

Receivership expert: the crunch becomes a squeeze

426 words

16 May 2008

[National Business Review](#)

English

(c) 2008 The National Business Review

Australian and New Zealand companies should prepare for the after-effects of the credit crunch, McGrath Nicol Australian chairman Tony McGrath says.

The crunch has now sliced the riskiest top layer of ventures off the business scene, Mr McGrath said. But the next stage of the post-crunch period will have a broader effect on established companies as they face a tougher time refinancing.

“As banks look at things like credit rationing, it will certainly have an impact on how all corporates look at refinancing their debt,” he said.

The slowdown could take a year or two to work through, Mr McGrath predicted.

The sorts of businesses that tend to be exposed in these crises are companies with high debt gearings or with management problems, he said.

The property and finance sectors are facing particular risk at present.

But the slowdown will also have a flow-on effect in sectors like tourism and manufacturing.

This year’s credit crunch and resulting company failures have a very similar tune to the 1980s crashes, Mr McGrath said.

It’s a tune that you might think is music to a receiver’s ears – McGrathNicol has doubled its business over the past four years since splitting off from accounting firm KPMG.

Failures are just part of the price of capitalism, Mr McGrath said.

“I’m a bit more sanguine about failure [than most people] because I do it for a living.”

He dislikes the way business leaders of failed enterprises get picked over mercilessly from the advantage of hindsight.

Most of their qualities are encouraged in business leaders – until failure hits, he said.

“You’ve got to encourage risk in capitalism,” he said.

But for all that, Mr McGrath doesn’t like to see retail investors losing money.

The string of finance company failures in New Zealand is completely unlike the situation in Australia, he said.

There, the finance debenture-taking industry doesn’t even exist in the same way, as there are far stricter regulations involved.

“I suspect it’s been able to happen in New Zealand because of a lighter regulatory regime,” he said.

A receiver’s job is much easier, Mr McGrath said, where regulations are similar in both Australia and New Zealand.

Voluntary administration rules are one example he thinks is working well.

McGrathNicol has worked on a number of receiverships across the Tasman, such as Feltex Carpets, Pack and Pedal and Henry Walker Eltin.

Tony McGrath: This year’s events are similar to the crashes of the 1980s