

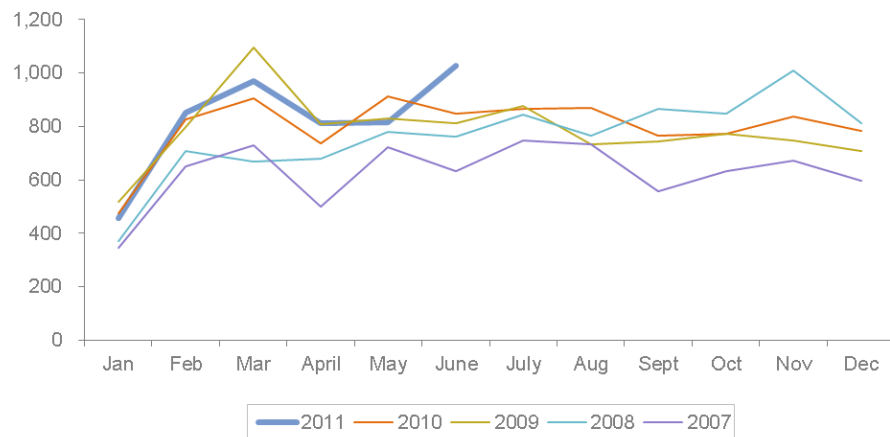
Insolvency Insights – June 2011

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

10 August 2011

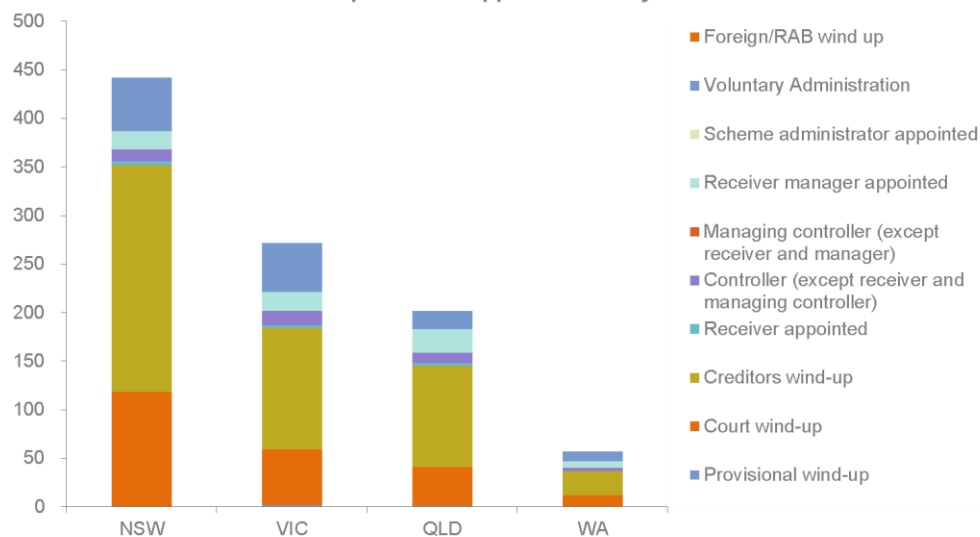


Companies Entering External Administration



Source: ASIC

Comparison of Appointments by State



Source: ASIC

The Figures

What these latest figures suggest

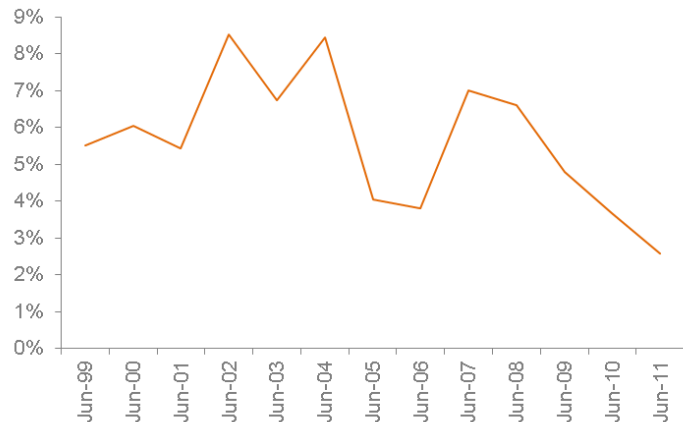
- Total external administrations for June 2011 are up 25.7% to 1,027 - the second highest month on record. Only March 2009 recorded more company insolvencies with 1,095.
- June is typically a slow month for insolvencies - June 2010 appointments were 21.1% lower - however this year, a range of factors have combined to put Australian businesses under considerable pressure.
- The tough trading environment is due to financial and non-financial factors including: a lack of liquidity in debt and equity markets; higher interest rates relative to other developed countries; continued enforcement actions by the Australian Tax Office and general local and global political and economic uncertainty.
- Total external administrations for the 2010/11 financial year are 5.9% higher than the 2009/10 financial year and just 1.8% lower than 2008/09 during the Global Financial Crisis ("GFC").
- Company collapses have increased 35% in Victoria and 33.1% New South Wales on the previous month, the highest monthly insolvencies recorded for both of the states. In contrast, total administrations in Western Australia have decreased from 61 in May 2011 to 57 in June 2011, a sign that the fundamentals of the state economy remain strong.
- Creditor-led wind-ups are up 35.3% on May 2011, reaching a record high of 502. Court wind-ups and voluntary administrations are also up on the previous month, increasing 14.2% and 26.2% respectively.

Economic Influences

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

- June 2011 economic indicators reflect continued consumer uncertainty. The Westpac-Melbourne Institute Index of Consumer Sentiment showed consumers are saving more than they are spending with sentiment dropping to its lowest level in two years.
- The Reserve Bank of Australia ("RBA") left the official cash rate at 4.75% for the seventh consecutive month. RBA Governor Glenn Stevens said in his statement that: "the flow of data over the past month had not added any urgency to the need for an adjustment".
- Despite overall negative economic data, the Australian Bureau of Statistics ("ABS") Labour Force figures were higher than predicted, with 23,400 jobs

Annual Percentage Change - Retail Growth
(Seasonally Adjusted)



Source: ABS, Retail Trade Figures - June

For More Information

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created for the month, keeping unemployment at 4.9% for a fourth consecutive month.

- The ANZ's Small Business Sales Trend report showed sales rose in June, 6.6% higher year-on-year, with an increase in trade, automotive and hospitality sales.

Special Focus

- All eyes are currently on the retail sector as annual retail growth falls to the lowest since 1962.
- The June ABS Retail Trade figures show this growth is just 2.6% - lower than during the GFC and the recession in the early 1990s. An outlook of increasing interest rates, the rising cost of living and the recent natural disasters are all contributing to consumer uncertainty and reduced expenditure.
- The surge in popularity of overseas online shopping continues to adversely impact the sector. Shoppers are predicted to spend \$6 billion on products from overseas in the next year, according to a survey by PricewaterhouseCoopers and Frost & Sullivan.
- Due to pressures facing the retail sector, a number of major brands have announced profit downgrades and weak store sales recently. Premier Investments announced 50 stores will close, David Jones downgraded its profit forecast and Bras N Things cancelled their proposed initial public offering.
- We expect retail trade figures will continue to fall as Australians maintain cautious spending behaviour and, in turn, this will lead to an increase in retail company failures.

Outlook

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

- There remains a range of pressures on SMEs and company profits and we predict there will likely be an increase in insolvencies in the months ahead.
- This trend will be compounded by the fact that many ATO-led court wind-up applications made in June were adjourned, with the applications only just making their way through the courts now.
- On the other hand, local tourist operators and exporters will have some respite from tough trading conditions with the Australian dollar falling below or close to parity.
- With the recent deterioration in the global economy, Australians face some challenging times. In his August Economic Note, Treasurer Wayne Swan said: "[w]e should be under no illusions about the magnitude of these challenges, but we should also draw confidence from our proven track dealing with global instability".