

COVID-19 IMPACT ANALYSIS

Possible impacts on Australian businesses from current and projected government responses to the COVID-19 pandemic

| Early Restrictions | Possible business impacts include: |
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| <ul style="list-style-type: none"> • Restricted operations for a variety of hospitality, sporting and entertainment businesses. • Closure of non-essential businesses that cannot enact adequate social distancing measures. • Public servants and large business employees are encouraged to provide alternative working arrangements for employees. • Advice to avoid non-essential travel. Closure of state borders. | <p>Up to 12-weeks in duration</p> <ul style="list-style-type: none"> • Initial confusion as to which business may stay open and which businesses must close could lead to the premature closure of businesses that could otherwise stay open, causing avoidable economic loss. • Of the businesses that do close, many will suffer significant cashflow difficulties due to a sudden and unexpected drop in sales, precipitating the laying off of staff and contractors and questions over the solvency of some businesses. The closure of these businesses will cause supply disruptions to businesses that continue to operate. • Businesses that have been asked to close will look to ways to adapt to the new environment to at least get some sales. • Most businesses that remain open will experience a slowdown in sales due to people staying at home and a shift towards online sales. The slowdown in sales will have a negative impact on cashflows causing businesses to seek to increase the inflow of cash through, for example, seeking debts to be repaid, selling unnecessary assets and obtaining new loans. They will also seek to reduce cash outflows through cost cutting, including reducing staff costs, renegotiating supply agreements and renegotiating or deferring rent. • Businesses will look to delay or cancel investments unless it is essential to support staff working from home or increasing online sales. • Businesses that remain open may experience a short-term spike in the sales of certain items and may experience difficulty meeting that demand. • Businesses that seek to continue to operate may experience some short-term increases in outgoings on technology to support staff working from home as well as protective items for staff. • Businesses may need to move staff to areas of the business experiencing an increase in work, such as online sales. • All businesses will look to the support on offer from governments, banks and suppliers to remain in business. |

- Uncertainty over the future of many business will impact the health of business owners and their staff.
- Bankruptcies and insolvencies will increase, especially for businesses that were already in a weak financial position before the crisis.
- With other countries imposing similar or harsher restrictions, export markets will also be impacted, as will supply from those markets.

3 months to 6 months in duration

- The ability of businesses that have been shut for more than three months to survive becomes increasingly unlikely, unless they have been able to adapt their business to continue trading, even in a diminished form.
- Businesses that remain open will continue to experience falls in sales, especially if they do not increase their online sales.
- The share of purchases made online will grow significantly. The challenge for business is not only how to increase their online sales but how to deliver goods and services to customers.
- Staff cuts will continue to grow as businesses look to preserve cash to survive.
- Bankruptcy and insolvencies will begin to increase amongst businesses in a previously strong financial position.
- Issues regarding the payment of commercial leases for businesses that have not been operating will become more pronounced.
- For businesses still operating, supply chain disruptions will become more pronounced, forcing them to seek alternative suppliers that may be more expensive.
- Government support for business will become increasingly critical to keep businesses operating and staff employed.

6 plus months in duration

- Some well-known larger businesses will collapse, possibly in the retail, and travel and leisure sectors.
- Staff cuts will become more severe.
- Insolvencies and bankruptcies will spike
- However, businesses that have adapted to the changed environment, including changing customer needs will begin to see some improvements.
- Nearly all medium to large employers will have by this stage initiated large scale restructures, resulting in large job losses and the movement of staff to growth areas. They will also seek to sell assets and areas of their business considered 'non-core'.

Demand for professional advice will grow, especially in business restructuring and turnaround advice on financing.

| Stricter Restrictions | Possible business impacts include: |
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| <ul style="list-style-type: none"> • Severely limited interstate travel and ban on international travel. • Major reprioritisation of health services. • Closure of all public and government venues including libraries and parks. • • Further social restrictions. • Can leave the home in the following limited circumstances: <ul style="list-style-type: none"> ○ shopping for what you need - food and essential supplies ○ medical, care or compassionate needs ○ exercise in compliance with the public gathering requirements ○ work and study if you can't work or learn remotely | <p>1 to 12-weeks in duration</p> <ul style="list-style-type: none"> • Similar to the expected business impacts listed in the earlier restrictions above, however the impacts of stricter restrictions will be felt by more businesses from more industries, and by more employees and contractors/self-employed people. Supply chain disruptions will be larger. |
| | <p>3+ months</p> <ul style="list-style-type: none"> • Similar to the expected business impacts listed in the earlier restrictions above, however the impacts of stricter restrictions will be felt by more businesses from more industries, and by more employees and contractors/self-employed people. Supply chain disruptions will be larger. |
| Strictest Restrictions (full lockdown) | Possible business impacts include: |
| | <p>1 to 12-weeks in duration</p> |
| | <ul style="list-style-type: none"> • Businesses across nearly all sectors will come under severe stress. • Many businesses will only be able to survive through: <ul style="list-style-type: none"> ○ Improved business strategy ○ Cost control ○ Greater focus on technology ○ Customer loyalty ○ Good staff ○ Good suppliers ○ Access to finance ○ Direct government support • Businesses not permitted to operate from their premises and cannot operate from home will be under extreme financial pressure, leading to more staff cuts or staff being asked to go on indefinite unpaid leave. Many will fail or simply close. • A small number of businesses experiencing an increase in demand will seek to employ more staff from a large and growing pool of the unemployed. |

| | 3+ months |
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| | <ul style="list-style-type: none"> • Businesses of all sizes that have been able to move operations to an online, home-based mode of production or online delivery of services may experience some growth, while those that cannot operate from home will be increasingly likely to close. • The economy will fall into a severe recession for the remainder of 2020 and possibly longer. • The percentage of businesses that fail or close will spike even further, including amongst large, well-known companies. • Business survival will for many rely on: <ul style="list-style-type: none"> ○ Changes to business strategy, with greater focus on areas of the business still growing, typically necessitating more investment and staff increases in those areas and cuts to other areas ○ severe cost cutting, including cuts to staff costs through redundancies, putting staff on leave without pay and/or asking staff to take pay cuts or work reduced hours ○ finding cheaper suppliers or renegotiating supply contracts ○ cancelling nearly all capital investments, unless it is necessary to support changes to strategy ○ selling assets and non-core businesses ○ a greater focus on online sales and delivery ○ direct and indirect assistance from government ○ the support of lenders and suppliers ○ the support and adaptability of staff ○ the support of loyal customers. |
| The Recovery | Possible business impacts include: |
| <p><u>Step One: Lowering of restrictions</u></p> <ul style="list-style-type: none"> • Restrictions around interstate travel are slowly lifted. • Non-essential businesses begin to re-open, although operations will be limited. • Outdoor gatherings of smaller groups are permitted. • Places of worship reopened. | <ul style="list-style-type: none"> • Businesses reopen and unemployment will start to drop, albeit slowly. • Many businesses will be cautious, with many not returning to pre-crisis levels of activity due to a weakened economy. • Large businesses that survive the crisis with cash reserves may be increasingly dominant and use |

- High levels of caution is still advised

Step Two: post-pandemic

- All businesses are permitted to reopen and reinstate business as-usual
- International travel is reinstated. DFAT travel warnings are lifted on majority of countries.

that to further increase market share by acquiring weakened competitors.

- Changes in consumer behaviour brought on by the crisis, such as online shopping, will persist and may grow, with businesses able to meet this change most likely to thrive.
- The demand for business advice from professionals will be high, especially in restructuring and acquisitions.
- Skills of the workforce will need to be realigned to meet the changing needs of business and consumers.
- Many sectors and geographic areas of the economy will struggle for many years, requiring long-term government support.
- There may be a shift from Australian small businesses typically owned and operated by older people to younger people. With a large proportion of Australian small businesses operated by people over 60, many will close their business even if their business survives the crisis, given the rebuild phase will be difficult. There will be increased opportunities for younger people who may be out of work to acquire an existing business for a reduced price or start their own, more digitally-focused business.
- Government support for the economy, whether from the Federal Government or Reserve Bank of Australia, will persist for some time, leading to a long period of budget deficits and government carrying a much larger debt.