



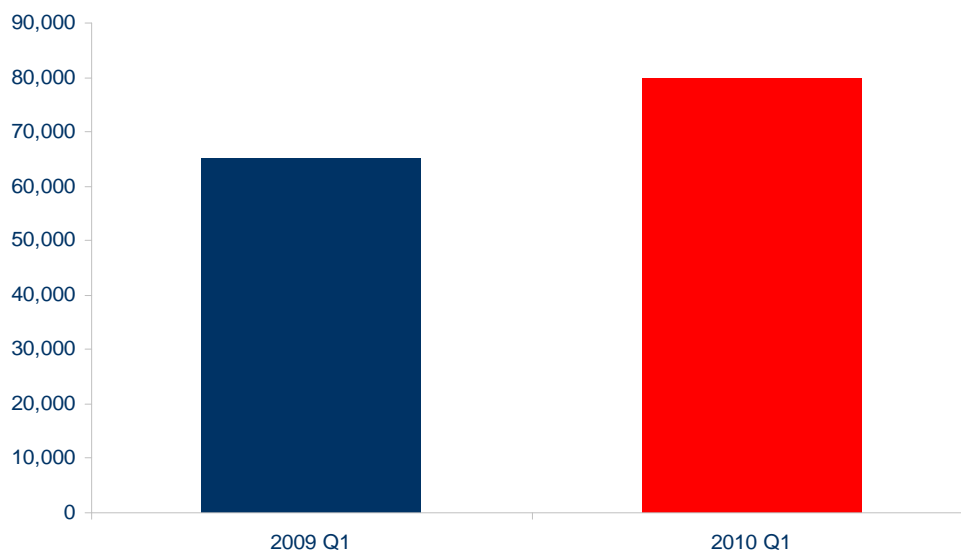
19 May, 2010

80,000 firms downgraded in the March quarter 2010

Business downgrades continue despite the economic recovery

Close to 80,000 Australian firms had their risk profile downgraded in the first three months of 2010 and are now more likely to experience financial distress over the coming year despite the strength of the economic recovery.

The latest risk research from Dun & Bradstreet reveals the number of firms downgraded has risen by close to 15,000 compared to the same time last year, a period when the local and global economy was continuing to face significant pressures from the global credit crisis.



Number of firms downgraded – March quarter 2009 and 2010

The research also reveals that downgrades have resulted in more than 36,000 Australian firms being classified as a high risk of experiencing financial distress in the coming 12 months.

According to Dun & Bradstreet's Director of Corporate Affairs, Damian Karmelich, the latest figures are concerning, particularly when they are considered against the downgrades that occurred during the height of the global crisis.

"Close to 65,000 firms were downgraded over a three month period at the height of the most significant global crisis in decades," said Mr Karmelich.

"Now, as the economic recovery in Australia continues to gather steam, close to 80,000 firms have been downgraded. It's an important sign that risk remains prevalent and firms must be constantly vigilant."

Sector

Examining the industries that have had the most significant number of downgrades reveals the forestry and electric, gas and sanitary services sectors lead the way. Both



groups had more than ten percent of firms re-rated in the March quarter. However despite the significant number of downgrades, these two groups have smaller percentages of firms in the high risk category than their counterparts in the communications, transport, agriculture, fishing, mining and construction sectors.

The electric, gas and sanitary services sector also had the most significant percentage of firms experience a downgrade to its payment rating, with more than 10 percent of firms in this industry earmarked as a high risk of paying their trade accounts severely delinquently in the coming year. This finding correlates with the latest trade payments data which shows this group was the slowest to pay in the March quarter 2010, a position it has held for more than 12 months.

These trends reflect broader developments in the economy, with the agriculture sector facing pressure due to the high exchange rate and the construction sector impacted by rising interest rates. In addition, although large mining companies dominate the news headlines, this industry has a number of small players that are less able to withstand cash flow issues than their larger counterparts.

Location

Examining high risk firms by state reveals the Northern Territory, New South Wales, Queensland and the Australian Capital Territory were among the worst performing states. The Northern Territory and New South Wales also accounted for the highest percentage of downgrades. However, while the actual number of downgrades in the Northern Territory was relatively low compared to other states, New South Wales had in excess of 5,000 more downgrades than any other state. This result is largely a reflection of the significant portion of the nation's firms based in the eastern state.

New South Wales, Queensland and the Northern Territory also topped the list for payment downgrades, with these states accounting for the most significant percentages of re-ratings. However, New South Wales accounted for the greatest number of revisions, with in excess of 22,000 firms downgraded.

Size

Smaller firms are more likely to be rated a high risk of experiencing severe financial stress or failure than their big business counterparts and they also experienced the greatest number of downgrades during the March quarter.

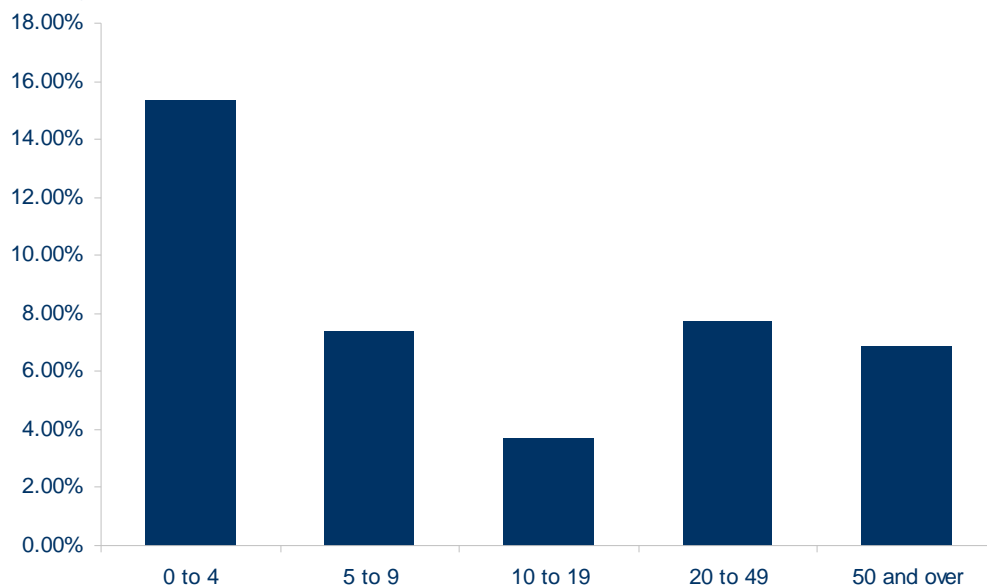
Smaller firms are often less able than their bigger counterparts to withstand cash flow challenges. In addition, they can face difficulties accessing credit to help them manage the period between the sale of goods and services and the receipt of funds from a customer.

Age

Younger firms are a greater risk of distress than their older counterparts. More than 15 percent of young firms (up to four years old) are currently rated a high risk of failure – this figure falls below 10 percent for all other groups.



Examining the number of firms downgraded reveals that those firms up to four years old and those between 20-50 years old accounted for the most significant numbers of downgrades, both above 20,000. Those up to four years old also accounted for the largest number of payment downgrades, with close to 22,000 firms now a greater risk of paying their trade accounts delinquently.



Firms rated a high risk of financial distress in the coming 12 months by age

However, a larger percentage of bigger firms had their payment ratings downgraded in the March quarter, with those firms employing more than 50 staff experiencing the most significant portions of revisions. These findings correlate with the latest trade payments data which shows that big firms continue to be the slowest to settle their trade accounts following a deterioration in terms compared to the previous quarter.

Mr Karmelich believes many businesses are underestimating the challenges an economic recovery presents.

“Although the past couple of years have been difficult, the Federal Government stimulus package and low interest rates encouraged households to spend and businesses to invest. However, this silver lining is disappearing – interest rates are on the way up and the government is winding back the stimulus,” said Mr Karmelich.

“In addition, credit remains tight and the risk aversion practices that financial institutions fine tuned during the crisis look set to continue throughout 2010. With these factors in mind it is clear Australia’s executives need to maintain their risk management vigilance to ensure they don’t become another statistic on the failed business register.”

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