

Looking Beyond: How to prepare for a post Covid-19 environment

Key areas for discussion

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McGrathNicol

Presenters



Rob Arthur
Partner

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Rob has more than 15 years' experience accelerating businesses towards higher levels of performance and implementing strategies that enhance financial returns.

Rob specialises in strategy and transformation, encouraging businesses to think differently, focus on business improvement and build execution plans that deliver sustainable change. He has held multiple executive roles in strategy and finance within Australia and throughout Europe. He has managed cross functional teams within large and complex organisations in rapidly changing sectors including telecommunications, energy, infrastructure, financial services and healthcare.

Rob partners with organisations to help them grow, adapt and thrive. He understands the challenges of implementing a strategy and is passionate about ensuring appropriate governance is established.

Rob has particular expertise in working with businesses looking to drive strategic change and assists with establishing frameworks to achieve sustainable scale. He also has extensive experience in restructuring and M&A transactions.

Areas of expertise

- Strategy & Business Improvement
- Governance, Risk & Compliance



Sean Wiles
Partner

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As an advisory Partner of McGrathNicol, Sean works with clients to improve operational and financial performance, manage risks and challenges in their business and adapt to change. He delivers insightful and practical advice across the areas of strategy, operational efficiency, independent business reviews, risk management, financial modelling and forecasting, cash and working capital management and corporate streamlining. He regularly works with clients to manage key projects and provide interim management solutions.

Sean has recently assisted a large food and beverage business with a full strategic review, and worked with an Australian-listed utilities business to redesign and roll-out a new budgeting and reporting framework for its retail businesses. Sean has partnered with a range of other high profile businesses, including Broadspectrum, Origin Energy, Calibre Engineering, University of NSW, Sydney University, Rabobank and Teys Australia.

Areas of expertise

- Strategy & Business Improvement
- Governance, Risk & Compliance

Impacts vary across industries

Impact

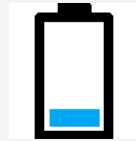
Average change in market capital (14-Feb to 24-April)

Average leverage

Industries

Comments

Severe



< -30%

5.0x - 9.5x



Property



Travel, Tourism and Hospitality



Education

- The closure of the borders is expected to result in a loss of c.\$34bn in revenue generated from international students.
- Social distancing and travel restrictions resulted in a c.40% reduction in accommodation and hospitality at end of March compared to last year.
- Government mandatory code of conduct, store closures and risk of defaults

Moderate



< -20%

3.0x - 5.3x



Construction



Discretionary Retail



Agriculture, Food & Beverage

- ANZ Property Council reported industry sentiment index has halved from 123 to 62 points in March, impacting construction.
- Our research of 18 large retailers indicates >5,500 store closures in response to the pandemic.
- Market capital for the Agriculture, Food & Beverage sector moderately impacted despite ABS retail food sales rising 23.5% in March.

Marginal

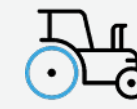


> -20%

2.0x - 5.5x



Health Care & Aged Care



Supply Chain & Distribution



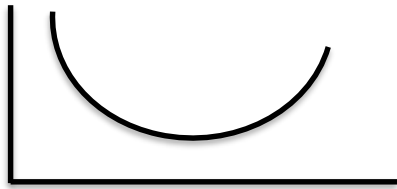
Retail Staples

- Aged care has remained relatively resilient to date, with the customers beneficiaries of Government stimulus. However, likely to face challenges going forward.
- Accelerated growth in online sales driving growth in supply chain and distribution with Woolworths doubling online delivery capacity to meet demand.
- ABS reported supermarket and grocery stores turnover increase of 22.4% in March.

What could the recovery look like

1 U-Shaped Recovery

Lag between decline & recovery



Key considerations

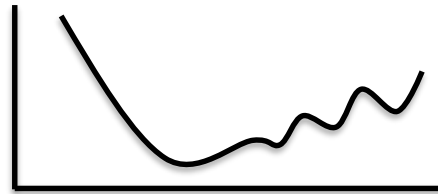
- Changes in consumer confidence and behaviour.
- Optimum operating levels.

Strategic considerations

- Diversifying into new markets.
- M&A.
- Accelerating the shift to eCommerce / digitalisation.
- Ability to access new sources of capital.

2 W-Shaped Recovery

A slow & staggered recovery



Key considerations

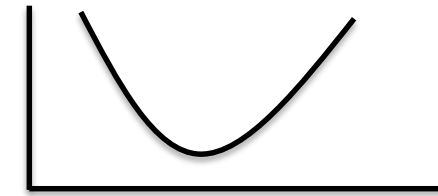
- The “bullwhip” effect - managing supply chain, working capital and demand forecasts.
- Residual health risk.

Strategic considerations

- Diversifying product range / offerings.
- Accelerating the shift to eCommerce / digitalisation.
- How to prepare for the second downturn.

3 V-Shaped Recovery

A steep decline, quick recovery



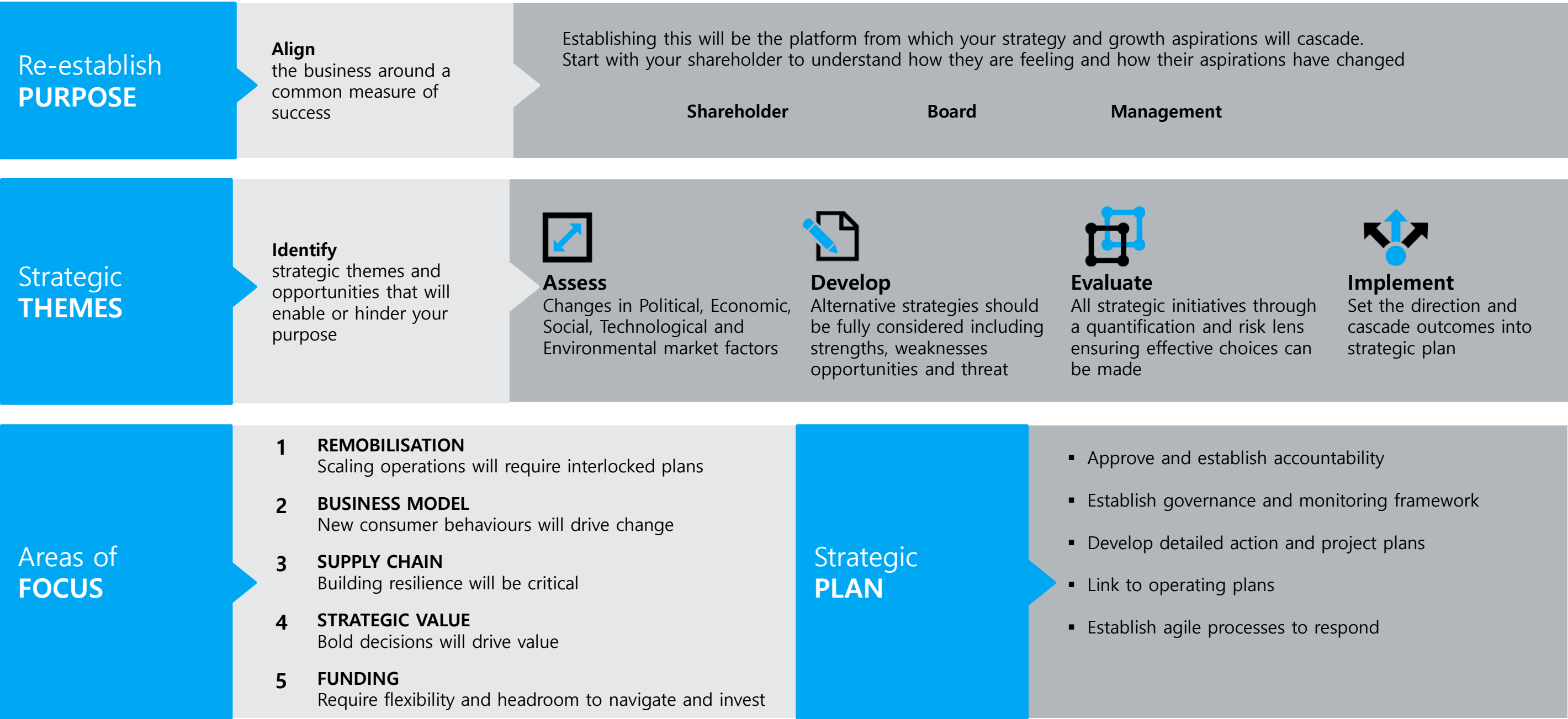
Key considerations

- Ability to access key suppliers.
- How to ensure you are compliant with regulation requirements.

Strategic considerations

- How to remobilise effectively.
- On-shoring key processes or diversifying to key suppliers.
- Identify acquisition / merger opportunities and execute.

Success will depend on a winning strategy



1 Plan for remobilisation

1 Fail fast

- Pilot and test initiatives in smaller samples incorporate learnings as you scale
- Involve your customers and incorporate their feedback early

2 Align your upstream and downstream partners

- Establish appropriate communication channels with your partners.
- Discuss demand and supply forecasts.

3 Review and monitor progress to adapt accordingly

- Establishing the appropriate level of governance will allow you to reallocate your scarce resource in a timely manner to continue to move forward.

4 Invest in key resources

- This environment does not always suit everyone's skill set and, in some instances, people just don't like the ambiguity.
- Consider re-training and providing increased flexibility to employees.

5 Understand the investment

- Scaling a company will require investment whether it be people, systems, property or working capital.
- Consider your current funding structure and how best to optimise this through debt facilities or equity.

2 Assess the impact of the external environment on your business model



Social and Consumer Impacts

- **Accelerated e-commerce adoption** – Retailers, medical practitioners, supermarkets, restaurants and the fitness industry shifting to digitalization.
- **Softening demand?** – Particularly discretionary items as a result of declining consumer confidence.
- **Timing** – Likely to be staggered relaxation of restrictions, which could have extended disruptions to certain sectors.



Technological and Structural Impacts

- **Online and at-home consumption** - impacts on business structure and overheads? Best use of real property assets?
- **Workplace changes** – Accelerated adoptions of flexible workplace arrangements and working from home.
- **On-shoring** – Disruption to supply chain changing mindset of off-shoring. On-shoring of services is becoming cost effective with reduced overheads from flexible working.



Political and Economic Impacts

- **FX** – Large falls in the AUD:USD exchange rate will benefit some and not others.
- **Political** – Unprecedented Government stimulus and intervention in industries may result in longer term structural changes.
- **Globalisation** – Supply chain disruptions and shift to greater sovereignty to protect health and welfare of citizens.



Competitive Landscape Impacts

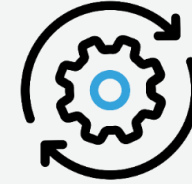
- **Diversification** – Businesses are pivoting their core products or services, changing their channels to market, targeting new markets or adapting their business model to meet customer needs.
- **Different competitors** – M&A activity, business closures, restructures and liquidations will all impact the competitive landscape.

3 Build a resilient supply chain



Diversify to de-risk

- Profile existing supply chain
- Evaluate alternative sourcing options for all materials
- Reassess sales requirements, and invest in customer service / retention
- Identify new / realistic sales channels
- Strategically review 'hybrid' options including private labelling, and co-packing



Technology as a tool

- Develop and integrate S&OP process to align demand, supply, and capacity planning
- Use benchmarking to rationalise low margin SKUs
- Streamline production and logistics processes
- Use internal and external data to streamline supplier selection
- Automate billings and payments



A time for clarity

- Determine primary functions to retain vs outsource
- Reset risk management framework
- Ensure clear roles, responsibilities and KPIs
- Reset procedural framework – Order to Cash, Make to Stock, Procurement to Pay.
- Model the required investment in working capital and understand any residual 'funding gap'.



Collaborations and partnerships

- Ensure strong links between Operations, Sales and Finance
- Seek increased flexibility in labour and supplier contracts
- Review ability to reset customer and supplier terms
- Understand if longer term support required for SME tier 2-3 suppliers
- Look for opportunities to collaborate better leverage freight capacity and other assets.

4 Take advantage of strategic opportunities

Our observations:

- There will be opportunities for companies that are ready.
- History tells us that deals done during weak economic periods, such as the GFC, create more value for companies than any other period.
- Companies that utilise downturns to get ahead of the curve, come out stronger.

What to focus on:



Impact	Most likely candidates	Likely options
SEVERE	<ul style="list-style-type: none">▪ Sectors severely impacted looking to the market to identify opportunities for investors or acquirers to save the business.	<ul style="list-style-type: none">▪ Distressed deals/sales▪ Restructuring or divestments
MODERATE	<ul style="list-style-type: none">▪ Businesses in hibernation and likely to have a slow recovery in the next 6-12 months.	<ul style="list-style-type: none">▪ Strategic alliances and partnerships▪ Consolidations
MARGINAL	<ul style="list-style-type: none">▪ Business's with strong balance sheets can take advantage of buying opportunities.	<ul style="list-style-type: none">▪ Potential acquisitions of competitors, non-core industry competitors, vertical/horizontal integrations

5 Evaluate and optimise your capital structure

Equity options

From new and/or existing shareholders is the simplest form of capital injection.



Debt options

New debt or drawing down on existing facilities may provide an appropriate source of funding. Communicating with your lenders is key for both current and future funding.



Convertibles and hybrids options

Hybrid instruments that convert debt to equity are an attractive option for investment. However may be costly or complex.



Alternative lender options

Non-bank lenders and alternative lenders can help bridge the funding gap not provided by traditional lenders.

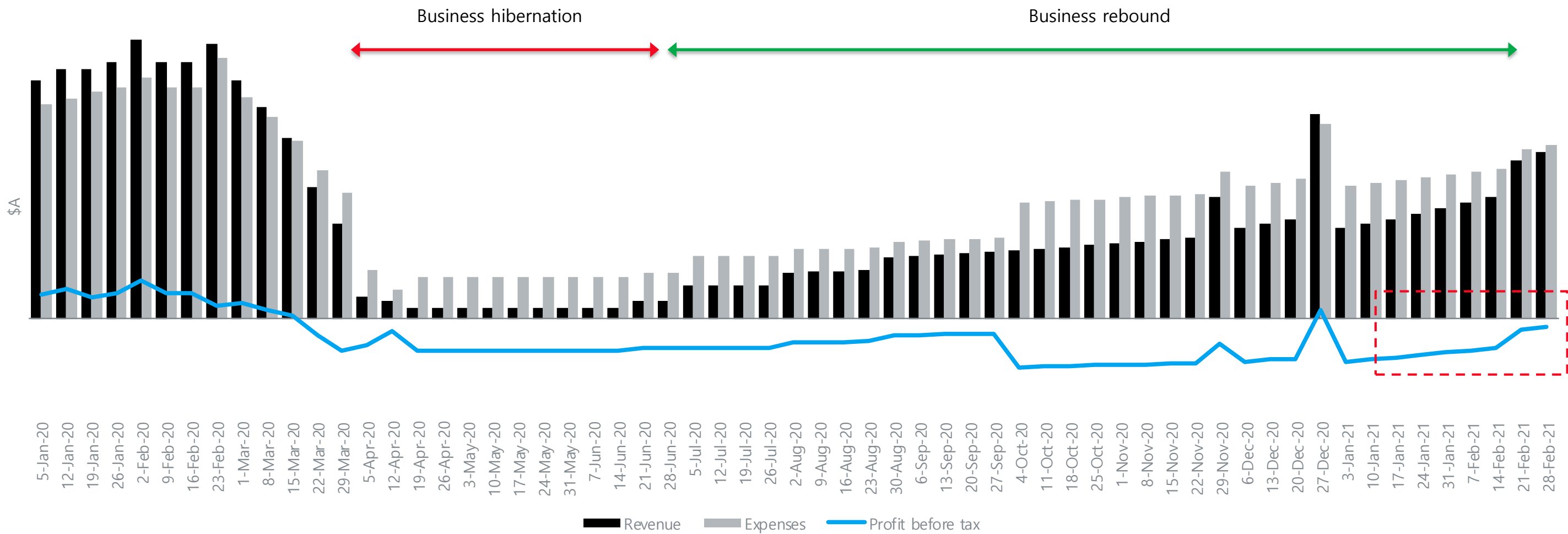


Success in injecting new capital and restructuring one's existing capital base will be determined by:

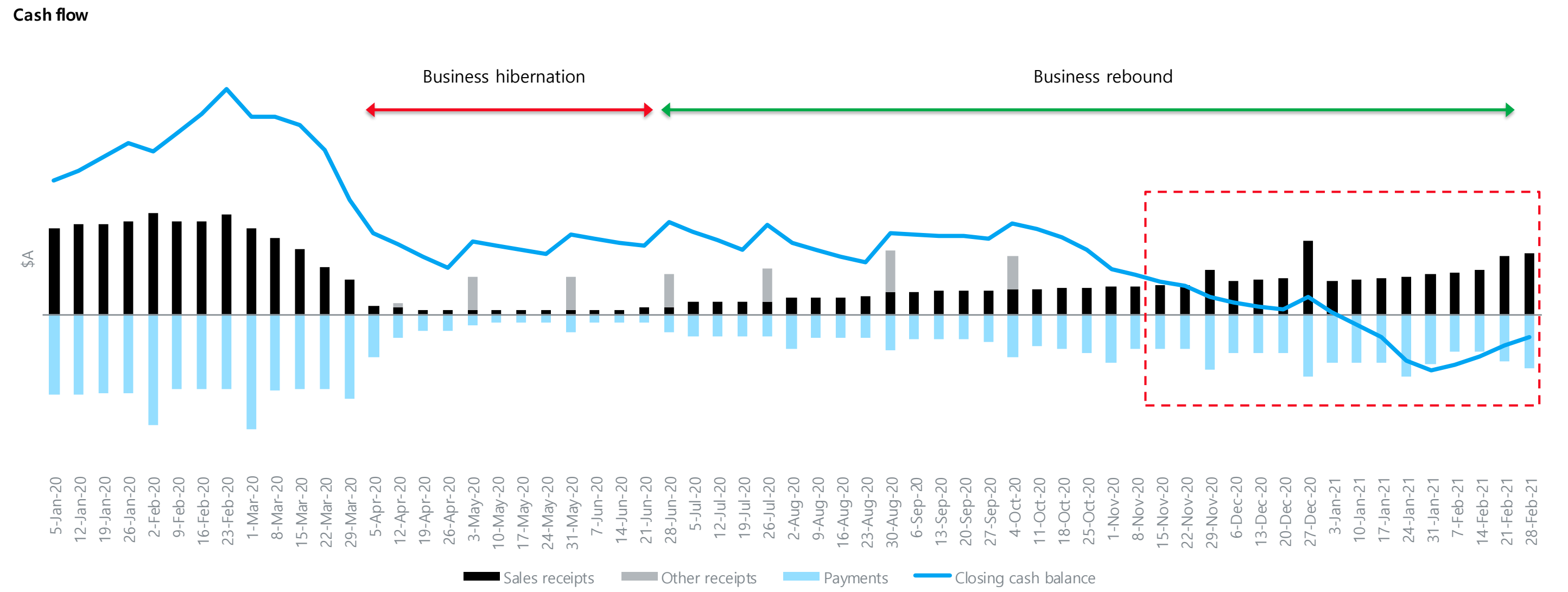
- A clear, well-articulated strategy
- Communicating with investors and financiers now
- Robust financial forecast
- Quality legal and financial advice
- Being prepared through internal due diligence

5a Evaluate and optimise your capital structure

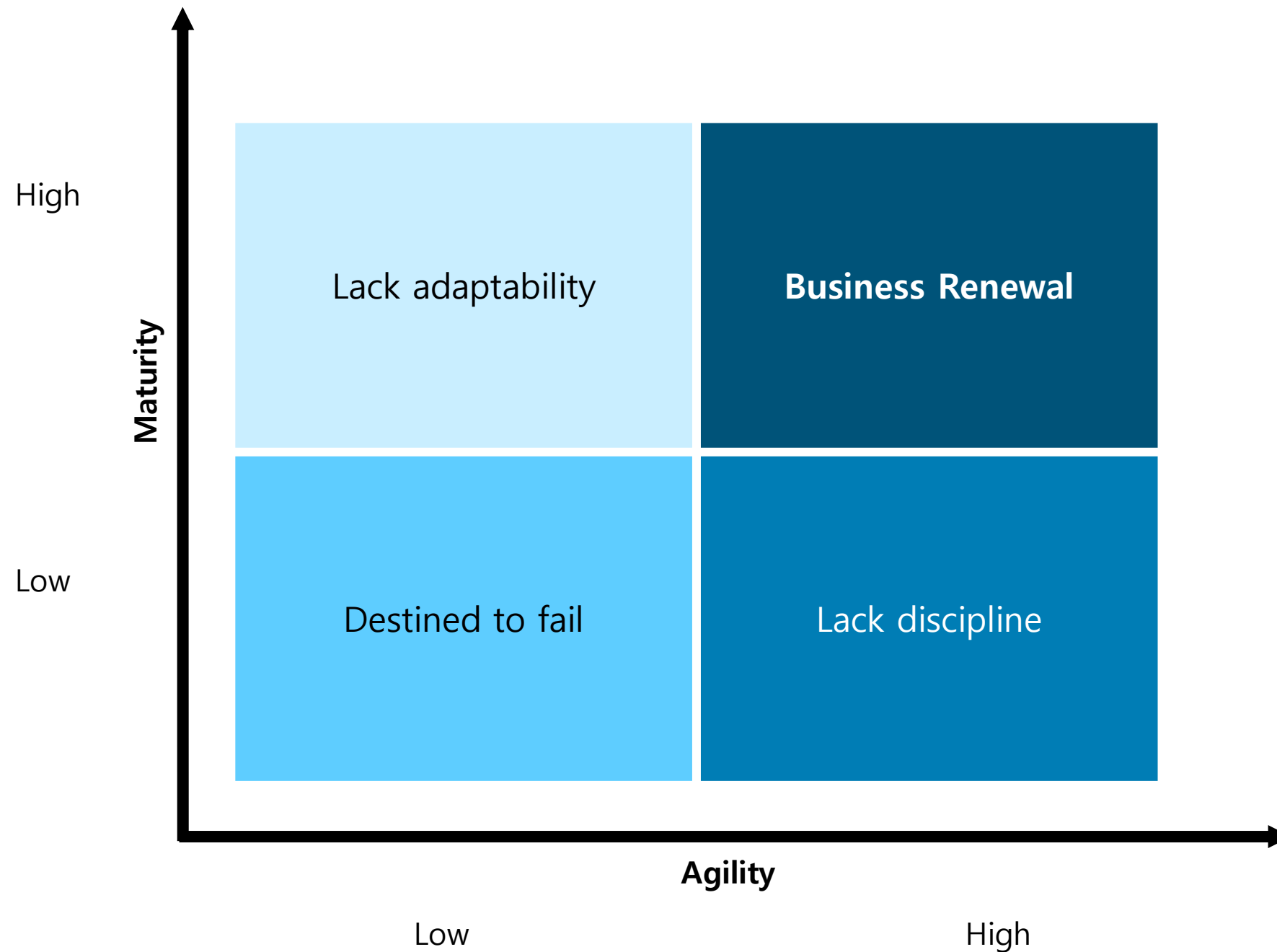
Profit & Loss



5b Evaluate and optimise your capital structure



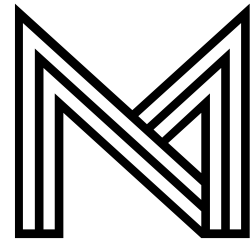
Create strategic value



Implementation requires:

- ☒ Approve and establish accountability
- ☒ Establish governance and monitoring framework
- ☒ Develop detailed action and project plans
- ☒ Link to operating plans
- ☒ Establish agile processes to respond

Q & A



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