

Middle market still the sweet spot for lenders

(16 November 2007 – Australia) Australia's middle business markets continue to offer a "sweet spot" for lenders with more than 65 percent of businesses in this segment intending to take on more debt in the next six months, according to East & Partners.

East & Partners' latest six-monthly Commercial Treasury Banking Markets Report, a study of middle market business customers turning over between A\$20 and 340 million a year, shows that these businesses remain bullish and confident about their future growth aspirations and will take on more debt to achieve it.

Planned borrowings are predominantly used for investment in capital expenditure (typically plant and machinery and property) and also for working capital to fund business growth.

Just 22.3 percent of middle market businesses said they would not be borrowing further over the next six months compared with 65.2 percent who said they would take on more debt. The remaining 12.5 percent said they were unsure about their funding plans.

The Report found that there was a substantial increase in the use of term loans by these businesses over the past six months, from 86.5 percent to 100 percent. In other words, all businesses in this segment are currently borrowing from banks or other lenders.

"It's a clear sign that many middle market businesses are adding more and more debt to their balance sheets," East & Partners general manager, Client Services, Paul Bartholomew said.

"The report shows that businesses in the middle business markets are using lending facilities such as term loans, overdrafts and leases more than ever to fund the growth of their businesses," he said.

"The rising use of debt among middle market business customers has been a consistent trend for a number of years and a far cry from what's occurring at the large corporate end of town where companies have been clearing debt from their balance sheets," Mr Bartholomew said.

"Only SMEs are currently hungrier than middle market businesses for further debt in the Australian business banking markets," he said.

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East's Commercial Treasury Report shows that National Australia Bank is by some distance the largest lender to businesses in this segment. More than 26 percent of businesses nominated NAB as their primary lender.

NAB is followed by, in order, Commonwealth Bank, Westpac, ANZ and St George.

"It's worth noting that almost six percent of businesses said they would borrow simply because of well priced extra liquidity with most reporting either a fall or no change in the interest rate on their borrowings," Mr Bartholomew said.

"However, the recent liquidity crisis caused by the US sub-prime lending market could reduce the supply of cheap money so it will be interesting to see if the market is as bullish in six months time," he said.

About East & Partners' Commercial Treasury Banking Markets Report

East & Partners' Commercial Treasury Banking Markets Report is an ongoing six-monthly research service designed to deliver bank market share, customer satisfaction, mind share, engagement and appetite for debt and treasury products among companies turning over A\$20 to 340 million per annum. The report is based on interviews with more than 880 Commercial enterprises.

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