MOORE

COVID-19
WHERE TO FROM HERE?

July 2020

OVERVIEW

As parts of Australia start opening up for business once again, we are seeing the long-term impacts of the last few months on the broader economy and at a micro-level, on our own businesses.

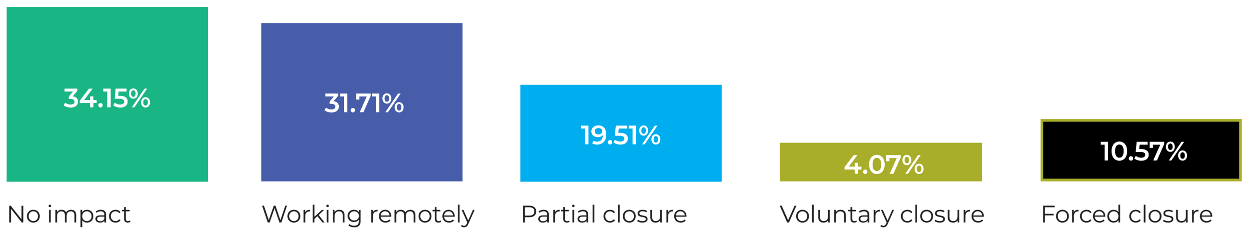
With the increased restrictions in certain states, the impacts of COVID-19 will continue to hamper business operations.

Respondents of a recent survey we conducted on the impact of COVID-19 on Australian businesses show some consistent issues faced by small businesses.

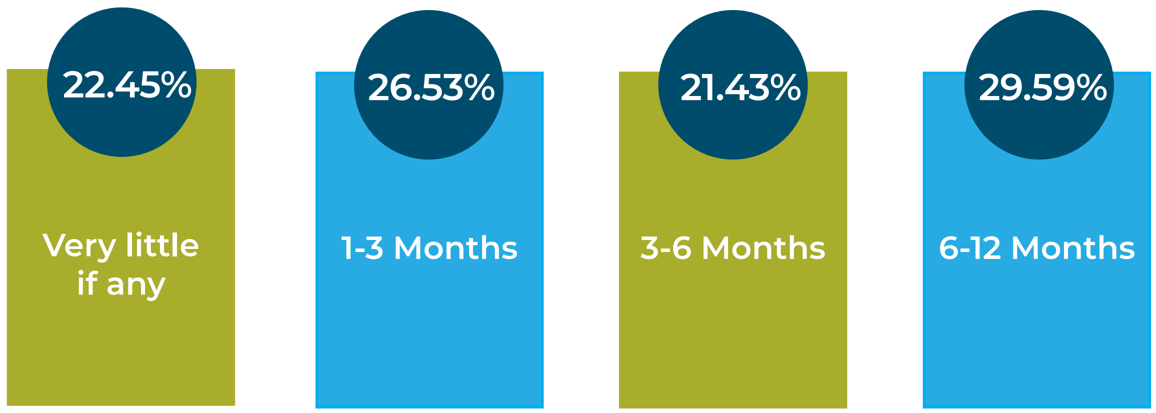
Whilst the overwhelming response showed COVID-19 having some impact on their business, it brought out some curious themes on business continuity and planning overall.

> More than 40% of businesses had less than three months working capital to fund their business.
>
> Moore Australia Survey

COVID-19 IMPACTS ON BUSINESS AND THE WAY PEOPLE WORK



LEVEL OF FUNDING



(Source: Moore Australia survey)

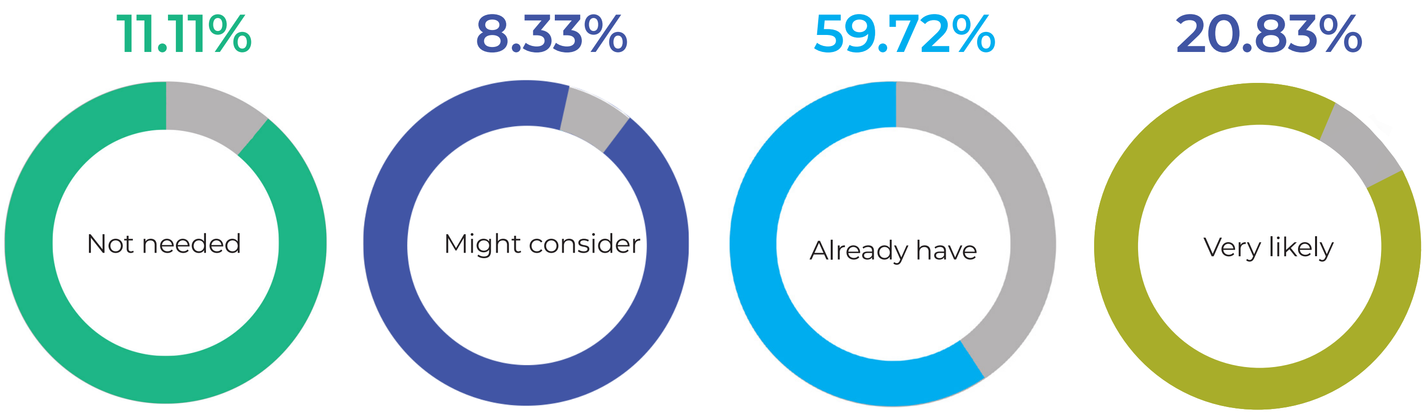
Whilst it is clear from the survey sample that most businesses have been affected by COVID-19 and there are long term impacts on their financial position, the theme that stands out is that many businesses do not have the cash reserves to withstand a sustained onslaught of adverse economic conditions.

More than 40% of businesses have funding to survive only 1-3 months to sustain running costs and close to 70% of businesses believe the impact of COVID-19 will range from 6-12 months.

Furthermore, the following shows that only a small range of respondents do not need government support with a majority of businesses either on government support or considering applying for support. The low level of cash funding and long-term impact of COVID-19 means that businesses will be heavily reliant on government support.

Business owners must therefore be aware of the risks that will arise once the Government "switches off" the cash flow lifeline currently being used by various businesses across Australia (through either the JobKeeper program or the Cash Flow Boost).

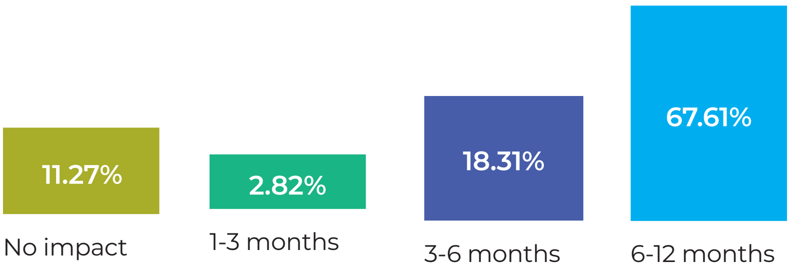
ACCESS TO GOVERNMENT SUPPORT



(Source: Moore Australia survey)

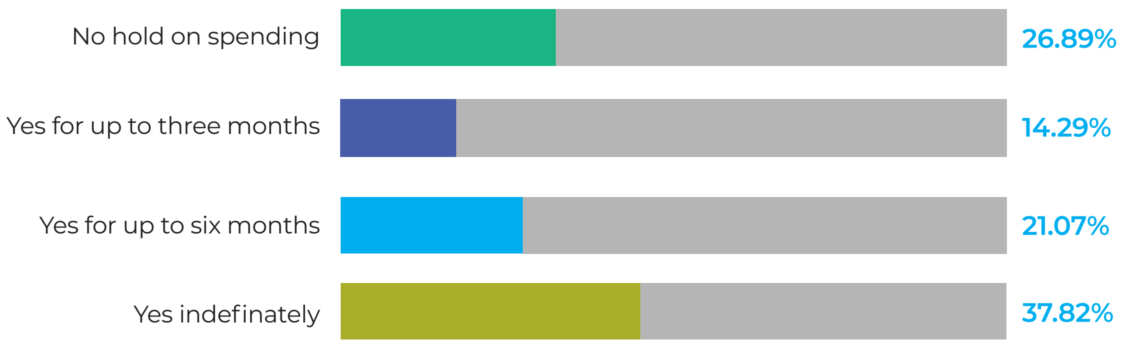
The low levels of cash flow reserves available to small businesses is not uncommon which is why we have created our recovery plan. The plan provides businesses with an overview of issues to consider over the coming months to maintain fiscal responsibility and to ensure your business comes back stronger from challenging times.

NUMBER OF MONTHS COVID-19 WILL IMPACT BUSINESS OPERATIONS



(Source: Moore Australia survey)

COVID-19 IMPACT ON BUSINESS SPENDING



REVIEW YOUR BUSINESS PLAN

Long term business planning has never been more important. With restrictions easing in certain states, it is necessary to consider what you did well during the restrictions, and whether there are any lessons learnt that can assist your business in the long term.

For instance, many within the professional services and consultancy industry have considered long and hard about digitisation and working from the cloud over the last few years. These businesses were forced into making quick adjustments during lockdown including setting up infrastructure to ensure staff could work from home in a productive but efficient manner.

Similarly, product-based businesses which may have traditionally relied on a shopfront or active salespersons have had to change their model and focus more on IT and internet selling. Rather than going back to the "old model", businesses can consider the viability of continuing their operations through a more dynamic online-based approach. This is not to say the "old model" should be abandoned altogether, but thought should be given to how the two can "co-exist". Some issues to consider within your long-term business plan include:

Long-term capital requirements

With some businesses considering the switch to an online model, consider the infrastructure and capital requirements required for the necessary upgrades. This may be as a result of changing the way you do business (i.e. more online and virtual contact or even if you are developing a different type of product).

Financing

If funds are not available immediately, the sorts of external financing required and whether you have the financial data (budgets, forecasts etc.) readily available for banks to access funding. Or, consider external investor opportunities and how they may be able to take your business to the next level.

Restructuring

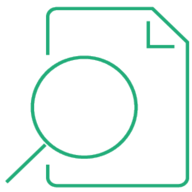
Generally, small business structuring is undertaken with a view towards long-term capital gains tax incentives that may be available to small business owners. However, these may act as barriers towards expansion, innovation and getting external investors onboard. It may be an appropriate to consider restructuring your business structures to allow some flexibility to introduce new shareholders and investors alike. There are concessions available from capital gains tax and transfer duties which may make restructuring more palatable.

Asset Protection

Asset protection has never been more important, and with the downturn in businesses, it is essential to consider your personal liability, especially if you are a director of a company. The fundamentals of asset protection are not complicated. Some basic considerations include:

- Marriage 101
  - Someone takes risk and another takes no risk
  - The person who owns the assets should not take any risk
  - Only the person taking risk should be the director
- Have you used companies and trusts as a business vehicles to protect assets and ring fence liability?
- Have you separated ownership of assets from operation of businesses (a failed business could expose the assets if you have not)?

With directors being personally liable for GST, PAYG and superannuation in certain circumstances, it is essential to have your affairs in order to ensure your assets are protected.



REVIEW YOUR FINANCIAL PERFORMANCE

Financial health check

With the 2020 financial year ending, it would be appropriate to do a thorough review of your financial statements which can help identify any issues and allow you to take appropriate action. Understanding key ratios and your current financial status will assist in developing and delivering long term goals.

Budgeting

Many businesses spend time during June and into early July each year finalising their budget for the financial year ahead. However, in the world of COVID-19 how is it possible to get a budget for the year when there are still so many unknowns?

Careful consideration needs to be given in relation to all aspects of your budget including impacts to your supply chain, currency fluctuations, pricing and various other factors. You will also need to critically look at your overheads and determine whether these are still appropriate. Will you really need much of a travel budget? Or, should the resources either be saved or spent on upgrading your remote communications technology (online sales platforms or websites)?

Lastly, you will need to factor in COVID-19 concessions as you know of them today. In many cases these are only available until the end of September 2020, so the first quarter budget may look quite different to the rest of the year.

Cashflow forecasting

In addition to budgeting, cash flow forecasting should be undertaken by businesses to consider the cash impact of variances that may take place over the next few months. Issues to consider when doing your cash flow forecasts include the impact of payment delays from a major customer or the impact of delays from your suppliers. In practice, creating a forecast for the worst-case scenario will act as a stress test of your business plan and budgets to see whether you can weather the storm.

A three-way forecast incorporates a forecast of the profit and loss, cash flow and balance sheet and is used by many businesses in their ongoing annual budgeting processes.

We can provide you with access to advisors and cash flow modelling solutions to assist in the preparation of robust cash flow forecasts.

Overall, a good forecast should provide:

- Visibility over the forecast monthly profit and loss, balance sheet and cash flow statements
- The combination of actuals and reforecast to assess the full year forecast outcomes
- Variance analysis (budget to actual and reforecast)
- Scenario analysis by changing underlying assumptions or drivers
- The automation of key ratio analysis such as profitability, liquidity, gearing and financial covenants.

Lastly, the importance of regularly monitoring these forecasts versus your actual performance will assist you in meeting your goals, or identifying potential problems early on, including devising adequate plans to control risk.

Financing requirements

Understanding your debt covenants and your cash flow requirements to meet your contractual obligations is essential. This is even more crucial where you have provided personal guarantees or security over the loan.

When preparing a cash flow forecast, it is important to have a clear understanding of the liquidity you need to maintain to meet your financing obligations.

These would also be useful when looking to obtain external financial, renegotiatinging payment plans with banks or if you plan on refinancing your current banking debt. It also creates an opportunity to review your overall lending the market for better deals.

TAX INCENTIVES - WHY SPEND BIG?

Depending on the cash available, there may be an opportunity to "spend big" and avail the Government's time-limited tax incentives on purchasing business depreciating assets.

Increased threshold for instant asset write-off

The instant asset write-off (IAWO) threshold amount has been increased to $150,000 (up from $30,000) for businesses with an aggregated (group) turnover of less than $500 million (up from $50 million) until 31 December 2020.

The IAWO provides an opportunity for businesses to claim an upfront tax deduction for depreciating assets purchased below $150,000 until 31 December 2020.

The following table summarises the IAWO threshold depending on the group's turnover:

Date asset first used (or installed ready for use)	Small Business (T/O less than $10m)	Medium Business (T/O $10m-$50m)	Large Business (T/O $50m-$500m)
1 July 2019 - 12 March 2020	$30,000	$30,000	N/A
12 March 2020 - 31 December 2020	$150,000	$150,000	$150,000
After 1 January 2021	$1,000	n/a	n/a

Accelerated depreciated

Businesses with a group turnover of less than $500 million will be entitled to the following deductions on eligible depreciating assets purchased and first used (or installed ready for use) between 12 March 2020 and 30 June 2021:

a) Immediate deduction for 50% of the cost of the asset in the year purchased.

b) The remainder would be claimed under ordinary Division 40 rules (i.e. the cost of the asset on which depreciation is calculated is reduced by the 50% amount claimed at (a).

Eligible assets include "new" assets first used after 12 March 2020 and would do not include second hand assets. There are certain other exclusions and it is necessary to check the eligibility prior to making a significant financial commitment.

Small businesses who use a general pool can claim 57.5% (up from 15%) of the value of the depreciating asset in the year purchased.

OTHER

Staffing and phasing out of JobKeeper

Whilst the Government has extended the JobKeeper Program for an additional six months as part of JobKeeper 2.0, it is important to get a clear understanding of the impact when the support payments stop.

If your business is currently registered for JobKeeper, you will receive the payments until 27 September. You should however, consider whether you will be eligible for JobKeeper 2.0 and whether you are eligible to continue receiving the support payments post September 2020.

As an employer, besides the legal obligations, you should be aware of your employees' entitlements (leave, redundancy pay etc.) if you need to let staff go. Many small businesses do not account for leave entitlements in particular and may not be aware of the liabilities in relation to annual and long service leave accruals which can lead to a costly outcome.

Customer issues

We have covered some broad cash flow forecasting strategies above, but from a customer point of view, it is important to ensure that cash is coming through in a timely manner. Some practical issues to consider include:

- Identifying customers with large outstanding amounts– follow up and offer payment plans
- Offering discounts for prompt payments
- Invoicing early and ensuring the invoice goes out the door as soon as practicable
- Engaging third party debt collection agencies if you do not have internal resources
- Considering the impact of foreign exchange rates on your debtor amounts if you bill in other currencies
- Requesting upfront payments/guarantees for large sales
- Considering using payment providers such as Afterpay, Zip Pay etc. which allow customers to pay businesses via interest-free instalments.

Supplier issues

From a supplier's perspective, review your contractual terms with your major suppliers and get a clear understanding of your responsibilities. Other things to consider include:

- Re-negotiating your payment terms and extend them as much as possible
- Reviewing your stock regularly and consider the appropriate stock
- Looking at early payment discounts and consider if cash flows allow
- Sourcing alternative suppliers in case your current suppliers run into difficulty.

HOW CAN WE HELP?

We can assist with business planning by facilitating workshops with you to identify the resources required and the sequence of projects based on prioritisation of the strategies. The outcome will be a structured business plan with a strong and clear connection to your other plans that can be used in your strategic decision-making process. Our advisors can also assist with the preparation of robust cash flow forecasts and budgets to assist businesses in their decision-making process.

Feel free to contact your Moore Australia advisor today.

CONTACT US

Find your nearest member firm at
www.moore-australia.com.au

Or email: **ma@moore-australia.com.au**

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