

MANAGING THROUGH COVID-19

CPA AUSTRALIA UPDATE WEBINAR

14 April 2020

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

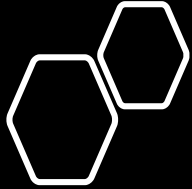
- Dealing with clients in financial distress
- Business continuity and contingency planning
- Cash Flow - working capital and liquidity
- Changes to the insolvent trading regime

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.**

JOBKEEPER PAYMENT OVERVIEW

- 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](#)

COMMERCIAL TENANCIES

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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 TUROVER 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

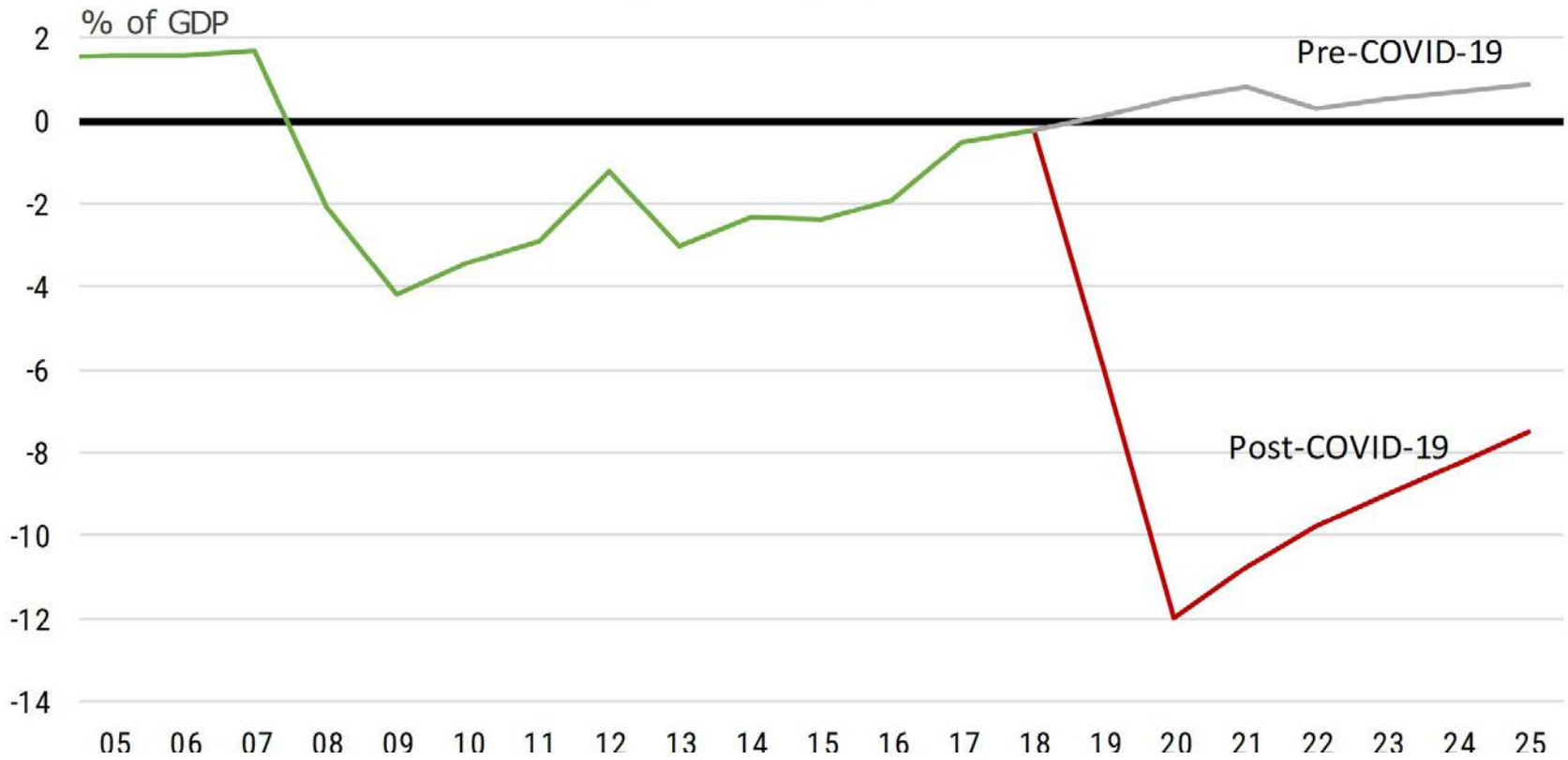
AFR MARCH QUARTER SURVEY OF ECONOMISTS

	Most current reading	Median forecast	Bill Evans Westpac	Shane Oliver AMP	Gareth Aird CBA
Peak in unemployment rate	5.1% (February 2020)	8.5% (at the end if June)	9%	9.5%	7.8%

- 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



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)

LATEST ABS STATISTICS – CHANGES IN WORKFORCE

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- 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

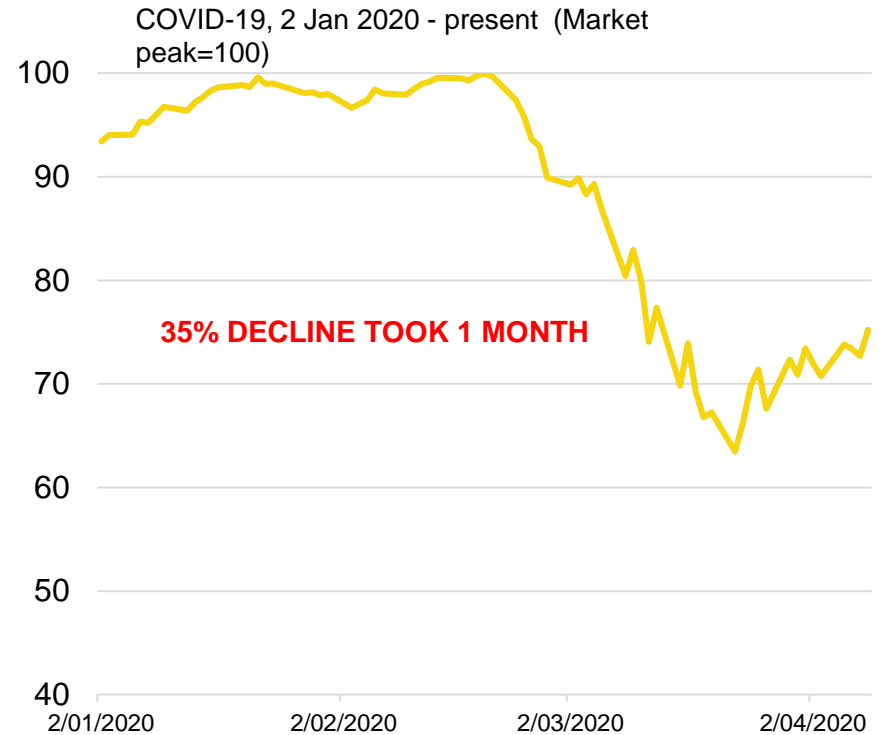
LATEST ABS STATISTICS – BUSINESS OPERATIONAL IMPACTS OF COVID-19

- 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)

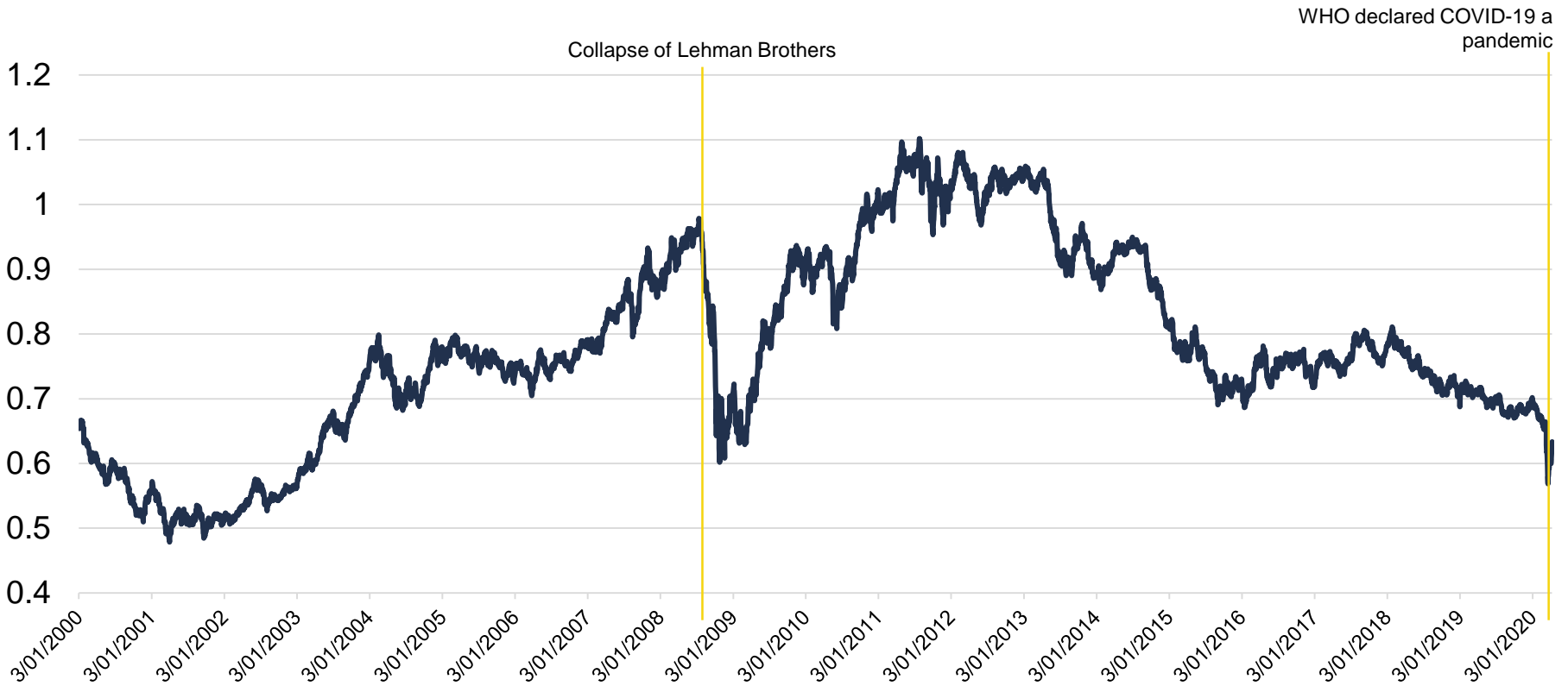
S&P/ASX 200 INDEX, GLOBAL FINANCIAL CRISIS VS COVID-19 PANDEMIC



Source: Yahoo! Finance



AUSTRALIAN DOLLAR TO US DOLLAR, 2000 - PRESENT



Source: Macrotrends

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 OF INSOLVENCY

“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 VS A TEMPORARY LACK OF LIQUIDITY

‘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”.

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)

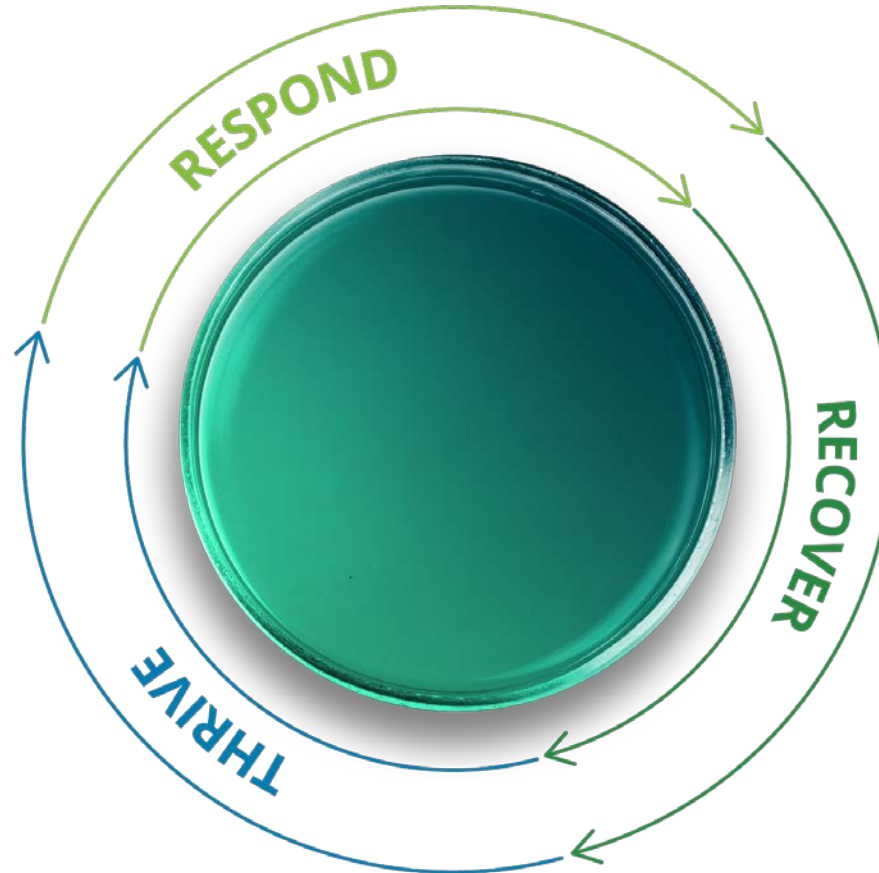
- The company has reached the limits of its funding facilities
- The company is unable to produce accurate financial information.
- Company directors have resigned, citing concerns about the financial position of the company.
- The company auditor has qualified their audit opinion on the grounds there 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



AGENDA

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

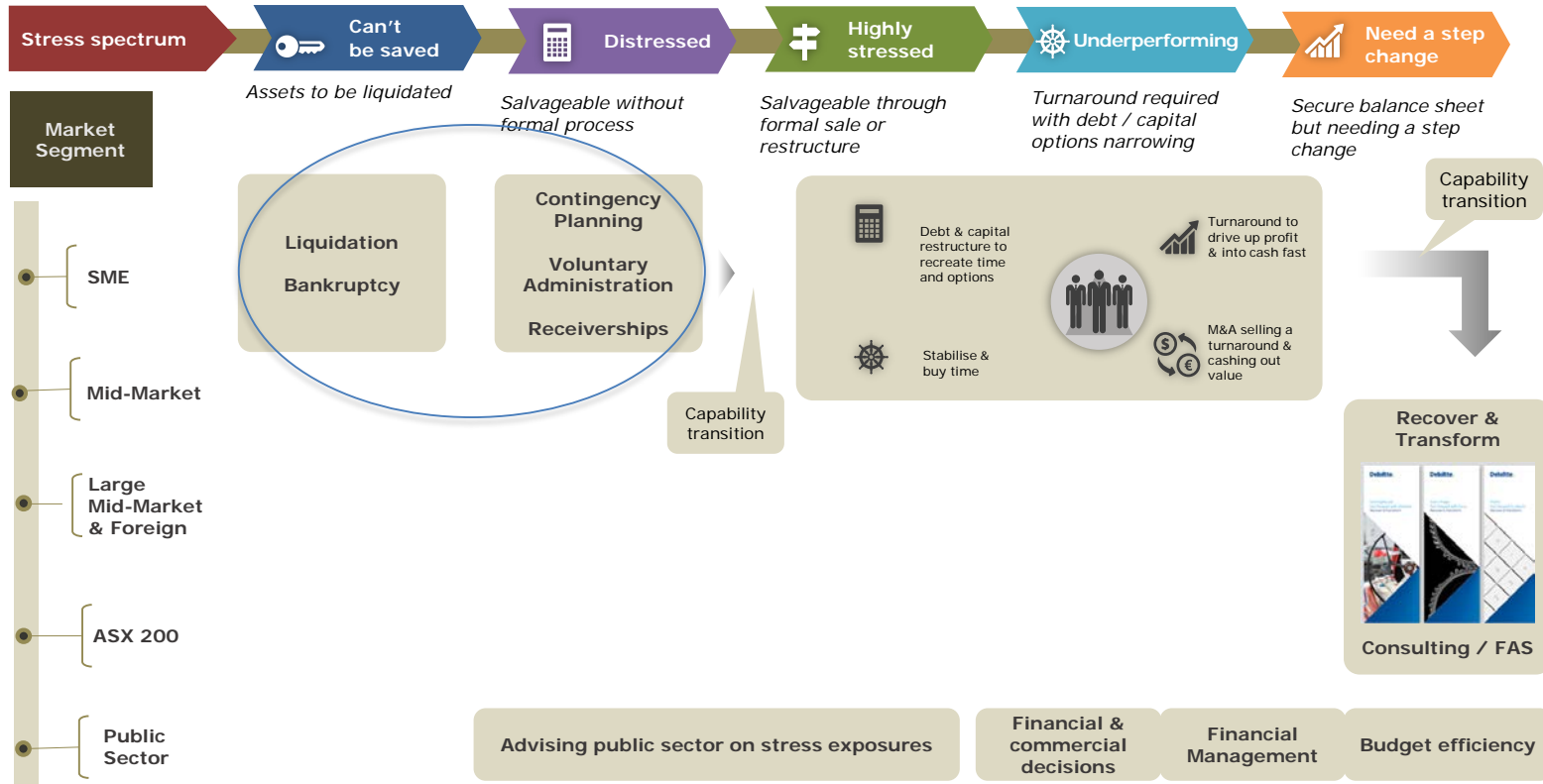
DISCLAIMER

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



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

Insolvency - the point when you are unable to pay your debts as and when they fall due.



CASH FLOW ISSUES – RECOGNISING INSOLVENCY

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)

Section	Civil/Criminal obligation
180 Care and diligence	Civil
181 Good faith	Civil
182 Use of Position	Civil
183 Use of information	Civil
184 Good faith, use of position and use of information	Criminal
286 Obligation to keep financial records	Civil
429 Officers to report to controller about corporations affairs	Civil
438B Directors to help administrator	Civil
475 Report on Company Activities and property (ROCAP) to be submitted to liquidator	Criminal
530A Officers to help liquidator	Criminal
588G Director's duty to prevent insolvent trading by a company	Criminal

CHANGES TO INSOLVENT TRADING – TEMPORARY RELIEF

The Coronavirus Economic Response Package Omnibus Act 2020 (Cth)

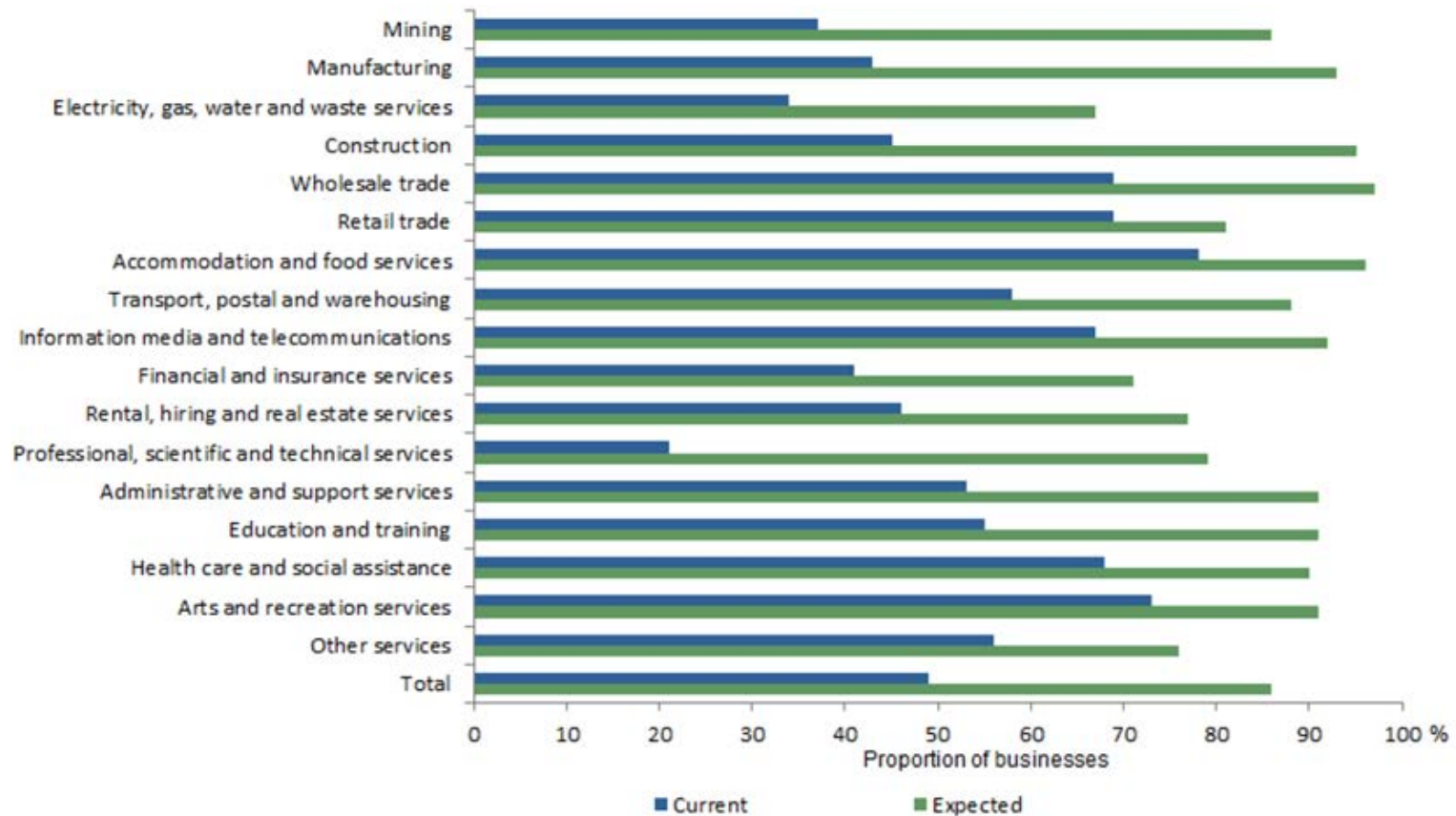
- Directors are not required to prove nexus of insolvency to the COVID-19 pandemic
- The changes are limited to the **civil** penalty provisions, not the **criminal** offence (dishonest purpose)
- Currently 6 months relief from **25 March 2020**, but may be extended
- The relief only relates to debts 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

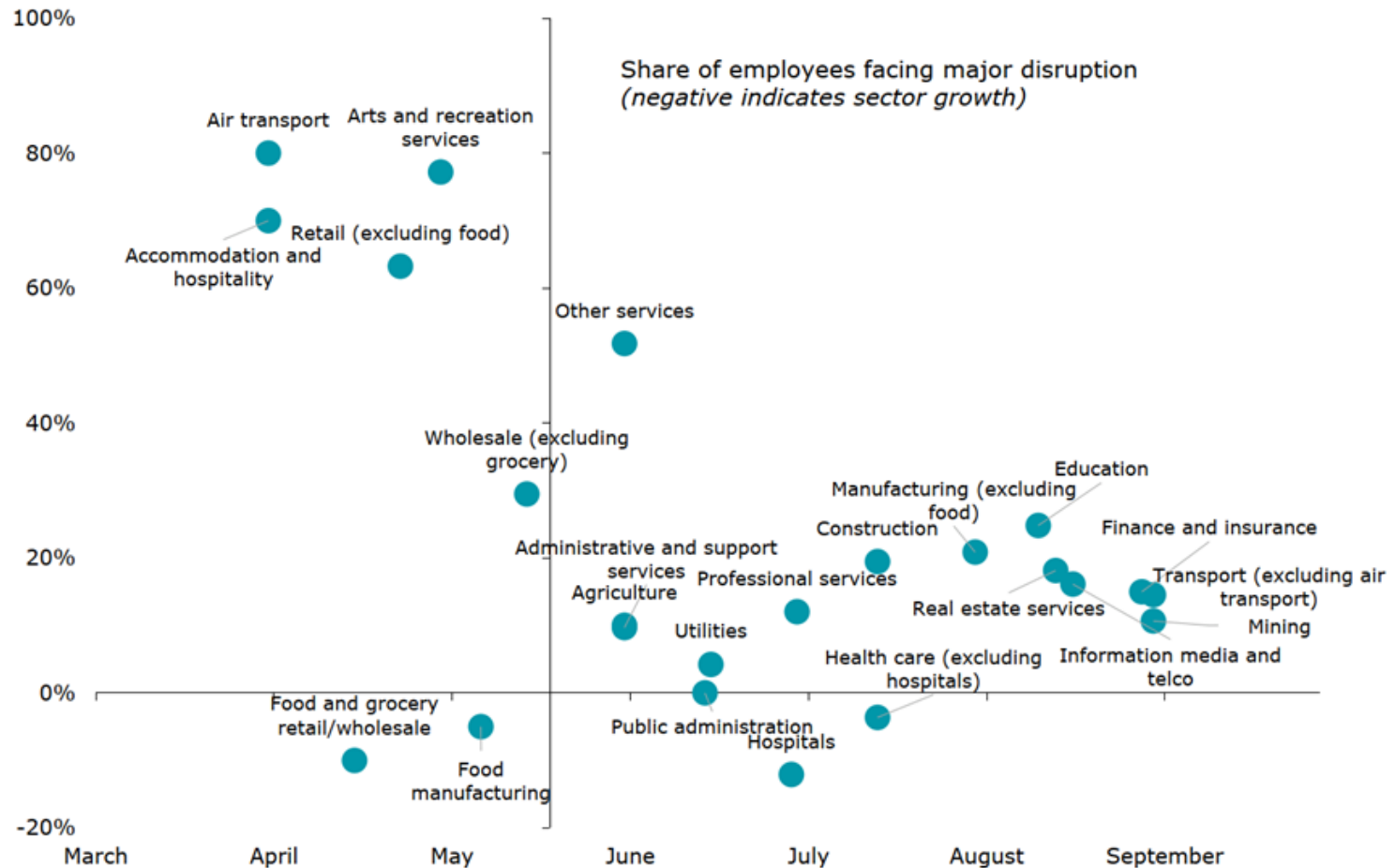
INDUSTRIES AT RISK – PERCEPTION OF ADVERCE IMPACT

ABS data shows most sectors expect a significant impact, though not feeling it yet

Businesses adversely impacted by Coronavirus (COVID-19), current and expected, by industry, March 2020

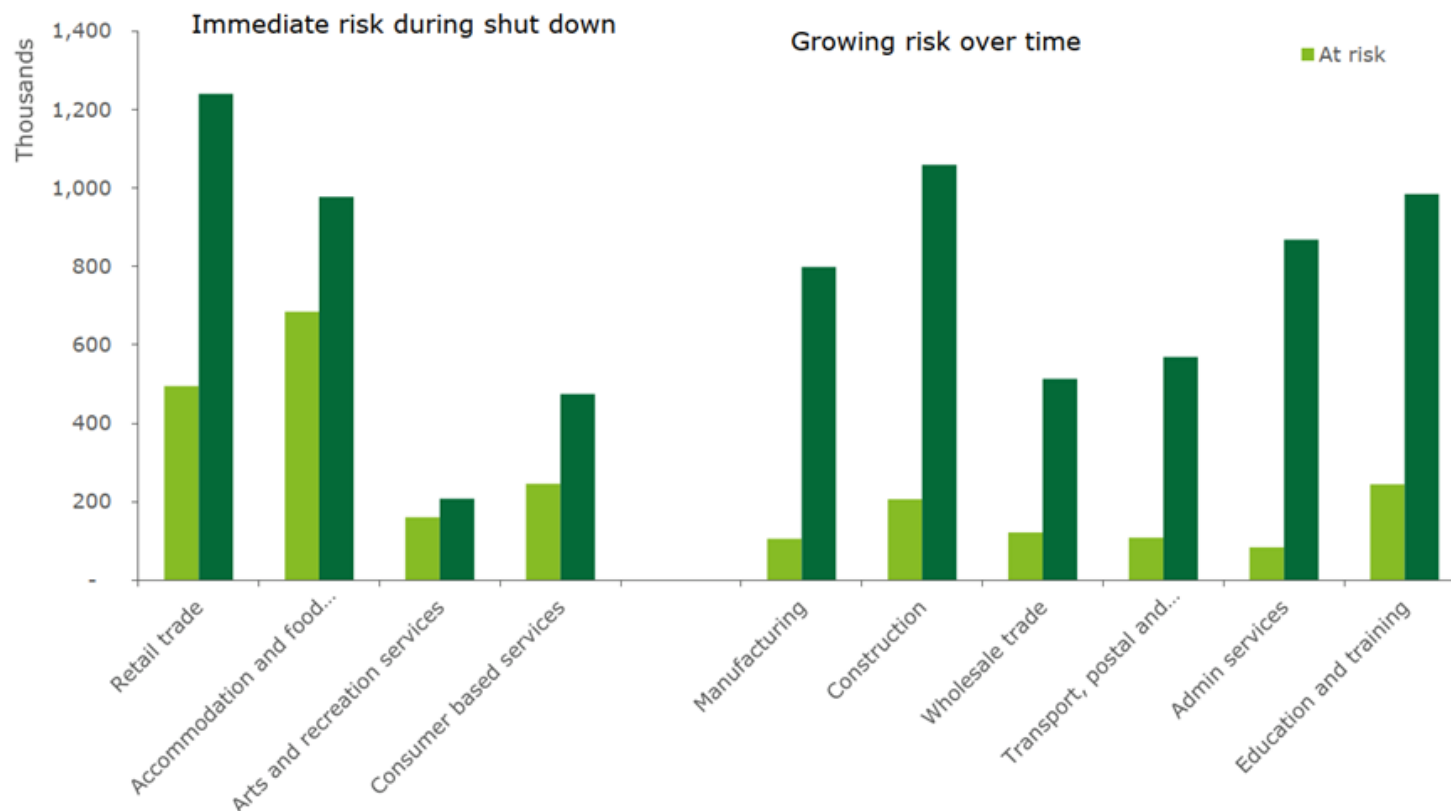


INDUSTRY STRESS MAP – SOME INDUSTRIES ARE MORE AT RISK OF EMPLOYMENT DISRUPTION THAN OTHERS



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)



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?*

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?*

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?*






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

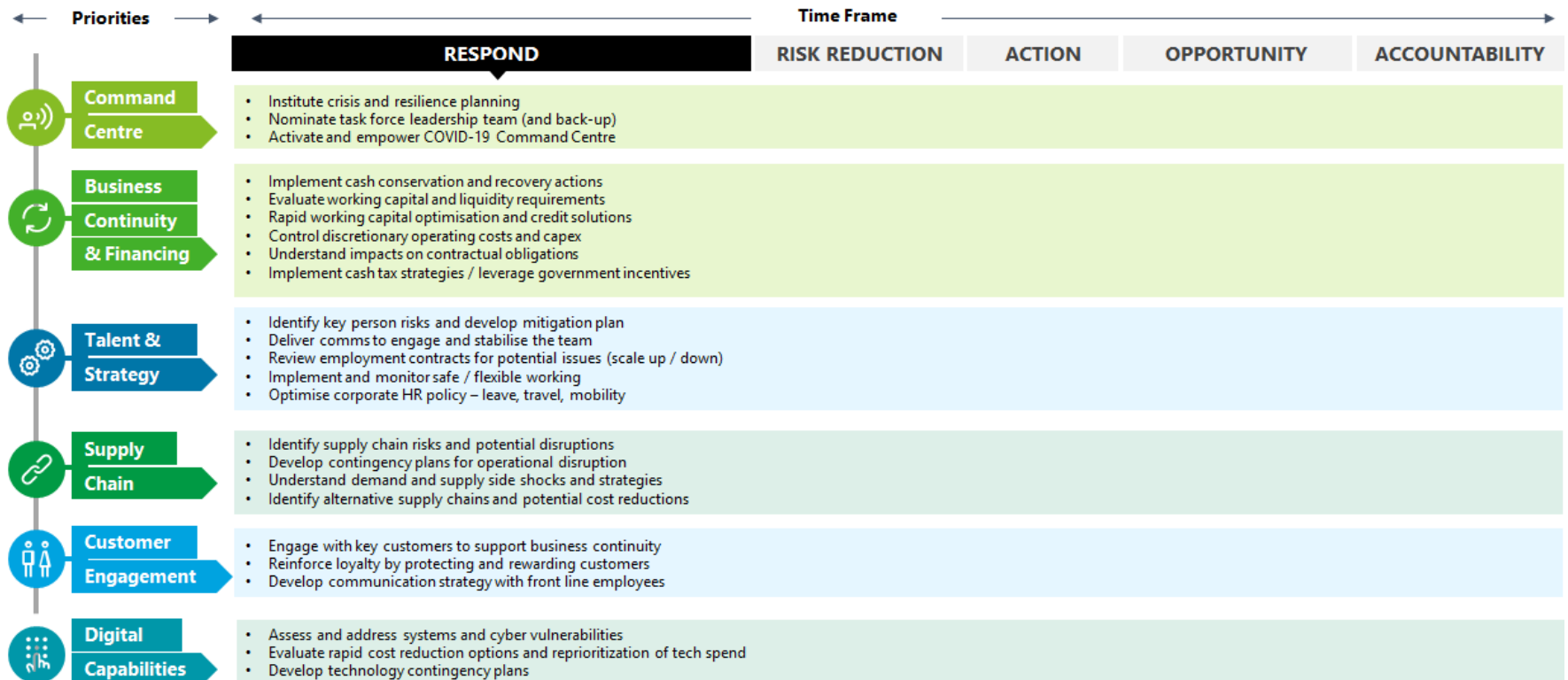
RECOVER

THRIVE

Act today

CRISIS MANAGEMENT – Respond effectively to Recover and Thrive

The heart of resilient leadership: responding to COVID-19



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CRISIS MANAGEMENT – Respond effectively to Recover & Thrive

Command Centre :

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

Considerations

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)
- Considerations for workforce continuity plans
- 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 & reprioritisation
- Tech contingency planning

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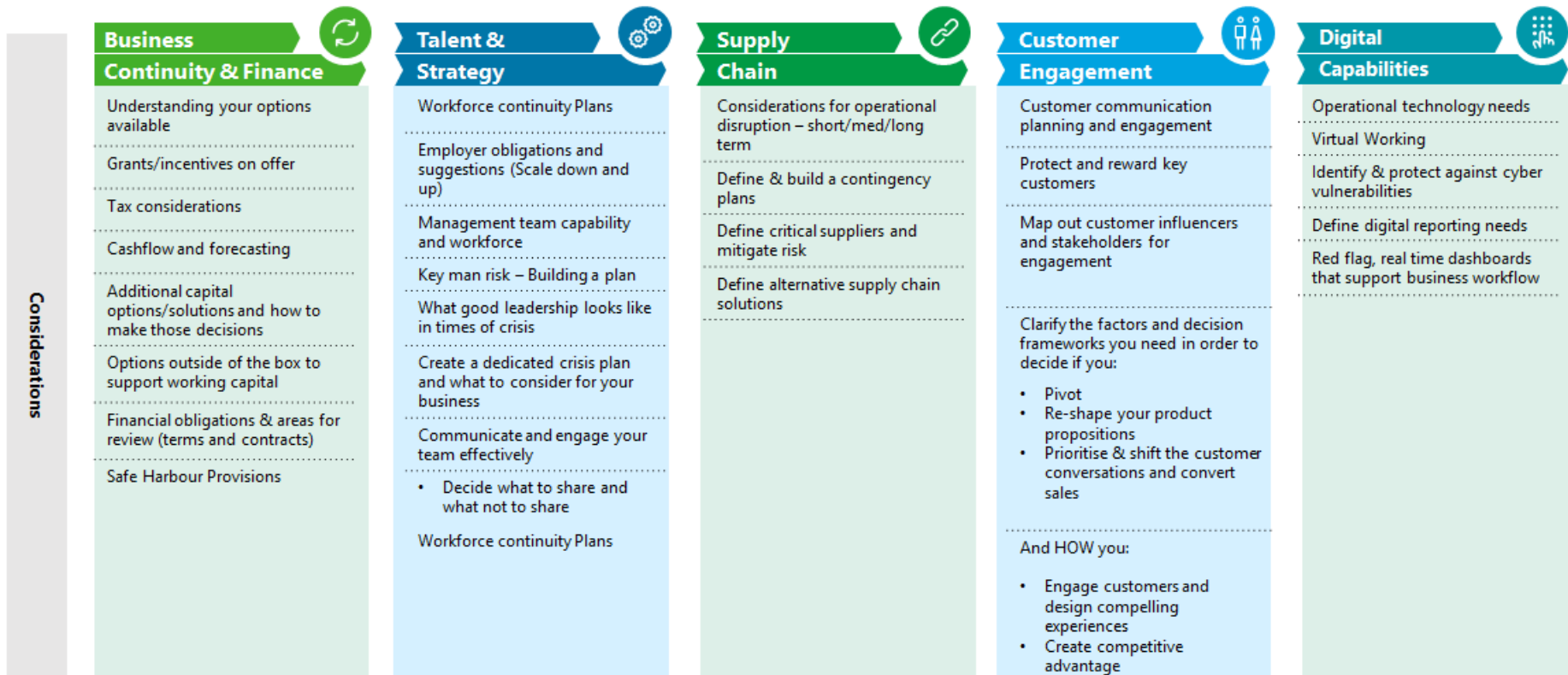
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CASH FLOW

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?



Respond - Recover - Thrive

CASH FLOW IMPROVEMENT

Where can cash be found?



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?

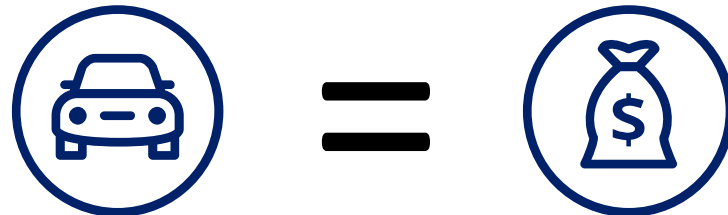
CULTURE – What are the implications of these choices on our culture and do they align with our values?

CONVERTING ASSETS TO CASH

Cash is the most liquid asset. Converting assets to cash can assist a company with meeting its 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, or 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?

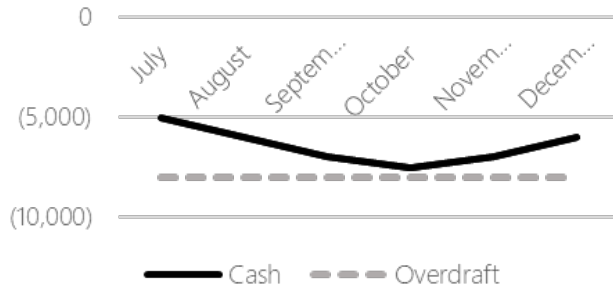
Contingencies & Scenarios

If the company entered voluntary administration today, what would the outcome be for key stakeholders?

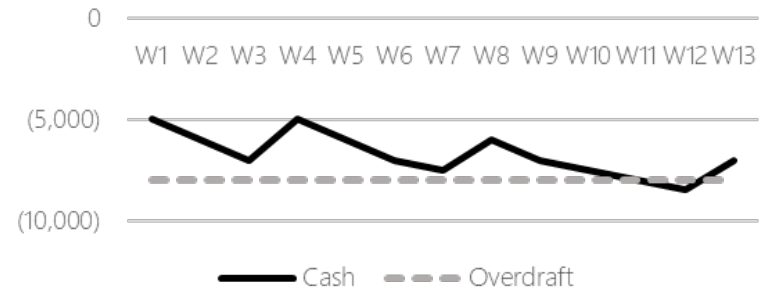
LIQUIDITY

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

Monthly Cash Forecast



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

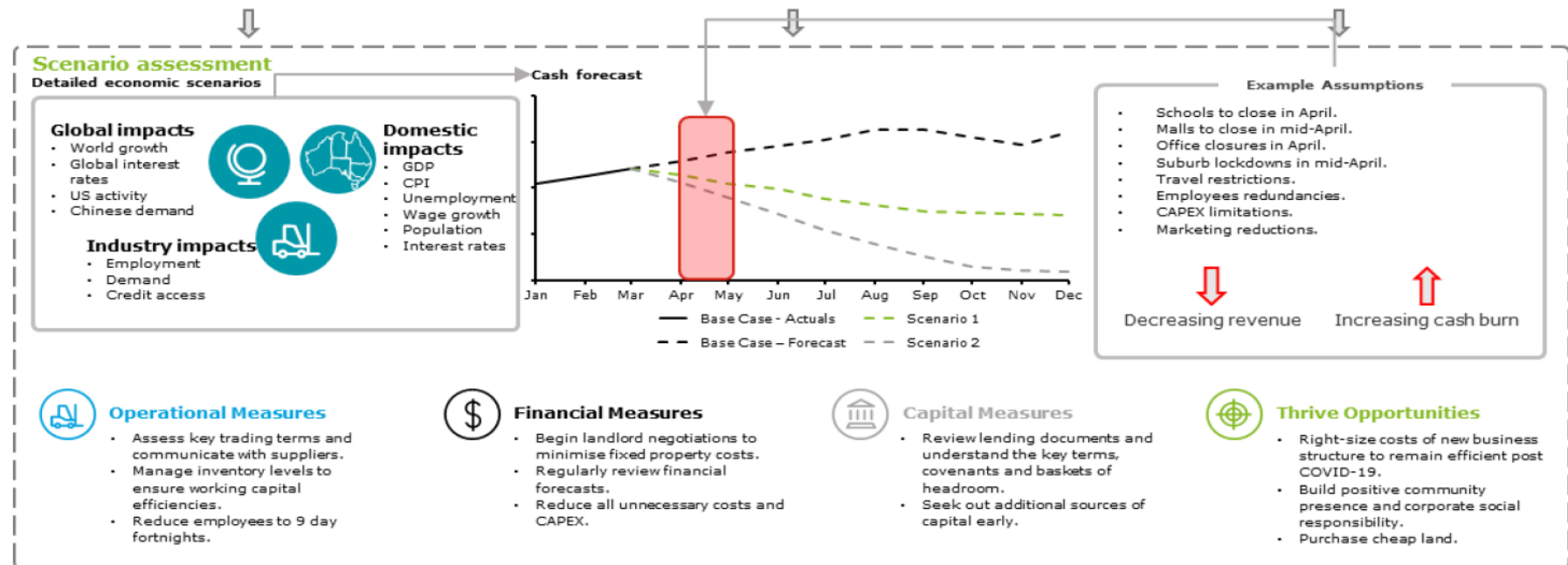
ADDRESSING THE FINANCIAL IMPACT OF COVID-19

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 play out?
- What are the timeframes for these scenarios?
- What operational and financial leavers can we pull to response and mitigate risk?
- Do we need access to capital? When? How much?
- How do we set ourselves up to thrive?



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

Response

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)

CONTINGENCY 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.

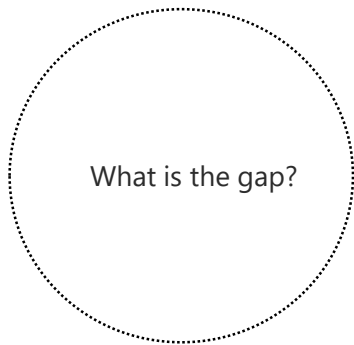
Economic impacts

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

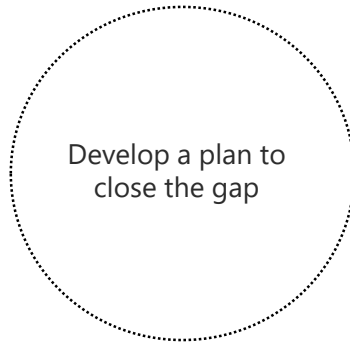
Longevity

A prolonged period of weak economic activity following severe disruption

DEVELOP AND IMPLEMENT THE PLAN



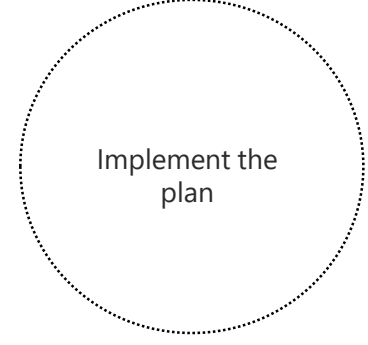
What is the gap between where the business is performing today and where it needs to be to have the support of its key stakeholders – suppliers, financiers & investors?



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

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



ADVOCATE CHANGE



Command Centre :

Develop, Plan, Implement and resolve

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?

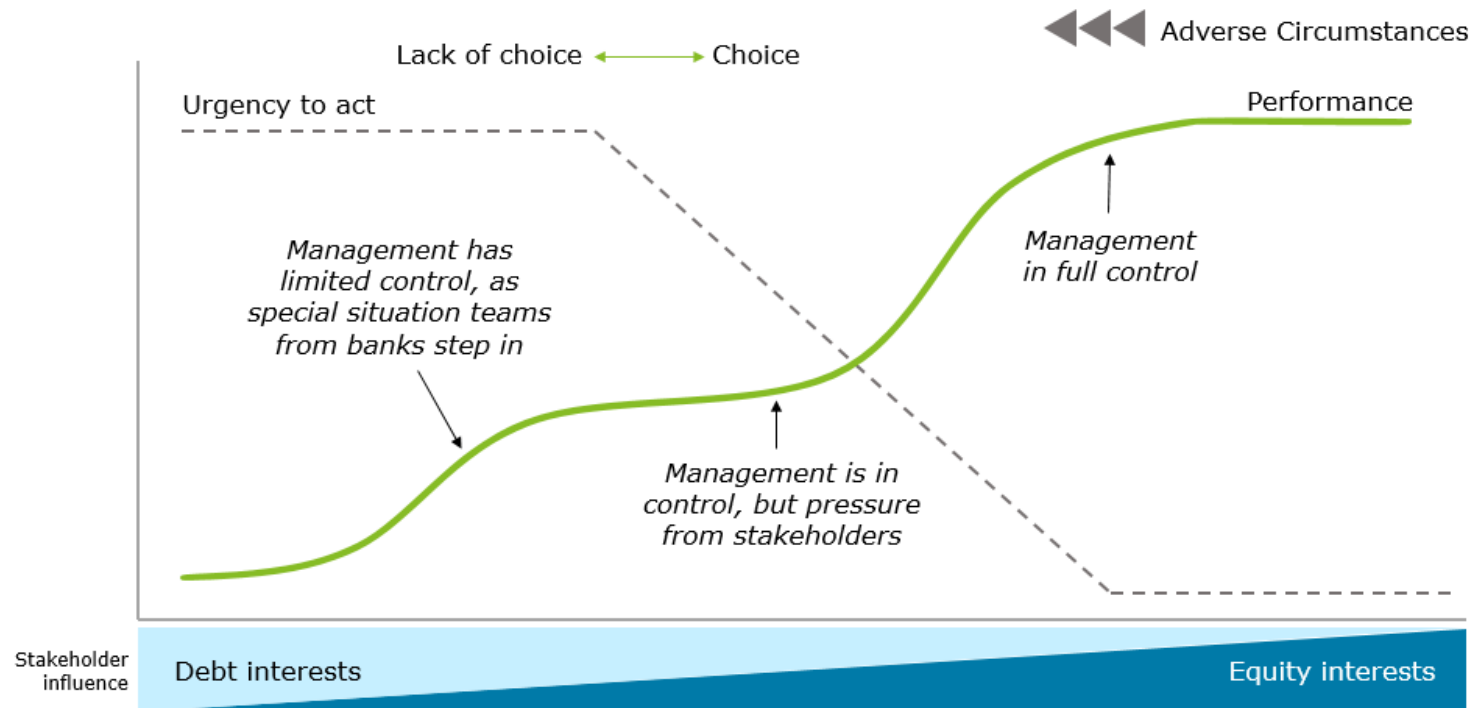
Cash flow problems may also present themselves from deeper seeded issues eg. Continuing losses from unprofitable products or leadership itself?

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 :

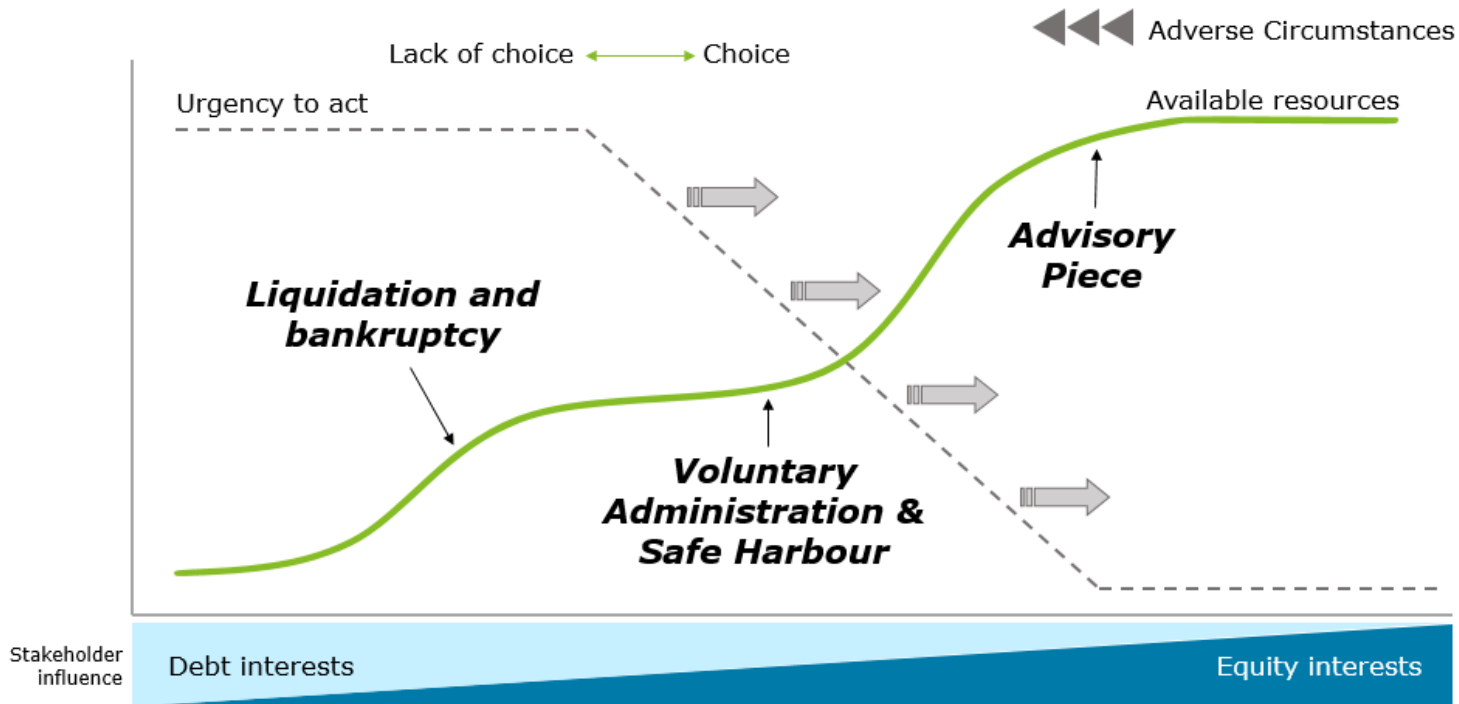
Prevention is better than a cure



ADVOCATE CHANGE

 **Command Centre :**

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

Longer-term options?

Distress level	Options
Doubts about solvency and whether there is a viable business	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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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CPA AUSTRALIA POLICY & ADVOCACY, RESOURCES

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
- View all submissions at <https://www.cpaaustralia.com.au/coronavirus-covid-19-impact-resources-support/covid-19-sources-of-government-advice>

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](#)

CPA AUSTRALIA SUPPORT

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