



Sickness stalking corporate Australia

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CORPORATE Australia's capacity to survive recession has been questioned, with figures released yesterday showing one company in five is exhibiting symptoms of bankruptcy.

The claims come from the annual 333 Performance Management Australian Corporate Health Index.

In its second year, the 333 index examines 10 years of data from more than 200 listed companies.

Corporate health is calculated by using an internationally recognised bankruptcy prediction model, the Altman Z Score, to measure the health of Australian companies.

The model examines data on five key areas involving capital, assets, retained earnings, earnings before interest and tax, market value of equity, book value of debt and sales.

The future looks grim for many

local companies. Managing director of 333 Performance Management, Martyn Strickland said the most disturbing figure was that 73 per cent of companies were in declining health: "The increase in unhealthy companies from 15 to 19 per cent is alarming, especially when you consider a number of last year's unhealthy companies have disappeared."

"The 73 per cent figure for declining health means there is a huge number of failures in the pipeline unless they act quickly."

"And, perhaps most ominous of all, there has been a 50 per cent increase [from 22 per cent to 31 per cent] in the number of companies classified as at-risk, which is on the way to bad health."

The study also found 85 per cent of consumer-facing industries declined in health, resulting in a 20 per cent

drop in the median Z-Score from 2007 to 2008. The result is in sharp contrast to the inaugural 333 corporate health assessment released in February this year, which declared 56 per cent of listed Australian companies were financially healthy and 61 per cent of companies had improved their financial health in 2007.

The sample used by 333 also excluded financial services sector firms, where the Z-Score is considered to be a low predictor of failure.

That means companies like collapsed Allco Finance Group and ailing Babcock & Brown have not skewed the results this year.

"Our 2008 analysis shows a fall in the median Z-Score of 18 per cent relative to 2007 data, which is a significantly larger fall than in 2001 to 2002 and warns of a steeper and more severe downturn," the authors wrote.

