

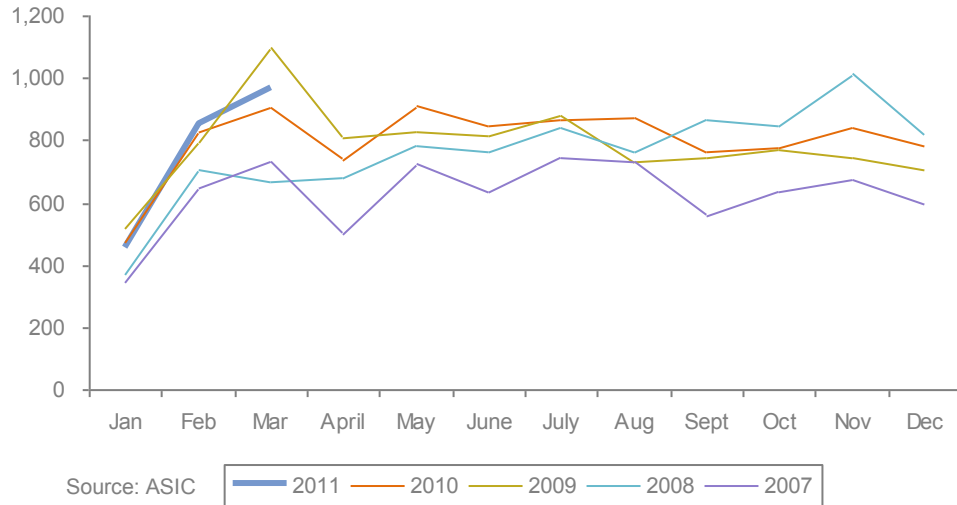
# Insolvency Insights – March 2011

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

6 May 2011



## Companies Entering External Administration

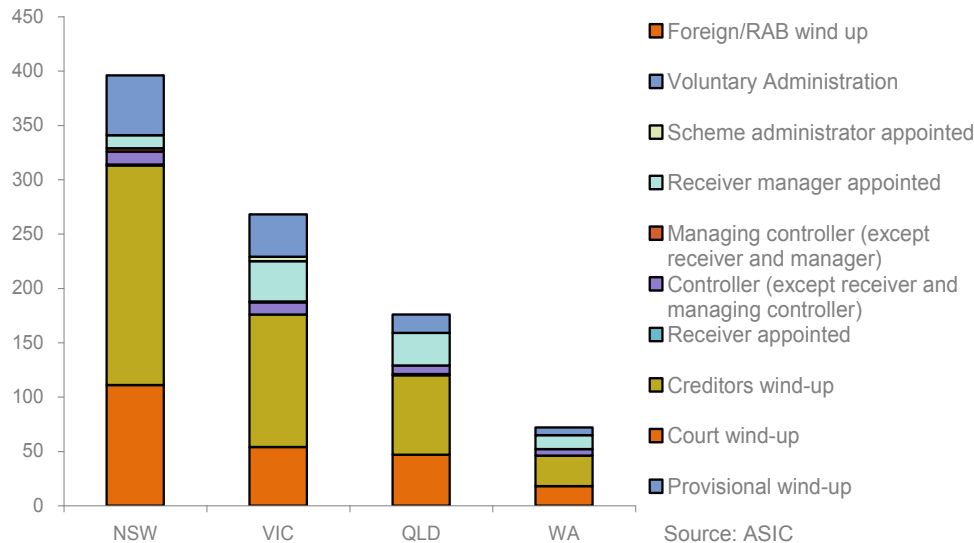


## The Figures

What these latest figures suggest

- As predicted in our last edition of *Insolvency Insights*, company collapses jumped in March, increasing by 14% on the previous month, from 852 to 968.
- This is the second highest level on record for the month of March, up 7% compared with the same time last year. The highest March figure (1,095) was at the height of the Global Financial Crisis (GFC) in 2009.
- Total company collapses for Western Australia are at an all time high (72), just above the second highest levels reached in May 2009 (70).
- Company failures due to creditor winding up applications are also at an all time high (451), up 26% and up 27% on March last year. Voluntary administrations are at their lowest levels (129) in 10 years for the month.
- A change to the *Corporations Act* in 2008 streamlined the creditor voluntary liquidation process which has resulted in a significant decrease in voluntary administrations, down 35% for the same period in FY 08/09.
- We consider this decline, coupled with an increase in creditor voluntary wind-ups, is due to company directors utilising this new voluntary winding up process to “clean up” companies and company structures.

## Comparison of Appointments by State



## Economic Influences

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

- The economic data in March continued to provide a knife-edge view of Australia's economy, with confidence falling on the one hand, and jobs ads and employment increasing on the other.
- The RBA left official interest rates unchanged in March for the fourth consecutive month at 4.75%, noting that the economy was growing at trend and inflation was consistent with the target.
- Due to budget concerns, tax issues and petrol prices, the Westpac-Melbourne Institute's Consumer Sentiment Index fell by 2.4% - the lowest since June 2010. The NAB Monthly Business Survey showed business confidence also declined by five points to plus nine points in March, due to sharp declines in the retail, construction and manufacturing industries.
- The latest Consumer Price Index figure surprised many commentators, increasing 0.6% from 2.7% to 3.3% in the March quarter, the largest quarterly rise since June 2006.

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## Companies Entering External Administration vs Trade Payments



Source: ASIC and Dun & Bradstreet, Trade Payment Analysis, 2008 - 2011

### 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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### Comparative Analysis

- Dun and Bradstreet's quarterly *Trade Payment Analysis* measures the average payment terms in days of Australian businesses based on 10 million transactions.
- Business-to-business payment terms (or debtor days) figures are a good barometer of the current financial position of Australia's businesses, particularly their cash flow. Cash flow is a critical measure of a company's financial health and poor cash flow is a leading cause of company failures. Average debtor days also measures the speed cash is moving around the economy.
- The *Trade Payment Analysis* for the 2011 March quarter, released this week, revealed creditors are being repaid at their slowest rate in three years (55.6 days), only slightly lower than in the December quarter 2008 during the GFC (55.9 days).
- An analysis of the trade payment figures against insolvency figures shows a correlation. Fluctuations in trade payments and company collapses tend to track one another, albeit with a lag. Our analysis, while not conclusive, indicates that as cash slows and trade debtor days increase, one to two quarters after, insolvency rates increase. This was the case in the second and third quarter of 2008, and third and fourth quarter of 2010. The anomaly is in the first quarter of 2011, due to the usual drop-off in company collapses over the holiday period.
- The recent deterioration in trade payments and increase in insolvency appointments is a worrying sign for Australian businesses, highlighting the continued uncertainty in the Australian economy and falling business confidence. We predict insolvencies will continue to increase in the second and third quarters of 2011 following the increase in trade payment debtor days being seen in the first quarter this year.

### Outlook

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

- We anticipate insolvency figures will continue to be quite high in April as business conditions remain challenging, particularly for SMEs, with average payment terms trending upwards, a consistently high Australian dollar and subdued consumer sentiment. Of note, the April figures will likely be deceptively lower due to fewer business days during the month this year.
- In the medium term, we expect insolvencies to remain at these historically high levels, particularly if official interest rates rise. As the RBA signalled this week, future increases are likely due to the expected continued growth in inflation, further impacting consumer confidence.