Restructuring Insights
May 2020 - initial impacts of COVID-19 on Australian external administrations

External administrations by state & territory

Total appointments May FY20 = **6,998**

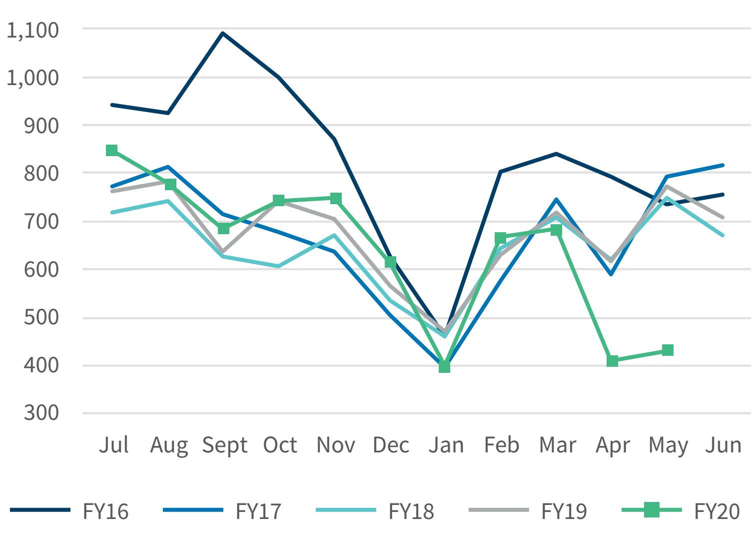
A decrease of **5%** on same period in FY19

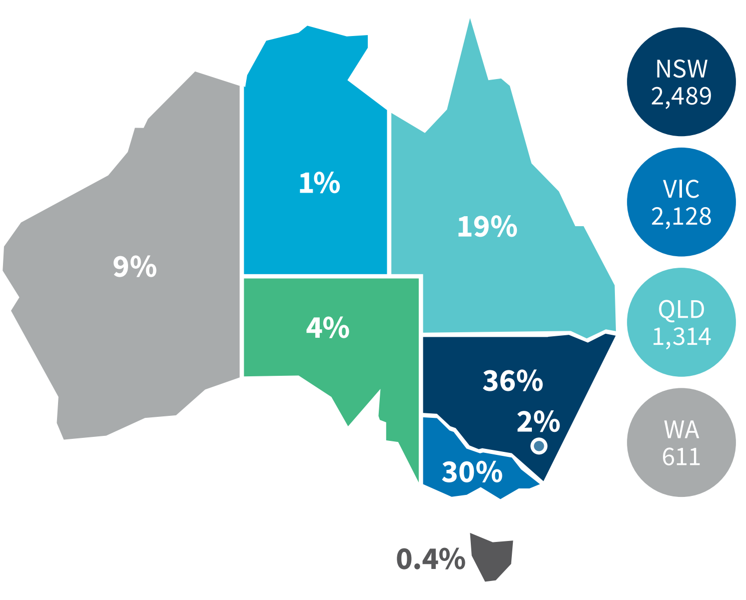
Appointments March = 683 v May = 429 — **37%** REDUCTION

THE IMPACT OF THE GOVERNMENT'S COVID-19 STIMULUS INITIATIVES

The relief to insolvency laws = **an inevitable lag on appointments**

Beyond September, we anticipate a **significant upswing in insolvencies as the restrictions on creditor action are lifted and creditors pursue enforcement.** September provides a deadline by which directors will need to have assessed the viability of their business.





Industries experiencing stress

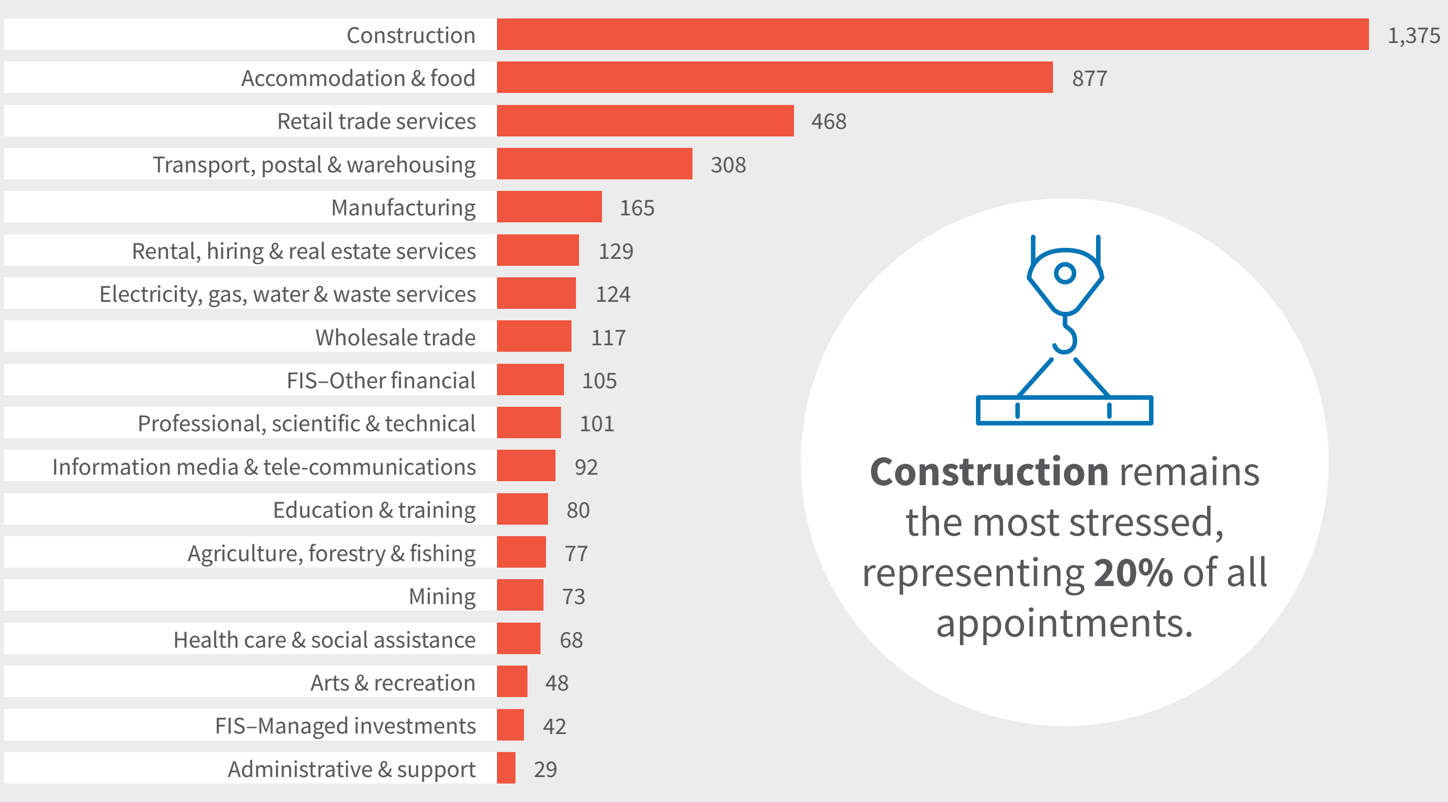
Construction, accommodation & food services and retail continue to be the hardest hit, accounting for 40% of all appointments

20% **Construction**
= Steady with FY19
34% NSW, 35% VIC

13% **Accommodation & food services**
= 10% decrease on FY19
33% NSW, 29% VIC

7% **Retail**
= 15% decrease on FY19
33% NSW, 32% VIC

YTD ADMINISTRATIONS ACROSS AUSTRALIA'S KEY INDUSTRIES



Construction remains the most stressed, representing **20%** of all appointments.

4% Transport, postal & warehousing

2% Manufacturing

2% Rental, hiring & real estate services

2% Electricity, gas, water & waste services

2% Wholesale trade

OUR COVID-19 TRENDS

The Government's support initiatives stimulated a sharp drop-off in external appointments in April, however May saw appointments level out but at substantially lower levels compared to past years. It will be interesting to see if these new low levels continue in to 2021 off the back of the recent Federal and State Government announcements regarding revised and continued support packages for businesses.

57% REDUCTION SINCE MARCH

TRANSPORT, POSTAL & WAREHOUSING

With the significant contraction of Australian and global trade and declined demand for international and domestic air travel, administrations in the transport, postal & warehousing industry more than doubled in April, increasing by 114%. With the huge uptick in online purchasing trends given COVID-19 we feel this industry may be partially protected more than others, but will be facing headwinds at the conclusion of the JobKeeper initiative.

53% REDUCTION SINCE MARCH

ACCOMMODATION & FOOD SERVICES

This sector has been plagued by trade restrictions since the pandemic began. Government initiatives have delayed the inevitable stress peak that will follow when the relief ends. The lack of demand for tourism continues to impact hotels, restaurants/cafes and their associated supply chains. And with a second wave in full swing in Victoria and the threat building in other states, our hospitality and tourism operators are a long way from seeing the light at the end of the tunnel.

39% REDUCTION SINCE MARCH

CONSTRUCTION

The Government has identified this sector as one that can be ramped up to bolster employment and economic activity. Consequently, publicly funded projects will be brought forward and the homebuilder scheme will help support small business. But will this only slow the effects of the downturn that's been plaguing this industry for many years? We think so.

25% REDUCTION SINCE MARCH

RETAIL

A significant proportion of products retailed in Australia are imported. We've already seen supply shortages in computers and software, domestic appliances and electrical and lighting retailing. The decrease in demand due to travel restrictions, consumer uncertainty, supply chain disruptions, and store lockdowns suggests the real negative impact is yet to hit.

External administration by appointment type

50% Creditors wind-up

24% Court wind-up

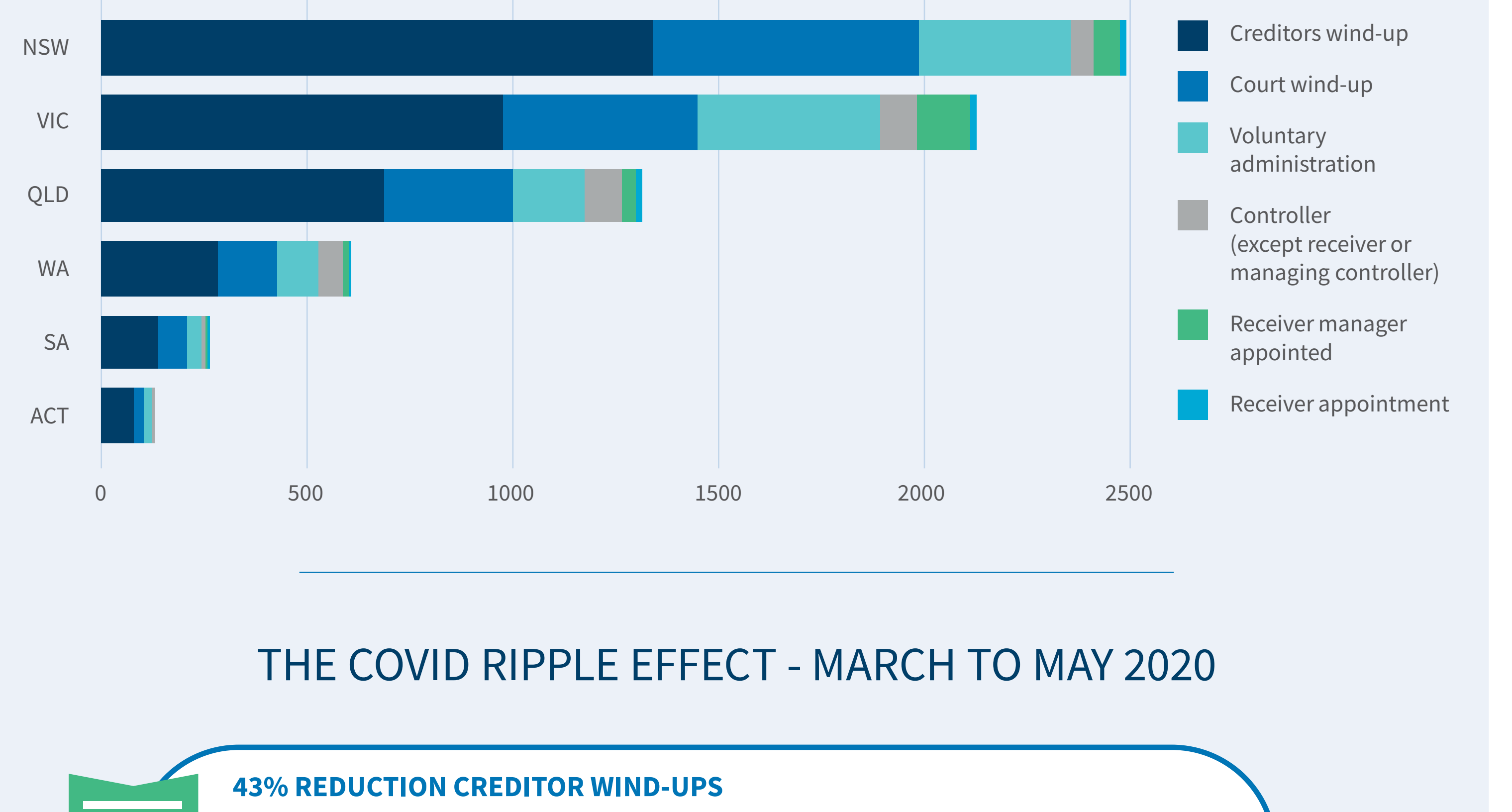
16% Voluntary administration

4% Controller (except receiver or managing controller)

4% Receiver and manager appointed

1% Receiver appointed

COMPARISON OF APPOINTMENTS BY STATE



THE COVID RIPPLE EFFECT - MARCH TO MAY 2020

43% REDUCTION

43% REDUCTION CREDITOR WIND-UPS

The government and banking sector support resulted in a drastic drop in voluntary wind-ups. We believe they will remain low until (and if) temporary protections for insolvent trading claims against directors expire in September 2020.

47% REDUCTION

47% REDUCTION IN COURT WIND-UPS

Due to increased legislative hurdles (enforced early March). We expect a spike of court wind-ups when (again, and if) protections expire after September.

31% REDUCTION

31% DROP IN VOLUNTARY ADMINISTRATIONS

Similar to creditor wind-ups, reductions in appointments are a consequence of Government stimulus, temporary legislative protections and the banking sector moratorium on making loan repayments.

14% INCREASE

14% INCREASE IN SECURED CREDITOR APPOINTMENTS

At this stage of the pandemic we expected to see a larger spike in the number of secured creditor appointments, however the increased support available to businesses has resulted in little movement year on year in the figures. Secured appointments remain a small fraction of overall external administrations and it will be interesting to see how these numbers look when stimulus packages are forecast to cease in early 2021.

Learn more at fticonsulting.com/covid19

Data analysed using 'ASIC Insolvency statistics Series 1' and 'Series 1A' released July 2020 – available at asic.gov.au.
Data compares July to May 2019/2020 with that of 2018/2019.