BizQualify Data Found Informative of Financial Viability

- Financial viability: Companies that DO NOT file Form 5500 (i.e., do not have their own welfare and/or retirement plans) are significantly more likely to file for bankruptcy.

- BQ Risk Score: Quantifies the credit risk of a company; it is not a statistical model, but rather a calculation based on indicators reported by companies in filings to U.S. government agencies.

- Metrics are normalized by industry: BizQualify credit, growth, and profitability scores are normalized by industry, drawing from the 6-year history of the universe of companies.

### BizQualify Credit Risk Data vs. Other Sources

Leading data vendors rely heavily on utility bills, surveys, news articles, and statistical models, making it difficult to reliably assess the financial stability and credit risk of B2B clients and vendors, especially private companies.

<table>
<thead>
<tr>
<th>Credit Bureaus</th>
<th>BizQualify</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firmographics based on surveys &amp; modeling; business identification is an issue: multiple records &amp; inaccurate</td>
<td>Firmographics based on IRS filings; business identification is accurate: single record &amp; verifiable</td>
</tr>
<tr>
<td>Credit info: based on trade data &amp; UCC filings</td>
<td>Credit info: based on delinquency reported in IRS filings</td>
</tr>
<tr>
<td>Credit score: based on a statistical model</td>
<td>Credit score: calculated from verifiable indicators</td>
</tr>
<tr>
<td>Black box</td>
<td>Transparent &amp; auditable</td>
</tr>
</tbody>
</table>

*Table 1: Credit Bureaus vs. BQ Data from Form 5500 Filings*

### Industry Benchmarking and Time Series Linkages

BizQualify has created a methodology to:

- Harmonize IRS Form 5500 plan level data across multiple years, forms, and schedules such that the metrics of a company are comparable and standardized nationally.

- Normalize the data across industries in order to understand a company's position relative to the industry and the U.S.

Consequently, BizQualify scores and metrics:

- Leverage financial information for the universe of companies in the U.S. over a 6-year period, wherein each company's filings are linked over time.

- Are benchmarked to the industry. For example, 5% growth might be excellent in the transportation industry, whereas it might be average for a technology industry. BizQualify scores take this into account.

### Deutsche Bank Study on BizQualify's Credit Risk Indicators

Deutsche Bank's Quantitative Strategy team extensively tested 4,000 public companies and published a report on their findings. They found numerous metrics to be predictive of stock price returns and credit risk. The same indicators are available for private companies.

- “A number of negative events relate to the company failing to provide or pay for a pension or welfare benefit for its employees. We loosely call these ‘credit’ events. Our rationale for this is that a company that fails to pay its employees is likely to be under financial stress or have defaulted on other payments as well.” [Deutsche Bank Report, page 6]

- “BizQualify captures events related to the failure to provide a pension or welfare benefit to their employees....This should have a direct negative impact on their social governance score, as well as instant ramifications on the quality of their credit.” [Deutsche Bank Report, page 19]
Predicting Bankruptcies

- Corporate bankruptcy filings from the 94 U.S. Bankruptcy Courts (https://www.pacer.gov/) (Chapters 7, 11, and 15) for July and November 2015 were matched to Form 5500 filings.

- 1,872 companies (1,066 in July and 806 in November) declared bankruptcy in July and November 2015, of which 129 filed Form 5500 (67 in July and 62 in November) with these characteristics:
  
  - Downward trend in revenue indicator: -21% in the previous year
  - Headcount: 363 (average) 32 (median)
  - Revenue (estimate): $213M (average) $13M (median)
  - Years offering a benefit plan: 17 (average) 13 (median)
  - Average BQ Risk Score: 459 (1,000 is the best, U.S. median is 523)

- There is no small company bias since 10 is the median headcount across all 1 million companies that file Form 5500, while the median headcount for bankrupt companies is 32.

- Some examples of companies that declared bankruptcy and filed Form 5500:

<table>
<thead>
<tr>
<th>Company Name</th>
<th>State</th>
<th>BQ Growth Score</th>
<th>BQ Risk Score</th>
<th>3-Year CAGR</th>
<th>3-Year CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPIN PCB SOLUTIONS INC</td>
<td>NH</td>
<td>447</td>
<td>271</td>
<td>-42%</td>
<td>-3%</td>
</tr>
<tr>
<td>WEB2WEB MARKETING INC</td>
<td>CA</td>
<td>236</td>
<td>229</td>
<td>-39%</td>
<td>11%</td>
</tr>
<tr>
<td>IRIS HERNANDEZ DDS PA</td>
<td>FL</td>
<td>178</td>
<td>139</td>
<td>-68%</td>
<td>0%</td>
</tr>
<tr>
<td>LYLE COMMUNICATIONS INC</td>
<td>UT</td>
<td>139</td>
<td>180</td>
<td>-87%</td>
<td>-10%</td>
</tr>
<tr>
<td>GO YE VILLAGE INC</td>
<td>OK</td>
<td>420</td>
<td>235</td>
<td>-100%</td>
<td>-67%</td>
</tr>
</tbody>
</table>

BQ Risk Score

The BQ Risk Score is an overall assessment of the financial risk associated with a company based on over 100 verifiable indicators derived from Form 5500 filings. It ranges from 0 to 1,000 with approximately 500 as the median score. A higher BQ Risk Score means the company has better credit.

There are five different types of components: unfavorable indicators, favorable indicators, percentile in industry variables, percentile in U.S. variables, and continuous variables.

1. The presence of unfavorable indicators reduces a company's score; examples include closing a benefit plan, failing to make timely payments into a plan, and failing to provide specified benefits in a plan.

2. The presence of favorable indicators increases a company's score; examples include making company contributions to a pension plan and providing welfare plans to employees. Particularly favorable is a company making contributions to a pension plan as this is an indicator of profitability.

3. Percentile in industry variables take into account the company's standing within its industry for a variety of variables. The rationale is that pension plans and contributions for restaurants are somewhat different than that for education or healthcare companies. For example, a company's contributions are compared to other companies in the same industry and is given a score based on its percentile in industry. Higher contributions are seen as a favorable indicator of profitability.

4. Percentile in U.S. variables are based on the company's standing compared to all companies in the U.S. that file Form 5500. For example, a company's contributions are compared to all Form 5500 filers in the U.S. and is given a score based on its percentile in the U.S.

5. Continuous variables increase or decrease the BQ Risk Score depending on a company's particular value for that variable. The age of a company's welfare and/or pension plans provides a proxy for how long a company has been in existence; older companies are viewed as less risky.