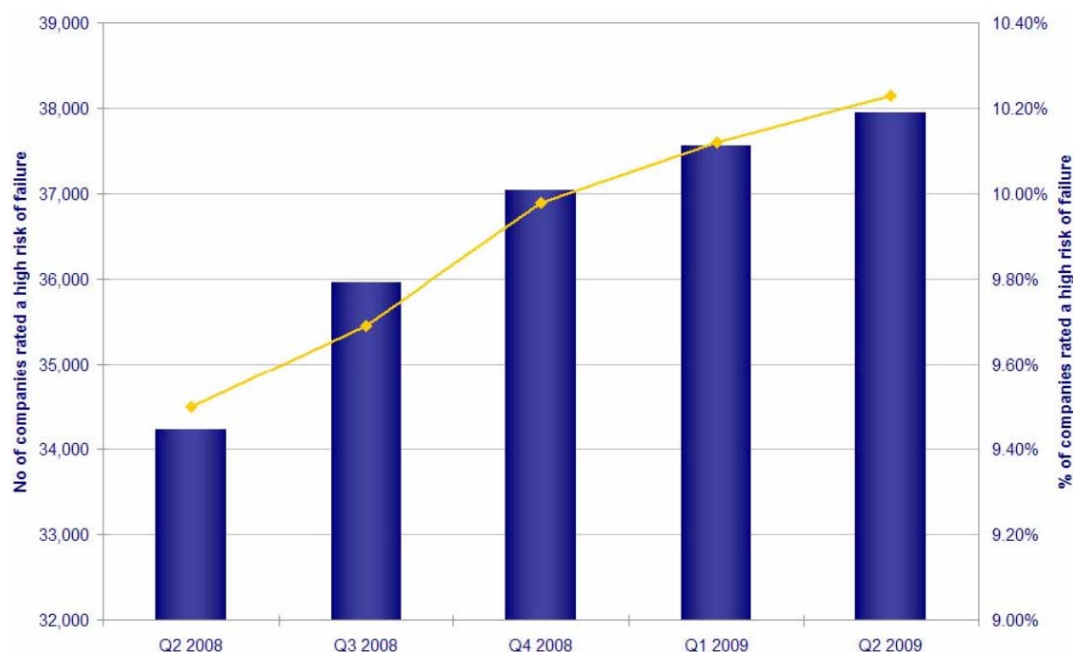


Wednesday 30 September 2009

## 38,000 firms a high risk of distress this financial year

*Economic recovery comes with challenges for Australian firms*

Close to 38,000 Australian firms are a high risk of distress this financial year, despite signs the Australian economy is on the mend. The latest data from Dun & Bradstreet (D&B) shows that the number of firms at risk has continued to rise over the past fifteen months, from around 34,000 in Q2 2008 to almost 38,000 in the June quarter of 2009. This increase leaves one in ten (10.2 percent) firms at risk of financial distress in the 12 months to the end of June 2010.



**Companies (nationally) rated a high risk of financial distress or failure**

While the increase in the number and percentage of firms at risk of financial stress has occurred across the country, younger firms, the communications sector and businesses located in Queensland have the highest percentage of firms categorised as high risk.

Coming on the back of more positive news from D&B's latest *Economic & Risk Outlook Report* and *Business Expectations Survey*, this research highlights that despite improving economic and business conditions, the risk of Australian firms continues to shift. *The Economic Report* showed that Australia is set to ride out the crisis relatively well compared to other developed nations, while the *Business Expectations Survey* revealed that 44 percent of firms are expecting an increase in sales and one third are expecting an increase in profits in the December quarter.

According to D&B's CEO, Christine Christian, the latest research provides a warning to Australian executives that the economic recovery won't be all smooth sailing and that risk and cash flow management is critical to business success regardless of where we are in the business cycle.

# MEDIA RELEASE



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“As economic conditions improve and sales start to pick-up, there can be a tendency for executives to lose their focus on the fundamentals of good business management,” said Ms Christian.

“However, D&B’s research provides an important reminder that a continued vigilant focus on cash flow and credit risk is absolutely critical during a period of economic recovery.

“In the excitement that comes with the resurgence in activity firms often forget that a sale which doesn’t get paid or is paid well past due has significant detrimental impacts on cash flow.

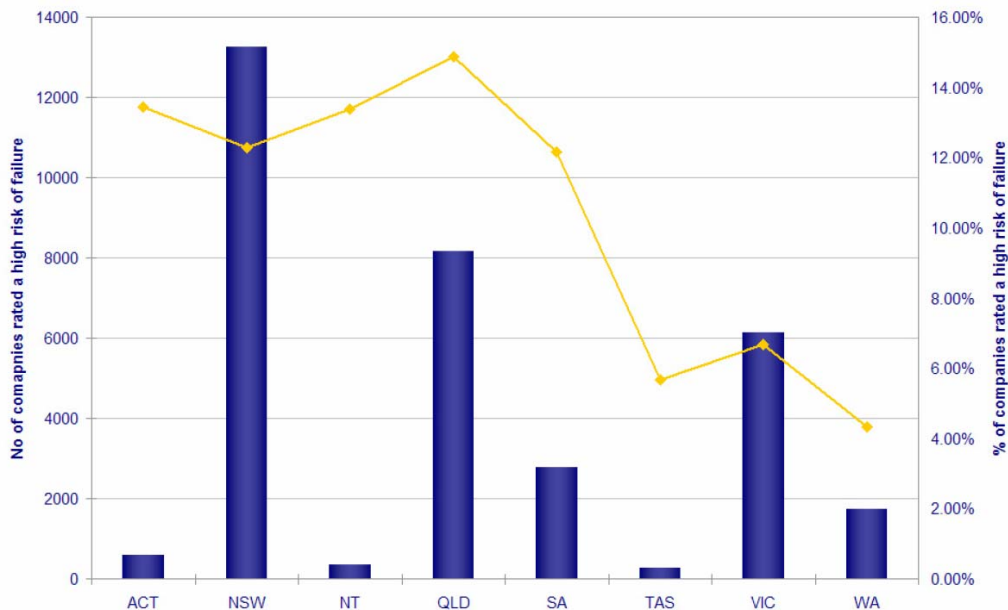
“With negative cash flow often the primary cause of business failure, those executives whose focus wavers could find themselves as another statistic on the failed business register.”

## Age

Young firms face the greatest risk of financial stress or failure in the current financial year, with 17 percent (or more than 20,000 firms) of firms up to five years old categorised as high risk. Older, well established firms that have been operating for many years have a significantly lower risk of failure at just more than three percent.

## Location

Examining the data by state reveals that Queensland based firms account for the greatest percentage of companies categorised as a high risk of financial distress. Fifteen percent of firms in the sunshine state are rated in this way. Meanwhile, despite a lower percentage, New South Wales accounts for the highest number of firms rated a high risk of experiencing financial stress, a finding which is largely a consequence of the significant number of firms headquartered in NSW. In excess of 13,000 New South Wales based firms are classified as high risk – this compares to more than 8,000 firms in Queensland and in excess of 6,000 businesses in Victoria.



**Companies (by state) rated a high risk of financial distress or failure**

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## Industry

With close to thirteen percent of firms in the communications industry rated a high risk of experiencing stress this financial year, this sector is the riskiest of those analysed in this study. The transportation sector also has a significant percentage of firms categorised as high risk at close to eleven percent. However, examining real numbers reveals that three industries have in excess of 1,000 firms in the high risk group. The construction, manufacturing and services sectors have in excess of 1,600; 1,400 and 1,300 firms respectively categorised in this way. Meanwhile, the finance, insurance & real estate sector has more than 2,000 firms categorised as high risk.

“The research demonstrates that certain firms are a higher risk of potential trouble in the coming months than others. However, executives should continue to conduct due diligence on all firms before taking on new customers,” said Ms Christian.

“This is a particularly important message at a time when sales activity is expected to pick up as we head towards Christmas.

“Those firms that maintain their focus on the fundamentals will be well placed to take advantage of the upswing and pursue growth opportunities in the months ahead.”

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## Media Notes:

*\*D&B's research is based on an analysis of Australian firms up to the end of the June quarter 2009. The research assesses a number of a number of factors, including court actions, collections, financial data and ratios, trade payment information, director court actions and registered charges to determine the likelihood of failure.*

For further information please contact: