

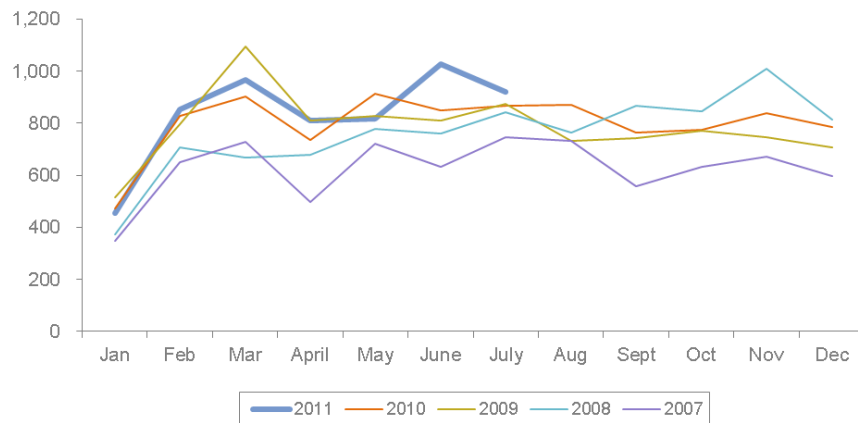
Insolvency Insights – July 2011

Taylor Woodings' Analysis of ASIC's Latest External Administration Appointments Statistics

6 September 2011

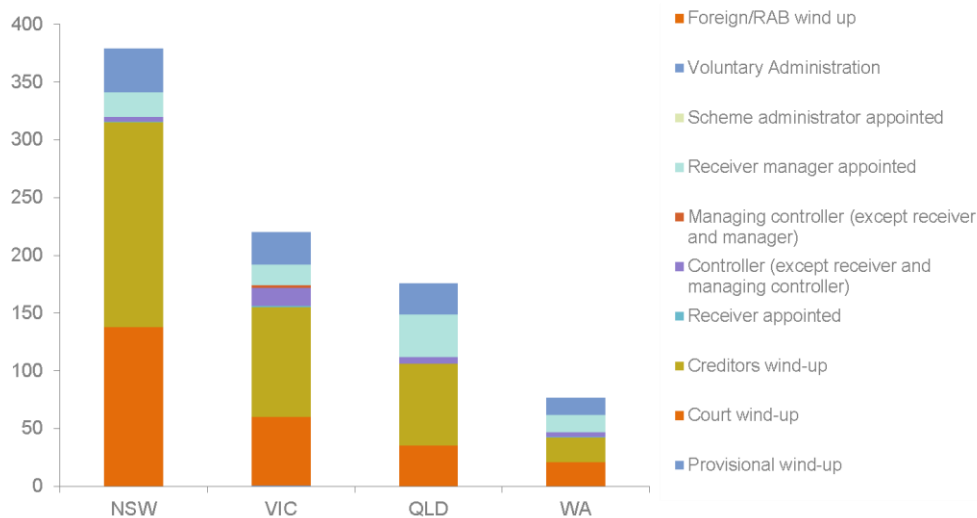


Companies Entering External Administration



Source: ASIC

Comparison of Appointments by State



Source: ASIC

The Figures

What these latest figures suggest

- Total external administrations for July 2011 are the highest on record for the month – up 6% on July last year to 921. This follows the record high figure for last month.
- In a sign of ongoing pressure on SMEs, July 2011 is the fifth highest number of company collapses ever – three of the five highest months on record occurred during the current calendar year.
- Total administrations for the first seven months of the year are at 5,852, an all time high for the period, outpacing insolvencies during the Global Financial Crisis (“GFC”) which totalled 5,735 in January to July 2009.
- Despite seemingly strong economic fundamentals, Western Australian insolvencies jumped 35% on June 2011 to a record high of 77.
- Creditor-led wind-ups and receiver manager appointments both increased – up 17% and 35% respectively. However, director-led appointments in the form of voluntary wind-ups and voluntary administrations fell by 23% on the month prior.

Economic Influences

What's happening in the broader market with particular attention to macro influences on insolvency?

- The Housing Industry Association Index showed sales of new freestanding houses in July were at the lowest point in a decade – down 19% to 5,701. The RP Data-Rismark Hedonic Home Value Index fell by 0.6% in July – the seventh straight monthly fall in capital city home values.
- The Australian Industry Group Australian Performance of Construction Index in July showed the sector contracted for the fourteenth consecutive month. A worrying sign as the building industry is a significant feeder for the Australian economy.
- The Westpac-Melbourne Institute Index of Consumer Sentiment fell for the fourth consecutive month, down 8.3%, which is a sign consumers continue to be cautious.
- Contributing to consumer concern, the unemployment rate increased from 4.9% to 5.1% in July – the highest since November 2010.
- The high Australian dollar and uncertainty in global markets affected business conditions, with the National Australian Bank Business Survey for July showing business conditions dropped three index points to minus one point.

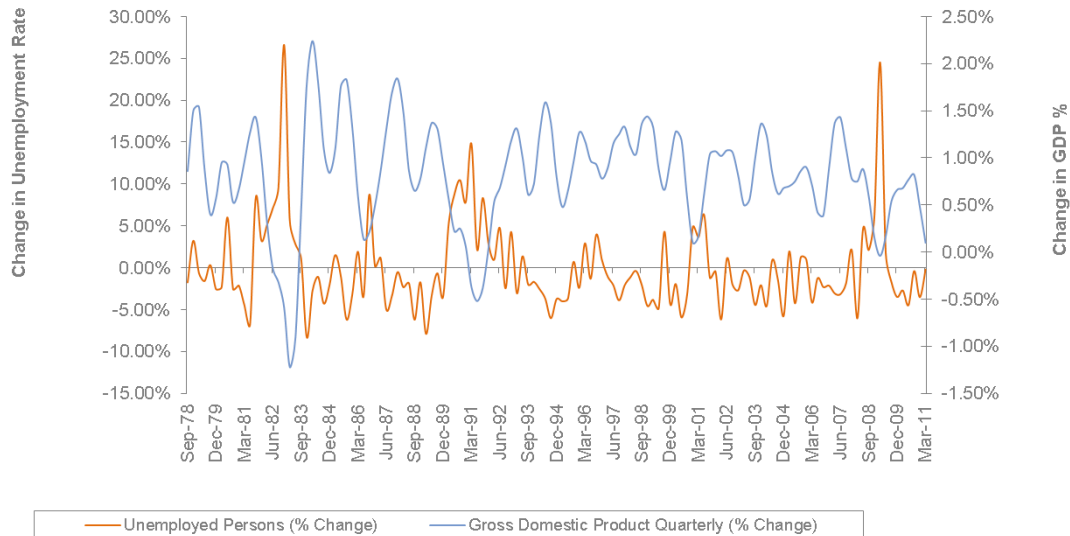
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Change in GDP vs Change in Unemployment Rate
1978 - 2011



Source: ABS

For More Information

Taylor Woodings is a national independent accounting firm specialising in the areas of restructuring, corporate recovery, advisory and transaction services and forensic services. For more information please contact:

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Special Focus

- The quarterly ABS Gross Domestic Product (“GDP”) data contains estimates of Australia’s GDP and its components. The monthly ABS Labour Force Survey provides estimates of unemployed and employed persons.
- Unsurprisingly an analysis of the percentage change in GDP against the unemployment rate shows a clear inverse relationship. When GDP drops dramatically, unemployment rises steeply in the following quarter.
- Many Australian industries, such as the steel industry, are facing challenges such as a high Australian dollar, continued weak domestic demand and increased costs. Due to these pressures, a BlueScope Steel plant in Victoria recently announced 1,000 staff redundancies.
- Given the current economic pressures, we expect the unemployment figures will continue to increase, which will have a further dampening effect on consumer confidence.

Outlook

What we predict for the future and what inferences we can draw

- Low consumer confidence is adversely impacting sales and putting pressure on cash flows of many businesses.
- With persistently low consumer sentiments affected in part by falling house prices, in the short term we predict insolvencies will stay at these stubbornly high levels through to the end of the calendar year and into 2012.
- Subject to a double dip recession in the US and Europe not occurring, we predict insolvencies to fall in the medium term, with companies who have deleveraged since the GFC well placed to capitalise on an uplift in consumer confidence.
- In the July Statement on Monetary Policy, Reserve Bank Governor Glenn Stevens said: that “with households remaining cautious and the impact of earlier fiscal measures abating, growth in aggregate demand was not showing signs of a further pick-up yet.”