

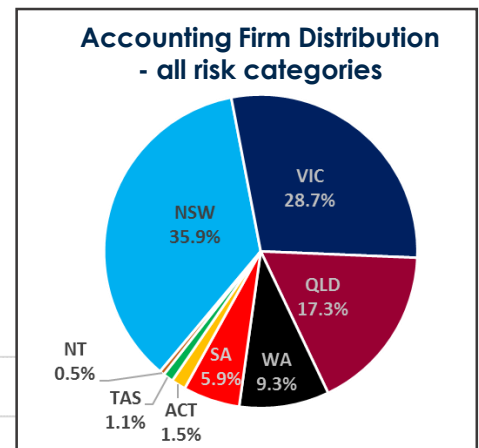
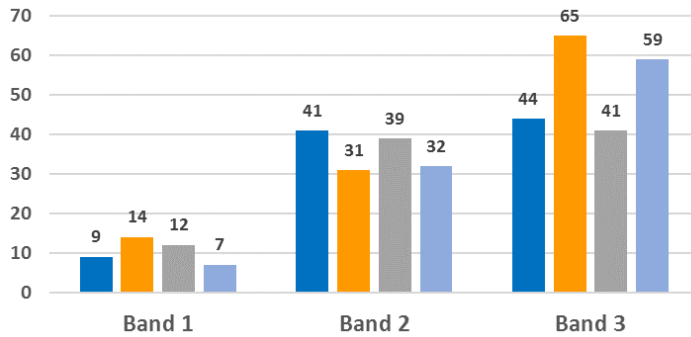
Australian Accounting Industry * Commercial Risk Snapshot – August 2018

This key industry snapshot has been prepared by SmartFee in conjunction with SV Partners. The data has been sourced from the analysis completed by SV Partners for their Commercial Risk Outlook Report August 2018.

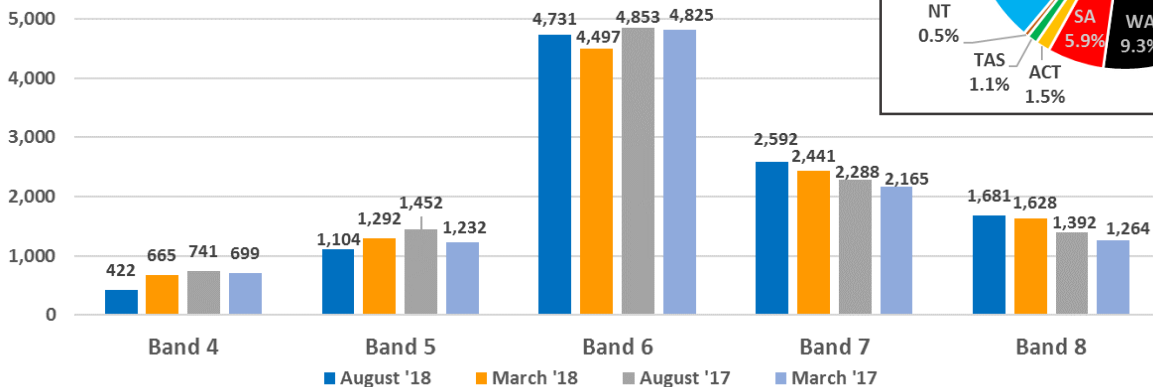
State Analysis – Number of Accounting Firms by Risk Category

State	Risk Band 1	Risk Band 2	Risk Band 3	Risk Band 4	Risk Band 5	Risk Band 6	Risk Band 7	Risk Band 8	Total	Total Bands 1-3	Total Bands 4-5	Total Bands 6-8	% Bands 1-3	% Bands 4-5	% Bands 6-8
	← Severe to High →			Moderate to Average		← Low to Minimal →									
NSW	4	17	22	160	384	1,730	925	569	3,811	43	544	3,224	1.1%	14.3%	84.6%
VIC	1	8	11	90	299	1,369	724	543	3,045	20	389	2,636	0.7%	12.8%	86.6%
QLD	2	10	7	123	241	1,053	309	91	1,836	19	364	1,453	1.0%	19.8%	79.1%
WA	1	4	3	15	104	270	329	260	986	8	119	859	0.8%	12.1%	87.1%
SA				14	38	162	240	169	623	-	52	571	0.0%	8.3%	91.7%
ACT				7	17	70	37	28	159	-	24	135	0.0%	15.1%	84.9%
TAS		1		11	18	50	19	13	112	1	29	82	0.9%	25.9%	73.2%
NT	1	1	1	2	3	27	9	8	52	3	5	44	5.8%	9.6%	84.6%
Total Accounting	9	41	44	422	1,104	4,731	2,592	1,681	10,624	94	1,526	9,004	0.9%	14.4%	84.8%
<i>March 2018 Report</i>	14	31	65	665	1,292	4,497	2,441	1,628	10,633	110	1,957	8,566	1.0%	18.4%	80.6%
<i>August 2017 Report</i>	12	39	41	741	1,452	4,853	2,288	1,392	10,818	92	2,193	8,533	0.9%	20.3%	78.9%
<i>March 2017 Report</i>	7	32	59	699	1,232	4,825	2,165	1,264	10,283	98	1,931	8,254	1.0%	18.8%	80.3%
Total All Industries	2,429	5,113	4,922	25,265	78,296	185,491	119,567	109,401	530,484	12,464	103,561	414,459	2.3%	19.5%	78.1%

Trend Analysis – Severe to High Risk (Categories 1 – 3)



Trend Analysis – Moderate to Minimal Risk (Categories 4 – 8)



Key Insights:

- Risk in the accounting industry continues to reduce with almost 85% of firms now in the low to minimal risk categories – an increase of 5.9% since the August 2017 analysis.
- We see continued minor fluctuations in the total reported number of firms due to a combination of new entrants, closures, delisted entities and mergers/acquisitions.
- Total number of firms at severe to high risk of failure is 94, a reduction over the last analysis period.
- Risk Category 6 continues to contain the highest concentration of firms at 44% of the total population, an increase of 2% since March 18.

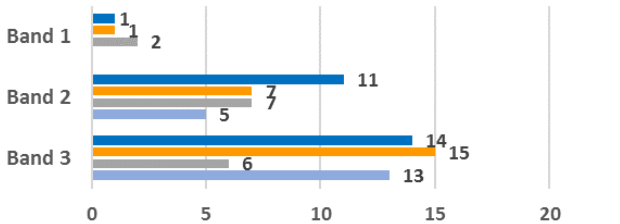
Turnover Analysis – Number of firms by Risk Category

Revenue	Risk Band 1 ←----- Severe to High ----->	Risk Band 2	Risk Band 3	Risk Band 4 Moderate to Average	Risk Band 5	Risk Band 6 ←----- Low to Minimal ----->	Risk Band 7	Risk Band 8	Total	Total Bands 1-3	Total Bands 4-5	Total Bands 6-8	% Bands 1-3	% Bands 4-5	% Bands 6-8
Less than \$1M	1	11	14	155	395	3,063	1,370	599	5,608	26	550	5,032	0.5%	9.8%	89.7%
\$1M to less than \$10M	5	20	18	88	399	1,118	1,021	840	3,509	43	487	2,979	1.2%	13.9%	84.9%
\$10M to less than \$50M		1		1	19	47	43	117	228	1	20	207	0.4%	8.8%	90.8%
\$50M to less than \$100M					2	2	1	11	16	-	2	14	-	-	87.5%
\$100M to less than \$500M						4		13	17	-	-	17	-	0.0%	100.0%
\$500M to less than \$1B						1	1		2	-	-	-	-	-	-
\$1B or more								2	2	-	-	2	-	-	100.0%
Unclassified	3	9	12	178	289	496	156	99	1,242	24	467	751	1.9%	37.6%	60.5%
Total	9	41	44	422	1,104	4,731	2,592	1,681	10,624	94	1,526	9,002	0.9%	14.4%	84.7%

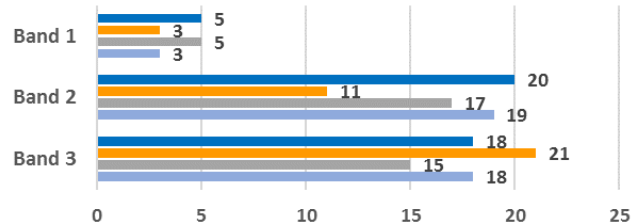
Note "unclassified" represents entities that have not reported sufficient data to complete classification. These are active entities and may be new with insufficient trading history to complete classification.

Trend Analysis

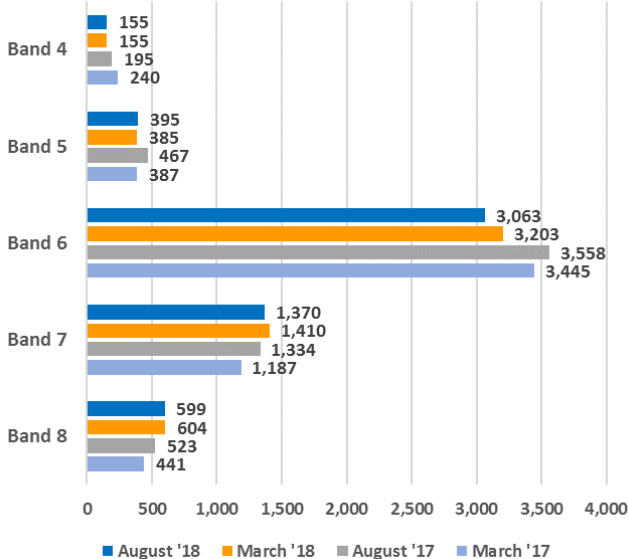
Firms <\$1M Severe to High Risk (Categories 1 – 3)



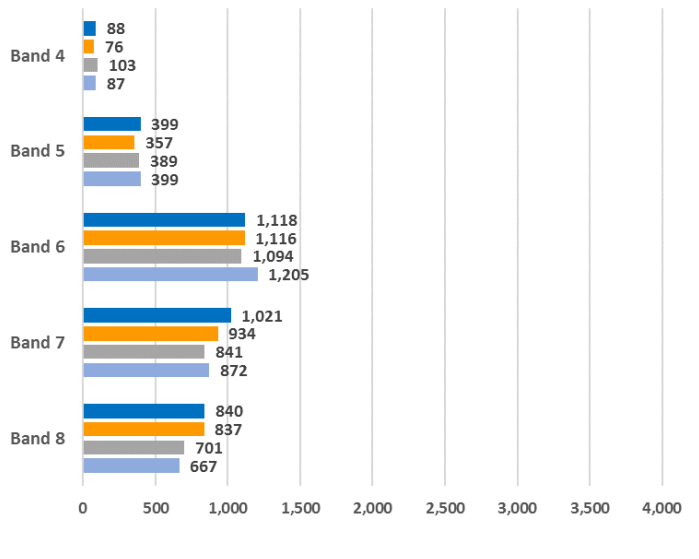
Firms \$1M to < \$10M Severe to High Risk (Categories 1 – 3)



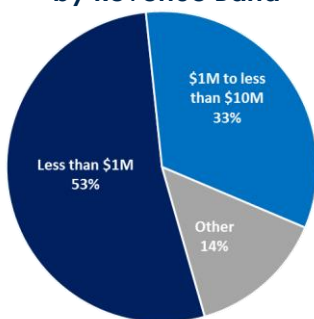
Firms <\$1M Moderate to Minimal (Categories 4 – 8)



Firms \$1M to < \$10M Moderate to Minimal (Categories 4 – 8)



Accounting Firm Distribution by Revenue Band



Key Insights:

- 86% of Accounting firms have a turnover less than \$10M and 53% of firms have a turnover less than \$1M.
- Firms in revenue band \$1M to < \$10M show the highest number and category percentage of firms at severe to high risk (excluding unclassified as a category).
- The number of firms in risk categories 1-3 has increased (from 23 to 26) for firms <\$1M and increased (35 to 43) for firms \$1M to < \$10M since March 18.
- There is a higher concentration of firms in category 6 for firms <\$1M (55%) than firms \$1M to < \$10M (32%).

Comments:

- Our analysis brings together four periods from the Commercial Risk data compiled by SV Partners and released in March 2017, August 2017, March 2018 and August 2018.
- Our aim is to show the current state of risk in the accounting industry and provide insight for accountants, industry bodies, consultants and solution providers to support their engagement with industry practitioners and their clients.
- The total number of firms at **severe to high risk of failure** is 94 – although this is a relatively small percentage we believe accounting industry bodies should place close attention to these statistics to ensure that their members are well supported and industry credibility risk is managed.
- The high concentration of firms in **risk category 6** (44%) is significant – firms in this category are currently designated at low risk and will need to ensure that they have strategies in place to continue to strengthen and stabilize their position.

Actions:

- We recommend accounting firms review their individual clients in line with the SV Partners Commercial Risk Outlook Report August 2018 and understand the potential risk within their own portfolio of clients. **NOTE: due to the geographical correlation identified, firms in high risk geographies should review their exposure to high risk businesses immediately.**
- The SV Partners Commercial Risk Outlook Report highlights significant opportunity for firms to implement business advisory strategies focused on accountability, business improvement, growth and stabilisation.
- Firms should consider appropriate risk mitigation approaches where severe to high risk clients are identified. **Particular attention should be focused on the three key causes of failure for business published in the ASIC Report on Corporate Insolvencies 2016-17:**
 - **Inadequate cashflow or high cash use**
 - **Poor strategic management of business**
 - **Trading losses**
- Employee engagement, client acquisition and retention, product/revenue mix, WIP management and productivity enhancement should remain as key priorities for firms.
- Firms should review their own performance in line with this analysis and ensure that appropriate risk mitigation strategies are in place. SmartFee recommends firms assess the following five key areas:
 1. Market position, market performance and direction
 2. Products/solutions offered and customer fit
 3. Internal operational efficiency
 4. Financial performance and working capital
 5. Culture and organizational structure/performance

How the scores are determined:

Key contributing factors (not limited to) that frame a risk score are as follows:

- The type and frequency of credit enquiries
- The time since a business/company made or changed its registration
- Credit activities including credit enquiries or adverse information of the business proprietor
- Existence of default information on a company file
- Credit source enquiries that a company makes may impact its trade history
- Serious adverse event information recorded such as a previous external administration or other serious adverse events on file
- Industry based enquiry patterns
- Director information and credit activity of a company director such as credit enquiries or adverse events

Risk Mitigation:

Level of Risk of Possible Failure	Action Required	Explanatory note
Severe Risk to High Risk Risk Band 1 - 3	Stabilisation	The chances of successfully bringing a businesses out of its distressed position are low, unless there are only one to two specific issues to be addressed and sufficient time frame to execute required stabilisation strategies. These businesses need a rapid assessment of options and only quick win strategies are likely to have any effect. Effecting stabilisation is likely to be much more achievable. These businesses should undergo a full situational analysis and needs assessment to identify and prioritise strategies and associated action plans.
Average to Moderate Risk Risk Band 4 - 5	Business Improvement	Businesses should be looking to adopt improvement strategies to ensure that they do not slip into lower risk bands and are able to position themselves for future growth. These businesses generally have a few operational inefficiencies, technology or people challenges and could also be missing out on market opportunities. This is the greatest scope to add value to these businesses to bring them into the most effective performers amongst their peers.
Low to Minimal Risk Risk Band 6 - 8	Efficiency, Growth and Value Enhancement	Businesses need to look at opportunities to further enhance operational efficiencies, generally through technology advancements, and develop strategies to grow into new markets or geographies. The focus of a business in this risk band will generally be external – looking for M&A opportunities to further growth, new markets or products/services to increase revenues and profitability or structuring the business ready for a founder/CEO to exit.