



KordaMentha – TMA Australia Turnaround Survey

December 2020



KordaMentha
Corporate

Introduction

The annual KordaMentha – TMA Survey provides an insight into the current economic and business environment in Australia, and the outlook beyond 2020.

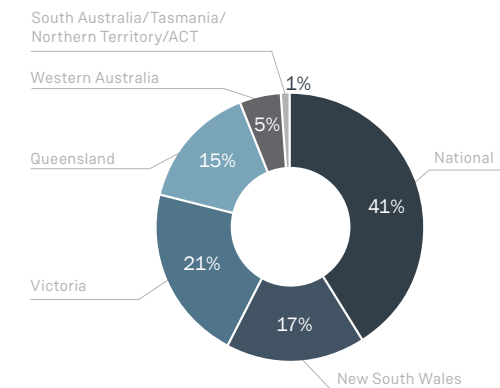
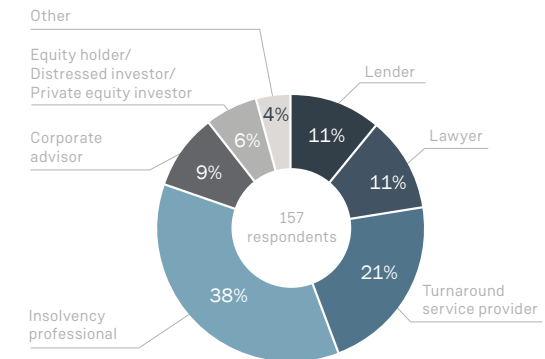
As Australia and the rest of the world continue to navigate the health and economic impacts of the COVID-19 pandemic, the outlook beyond 2020 remains uncertain.

KordaMentha, in conjunction with the Turnaround Management Association of Australia, surveyed the Australian turnaround community for their insights on the response to COVID-19 and the outlook over the next 12 months. This survey follows our May 2020 survey, which focused on the impact of COVID-19.

These summary results cover the following topics:

- Australia's turnaround environment.
- The Government and legislative response to the economic impact of COVID-19 in Australia.
- The outlook for Australian businesses as they position for recovery.
- The 'new normal', beyond COVID-19.

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

Despite recent press that Australia's recession is over, respondents believe that Australia was not yet half-way through. Only 17% of respondents expect a V-shaped economic recovery, more than the 10% in the May survey, but still very low.



02

Respondents agree that there has been sufficient support and intervention from governments. However most respondents believe the cessation of the insolvent trading moratorium and wind back of JobKeeper will result in a significant increase in corporate insolvencies.



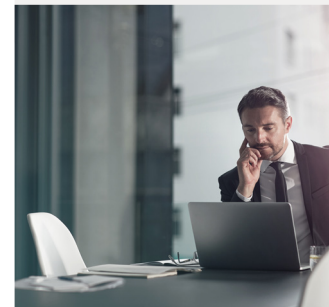
03

Most respondents believe that Australia's current turnaround and insolvency legislative regime (including the upcoming Small Business Restructuring changes) is sufficient to deal with COVID-19's economic impacts.



04

77% of respondents expect hedge funds/ private equity/special situations funds to be more active over the next 12 months. This suggests a pivot from the spike in equity raising activity seen earlier in 2020 to a more distressed-focused investment environment.







05

Looking over the horizon to the 'new normal' beyond COVID-19, 81% of respondents expect Australia-China relations to have a significant impact on Australian businesses and the economy.



Turnaround environment: now and then

		Finding	Measure	May 2020	November 2020
Shape of recovery		Poor outlook remains, but increased recovery speed	U-shaped recovery	58%	42%
			V-shaped recovery	10%	17%
Funding for turnarounds		Alternative financiers expected to be more active	Hedge funds to be more active	55%	77%
			New lenders to be more active	22%	53%
Industry outlook		Sentiment has improved for some key industries, however remains negative	Tourism significantly negative outlook	95%	43%
			Hospitality significantly negative outlook	95%	33%
			Retail and consumer services significantly negative outlook	89%	23%
Working and consumption behaviours		Some pandemic-driven changes to working and consumption look like staying	Video conferencing and working from home to be retained	93%	97%
			Home entertainment and shopping trends to be retained	50%	66%

The pace of change since early 2020 has been unprecedented, with businesses and organisations adapting rapidly to COVID-19 and its related restrictions.

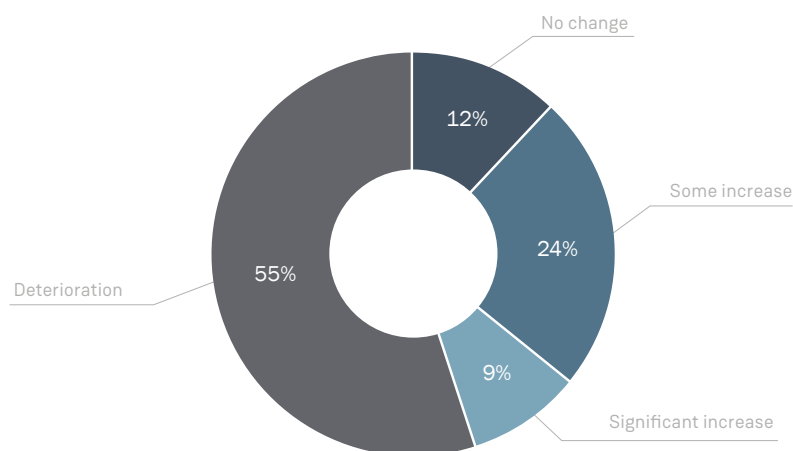
The past six months have enabled survey respondents to form more comprehensive views on Australia's economic and business outlook, and this has been reflected in some key changes from the survey conducted in May 2020.

The next six to 12 months may provide greater clarity, however given the pace and scale of change in the last six months there are no guarantees.

Turnaround environment: current

Service demand

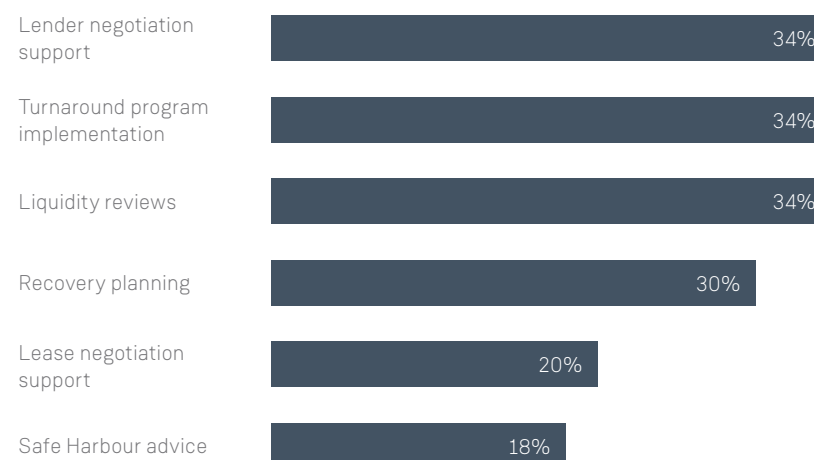
Change in level of enquiries for respondents' services over the past six months



The 'tsunami' of turnaround and insolvency activity predicted in the May survey has not yet eventuated, with 55% of respondents experiencing a deterioration in enquiries over the past six months.

Service mix

Types of services provided over the past six months

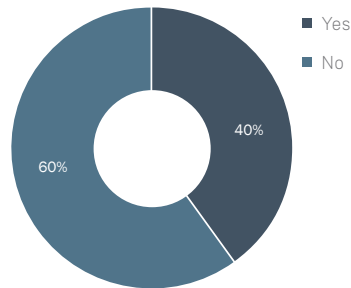


A broad range of services have been provided by respondents to clients, and potential clients, over the past six months. Perhaps surprisingly, only 18% of respondents had provided Safe Harbour advice over the past six months, which is no doubt a reflection of the moratorium on insolvent trading.

Government and legislative response

Government response

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



Respondents broadly believe there has been sufficient support and intervention from governments, and expect they will have the desired effect of softening Australia's economic landing.

Respondents' suggestions for further government support and stimulus included:

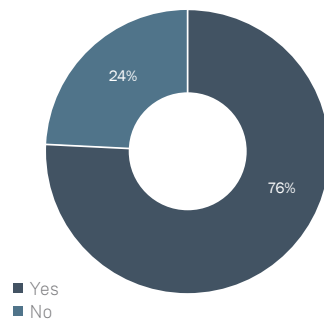
- Targeted sector-specific support (e.g. Aged Care).
- Infrastructure investment.
- Tax reform.
- Extension of JobKeeper.

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

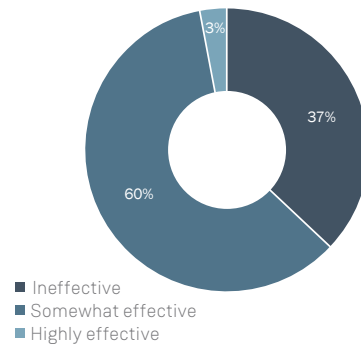
- Increased thresholds under the Debtor in Possession model.
- Greater clarity regarding advisors' liabilities and qualifications, and transition arrangements.
- Extend the Small Business Restructuring scheme to include larger businesses.
- Allow pre-pack insolvencies and extension of Safe Harbour provisions.

Legislative response

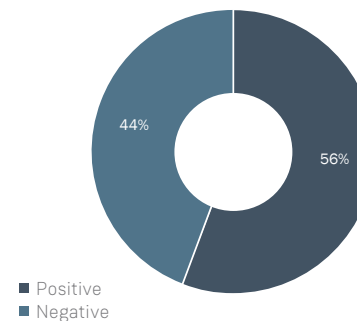
Is Australia's current turnaround and insolvency regime sufficient to deal with COVID-19 economic impacts?



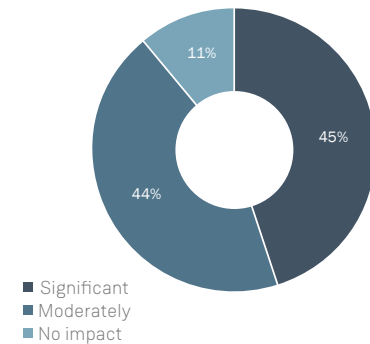
How effective will the recently announced SME insolvency reform measures be?



What effect will the extension of the insolvent trading moratorium to 31 December 2020 have on Australia's economic recovery?



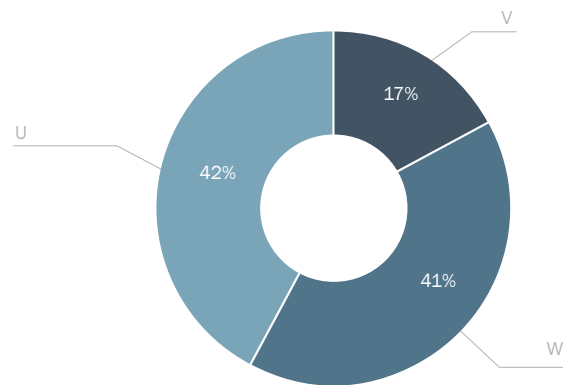
To what extent will the cessation of the insolvent trading moratorium increase corporate insolvencies in 2021?



Positioning for recovery

Recovery profile

Expected shape of Australia's economic recovery



Progression through the recession

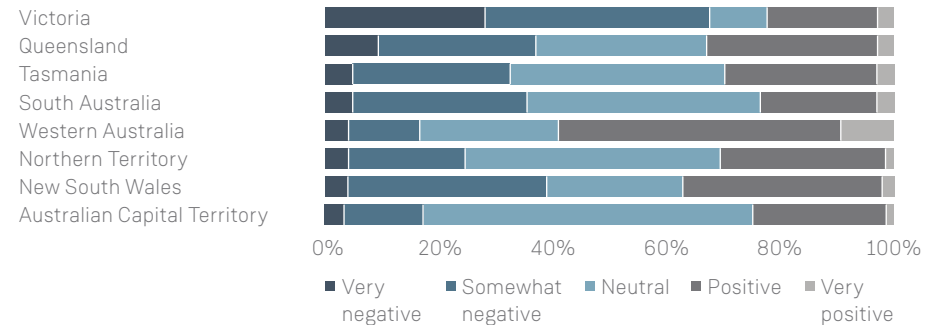


As was the case in the previous survey, it is clear that respondents do not expect the Australian economy to bounce back rapidly.

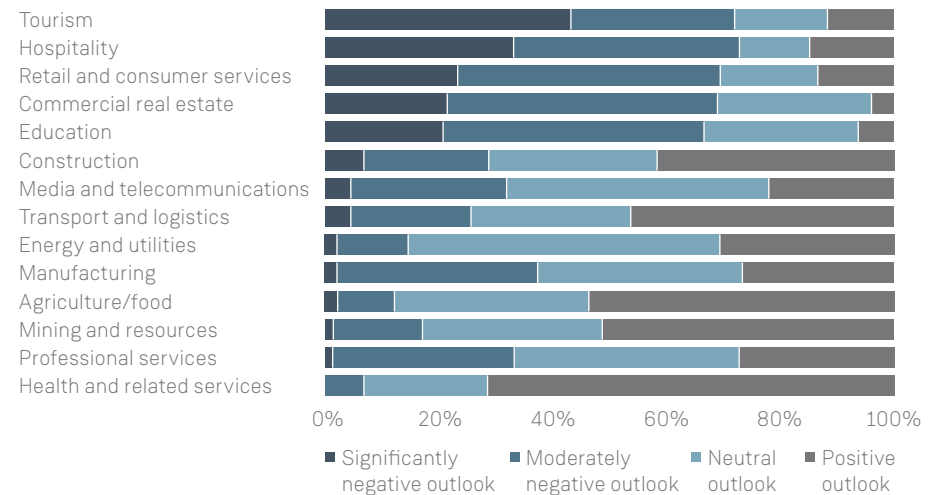
The outlook for individual industries is similar to the previous survey, with Tourism, Hospitality, Commercial Real Estate and Education all having poor outlooks.

Geographic and industry outlook

Outlook for each state over the next 12 months



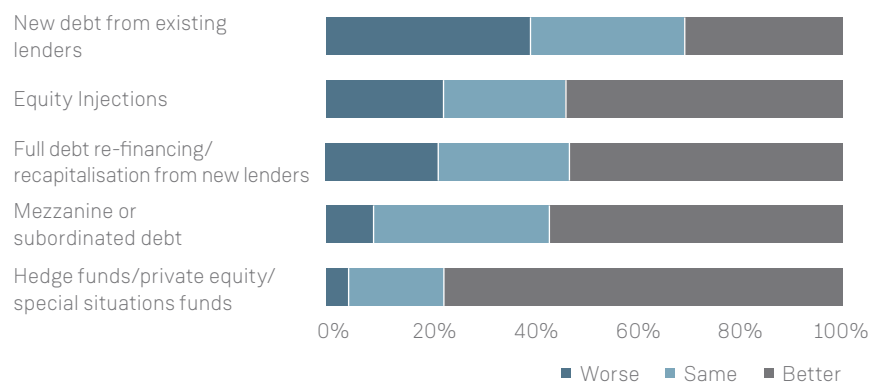
Outlook for each Australian industry over the next 12 months



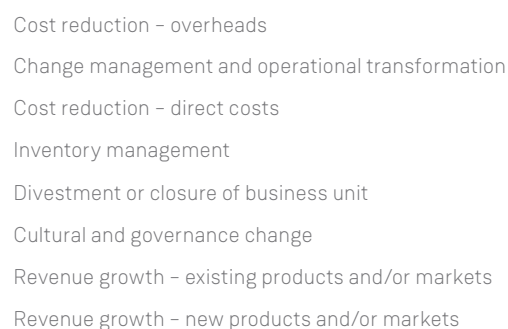
Positioning for recovery

Recovery actions

Level of activity of external financing for turnarounds over next 12 months



Importance of initiatives for businesses as they position for recovery



Early 2020 saw a significant uplift in equity finance raisings as large ASX-listed corporates reinforced balance sheets for the uncertainty ahead.

Whilst this source of financing is expected to remain strong, respondents also noted a continued expectation of a positive outlook for 'Hedge funds/private equity/special situations funds' as a source of external financing.

Other suggested steps to best position for recovery



Create a turnaround plan and communicate that plan



Undertake a strategy and efficiency review



Maximise use of IT



Review risk strategies and continuity plan



Plan early, make hard decisions and act now



Consider digital and government-impacted aspects of every component of the business



Review asset base for cash creation opportunities



Bolster liquidity buffers in preparation for reduction in government support

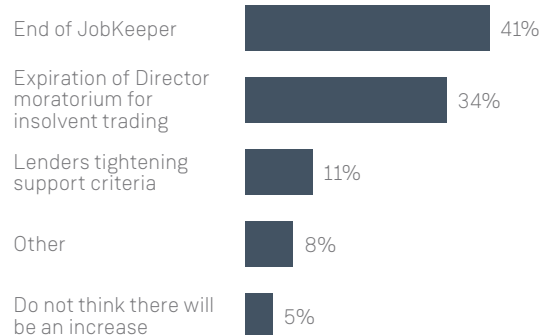


Focus on opportunities for expansion and acquisition

Positioning for recovery

Insolvency triggers

Trigger for increase in formal insolvency appointments over the next 12 months

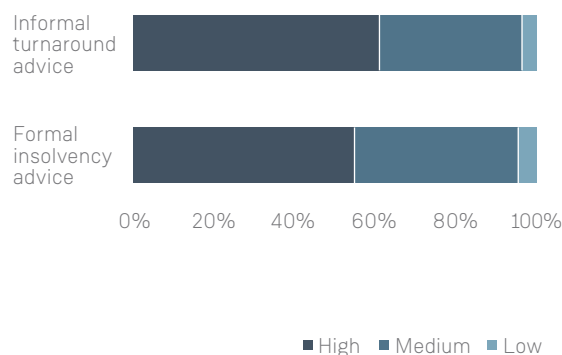


The range of ongoing support measures provided by the government appear to have had the intended effect of cushioning Australian businesses.

However, as government support is reduced and Australia's economic situation normalises, it is expected that there will be an increase in demand for both formal insolvency and informal turnaround services.

Demand for services

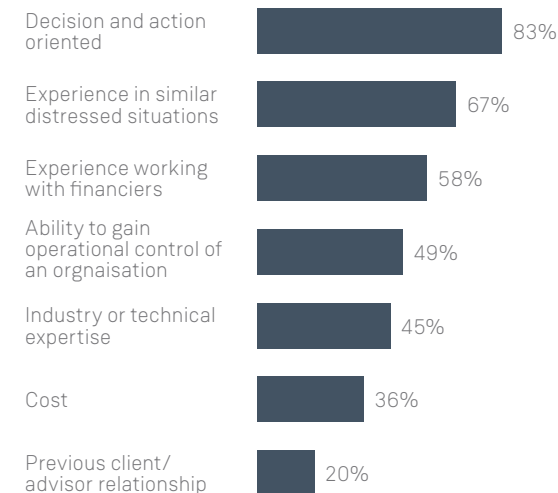
Expected interest levels



The most important attribute clients will look for is being decision and action oriented. Coupled with experience in similar distressed situations, clients will be looking for calm heads to help take control and steer through the recovery process.

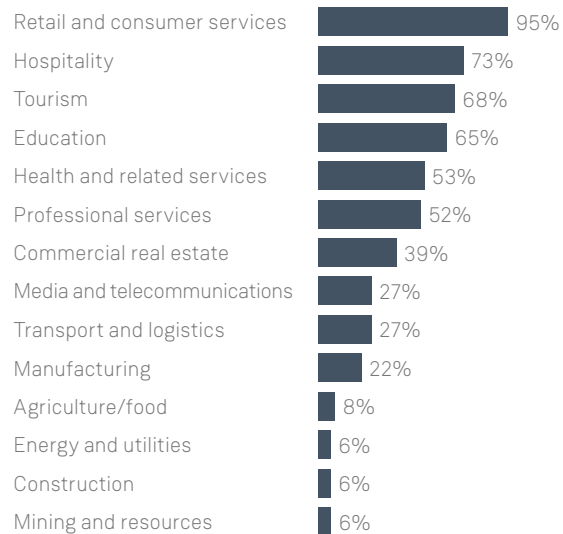
Advisor attributes

Importance of advisor attributes as clients position for recovery

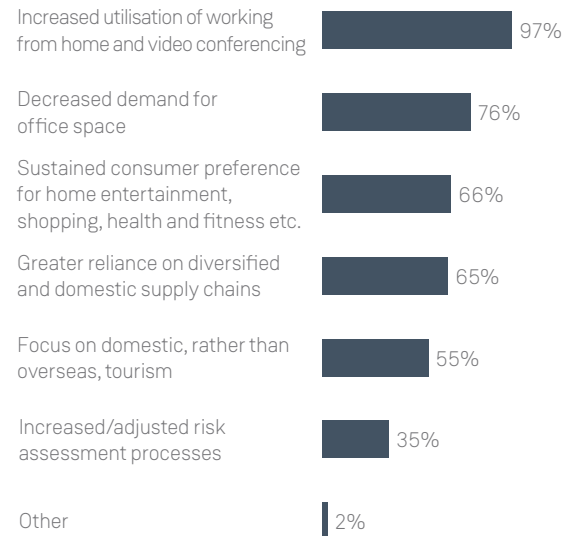


Beyond COVID-19

Industries with permanently different business models following COVID-19



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



As Australia emerges from the health-related impacts of COVID-19, the economic impacts remain unclear.

As government support unwinds, many of the financial impacts will crystallise and the outlook across industries and states will become clearer. What is clear is that regardless of the economy-wide headwinds and tailwinds, individual businesses and organisations will continue to face uniquely challenging circumstances well into 2021 as the 'new normal' becomes apparent.

However, many of the tools and techniques that will enable businesses to deal with this 'new normal' already exist. Beyond COVID-19, the best positioned businesses will be the best prepared businesses, who can adapt and proactively manage continued uncertainty.

What will businesses do differently to better prepare for future 'black swan' events



Better planning, including business continuity planning and crisis preparation and management

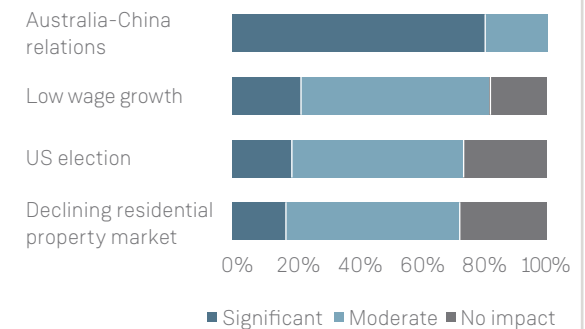


Maintain lower operating leverage



Focus on culture

Impact of non-pandemic issues



For specific questions or feedback in relation to the survey, please contact Chris Martin or Sam Bishop.



Chris Martin
Partner | Melbourne
cmartin@kordamentha.com
+61 3 8623 3425



Sam Bishop
Director | Melbourne
sbishop@kordamentha.com
+61 3 8623 3465



Suzanne Wauchope
Partner | Brisbane
swauchope@kordamentha.com
+61 7 3338 0278



Henriette Rothschild
Partner | Melbourne
hrothschild@kordamentha.com
+61 3 9908 8949



Neil Hayward
Partner | Sydney
nhayward@kordamentha.com
+61 2 8934 3124

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Contacts

Melbourne

Rialto South Tower
Level 31, 525 Collins Street
Melbourne VIC 3000
Tel: +61 3 8623 3333
info@kordamentha.com

Sydney

Chifley Tower
Level 5, 2 Chifley Square
Sydney NSW 2000
Tel: +61 2 8257 3000
info@kordamentha.com

Brisbane

Level 14
12 Creek Street
Brisbane QLD 4000
Tel: +61 7 3338 0222
info@kordamentha.com

Townsville

Level 6
75 Denham Street
Townsville QLD 4810
Tel: +61 7 4724 9888
info@kordamentha.com

Gold Coast

S225 Oracle South
Level 2, 17 Elizabeth Avenue
Broadbeach QLD 4218
Tel: +61 7 3338 0230
info@kordamentha.com

Perth

Level 10
40 St Georges Terrace
Perth WA 6000
Tel: +61 8 9220 9333
info@kordamentha.com

Singapore

16 Collyer Quay
#30-01
Singapore 049318
Tel: +65 6593 9333
sing.info@kordamentha.com

Jakarta

Level 18
World Trade Centre II
Jalan Jend.
Sudirman Kav 29-31
Jakarta 12920 Indonesia
Tel: +62 21 3972 7000
info@kordamentha.com

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