

Australia's big businesses take on more debt

(Australia – 21 May 2008) Australia's Institutional businesses are increasingly turning to bank debt to fund their operations despite recent rises in lending rates.

The jump in the use of Long Term Domestic Debt is particularly prominent, with the share of Institutional businesses using the product increasing from 66.4 percent to 76.5 percent in the six months to April 2008.

The latest East & Partners Institutional Banking Markets report has found three out of every four businesses now rely on domestic debt lines from their bank.

East & Partners' analyst Zoran Knezevic said that in the past few years the top 500 companies had been steering away from the use of plain vanilla bank debt.

"This report, based on structured interviews with a substantial sample of 443 of Australia's top 500 companies by revenue, has unveiled a dramatic shift," he said.

"Sixteen percent of the top 500 businesses are also looking to take on additional lending in the coming six months, up from 7.6 percent 12 months ago."

Mr Knezevic said it was important to note increased lending rates have not stopped Australia's top 500 companies from taking on more debt and reporting higher future borrowing intentions.

There was a substantial rise in the number of top 500 businesses reporting higher lending rates during the past year. In April 2007 just 1.6 percent of these businesses were reporting an increase in their lending rates. This figure has now jumped to 25.5 percent.

"Institutional businesses are clearly committed to realising healthy profits at a time when other sources of funding have dried up," he said.

"This indicates there are no real concerns about the ability to service debt at current prices and that confidence among Institutional businesses remains high, despite the current economic climate."

Mr Knezevic said the demand for plain debt is one side effect of the contraction in other funding markets, caused by the US sub-prime mortgage market woes.

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“The growing reliance on debt among Australia’s biggest businesses has been good news for the leading debt providers in the Institutional segment – the Commonwealth Bank and National Australia Bank,” he said.

“Both have seen their market shares continuing to climb.”

CBA is the biggest primary lender in the segment and accounts for a substantial 19.9 percent of primary lending relationships, followed by NAB with a market share of 19 percent. Westpac and ANZ follow at some distance with market shares of 16.3 and 14.4 percent respectively.

About East & Partners’ Australian Institutional Banking Markets Program

Australian Institutional Banking Markets is an ongoing six-monthly research program delivering detailed analysis of the demand for debt, treasury and corporate advisory banking services among Australia’s top 500 companies by revenue. The program is based on structured interviews with some +/-450 enterprises every six months and includes a range of analytics such as product engagement, market share, wallet share, mind share and panel positioning. The program also monitors customer satisfactions experience across a range of product and relationship banking attributes.

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