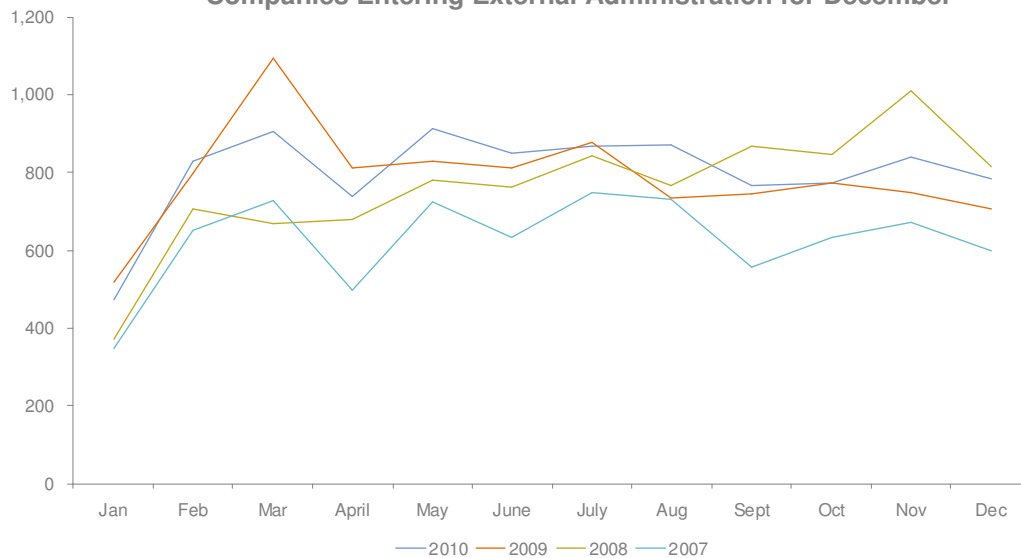


Insolvency Insights – December 2010

Taylor Woodings' analysis of ASIC's latest external administration appointments statistics
8 February 2011

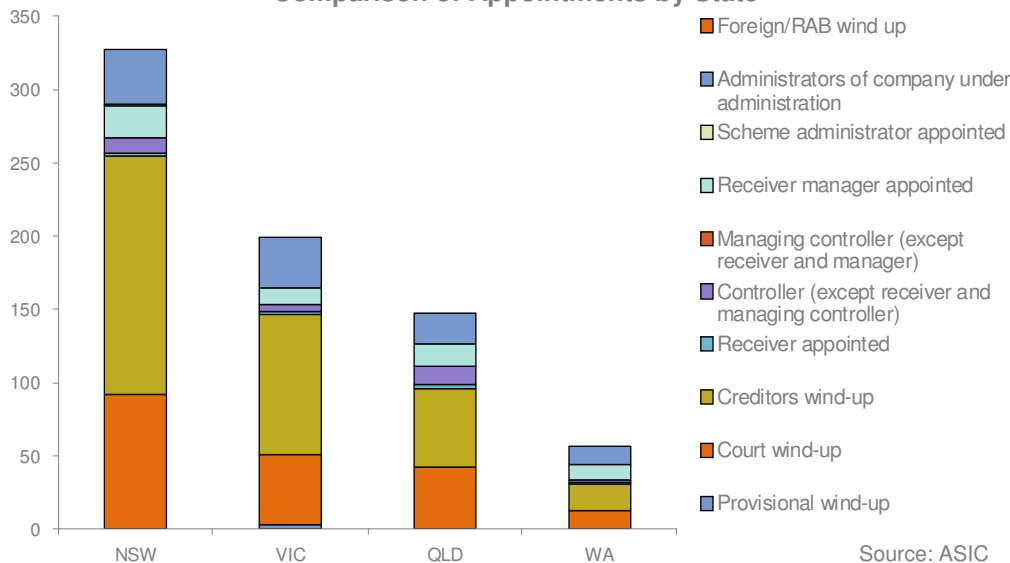


Companies Entering External Administration for December



Source: ASIC

Comparison of Appointments by State



Source: ASIC

The Figures

What these latest figures suggest

- The release of the December ASIC insolvency figures reveals 2010 was the toughest year on record for Australian businesses with 9,601 business collapses – an average of 800 per month.
- Total business failures were higher in 2010 than at the height of the Global Financial Crisis in 2009 when 9,437 businesses failed – an average of 786 per month.
- Company collapses for December alone remained high at 784 – only marginally lower (down 3.6%) than December 2008 when company collapses surged.
- Total external administrations for December were down only 6.4% on the previous month. However, the drop in figures is consistent with December's long term trend as it is a shorter trading month.
- Failures in the retail and tourism industries, both suffering from a persistently strong Australian dollar, are likely to have contributed to December's historically high insolvency figures.

Economic Influences

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

- The much anticipated December Retail Trade Figures, released yesterday by the ABS, show last Christmas was far from festive for vendors. The trend estimate fell 0.1%, although up 1.9% on the previous December, and department store sales fell 0.3%.
- Business confidence fell to a near-two year low in December according to the NAB Monthly Business Survey, from 6 to -3, cementing a decisive downward trend and the first negative reading since April 2009.
- With further interest rate increases forecast and the spate of recent natural disasters weighing heavily on peoples' minds, consumer confidence has also fallen with the Westpac-Melbourne Institute Consumer Sentiment survey showing a 5.7% drop.
- The economy is driven by confidence and weak business and consumer sentiment likely had a material effect on the December insolvency rates.

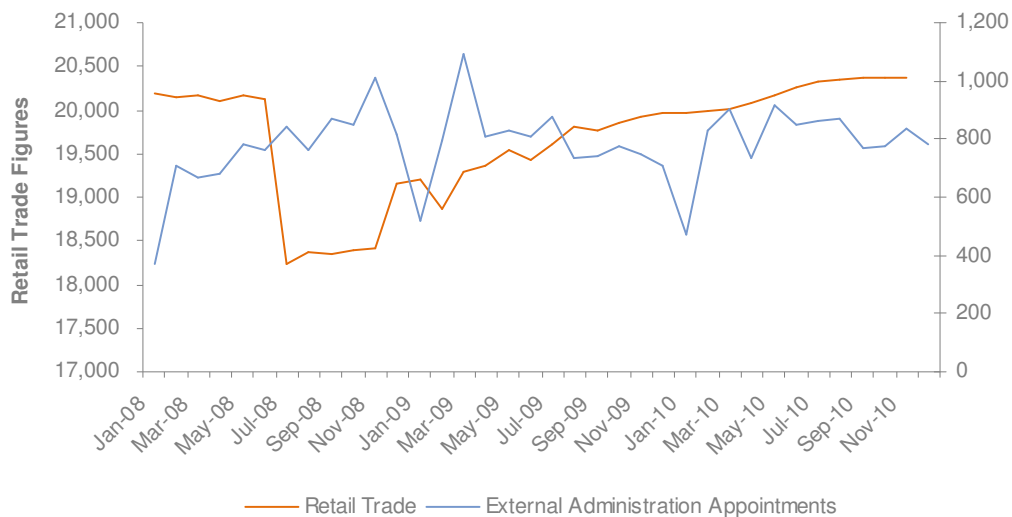
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External Administration Appointments vs Retail Trade Figures



Source: ASIC and the ABS

Special Focus

- An analysis of retail figures against external administration appointments over recent years reveals an inverse relationship. The exception is January when administration appointments significantly drop during the holiday period.
- Retail sales have not fluctuated by more than 1% over the last five months and has been moving sideways indicative of the struggling retail sector.
- The major impact of the downturn in retail sales will be on revenue and gross profit margins. We would expect a lag between the drop-off in sales and an increase in retail business insolvencies in 2011.

Outlook

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

- Extreme weather events affecting rural areas in Queensland, Victoria and New South Wales may result in an increase in business failures in those states throughout 2011. Queensland, which was already facing pressures on its tourism industry from the strong Australian dollar will be particularly affected this year. There may be a lag-effect on figures as banks will inevitably afford impacted businesses some flexibility on their financial commitments.
- Overall, the Australian economy remains very finely balanced. On the upside, the RBA has strengthened its outlook for GDP, commodity prices are increasing and the labour market is tightening. On the downside, the global economy remains fragile with uncertainty over the potential impact of unrest in Egypt and the likelihood of further European debt crises.
- Locally, the impact of floods and the continued strength of the Australian dollar are placing ongoing pressure on the economy, and the increasing trend in oil prices and the introduction of the flood levy may adversely impact confidence.
- On balance, the outlook is more positive than a year ago. However, if the economy is shocked by an unforeseen 'x' factor such as a declining Chinese economy, a local property correction, rising unemployment or increased taxes, the outlook could quickly worsen.

For More Information

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