



KordaMentha – TMA Australia COVID-19 Survey

May 2020



KordaMentha
Corporate

Introduction

The KordaMentha – TMA COVID-19 Survey provides an insight into the current economic situation and outlook for Australian businesses as a result of COVID-19.

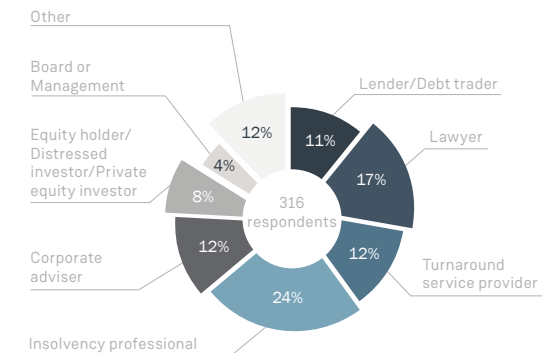
The scale and speed of the economic impact of COVID-19 is unprecedented, and although the health-related outlook is becoming clearer, there is great uncertainty on how and when economies will recover.

KordaMentha, in conjunction with the Turnaround Management Association of Australia, surveyed the Australian turnaround community for their insights on the impact of, and response to, COVID-19.

These summary results cover the following topics:

- Australia's current turnaround environment.
- The Government and legislative response to COVID-19 in Australia.
- The short-term outlook for Australian businesses.
- The longer-term outlook as the Australian economy positions for recovery.

Profile of respondents



Note: not all respondents answered all survey questions. The results presented in this report are the percentage of respondents who answered the question, not total survey respondents.



Key insights

01

Whilst the outlook for some industries is clear, the outlook for others is mixed. For example, approximately one third of respondents expect the 'Agriculture and food' sector to be negatively impacted over the next 12 months, but one third expect it to be positively impacted. For the 'Media and telecommunications' sector, half expect a negative impact, but one third expect a positive impact.



02

Most respondents believe the governments (Commonwealth and State) have done enough to support Australian businesses in response to COVID-19, and that Australia's current turnaround and insolvency legislative regime is sufficient to deal with COVID-19's economic impacts.



03

58% of respondents believe Australia's economic recovery will be U-shaped, with only 10% believing it will be V-shaped.



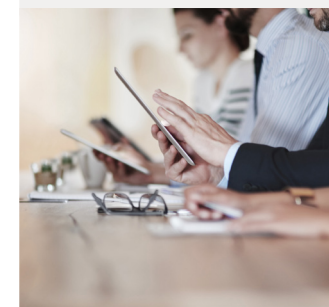
04

25% of respondents believe businesses are not adequately prepared to ramp up once social distancing restrictions are lifted.



05

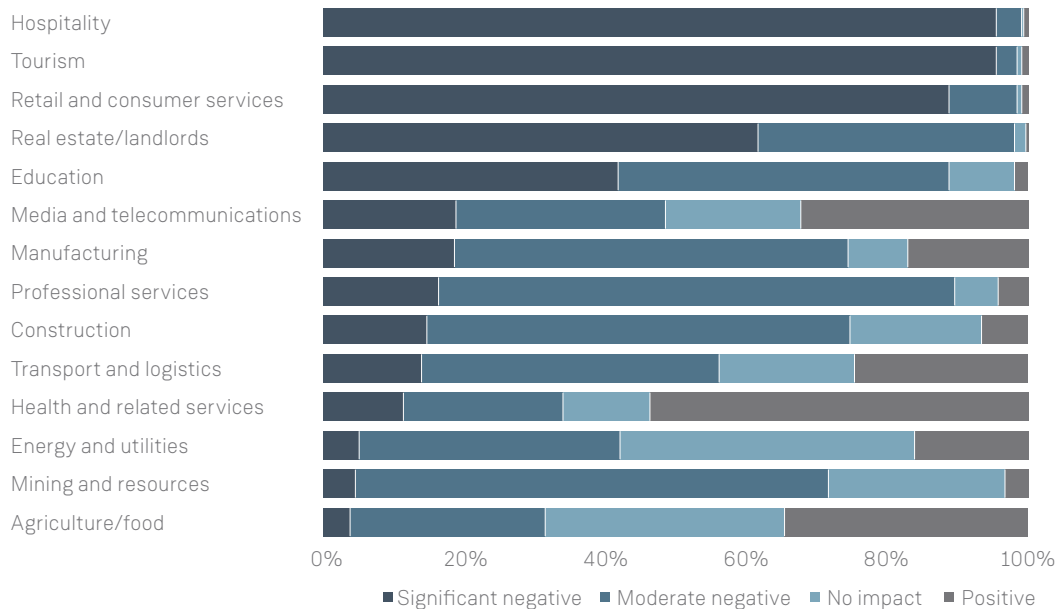
63% of respondents see the availability of external debt or equity financing for recovering businesses being worse over the next 12 months.



Turnaround environment

Industry outlook

Respondents' expected level of COVID-19 economic impacts over the next 12 months

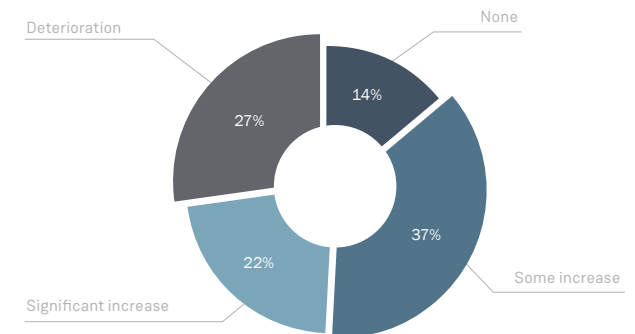


Unsurprisingly, respondents expect the 'Hospitality', 'Tourism' and 'Retail and consumer services' sectors to face the greatest negative impact, and the 'Health and related services' sector to experience the greatest positive impact.

Interestingly, sentiment for various sectors was very mixed. For example, 31% expected the 'Agriculture/food' sector to experience either a significant or moderate negative impact, whilst 35% expected that sector to experience a positive impact. For the 'Media and telecommunications' sector, 48% expected that sector to experience either a significant or moderate negative impact, whilst 32% expected that sector to experience a positive impact. This highlights the uncertain outlook for many industries.

Demand for turnaround related services

Respondents' change in level of enquiries over the past month

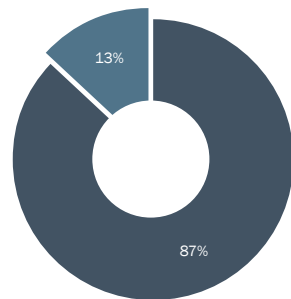


There is a sense of 'calm before the storm' for the turnaround industry, with 59% of respondents experiencing an increase in enquiries over the past month. However, 27% have experienced a deterioration in the level of enquiries.

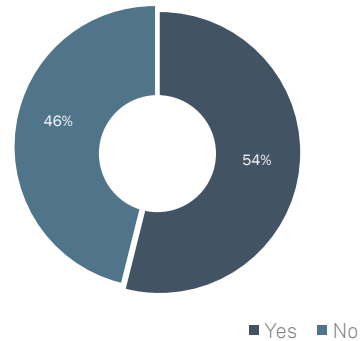
Government and legislative response

Government response

Have governments (Commonwealth and State) done enough to support Australian businesses in response to COVID-19?

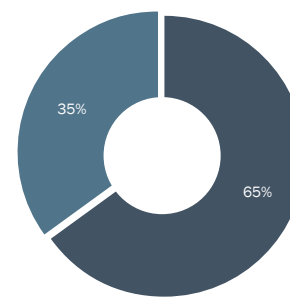


Will further government support and stimulus (e.g. additional JobKeeper payments) be required?

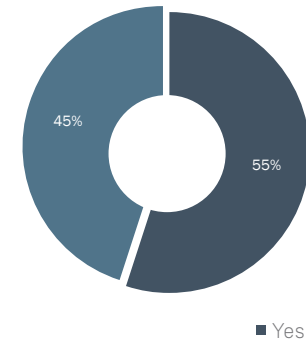


Legislative response

Is Australia's current turnaround and insolvency regime sufficient to deal with COVID-19 economic impacts?



Will the six month relaxation of Australia's 'trading while insolvent' laws reduce the number of corporate insolvencies likely to occur over the next 12 months?



Respondents' suggestions for further government support and stimulus included:

- support for early commencement of infrastructure projects
- tax breaks and tax incentives
- social security payment increases and extensions
- low rate loans to assist business' working capital needs
- targeted support for specific industries (e.g. tourism)
- extension of JobKeeper payments.

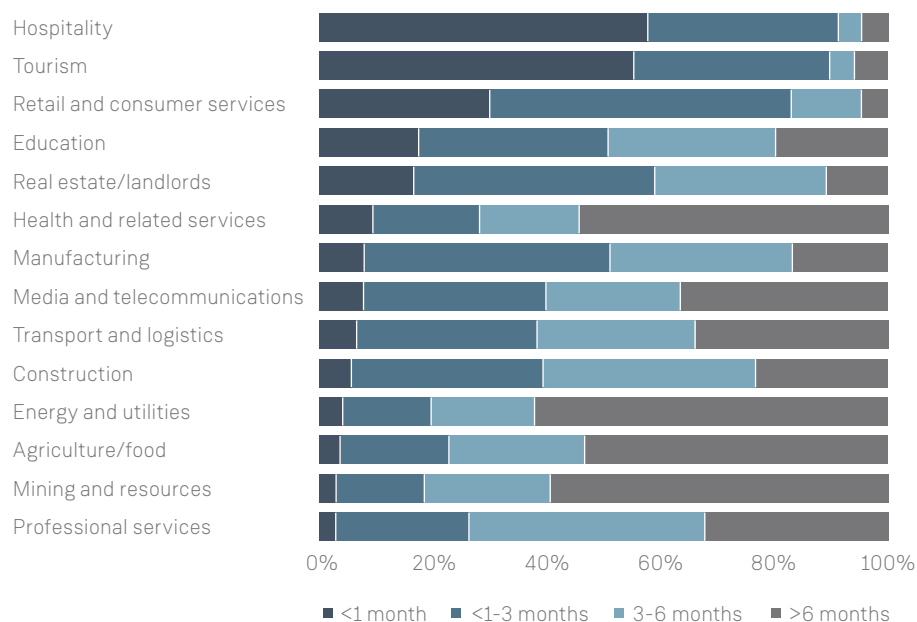
Respondents' suggestions for changes to Australia's current turnaround and insolvency legislative regime included:

- extension of Fair Entitlement Guarantee to Voluntary Administrations for a defined period
- reconsideration of Safe Harbour regime applicability for small to medium businesses
- introduction of US-style Chapter 11 restructures
- extension of the relaxation of the 'trading while insolvent' rules
- consideration of UK-style pre-pack insolvency practices.

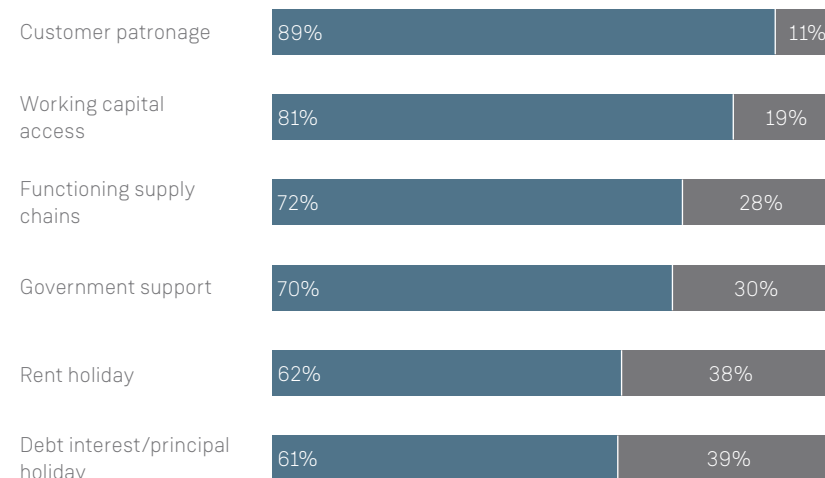
Short term outlook

Survival

For how long can each industry continue on care and maintenance without either further government support and/or a return to business as usual?



Importance of factors to businesses for surviving the next 3-6 months



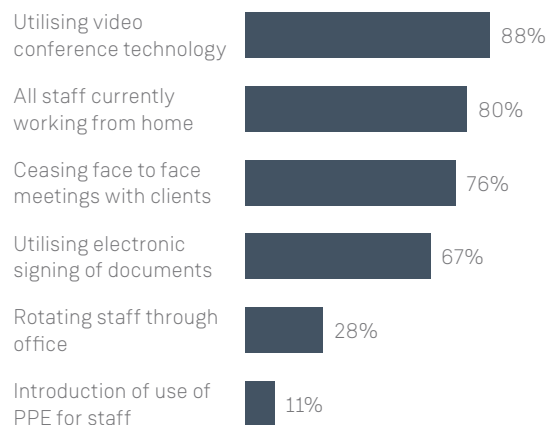
Given recent commentary around the likely near-term lifting of restrictions that have been imposed by governments, it appears that respondents expect that many industries will be able to survive until those restrictions are lifted.

However, given that a complete return to business as usual may not be immediately achievable for some sectors, further targeted government assistance may be required.

Short term outlook

Short term actions and changes

Operational changes introduced by respondents and their clients



There have clearly been radical changes undertaken by respondents and their clients in response to COVID-19 and the imposed restrictions, largely relating to increasing digital ways of working.







Actions taken by respondents or their clients to survive the next 3-6 months



Perhaps surprisingly, the majority of respondents and their clients have not taken actions to reduce some major costs (e.g. reducing headcount, stopping orders from suppliers), and only half had stopped investment/capex.

Interestingly, slightly more respondents and their clients had sought additional debt, as compared to seeking additional equity. This highlights the current low cost of debt funding, as well as the potential reluctance of shareholders to contribute additional funds.

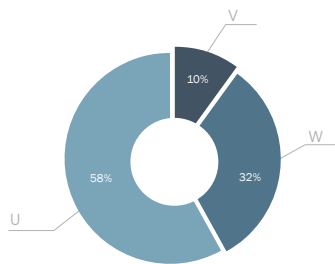
Other actions and changes taken by respondents and their clients include:

-  Reducing and/or pausing discretionary and operational expenses (client functions, staff training).
-  Reducing pay and working hours.
-  Seeking covenant relief.
-  Seeking cheaper leases.
-  Changing dividend policy.
-  Requiring upfront retainer payment from clients.

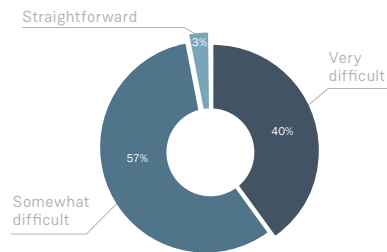
Positioning for recovery

Recovery profile

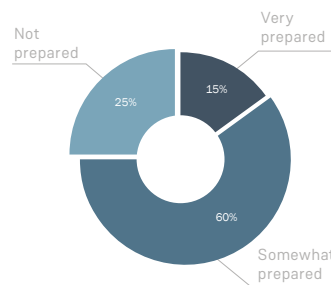
Expected shape of Australia's economic recovery



Expectations of how difficult it will be for companies to restart with adequate working capital and/or access to necessary supply chains



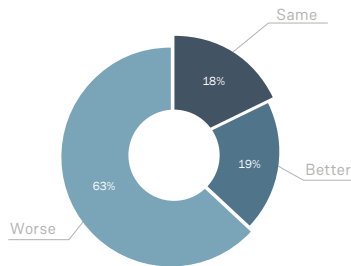
Expectations of businesses' level of preparedness to ramp up once social distancing and other restrictions are lifted



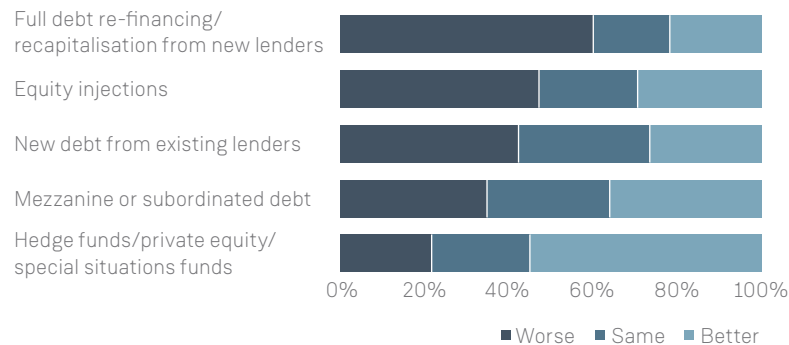
It is clear that respondents do not expect the Australian economy to bounce back rapidly. The overall poor economic recovery outlook (predominantly U-shaped), will likely be compounded by the lack of preparedness of businesses to take advantage of any improvement in conditions, and the lack of financing availability to support working capital and other recovery requirements.

Recovery financing

Availability of external debt or equity financing for recovering businesses over the next 12 months



How active do respondents see the following sources of external financing for turnarounds over the next 12 months?



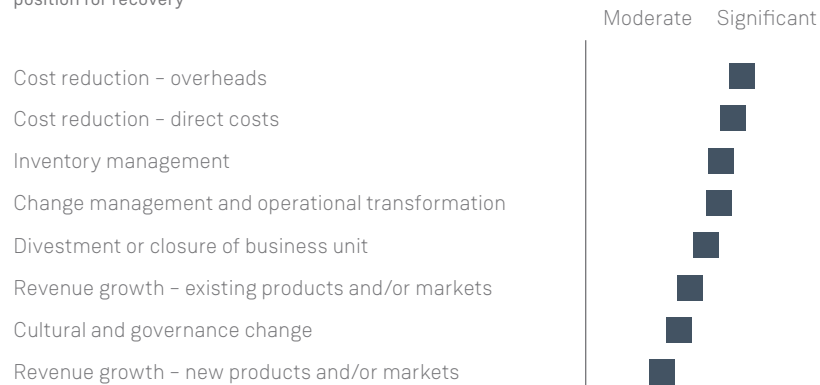
This negative outlook for debt and equity financing from traditional sources is at odds with recent financing activity in Australia, particularly in equity raisings. Whilst there have been some large capital raisings by ASX-listed businesses, this may not translate to the broader economy and the availability of debt finance.

The positive outlook for 'Hedge funds/private equity/special situations funds' as a source of external financing is unsurprising given the expectation for significant distress across the economy.

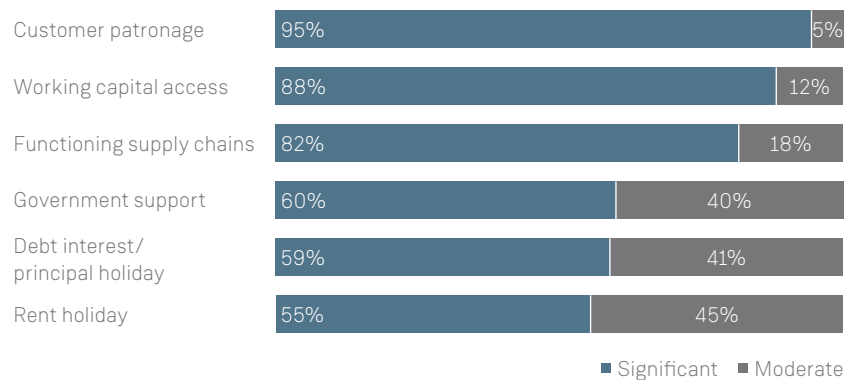
Positioning for recovery

Recovery actions

Importance of initiatives as businesses position for recovery



Importance of factors to businesses for surviving the next 12 months



Other suggested steps that businesses can take to position for recovery



Being proactive and engaging relevant stakeholders early.



Obtaining additional financing.



Leveraging the shut-down period to plan/undertake necessary changes in preparation for the post-COVID environment.



Reducing costs, rather than chasing revenue.



Focusing on core business.



Ongoing communication and engagement with staff and customers.

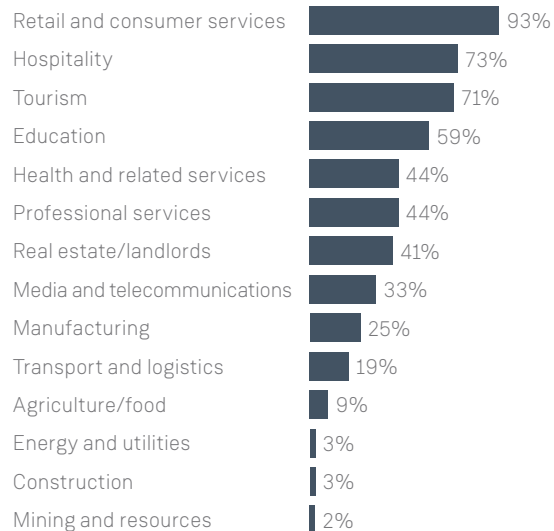
Respondents clearly expect that cost management will be more important than revenue growth to businesses as they prepare for recovery.

By identifying 'Change management and operational transformation' as an important initiative for recovery, respondents appear to be acknowledging that many businesses will need to have radically different business models following COVID-19, and that traditional methods of incremental change and improvement may not be sufficient.

Positioning for recovery

Outlook

Percentage of respondents who believe the following industries will have permanently different business models following COVID-19



Australia's post-COVID-19 economic landscape will look different to that of before the pandemic. However, the scale of change will significantly differ by industry. Some changes will be forced, others will likely be opportunistic. There is no doubt that much of the economy will require significant turnaround and transformation to survive, adapt, and take advantage of, this 'new normal'.

Changes implemented during COVID-19 that will be retained post-crisis

93%

Increased utilisation of working from home and video conferencing

76%

Greater reliance on diversified and domestic supply chains

68%

Focus on domestic, rather than overseas, tourism

50%

Sustained consumer preference for home entertainment, shopping, health and fitness etc.

Other suggested changes that may be retained post-crisis:



Continuation of social distancing in work environments.



Decrease in business travel.



Increased focus on liquidity.



Increased use of geographically diversified workforce.

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