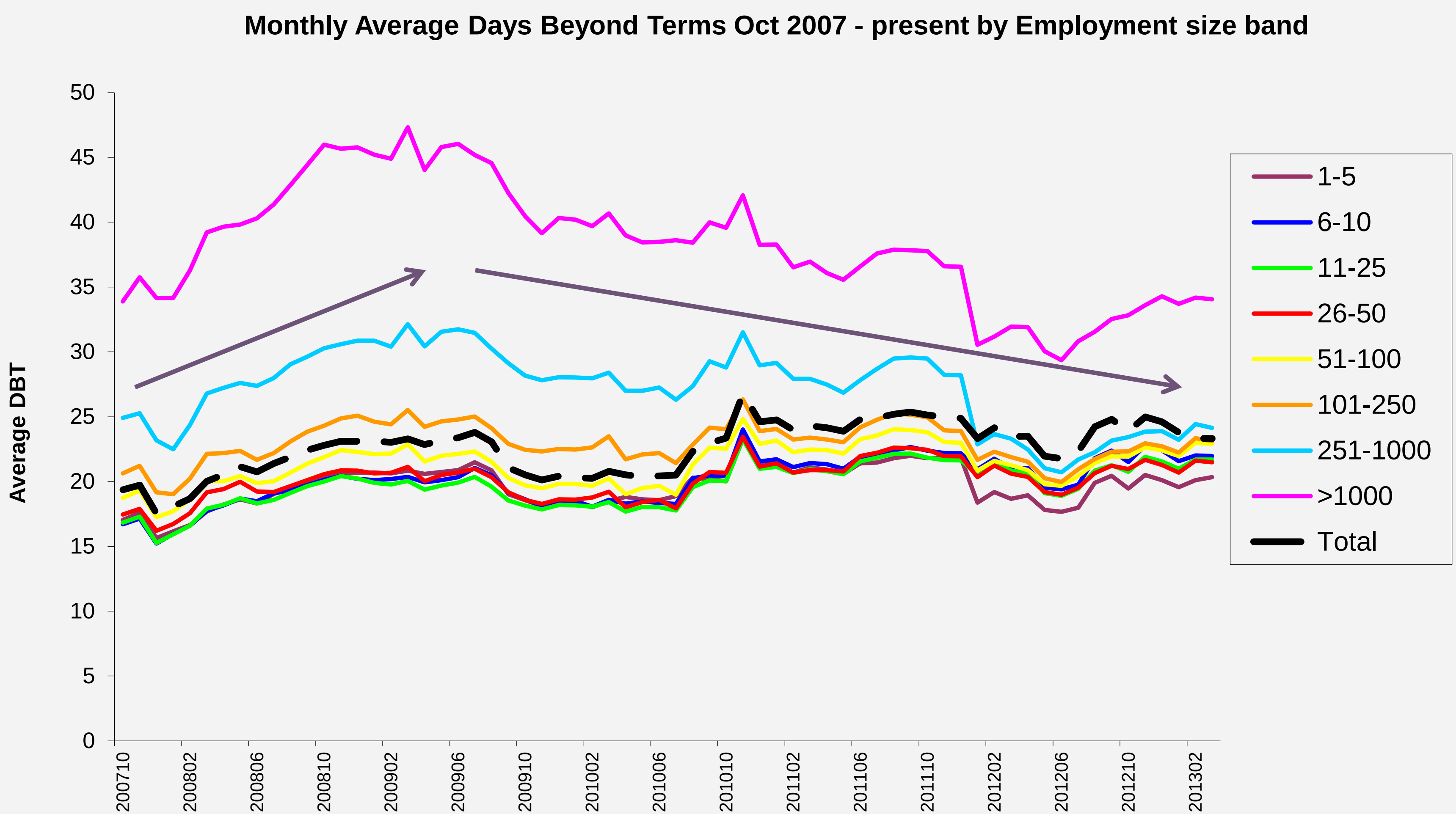
The incidence of high turnover growth* is showing signs of rebounding following a significant drop then stagnation



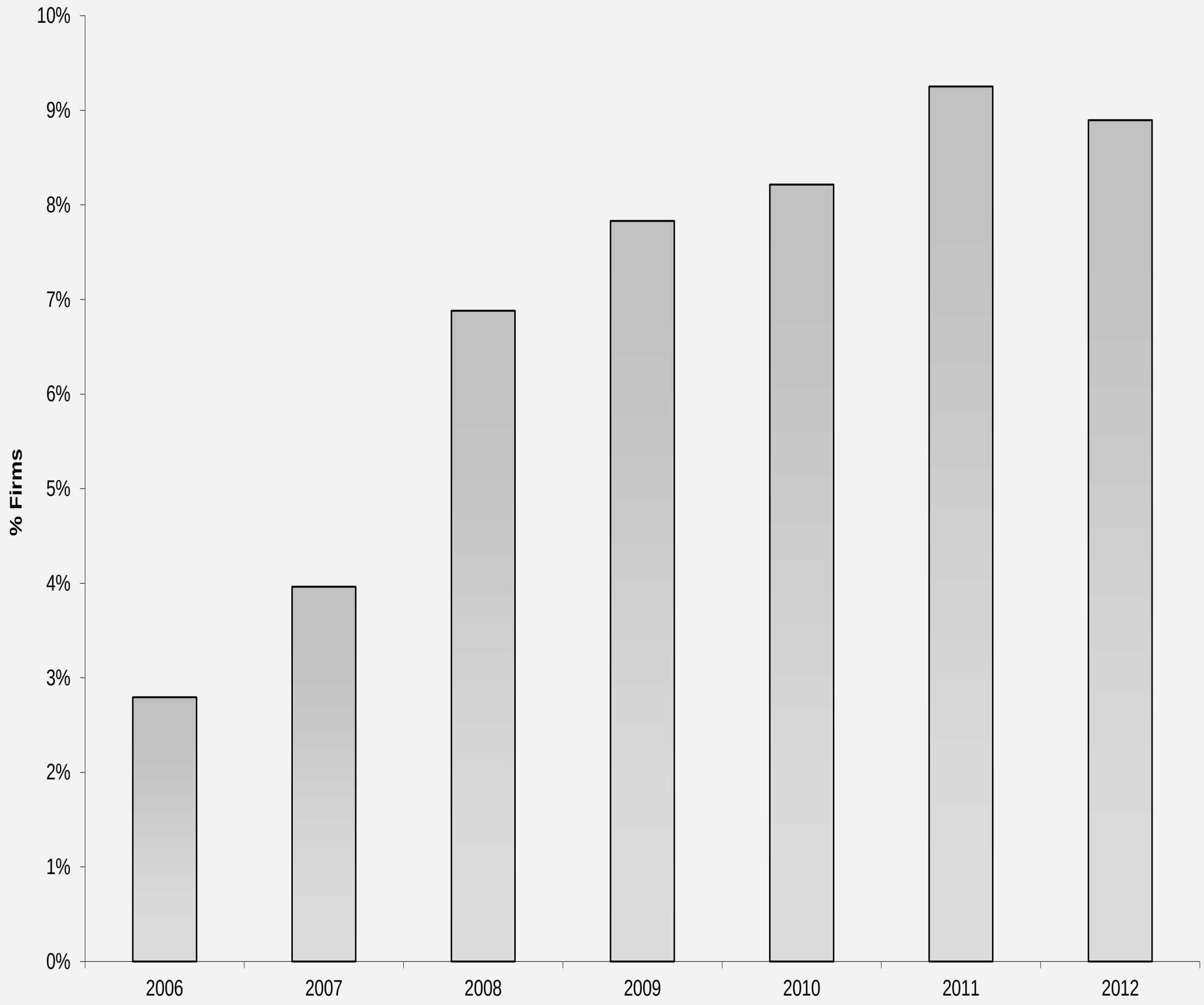
- In the 00s, around 35% of companies reported high growth over the preceding 2 years
- At the nadir of the downturn, this drpoped to below 25%
- We are now approaching the same level as the pre-crisis period

* High growth within this population defined as >22% turnover growth over 2 years (10% pa)

After an initial slowing down of payment speed in 2008, the pattern has been generally positive

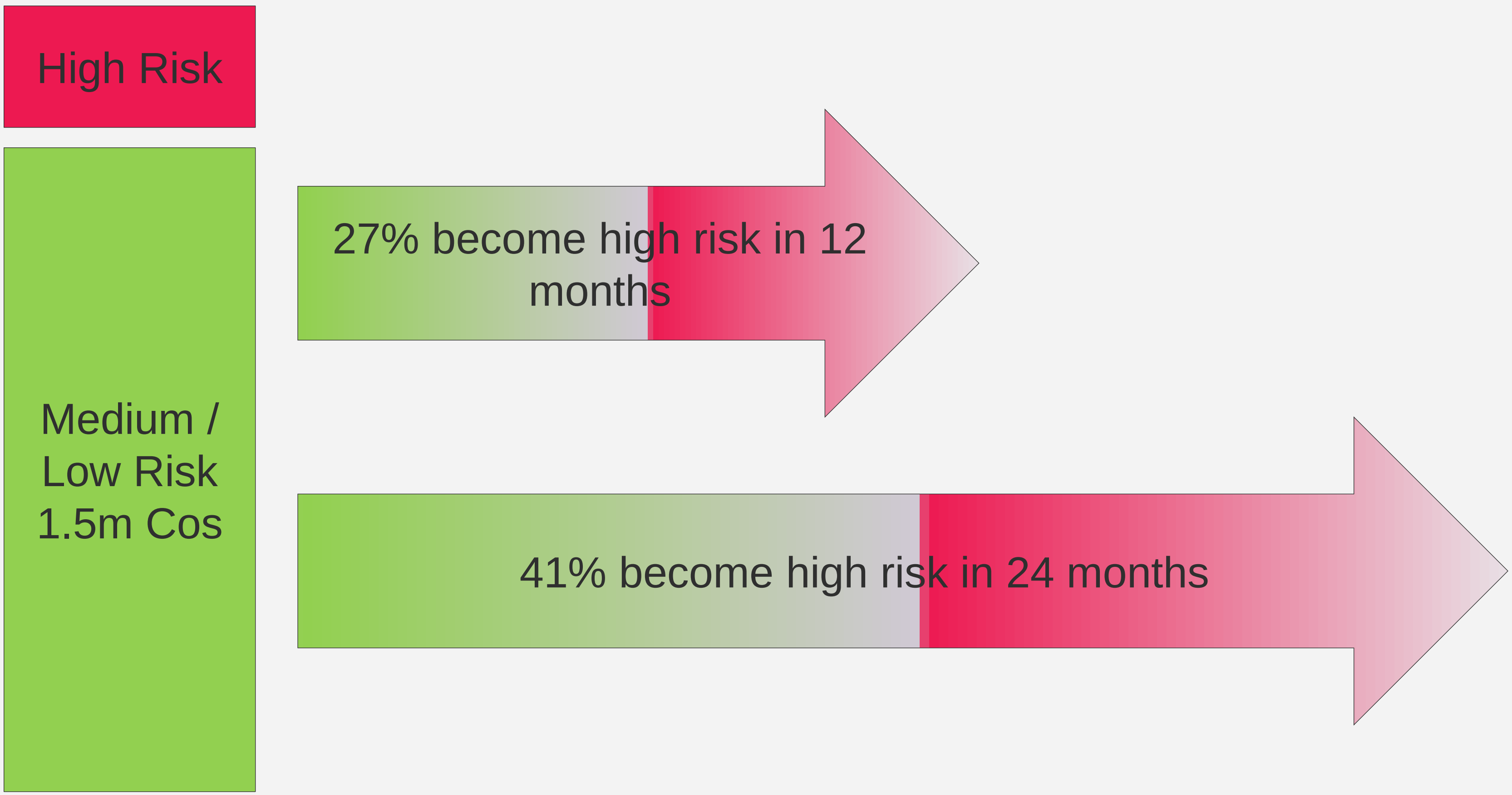


Although very late payment is increasing



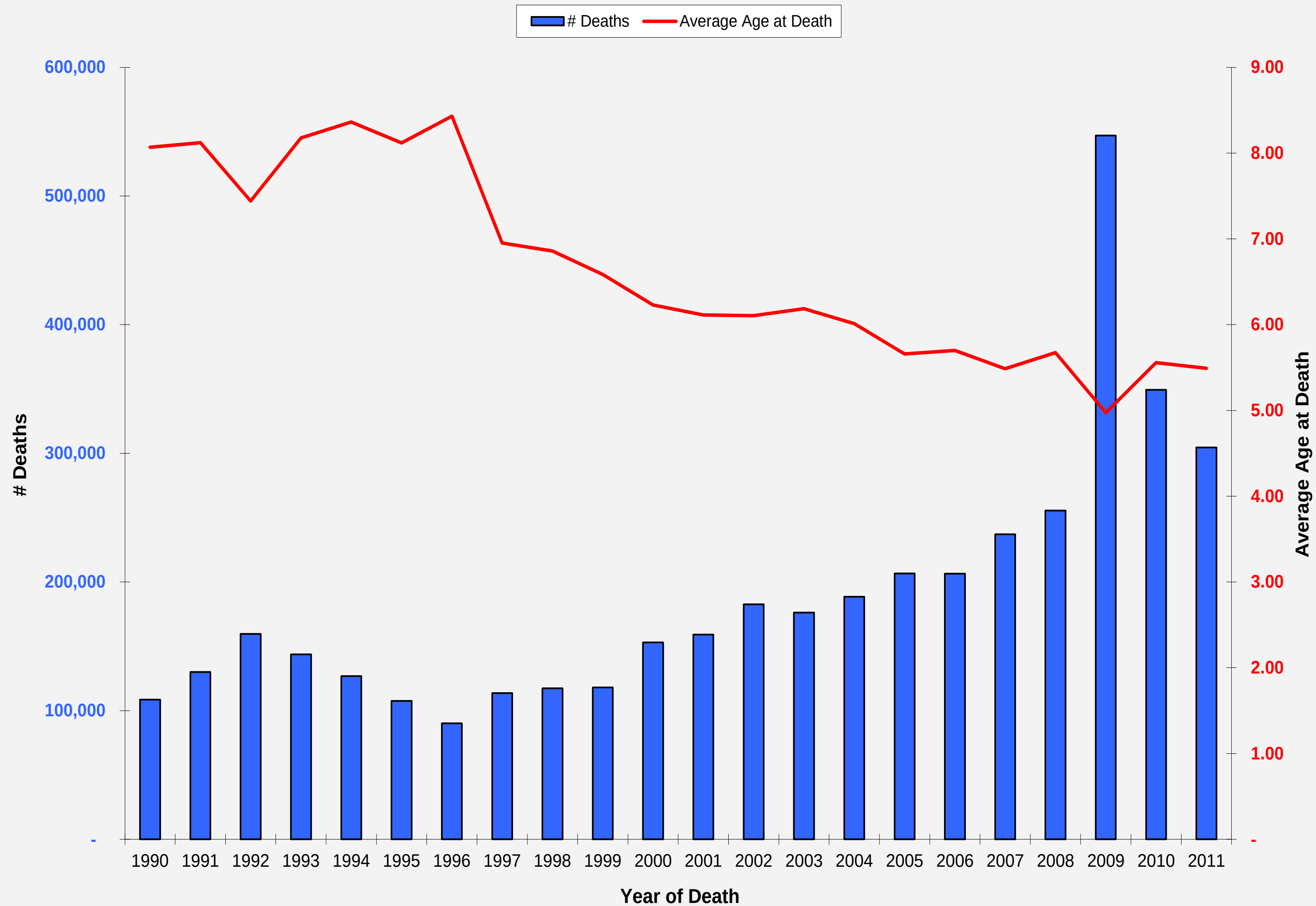
- In 2006 only one in 30 companies paid over 90 days late
- By 2011 almost one in 10 paid this far beyond terms

In addition, the proportion of companies that degrade over a 12-24 month period is significant



Figures quoted based on 2011. For 2009, 33% became high risk in 12 months, and 45% over 24 months

And over a longer period of time, the average lifespan of SMEs has reduced



SME landscape

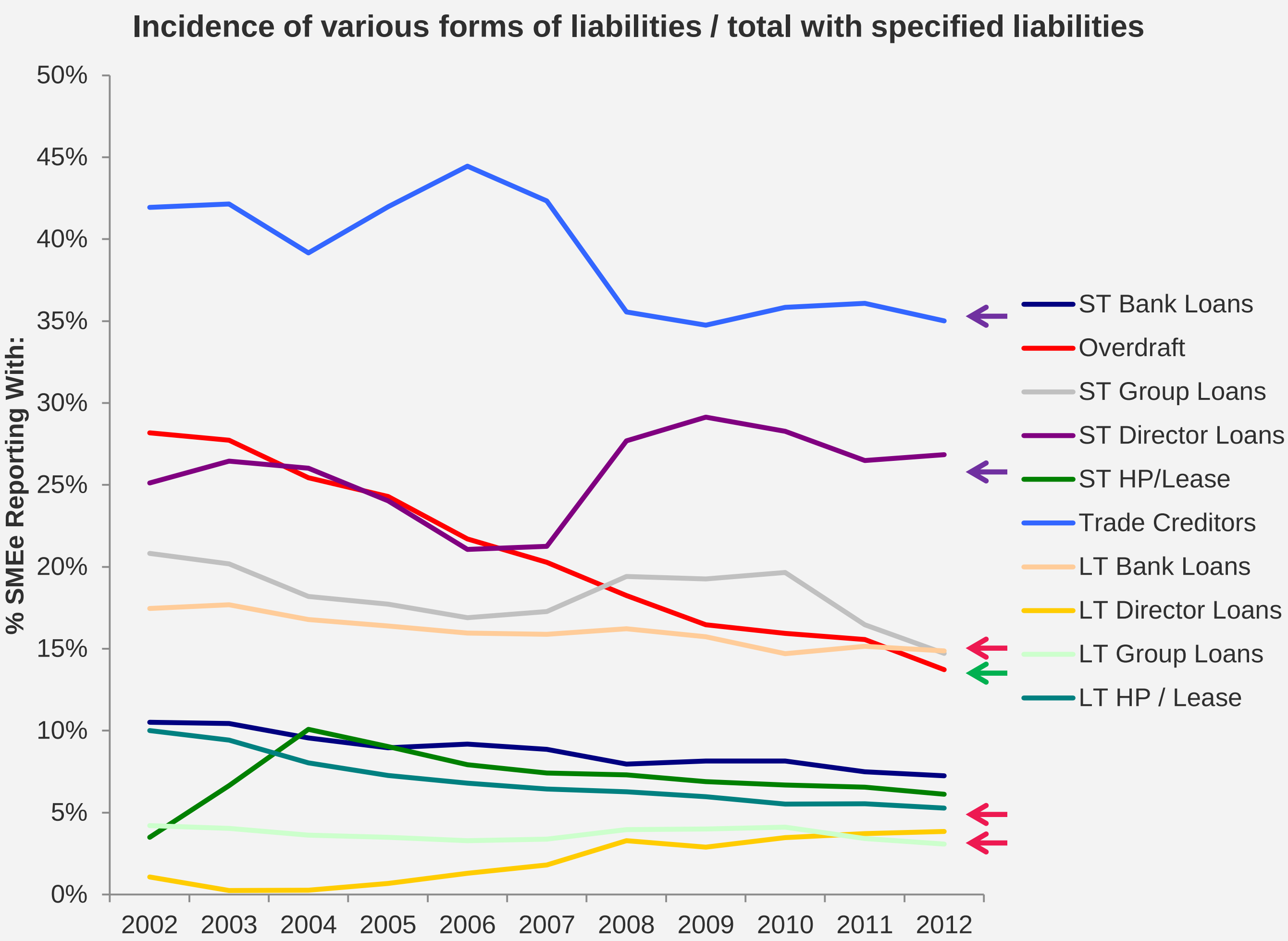
- Relatively low insolvency rate

- We do not view this as hiding a Zombie threat
  - Because in fact the clear out has already happened
  - Resulting in a healthy, and potentially even improving, population

- But the speed with which things can deteriorate is fast
  - Across payment speed, overall credit rating and in fact the lifespan of SMEs overall

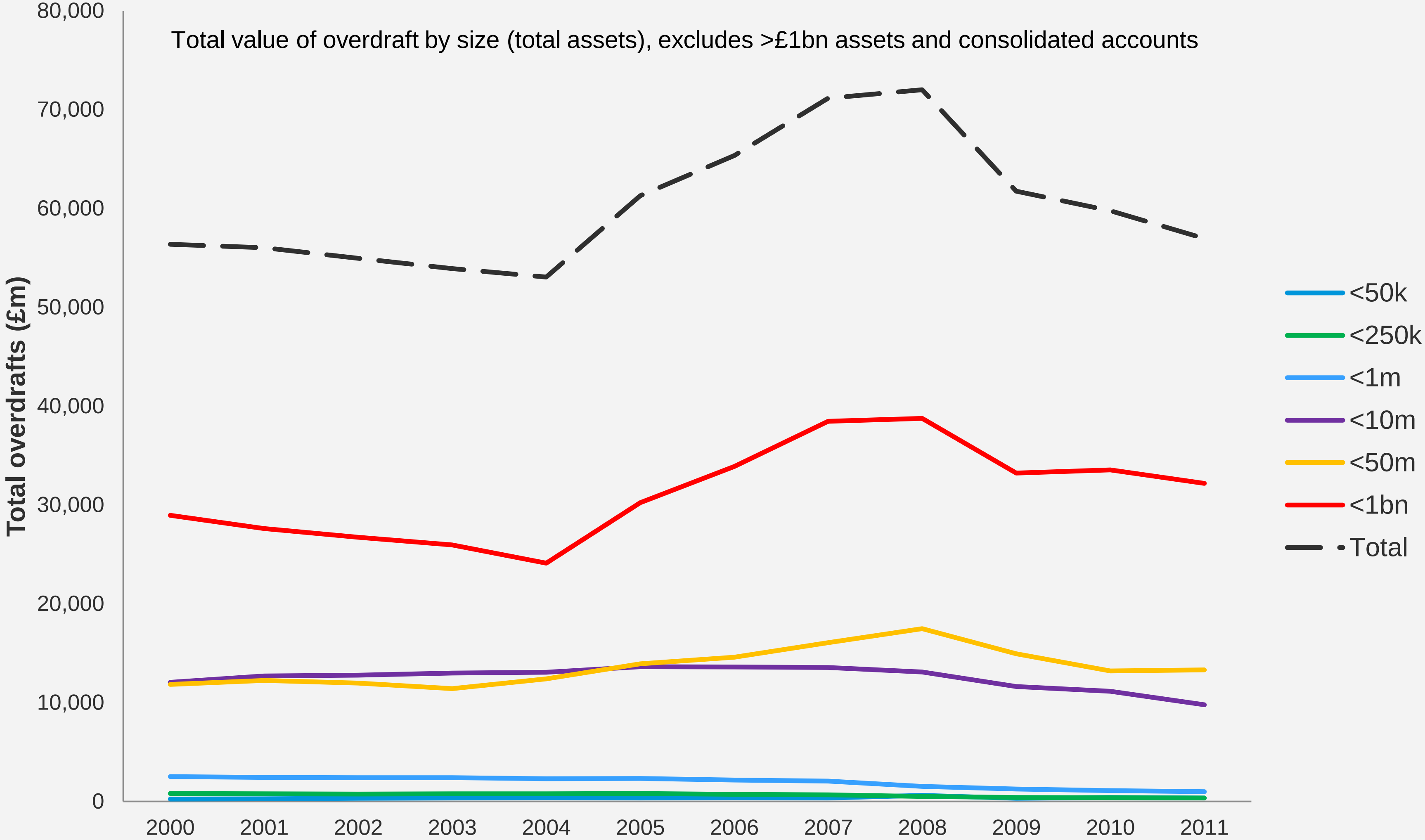
- Against this backdrop, the key discussion regarding growth has been access to funding…

The long term patterns of bank lending and trade credit are surprising

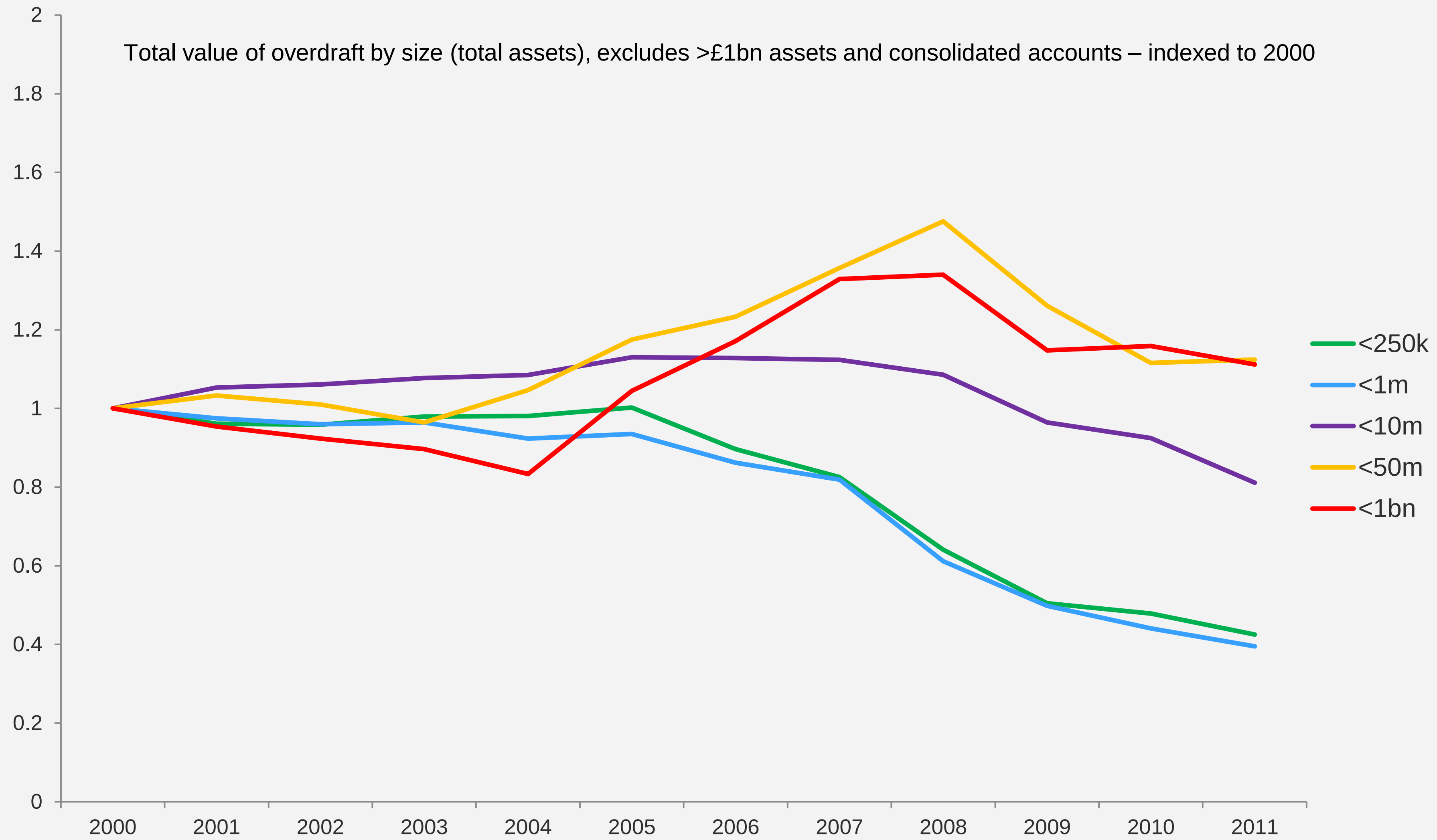


- Increased LT director loans offset declining LT HP/Lease and Bank loans
- There continues to be a long term and significant decline in overdrafts
- the largest impact is in trade creditors and appears to have been offset by ST director

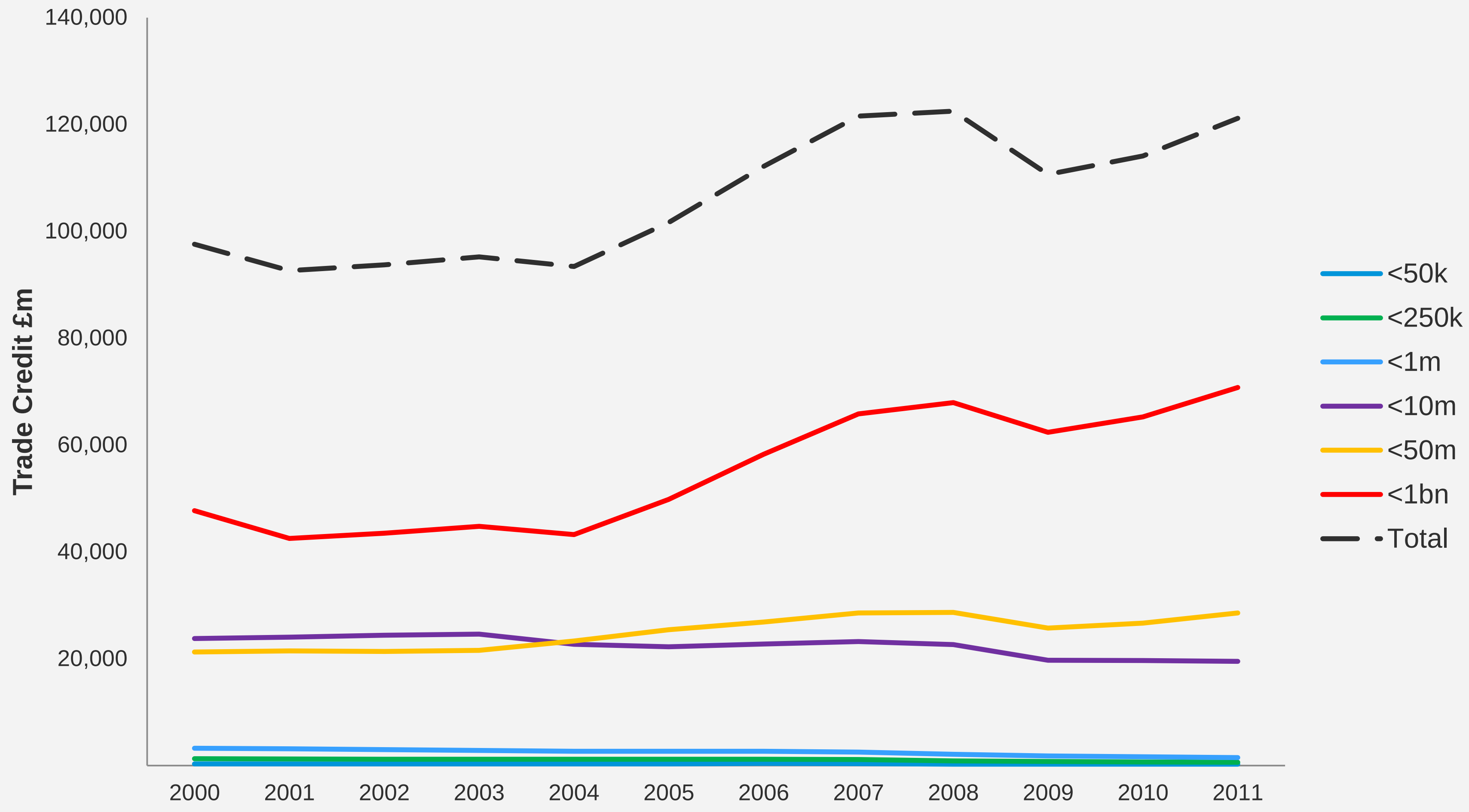
If we look at the total value of overdrafts, in fact we can clearly see the pre-crisis boom



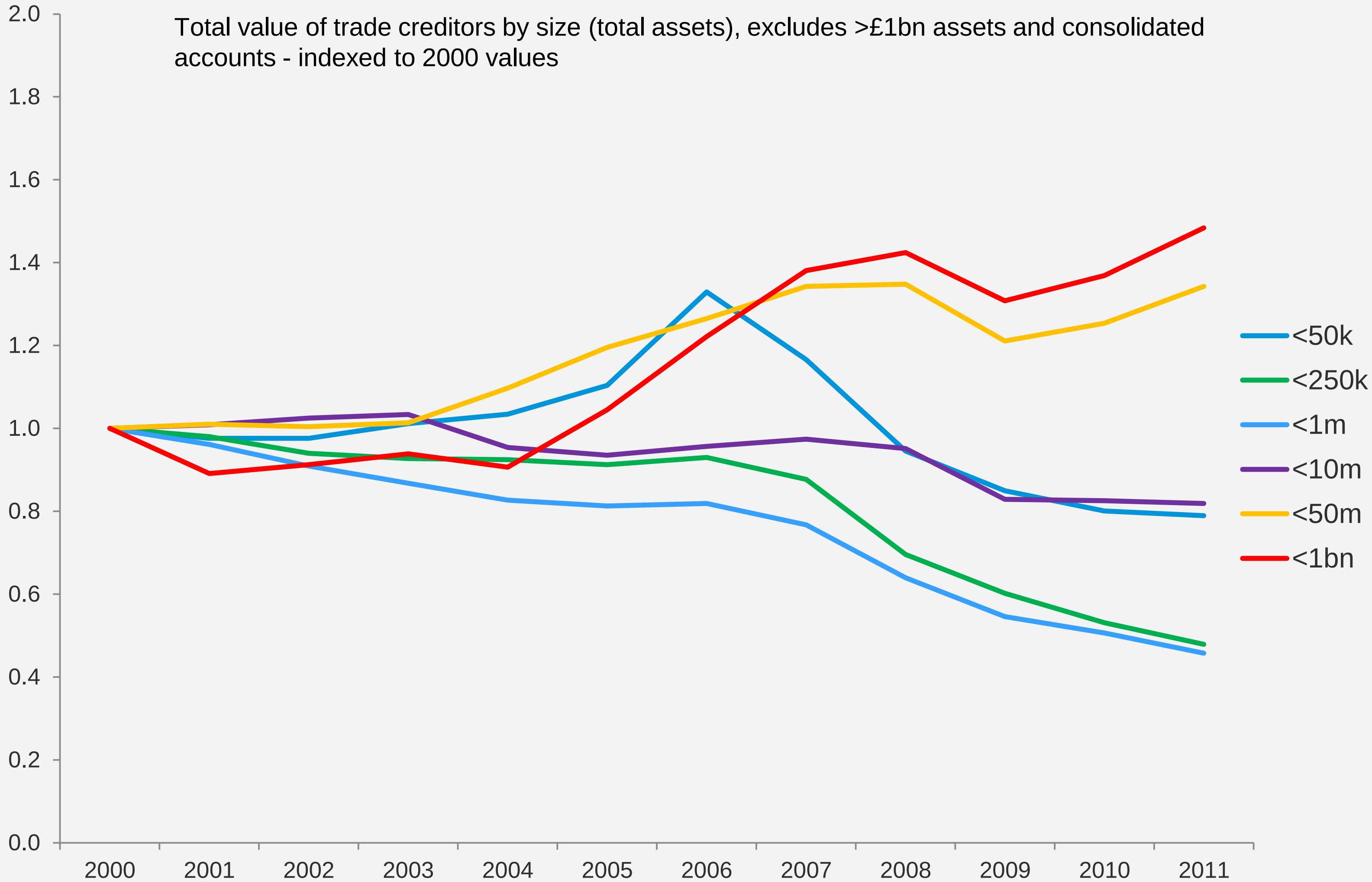
By indexing these figures, we can see that borrowing by smaller companies has dropped off sharply



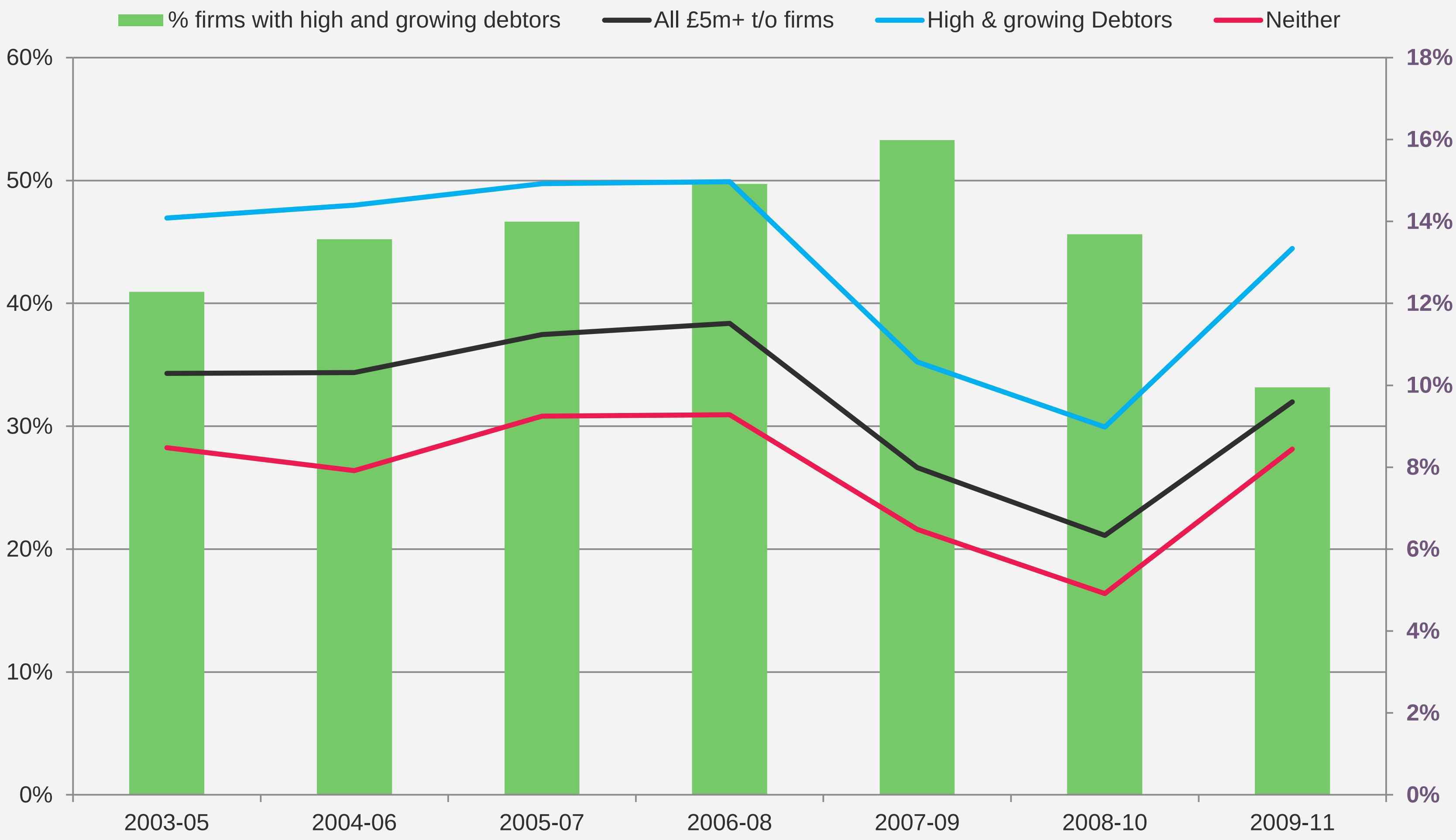
Meanwhile, the total volume of trade credit has actually increased overall over the past decade



But here also, this is driven by increased credit amongst the larger companies only



Extending credit is associated with increased high growth



SME landscape

- There has been a long term change in how SMEs access credit
- Perhaps surprisingly, a reduced access to Bank credit is part of a longer term pattern
- More specific to the recession is a tightening of trade credit
  - This is especially true for smaller companies
  - And in fact the absolute amount is significantly larger than the credit available through overdrafts
- As we move towards a more normal economy, the evidence is that extending credit clearly is associated with growth
  - And in a market where there is an increasing proportion of high growth businesses, this offering of credit will be key to companies’ success

- … although of course the key point here is that credit extension should be done with all available information, and in a way that is understandable.

Comprehensive data sources underpin Experian services

Updated daily with some unique to Experian

Payment Performance
350 contributors
6.2m Co's monthly, 25m invoices

Verification of Individuals
48m electoral register records

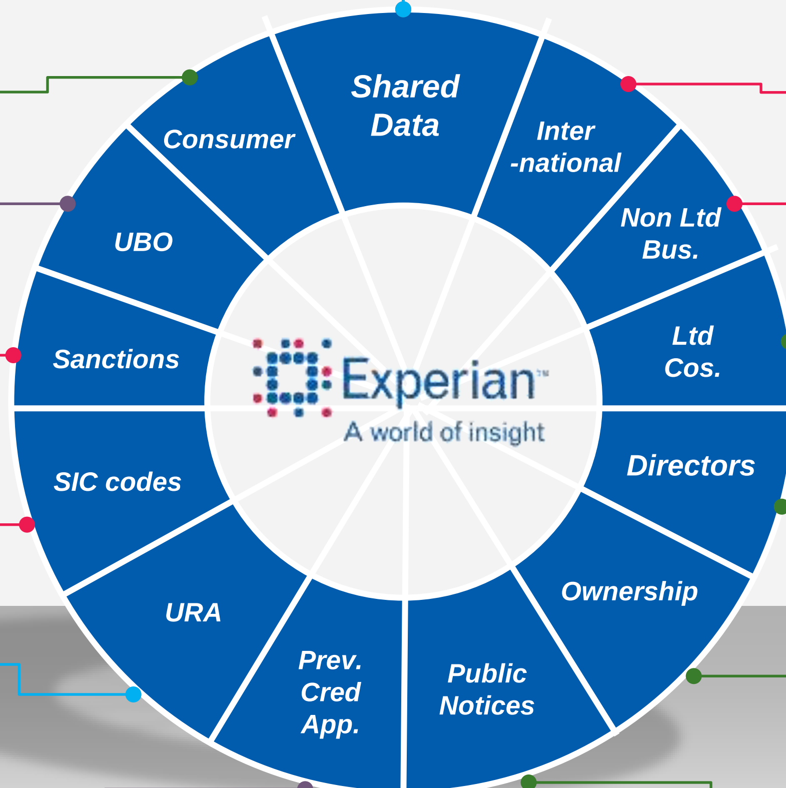
Ultimate Beneficial Owners
Shareholder and Director
aggregation & calculations

PEP and Sanctions
6,200 businesses

Business Classification
6.7m Co's
2.7m Active

Director Verification
12m records
7m directors

CAPS
15.7m previous credit apps
5.5m Directors / proprietors



CAIS
100 contributors
8.5m co records

International Data
Over 50m company reports
available for 238 countries

thomsonlocal.com
Yell.com
6.0m

6.7m Co's
2.7m Active

23.5m directorships
18m individuals

24m Shareholders
400k Corporate links,
100k M&A relationships

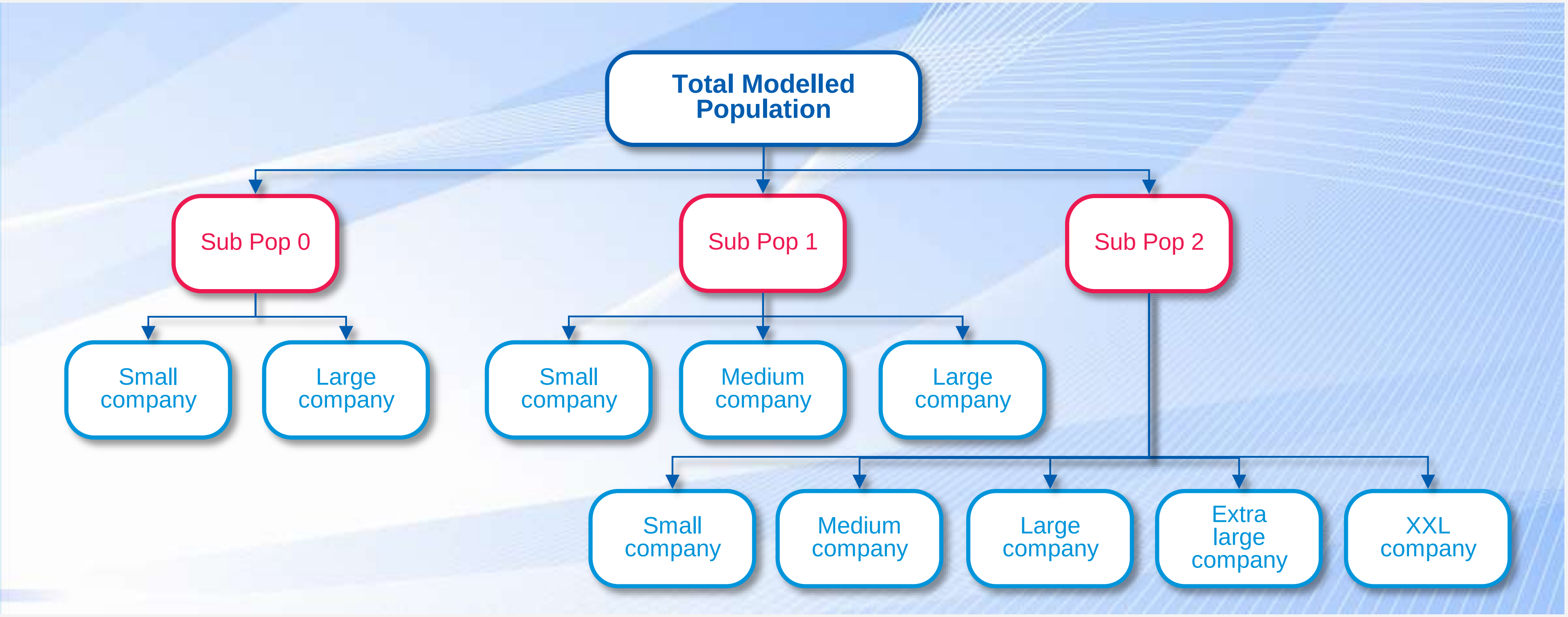
830k CCJs
500k Closures

Public | Acquired | Unique | Restricted

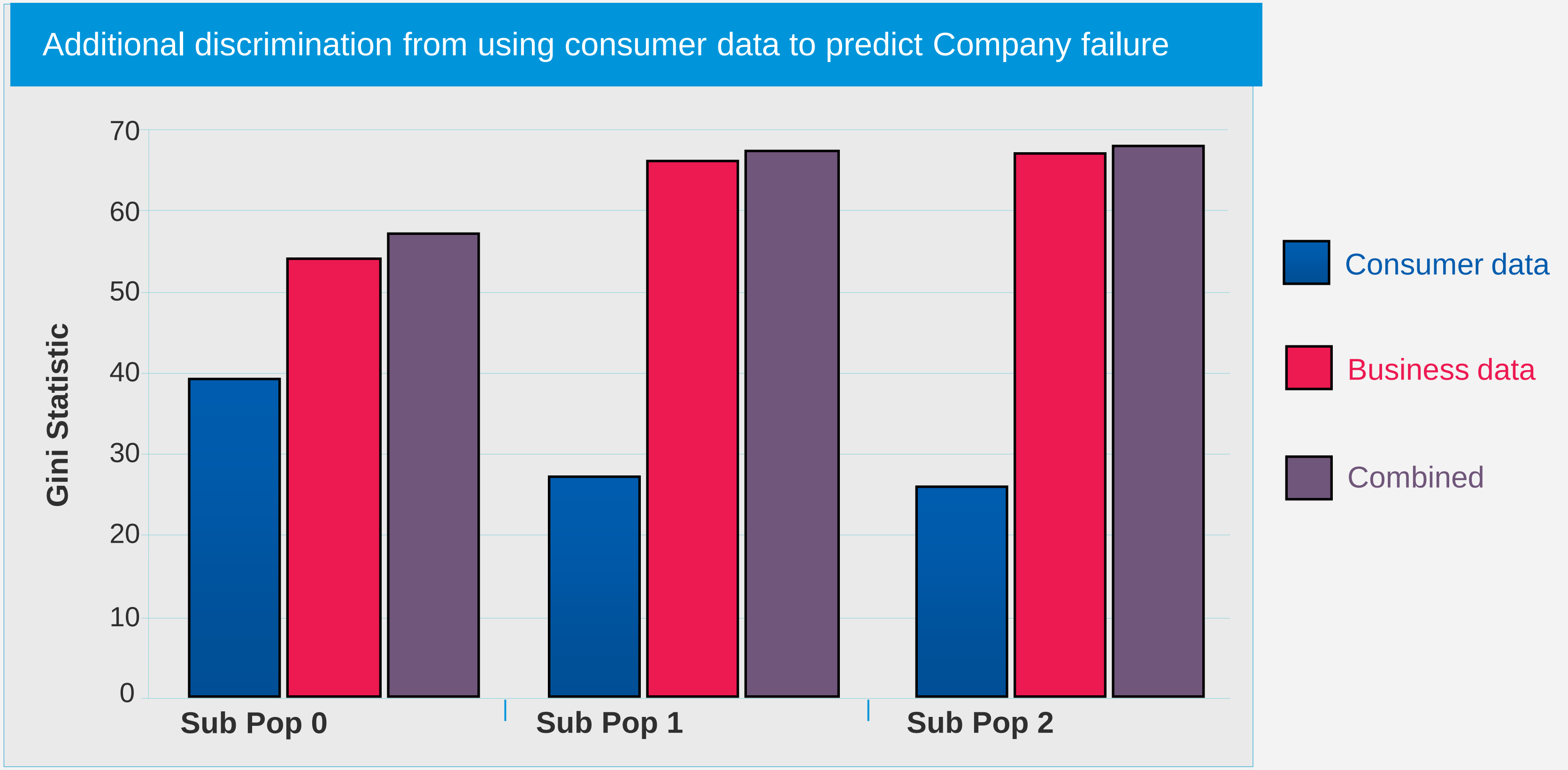
Limited Company
Scorecard populations

The key to optimal scorecard development is segmentation of populations by risk profile and data availability

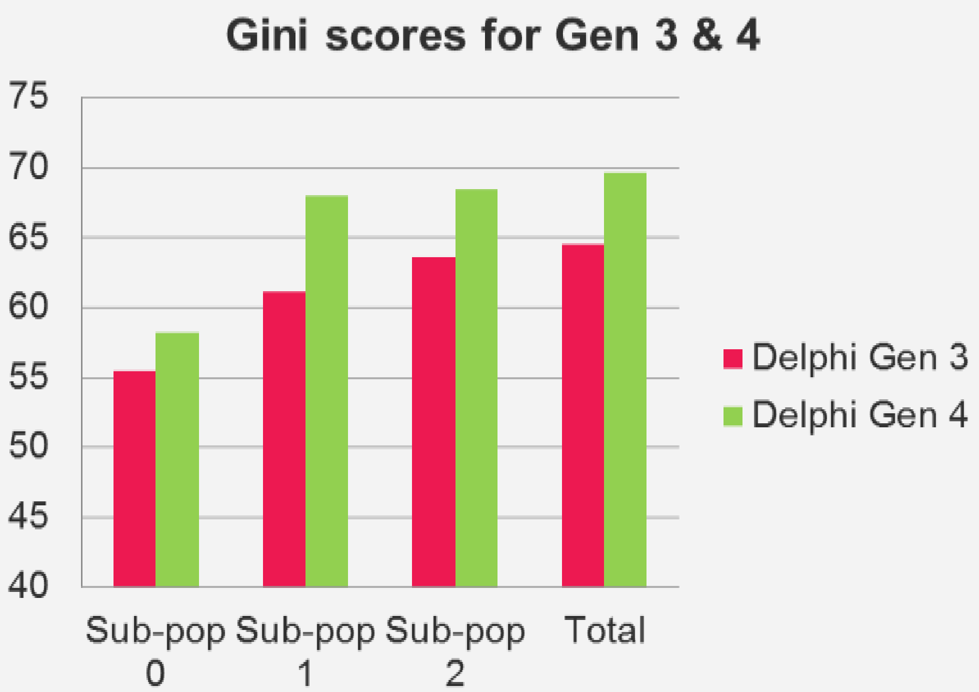
Commercial Delphi has 3 key sub-populations and 10 minor sub-populations



Limited Company
Strength of scorecard



The latest rebuild of the Commercial Delphi has improved predictivity across the board



Introduced for Gen 4

- Best Director scores
- CCJ Values
- Derogatory court data
- New policy rules

Recalibrated for Gen 4

- Financials
- Business Summary
- Directors consumer
- Directors linkages
- Business public
- Payment Performance
- Previous Searches
- CAIS

BusinessIQ
A modular approach to credit management

Reports:
High level quality UK/International business information reports. Access purchased reports

Collections:
Seamlessly feed customer accounts straight to the Collections module and leverage Experian's brand power to stimulate repayment and improve collections

Decisioning:
Achieve efficiencies with 3 levels of automated decision making, choosing the right level for your business needs. Accurately reflect your credit policy in an automated fashion to reduce inconsistencies

Alerts:
Updates on business changes allowing you to prioritise early warning signs that are important and significant to your business

Portfolio:
Refresh the business information in your portfolios at the frequency your business requires. Portfolio provides advanced analysis solutions so you can effectively manage individual credit risk, whilst clearly understanding your overall portfolio exposure

BusinessIQ is an integrated, web based platform that helps you to manage the entire commercial customer lifecycle from customer acquisition, through to customer and portfolio management and collections

Experian™

A world of insight

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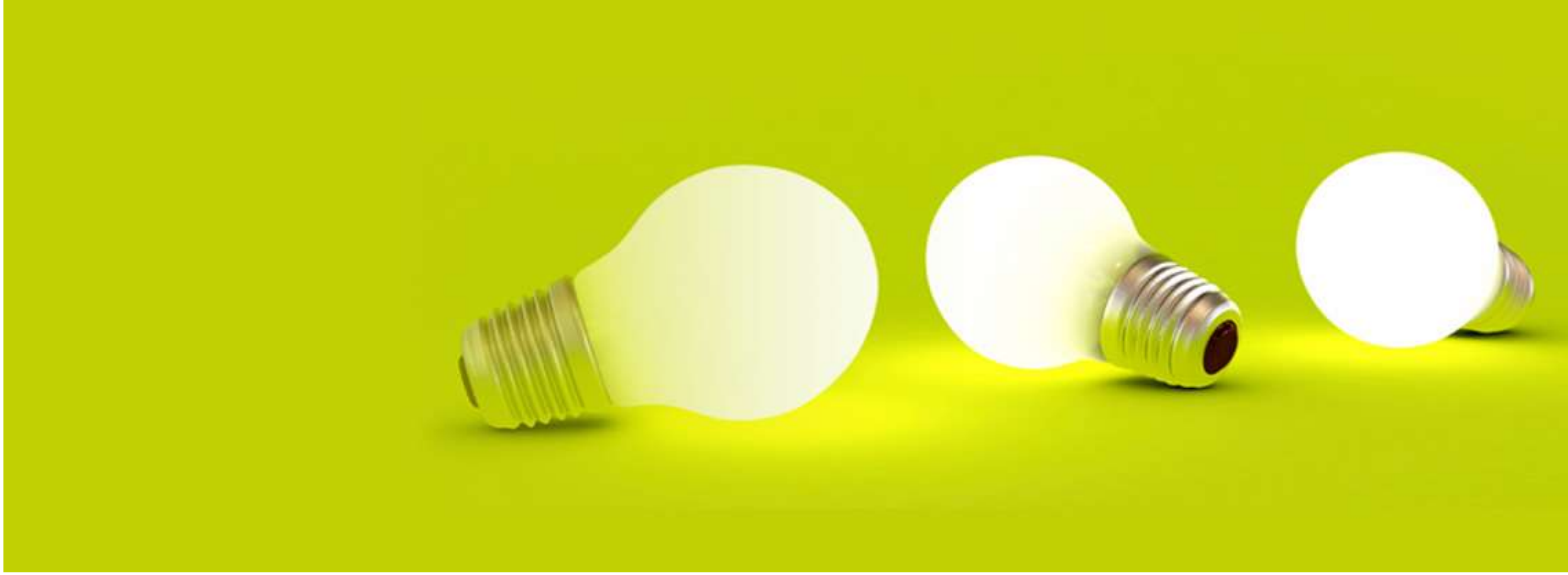

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QICM QUALITY IN CREDIT MANAGEMENT

Credit Dynamics

Experian A world of insight