

13 JULY 2011

AUSTRALIAN TOURISM

HOW THE RECENT GROUNDING OF TIGER AIRWAYS HIGHLIGHTS AUSTRALIA'S STRUGGLE IN TOURISM

OVERVIEW

- The strength of the Australian dollar is making this country an expensive holiday destination and encouraging Australians to holiday overseas
- Australian tourism is an \$84.2 billion industry that has taken a whirl since the GFC
- Queensland has been hit the hardest over the past few months with the floods, cyclones, volcanic ash and now the cancellation of flights by Tiger Airways
- In addition to the discontinuation of four daily flights into Queensland, Tiger Airways has stopped selling flight tickets due to safety issues, resulting in a possible inflation in airfares due to the loss of competition
- Struggling businesses in Queensland that rely heavily on tourism are trying to stay afloat by offering significant discounts to attract tourists and encourage spending

AUSTRALIAN TOURISM – HOW IS IT HOLDING UP?

The Australian \$84.2 billion tourism industry has taken a whirl since the (“GFC”) as Australians are taking advantage of the high Australian dollar by holidaying abroad, resulting in Australian businesses cutting prices in an attempt to attract customers.

The Australian tourism industry has only achieved marginal annualised growth of 0.9 per cent over the past five years¹, with the forecast 2011 holiday visitors expected to drop by 1 per cent² on the previous year.

New South Wales, Queensland and Victoria are the three major tourism states accounting for 30 per cent, 27.1 per cent and 18.5 per cent in domestic overnight visitor destinations respectively.

Domestic tourism accounts for 75 per cent of industry revenue in Australia and, after a three year decline, the 2010-11 domestic tourism nights are expected to grow by 2.1 per cent to 256 million³.

Looking at Australia's short term departures (the intention to stay abroad for less than 12 months) against the short term arrivals (see Graph 1), the number of Australian's holidaying abroad has significantly increased. Up until 2008, short term arrivals of overseas visitors to Australia had always been greater than the short term departures of Australians. However, in the 12 months to June 2010, short term holidays accounted for 82 per cent of overseas trips, while business accounted for 17 per cent⁴. Australian businesses may yet be faced with the full impact of the increasing high Australian dollar if this trend continues.

Furthermore, Australians are continuing to holiday in the Asia Pacific region over other regions with over half (53 per cent) of all overseas holiday travel being to South East Asia and Oceania.

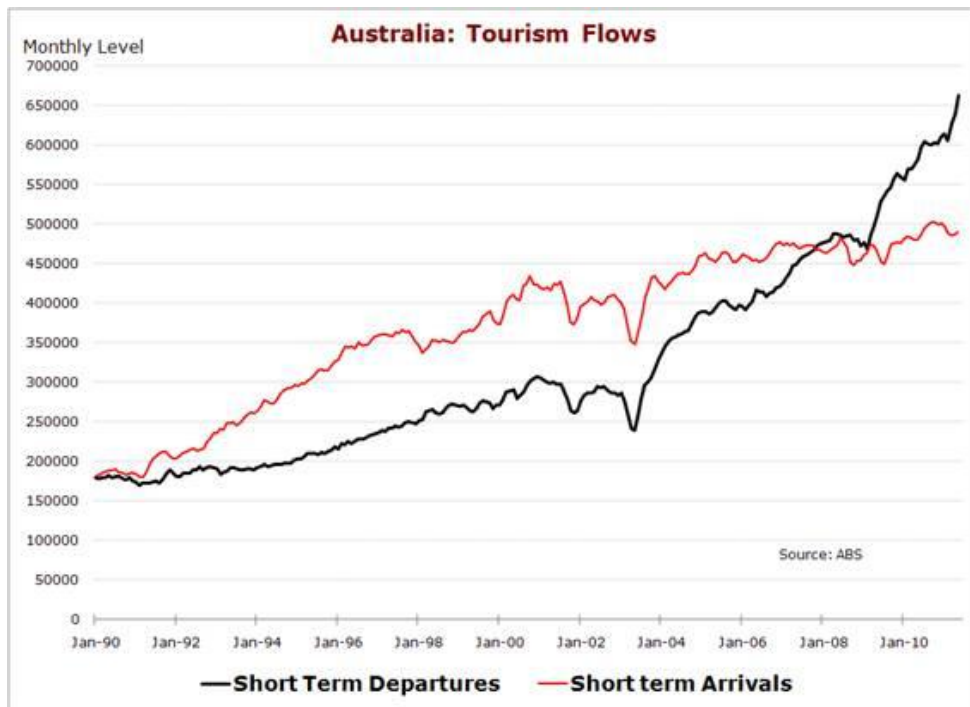
¹ IBISWorld Industry Report X0003 Tourism in Australia June 2011

² Tourism Forecasting Committee, Forecast 2011 Issue 1

³ IBISWorld Industry Report X0003 Tourism in Australia June 2011

⁴ ABS Australian Social Trends September 2010

Graph 1 – Australia: Tourism Flows



Source: ABS and Evans and Partners

There are a number of economic and environmental factors that have led to Australian's holidaying overseas and the struggle of Australia's tourism industry, such as:

- the growing strength of the Australian dollar;
- high demand for Australian resources;
- heavy discounts on overseas airfares;
- significant discounts on holiday packages;
- low cost airlines;
- tax and interest rate changes and uncertainty;
- economic and political uncertainty;
- changes in economic growth directly and therefore household disposable income;
- Queensland floods and cyclone; and
- volcanic ash.

We are likely to see more businesses close and exit the industry if these factors continue.

FOCUS ON QUEENSLAND

Tourism directly contributed \$19.0 billion to the Queensland economy in 2010, representing 7.4 per cent of Queensland's Gross State Product ("GSP") for that year⁵.

⁵ Tourism Research Australia, Regional Tourism Profiles 2009/2010 and Queensland State Accounts December quarter 2010

With Queensland being a popular holiday destination for other Australians, it is no surprise that Queensland is heavily reliant upon interstate travel which accounts for 75.2 per cent industry revenue in Queensland.

The recent grounding of Tiger Airways by the Civil Aviation Safety Authority due to safety concerns will further add to Queensland tourism troubles. In early June this year Tiger Airways announced the discontinuation of four daily flights into Queensland, two each from Sydney and Melbourne, suggesting a decline in interstate travel into Queensland. Additionally Tiger Airways CEO, Tony Davis, blamed the Queensland flood and cyclone for the company's loss (The Australian, 20 May 2011) and Tiger Airways have been warned by the Australian Competition and Consumer Commission to stop selling flight tickets. The effect of Tiger Airways is likely to inflate the already high airfares within Australia due to the loss of competition in Queensland tourism.

With significant discounts being offered by a number of businesses such as accommodation, resorts, tours, car hire, airfares, etc – some up to 75 per cent off – it is clear that these economic and environmental factors are adversely affecting businesses in Queensland that are heavily reliant upon tourism.

WHAT THE NUMBERS SAY

With Queensland tourism directly employing 118,000 Queenslanders – 5.3 per cent of total employed in the state⁶ – it is clear that Queensland is a state that is extremely reliant upon tourism.

For the period ending December 2010, overnight interstate visitors (35.5 per cent) contributed most to tourism GSP in Queensland, followed by overnight intrastate visitors (28.0 per cent) and international visitors (20.6 per cent)⁷.

According to Tourism Research Australia (“**TRA**”), domestic and international tourism into Queensland has declined since its peak in 2008 (see Graph 2). TRA has forecast a 4.8 per cent decline in visitor nights in Queensland for 2011 following a marginal (2 per cent) increase in 2010, with domestic travel forecast to hit an 11 year low in 2011. Paradoxically, international visitors have seen an overall increase since 2007, despite a significant drop in 2009 which was likely attributable to the GFC.

The revenue per available room (“**RevPAR**”) across Australia's capital cities for the March quarter 2011 increased 6.5 per cent compared to the March quarter 2010, with Sydney recording the highest occupancy level of all capital cities.

Even though there was a slight increase in occupancy for hotels, motels and serviced apartments with 15 rooms or more between March 2010 and March 2011 (1.1 per cent), President of the Accommodation Association of Australia, Garry Crockett noted that “...*consideration should be given to the fact these statistics do not cover smaller accommodation businesses, many of which were acutely affected by the floods in Queensland and Victoria earlier this year, and in the case of Far North Queensland, Cyclone Yasi.*”

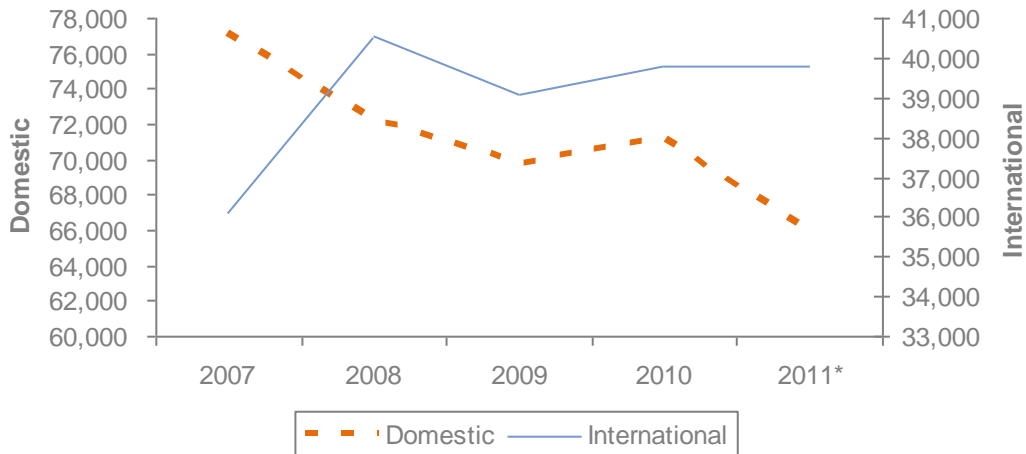
Tourist hotspot the Gold Coast experienced a decline in RevPAR by 4.8 per cent in March quarter 2011 compared to the March 2010 quarter, while Cairns increased by 4.1 per cent and Brisbane achieved 4.4 per cent growth⁸.

⁶ Tourism Facts and Figures, Tourism Queensland 11 July 2011

⁷ http://www.tq.com.au/fms/tq_corporate/research%20%28NEW%29/Summary%20Visitor%20Statistics/tourism_facts_and_figures.pdf

⁸ TTF Capital City Accommodation Index Mar Qtr 2011, released July 2011

Graph 2: Domestic and International Visitors to Queensland - 2007 to 2011

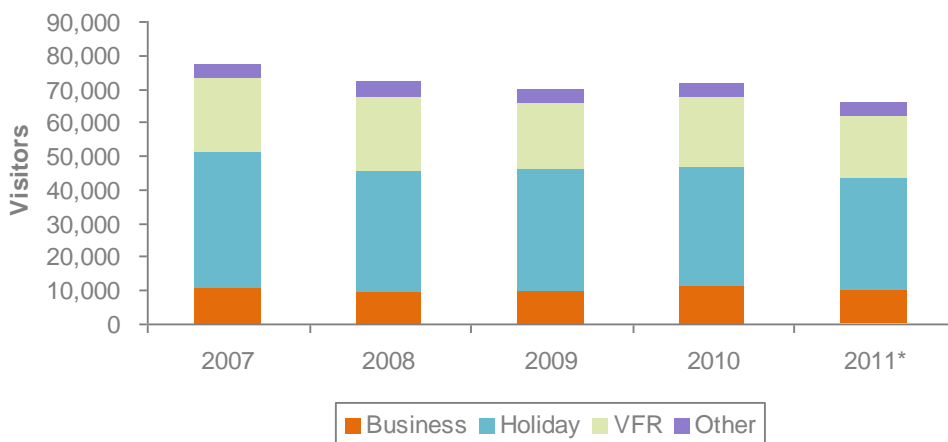


Source: Tourism Research Australia
 * Estimated by Tourism Research Australia

Domestic Travel

Domestic travel is a key influencer of Queensland’s tourism. When looking at the breakdown of domestic visitors into Queensland by purpose (see Graph 3), the majority of the visitors arrive for holiday reasons. Domestic holiday travel shows a marginal decline across the past four years with a flattening trend in 2009, while domestic Business and Visiting Friends and Relatives (“VFR”) travel fell in 2008 and 2009, then recovered to a five-year high in 2010 and is forecast to decline by 11 per cent in 2011.

Graph 3: Domestic Arrival by Purpose - 2007 to 2011



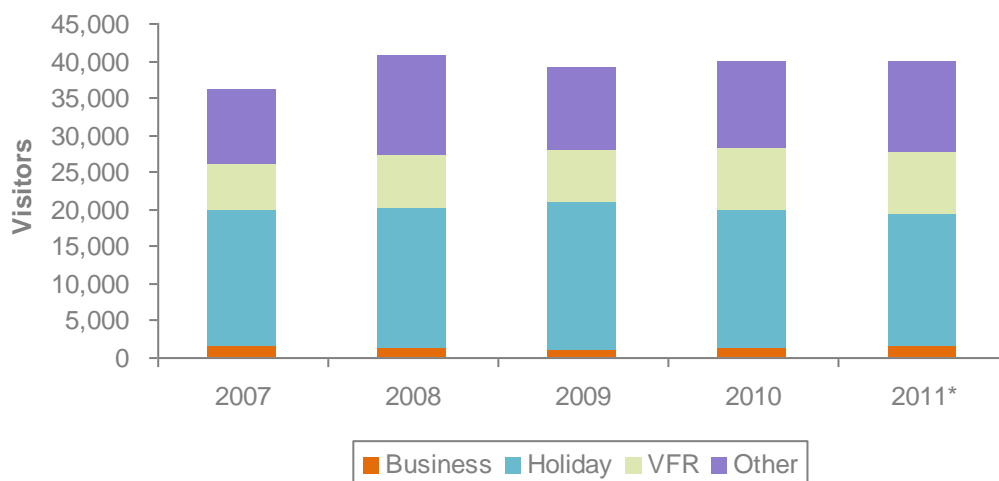
Source: Tourism Research Australia
 * Estimated by Tourism Research Australia

International Travel

After declining sharply in 2008 and 2009, international business travel into Queensland recovered in 2010 and is forecast to reach 2007 levels in 2011 (see Graph 4). International holiday travel rose fractionally during 2008 and 2009 (3 per cent and 5 per cent respectively) before dropping by 6 per cent in 2010 and is forecast to fall by a further 4 per cent in 2011. Apart from an 11 per cent downward adjustment in 2009, VFR and Other show overall increases over the period, a significant factor as the combined sectors account for 51 per cent of international visitors.

Statistics released by The Courier Mail confirms the downward trend in international holiday makers, revealing 265,000 foreigners holidayed in Queensland this year to May compared with 383,695 in the same period in 2006 (The Courier Mail, 7 July 2011) – a drop of 31 per cent. The continuing impact of the GFC and the strengthening Australian dollar are seen as the main contributing factors of this decline.

Graph 4: International Arrival by Purpose - 2007 to 2011



Source: Tourism Research Australia

* Estimated by Tourism Research Australia

Domestic holiday makers continue to dominate Queensland tourism. With over 115,000 tourism related businesses in the year ended December 2010 – 28.5 per cent of all registered businesses in Queensland⁹ – tourism businesses should be cautious of this decline in tourism and price their products and services accordingly.

Overseas businesses are taking advantage of the strong Australian dollar and other economic and environmental pressures by tempting Australians to travel abroad by offering exotic, low-cost holiday packages.

WAYS TO MITIGATE RISK

With Queensland businesses operating in tough times, lenders and operators can implement the below practical initiatives to help mitigate any risks:

⁹ Tourism Facts and Figures, Tourism Queensland 11 July 2011

- recast projections based on lower turnover to see what cost savings and debt reduction can be achieved;
- insist on accurate, monthly financial accounts and integrated profit and loss, balance sheet and cash flow forecasts;
- identify and implement changes to business models so the downturn in activity does not result in the failure of an otherwise good business;
- discuss funding requirements with key lenders early; and
- if the operator lacks financial expertise, consider external, professional assistance.

HOW TAYLOR WOODINGS CAN HELP

Taylor Woodings is an independent, national Chartered Accounting firm providing clients specialist services in Restructuring, Corporate Recovery, Advisory and Transaction Services and Forensic Accounting. With offices in Sydney, Perth, Melbourne and Brisbane, we offer our clients a truly national service.

We have worked with a number of businesses struggling through these difficult times and have worked in both formal and informal engagements for financiers, including the trading and selling of assets, such as motels, hotels, restaurants, wineries, major luxury and hotel chains, backpacker hostels, resorts and spas, golf courses, clubs, pubs and taverns, travel agencies, online travel resellers, hospitality and accommodation management companies and other travel related businesses. Our experience in Queensland extends to hotels and motels, marine operations and down stream businesses such as shopping strips that have been impacted by downturns in tourist numbers. Taylor Woodings can provide the below services:

- undertaking engagements to provide pre-lending reviews and business valuations for financiers considering funding operators in the tourism industry for acquisitions or other capital investments;
- undertaking appointments as Investigating Accountants to venue operators to provide a clear understanding of issues to the appointing bank; and
- trading on numerous tourism-based businesses as Receivers and Managers. We aim to improve trading results as a matter of urgency by utilising our network of industry contacts whilst actioning sales and marketing campaigns that achieve sales above expectations.

To find out how we can help you, please contact one of the Taylor Woodings' Hospitality and Tourism team listed below.

More Information

Stefan Dopking
Partner in Charge, Brisbane
Taylor Woodings
+61 7 3041 2900
stefan.dopking@twcs.com.au

Michael Ryan
Hospitality and Tourism Team
Leader
Managing Partner, Perth
Taylor Woodings
+61 8 9321 8533
michael.ryan@twcs.com.au

Matt Adams
Partner, Sydney
Taylor Woodings
+61 2 8247 8000
matt.adams@twcs.com.au

taylorwoodings.com.au

Ross Blakeley
Partner in Charge, Melbourne
Taylor Woodings
+61 3 9604 0600
ross.blakeley@twcs.com.au

Quentin Olde
Partner in Charge, Sydney
Taylor Woodings
+61 2 8247 8000
quentin.olde@twcs.com.au