PRESENTERS

CPA Australia
Gavan Ord, Manager Business and Investment Policy
John Purcell, Policy Adviser Environment, Social and Governance

Deloitte Financial Advisory
Travis Anderson, Partner Restructuring Services
Robert Woods, Partner Restructuring Services
David Mansfield, Partner Financial Advisory
AGENDA

CPA Australia Update
• Update and current state
  ➢ Regulator updates and government announcements
• What we anticipate next
• Insolvency Matters (John)

Presentation Topics
• Dealing with clients in financial distress
• Business continuity and contingency planning
• Cash Flow - working capital and liquidity
• Changes to the insolvent trading regime

CPA Australia Policy & Advocacy, Resources

Q&A
CPA AUSTRALIA OVERVIEW:

- UPDATE ON STIMULUS MEASURES
- CURRENT STATE OF ECONOMY
- INSOLVENCY MATTERS
UPDATE ON AUSTRALIAN STIMULUS MEASURES

SINCE OUR LAST COVID-19 WEBINAR ON 30 MARCH 2020, THE FOLLOWING HAS HAPPENED:

• THE FEDERAL GOVERNMENT ANNOUNCED AND LEGISLATED THE $130BN JOBKEEPER WAGE SUBSIDY

• THE NATIONAL CABINET AGREED TO DEVELOP A MANDATORY CODE OF CONDUCT FOR COMMERCIAL TENANCIES

• THE CORONAVIRUS SME GUARANTEE LOAN SCHEME HAS BEGUN

• THE FEDERAL GOVERNMENT ANNOUNCED AN EARLY CHILDHOOD EDUCATION AND CARE RELIEF PACKAGE

• THE AUSTRALIAN BANKERS ASSOCIATION ANNOUNCED THAT BUSINESSES WITH TOTAL LOAN FACILITIES OF UP TO $10 MILLION WILL BE ABLE TO DEFER REPAYMENTS OF LOANS ATTACHED TO THEIR BUSINESS FOR SIX MONTHS.
The JobKeeper payment provides a wage subsidy of $1500 per fortnight per eligible employee and other eligible recipients for up to six months for eligible businesses.

- Read CPA Australia’s commentary in InTheBlack Digital
- Review CPA Australia’s Frequently Asked Questions
- Review Treasury’s Frequently Asked Questions
- See CPA Australia’s media release
- Read CPA Australia’s submission to Government
THE NATIONAL CABINET HAS AGREED TO A MANDATORY CODE OF CONDUCT FOR SME COMMERCIAL LEASING DURING COVID-19 WHERE A TENANT IS ELIGIBLE FOR THE JOBKEEPER PAYMENT AND HAS A TURNOVER OF LESS THAN $50 MILLION

THE LEASING PRINCIPLES INCLUDE:

• Landlords must not terminate leases due to non-payment of rent during the period the JobKeeper program remains operational
• Tenants must remain committed to the terms of their lease
• Landlords must offer tenants proportionate reductions in rent payable in the form of waivers and deferrals based on the reduction in the tenants trade during this period
• Rental waivers must constitute no less than 50 per cent of the total reduction in rent payable
• Payment of rental deferrals by the tenant must be amortised over the balance of the lease term for a period of no less than 24 months
RECENT ECONOMIC FORECASTS FOR AUSTRALIA

AFR MARCH QUARTER SURVEY OF ECONOMISTS

<table>
<thead>
<tr>
<th>Most current reading</th>
<th>Median forecast</th>
<th>Bill Evans Westpac</th>
<th>Shane Oliver AMP</th>
<th>Gareth Aird CBA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak in unemployment rate</td>
<td>5.1% (February 2020)</td>
<td>8.5% (at the end if June)</td>
<td>9%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

- The median unemployment rate forecast for December is 8.0%
- The median forecast of economists is the Australian economy to contract 3.9 per cent in 2020
- For the 2021 calendar year, the median forecast is for Australia’s economy to grow 3.2 per cent in 2021

SOURCE – Australian Financial Review 6 April 2020
Budget deficit projections

% of GDP

Pre-COVID-19

Post-COVID-19

Source – Yarra Capital Management
LATEST ABS STATISTICS – IMPACT OF COVID-19 ON BUSINESS REMAINING OPEN (7 APRIL 2020)

• 90 PER CENT OF BUSINESSES REPORTED THAT THEY WERE OPERATING IN THE WEEK COMMENCING 30 MARCH

• OF THOSE NOT OPERATING, 70 PER CENT ATTRIBUTED IT TO COVID-19

• HARDEST HIT SECTORS ARE:
  • ARTS AND RECREATIONS SERVICES (47 PER CENT OPERATING)
  • INFO, MEDIA AD TELECOMS (65 PER CENT OPERATING)
  • ACCOMODATION AND FOOD SERVICES (69 PER CENT OPERATING)
47 PER CENT OF BUSINESSES MADE CHANGES TO THEIR WORKFORCE ARRANGEMENTS AS A RESULT OF COVID-19

THE MOST COMMON WAY THAT BUSINESSES HAD CHANGED WORKFORCE ARRANGEMENTS IN THE LAST TWO WEEKS WERE:

- TEMPORARILY REDUCED WORK HOURS – 27 PER CENT
- STAFF PLACED ON PAID LEAVE – 11 PER CENT
- STAFF PLACED ON UNPAID LEAVE – 9 PER CENT

OF THE LARGEST EMPLOYING INDUSTRIES, ACCOMODATION AND FOOD SERVICES SAW THE BIGGEST SHIFT, WITH 70 PER CENT TEMPORARILY REDUCING WORK HOURS
LATEST ABS STATISTICS – BUSINESS OPERATIONAL IMPACTS OF COVID-19

- 66 PER CENT OF AUSTRALIAN BUSINESSES REPORTED THEIR TURNOVER OR CASH FLOW HAD REDUCED AS A RESULT OF COVID-19 (4 per cent reported an increase)
- 64 PER CENT REPORTED A REDUCTION IN DEMAND FOR THEIR PRODUCT OR SERVICES (11 per cent reported an increase)
- 29 PER CENT REPORTED DIFFICULTIES IN SOURCING STOCK
- 38 PER CENT HAVE CHANGED HOW THEY DELIVER THEIR PRODUCTS OR SERVICES (INCLUDING SHIFTING ONLINE), ESPECIALLY IN THE ACCOMODATION AND FOOD SERVICES AND HEALTH CARE SECTORS
- 38 PER CENT HAVE RENEGOTIATED THEIR LEASE AND RENTAL AGREEMENTS, ESPECIALLY IN ACCOMODATION AND FOOD SERVICES AND RETAIL TRADE
- 24 PER CENT HAVE DEFERRED LOAN REPAYMENTS
- 16 PER CENT HAVE DEFERRED OR CANCELLED INVESTMENT PLANS (26 PER CENT BROUGHT THOSE PLANS FORWARD)
S&P/ASX 200 INDEX, GLOBAL FINANCIAL CRISIS VS COVID-19 PANDEMIC

GFC, 2 Jan 2007 – 31 Dec 2009  (Market peak=100)

COVID-19, 2 Jan 2020 - present  (Market peak=100)

35% DECLINE TOOK 11.5 MONTHS

35% DECLINE TOOK 1 MONTH

Source: Yahoo! Finance
AUSTRALIAN DOLLAR TO US DOLLAR, 2000 - PRESENT

Collapse of Lehman Brothers

WHO declared COVID-19 a pandemic
THE MEANING OF INSOLVENCY

CORPORATIONS ACT 2001 - SECT 95A.

(1) A person is solvent if, and only if, the person is able to pay all the person's debts, as and when they become due and payable

(2) A person who is not solvent is insolvent
“The cash flow test provides that a company is insolvent when it is unable to pay its debts as they fall due. It is of no consequence, under this test, that assets exceed liabilities.

The important point is: can the company pay its way in carrying on its business?

The court, in examining whether a company is suffering cash flow insolvency, will consider whether the company is actually paying its debtors”. 
‘Insolvency is expressed in s 95 as an inability to pay debts as they fall due out of the debtor’s own money.

But the debtor’s moneys are not limited to cash resources immediately available.

They extend to moneys which he can procure by realising by sale or mortgage or pledge of his assets within a relatively short time – relative to the nature and amount of debts and to the circumstances, including the nature of the business, of the debtor’
A TEMPORARY LACK OF LIQUIDITY Vs INSOLVENCY – HOW IS EASY IS IT TO BE CERTAIN?

“The first is an embarrassment, the second is a disaster. It is easy enough to tell the difference in hindsight, when the company has weathered the storm or foundered with all hands; sometimes it is not so easy when the company is still contending with the waves.”
DETERMINING "DUE AND PAYABLE"

“[T]he commercial reality that creditors will normally allow some latitude in time for payment does not, in itself, warrant a conclusion that the debts are not payable at the times contractually stipulated and have become debts payable only on demand”.

19
INDICATORS OF INSOLVENCY

ASIC’s Regulatory Guide 217 Duty to prevent insolvent trading: Guide for directors (extract from Table 2 of the Appendix)

- The company has a history of continuing trading losses.
- The company is experiencing cash flow difficulties.
- Creditors are not being paid on agreed trading terms.
- The company is not paying its Commonwealth and state taxes when due.
- Legal action is being threatened or has commenced against the company.
INDICATORS OF INSOLVENCY

ASIC’s Regulatory Guide 217 Duty to prevent insolvent trading: Guide for directors (extract from Table 2 of the Appendix)

- The company has reached the limits of its funding facilities
- The company is unable to produce accurate financial information.
- Company directors have resigned, citing concerns about the financial position of the company.
- The company auditor has qualified their audit opinion on the grounds there is uncertainty that the company can continue as a going concern.
DELIOTTE FINANCIAL ADVISORY

- DEALING WITH CLIENTS IN FINANCIAL DISTRESS
- BUSINESS CONTINUITY AND CONTINGENCY PLANNING
- CASH FLOW – WORKING CAPITAL AND LIQUIDITY
- CHANGES TO THE INSOLVENT TRADING REGIME
DEALING WITH CLIENTS IN FINANCIAL DISTRESS

Respond effectively to Recover & Thrive

RESPOND

RECOVER

THRIVE
AGENDA

- Changing Insolvency Landscape
- Business Continuity
- Cash Flow
- Liquidity & Working Capital
- Contingency Planning
- Further Thoughts
DISCLAIMER

This session is provided to assist with a broad understanding of issues to be mindful of when a client may be in financial distress and should not be construed as advice for a particular circumstance.

Whilst we may refer to tax planning and relevant transactions, we highlight that this is for discussion purposes and our field of expertise is dealing with underperforming businesses and insolvency as opposed to taxation advice.

Should an issue arise that is applicable to the content of this session then attendees are welcome to contact Deloitte to discuss the matter directly on (02) 9840 7000.
OUR EXPERTISE

Stress spectrum

Can’t be saved

Distressed

Highly stressed

Underperforming

Need a step change

Market Segment

SME

Mid-Market

Large Mid-Market & Foreign

ASX 200

Public Sector

Liquidation

Bankruptcy

Contingency Planning

Voluntary Administration

Receiverships

Assets to be liquidated

Salvageable without formal process

Salvageable through formal sale or restructure

Turnaround required with debt / capital options narrowing

Secure balance sheet but needing a step change

SME

Mid-Market

Large Mid-Market & Foreign

ASX 200

Public Sector

Advising public sector on stress exposures

Financial & commercial decisions

Financial Management

Budget efficiency

CHANGING INSOLVENCY LANDSCAPE
INDICATORS OF INSOLVENCY - ASIC v PLYMIN (2003)

Identify and Prevent

1. Continuing losses
2. Liquidity ration below 1.0
3. Overdue taxes and other statutory obligations
4. Poor relationship with banks, including inability to borrow additional funds
5. No access to alternative finance
6. Inability to raise further equity capital
7. Suppliers place entity on COD terms, or otherwise demanding special payments before resuming supply
INDICATORS OF INSOLVENCY - ASIC v PLYMIN (2003)

Identify and Prevent

8. Creditors paid outside trading terms
9. Issuing post dated cheques
10. Dishonouring cheques
11. Special arrangements with selected creditors
12. Payments of rounded sums, not reconcilable to invoices
13. Solicitors letters/summons/judgements issued against the company
14. Inability to produce timely and accurate financial information
ADDITIONAL WARNING SIGNS
Identify and Prevent

- Breakdown of internal controls
- High & increasing gearing (Debt to equity)
- Deteriorating profitability
- Continuing trading losses
- Negligent or incompetent management
- Lack of risk management

Insolvency - the point when you are unable to pay your debts as and when they fall due.
Is this company insolvent? What is insolvency?

**Insolvency describes a person’s or company’s inability to pay all of their debts as and when they fall due**

**Key tests:**
- Cash flow test
- Balance sheet test
- A consideration of all aspects of the Company’s circumstances

**Insolvency is NOT:**
- A temporary lack of liquidity
- An inability to borrow to repay debts

Directors can be personally liable for continuing to trade a company whilst insolvent.
TEMPORARY FEDERAL GOVERNMENT MEASURES IN RESPONSE TO COVID-19

The *Coronavirus Economic Response Package Omnibus Act 2020 (Cth)* amendments were passed by parliament on 23 March 2020 to provide temporary relief for financially distressed businesses.

**Before COVID-19**

- **Insolvent Trading (Director)**
  Directors personally liable for debts incurred when a company becomes insolvent

- **Insolvent Trading (Holding Company – s588V of the Corporations Act 2001)**
  Holding Company could be held liable for the insolvent trading of the subsidiary

- **Statutory Demand – (Corporate/Liquidation)**
  Response time – 21 days
  Minimum debt - $2,000

- **Statutory Demand – (Personal/Bankruptcy)**
  Response time – 21 days
  Minimum debt - $5,000

- **Safe Harbour requirements**
  Lodgements up to date and ongoing compliance

- **Commercial tenants and landlords**
  Landlord and tenant to honour existing lease and conditions

**Now**

- **Insolvent Trading (Director)**
  Directors will be temporarily relieved for 6 months from personal liability under the Corporations Act 2001 for insolvent trading

- **Insolvent Trading (Holding Company – s588V of the Corporations Act 2001)**
  Holding companies will be temporary relieved for 6 months from insolvent trading

- **Statutory Demand – (Corporate/Liquidation)**
  Response time – 6 months
  Minimum debt - $20,000

- **Statutory Demand – (Personal/Bankruptcy)**
  Response time – 6 months
  Minimum debt - $20,000

- **Safe Harbour requirements**
  ARITA advocating for loosening of requirements

- **Commercial tenants and landlords**
  Mandatory code 7 April 2020 – Landlords unable to terminate leases and tenants must honour leases. Landlords are required to reduce leases in proportion to the reduction in the tenants business. Turnover of $50 million or less.
DIRECTOR DUTIES

Directors have specific duties and obligations in carrying out their role. In uncertain times, directors need to understand how their duties may change when faced with financial distress and who they can turn to for expert advice.

Who do directors owe duties to?

The obligation of company directors is to act in ‘the best interests of the company as a whole’.

During times of financial uncertainty, the scope of their duties broadens to include an obligation to interests of creditors. Court decisions indicate that the law requires directors to:

• give increased and proper consideration to creditors
• not favour one group of creditors over another, and
• not act in a way which prejudices the interests of creditors.
DIRECTOR DUTIES

Directors have specific duties and obligations in carrying out their role. In uncertain times, directors need to understand how their duties may change when faced with financial distress and who they can turn to for expert advice.

Is the Company insolvent?

- Insolvency is characterised by an ’endemic shortage of working capital’ which is distinct from temporary cash flow challenges
- The determination of insolvency at a point in time requires a careful and honest assessment of a company’s financial position, taken as a whole.
- Insolvent trading is a criminal offence and may impact a directors personal financial position
## GENERAL DUTIES – DIRECTORS AND OFFICERS

*Corporations Act 2001 (Cth)*

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<th>Civil/Criminal obligation</th>
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<td>Good faith</td>
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<td>Use of Position</td>
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<td>183</td>
<td>Use of information</td>
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<tr>
<td>184</td>
<td>Good faith, use of position and use of information</td>
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<td>286</td>
<td>Obligation to keep financial records</td>
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<tr>
<td>429</td>
<td>Officers to report to controller about corporations affairs</td>
</tr>
<tr>
<td>438B</td>
<td>Directors to help administrator</td>
</tr>
<tr>
<td>475</td>
<td>Report on Company Activities and property (ROCAP) to be submitted to liquidator</td>
</tr>
<tr>
<td>530A</td>
<td>Officers to help liquidator</td>
</tr>
<tr>
<td>588G</td>
<td>Director's duty to prevent insolvent trading by a company</td>
</tr>
</tbody>
</table>
CHANGES TO INSOLVENT TRADING – TEMPORARY RELIEF

The Coronavirus Economic Response Package Omnibus Act 2020 (Cth)

• Directors are not required to prove nexus of insolvency to the COVID-19 pandemic

• The changes are limited to the civil penalty provisions, not the criminal offence (dishonest purpose)

• Currently 6 months relief from 25 March 2020, but may be extended

• The relief only relates to debts incurred in the ordinary course of business i.e. debts that are necessary to the continuation of the business, with specific exclusions for dishonest and fraudulent activities.

• The Company’s requirements to pay remain

• Holding Companies can rely on the temporary safe harbour if reasonable steps are taken to ensure it applies to the subsidiary’s directors

• No changes to Director’s other statutory/general duties
BUSINESS CONTINUITY
INDUSTRIES AT RISK – PERCEPTION OF ADVERSE IMPACT

ABS data shows most sectors expect a significant impact, though not feeling it yet
INDUSTRY STRESS MAP – SOME INDUSTRIES ARE MORE AT RISK OF EMPLOYMENT DISRUPTION THAN OTHERS
INDUSTRIES AT RISK – SHUTDOWNS ARE AFFECTING KEY SECTORS BUT EMPLOYMENT IMPACT WILL BROADEN OVER TIME

Industry employment 'at risk' - unemployed or underutilised (including those covered by JobKeeper payment)

Immediate risk during shut down
Growing risk over time

Thousands

- Retail trade
- Accommodation and food services
- Arts and recreation services
- Consumer based services
- Manufacturing
- Construction
- Wholesale trade
- Transport, postal and warehousing
- Admin services
- Education and training
In the crucible of crisis, resilient leaders are defined *first* by *who they are*....

**Five qualities of a leader that distinguish between surviving and thriving amidst crisis**

**MISSION FIRST**
Stabilize today, and harness both the energy and the constraints of volatile conditions to spark innovation tomorrow.

- How are you turning the COVID-19 crisis into an opportunity to emerge stronger?

**SPEED OVER ELEGANCE**
Decisive action – with courage – is often more essential than getting it perfect.

- How are you empowering your teams to take courageous action in a volatile environment?

**OWN YOUR NARRATIVE**
Paint a picture of a compelling future and path forward that your stakeholders can support and rally around.

- How are you proactively filling the information vacuum to combat the spread of misinformation and rumor?

**DESIGN FROM THE HEART**
Seek and reinforce solutions that align to your purpose, your societal obligations, and serve the heart of the organization.

- How are you demonstrating to your employees, customers, communities and ecosystem that you have their best interests at heart?

**EMBRACE THE LONG VIEW**
Stay focused on what’s on the horizon to instill confidence and steadiness across your ecosystem.

- How are you anticipating and responding to the new business models likely to emerge post COVID-19?
There are five key pillars to be considered as Australian businesses look to effectively respond, recover and thrive.

**RESPOND**
- Business Continuity & Finance
- Talent & Strategy
- Supply Chain
- Customer Engagement
- Digital

**RECOVER**

**THRIVE**
## CRISIS MANAGEMENT – Respond effectively to Recover and Thrive

The heart of resilient leadership: responding to COVID-19

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<th>Priorities</th>
<th>Time Frame</th>
<th>Command Centre</th>
<th>Business Continuity &amp; Financing</th>
<th>Talent &amp; Strategy</th>
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<th>Digital Capabilities</th>
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<tr>
<td><strong>RESPOND</strong></td>
<td>RISK REDUCTION</td>
<td>• Institute crisis and resilience planning</td>
<td>• Implement cash conservation and recovery actions</td>
<td>• Identify key person risks and develop mitigation plan</td>
<td>• Identify supply chain risks and potential disruptions</td>
<td>• Engage with key customers to support business continuity</td>
<td>• Assess and address systems and cyber vulnerabilities</td>
</tr>
<tr>
<td></td>
<td>ACTION</td>
<td>• Nominate task force leadership team (and back-up)</td>
<td>• Evaluate working capital and liquidity requirements</td>
<td>• Deliver commitment to engage and stabilize the team</td>
<td>• Develop contingency plans for operational disruption</td>
<td>• Reinforce loyalty by protecting and rewarding customers</td>
<td>• Evaluate rapid cost reduction options and reprioritization of tech spend</td>
</tr>
<tr>
<td></td>
<td>OPPORTUNITY</td>
<td>• Activate and empower COVID-19 Command Centre</td>
<td>• Rapid working capital optimization and credit solutions</td>
<td>• Review employment contracts for potential issues (scale up / down)</td>
<td>• Understand demand and supply side checks and strategies</td>
<td>• Develop communication strategy with frontline employees</td>
<td>• Develop technology contingency plans</td>
</tr>
<tr>
<td></td>
<td>ACCOUNTABILITY</td>
<td></td>
<td>• Control discretionary operating costs and capex</td>
<td>• Implement and monitor safe / flexible working</td>
<td>• Identify alternative supply chains and potential cost reductions</td>
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</table>
CRISIS MANAGEMENT – Respond effectively to Recover & Thrive

Confirm resilience plan + Nominate task force team (and backup) and empower the command centre
CRISIS MANAGEMENT – Respond effectively to Recover and Thrive

**Command Centre:**

Confirm resilience plan + Nominate task force team (and backup) and empower the command centre

### Business Continuity & Finance
- Understanding your options available
- Grants/incentives on offer
- Tax considerations
- Cashflow and forecasting
- Additional capital options/solutions and how to make those decisions
- Options outside of the box to support working capital
- Financial obligations & areas for review (terms and contracts)
- Safe Harbour Provisions

### Talent & Strategy
- What good leadership looks like in times of crisis
- Team capability (incl. key person risks)
- Communication and engagement with your team
- Employer obligations and suggestions (scale down and up)
- Deciding what to share and what not to

### Supply Chain
- Considerations for operational disruption – short/med/long term
- Define & build a contingency plans
- Define critical suppliers and mitigate risk
- Define alternative supply chain solutions
- Cost reduction
- Being rapid sourced

### Customer Engagement
- Customer communication planning and engagement
- Protect and reward key customers
- Map out customer influencers and stakeholders for engagement
- Clarify the factors and decision frameworks you need in order to decide if you:
  - Pivot
  - Re-shape your product propositions
  - Prioritise & shift the customer conversations and convert sales
  - And HOW you:
    - Engage customers and design compelling experiences
    - Create competitive advantage

### Digital Capabilities
- Operational technology needs
- Virtual Working
- Identify & protect against cyber vulnerabilities
- Rapid cost reduction & re-prioritisation
- Tech contingency planning
CRISIS MANAGEMENT – Respond effectively to Recover and Thrive

Confirm resilience plan + Nominate task force team (and backup) and empower the command centre

- Business Continuity & Finance
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CRISIS MANAGEMENT – Respond effectively to Recover and Thrive

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- Operational technology needs
- Virtual Working
- Identify & protect against cyber vulnerabilities
- Rapid cost reduction & re prioritisation
- Tech contingency planning

CPA Australia
CRISIS MANAGEMENT – Respond effectively to Recover and Thrive

Command Centre:
Confirm resilience plan + Nominate task force team (and backup) and empower the command centre

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Digital Capabilities
Operational technology needs:
- Virtual Working
- Identify & protect against cyber vulnerabilities
- Rapid cost reduction & reprioritisation
- Tech contingency planning

Customer Engagement
- Customer communication planning and engagement
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- Clarity the factors and decision frameworks you need in order to decide if you:
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  - Prioritise & shift the customer conversations and convert sales
  And HOW you:
  - Engage customers and design compelling experiences
  - Create competitive advantage
CRISIS MANAGEMENT – Respond effectively to Recover and Thrive

Command Centre:
- Confirm resilience plan
- Nominate task force team (and backup) and empower the command centre

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CASH FLOW
COVID CASHFLOW ASSESSMENT
Where are we? Cash is King

What your clients should be doing right now

• Preparing at least a 13 week cashflow forecast

• Assessing what scenarios might play out, and how would these impact the cashflow?

• What are the timeframes for these scenarios?

• What operational and financial levers can we pull to respond and mitigate risk?

• Do we need access to capital? When? How much?

• What payments can be deferred, not paid

• What is our plan and next steps?
CASH FLOW IMPROVEMENT
Where can cash be found?

- Termination Stand Down Employees
- Convert Assets to Cash
- Negotiate: Suppliers Landlords
- Secure Finance
- Restructure
- Deferral of payments
TERMINATION OF EMPLOYEES

Every organisation, large and small, is facing unprecedented challenges in how to manage the various implications on their workforce as a result of COVID-19.

Where can cash be found?

- Temporary closure of operations - stand down of employees
- Meeting salary costs
- Alternative forms of remuneration – employee share schemes
- Redundancies
- Workforce stimulus packages (JobKeeper & PAYG Remission)
- Termination of casual staff to the right size of the cost base of the business
- Encouraging employees to take accrued leave.

WORKFORCE - WHAT TO LOOK FOR

CAPABILITY - Where do we need skills urgently? And in the longer-term?
COST - How do we reduce labour cost now and at what expense to future operations?
CAPACITY - What volume of roles do we need and where?
COMPOSITION - How should I assess build/ borrow/ buy workforce options?
CONFIGURATION - What structure do I need to operate now and in the future?
CULTURE - What are the implications of these choices on our culture and do they align with our values?
CONVERTING ASSETS TO CASH

Cash is the most liquid asset. Converting assets to cash can assist a company with meeting it’s short term obligations.

Where can cash be found?

- Debt collection (Account receivables)
- Sale of underutilised assets
- Closure of sites or venues (if affordable)
- Pushing out supplier payments (making use of 6 month extension to statutory demands)
NEGOTIATE: SUPPLIERS, LANDLORDS

Contracts are the foundation of all businesses (whether with clients, suppliers, employees, financiers, service providers or stakeholders).

Where can cash be found?

- Extension of time to pay rent with landlords
- Extension of payment terms with financiers
- Extended payment terms with suppliers
- Mandatory code for commercial tenants and landlords

Assess – internal view
- Reviewing contracts affected by the current crisis; and
- Decide what contractual actions are required

Respond – external view
- Approaching clients, suppliers, financiers, tenants to understand their ability to maintain the contract; and
- Negotiate & amend relevant contracts.

Thrive – learn from the crisis
- Implement processes to monitor and manage the new and interim arrangements; and
- Post the crisis, efficiently unwind temporary contractual arrangements.
SECURE FINANCE

Where can cash be found?

• Additional loan facilities
• Secured finance facilities
• Capital injection from existing or new shareholders
• Take advantage of the government’s 50% backed loans
• What other funds can be injected by the owners – and what security should they be taking in return?
RESTRUCTURE

A restructuring plan doesn’t need to be long or complex. As long as it has clear and appropriate steps to getting the company back to financial health

Where can cash be found?

Never waste a good crisis

• Do your clients have an overly complicated corporate structure?

• Are they injecting funds and could benefit from taking a security position over the entity?

• Conduct a full review of the company’s structure and the clients asset protection position
DEFERRAL OF PAYMENTS

Where can cash be found?

- Negotiating with suppliers to extend payment terms

- The Australian Taxation Office and banks have announced their willingness to defer payments. A proactive approach can either see payments deferred out, of creditors accepting a smaller amount for immediate payment (both should be considered)

- Consider whether its time to put your customers on COD terms, so they don’t do it to you
LIQUIDITY AND WORKING CAPITAL
Liquidity

Collapsing demand and supply chain shutdowns are straining companies’ cash and working capital.

The focus of most businesses at the moment is on protecting employees, understanding the risks to their business, and managing the supply chain disruptions caused by efforts to contain the spread of COVID-19.

This becomes more challenging for organisations that now face weeks, if not months, of exceptionally poor trading conditions. For most, the revenue lost in this period represents a permanent loss rather than a timing difference and is putting sudden, unanticipated pressure on working capital lines and liquidity.

It is therefore important that businesses are proactive in assessing their capability to withstand disruption from both an operational and a financial standpoint, and that they act decisively to mitigate actual or potential issues.

Client Issues:
Accessing and optimising capital & finance | Increasing capital efficiency | Optimising the supply chain
UNDERSTANDING THE CURRENT POSITION

**Liquidity**
Do we have sufficient cash or liquidity lines to continue to operate long enough to develop and implement a turnaround plan?

**Trading outlook & core business viability**
What is a reliable short and medium trading outlook? Is the trajectory obviously terminal or redeemable? Is there a viable core?

**Short term stabilisation & stakeholder support**
Where do key stakeholders currently stand, what are their options & what will it take to have their initial support to buy time to develop a turnaround the business?

**Contingencies & Scenarios**
If the company entered voluntary administration today, what would the outcome be for key stakeholders?
LIQUIDITY

Do we have sufficient cash or liquidity lines to continue to operate long enough to develop and implement a turnaround plan?

Monthly Cash Forecast

Robust preparation and reporting process
Robust & transparent assumptions
Shocks & downside scenarios have been assessed
Proactive central command & control
Management signed-off and own it

ADDRESSING THE FINANCIAL IMPACT OF COVID-19

Scenario Assessment – Act quickly to provide certainty

Scenario Considerations
You should consider the following:
- What are the financial implications for our business?
- What policy decisions might be made?
- What scenarios might unfold?
- What are the timeframes for these scenarios?
- What operational and financial levers can we pull to respond and mitigate risk?
- Do we need access to capital? When? How much?
- How do we set ourselves up to thrive?

Global impacts
- World growth
- Global interest rates
- US activity
- Chinese demand

Domestic impacts
- GDP
- CPI
- Unemployment
- Wage growth
- Population
- Interest rates

Industry impacts
- Employment
- Demand
- Credit access

Operational Measures
- Assess key trading terms and communicate with suppliers.
- Manage inventory levels to ensure working capital efficiencies.
- Reduce employees to 9 day fortnights.

Financial Measures
- Begin landlord negotiations to minimise fixed property costs.
- Regularly review financial forecasts.
- Reduce all unnecessary costs and CAPEX.

Capital Measures
- Review lending documents and understand the key terms, covenants and baskets of headroom.
- Seek out additional sources of capital early.

Thrive Opportunities
- Right-size costs of non-core business structure to remain efficient post COVID-19.
- Build positive community presence and corporate social responsibility.
- Purchase cheap land.

Example Assumptions
- Schools to close in April.
- Malls to close in mid-April.
- Office closures in April.
- Suburb lockdowns in mid-April.
- Travel restrictions.
- Employee redundancies.
- CAPEX limitations.
- Marketing reductions.
LIQUIDITY

As a result of the COVID-19 crisis businesses are facing unprecedented pressure on their liquidity positions and operating models.

Issues

1. Underperforming or non-core business operations

Increased pressure on cash, with a need to deploy capital to protect core business operations.

2. Maintaining liquidity in uncertain and volatile markets

Difficulties in managing and communicating a rapidly deteriorating liquidity position and assessing the potential trajectory of the liquidity position.

3. Credit risk recovery

How an organisation plans to recover
LIQUIDITY

As a result of the COVID-19 crisis businesses are facing unprecedented pressure on their liquidity positions and operating models

Issues

4. Liquidity and Tax obligations

There are tax opportunities that provide for capital and cash to be unlocked or injected into the business.

5. Increase existing or new debt facilities

The revenue lost in this period represents a permanent loss, rather than a timing difference, and is putting sudden, unanticipated pressure on working capital lines and liquidity.
LIQUIDITY

Response

1. Underperforming or non-core business operations
   Phase 1: Options Analysis
   Phase 2: Implementation Planning
   Phase 3: Execute the plan with hands-on, practical assistance and support from us to help group and local management teams

2. Maintaining liquidity in uncertain and volatile markets
   • Enable short-term forecast in an easy to digest flash report
   • Assist in refinancing debt as needed and dealing with additional credit needs early
   • Help with stakeholder communication
LIQUIDITY

3. Credit risk recovery
   • Review, assessment and advice relating to the development and implementation of a credit risk management recovery plan
   • Develop and implement triggers, reporting and monitoring capabilities
   • Review and assessment of existing analytical and financial models,
   • Assessment and development of tools and policies to help customers transition from hardship upon rehabilitation

4. Liquidity and Tax obligations
   • Take advantage of ATO relief measures
   • Effectively managing the tax return preparation and lodgement process to fast track income tax refunds
   • Bringing forward tax deductions to reduce taxable income and maximise income tax refunds
   • Reviewing capital assets to crystallise write-offs and bring forward cash tax savings
LIQUIDITY

Response

5. Increase existing or new debt facilities
   • Review existing facility/inter-creditor documentation
   • Identify potential sources of collateral for additional borrowing
   • Value transfer
   • Incumbent lenders
   • Special situation funds
LIQUIDITY – GOVERNMENT STIMULUS

Package 1: $17.6 billion
- $750 payments to households commencing 31 March
- Instant Asset write off increased to $150k for SMEs

Package 2: $66.1 billion
- Reduction to PAYG instalments for March/June BAS lodgements (min $20k, max $100k) for SMEs
- Government proposal to ‘back’ 50% of Covid-19 loans
- Second round of $750 payments to households.

Package 3: $130.0 billion
- $1,500 fortnightly ‘jobkeeper’ payments through existing employers

Other:
- Superannuation draw downs
- Administrative assistance (deferrals/lodgement timing)
CONTIGENCY PLANNING
We have developed three scenarios representing plausible and relevant futures

The next few months will be challenging, but the decisions we make today will shape our society in the future

**Successful virus mitigation and economic recovery**

**Health impacts**
A successful public health response together with the development of improved testing technology limits the health impact of COVID-19.

**Economic impacts**
A third economic survival package enables a rapid economic recovery.

**Longevity**
A sudden and sharp hit to growth followed by a period of solid economic recovery

**Ongoing social distancing and extended response**

**Health impacts**
Ongoing social distancing and limited fiscal support leads to an extended period of detrimental health outcomes.

**Economic impacts**
The economic recovery is slow as Australia is caught in a liquidity trap.

**Longevity**
A severe economic impact in the short term before a period of moderate improvement

**Ongoing shutdowns and social unrest**

**Health impacts**
Ineffective measures to control the outbreak of the virus in Australia results in a devastating loss of life.

**Economic impacts**
Deep and enduring economic disruption forcing Australia to seek a global bailout to recover.

**Longevity**
A prolonged period of weak economic activity following severe disruption
Develop and Implement the Plan

What is the gap between where the business is performing today and where it needs to be to have the support of its key stakeholders – suppliers, financiers & investors?

Develop a realistic plan to stabilise and then sufficiently improve core profitability and/or the balance sheet to close the gap.

Develop a position on the “ask” of key stakeholders, a negotiation strategy, communication plan and legal framework to “lock in” stakeholder support.

A board approved restructure plan needs to be supported by a CEO led well structured implementation plan with clear milestones, accountability and aligned management incentives.
Contingency planning is a key aspect of options analysis as it provides clients with businesses in distress with both a fall back plan and a benchmark for assessing alternative proposals.

Issues

• What happens if my plan to restructure my business consensually is not successful?

• What are the attendant tax consequences for all stakeholders?

Response

1. Options Analysis
2. Strategy and negotiations support
3. Stakeholder Management
4. Recovery prospects
5. Fallback Planning
Not all solutions will be relevant to all clients, firstly the issues need to be identified to ascertain what needs to change. Some suggestions may be:

• Take yourself out of the compliance mindset and consider the bigger picture;

• **Having a conversation with the client and/or their management** – A phone call or meeting could help identify issues and commence the improvement process;

• **Review the issues** – Are there cash flow problems? Can the strategic management be improved?;

• **Engage an expert** – Can you assist? Or can further insight be gained by an advisor?

Cash flow problems may also present themselves from deeper seeded issues eg. Continuing losses from unprofitable products or leadership itself?

An expert could help with not only unlocking cash or working capital but **resolving the deeper cause and assisting with implementation**…
ADVOCATE CHANGE

Command Centre:

Prevention is better than a cure

- Insolvent
- Distressed
- Stressed
- Underperforming
- Healthy

Urgency to act

Lack of choice ← Choice

Performance

Management has limited control, as special situation teams from banks step in

Management in full control

Management is in control, but pressure from stakeholders

Stakeholder influence

Debt interests

Equity interests

Adverse Circumstances
ADVOCATE CHANGE

Acting early increases the financial options available to the client.
FURTHER THOUGHTS
HELPING CLIENTS WITH COMPANIES IN FINANCIAL DISTRESS – RESPONSE

The options available to your clients will depend on their solvency

<table>
<thead>
<tr>
<th>Distress level</th>
<th>Options</th>
</tr>
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</table>
| Doubts about solvency and whether there is a viable business | • Restructuring with safe harbour protection (outside a formal insolvency appointment)  
• Voluntary administration with a deed of company arrangement to compromise debts and give the company opportunity to restructure (a formal insolvency appointment) |
| Insolvent but there could be a viable business     | • Voluntary administration with a deed of company arrangement to compromise debts and give the company opportunity to restructure (a formal insolvency appointment)  
• Liquidation (a formal insolvency appointment) involving a sale of the business |
| Insolvent and no viable business to save           | • Liquidation (a formal insolvency appointment) |

ARITA - 8 Essential Steps if your business is in distress

1. Be honest with yourself
2. Do your accounts
3. Are you already broke?
4. Talk to your bank & lenders
5. Talk to the Tax Office
6. Talk to your suppliers
7. Get qualified help
8. Look after your mental health.
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ESSENTIAL ROLE OF ACCOUNTANTS

- CPA Australia is proactively advocating for members
- Accountants are playing an essential role supporting businesses and the community respond to the unprecedented economic impact of COVID-19
- **Read our submission** to the Coronavirus Business Liaison Unit and the Federal Treasurer detailing this essential role and requesting that accountants be permitted to continue operating as an essential service
- **Read our submission** Request for deferrals and penalty waivers - The joint bodies submitted a letter to the Commissioner of Taxation requesting lodgement deferrals and penalty waivers in response to the COVID-19 crisis
CPA AUSTRALIA SUPPORT

To keep up to date, visit CPA Australia’s COVID-19 WEBPAGE.

It includes:

- Up to date summaries of all stimulus measures announced by FEDERAL GOVERNMENT and the STATE AND TERRITORY GOVERNMENTS.
- FAQs ON THE JOBKEEPER PAYMENT AND CASH FLOW BOOST.
- COMPARISON OF PAYROLL TAX CHANGES.
- RESPONSES OF REGULATORS TO COVID-19.
- CHECKLIST OF POSSIBLE ACTIONS TO HELP YOUR BUSINESS MANAGE THROUGH COVID-19.
- SETTING UP YOUR VIRTUAL OFFICE.
UPCOMING SUPPORT FOR MEMBERS:

• More webinars
  • Economic stimulus package in response to COVID-19
  • Not-for-profit and charities update – COVID-19 challenges
  • COVID-19 response: Technological solutions for auditors

• More resources for business
• More information on what Government is doing
• More articles for In The Black
• More submissions to Government
QUESTIONS