Intelligent sharemarket solutions

Media Release

2 May, 2007

Lincoln's sector by sector analysis of the sharemarket reveals it's 'steady as she goes'

A fundamental analysis of the health of the entire Australian sharemarket by leading share market information provider, Lincoln, has found that 34% of ASX listed companies earned the company's top rating of either Strong or Satisfactory while 57% of companies received a Marginal or Distressed rating, reflecting poor financial health.

This high number of companies in poor financial health is due mainly to the disproportionately high number of unprofitable, small cap and start-up companies, the majority of which are resource or energy companies solely engaged in exploration activity. Until these companies make a significant exploration find and begin production, they will remain unprofitable and will be ranked as having poor financial health. This affects the market's overall risk rating.

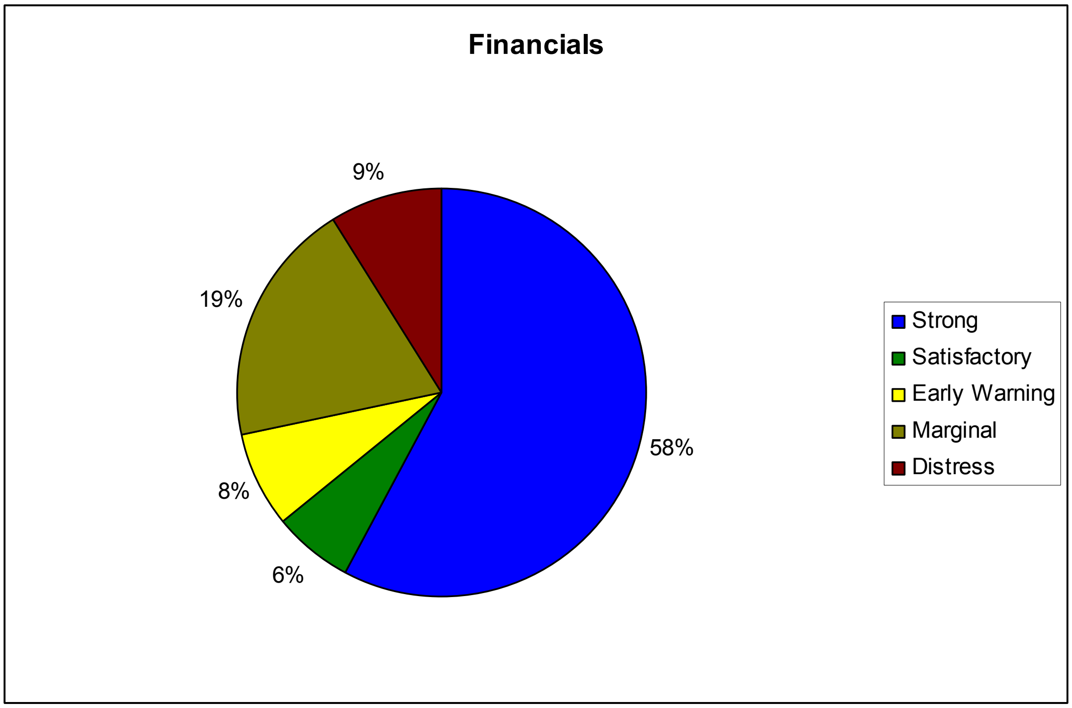
Apart from these small exploration companies, the remainder of the market is in a very solid position of financial health, with most established companies, particularly larger companies such as those in the S&P/ASX 300, maintaining or improving their financial health. This is indicative of a strong global and Australian business climate which has enabled companies to achieve strong profit growth and improved balance sheets.

Health Rating	Dec 2006
Strong	29%
Satisfactory	5%
Early Warning	8%
Marginal	44%
Distressed	13%

Financials

The largest sector in terms of market capitalisation is the Financials group, made up of Banks, Real Estate, Insurance and Diversified Financials.

Not surprisingly, this is one of the most financially healthy sectors with 64% of companies being ranked as either Strong or Satisfactory. The sector's strength can be attributed to the characteristics of the industries it encompasses. Banks and Insurance companies make a considerable contribution to the sector's overall strength and they operate in a highly regulated environment with the Australian Prudential Regulatory Authority responsible for ensuring that these companies maintain a low level of financial risk. Consequently, companies in these industries exhibit a high level of financial health.



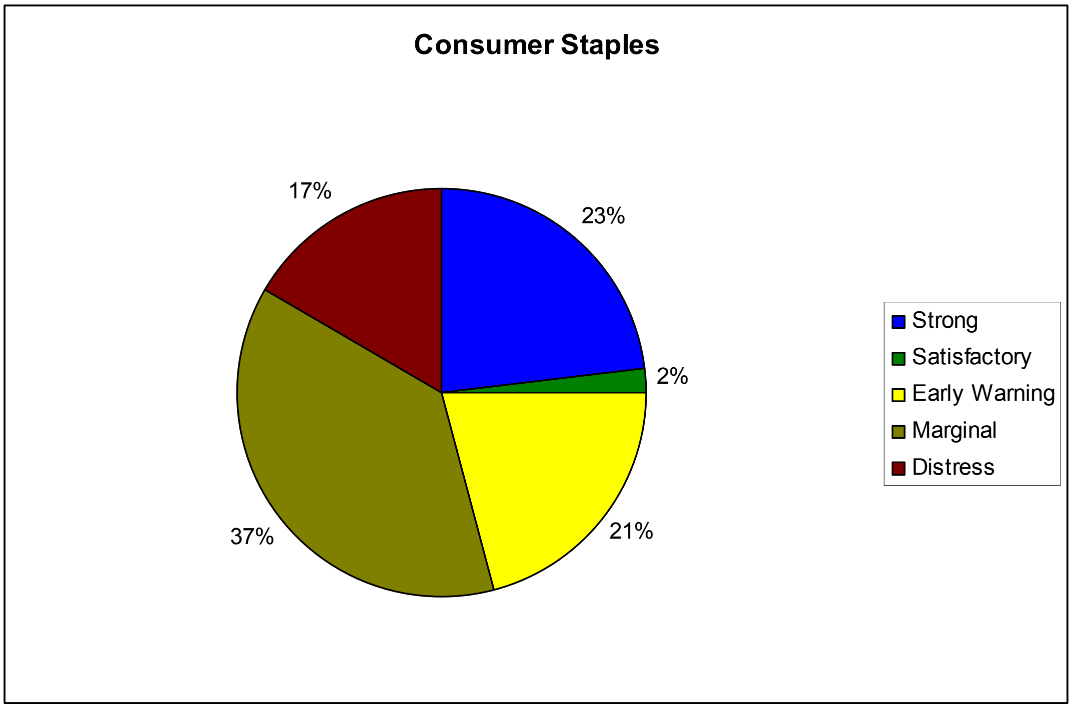
The Real Estate companies in this sector also add to its strength, due to the high number of property trusts. Trusts generally exhibit a high level of financial strength maintaining low levels of gearing and benefiting from a buoyant Australian property market (particularly the commercial property sector).

Another significant proportion of this sector is made up of listed investment companies which have also showed signs of improving financial health in recent years. The improvement is attributable to the strong growth seen in financial markets. With the All Ordinaries rising strongly over the last year and hitting record levels, these companies have experienced consistently strong investment returns and earnings during the year. Companies offering financial services have also experienced strong demand as investors wishing to take advantage of strong equity markets have increased demand for their services fuelling earnings growth.

Consumer Staples

The Consumer Staples sector consists of the Food and Staples Retailing Sector and the Food Beverage and Tobacco industry groups. In this sector, only 25% of the companies are in either a

Strong or Satisfactory position with 54% rated as Distressed or Marginal. The explanation for the group's relative weakness is due to the composition of the sector.



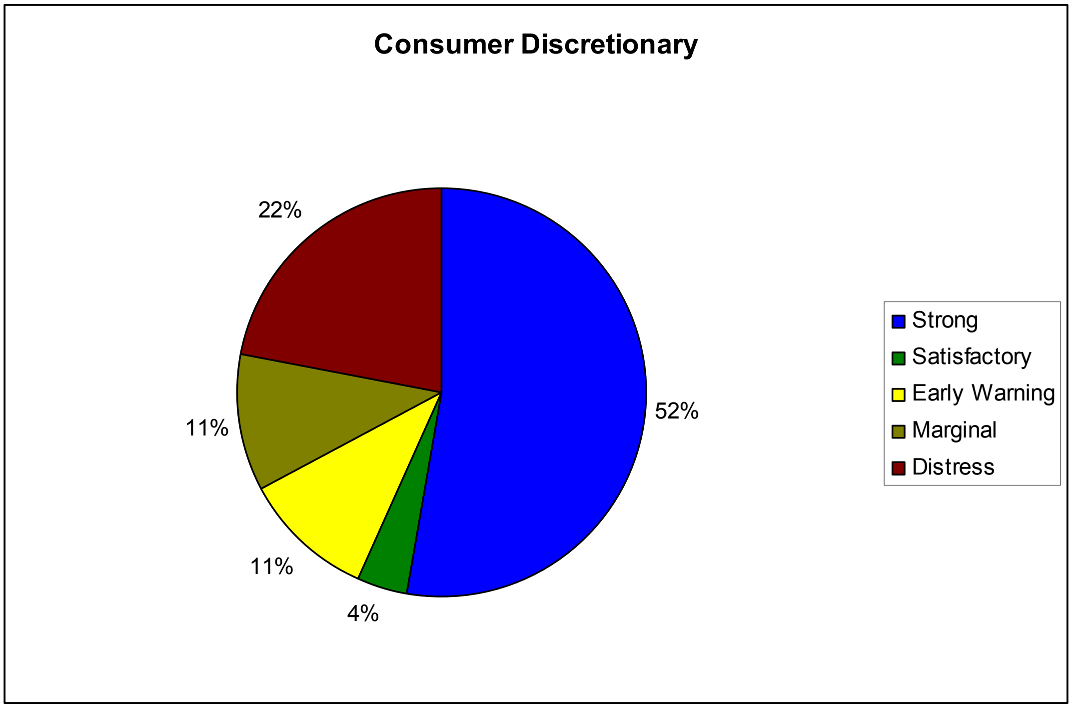
Food and Staples Retailing is one of the smaller industry groups in the Australian market. It is dominated by retailing giants Coles Group and Woolworths which are both rated as being in Strong positions of financial health. The remainder of the companies in the group are small cap companies, newly listed or in a loss-making position that weighs down the overall financial health of the group.

The Food Beverages & Tobacco industry group is made up largely of food and beverage manufacturers and wine makers. Like the Food and Staples Retailing industry group, this group is also heavily dominated by a few large players with companies such as Foster's and Coca Cola Amatil accounting for the majority of the sector's market capitalisation. Both of these companies, as well as most of the other large cap companies such as Goodman Fielder and Futuris Corp are in Strong positions of financial health. At the other end of the scale are several small winemakers, brewers and food producers which are in poor positions of financial health.

Consumer Discretionary

Consumer Discretionary is one of the broader industry sectors of the ASX encompassing the Media, Consumer Durables & Apparel, Automobiles & Components and Retailing industry groups. As a general rule, this sector is fairly sensitive to economic conditions. During the past

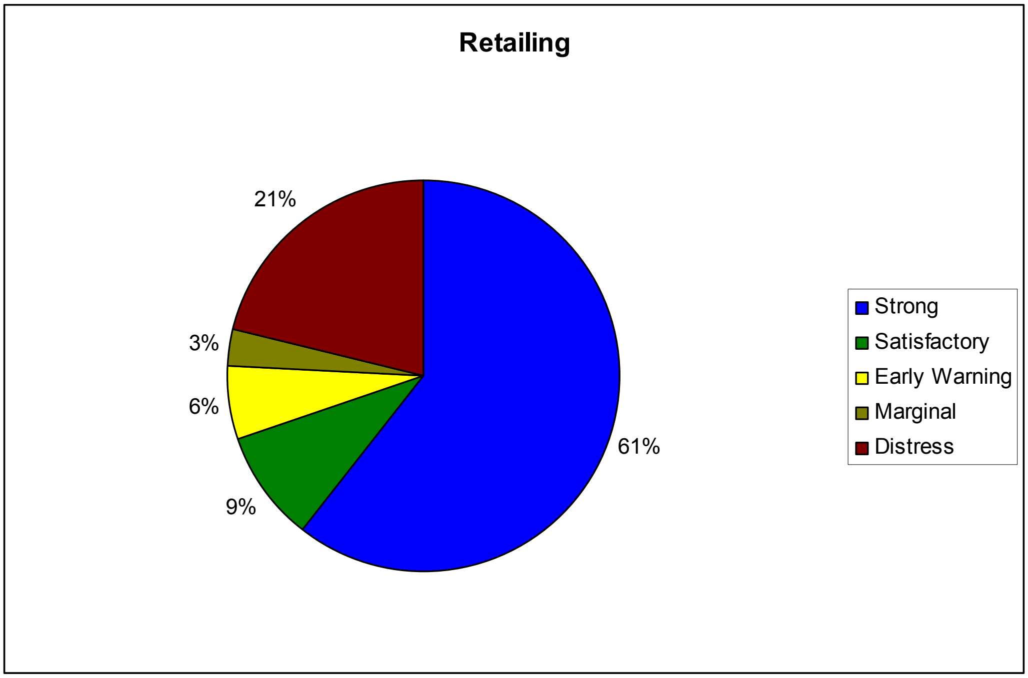
12 months, the sector had another good year with strong domestic demand fuelled by low interest rates and a high level of consumer confidence.

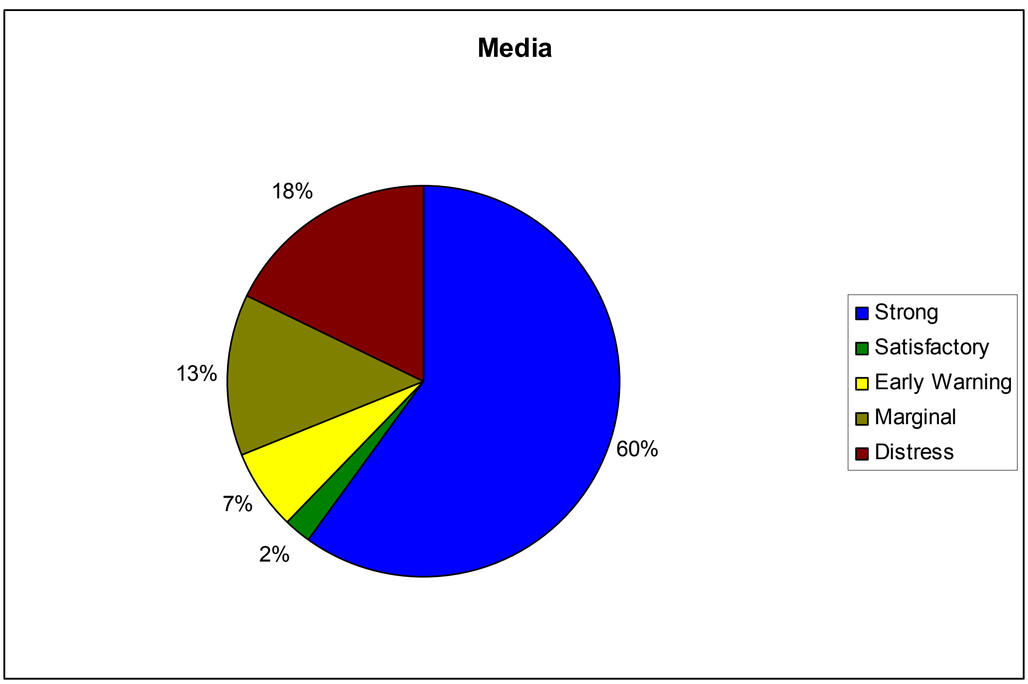


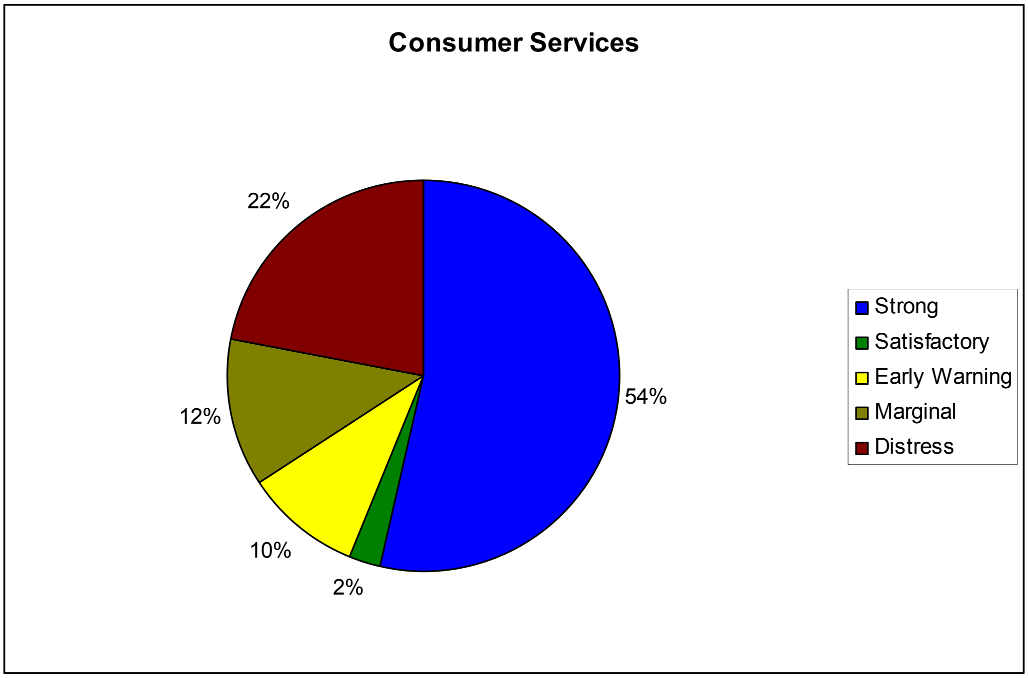
Overall this is one of the healthier sectors of the market with 56% of the companies rated as either Strong or Satisfactory, compared with only 33% of the companies in the sector rated as having Marginal or Distressed financial health. This sector includes some of the healthiest industry groups on the Australian market.

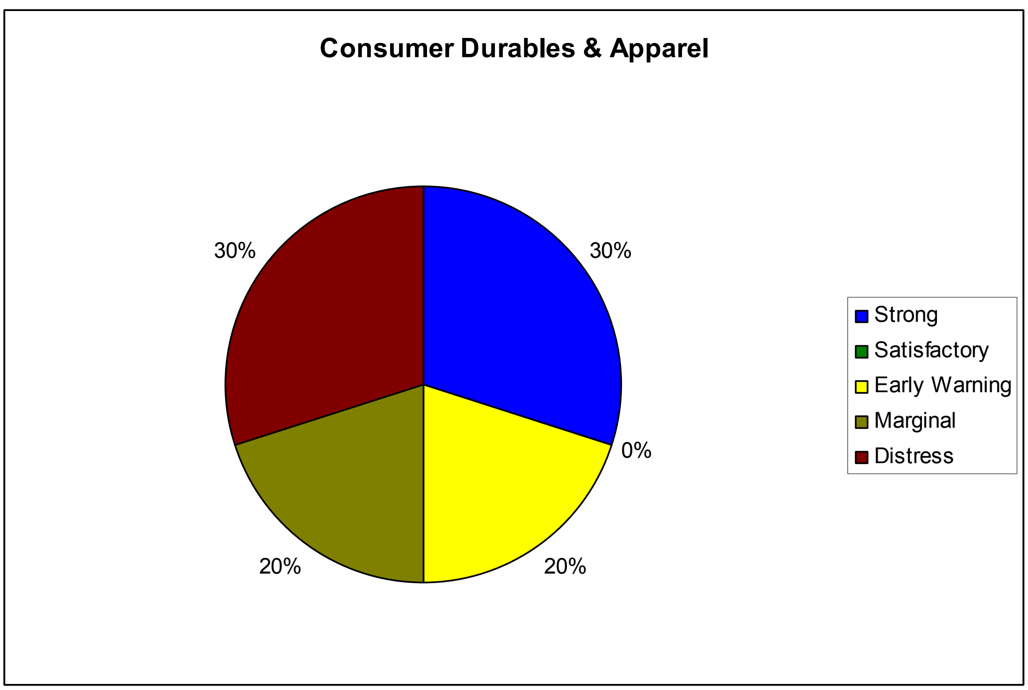
The Retailing Industry

The Retailing industry group is in an extremely solid position with 70% of its companies in either a Strong or Satisfactory position. This is also the case with the Media and Consumer Services sectors, which have 62% and 56% of their companies in Strong or Satisfactory positions respectively. The Consumer Durables section of the industry group is in a fairly weak position with only 30% of companies in a Strong position, whilst 20% and 30% of companies are Marginal or Distressed. However, this sector only makes up a small part of the Consumer Discretionary industry group and has little impact on the sector's overall financial health.


Retailing
21%
3%
6%
9%
61%
Strong
Satisfactory
Early Warning
Marginal
Distress

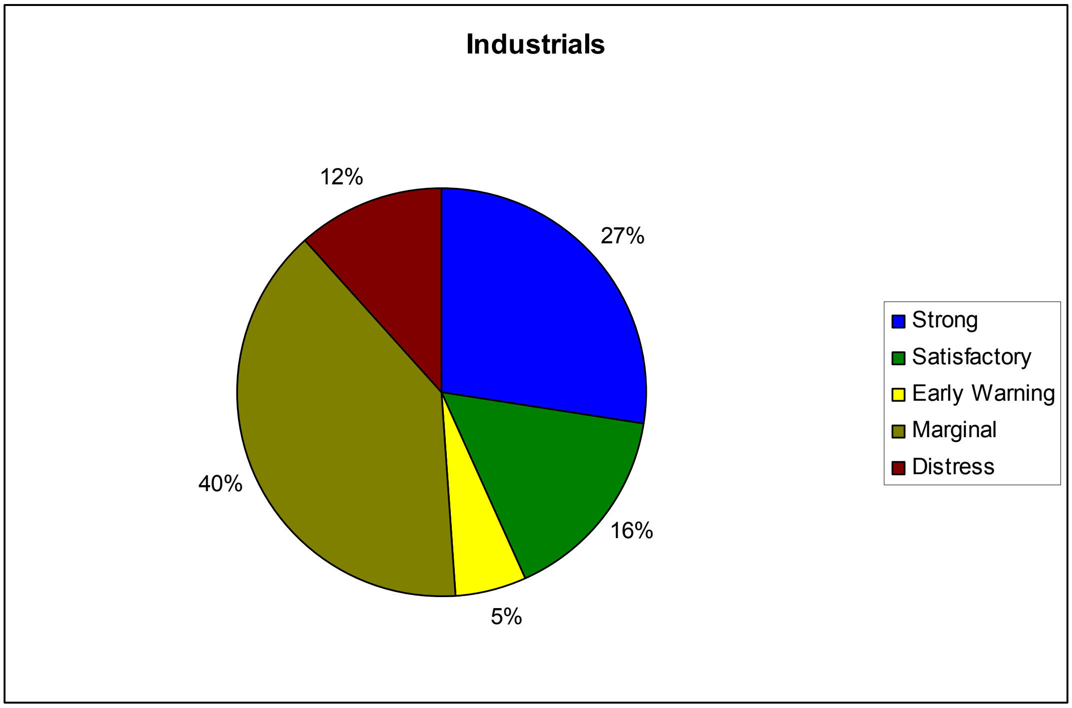

Media
18%
13%
7%
2%
60%
Strong
Satisfactory
Early Warning
Marginal
Distress


Consumer Services
22%
54%
12%
10%
2%
Strong
Satisfactory
Early Warning
Marginal
Distress


Consumer Durables & Apparel
30%
30%
0%
20%
20%
Strong
Satisfactory
Early Warning
Marginal
Distress

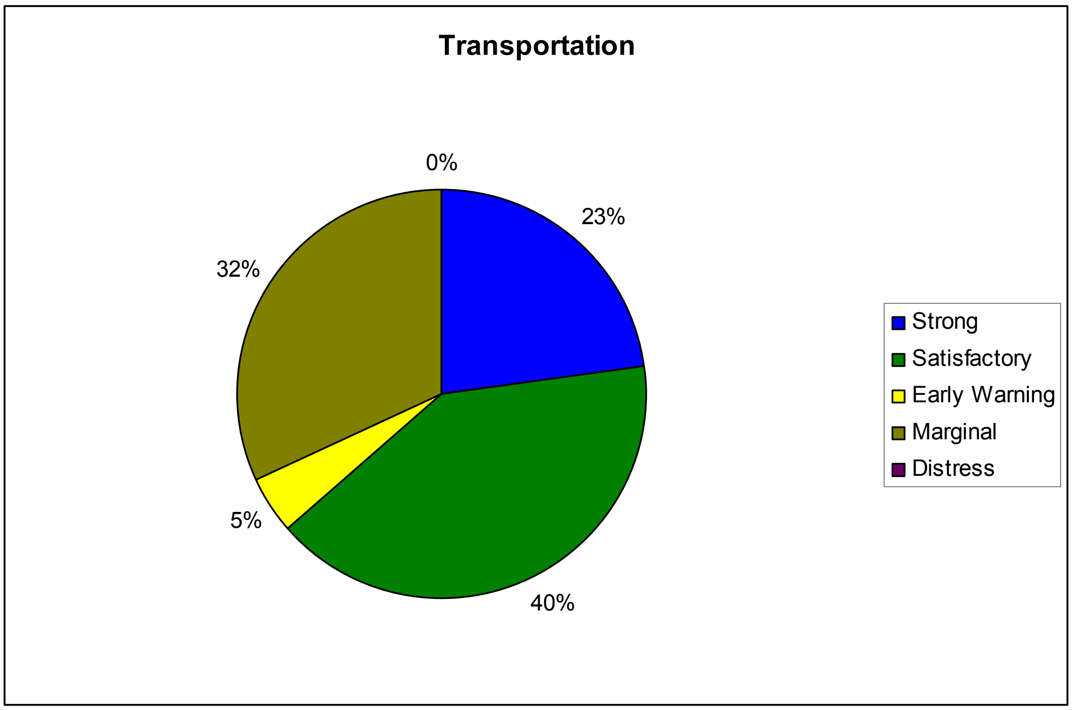
Industrials

The Industrials sector consists of the Transportation, Capital Goods and Commercial Services and Supplies Industries. Companies in this sector have had a strong run in recent years benefiting greatly from the strength of the Australian and Global economy as well as the resource boom.



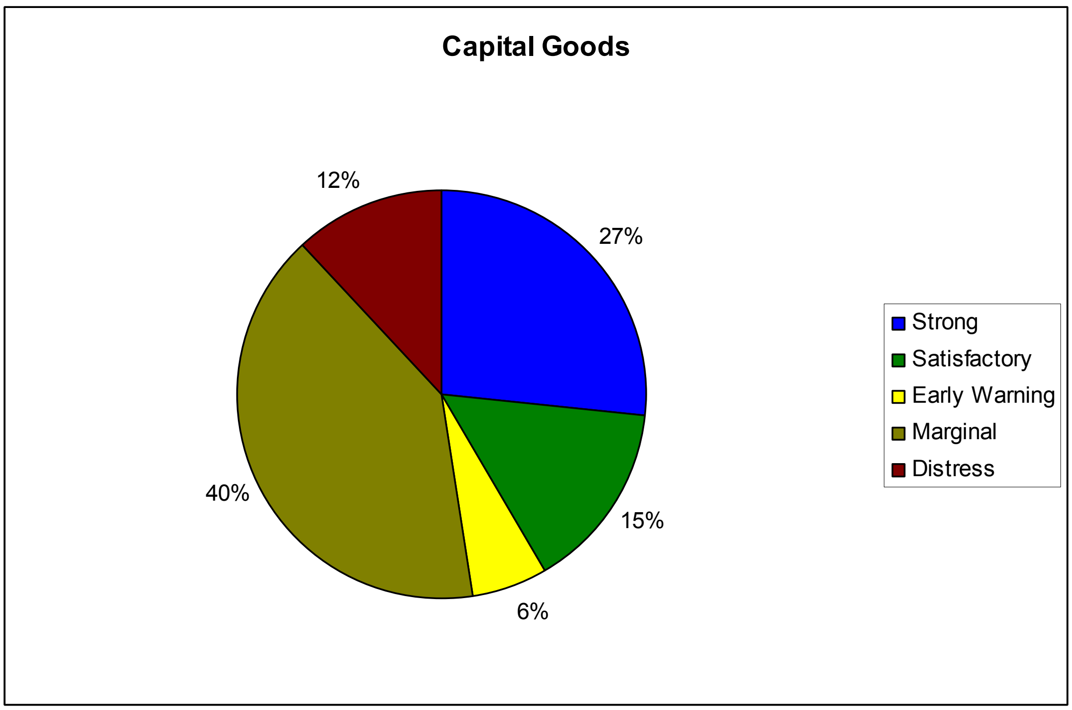
Transportation

Of the industry groups that make up the Industrials sector, Transportation is one of the strongest. In this group, 63% of companies are in either Strong or Satisfactory positions with only 32% of Transportation companies in Marginal positions and no companies in Distress.



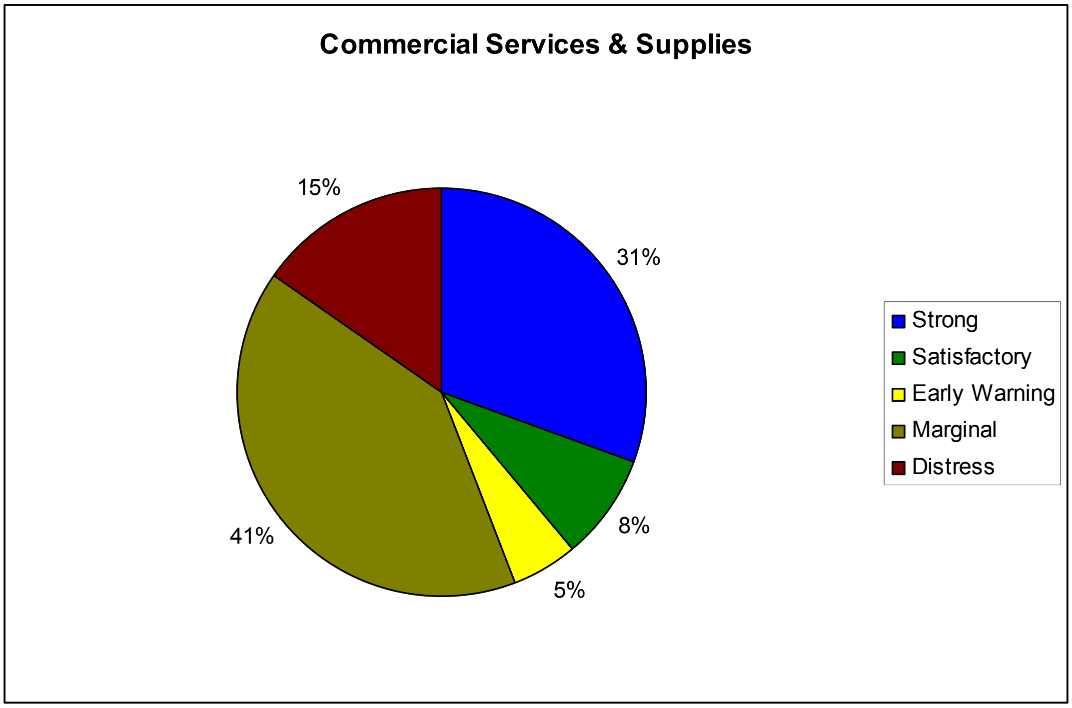
Capital Goods

The Capital Goods industry group consists of companies ranging from those that provide construction and engineering services to producers of industrial goods. Some 42% of the companies in the industry group are in a sound position of financial health with either a Strong or Satisfactory rating while 53% of companies are rated as being in Marginal or Distressed financial health. The companies that have performed the strongest in this group have been those with exposure to the Australian resource boom. Companies that provide services and goods to the mining and energy sectors have experienced sky rocketing demand for their services – and their profitability.



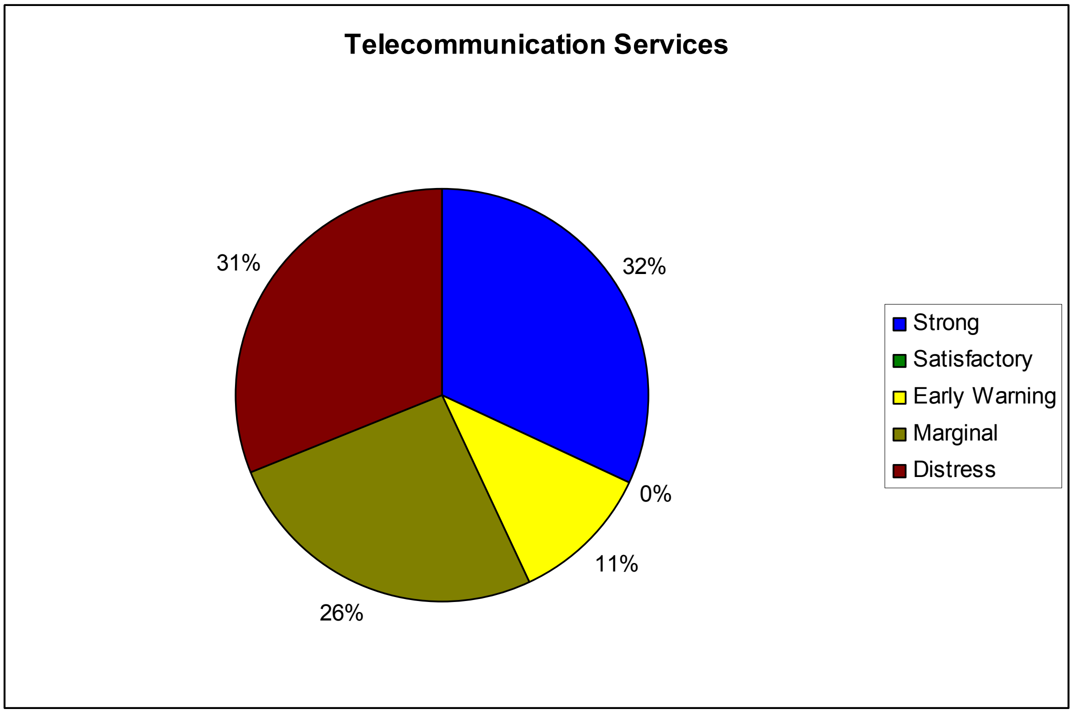
Commercial Services & Supplies

The Commercial Services & Supplies industry group is the weakest in the sector with only 39% of companies in a sound position of financial health and 56% in a poor position. This is largely a reflection of the fact that the group is dominated by many small cap stocks many of which are currently unprofitable.



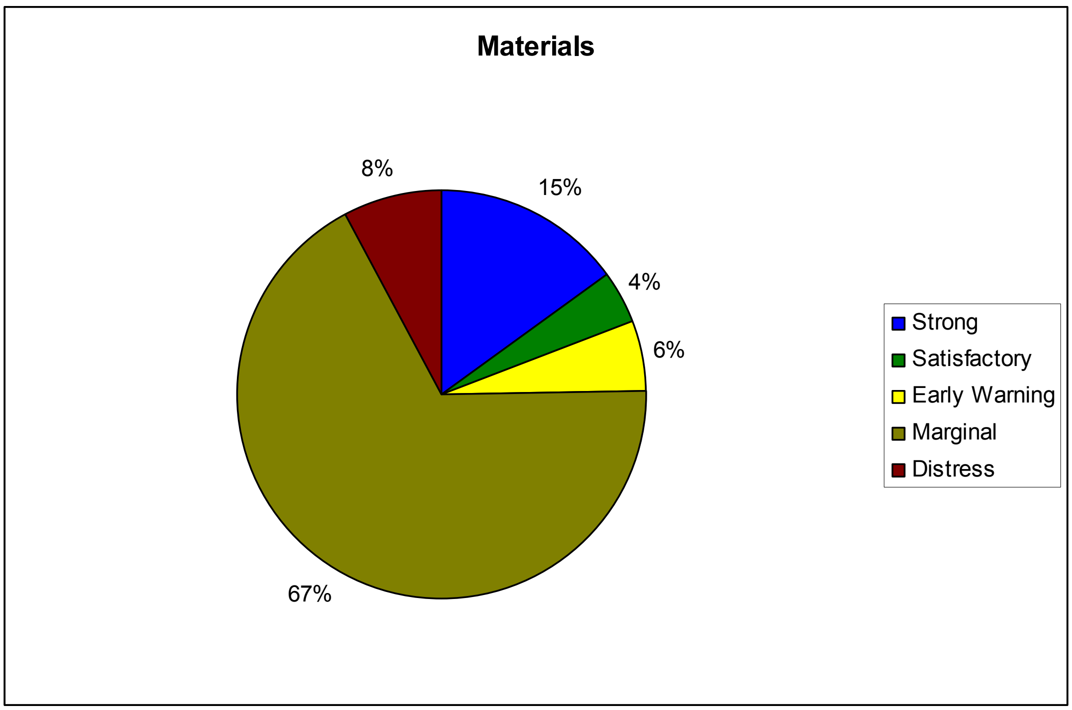
Telecommunications

This industry group is made up of a few major players such as Telstra and Telecom Corp of New Zealand and a large number of smaller telecommunications suppliers. This configuration paints a fairly misleading picture of the industry group because the large Telco's which represent the majority of the industry group have Strong or Satisfactory financial health whilst the smaller companies which represent a small part of the industry are mainly in Distressed or Marginal positions. Overall, 31% of the companies in this sector are in a sound position of financial health with a Strong rating, there are no companies with a Satisfactory rating and 57% are in a poor position, receiving either a Marginal or Distressed rating.



Materials

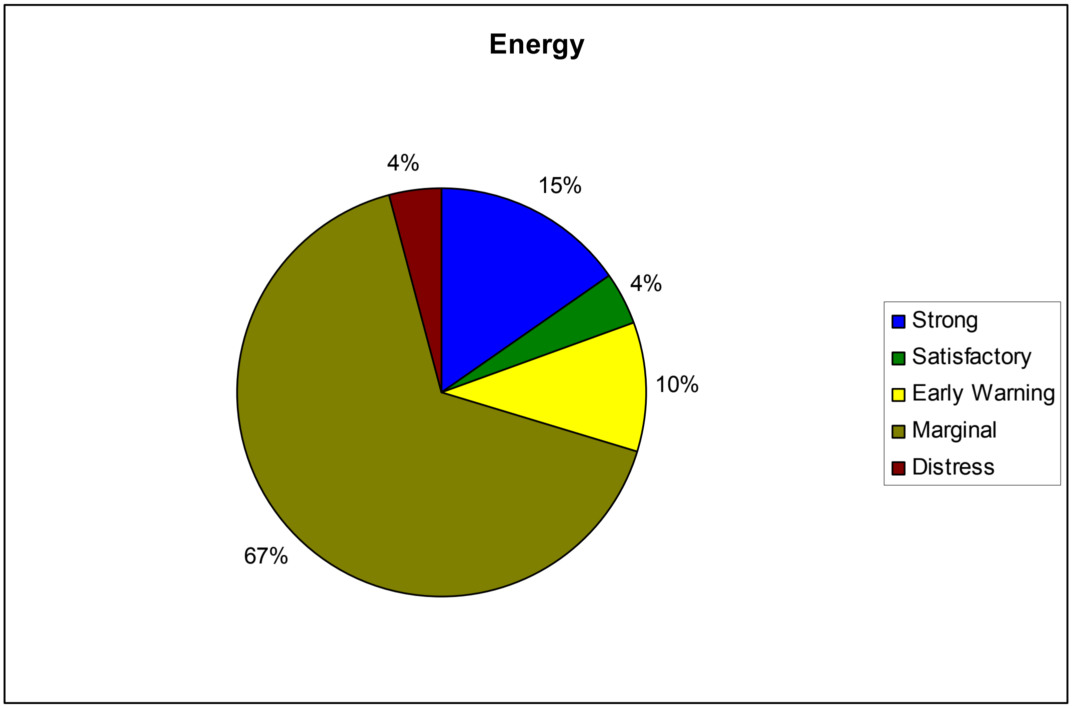
The Materials sector has been one of the best performing sectors of the Australian economy in recent years. The boom in commodity prices driven by growing demand from emerging economies such as China has seen resource companies earnings soar. Given this, it may be surprising that only 19% of the companies in the Materials sector are in a sound position of financial health whilst 75% are either Marginal or Distressed. However there is a simple explanation for this.



The vast majority of the companies in this sector are small cap explorers. These are companies that are currently only conducting exploration activity without any actual production. As a result, they are incurring costs and not yet able to generate any positive earnings. Until these companies make a significant find, develop a mining operation and begin production, they will remain in a loss making position and poor financial health. This has the effect of dragging down the overall financial health of the sector. The large miners in the sector such as BHP, Rio Tinto, Zinifex, etc are all in Strong positions of financial health. These companies have had their overall financial position improve greatly in recent years on the back of strong earnings growth fuelled by soaring commodity prices.

Energy

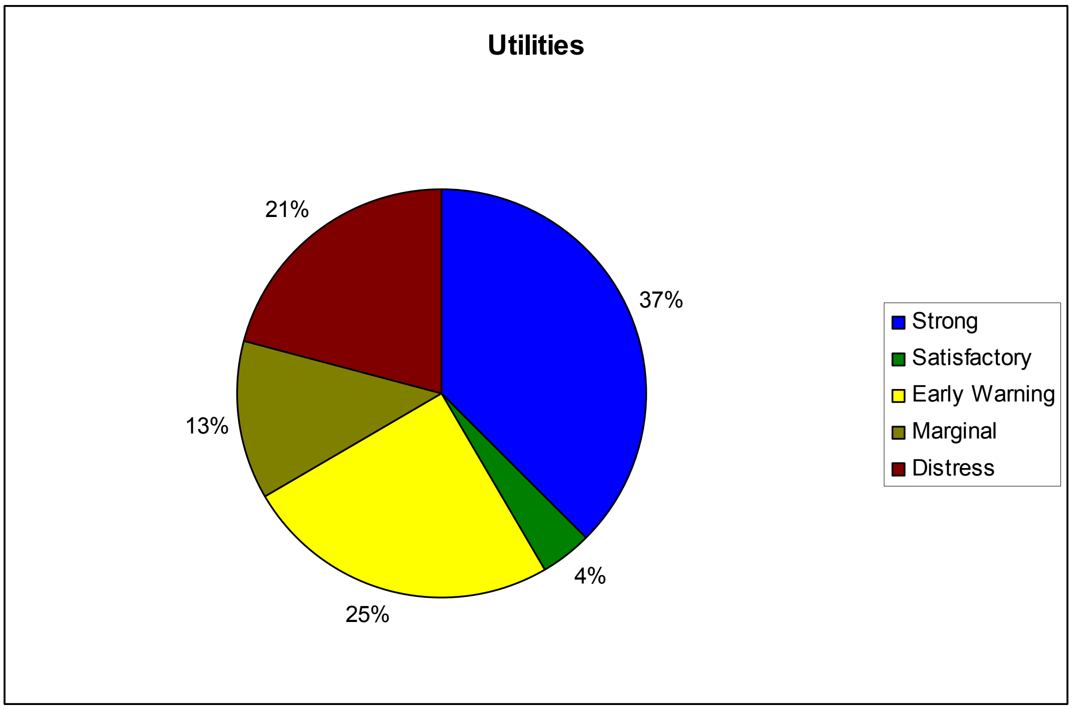
The Energy sector is in a very similar position to the Materials sector. Like Materials, the Energy sector has been one of the strongest performers on the ASX driven by soaring oil and gas prices. However, this has not been reflected in the financial health of the sector's participants. This sector actually displays the poorest level of financial health of the entire market. Only 19% of Energy companies are in a Strong or Satisfactory position whilst 71% are either Marginal or Distressed.



The high proportion of companies in a poor position of financial health can be explained by the large number of junior oil and gas explorers in the group which tend to be loss making entities in the initial stages of their operations. The mature companies in the sector that are in the production stage of their operations have experienced strong earnings growth off the back of strong oil prices. Companies such as Woodside Petroleum and Origin Energy are all in Strong positions of financial health, which is expected to remain the case with strong oil prices likely to be maintained into the near future underwriting solid earnings.

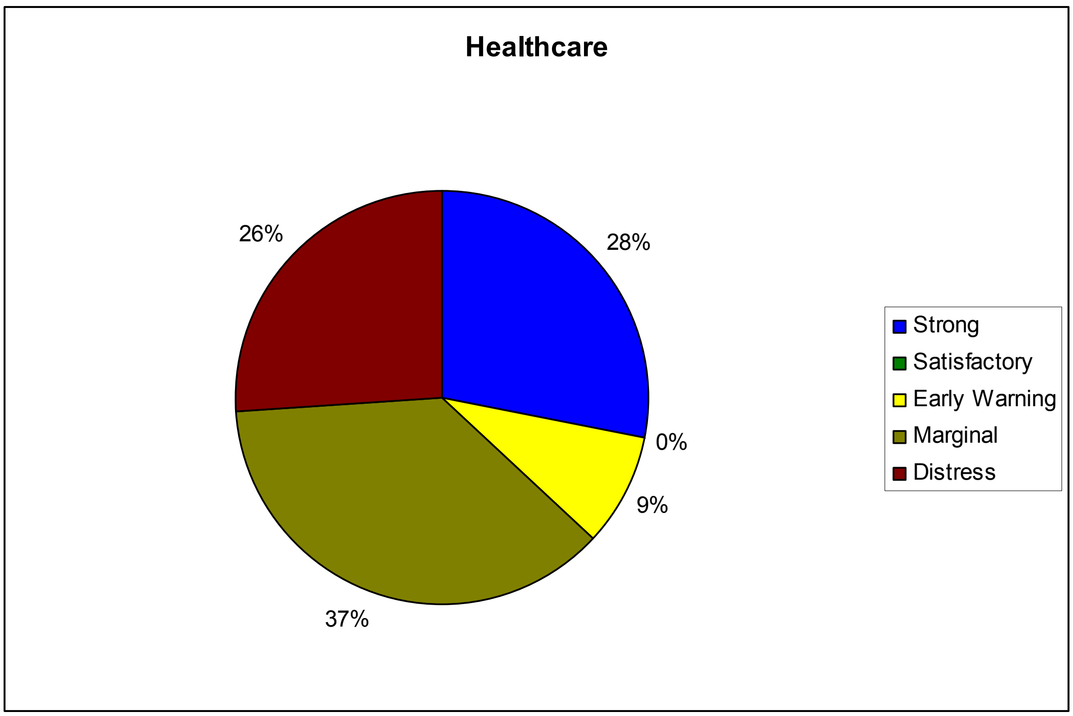
Utilities

The Utilities sector is one of the smallest sectors of the market and has 41% of the companies in Strong or Satisfactory positions of financial health and 34% are Distressed or Marginal. The sector is dominated by infrastructure heavy weights Alinta and AGL as well as a number of infrastructure funds. These companies are all in sound financial health with solid earnings. At the other end of the scale are a number of small companies (mainly developers of new infrastructure technology) that are currently in a loss making position and poor financial health.



Health Care

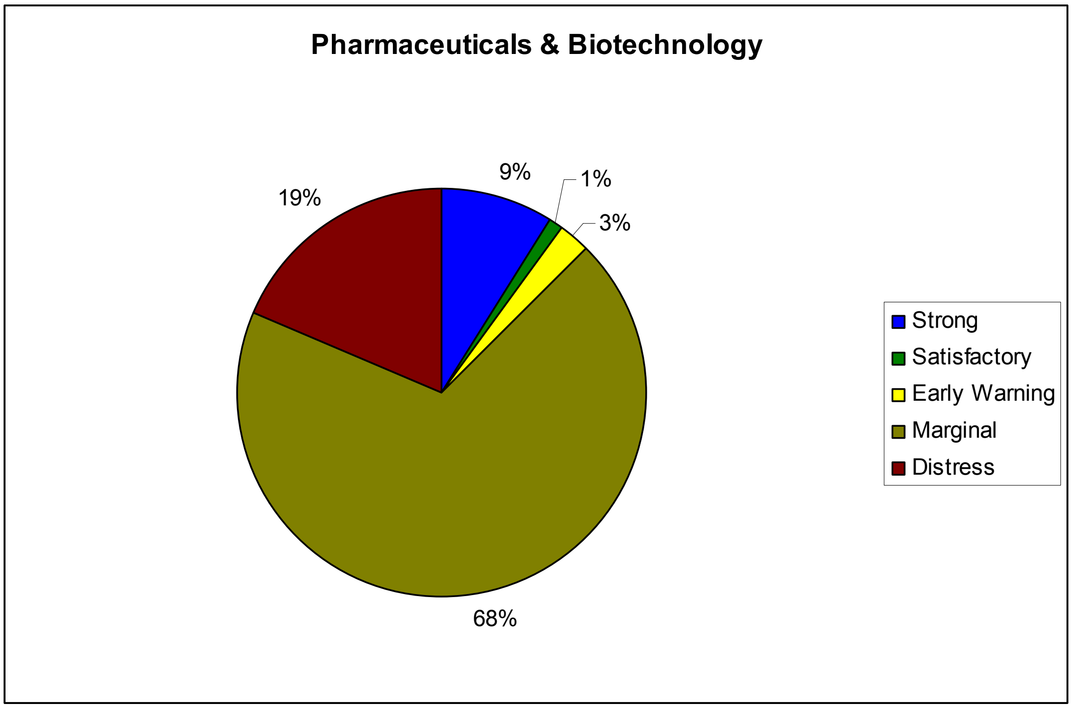
The Health Care sector is another area of the market where poor financial health is the norm. Overall, only 28% of the companies in the sector are in a sound position of financial health with a Strong rating while 63% are Distressed or Marginal. The sector consists of the Healthcare Equipment & Services industry group as well as the Pharmaceutical and Biotechnology industry group.



The Healthcare Equipment & Services industry group is characterised by a minority of large health services providers such as Ramsay Healthcare, Sonic Healthcare and Healthscope as well as a number of health products manufacturers such as Cochlear Ansell, Sigma Pharmaceuticals and Resumed which are all in strong positions of financial health. However the majority of companies are small caps involved in the research and development of new healthcare technology which are currently in a loss making position and poor financial health.

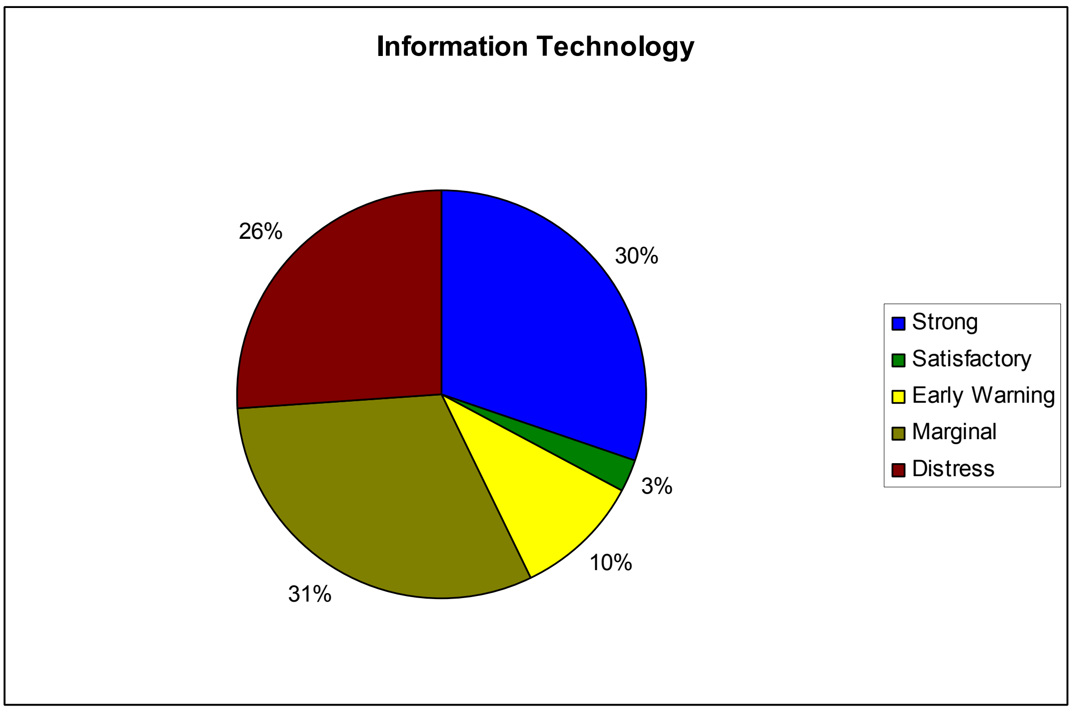
Pharmaceutical & Biotechnology

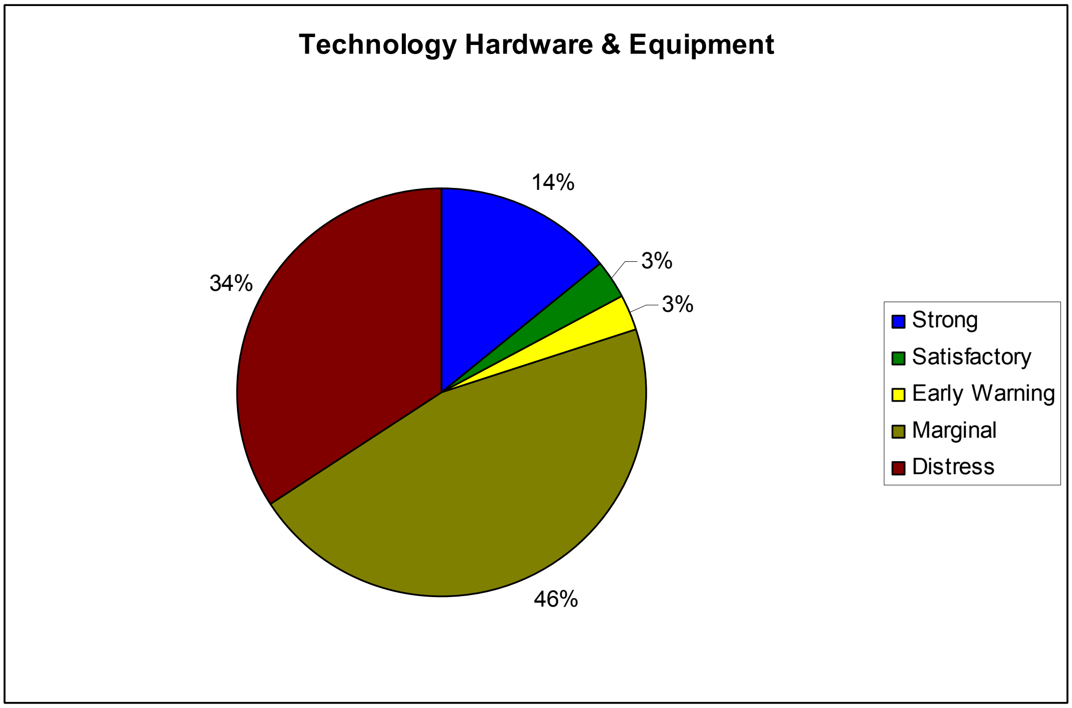
The Pharmaceutical & Biotechnology industry group is even more skewed. This is dominated by CSL Limited along with a few smaller companies which are profitable and in a sound position of financial health. The remainder of the group consists of small caps involved in the Research and Development of new pharmaceuticals which are currently in a loss making positions and consequent poor financial health.



Information Technology

The Information Technology sector consists of the following industry groups: Software Services, Technology Hardware & Equipment and Semiconductors & Semiconductors Equipment. This is also one of the least healthy sectors of the market. Only 33% of the companies in the IT sector are in Strong or Satisfactory positions while 57% are Distressed or Marginal. While there are some very healthy and profitable companies in the group, it is largely characterised by small start ups developing new technologies and services which at present have not started to generate positive earnings. This has the effect of dragging down the overall financial health of the sector.





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Important Information

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