

## COMPASS Subcontractor Risk Program Overview

The following document sets the framework as to how collected data is used for the output of Q Scores as applied to subcontractors in the Canadian construction industry. Q Scores are essentially meant to provide a measure as to how the execution abilities of different subcontractors compare to its trade group. (please refer to the Q Scale definitions as provided.) Future COMPASS releases can be expected to provide more specific detail and guidance.

The COMPASS model is an empirically driven review of a subcontractor's execution ability, utilizing a combination of business metrics and financial records. (per subsequent discussion below regarding "Future Considerations", health and safety performance is ultimately expected to be another data point). The latter are collected through multiple sources and individual factors are weighted to better reflect their relative importance. The COMPASS model is not meant to provide a measure of default risk but rather execution ability, which is defined as a subcontractor fulfilling its construction contract obligations on time and on budget.

Q Scores for individual subcontractors are constructed on a trade by trade basis, reflecting the fact that ranking contractors within the same trade eliminates differences in operational aspects that occur across different trades. The outcome of these factors means that by their nature, Q Scores are not meant to be used for comparing companies across different trades.

The Q Scale's colour code (see Figure 1) provides a quick reference guide for Q Score equivalents. COMPASS is able to provide a granular view when comparing specifics between subcontractors with available Q Scores ranging between Q1.0 and Q7.9. When available, Q Scores are not recommendations but are meant to provide both general contractors and subcontractors with additional information in the decision making project bidding process.



Figure 1: Q Scale

## **Business and Financial Factors**

Business metrics are expected to use a broad range of factors which will likely include backlog levels, contract specifics, payment trends, staffing related ratios, size inputs, key third party relationships and a variety of other measures all with the goal of assessing the overall expertise, quality and market strength of subcontractors and their management. Financial records will largely be used to add quantitative assessments into areas such as liquidity, profitability, leverage and efficiency. All of the aforementioned areas are weighted to determine the final Q Score.

## **Relative Risk Scoring Approach**

It is important to understand that by definition, Q Scores provide a relative ranking as to how an entity compares to peers within its trade grouping, which essentially provides a measure of a subcontractor's relative execution ability. This is not equivalent to any measuring system which compares a subcontractor's scoring against some predetermined criteria that might be used to evaluate aspects such as probability of default. The reality of this relative ranking approach and the evolving nature of COMPASS itself has several implications for Q Scores:

- Q Scores can change as new data or subcontractors are added to the existing pool. This means that an individual subcontractor's Q Score can change due to movement of the average strength of the trade pool.
- Q Scores will also be impacted by ongoing refinements to the COMPASS model as Bespoke Metrics continues to adjust data points, weightings and the overall methodology.
- To prevent issues due to inadequate sample size, COMPASS will only issue Q Scores where there is a statistically acceptable number of subcontractors.

In summarizing the above, both users and subcontractors need to be aware that Q Scores are not expected to be static measures and as already noted in the introduction, Q Scores are by their nature not meant for comparing subcontractors across different trade groups.

## **Privacy and Security**

Neither COMPASS or Bespoke Metrics derive any direct benefit from construction related activity. While clients will ultimately have access to individual Q Scores and the underlying rationale for such by scoring area, all subcontractor raw financial data is kept private and secured.

Today's published version is simply an introduction and does not provide clients with access to any Q Scores. The ultimate plan is that subcontractors will be able to access their own Q Score and will also have access to some aggregate and individual performance of a defined peer group, but only on a no name basis. This setup ensures a high measure of privacy for each subcontractor, while still providing feedback to better understand their own scores and some information such that they can have an appreciation for where they rank in their trade group.

## Future Considerations

In addition to the aforementioned business and financial factors, there are several other areas that are currently being explored for future use within the COMPASS model. There is presently no certainty as to which factors will ultimately be added or whether additions will occur with the first release of Q Scores or in subsequent revisions. One more likely early addition to Q Scores relates to the areas of Health & Safety. COMPASS believes that an entities underlying health and safety policies, training and reviews are important in promoting a health and safety conscious workforce and consideration will be given on how to incorporate such within the COMPASS model. Other future considerations include "Prequalified Contract Dollar Ranges", a separate assessment related to the size of contracts that may be appropriate for an individual subcontractor to consider. This is being considered on the basis of both single and aggregate contracts. Another area being explored relates to "Project Tailored Scoring", where COMPASS provides users the ability to sort subcontractors for suitability with a specific project. Possible filters could include a project's location, type, scope, size, length and complexity within the framework of subcontractor experience. These possibilities are provided as examples of the type of Q Score and other COMPASS additions that may occur in the future under the goal of continuous improvement.

### Disclaimer:

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