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CreditorWatch: ‘Zombie firm’ numbers continue to rise as payment times blow out

16 July 2020: New CreditorWatch data shows an increasing number of SMEs across the country are delaying entering into administration, instead remaining propped up by government support. The findings reveal a 20% decrease in the number of SMEs entering into administration from May to June; and 50% fewer than in June 2019.

While the data for June, which also shows a 17% decrease in court actions and a 25% decrease in payment defaults, would traditionally indicate a healthy economy, policy makers should be concerned.

Patrick Coghlan, CEO of CreditorWatch, said “While at first glance, a decrease in business administrations, court actions and defaults seems to indicate a rebounding economy, however when we take a deeper look, it’s clear that trouble is brewing and that businesses are struggling with significant cash flow issues.”

Payment delays give the game away. Payments in June were overdue by an **average of 49 days across all industries, 342% higher than the June 2019 figure.** The growth was even greater across industries like **Arts and Recreation (up 900%) and Retail (up 367%),** suggesting that behind the scenes, SMEs are struggling to make ends meet.

Most impacted industries

Industry	Days overdue in June 2020	Increase on June 2019
Public Administration and Safety	35	1067%
Arts and Recreation Services	60	900%
Information Media and Telecommunications	44	780%
Rental, Hiring and Real Estate Services	70	677%
Financial and Insurance Services	75	650%

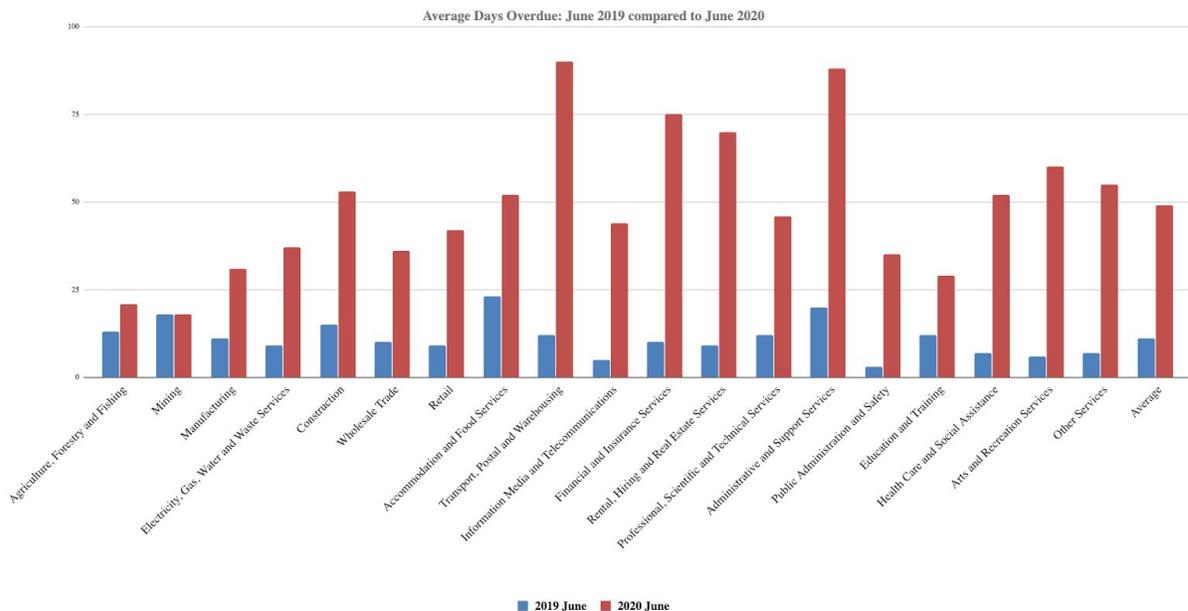
Best performing industries

Industry	Days overdue in June 2020	Increase on June 2019
Mining	18	0%
Agriculture, Forestry and Fishing	21	62%
Accommodation and Food Services	52	126%
Education and Training	29	142%
Manufacturing	31	182%

According to Coghlan: “Government stimulus packages like JobKeeper, JobSeeker, mortgage holidays and the much-needed Safe Harbour changes have provided businesses with a buffer of protection. Until now, the priority has been to keep as many businesses as possible above water.

“Come September however, support packages will be lifted and we’ll find that a substantial number of ‘zombie businesses’ have been kept artificially afloat. Banks will not be prepared to prop unviable companies and nor should taxpayers however, the government can ease the impending insolvency curve by lifting Safe Harbour measures gradually and forming an administration service to support the industry”.

Average Number of Days Payments Overdue - (by industry) June 2019 compared to June 2020



Overdue payment data tells the story of struggling industries

Significant increases in payment times from June 2019 to June 2020 suggests that SMEs in industries like Healthcare, Arts and Recreation and Construction are relying heavily on government subsidies to survive:

- **Construction** increased to 53 days overdue in June 2020 – up 253% compared to June 2019
- **Arts and Recreation Services** increased to 60 days overdue in June 2020 – up 900% compared to June 2019
- **Retail** increased to 42 days overdue in June 2020 – up 367% compared to June 2019
- **Rental, Hiring and Real Estate Services** increased to 70 days in June 2020 – up 678% compared to June 2019
- **Electricity, Gas, Water and Waste Services** increased to 37 days overdue in June 2020 – up 311% compared to June 2019
- **Healthcare and Social Assistance** increased to 52 days overdue – up 643% compared to June 2019

Patrick Coghlan said, “As a result, we’re likely to see a significant jump in the number of businesses coming out of hibernation and entering into administration in the coming months.”

Ends



About CreditorWatch

CreditorWatch is a digital credit reporting agency, headquartered in Sydney. From sole traders through to ASX listed companies, more than 50,000 Australian businesses now use CreditorWatch to make affordable, informed credit decisions, avoid high-risk customers and ensure they get paid on time. CreditorWatch customers can easily search for and monitor the credit history, court actions, payment defaults and insolvency notices associated with any business entity in Australia (including sole traders, trusts and partnerships) giving them an incredibly accurate picture of the risk posed to their business.

The company was founded in 2011 and has offices in Sydney, Melbourne and Brisbane. Find out more at www.creditorwatch.com.au

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