



COVID-19 SME Hibernation Guide

Restructuring Services

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Dealing with the Impact of COVID-19



COVID-19 has created unprecedented complexity, challenges and uncertainty for Australian SME's and... the landscape is shifting daily.

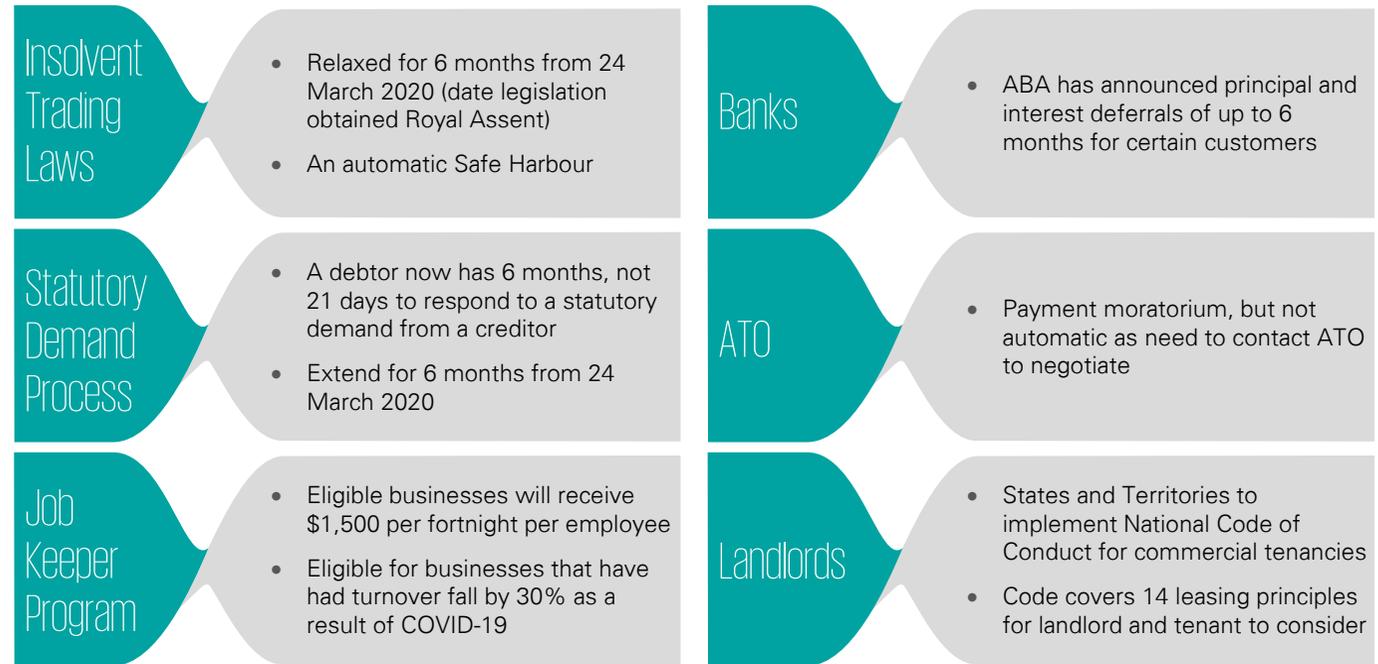
For businesses already financially impacted by COVID-19, standard business metrics are not going to assist.

Affected businesses need to urgently consider a range of issues and be prepared to make quick and decisive changes to their business model, in order to maximise their prospects of survival.

This guide has been designed to assist SME business owners in making those decisions, particularly around a range of Government's initiatives in response to the COVID-19.

Government Hibernation Framework

The federal government has recently announced a number of law changes, other initiatives and also obtained ATO and banking sector support, to enable a business to go into "hibernation" during COVID-19, without the need for an immediate insolvency process.



This guide contains a checklist of issues for business owners to consider, both immediate and long term, to maximise their prospects of surviving during and post any COVID-19 hibernation period.



For businesses already financially impacted by COVID-19, it is critical that that all aspects of the business are considered, as this will assist in determining what options are available going forward.

Situational Assessment	Considerations	Notes
Industry sector	<ul style="list-style-type: none"> • What is the sector? • Has the sector been impacted? • What is the degree of revenue failure? • How will the new social distancing rules impact the business? • Is it an exempt sector? 	
Trading status	<ul style="list-style-type: none"> • Is the business trading? • If not, what is the operating status? • If it is, what is the new operating model? • What locations are operating? • Can staff access business locations? • Have there been any COVID-19 incidents? 	
Management	<ul style="list-style-type: none"> • Do the directors still have senior management working? • What staff is needed to support them? • Is there enough capacity to put a plan into action? 	
Adviser	<ul style="list-style-type: none"> • Does the business currently have an adviser engaged, i.e. an accountant, restructuring advisor? 	

Options Available to Businesses - Assessment of Cash Checklist



In the first instance, businesses should ascertain whether they have access to any internal levers which can be pulled to generate cash in the short term.

Cash	Considerations to be made	Notes
Cash position	<ul style="list-style-type: none"> • What is the current cash position? 	
Calculate cash needed	<ul style="list-style-type: none"> • Prepare a 13 week, or longer, cash flow which assesses a variety of scenarios: <ul style="list-style-type: none"> – Revenue reductions – New operating model – Cost reductions – Creditor standstills • How much cash is needed? • Where is the cash to be sourced from? 	
Scenario analysis	<ul style="list-style-type: none"> • Ensure to conduct analysis across all scenarios • Consider contingency planning if circumstances change • What will be the future cash requirements post Covid-19 hibernation? <ul style="list-style-type: none"> – Deferred liabilities – To reopen or scale back up 	

Options Available to Businesses – Standstill Arrangements Checklist



Secondly, the business should review external support, via standstill arrangements with creditors, that are available.

Standstill arrangements	Considerations to be made	Notes
Banks	<ul style="list-style-type: none"> • Apply for hardship relief • Request suspension of principal and interest, up to 6 months • Amend covenants and waive any breaches • Secure waiver of enforcement rights, if required • Ensure credit funds paid into overdrafts remain accessible 	
Lease Financiers	<ul style="list-style-type: none"> • Defer all equipment lease payments • Seek extension of lease terms up to 6 months • Ensure waiver of enforcement rights, if required 	
Landlords	<ul style="list-style-type: none"> • Consider each State and Territory implementation of the National commercial tenancies Code of Conduct • Negotiate rent deferrals with landlords, up to 6 months • Extend term of lease • Obtain waiver of defaults 	

Options Available to Businesses – Standstill Arrangements Checklist (con'd)



Secondly, the business should review external support, via standstill arrangements with creditors, that are available.

Standstill arrangements	Considerations to be made	Notes
ATO	<ul style="list-style-type: none"> • Request to defer all BAS/GST/Income taxation/FBT payments (including PAYG instalments), for up to 6 months • Allow businesses reporting quarterly to opt into monthly GST reporting • Ensure all ATO lodgements are up to date • Obtain waiver for penalties and interest – need to contact ATO to request • Renegotiate existing ATO Payment Plan – need to contact ATO to negotiate 	
Office of State Revenue	<ul style="list-style-type: none"> • Defer all payroll tax obligations • Defer and /or seek rebate relief for state land tax 	
Trade creditors	<ul style="list-style-type: none"> • Advise major trade creditors of payment standstill arrangements • Assess those needed for ongoing supply • Consider cents in the dollar payment offers, stepped over time • Consider need for formal standstill deeds 	

Options Available to Businesses - Assessment of Costs Checklist



Thirdly, businesses should undertake an assessment of where costs can be reduced in order to preserve cash.

Costs	Considerations to be made	Notes
Urgent cost reductions	<ul style="list-style-type: none"> • Implementation of zero based budgeting • Match to new operating model • Determine what costs are essential • Defer all capital expenditure and new projects 	
Staffing reductions	<ul style="list-style-type: none"> • Undertake assessment of which core staff are required for any ongoing operations • Are all workforce right-sizing options known and understood • Consider a combination of reducing staff hours, voluntary pay cuts, paid leave, voluntary unpaid leave, staff stand downs and termination • Consider accruals, EBA's, staff contracts and Fair Work Act 	
Insurance	<ul style="list-style-type: none"> • Have any impacts to insurances been considered? • Reduce insurance cover based on new operating revenue (potential refunds) • Review work cover based on forecast wages 	
Landlords	<ul style="list-style-type: none"> • Applying the National commercial tenancies Code of Conduct, seek from landlords: <ul style="list-style-type: none"> – Rent reductions – Longer term restructure of rent obligations 	
Banks and financiers	<ul style="list-style-type: none"> • Seek repricing of existing facilities 	

Options Available to Businesses – Funding Sources Checklist



Fourthly, the business should review sources of funding support that may be available.

Funding sources	Considerations to be made	Notes
Banks and financiers	<ul style="list-style-type: none"> • Can the business draw down on unused bank facilities? • Will the bank support an increase in current facilities? • Does the business have additional collateral to provide security for a facilities increase? • Are new bank facilities available via new Government sponsored SME loan scheme 	
Accelerated asset sales	<ul style="list-style-type: none"> • Determine what the business' non-core assets are? • Can they be sold quickly? • Can they be sold in the current environment? • Does the whole business need to be sold? 	
Equity	<ul style="list-style-type: none"> • Can the owners contribute cash quickly? • Can the owners borrow against the equity in their personal property? • Can the owners access funds from family? • Are private equity / venture capital funds option? 	
Federal Government support	<ul style="list-style-type: none"> • Boosting cash flow for employers initiative for SME and NFP with turnover up to \$50m <ul style="list-style-type: none"> – First automatic credit up to \$50k in activity statement from March to June 2020 – Second automatic credit up to \$50k in equal instalments July to September 2020 	

Options Available to Businesses – Funding Sources Checklist continued



Fourthly, the business should review sources of funding support that may be available

Funding sources	Considerations to be made	Notes
JobKeeper package	<ul style="list-style-type: none"> • Eligible for businesses that have had turnover fall by 30% as a result of COVID-19 (in a comparable period a year ago – for at least a month), 50% or more for large businesses (with turnover greater than \$1b) <ul style="list-style-type: none"> – Eligible businesses will receive \$1,500 per fortnight per employee (including part time and casual workers, with tenure more than 12 months) – Payments will be made from 1 May 2020, backdated to 30 March 2020 	
Apprentice wage subsidy	<ul style="list-style-type: none"> • Apply for subsidy of up to 50% of apprentice/trainee salary from 1 January to 30 September 2020 <ul style="list-style-type: none"> – A maximum of \$21,000 per eligible apprentice or trainee (\$7,000 per quarter) 	
State & Territory Governments support	<ul style="list-style-type: none"> • Consider each State and Territory Governments SME support schemes, ranging from: <ul style="list-style-type: none"> – Loans with interest free periods – Cash grants – Rebates 	
Superannuation	<ul style="list-style-type: none"> • Certain sole traders may be eligible for early access to superannuation, up to \$10,000 FY20, and \$10,000 FY21 (tax free) 	

Options Available to Businesses – Other Risks Checklist



Fifthly, businesses should consider other risks to their ability to generate cash in the short term.

Other risks	Considerations to be made	Notes
Data and fraud prevention	<ul style="list-style-type: none"> • Is data secure, and encrypted? • Is remote working secure? • Consider that in times of crisis, invoice / asset finance fraud increases 	
Material contracts	<ul style="list-style-type: none"> • Consider if a contract either with a customer or supplier is breached could it give rise to liabilities? • Could a force majeure clause be effected to minimise any liabilities? • Consider mutual deferral of obligations pending return to normal business operations • Consider legal advice to ensure claims are mitigated 	
Supply chain	<ul style="list-style-type: none"> • Consider whether a key customer provide support to enable ongoing supply of goods? • Are there any supply chain contractual issues – force majeure clauses etc.? • Will customers pay? • Are there any bad debt risks? 	
Physical assets	<ul style="list-style-type: none"> • Ensure key assets secure • Deal with perishable goods, and other assets at risk 	

Options Available to Businesses – Stakeholder Management Checklist



Next, the business should review level of stakeholder management required.

Communication	Considerations to be made	Notes
Stakeholder Management	<ul style="list-style-type: none">• Has a communication plan been developed for stakeholders including:<ul style="list-style-type: none">– Banks and financiers– Staff– Suppliers– Customers– Landlords– Unions– Government– Regulators	



In addition to considering the internal and external mechanisms, the future viability of the business post hibernation needs to be considered

Next steps	Further details	Notes
Hibernation plan	<ul style="list-style-type: none"> • Document all considerations and hibernation steps into a restructuring plan including responsibilities and timelines • Determine whether the business can hibernate their business, or scale down its operating model, preserving what it can, while COVID-19 continues to unfold 	
Post COVID-19	<ul style="list-style-type: none"> • Has the business considered the state of its sector post COVID-19? • How will the business’s market change post COVID-19? • What operational and planning needs to occur in order to restart or scale back up operations? 	
Further restructuring	<ul style="list-style-type: none"> • Need to also consider future funding requirements to meet: <ul style="list-style-type: none"> – Payment of deferred liabilities during hibernation period; and – Working capital to restart, or scale back up operations • Businesses who struggle to source such funding may have to consider a longer term restructuring plan 	
Restructuring via an insolvency process	<ul style="list-style-type: none"> • Businesses may also need to consider restructuring via an insolvency process to: <ul style="list-style-type: none"> – Scheme out legacy liabilities – Seek to recapitalise the business to maximise the prospects of survival post Covid-19 • In the current environment, there may not be the usual stigma to pursuing restructuring through a formal insolvency process • Financial stakeholders are also likely to want to be seen to support affected businesses during this time, to the extent they can 	

Next Steps (con'd)



In addition to considering the internal and external mechanisms, the future viability of the business needs to be considered as a whole.

Options	Further details	Notes
Directors duties	<ul style="list-style-type: none">• Notwithstanding, the relaxation of insolvent trading laws, Directors need to continue to be mindful of their general director duties and assess if their course of action will lead to a better outcome than an immediate insolvency event• Ensure legal advice is obtained where appropriate	

Disclaimer: This guide is intended to provide commentary and general information. It should not be relied upon as formal advice. Formal advice should be sought as to particular circumstances, or on matters of interest arising from this guide.

Key Contacts



James Stewart

Joint National Leader Restructuring Services

Restructuring Services

P: +61 3 8667 5728

E: jhstewart@kpmg.com.au



Matthew Woods

Joint National Leader Restructuring Services

Restructuring Services

P: +61 8 9263 7515

E: mwoods1@kpmg.com.au



Gayle Dickerson

Partner, New South Wales

Restructuring Services

P: +61 2 9295 3982

E: gdickerson@kpmg.com.au



Peter Gothard

Clients & Markets Lead Partner, New South Wales

Restructuring Services

P: +61 2 9458 1562

E: petergothard@kpmg.com.au



Will Colwell

Clients & Markets Lead Partner, Queensland

Restructuring Services

P: +61 7 3237 5458

E: wcolwell@kpmg.com.au



Brendan Richards

Clients & Markets Lead Partner, Victoria

Restructuring Services

P: +61 3 9288 6484

E: bjrichards@kpmg.com.au



Martin Lewis

Clients & Markets Lead Partner, South Australia

Restructuring Services

P: +61 8 8236 7204

E: mlewis7@kpmg.com.au



Martin Jones

Clients & Markets Lead Partner, Western Australia

Restructuring Services

P: +61 8 9278 2003

E: martinjones@kpmg.com.au

Key Contacts



Angela Haynes

Head of Restructuring Services, Greater Western Sydney, New South Wales

Restructuring Services

P: +61 02 8841 2150

E: ahaynes1@kpmg.com.au



Tony Nimac

Principal, Metro Sydney, New South Wales

Enterprise

P: +61 2 9335 7893

E: tnimac@kpmg.com.au



Bruce Sweeney

Financial Services National Leader, New South Wales

Enterprise

P: +61 2 9455 9205

E: brucesweeney@kpmg.com.au



Naomi Mitchell

Partner, New South Wales

Enterprise

P: +61 2 8865 6106

E: nmitchell4@kpmg.com.au

If you have any questions regarding the content of this pack and would like to speak to someone from our team, please contact midmarketsupport@kpmg.com.au or 1800 316 526



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