Analysis of ASIC's latest external administration appointments statistics for May 2016

8 AUGUST 2016

Tentative Signs of Improvement but Corporate Insolvencies Remain at Elevated Levels

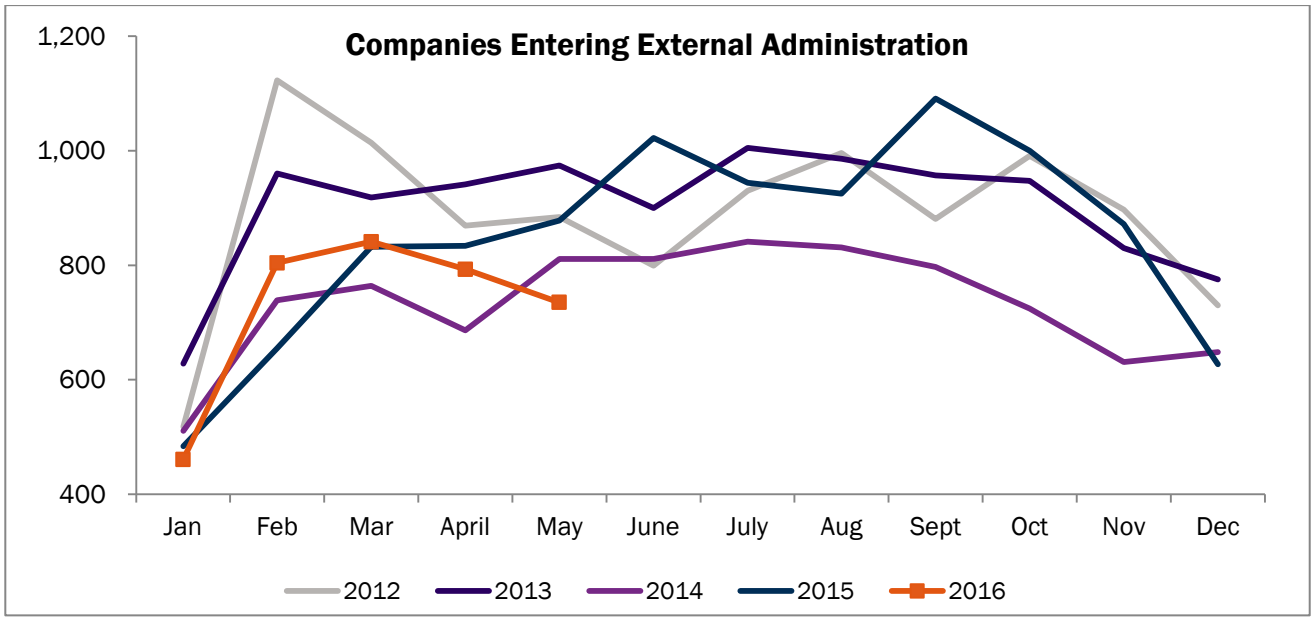
Mining States of WA and QLD Report Insolvencies at Higher than the National Average

Analysis and commentary by FTI Consulting reveals there are tentative signs of improvement despite corporate insolvencies across Australia remaining at elevated levels. The recent trend of insolvencies is showing some regression with total numbers of companies entering administration reducing for three consecutive months. In addition, the average number of companies entering external administration for 2016 to date is 727, the lowest annual average since 2007. This improvement will need to continue for a number of months to break an overall pattern of elevated insolvencies.

For the 12 months to May 2016, insolvencies rose nationally by 13% to a total of 10,155 when compared with the prior period (12 months to May 2015) where the equivalent number of companies was 8,966. By state, the mining economies of Western Australia and Queensland continue to report company insolvencies that are higher than the national average with Western Australia insolvencies rising by 29% to 1,022 and Queensland up by 17% to 2,147.

It is also interesting to note that across all the states, the clear majority of insolvencies occur by way of creditor wind up, accounting for 56% of insolvencies across Australia.

"In similar cycles, insolvencies were impacted by receivership appointments but we are continuing to see appointments initiated by the directors of companies, rather than creditors or other stakeholders. This change to market behaviour certainly seems well entrenched," said Kelly Trenfield, Senior Managing Director, Corporate Finance & Restructuring at FTI Consulting.

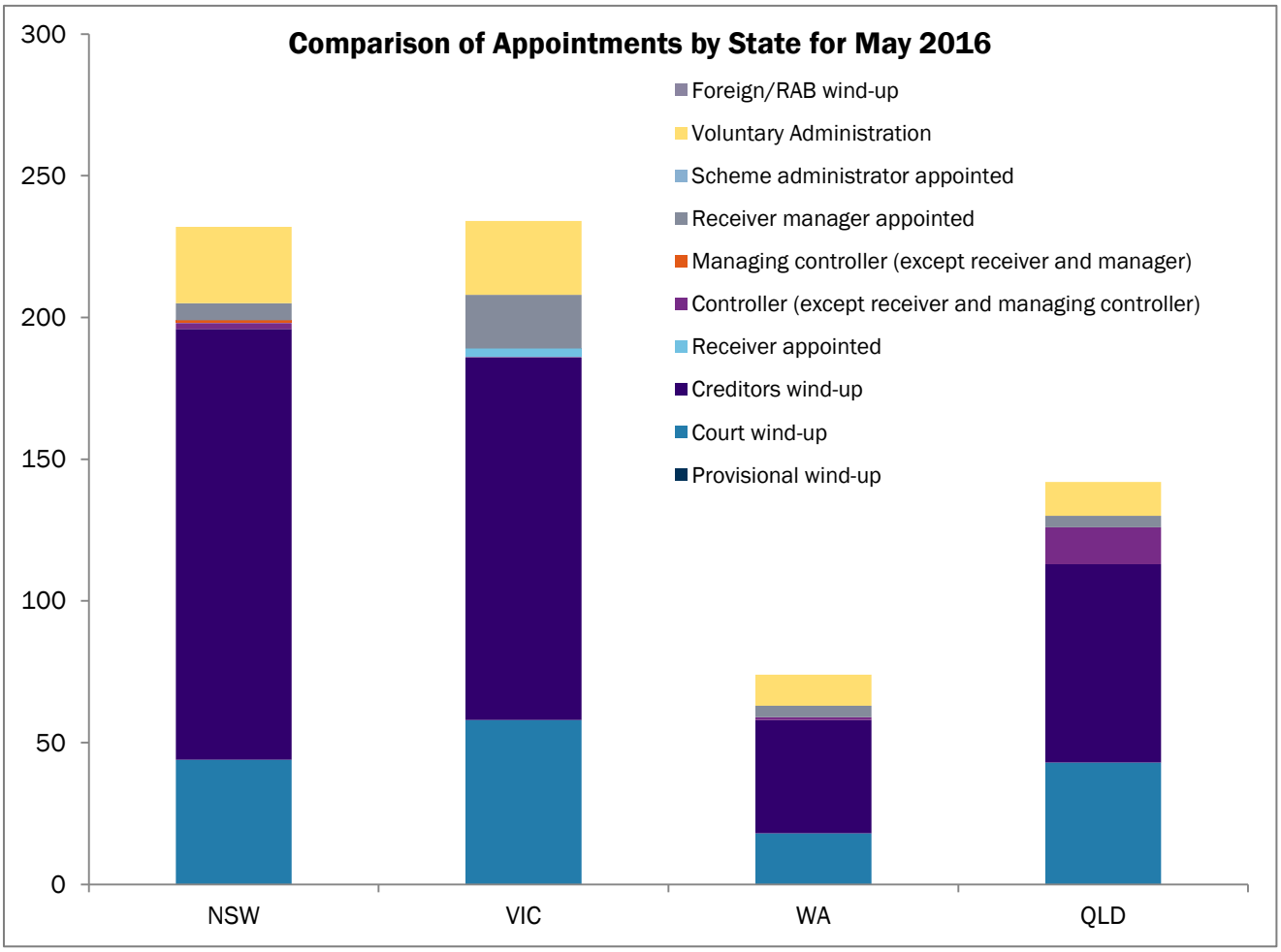


"Many of Australia's directors experienced the global financial crisis in 2008 and are much more aware of the world of insolvency and the need to take steps to avoid insolvent trading," Ms. Trenfield said.

The analysis and comments follow a review of the ASIC Insolvency Statistics for May 2016. The data for the month of May shows continued signs of stabilisation — a total of 735 companies entered external administration in May 2016, a 7% reduction compared with April 2016 and the third consecutive month that insolvencies have declined. It is still too early to call a definitive improvement in conditions and there would need to be a sustained reduction over a number of months for this data to break a clear trend of increased insolvencies.

"In this part of the cycle we would expect to see a decrease in the number of companies going out of business – but we are not there yet. We also see Australia's financial institutions continue to prefer alternatives to formal appointments."

"On the property front, there are some early signs of correction in the inner city apartment market generally in Australia. In Queensland, we are certainly seeing construction being impacted, flowing on from the earlier property correction and there are signs in particular that the Gold Coast construction industry is expected to be impacted strongly in the next 6 to 12 months. A number of markets, including Brisbane, would appear to be facing a large oversupply of inner city apartments which will have a market pricing effect," Ms Trenfield said.



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