Distance to default

Volume 5

A default indicator for Australian listed companies

July 2019

KPMG.com.au
We are pleased to share with you the fifth edition of our bi-annual Distance to Default (D2D) publication. We comment on the changing state of corporate health across all ASX sectors following the end of the reporting season for the six months to December 2018. The analysis indicates all sector groups (bar one) has experienced a decline in the overall D2D score (closer to default) with a drop in the average D2D score across the board, highlighting the difficult trading conditions in the first half of financial year.

Consistent with our last report, our analysis indicates that the Financial Services and Real Estate sectors continue to display the highest D2D scores (furthest from default), with Energy and Materials displaying the lowest D2D scores.

In this edition of D2D we take a look at the financial services sector and provide some high level commentary on the major findings, recommendations and future outlook of the sector in light of the recent Banking and Financial Services Royal Commission. The sector is experiencing a period of adjustment as it seeks to re-build trust and restore investor confidence.

We will continue to observe the market over the next 6 months to see how the financial services sector performs post the Royal Commission’s findings. Whilst the election result has provided a small boost to the share market and some certainty locally; there are global headwinds and expectations of stagnant growth. In an environment of a subdued economy much attention will be on how the banking sector will respond to anticipated RBA interest cuts and ease of accessing credit.

We are pleased to welcome the Ferrier Hodgson team into KPMG. The merger with KPMG will provide our clients with the benefits of over 40 years of Ferrier Hodgson’s restructuring and forensic experience, combined with new opportunities afforded by a market-leading, diversified and international firm.
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Why use a D2D score?

The D2D score serves as a useful metric for benchmarking company performance across different industries, irrespective of company size.

Default risk (or insolvency) stems from the uncertainty surrounding a company’s ability to service its debt as and when it falls due. Prior to default, there is no way to easily discriminate unambiguously between companies that will default and those that will not. At best we can only make probability based assessments of the likelihood of default. With this in mind, KPMG sought to identify an effective financial metric to determine the industry sectors with higher default risk as compared to their peers.

Analysis of companies listed on the ASX using market data-points can help detect deteriorating corporate health, and hence increasing default risk, because such analysis incorporates forward-looking market perception rather than backward looking data sources, such as financial statements.

This report is prepared using a Distance to Default metric, an indicator of financial health used by the Reserve Bank of Australia which is based on the Merton model. This analysis has been prepared using the Moody’s Kealhofer, McQuown and Vasicek (KMV) D2D formula, and relies on source data from the Capital IQ database.

The D2D score incorporates information relating to debt (from financial statements), a company’s market capitalisation, and stock volatility, to assess credit risk. The key assumption underpinning the D2D score is that a company is more likely to default if the book value of its liabilities exceeds the market value of its assets.

In summary, the D2D score combines both financial information and market information to determine a company’s relative ‘Distance to Default’ (or D2D score). KPMG Restructuring believes that combining the two types of information detects deteriorating corporate health more effectively than either source alone.

About D2D

D2D is a metric used to assess a company’s ‘distance-to-default’. The metric takes into account financial information and market data.

The closer to zero, the more likely a company is to default. In contrast, the further a company is from zero, the less likely it is to default.

In this analysis, released every 6 months, we analyse the D2D score movements of ASX listed companies (following reporting season of full year and half year results) to draw insight as to corporate health across the Australian economy.

D2D score inputs

D2D is a metric used to assess a company’s:

- Market capitalisation
- Value of the company’s assets
- Short term debt and long term debt
- Business and industry risk
- Stock volatility
- Leverage

Credit issues addressed
Key findings

For the 6 months to December 2018
This analysis is based on:

1,872
ASX listed companies reviewed (with complete information) across;

11
industry sectors;

24
industry groups.

Summary
The ASX average D2D score decreased from June 2018 to December 2018 (moving from 1.98 to 1.72), with significant underlying change in the scores of the companies making up this analysis. Around 29 percent of the companies analysed displayed an improved D2D score, with the remaining companies showing a decline or no change in D2D score.

The Real Estate and Financial Services sectors continue to be the strongest performing sectors (highest D2D score), but displayed a decline in D2D score (decrease of 13.2 percent and 12.8 percent respectively while the Consumer Discretionary recorded the largest deterioration in D2D score (decline by 23.6 percent).

Sector performance
– 61.0 percent of companies displaying a D2D score above 3.0 (furthest from default) were in financials, real estate, and consumer discretionary.
– 69.6 percent of companies with a D2D score below 1.0 were in Materials, Energy, and Information Technology.

Industry group performance
All the industries, except for Utilities, witnessed a decline in the D2D score:
– Retailing companies average D2D score declined by 26.0 percent, while Media and Entertainment companies’ D2D score declined by 39.4 percent.
– In the case of Utilities companies, the D2D score improved by 7.3 percent.

The five industry groups with significant D2D score declines were:
– Media and Entertainment – decline of (39.4 percent) to 1.46.
– Retailing – decline of (26.0 percent) to 1.75.
– Capital Goods – decline of (20.1 percent) to 1.66.
– Commercial and Professional Services – decline of (17.9 percent) to 1.82.
– Banks – decline of (16.1 percent) to 3.40.

Of the above-five industry groups, Banks had the largest proportion of companies with a decline in revenue and increase in net debt (47 percent of companies and 60 percent increase in net debt respectively). Media and Entertainment had the largest proportion of companies with a decline in EBITDA (42 percent).
Key findings (Continued)

Zombies’ make up 19.9 percent of ASX companies analysed, almost one in five companies

There were 730 companies with a D2D score below 1. Of these, there were 372 ‘Zombie’ companies displaying a score below 1 for three or more half year periods on the ASX representing 19.9 percent of total companies analysed.

The average D2D score of Zombie companies was 0.56 at December 2018, with the majority of companies displaying persistently low scores operating in Materials (45.7 percent), Energy (16.7 percent), and Information Technology (10.8 percent).

The Consumer Discretionary sector (comprising industries such as Retailing, Media and Entertainment, Consumer Services, Consumer Durables and Apparel and Automobiles and Components) displayed a 66.7 percent increase in the number of participants displaying a D2D score below 1.0 for 3 or more consecutive half-year periods (from 21 to 35 companies).

The Information Technology sector (comprising industries such as software, and technology hardware) displayed a 28.6 percent decrease in the number of participants displaying a D2D score below 1.0 for 3 or more half-year periods (from 56 to 40 companies).

Total market capitalisation, or stranded capital, for Zombie companies was $4.2 billion.

Spotlight on the financial service sector

KPMG Australia recently released its report on the findings of the Royal Commission as well as some analysis and commentary on the big four banks half yearly results (1H19). The key headlines from this analysis detailed on pages 11 to 15 are as follows:

- The financial services sector has experienced a strengthening in its D2D scores over the last 5 years moving from an average D2D score of 1.39 (December 2013) to an average of 3.37 (December 2018).
- The banking sector has always been the strongest performer in the financial services sector, however we can see that it has been impacted with the single largest decline in D2D from 6.49 to 4.49 over the same period.
- The financial services sector will undergo a period of adjustment as it looks to restore credibility in the market.
- The majors have continued to allocate a greater proportion of their spending towards risk and compliance, rising substantially to comprise almost 40 percent of the total investment expenditure for the first half of 2019.
- While the majors reported an aggregated decrease of 1.3 percent in loan impairment charges for 1H19, there has been a slight deterioration in measures of asset quality, reflected by a 9.4 percent increase in an aggregated impaired assets to $8.9 billion.
- 90 days past due delinquencies continue to trend upwards particularly in the home loan.
- Portfolio driven by low wage growth and rising essential costs.
The ASX D2D score reduced to 1.72 (as compared to 1.98 as at June 2018). The reduction in the average ASX D2D score was underpinned by a divergence amongst companies:

- **29%** of companies had an increase in their D2D score;
- **66%** of companies had a decrease in their D2D score; and the remaining companies had no movement or were newly listed.

**15%** of companies analysed displayed D2D scores above 3.0, furthest from default.

**46%** of companies analysed displayed D2D scores between 1.0 and 3.0, indicating that they are in the ‘safe zone’.

**39%** of companies analysed displayed D2D scores below 1.0, closest to default.
D2D movements by sector

All the sectors, except for Utilities, moved closer to default in the 6 months to 31 December 2018. Financials and Real Estate continue to display the highest D2D scores, each delivering a score above 3. Information Technology, Materials, and Energy continue to display the lowest D2D scores, or the scores closest to default.

Over the past 6 months:
- the only sector improvement was in Utilities, improving by 7.3 percent, with the D2D score of 2.36.
- the largest sector decline was in the Consumer Discretionary sector, declining 23.6 percent from 2.34 to 1.79 followed respectively by Consumer Staples which declined 20.2 percent from 2.43 to 1.94.
Companies in the Financials, Real Estate, and Consumer Discretionary sectors had the highest representation furthest from default, while companies in the Materials, Energy, and Information Technology sectors had the highest representation closest to default.

### Number of companies furthest from default (above 3.0) by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>June 2018</th>
<th>December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials</td>
<td>125</td>
<td>116</td>
</tr>
<tr>
<td>Real Estate</td>
<td>57</td>
<td>46</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>51</td>
<td>33</td>
</tr>
<tr>
<td>Industrials</td>
<td>39</td>
<td>24</td>
</tr>
<tr>
<td>Materials</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td>Healthcare</td>
<td>17</td>
<td>9</td>
</tr>
<tr>
<td>Information Technology</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>Telecomunication Services</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Consumer Discretionary had a 35.3 percent decline in representation of companies furthest from default.

### Number of companies closest to default (below 1.0) by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>June 2018</th>
<th>December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materials</td>
<td>256</td>
<td>334</td>
</tr>
<tr>
<td>Energy</td>
<td>98</td>
<td>90</td>
</tr>
<tr>
<td>Information Technology</td>
<td>94</td>
<td>84</td>
</tr>
<tr>
<td>Healthcare</td>
<td>40</td>
<td>54</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>29</td>
<td>33</td>
</tr>
<tr>
<td>Financials</td>
<td>25</td>
<td>39</td>
</tr>
<tr>
<td>Industrials</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>17</td>
<td>13</td>
</tr>
<tr>
<td>Utilities</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>Telecomunication Services</td>
<td>4</td>
<td>6</td>
</tr>
</tbody>
</table>

Real Estate had a 23.5 percent decline in companies’ closest to default.
D2D movements by industry group

- Utilities industry recorded an improvement in D2D score increasing by 7.3 percent, with an average D2D score of 2.36 (up from 2.20, 6 months prior).
- Retailing companies recorded a decline in D2D score of 26.0 percent, with an average D2D score of 1.75 (down from 2.36, 6 months prior).

On the following page we dive deeper into the financial performance of the five industries with the largest decline in D2D score.
Spotlight on the financial performance of industry groups

With the largest decline in D2D score

Of the 5 industries with the largest D2D score declines, we reviewed their financial performance from 1HY18 to 1HY19 for signs of pressure.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Revenue change</th>
<th>Change in EBITDA</th>
<th>Net Operating Cash Flow</th>
<th>Change in Net Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Media and Entertainment</td>
<td>31%</td>
<td>42%</td>
<td>52%</td>
<td>56%</td>
</tr>
<tr>
<td>(60 company financials reviewed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D2D 1HY 19: 1.46 Change: (39.4)%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retailing</td>
<td>25%</td>
<td>37%</td>
<td>37%</td>
<td>56%</td>
</tr>
<tr>
<td>(51 company financials reviewed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D2D 1HY 19: 1.75 Change: (26.0)%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Goods</td>
<td>32%</td>
<td>42%</td>
<td>47%</td>
<td>58%</td>
</tr>
<tr>
<td>(76 company financials reviewed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D2D 1HY 19: 1.66 Change: (20.1)%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial and Professional Services</td>
<td>25%</td>
<td>41%</td>
<td>42%</td>
<td>46%</td>
</tr>
<tr>
<td>(56 company financials reviewed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D2D 1HY 19: 1.82 Change: (17.9)%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks</td>
<td>47%</td>
<td>N/A</td>
<td>50%</td>
<td>60%</td>
</tr>
<tr>
<td>(15 company financials reviewed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D2D 1HY 19: 3.40 Change: (16.1)%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Across the ASX - Zombies**

Materials, Information Technology, and Energy companies still make up the majority of ‘Zombie’ companies (73.1 percent this period vs 78.4 percent at 2HY18).

### The pressure point – a D2D score below 1.0

Companies closest to default (D2D score below 1.0) for 3 or more consecutive half-year periods are considered ‘zombies’ in this analysis. We consider these companies to be most at risk of default due to their persistent proximity to the default line (D2D score of 0). These companies may already be experiencing financial distress or working through restructuring strategies.

As mentioned earlier in this publication, 730 (39 percent) of companies analysed displayed a D2D score below 1.0. Of that more than half fall within our definition of ‘Zombies’ (372 companies).

### $4.2 billion in stranded shareholder funds?

These companies have a combined market capitalisation of $4.2 billion. Whilst this represents a fraction of the total ASX market capitalisation, one conclusion is that $4.2 billion in shareholder funds remains stranded until capital providers are able to restructure this capital and deploy it for better or higher return use.

### 45.7 percent of ‘Zombies’ are in Materials

The majority of Zombie companies continue to be explorers in materials and mining making up 46 percent of Zombie companies.

Many of these companies rely on capital raising via equity markets to continue operations / exploration and do not carry debt. Our analysis indicates that only 26.6 percent of Materials companies carry Net Debt. This indicates that to the extent that Zombie Materials companies are able to continue to raise equity to fund operations they will likely remain Zombies since, for the majority, an impending debt refinance (often the cause of a default) is unlikely to be required.

### 9.1 percent of ‘Zombie’ market capitalisation relates to Consumer Discretionary companies

Consumer Discretionary companies had a 66.7 percent increase in the number of companies displaying a D2D score below 1.0 for 3 or more half-year periods (from 21 to 35 companies). These companies now make up 9.4 percent of ‘Zombie’ companies and represent 9.1 percent of the potentially stranded capital that is ‘Zombie’ market capitalisation.

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**Number of Zombie companies by sector and total market capitalisation**

<table>
<thead>
<tr>
<th>Companies (364 total)</th>
<th>Market capitalisation of ($5 billion total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>170</td>
<td>Materials</td>
</tr>
<tr>
<td>40</td>
<td>Information Technology</td>
</tr>
<tr>
<td>62</td>
<td>Energy</td>
</tr>
<tr>
<td>21</td>
<td>Healthcare</td>
</tr>
<tr>
<td>35</td>
<td>Consumer Discretionary</td>
</tr>
<tr>
<td>18</td>
<td>Financials</td>
</tr>
<tr>
<td>10</td>
<td>Industrials</td>
</tr>
<tr>
<td>3</td>
<td>Telecommunication Services</td>
</tr>
<tr>
<td>4</td>
<td>Consumer Staples</td>
</tr>
<tr>
<td>5</td>
<td>Real Estate</td>
</tr>
<tr>
<td>4</td>
<td>Utilities</td>
</tr>
</tbody>
</table>
Spotlight on the Financial Services Sector

We analysed 350 ASX listed companies that operate in the financial services sector across six industry groups. Our analysis suggests that the sector has experienced strengthening in its D2D scores over the last 5 years moving from an average D2D score of 1.39 (December 2013) to an average of 3.37 (December 2018).

Despite the sector’s historical strength, there has been a gradual decline in the average D2D score across all industry groups since December 2017 (from 4.01 to 3.37) with the banking sector representing the single largest decline from 6.49 to 4.49 over the same period. The banking sector D2D scores appear to be comparatively healthy however further deterioration could lead to a slowdown in the market with some potential adverse consequences given the economy’s significant exposure to the financial services sector.

Major findings from the Royal Commission

With the recent Banking and Financial Services Royal Commission, the sector will undergo a period of adjustment as it looks to restore credibility in the market. There were four key overarching observations in the Commissioner’s report underpinning its recommendations:

1. The nexus between conduct and reward.
2. The asymmetry of power and information between financial services entities and their customers.
3. The effect of conflicts between duty and interest.
4. Holding entities to account.

The Commissioner’s report highlighted dishonesty and greed and the pursuit of short-term profit at the expense of basic standards of honesty being the main drivers behind the misconduct. The Commissioner made a number of observations across banking, financial advice, superannuation, insurance, regulators and culture and governance.
Big four banks ("major banks") 2019 half year results

Australian major banks have reported a continued decline in aggregate cash profits for the first half of 2019, as they face challenging conditions from slowing lending growth and margin compression, at the same time as delinquencies rise in a softer domestic economy. In addition, remediation costs are a major contributor of performance, as the banks seek to rebuild trust with customers post the Royal Commission.

The majors have continued to allocate a greater proportion of their spending towards risk and compliance, rising substantially to comprise almost 40 percent of the total investment expenditure for the first half of 2019. Faced with growing competition from non-bank lenders and new entrants, the majors will need to balance this investment profile with digitalisation and innovation to maintain market share and deliver an enhanced customer experience.

Half year 2019 results at a glance

- Cash profit after tax decreased by 4.0% on 1H18 to $14.5b
- Average ROE decreased to 12.0% from 12.9%
- Charge for bad and doubtful debts decreased by $23m (1.3%) on 1H18 to $1.8b
- Average net interest margin decreased by 11 bps on 1H18 to 10.8%
- Average CET1 capital ratio increased by 25 bps from 2H18 to 10.8%
- Cost of customer remediation increased by $1.5b from 1H18
- Average cost to income ratio increased by 47 bps on 1H18 to 46.1%
- Provision for credit impairment up $3.6b from 2H18 to $17.0b largely due to the adoption of AASB 9 for three of the majors

Continued challenging conditions

Compared to 2H18:

- Housing credit
- Non-housing credit
- Deposits

Source: KPMG Major Australian Banks: Half Year 2019 Results Analysis.
Spotlight on the Financial Services Sector (Continued)

Lending asset growth
Interest earning assets across the majors continue to grow at a slower pace. The average interest earning assets increased by 2.3 percent from 2H18 to $3,224 billion, reflecting a competitive environment and slowing economic growth.

The primary driver for this result pertains to softening housing credit growth, with the majors reporting an aggregate growth of 1.5 percent in 1H19 to $1,702 billion (compared to 1.8 percent growth in 1H18). This reflects a weaker property market and increased competition from other ADI’s and non-bank lenders. Resulting in a reduction in the majors market share in household lending (excluding credit cards), which has decreased by 80 basis points from 1H18 to 81.35 percent.

While home loan demand has slowed in Australia, this has been compounded by the majors stepping away in certain segments. Post Royal Commission, the majors remain under heightened scrutiny to lift lending standards around mortgage applications, including setting appropriate levels of serviceability metrics and restraining lending growth in higher risk segments of their portfolio, in order to ensure compliance with responsible lending laws.

Loans impairment charge

Source: KPMG Major Australian Banks: Half Year 2019 Results Analysis.
Spotlight on the Financial Services Sector (Continued)

Asset quality
While the majors reported an aggregated decrease of 1.3 percent in loan impairment charges for 1H19, there has been a slight deterioration in measures of asset quality, reflected by a 9.4 percent increase in an aggregated impaired assets to $8.9 billion. Common themes to the results on asset quality were:

– the weakening Australian economic outlook (largely affecting retail portfolios);
– changes in provisions for single name exposures within institutional portfolios; and
– enhancements to the credit model.

Across the majors, 90 days past due delinquencies continue to trend upwards by (off a low base) [reference to chart 2]. This increase accelerated in 1H19, particularly in the home loan portfolio, noted by the majors as being driven by low wage growth and rising essentials costs.

90 day past due delinquent loans as a proportion of gross loans and advances

![Graph showing 90 day past due delinquent loans as a proportion of gross loans and advances for ANZ, CBA, NBA, and WBC.]

Source: KPMG Major Australian Banks: Half Year 2019 Results Analysis.
Spotlight on the Financial Services Sector (Continued)

Where to from here?

We expect that a number of the recommendations from the Royal Commission will have structural longer-term effects, fundamentally changing the way the financial services sector operates moving forward and may result in industry consolidation, these include:

- A shift in mortgage broker remuneration altering the relationship between customer, broker and lenders disrupting the current model.
- Greater scrutiny on responsible lending and point-of-sale (POS) credit limiting consumers accessibility to credit.
- Restricting fees for advice and the “hawking” of financial products narrows the reach of financial advisors and their products, giving rise to a market for niche advisory businesses.
- Increased compliance costs and barriers to entry with the call for improved internal controls, training and reporting obligations.
- Robo-advice models will re-surface on the back of Open Banking and will be widely used for the general public, with more costly personal advice being accessible only to high net-worth individuals.
- The cost of non-compliance likely to adversely affect large business with litigation being at the forefront given increased regulatory scrutiny.
- A heightened risk-averse culture from increased accountability regimes on top executives has the potential to impact local and foreign trade.
- Regulatory standardisation and depleting commission income has the potential to give rise to a converging financial services sector.

It will be interesting to see how these changes will impact the sector in future D2D publications and whether it helps to re-build trust and restore investor confidence to sector more broadly.
Ready to go with KPMG

Inspire a turnaround, execute a financial restructure, or understand options using solvency strategies with KPMG Restructuring Services.
In this rapidly changing environment, every company faces challenges. A step in the wrong direction can have significant effects on corporate performance and company value. KPMG’s integrated team of specialists guides you through difficult times to help deliver real results for your stakeholders.

Inspire a turnaround – view the eBook
To assist in overcoming operational or financial challenges and improve performance, you need to quickly stabilise your cash and liquidity positions and take a realistic view of current options. We can support your transformation with services that help you move from crisis to value realisation.

1. **Option identification**: How can I quickly and effectively assess all my options? (Fixing, selling or closing the company can all provide pockets of value). We frequently employ a Rapid Opportunity Diagnostic tool to facilitate discussions at the option identification stage to identify enterprise value uplift and cash release opportunities at deal speed. Our unique approach is focussed on identifying cash improvement, revenue upside and cost reduction opportunities in a risk-adjusted way.

2. **Stabilisation**: How can I stabilise the business and assess its financial position? (Transformation begins by identifying what needs to be done and who needs to do it).

3. **Transformation Strategy**: What financial impact might I realise through the various options? (A strong plan recognises stakeholder concerns and needs).

4. **Execution**: How can I execute my turnaround plan? (Rebuilding trust between the company and its stakeholders can be a key benefit of a well-executed plan).

5. **Value Realisation**: How can I make sure my plan delivers value? (Significant value can be realised – or lost – at this stage).

Financial restructuring: meet challenges head on – view the eBook
When a company is experiencing financial difficulties, stakeholders often look for additional information or resources to help rebuild their confidence. We can help you master financial restructuring with services designed to enhance value for both borrowers and lenders.

1. **Appraisal and stabilisation**: Do I have enough funding to keep operating while a solution is being developed and implemented? (Effective stakeholder communications is essential at each step to help ensure a successful outcome).

2. **Options assessment**: What do I need to do and when?

3. **Stakeholder negotiations**: How can I keep everyone fully engaged in negotiations? (Tolerable compromises should be considered on both sides of the table).

4. **Development of solutions**: What is the new capital structure? (Develop more than one plan to address possible contingencies).

5. **Implementation**: How can I implement the deal according to plan? (Make sure the new capital structure supports tax efficiency).

6. **Ongoing monitoring**: Am I out of the problem zone? (Sometimes more than one deal is needed to ‘get it right’).

Solvency strategies: make the complex manageable – view the eBook
When a company is in distress, the management team faces many competing challenges. We help create clear solvency strategies by assisting insolvent companies and providing support at every phase of insolvency.

1. **Distressed corporates**: How serious is the problem? (Now is the time to ask the hard questions).

2. **Insolvency planning**: What are my options? (Consider the relative merits of each option or combination of options).

3. **Commencement**: What needs to happen if/when my company is in a formal protection process? (The right communication can help you anticipate issues before they become problems).

4. **Implementation**: How can I maximise value? (Insolvency often requires a number of plans executed concurrently).

5. **Exiting a Formal Process**: How do I get back to normal? (For an insolvency company with limited funds, settlements are often preferable to expensive litigation).
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