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Monday, 2 May 2011.

Business payment terms reach three year highs

Proportion of payments severely delinquent jumps 20 percent

Business to business payment terms have reached three year highs and the number of firms now paying their bills in a severely delinquent manner has risen dramatically with the deterioration most pronounced among smaller firms who have historically been among the best payers.

These are the key findings from the Dun & Bradstreet *Trade Payment Analysis* for the March quarter of 2011. The findings are based on analysis of the more than 10 million trade payment references on the Dun & Bradstreet commercial database.

The March quarter report reveals that average payment terms have risen to 55.6 days, which is the slowest rate of payment in three years and just slightly behind the 2008 figure of 55.9 days. This makes the average payment terms for the March quarter of 2011 the second worst figure since the ten year high of 58.9 days set in 2001.

Smaller businesses have experienced one of the worst deteriorations with average payment terms for firms with 1 – 5 employees jumping more than 5 days between the December quarter of 2010 (51.5 days) and March quarter of 2011 (56.6 days).

Large firms (500+ employees) remain the slowest payers at 58.5 days in the March quarter of 2010. This was up from 55.6 days in the December quarter of 2011.

The Dun & Bradstreet data also reveals that the greatest deterioration in payment terms is occurring at the severely delinquent end of the scale. The number of firms that are now paying their bills at 90+ days overdue has jumped 20 percent while those that pay at 60+ days overdue has leapt 41 percent.

Conversely, the number of prompt payments has declined by nearly 16 percent quarter-on-quarter and by 10.5 percent compared to the same time last year.

The deterioration in payment terms is a worrying sign for Australian corporate health given the role of trade credit as the primary source of short term finance for firms and the link between business payment terms and business solvency.

Dun & Bradstreet data reveals that business failures in Australia jumped nearly 25 percent in 2010 at the same time as business payment terms began to trend upwards. Similar trends were also identified in the United States of America (US).

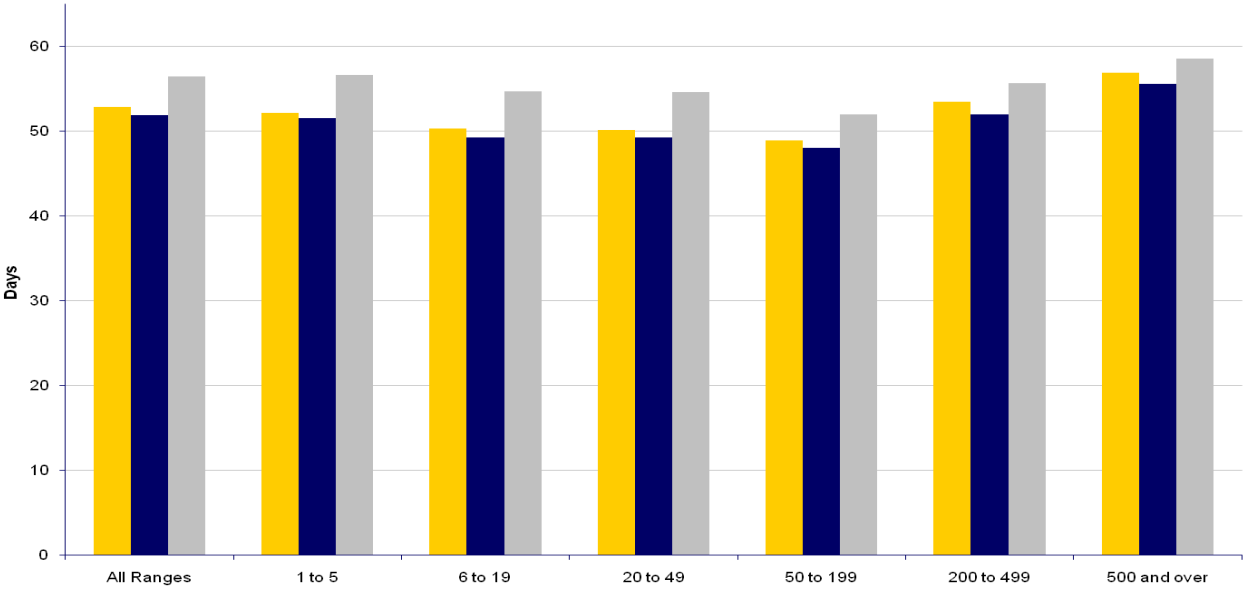
And the slowdown in payment terms is beginning to be felt by business owners. More than 50 percent of executives reported that slowing payment terms were negatively impacting their business, according to the latest Dun & Bradstreet *Business Expectations Survey*.

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2010 Q1 2010 Q4 2011 Q1



Payment terms (business size by employee numbers)

Dun & Bradstreet Director of Corporate Affairs Damian Karmelich believes the deteriorating payment terms signal that executives are not paying as much attention to the fundamentals of cash flow management as they were during the Global Financial Crisis (GFC) and this is a primary reason that business failures are rising rather than falling as the economy improves.

“During the global crisis payment terms actually improved as firms focused on the fundamentals of cash flow management”, said Mr Karmelich.

“The result was that Australia had far fewer business failures than many other countries around the world.

“However, as the economic outlook improved firms have reduced their focus on credit risk and cash flow management resulting in payment terms deteriorating and business failures rising. This is an important reminder of the importance of business fundamentals regardless of how good the economy may be.”

Industry

Of the fourteen sectors included in the analysis only one (Electric, Gas and Sanitary Services) recorded an improvement in payment terms. The slowest paying industry was Forestry at 64.2 days, which was a jump of nearly 8 days on the December quarter of 2010.

Communications was the next slowest payer at just under 60 days followed by Finance, Insurance and Real Estate.

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The fastest paying industry was Transportation at just over 53 days followed by Agriculture at just over 54 days.

While Governments' at all levels have introduced policies to improve their payment practices, particularly to small businesses, this sector is still one of the worst payers taking just under 58 days to pay their business suppliers.

Examining the data by level of government reveals that New South Wales (NSW) was the slowest payer of all state governments at 59 days. Local government authorities in the North Territory were the slowest payers of any category at an average of 75 days. They are followed by local government authorities in Victoria and Queensland who are taking 56 days on average to pay their private sector suppliers.

Public | Private

Public companies took longer to pay their bills than private companies at 58 and 56 days respectively. However, private firms experienced a greater deterioration quarter-on-quarter with payment terms deteriorating by over 4.5 days.

State

The Australian Capital Territory (ACT) was the slowest paying state at just over 59 days, which was a quarter-on-quarter deterioration of 5 days. Of the larger states NSW was the worst at 57.5 days followed by Queensland at 56.9 days.

Tasmanian businesses were the fastest to pay their bills at an average period of 54.7 days followed by Western Australia at just over 55 days. Tasmania also experienced the smallest quarter-on-quarter deterioration at around 3 days.

Similar payment trends are evident around the world. More than 75 percent of business payments were overdue in the United Kingdom in the last quarter of 2010 and on average more than 60 percent of payments were late across Europe for the same period.

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Media notes

The D&B quarterly trade payment report is based on analysis of the more than 10 million business payment records on the Dun & Bradstreet commercial database. The data provides an independent verification and analysis of business-to-business payment trends and is not based on survey responses.

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