A Credit Renaissance

Reduce Underwriting Lending Risk and Revive the Lost Art of Credit Analysis Using Industry Intelligence

vertical IQ®

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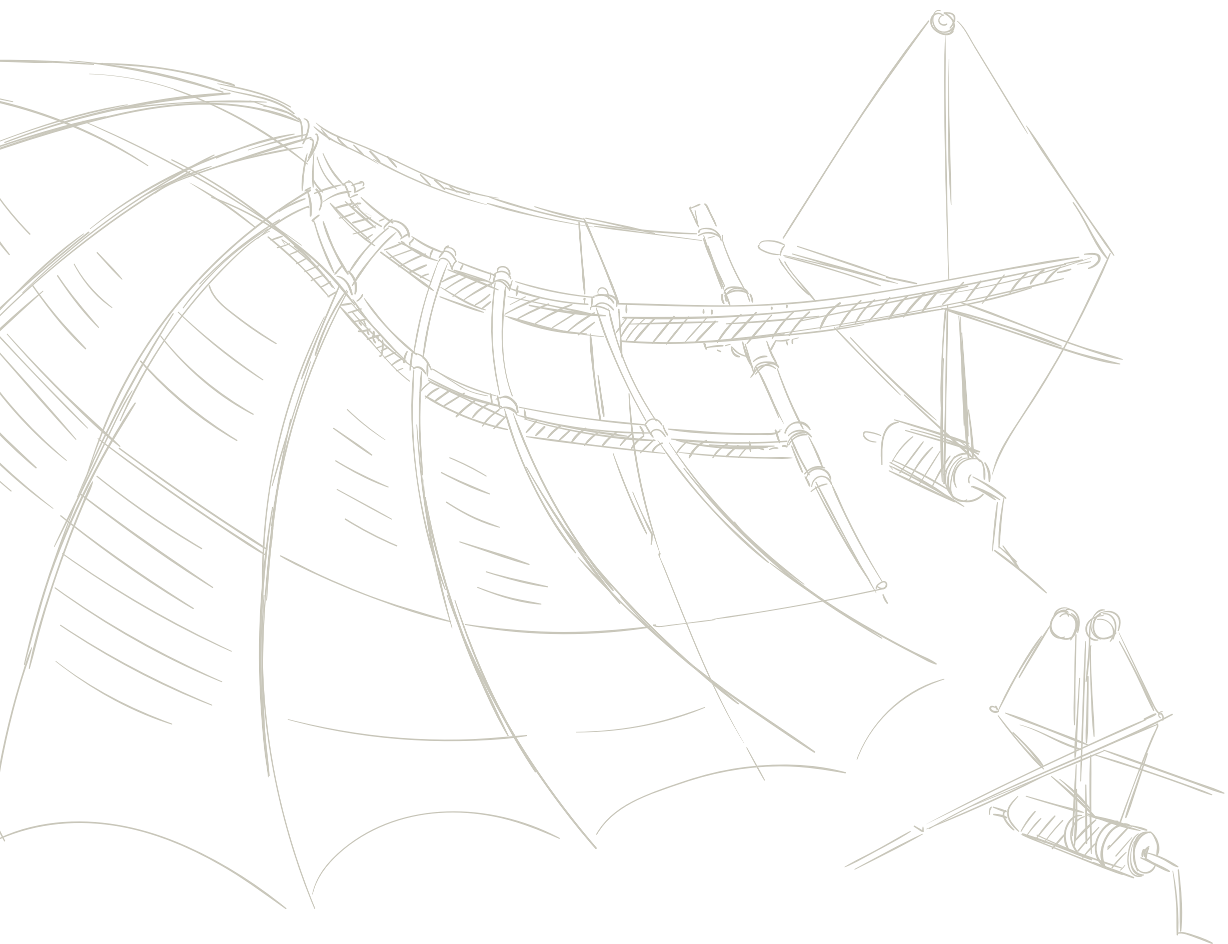
Introduction

How Young Bankers Once Learned from Bank "Masters"

INTRODUCTION: HOW YOUNG BANKERS ONCE LEARNED FROM BANK "MASTERS"

There was a time when great painters and sculptors began their art careers by studying under a master of their trade. These apprenticeships imparted the expert's lifetime of wisdom and experience to the next generation of artists.

Fast-forward to modern times, and the apprenticeship concept still exists in numerous trades, though the term "master" has been rebranded as "mentor" or perhaps "Senior Vice President."



The banking industry has long-relied on this modern interpretation of apprenticeship as seasoned bankers convey their hard-won abilities to newer associates. With decades of experience under their belts, these veteran bankers not only possess a wealth of knowledge on financial services, but also expertise in particular industries they frequently have worked with during their tenure.

A growing challenge faced by the banking industry today is that this depth of knowledge is running dry as the most experienced Bank Masters leave the profession or retire.

Yes, the internet can serve as a resource, but a general search can be overwhelming, out of date, or even inaccurate. And worse: It can be incredibly time-consuming.

When experienced professionals retire without imparting their wisdom, we not only lose the "science," we lose the "art" of the credit write-up. Many of today's bankers simply go through the motions – check a box rather than analyze the details. As a result, write-ups often lack depth, flow, and context, which translates into lost credibility and confusion around the loan request.

How can today's novice bankers acquire the skills needed to become tomorrow's masters of credit analysis and write-ups? How do we impart to them the importance of protecting the bank's assets by reducing underwriting risks while simultaneously building the bank's book of business?

Why 'Access to Credit' is the Backbone of Small Businesses

WE ALL KNOW IT'S SAID THAT SMALL AND MEDIUM-SIZED BUSINESSES (SMBs) – THOSE WITH FEWER THAN 1,000 EMPLOYEES – ARE THE BACKBONE OF OUR ECONOMY, AND IT'S TRUE.

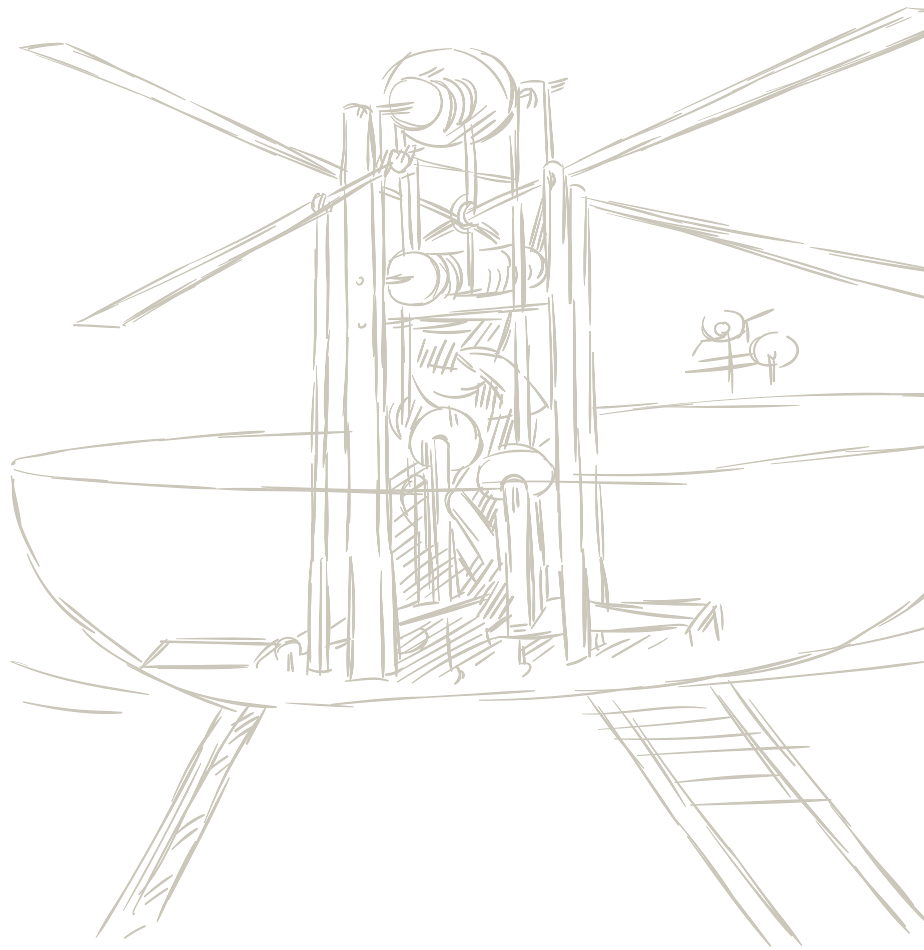
These companies have created nearly 2 out of every 3 new jobs in the U.S. over the past quarter century and make up approximately 44 percent of Gross Domestic Product (GDP), according to the Small Business Administration.

The foundation for these SMB firms is commercial credit – the ability of these businesses to borrow money with the assurance that they will repay that loan, with interest, within an agreed-upon timeframe. This is why your credit analysis should look at the source and uses of cash. Businesses use cash to fund their services/inventory (materials, equipment, real estate, salaries, etc.), which converts to receivables. And when a loan is involved, the source of cash is a line of credit, term note, and/or commercial real estate mortgage.

What exactly is credit, though? You may have heard a lender quip that they "sell money," but the reality is that bankers don't sell the bank's money; they rent it out.

Consider a Ferrari sold by a car dealership and a loan underwritten by a bank: Both can be millions of dollars, making the car dealer or the bank a good profit. However, the difference with the loan is that the bank needs the money back – and in "good condition" – which is why the company borrowing the money from the bank needs to remain in sound financial condition. By contrast, once the Ferrari is sold and driven off the lot, Ferrari does not need it back. That is credit.

Credit lending is a primary component of most financial institutions' business model, and loans are the largest asset on the bank's balance sheet. Banks and credit unions rely on the interest income from their loans to meet their own financial obligations. Therefore, it is mission-critical that they ensure they are making good lending decisions – only extending credit to established businesses with sufficient recurring cash flow and a sound financial condition that enables them to repay their debts in full and on time.



HOW DOES THE BANK DETERMINE THE STRENGTH OF CASH FLOW AND THE FINANCIAL CONDITION OF A BUSINESS? ENTER THE CREDIT ANALYST...

At their core, credit analysts have two key functions: **protect** and **grow** the bank's assets. Both objectives can be accomplished with sound credit assessments and a firm understanding of credit and the industry. A strong analysis ensures sound deals get closed (won) more often, which in turn, protects and grows the bank's assets. It also demonstrates that the bank understands their industry and its credit needs.

Credit training is essential in order for today's novice bankers to become tomorrow's masters – growing and protecting the bank's assets.

Bankers shepherd credit deals from start to finish – they are the business owners' advocates. They must learn effective ways to seek out new loan opportunities and gain the expertise to sell the prospect on their particular terms, rate, structure, and covenants. The most effective ones also have the knowledge to explain and sell those same merits of the deal internally to get the deal across the finish line.

Competent credit analysts provide added value to the banker throughout the process. They analyze the complexities of a business's financial statements, as well as the nuances of the company's industry, working capital cycles, and suppliers to ensure the bank's risk is well-managed if the loan is approved.

In the end, the lender and analysts work together to identify the core risks and then be able to confidently mitigate them by explaining why the bank should finance the deal anyway. Banking is a risky industry; worse than a deal going bad is a deal going bad because of a lack of oversight. With businesses operating in so many industries, bankers and their credit partners need help.

The foundation of any credit training program should be teaching good financial accounting – analyzing a business's financial statements, including the balance sheet, income statement, and cash flows.

Without a sound understanding of core financial accounting concepts and principles, the risk is that a banker may like a bad deal and not like a good deal.

For example: An analyst gets a set of financials for a cement and asphalt recycling company called Recycling Co., which shows a slightly negative net worth and very few current assets – two big negatives that make the company appear illiquid. But, a plant tour reveals huge mounds of concrete and asphalt – inventory that didn't appear on the balance sheet.

The analyst inquires how the inventory arrives on site and quickly understands that Recycling Co. did not pay for the inventory, so it is re-coded at $0 on the balance sheet. A conservative estimate of the inventory on-site means that the "Off Balance Sheet Equity" of $550,000 provides sound liquidity and leverage. Without that site tour and an understanding of financial accounting, this could have been a missed opportunity.

Bankers aren't born with this knowledge or these skills; they must be taught by a master of their craft via a modern-day form of apprenticeship: an effective credit training program.

It’s All in the Details

The Mindset of an Effective Analyst

It’s easy to finance the strong deals that fit nicely within the bank’s Risk Appetite Policy, but trained, experienced lenders who have received solid credit training are better able to finance the ones that are on the fence (or even outside the box) by leaning on the levers of appropriate structure and pricing.

To put together a sound credit assessment requires solid data and a financial statement spreading process – looking at historical and current financials and projecting how the company will look in the future.

Along the credit journey, it’s common for some lenders to develop “analysis paralysis” – in which case, they need to slow down and consider other options like thin-slicing or the toolbox approach. More on those shortly.

Analysis should not be random, choppy, or scattered; there should be structure. Yes, every deal is different, but how we approach and analyze each deal should have a flow, a smoothness that is easily digestible to the reader or listener.

There are two helpful ways to improve the credit analysis process and avoid the hyper-analysis trap while still ensuring the credit team doesn’t gloss over due diligence. The first is a technique called “thin-slicing,” and the second is implementing the “toolbox.” This is where a business’s financial picture should really come into focus.

THIN-SLICING

Thin-slicing, a concept from "Blink: The Power of Thinking Without Thinking" by Malcolm Gladwell, is basically taking limited information and making a fairly important decision. It can be applied to the task of looking at a set of financial statements and prioritizing the order of discretion – meaning what to look at first, second, third, and so on. It's a useful technique to apply when analysis paralysis begins to set in.

Trained analysts can thin-slice a company's financials in five minutes and get a fairly accurate assessment of a prospective credit deal. This can be done by simply reviewing:

Operating performance:

- Revenue size
- Revenue trends
- Profitability
- Cash flow

Financial condition:

- Equity
- Leverage
- Liquidity
- Cash position

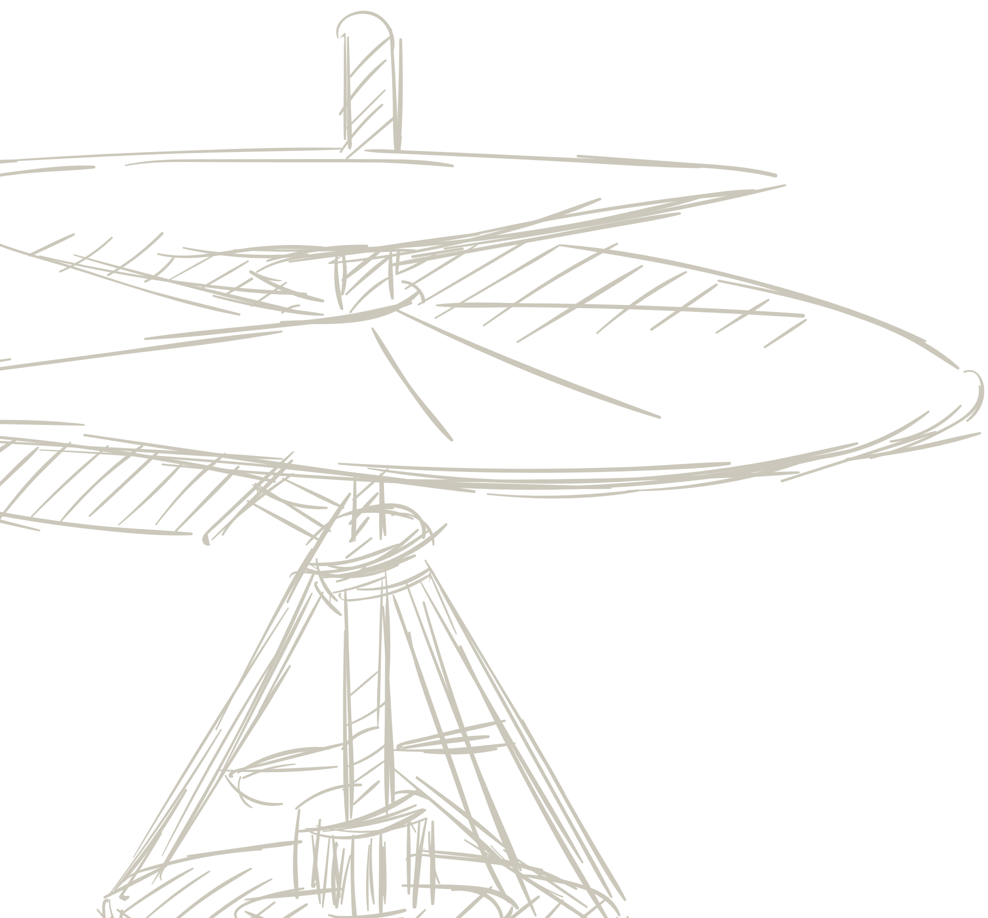
Looking at these data points and comparing them to average benchmarks for other businesses in the same industry can give you a good feel for a deal's viability. If the analyst has clear concerns about the company or the prospective loan after going through this thin-slicing exercise, then they can save both the prospect and the bank time, money, and frustration.

Below is a widget in the Credit Underwriting and Risk chapter on the Vertical IQ platform, which helps the analyst with thin-slicing by providing the industry averages for the five key margins and ratios typically used as a temperature check.

FINANCIAL HIGHLIGHTS	INDUSTRY AVG.	CLIENT	ANALYSIS/COMMENTS
Gross Profit Margin	55.93%		Add Comment
Operating Profit Margin	4.48%		Add Comment
Current Ratio	1.68		Add Comment
Quick Ratio	0.88		Add Comment
Leverage (TL/NW)	3.05		Add Comment

TOOLBOX

If the credit analyst still thinks the deal has solid potential after going through the thin-slicing process, they should move to their toolbox of analytics, which is about minimum input to achieve a maximum output. It is best to go through the toolbox in the following order:



1. SPREADING

Spreading, the process of taking a business's financials or tax returns and putting them into an Excel-style software system, is both a vital skill and a lost art. The key for analysts is to know how the bank prefers to spread financials (and why), which may be different from generally accepted accounting principles (GAAP) and IRS-based tax returns. These differences materially impact leverage, liquidity, and cash flow (the bank's primary form of repayment).

2. PROJECTING FINANCIAL PERFORMANCE

Projections are most often prepared by having conversations with the client about turn days, percentage growth, and margins ... not necessarily dollar amounts. Using financial accounting to project what is going to happen in the future based on history is another lost art that is essential to successful credit underwriting.

Since the business owner normally prepares projections, it's critical for the analyst to determine if the figures are reasonable or inflated. The key to fleshing out this picture is understanding days, percentages, and margins by asking good, relevant questions, then looking for anomalies in the company-prepared projections that cause concern for the bank.

Analyzing a company's financial needs is substantially simpler when you are trained to recognize anomalies in the projections and apply thin-slicing to the process to ensure the new debt request makes sense. If so, move on to ...

3. DEBT SERVICE COVERAGE (REPAYMENT)

Debt is repaid in one of three ways:

- **Cash flow (primary):** It is essential that analysts are able to correctly calculate cash flow for repayment of term notes and commercial real estate mortgages. If cash flow is calculated incorrectly, the bank will have issues around covenant compliance and repayment.
- **Collateral (secondary):** Any number of items can be secured as collateral: cash, marketable securities, eligible accounts receivables, eligible inventory, equipment, real estate, and more. Lenders must match short-term assets with short-term loans and long-term assets with long-term loans.
- **Personal guarantee/financial statement (tertiary):** While a certain level of personal liquidity and net worth is essential (the bank likes seeing borrowers with net worth and liquidity, as well as personal cash flow), the primary purpose of the personal guarantee is to ensure the business owner(s) are "all in."

Lending should be based on global proforma (performance) debt service coverage more than projections. In short, does the historical performance indicate that the business can handle this prospective new debt?

The Science of the Write-Up

Mastering Credit and Industry to Understand a Company

FOR CREDIT ANALYSTS, PORTFOLIO MANAGERS, AND COMMERCIAL LENDERS, THE TOOLBOX'S DATA AGGREGATES THE FUNDAMENTALS IN PREPARATION FOR FORMAL CREDIT DISCUSSIONS.

At this point, the analyst should have structured and informally presented the deal in a way that clearly states why the bank should be financing the deal. But your evaluation is not yet complete.

To artfully paint a full picture of a prospective deal, you must go beyond key credit concepts to articulate:

- The industry the business operates within
- The company's unique risks and strengths
- How the prospect compares to their industry

Put simply: You must understand credit (science) and the industry (art) in order to fully represent the deal and the company.

This is where Industry Intelligence can strengthen analysis, providing both depth and context to the portrait the analyst paints of the prospect. But perhaps just as important, Industry Intelligence boosts your analysts' and lenders' confidence, credibility, and efficiency, leading to higher success ratios for closing deals.

THE CREDIBILITY FACTOR

Having a thorough understanding of credit, the prospect's business, and their industry is how analysts and lenders build up credibility...

- Internally within the bank when working to get a deal approved
- Externally with the client/ prospect when building trust

Let’s take a look at the Breweries industry profile and see how some of the sections of the standard write-up can be strengthened by incorporating Industry Intelligence.

Note: Terms in bold indicate Industry Intelligence-related insights on the Vertical IQ platform.

EXECUTIVE SUMMARY

If there were to be a spotlight on one section of a write-up, it would be the executive summary. In addition to information about the company and the purpose of the loan, the executive summary should include core comments on the purpose of the loan and why the bank should be financing it. This section should include **financial statistics and ratios** with industry comparisons.

CREDIT RISKS/MITIGANTS

The second most important section of the write-up is the risks section. Banks are in the risk industry, so analysts know to examine the potential **credit underwriting considerations** and **company risks** associated with the prospect but often overlook the **industry risks** (Exhibit A) – things like competition, cost of supplies, supply chain, regulations, etc. – and explain how they will be mitigated. Regulators do not look favorably on deals that have turned bad due to oversight or a lack of understanding of the credit and industry-related risks – all the more reason the analysts need to understand credit and industry to better understand the company.

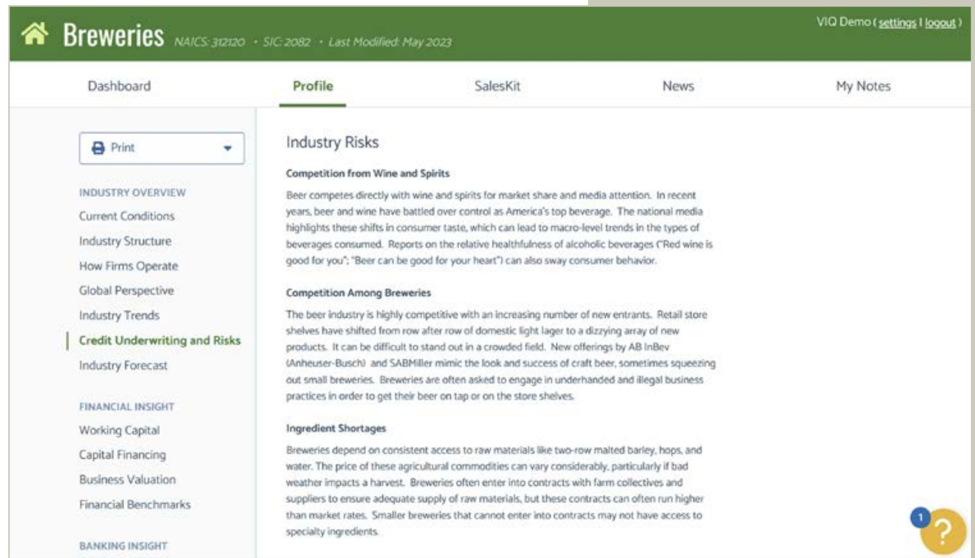


Exhibit A

INDUSTRY

This section not only should include an **industry overview** (Exhibit B) and details about **how firms operate** (Exhibit C), it should enumerate how the prospect compares to **industry benchmarks and financial ratios** (Exhibit D) set by other companies within their niche.

Industry Summary

- The 9,245 production breweries in the US include about 120 national or international breweries producing over 6 million barrels per year. Around 220 are regional craft breweries producing between 15,000 and 6 million barrels annually. Around 1,854 microbreweries produce less than 15,000 barrels per year. An additional 3,219 brewpub restaurants and 3,471 taprooms also produce beer on-site.
- The typical global brewery brews 100 million barrels per year, with revenue per barrel of approximately $125 (a barrel is 31 gallons).
- The top three global breweries (including Belgium-based AB InBev and Molson Coors) command 71% of the US beer market.
- Per capita, Americans consume about 26 gallons of beer annually. Per capita beer sales are highest in Colorado, Vermont, Oregon and Maine, and lowest in Mississippi, Utah, West Virginia and Maryland.
- Craft/specialty beer continues to be a bright spot in the beer industry.
- Product innovation and line extensions are playing a key role in the larger breweries' sales.

Exhibit B

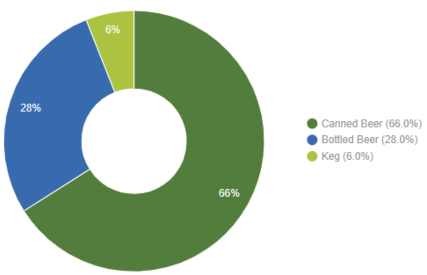
How Firms Operate

Products and Operations

Breweries are production facilities that make ale and lager on-site. Breweries are different than beer marketing companies that do not operate their own facility.

- Canned beer accounts for around 66% of shipment volume.
- Bottled beer represents 28%.
- Most beer sold in the US is American light lager. Top-selling Bud Light owns about 13% of the market, while number two Coors Light enjoys about 7%. In the craft beer market, seasonals and pale ales are the biggest sellers. Craft beer holds a 24% market share in total US beer dollar sales.

Breweries Revenue



Source: US Census Bureau

Exhibit C

Financial Ratios (Breweries, Industry-wide)

MEASURE	2019-20	2020-21	2021-22
Current Ratio	1.36	1.67	1.68
Quick Ratio	.59	.74	.88
Days Inventory	76.0	96.0	93.0
Days Receivables	14	17	18
Days Payables	31.0	31.0	33.0
Pre-tax Return on Revenue	4.66%	6.30%	7.76%
Pre-tax Return on Assets	7.84%	6.75%	8.80%
Pre-tax Return on Net Worth	34.75%	24.62%	35.66%
Interest Coverage	6.29	6.00	4.50
Current Liabilities to Net Worth	1.02	.74	.89
Long Term Liabilities to Net Worth	2.41	1.9	2.16
Total Liabilities to Net Worth	3.43	2.65	3.05
Number of Firms Analyzed	*168*	*103*	*108*

Exhibit D

FINANCIAL ANALYSIS – HISTORICAL

Operating Performance – Income Statement

While this is intended to be an analysis of the year-over-year performance of the company/prospect, it should incorporate **income statement benchmark data** (Exhibit E) to compare the company to industry averages for revenue growth, gross margins, operating margins, and profit margins.

Cash Flow Analysis – Primary Source of Repayment

Being our primary source of repayment, it is essential that analysts know how to calculate EBITDA +- and DSC properly. Whatever is impacting cash flow comes from what is in the income statement and cash flow statement. **Industry benchmarks of cash flow as a percentage of revenue** give these figures more context.

Income Statement (Breweries, Industry-wide)

ITEM	2019-20	2020-21	2021-22
Revenue	100.0%	100.0%	100.0%
Cost of Sales	45.31%	45.05%	44.07%
Gross Margin	54.69%	54.95%	55.93%
Officers Compensation	2.21%	1.75%	1.85%
Salaries-Wages	10.0%	16.57%	15.61%
Rent	1.25%	2.3%	2.17%
Taxes Paid	8.08%	3.04%	2.89%
Advertising	11.64%	4.19%	4.15%
Benefits-Pensions	1.89%	3.63%	3.41%
Repairs	0.97%	1.15%	1.06%
Bad Debt	0.02%	0.27%	0.27%
Other SG&A Expenses	8.34%	15.29%	14.86%
EBITDA	10.29%	6.75%	9.66%
Amortization-Depreciation	6.49%	6.63%	5.18%
Operating Expenses	50.89%	54.82%	51.45%
Operating Income	3.8%	0.13%	4.48%
Interest Expense	2.37%	2.43%	2.41%
Other Income	-0.09%	-2.98%	-3.23%
Pre-tax Net Profit	1.52%	0.68%	5.3%
Income Tax	-0.06%	0.18%	-0.53%
After Tax Net Profit	1.58%	0.5%	5.83%
Number of Firms Analyzed	*168*	*103*	*108*

Exhibit E

Financial Condition – Balance Sheet

The two primary drivers that should be examined on the **balance sheet** (Exhibit F) are leverage and liquidity. These are the long-term and short-term analytics of the company's viability – how likely the company is to survive in the long-term (leverage) and short-term (liquidity). Using the correct financial ratios to calculate and analyze this relative to the prospect's industry is important. A leverage of 5:1 may seem high, but it may be the average for the industry, in which case, we would use the term "moderate leverage" rather than "high leverage" to describe the balance sheet. "Moderate" is more accurate and more likely to approve the deal.

When understood and used correctly, these three financial statements yield amazing analytics, forming the foundation of most of the analysis and story for any company. Just watch out: When you understand financial accounting, not everything is as it seems. It is one of the reasons strong credit training is essential to protecting the bank's assets.

Balance Sheet (Breweries, Industry-wide)

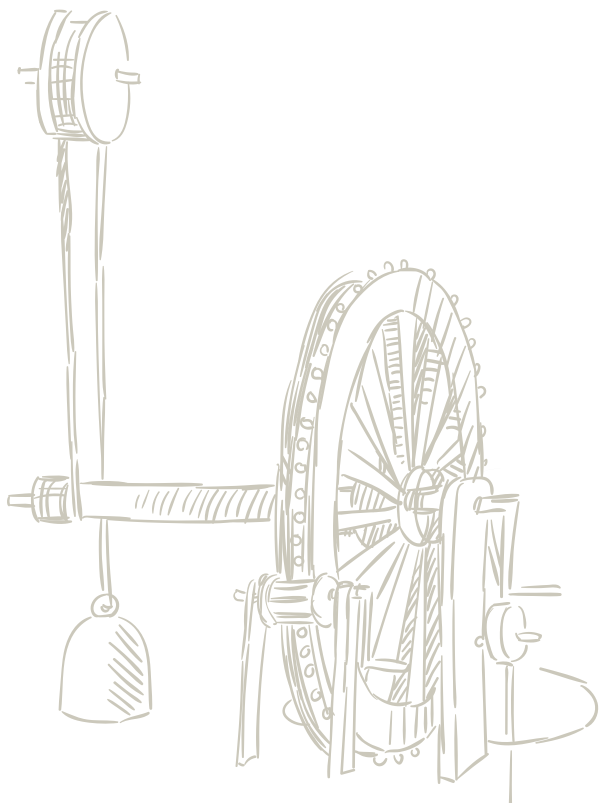
ASSETS	2019-20	2020-21	2021-22
Cash	11.51%	16.93%	17.35%
Receivables	5.11%	4.75%	4.92%
Inventory	13.55%	15.21%	14.31%
Other Current Assets	1.97%	3.41%	2.78%
Total Current Assets	32.14%	40.3%	39.35%
Net Fixed Assets	57.95%	51.43%	50.3%
Net Intangible Assets	5.31%	3.55%	4.27%
Other Non-Current Assets	4.61%	4.72%	6.08%
Total Assets	*100.0%*	*100.0%*	*100.0%*
LIABILITIES			
Accounts Payable	6.07%	5.83%	5.27%
Loans/Notes Payable	10.72%	10.93%	8.23%
Other Current Liabilities	12.55%	10.43%	8.46%
Total Current Liabilities	29.34%	27.19%	21.95%
Total Long Term Liabilities	54.83%	70.09%	65.31%
Total Liabilities	84.17%	97.28%	87.26%
Net Worth	15.82%	2.73%	12.74%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
Number of Firms Analyzed	*168*	*103*	*108*

Exhibit F

TURN ANALYSIS

One of the most important, yet often unused, analyses in commercial banking is turn analysis: examining the manner in which cash cycles through a business.

Turn analysis provides data that cannot be seen directly on the balance sheet and income statement. This analysis offers a key understanding of sources and uses of cash, provides analysts the ability to quantify the efficiency of **working capital**, and gives the analyst forensic accounting ability to determine how much of a line of credit is needed for projected years – including if the company's projected AR and inventory levels are inflated. These turn analysis figures will be significantly enhanced by comparing them to industry-specific **financial ratio benchmark data** on AR days, inventory days, and AP days.



THE LOST ART OF TURN ANALYSIS

Turn analysis is crucial in order to paint an accurate portrait of a company. It is used to:

- Ask important questions
- Tell the story of the company
- Analyze material sources and uses of cash that impact and explain the use of the line of credit and quantify how much of a source or use cash was for AR, inventory, and AP

It is essential to compare the company's historical and projected turns to industry averages to show a full picture of what is going on and projected with line of credit usage.

PROJECTION/PRO FORMA ANALYSIS

As much as banks analyze *historical* results, bankers also need to project what is most likely to happen to a company in the future – at least into the next year. The income statement, debt service coverage (DSC), and balance sheet projections benefit from the inclusion of industry-comparable **financial benchmark data**.

We shouldn't compare two companies of different sizes, but it has significant utility to compare a business to its industry peers. The industry outlook within the projection's section should compare the historical and projected growth of the prospect to the **forecasted outlook of the industry** (Exhibit G). These insights give the write-up additional depth and validity to the recurring nature of revenues, profits, and cash flow.

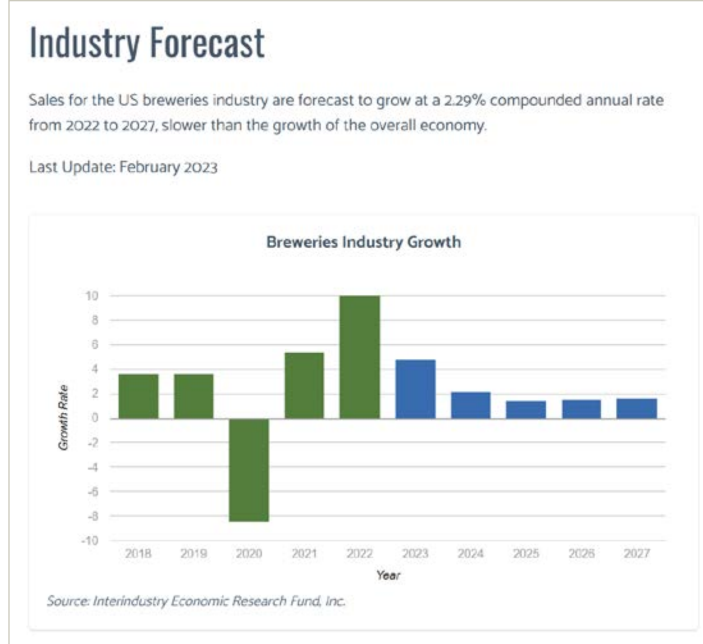


Exhibit G

RISK RATING ANALYSIS

The risk rating is essentially the "risk of default." It is not how likely the bank is to be paid back, which is an important distinction. The company's main **financial benchmarks versus the industry averages** are a key indicator of how likely it will be to default. Vertical IQ's **proprietary Industry Risk Rating** (Exhibit H) provides an overall assessment of an industry's risk and is another metric to consider.

Exhibit H

COLLATERAL – SECONDARY FORM OF REPAYMENT

Obviously, if the bank is being repaid through these secondary means, the company is having significant issues. The default thinking is that deals should have collateral sufficient to cover the debt after excluding ineligible and discounting assets. Some deals don't have collateral, in which case they need to be overloaded in cash flow.

The credibility of a write-up (and an analyst) is boosted when collateral is understood and detailed. Notes around **how firms operate** – like raw materials and equipment – as well as **equipment cost ranges** (Exhibit I) and **industry terms** (Exhibit J) are important to be noted here.

WHAT IF YOU'RE ANALYZING A HIGHLY SPECIALIZED NICHE?

- Find Industry Intelligence about a closely related industry.
- Look at the NAICS code it rolls up under.
- Use your credit skills. For example, surmise that gross profit margins SHOULD be higher in a niche since there often is less competition than with a more generic industry.

Examples of Equipment Purchases

Brewhouse
$20,000 - 100,000
Tank for mixing and cooking grain and hops to create wort. Price varies with capacity, which typically ranges from 7 to 30 barrels.

Fermenter
$20,000 - 40,000
Tank in which yeast is added to the wort and converted to alcohol. Fermenter capacity is usually double the capacity of the brewhouse.

Plate and Frame Filter
$5,000 - 15,000
Filtration system to remove yeast from the wort before it enters a bright tank.

Exhibit I

Industry Terms

Barrel
A unit of measurement. A barrel equals 31 gallons, but there are no physical barrels. A steel keg is ½ barrel (15.5 gallons).

Case Equivalent (CE)
Another unit of measurement, tracking how much a brewery sells monthly or annually. A CE is 24 twelve-ounce servings, or 2.25 gallons.

Off-premises account
A retail establishment that sells packaged beer.

On-premises account
A bar, restaurant, or other establishment that sells draft or packaged beer for on-site consumption.

Three-tier system
A beer distribution system required in many states. Beer must be sold by a manufacturer (the brewer) to a wholesaler, who then sells at the retail channel. Many states have small brewery exceptions to this rule.

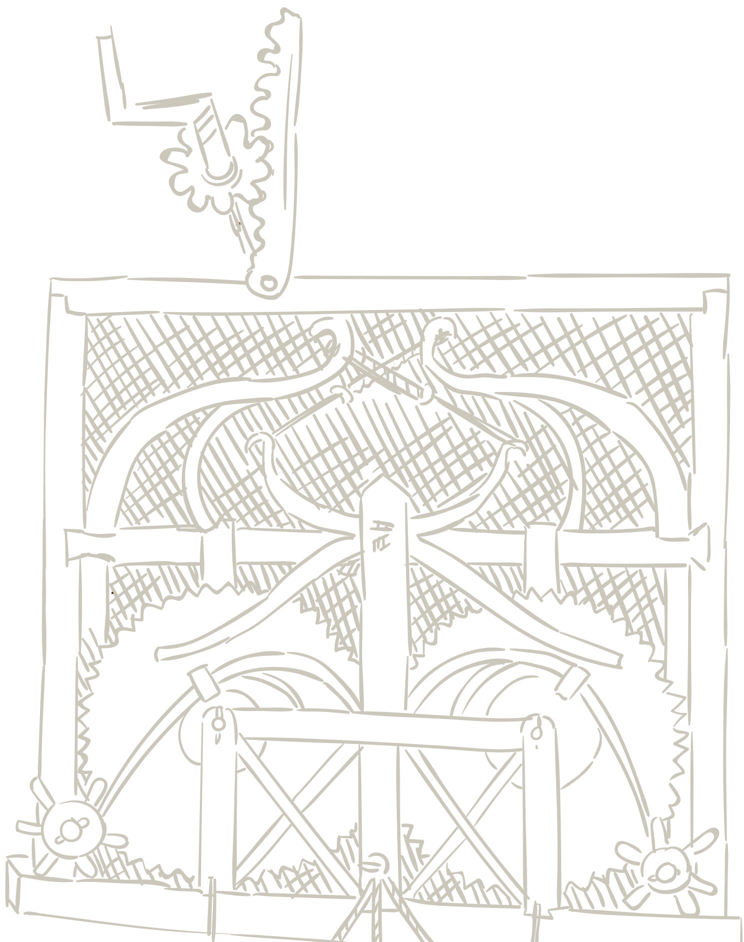
Exhibit J

The Finishing Touches

Adding Depth and Context with Industry Intelligence

Creating an effective credit narrative is both an art and a skill, but when you put forth the effort, it can be the difference between approval – or not! Even the best credit teams can find ways to streamline and perfect their work, yield better decision-making, and gain higher ratings from regulators.

Time is a limited commodity, so having all of your team's Industry Intelligence in one easy-to-navigate place saves effort and encourages bankers to incorporate it into their analysis.

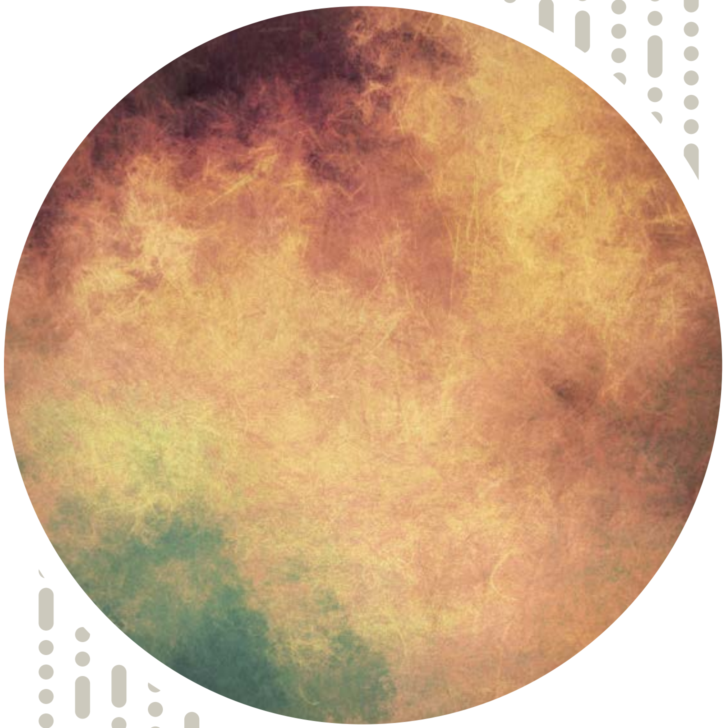


- Lenders are more successful when they are well-researched, ask good questions, and sound experienced in a particular industry. Industry Intelligence makes call preparation fast and simple.
- If lenders use Industry Intelligence to identify prospects that are better aligned with the risk appetite of your bank, they will be filling their pipeline with higher quality deals that are more likely to move across the finish line.
- Utilizing Industry Intelligence enables the credit department to focus on deal structure and save time doing effective research. It also adds important depth and context to analysts' write-ups – such as comparing the prospect to industry averages and explaining WHY they are in a certain financial position – helping your team get more deals approved.
- In addition to short-term wins, client relationships also will be deepened in the long run by providing business owners with value-added insights and data gleaned from Industry Intelligence.

The Industry Intelligence your team needs to add value and boost credibility – internally during the credit approval process and externally with clients and prospects – is all at their fingertips with Vertical IQ.

Creating Solid, Credit-Driven Analysis

The Vertical IQ Difference



The career of a credit analyst can be challenging, especially when the role is new, and there are a lot of demands and deadlines. Vertical IQ makes the entire credit process simpler – from deal identification, to underwriting and structure, to closing. It's like putting an experienced, 25-year banker next to each member of your credit team, giving them the information they need to be talking about and the questions they should be asking.

VERTICAL IQ'S INDUSTRY INTELLIGENCE IS:

- **Relevant and thorough:** In person or in writing, credit analysts, portfolio managers, and commercial lenders will be able to share what's important and relevant within an industry.
- **Banker-specific content:** Created by bankers, for bankers with both a sales and credit perspective and designed for faster call preparation and credit underwriting.
- **Well-organized and easy-to-access:** An easy-to-navigate platform makes Vertical IQ a solution that lenders and analysts will want to use because they save time by quickly finding the exact content they want, whether they are in the office or on the go.
- **Timely updates:** Each Industry Profile is updated on a monthly basis using reliable sources (RMA, Barlow Research, Powerlytics, Bureau of Labor Statistics, etc.) and includes local economic and real estate data for 3,400+ MSAs and counties.

Vertical IQ gives depth and context, accelerating the learning curve about the business owner's industry and boosting credibility, which is instrumental to getting a deal approved. Your team will win more sound deals and grow more relationships with the help of Vertical IQ. With just one click, bankers can access and learn key industry insights that include, but are not limited to:

- **Industry Structure:** Gives you an idea of key buyer and supplier relationships, as well as typical annual revenue.
- **How Firms Operate:** Breaks down a typical revenue stream, explains more about the inventory and/or service providers, and highlights key profit drivers businesses in the industry can capitalize on to maximize profitability.
- **Credit Underwriting and Risks:** Features a proprietary Industry Risk Rating, key metrics, a Financial Comparison Toolkit, important underwriting considerations and covenants, plus common industry and company risks.
- **Industry Terms:** Speak the business owner's language with a breakdown of terms and acronyms.
- **Industry Forecast:** Displays a five-year historical and five-year projected growth rate with commentary elaborating on how and why the industry is growing/shrinking.
- **Capital Financing:** Includes details about property, plant, equipment, and technology needs, explaining how equipment is used in the operation, as well as average costs.
- **Financial Benchmarks:** Three years of financial ratios, income statement line items, balance sheets filterable by sales size and common-sized by percentage or average – in short, the peer data you need to accurately compare performance.

About David Nicholson, Founder, Credit Training, Inc.

David Nicholson had been in commercial banking for more than 20 years. Since 1997, David has analyzed and structured deals for hundreds of companies ranging from large corporate publicly traded companies to smaller middle market deals. David has been teaching credit for over 10 years and started teaching formal C&I credit training in 2015.

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About Vertical IQ

Headquartered in Raleigh, N.C., Vertical IQ is a nationally recognized leader in Industry Intelligence. Whether they're pitching a local brewery or a national biotech company, successful sales, marketing, and customer success teams use Vertical IQ to better understand a prospect's or client's business challenges before, during, and after meetings. Covering more than 97 percent of the economic revenue in the U.S. and Canada through more than 920 Industry Profiles and 3,400 local economic reports, Vertical IQ equips users with the confidence and credibility to make memorable first impressions and sustain enduring relationships.

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