

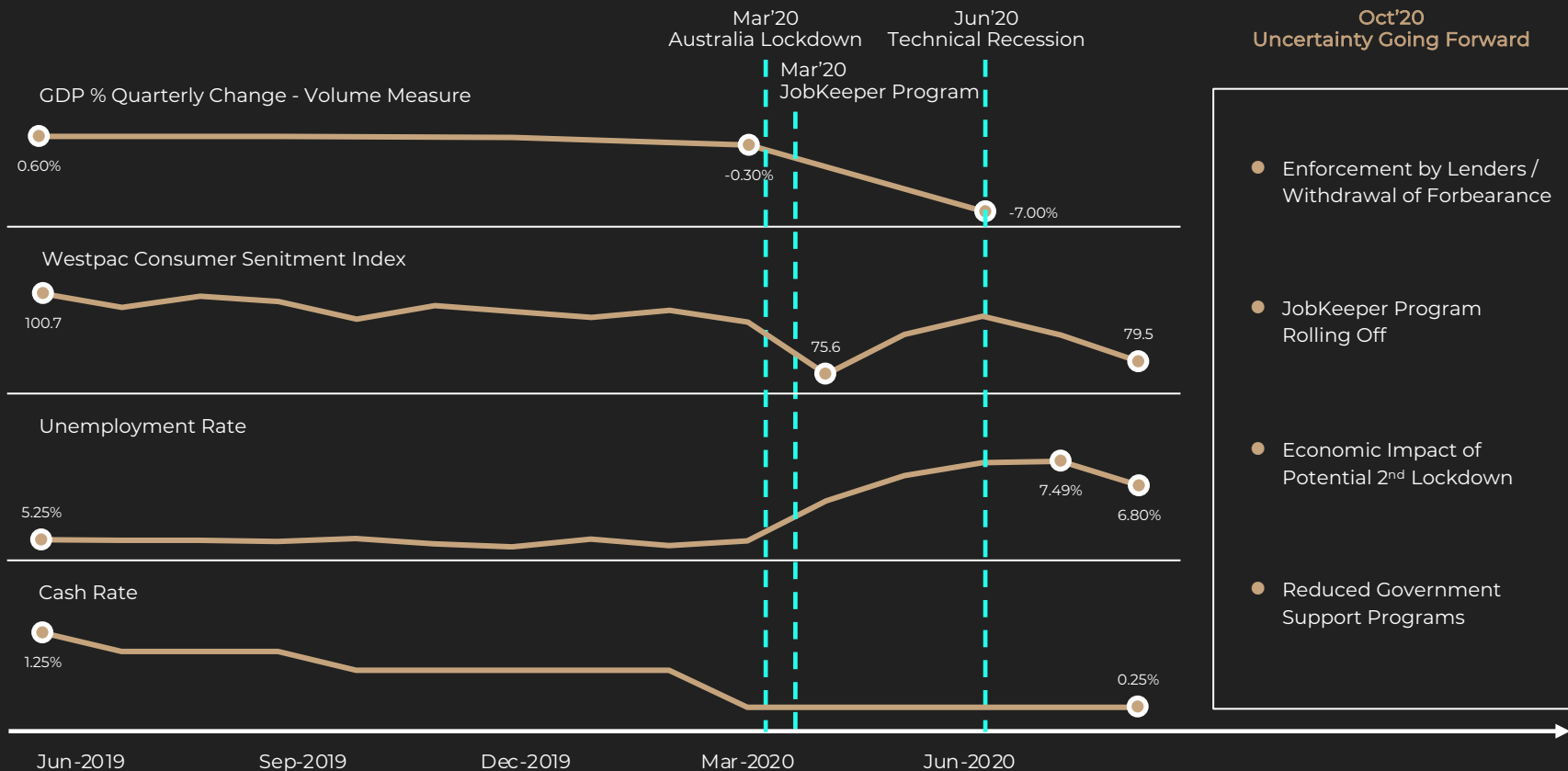
# Covid-19: 28 Weeks Later

CFO Series

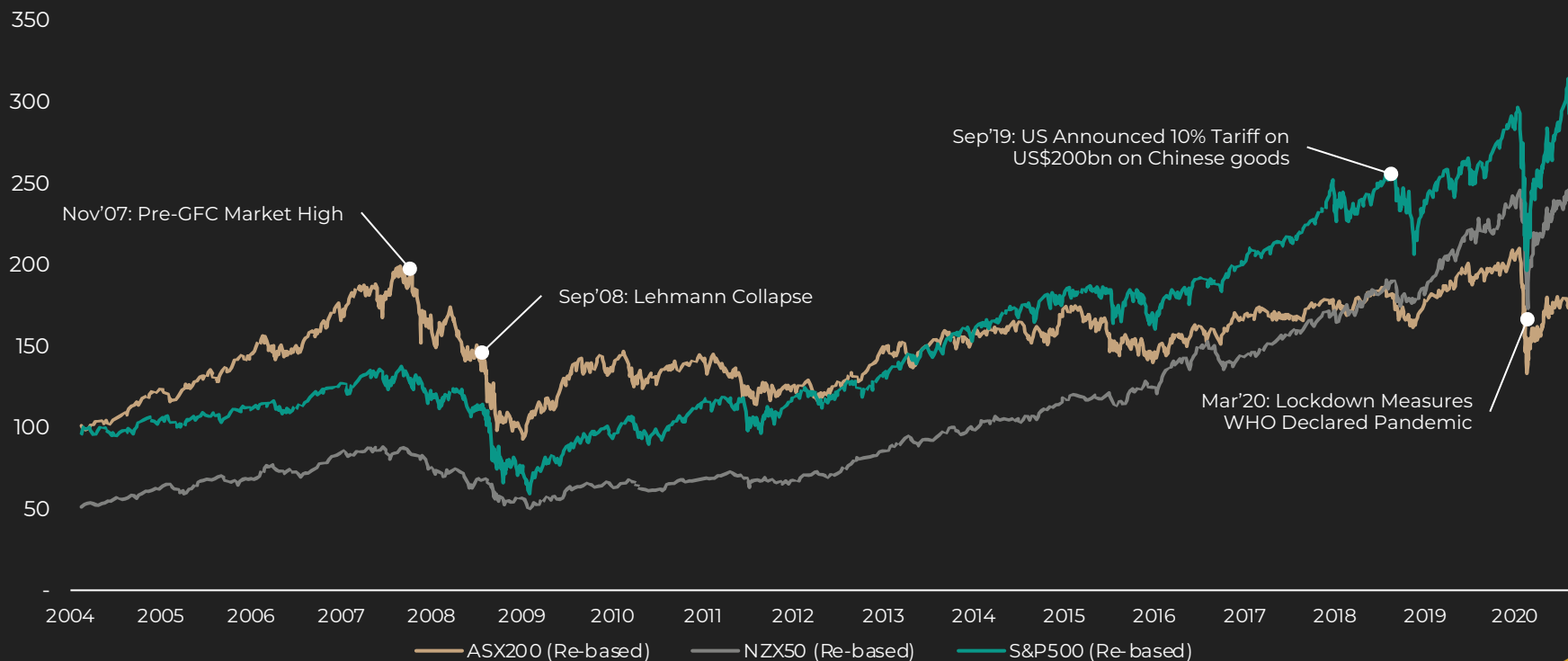
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October 2020

# Zombies at the Gate



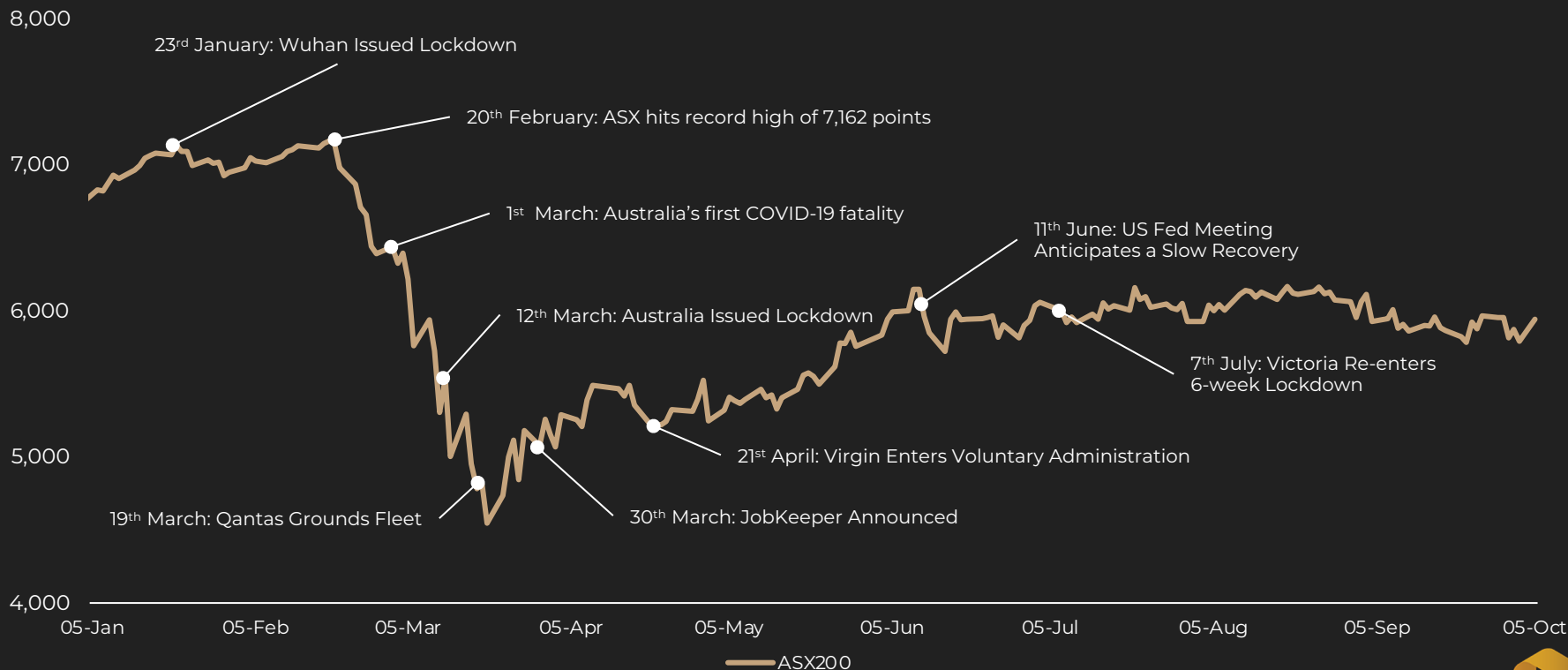
# Share Market Revival?



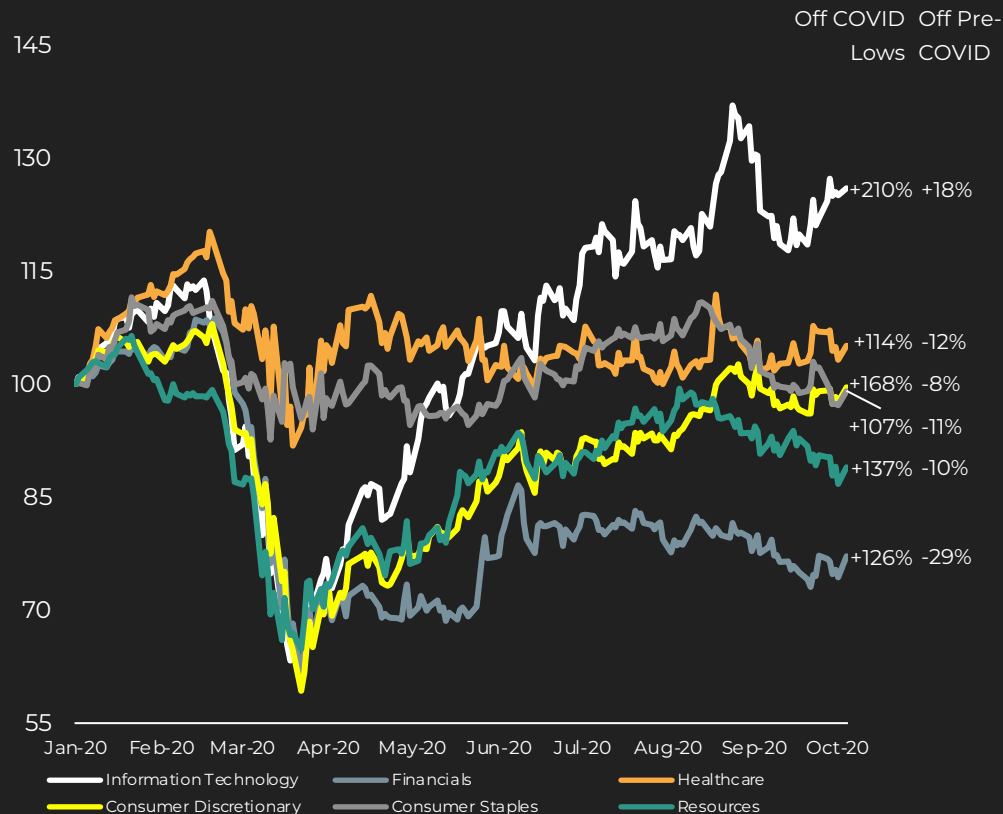
Index base of January 2004. ASX200 / S&P500 @ base 100. NZX50 @ base 50.



# Action & Reaction of 2020 Key Events



# Covid-19 Winners & Losers



Index base of January 2020. Rebased @ 100.

## Winners

- **Information Technology**: major beneficiary of the accelerated digital transformation undergone by businesses to adjust to the work from home dynamic, solidifying the resilience and growth characteristics of the industry.
- **Healthcare**: deemed as an essential service during the lockdown, rapid increase in loading on medical infrastructure.

## Losers

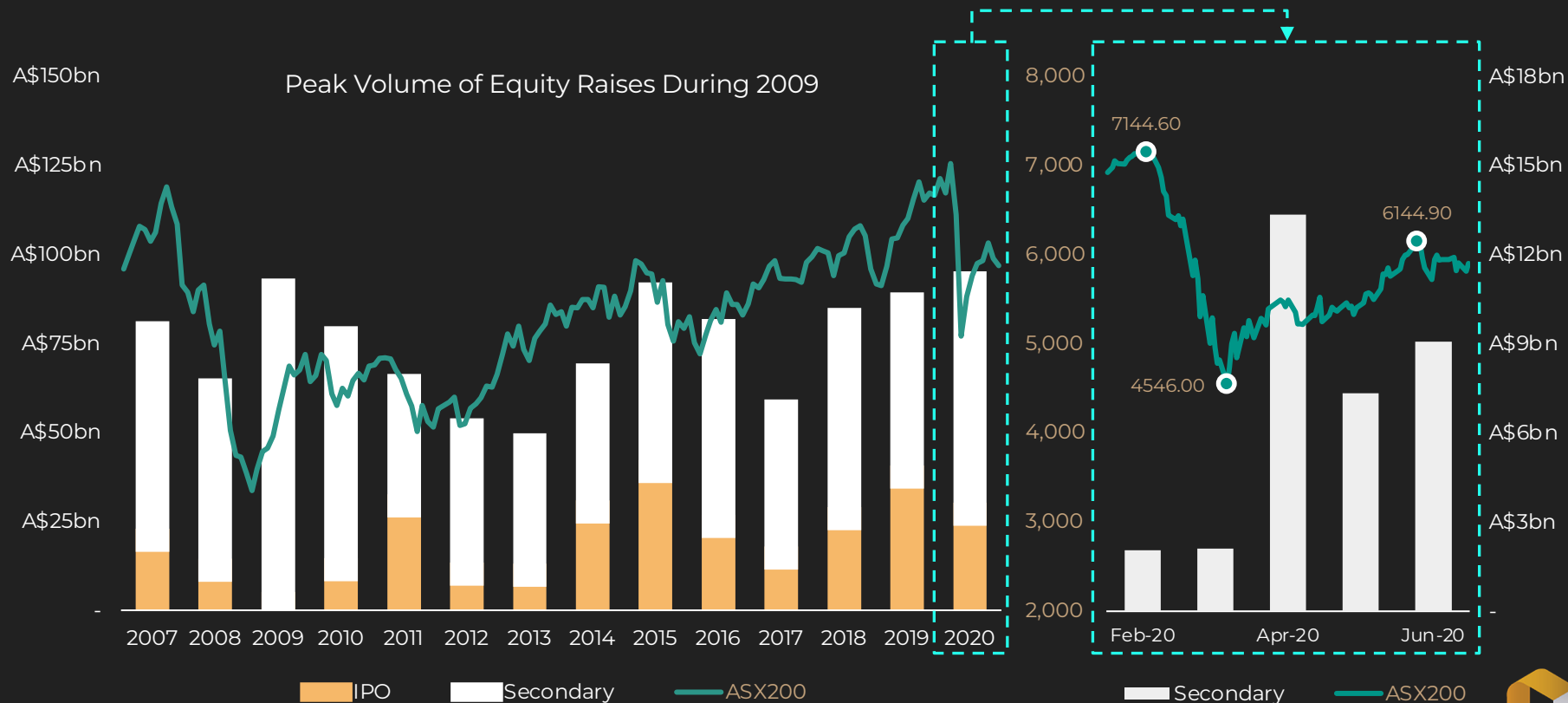
- **Financials**: face challenges with forbearance, impeding impairments and slower credit growth in response to tightened lending policies as uncertainty clouds the economy.

## Contradictions

- **Customer discretionary**: near pre-Covid levels despite recessionary headwinds and social distancing constraints limiting customers for many leisure / tourism businesses. Supported through JobKeeper and JobSeeker.

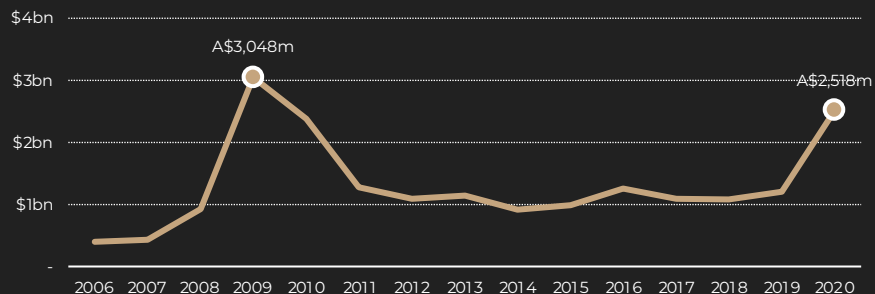


# Emergency Equity Raises **Surged** at Depressed Valuations

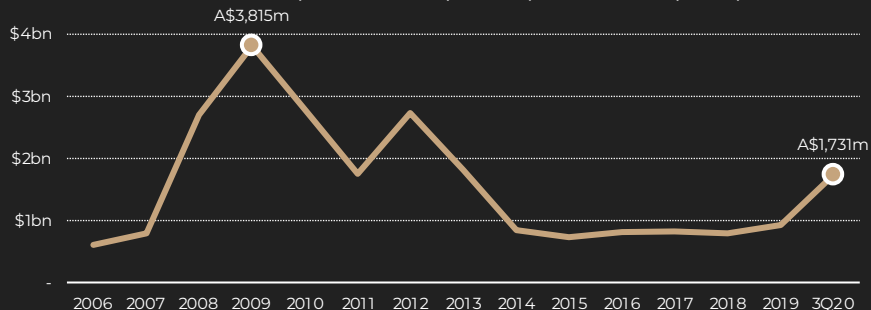


# Bank Impairment Expenses Significantly Below GFC Levels

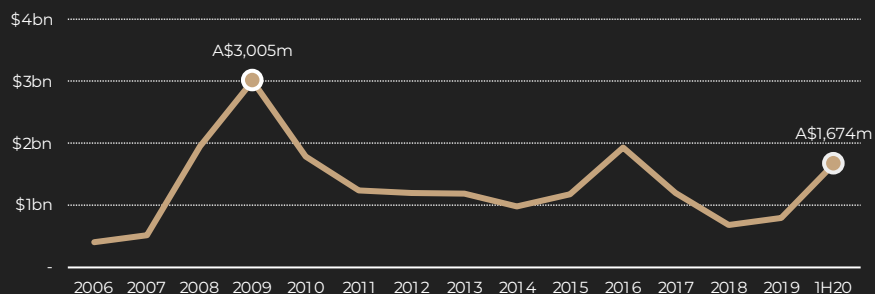
CBA Loan Impairment Expense (Year end Jun 2020)



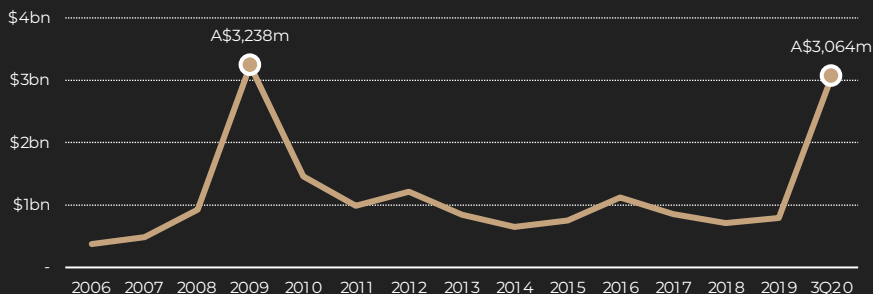
NAB Loan Impairment Expense (Year end Sept 30)



ANZ Loan Impairment Expense (Year end Sept 30)

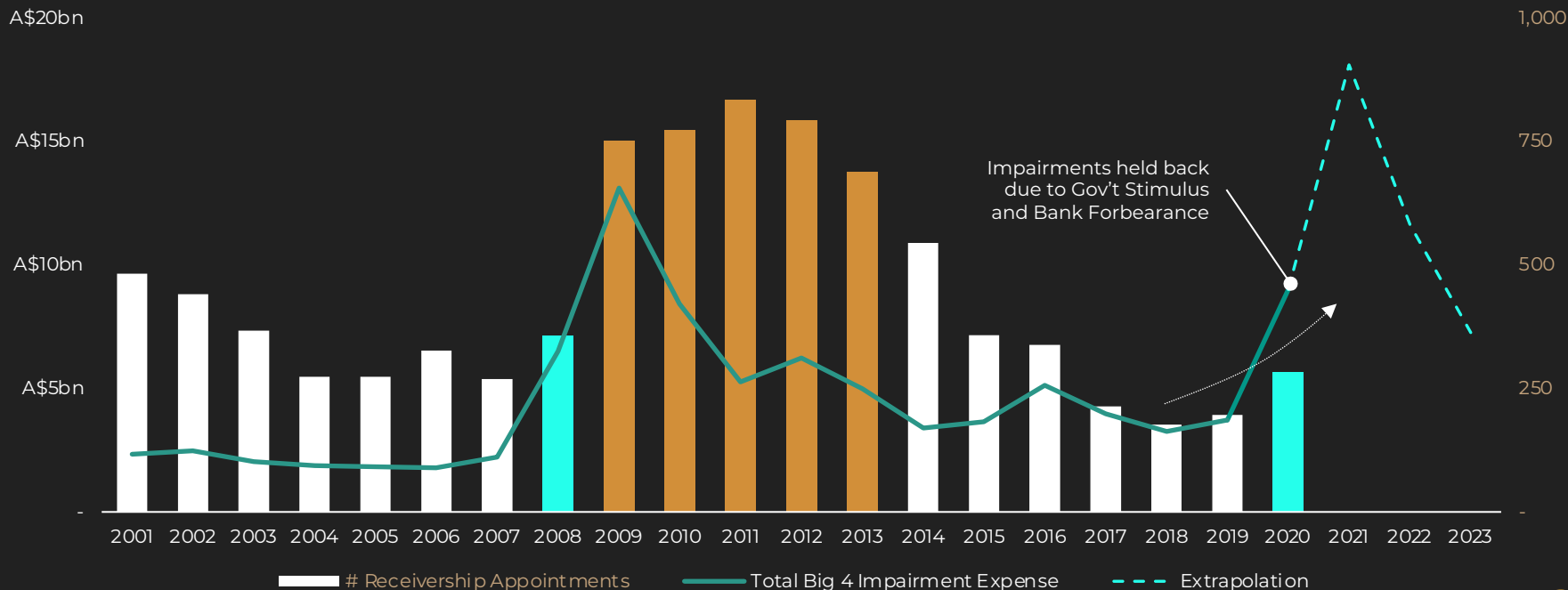


WBC Loan Impairment Expense (Year end Sept 30)



# Insolvencies Were Trending Up Before Covid-19

## Big 4 Impairment Expenses (L) vs # Receivership Appointments (R)



Extrapolation is a proportional response between 2009 and 2011, starting base from 2008 and 2020.



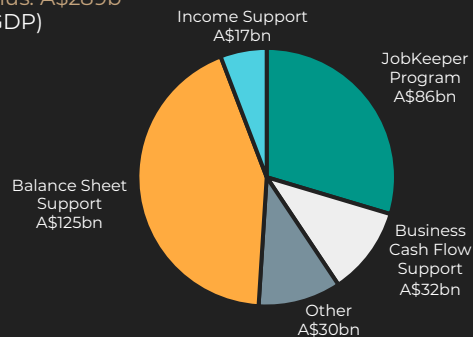


# Cliff Warning?

## Response to COVID-19

### Government Support To Date

Total Surplus: A\$289b  
(14.6% of GDP)



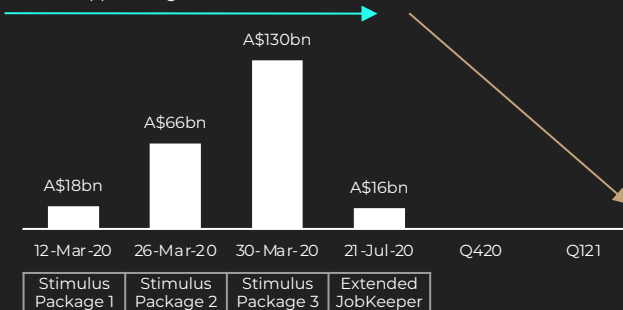
### Bank Forbearance

- Payment Extensions
- Covenant Waivers
- Debt Forgiveness

## 2021 Risk Environment

### Staging of Government Support

Other Support Programs Total A\$59bn



### Already Seeing

- Increased Enforcement
- Secondary Market Debt Trading



Many Good Companies Will Experience **Distress** In the Coming Months

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**Opportunistic** M&A Will Increase



# Why Good Companies Go Bust In A Crisis



## Short-Term Maturity Dates

As global liquidity dries-up rolling short-dated debt is likely not an option. This could result in a cliff-edge repayment that can't be funded from internal cash sources, triggering insolvency.



## Demand Shocks with Fixed Cost Base

Businesses with large fixed costs bases, rely on high utilisation / throughput to cover overheads. Sudden drops in revenue can turn profitable operations heavily loss-making in just a few days.



## Supply Shocks with Just-in-Time

As inputs to supply-chains are delayed, the ability to satisfy orders declines, impacting revenues, damaging the brand in market as well as sales force morale.



## Short-Term Focus on Cash

Factoring accounts receivable, reducing new supply orders or clearing stock at a discount may defer the short term cashflow problem, but cause long term damage to the business.



## Poor Operating Liquidity / Working Cap

The drop in earnings resulting from demand and supply-side shocks will ultimately flow through to receivables and payables, stressing operating liquidity at the moment it is most vital.

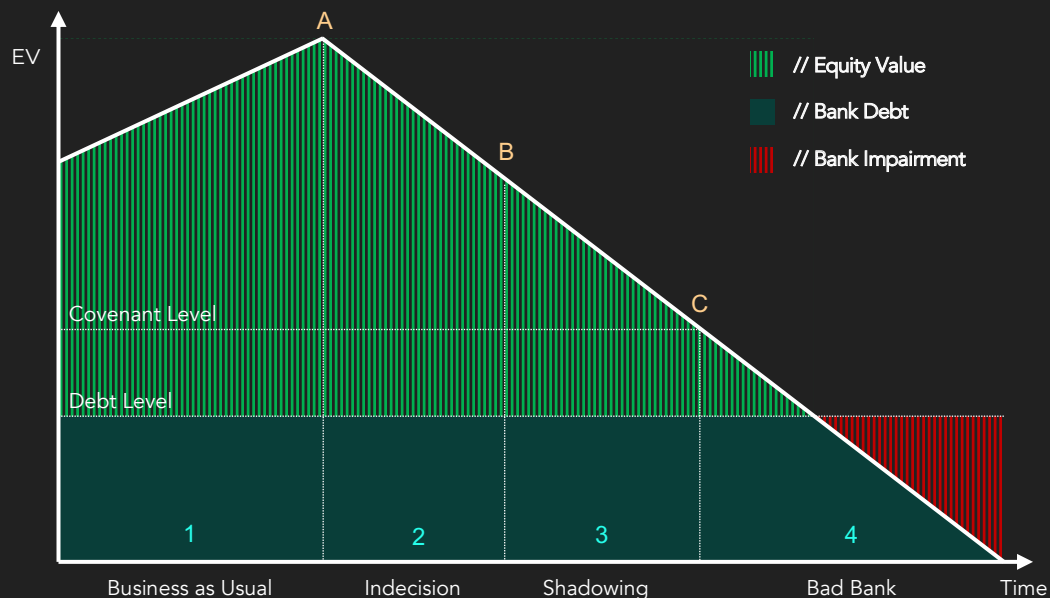


## Downward Spiral Mentality

As global and local economies weaken, company specific negative events will be exacerbated. Funders will question their exposure and seek an exit.



# The Path from Growth to Receivership



## Events

- A. **Exogenous Shock:** The macro or micro event that severely impacts your business.
- B. **Realisation:** After a period of weaker trading, management expect to breach covenants.
- C. **Compliance Certificate:** Delivery of compliance certificate, formally disclosing breach and cementing transition to 'bad bank'.

## Stages

1. **Business as Usual:**
  - **Business:** Trading as normal, prior to the shock.
  - **Bank:** Comfortable and relatively light-touch, potentially looking to increase loan facilities.
2. **Denial/Indecision:**
  - **Business:** Has experienced a major shock; demand and/or supply levels have been severely impacted.
  - **Bank:** Does not fully understand the credit impact. They may not be entitled to receive management accounts for several weeks.
3. **Bad Bank Shadowing:**
  - **Business:** Experiencing sustained, weakened trading and approaching covenant breach. The bank is aware of this.
  - **Bank:** The 'Bad Bank' division commence shadow role. Relationship manager will introduce a colleague from 'Specialised Lending Solutions', 'Strategic Business Services', 'Workout', 'Restructuring' or similar.
4. **Bad Bank:**
  - **Business:** Continuing breach of financing documents. Urgent cash requirement.
  - **Bank:** Workout banker will commission an Independent Accountant Report, paid for by the company. This will include receivership analysis, detailing asset-sale and liquidation value. Possible enforcement / acceleration / receivership.



# Avoiding Financial Distress and Surviving the Pandemic

- **Critical Long-term Decisions:** Companies receiving government aid and lender forbearance can become dangerously focused on short term cashflow, sacrificing long term profitability.
- **Trim Non-Core Activities:** Where demand is likely to be reduced for an extended period, companies should review more speculative investments and potentially sell peripheral assets to focus on the core business.
- **Maintaining Capital Expenditure:** Avoid deferring long-term investments such as upgrading facilities, refurbishments of sites and servicing / replacement of machinery that deliver increased efficiency or help maintain a high quality product / service over the long term.
- **Diversify Funding Base:** Arrange alternative sources of capital, whether debt or equity, that would enable bank facilities to be paid down if required, or take advantage of opportunistic scenarios.
- **Present a Plan:** Develop a conservative and executable plan to stabilise and recover. Present it to your bank to show proactive management of the situation. Don't hide negative performance numbers; that will only burn the relationship and make extensions / forbearance less likely if a covenant breach or contractual Event of Default occurs.



# How Neu Capital Can Help

1

## Board-Ready Options Paper

An institutional-grade financial and strategic review, including external funding options. Facilitates decisive internal triage and serves as a foundation for engaging with existing financiers, as well as addressing solvency questions.

2

## Bank Relationships & Negotiation

Our principals have considerable experience and relationships with 'bad bank' divisions, able to act on your behalf to calm nerves, extend timelines and gain support for a turnaround strategy.

3

## Earnings Model Knowledge

Broad range of experience across sectors and business structures; uniquely positioned to understand your earnings-model and how best to present it to investors.

4

## Fast Moving, With Discretion

In distressed circumstances, time is of the essence. Our proprietary intelligence and relationships enable rapid and accurate engagement with a tailored subset of our institutional investor network.

5

## Debt and Equity Solutions

Neu Capital's market-leading network spans over 450 domestic and international institutions, covering the entire mid market risk spectrum. This includes dozens of domestic and international counter-cyclical private debt and equity funds.

6

## Deal Structuring

Our team have a reputation for concisely distilling complex situations and funding arrangements into a form that is easy to digest and act on. Ultimately unlocking your business to get trading at full-strength again.



## About Neu Capital

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# Neu Capital Experience | Special Situations

## Uniquely Experienced in Complex Transactions



### GFC Deal Team

Coal-face restructuring  
expertise over 2008-2014



### Time In Market

Deeply experienced execution  
team



### Deals Executed

Mid Market and Large  
Corporate deal history



### Financial Institutions

Peerless coverage of the  
alternative capital markets





# Neu Capital Team Transactions | Special Situations

A\$450m



Asia Timber

Restructure + Sale

A\$50m



Rapid Securities

Restructure

A\$1bn



Royal North Shore Hospital

Sale

NZ\$80m



Mediaworks

Restructure

A\$1bn



OzMinerals

Restructure

A\$2.5bn



Royal Bank of Scotland

Portfolio Sale

NZ\$2bn



Yellow Pages

Sale

A\$2bn



Elders Limited

Restructure

A\$2bn



Babcock & Brown

Restructure + Sale

A\$475m



Cross City Tunnel

Cross-City Tunnel

Restructure + Sale

A\$150m



Sunshine Electricity JV

Restructure + Sale

A\$10bn

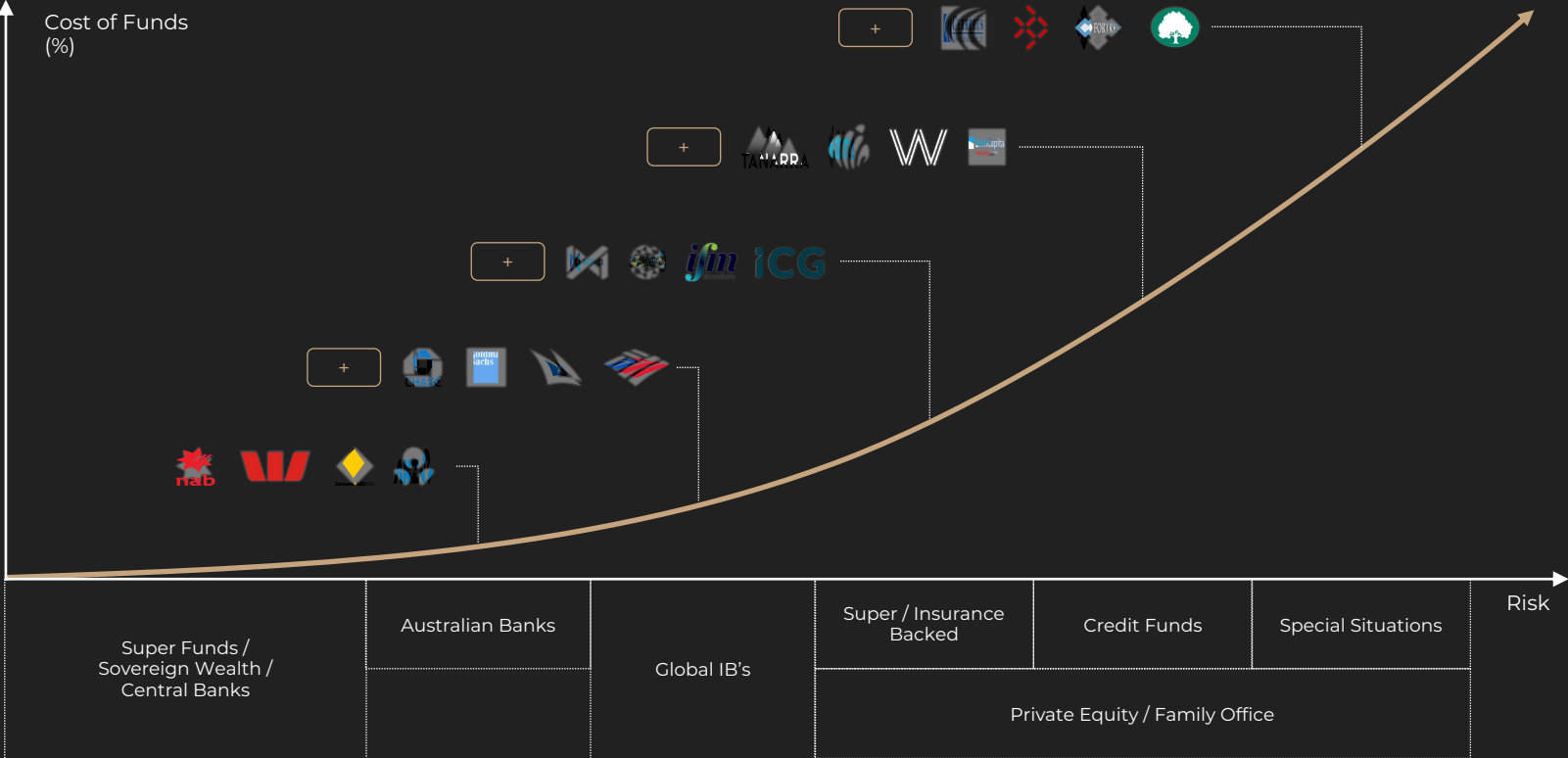


Wesfarmers

Acquisition Financing



# Neu Capital Network | Credit Clusters



# Neu Capital Team | Special Situations ANZ



**Edward Jones**

Director, Co-Head of Deal Execution

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+61 415 473 425

Sydney

Edward Jones is a Director and Co-Head of Deal Execution at Neu Capital.

Mr. Jones founded Neu Capital in 2015, after 5 years in the special situations field for Royal Bank of Scotland's Asia Pacific balance sheet. In this team he was involved in a broad range of transactions across numerous sectors, from financial services and retail in Australia to media in New Zealand and manufacturing in China. His experience spanned structured transactions from \$2m to \$2.4b in size and involved the full range of debt and equity, banking and derivative products.

At Neu Capital, he has led transactions ranging from \$10m to \$250m in size. In particular, Mr. Jones has recently focused on structured finance facilities for non-bank lenders, growth capital and special situations restructures and exits.

Mr. Jones holds Bachelor of Science and a Master of Science from Bath University with majors in both Economics and Finance.



**Cyrus Church**

Director, Co-Head of Deal Execution

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+61 411 647 551

Sydney

Cyrus Church is a Director and Co-Head of Deal Execution at Neu Capital.

Mr. Church founded Neu Capital in 2015 after nearly 8 years at Royal Bank of Scotland, finishing as a Director in their Global Restructuring Group. In this role he was involved in the media, mining and infrastructure sectors, and ultimately led the divestment of RBS' Australian, Singapore and Hong Kong loan portfolios and sale of the Indian retail bank. He was involved in transactions from \$10m to \$4.7b and across both debt and equity. Prior to working at Royal Bank of Scotland he worked at ABN AMRO and ANZ in various roles.

Mr. Church has focused on MBOs, LBOs, restructurings, and large equity placements. Neu Capital is sector-agnostic and this has supported the broad and deep investor-base that Neu Capital is able to draw on to find the most appropriate funding source.

Mr. Church holds a Bachelor of Economics with 1st Class Honours from the University of Sydney.



**Clint Adams**

Director, Property

clint.a@neu.capital  
+61 434 340 600

Melbourne

Clint Adams is a Director of Property at Neu Capital.

Before joining Neu Capital Mr. Adams held various senior sales roles in commercial/corporate banking in some of Australia's largest lending institutions. More recently, Mr. Adams ran the Mezzanine Finance division for a leading Melbourne based property developer, Bensons Property Group (Mezz finance loans \$5-10m) and prior to this headed up the mortgage lending division of a large Wealth Management firm.

Since joining Neu Capital Mr. Adams has successfully executed transactions totalling A\$70m.

Mr. Adams holds a Bachelor of Commerce majoring in Management and a Bachelor of Finance majoring in Corporate Finance from the University of Adelaide.



**Steven Holden**

Director, New Zealand

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+64 22 424 4152

Auckland

Steven Holden is a Director of New Zealand at Neu Capital.

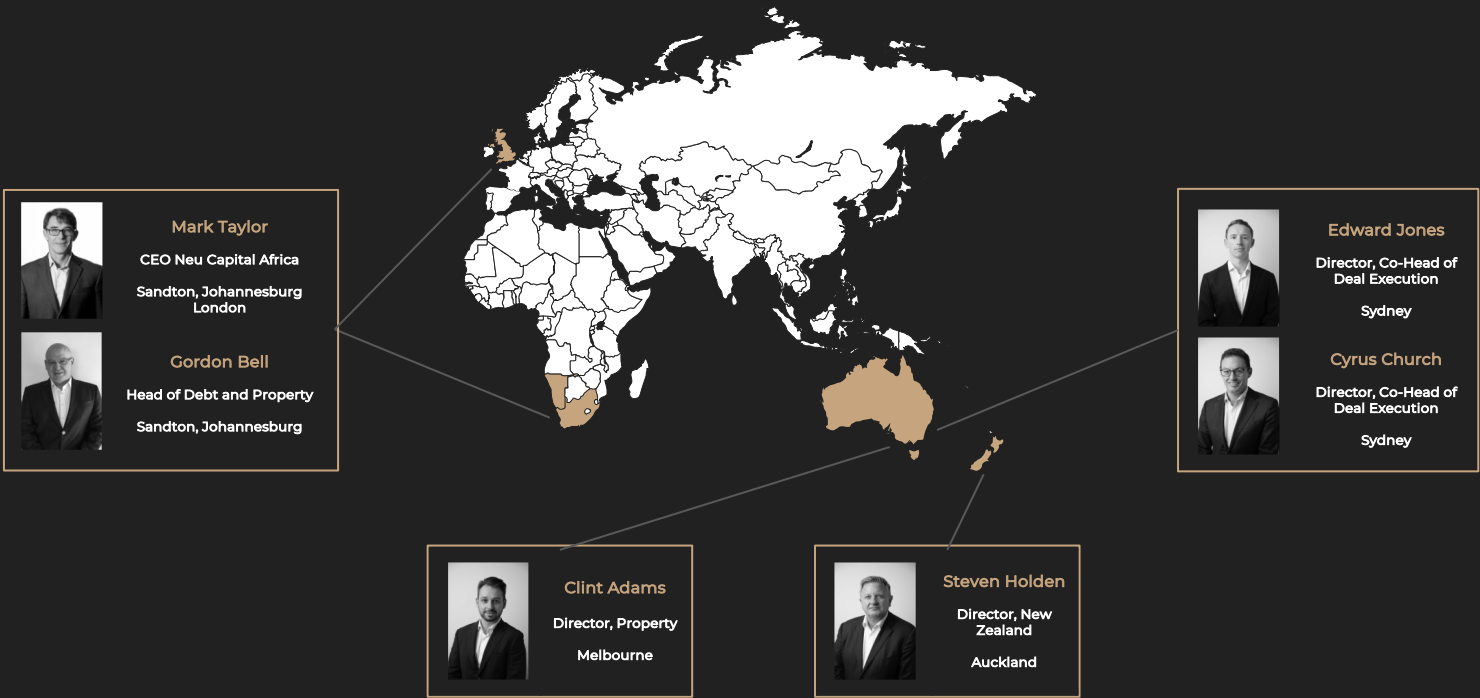
Before Neu Capital, Mr. Holden spent 6 years as the Founder and CEO of Perseus Management Consulting. In this role Mr. Holden provided corporate advisory, corporate finance, structured finance and management consulting services to major corporates in the EU, US and Asia-Pacific across the semiconductor manufacturing, commercial aviation and energy sectors. Mr. Holden has also spent time at Babcock & Brown, Macquarie Group, GE Capital, HP, and Bancorp and has worked in Auckland, Sydney, London, and Singapore.

Since joining Neu Capital he has successfully led transactions ranging from \$10m to \$130m. Mr. Holden has been across the financial services, agriculture and transportation sectors.

Mr. Holden holds a Bachelor of Commerce majoring in Banking, Corporate Finance, Strategy and Accounting from the University of Canterbury and a Master of Applied Finance from Macquarie University.



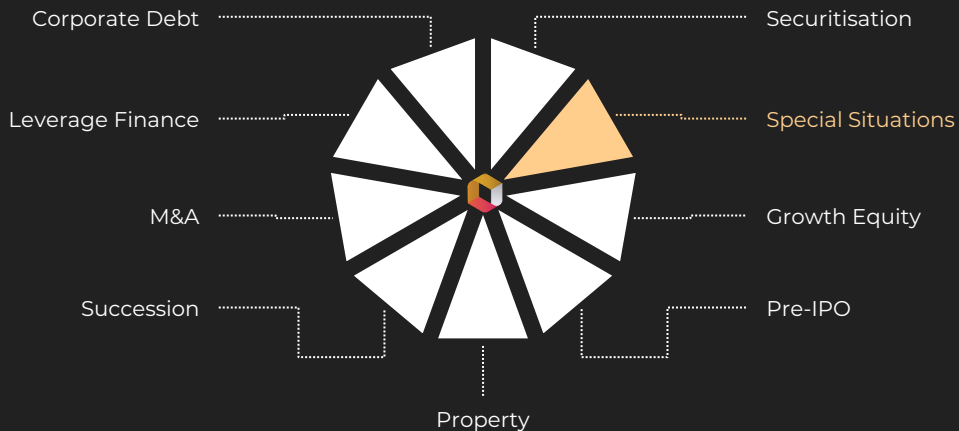
# Neu Capital Presence



# Neu Capital Capabilities

Neu Capital is a mid market corporate finance firm, bringing top tier deal structuring and targeted execution to corporates across Australia and New Zealand.

We specialise in debt and equity deals under \$200m, to companies with revenues under \$500m.



NEUCAPITAL

