



Manage. Mitigate. Move Forward.

Coronavirus (COVID-19) business
continuity toolkit

23 March 2020

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1

The current financial landscape

Now labelled as a pandemic, Coronavirus (COVID-19) presents a current and major threat not only to our personal health but to the financial health of businesses all around the globe.

We are starting to see the real negative financial impact the virus is having on a number of industries including education, sport, tourism, retail and hospitality, but it is also having a greater impact on businesses that are reliant on travel, import and or export for their livelihood.

With no current way of knowing how long this crisis will last, it is extremely important that owners act quickly in assessing the likely financial risks that COVID-19 may cause to their business and seek immediate professional assistance where these risks are identified in order to take positive action to both safeguard and future proof.

Vincents can help you face these challenges.

We have prepared a comprehensive COVID-19 business continuity toolkit with a range of actions that should be considered to ready businesses and place them in the best vantage point to withstand the crisis and take advantage of the recovery process that follows.

To help you keep abreast of key developments as they unfold, Vincents have developed a comprehensive COVID-19 Hub where you can find all the latest news, insights, support for businesses, tools and resources:

www.vincents.com.au/covid-19/

If your business is, or is likely to be, negatively impacted by the COVID-19, then please reach out to your Vincents advisor or call our Vincents COVID-19 Hotline on 1300 846 236.

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The ATO's position

The Australian Taxation Office (ATO) understands this is a time of significant uncertainty and that they will need to be flexible in how they offer help to businesses.

Options available from the ATO to assist businesses impacted by COVID-19 include:

- Deferring by up to four months the payment date of amounts due through the business activity statement (including PAYG instalments), income tax assessments, fringe benefits tax assessments and excise;
- Allowing businesses on a quarterly reporting cycle to opt into monthly GST reporting in order to get quicker access to GST refunds they may be entitled to;
- Allowing businesses to vary Pay As You Go (PAYG) instalment amounts to zero for the April 2020 quarter. Businesses that vary their PAYG instalment to zero can also claim a refund for any instalments made for the September 2019 and December 2019 quarters;
- Remitting any interest and penalties, incurred on or after 23 January 2020, that have been applied to tax liabilities; and
- Working with affected businesses to help them pay their existing and ongoing tax liabilities by allowing them to enter into low interest payment plans.

The ATO stresses that employers will still need to meet their ongoing super guarantee obligations to employees.

They also reveal that, unlike the bushfire relief measures (which applied automatically to particular geographic areas), assistance measures for those impacted by COVID-19 will not be automatically implemented.

Need more help?

There are some significant opportunities for businesses in these announcements. If you would like to know more about how you can take advantage of the stimulus available, reach out and lean on our business advisory specialists. Whether your SME is a start-up, a growing or established family or a privately owned business, our tax advisory team can help you stay a step ahead of these difficult times with relevant and proactive advice. We are well placed to work closely with you to understand the needs of your business, analyse the elements of the government's stimulus packages as they apply, identify grants you may be eligible for, assist you in any submission processes and provide tailored and practical advice – ultimately adding value to your bottom line.

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Keeping your business financially healthy

With 'business' being a core part of the stimulus, it is clear that our government is putting faith in business owners to retain their workforce and invest in necessities. So what exactly can you do to help ensure your business remains on track in this uncertain time?

McKinsey & Company have summarised seven sets of immediate actions that companies can draw on as a response to COVID-19 which we have listed below:

1 Initial damage assessment

- Follow the most conservative guidelines available from leading global and local health authorities (eg, CDC, WHO)
- Communicate with employees frequently and with the right specificity; support any affected employees per health guidance
- Benchmark your efforts (eg, some companies have started to curb nonessential travel)

2 Contact your insurer

- Overall lead should be at the CEO or CEO-1 level; team should be cross-functional and dedicated
- Create 5 workstreams: a) employees; b) financial stress-testing and contingency plan; c) supply chain; d) marketing and sales; e) other relevant constituencies
- Define specific, rolling 48-hour and 1-week goals for each workstream based on planning scenario
- Ensure a simple but well managed operating cadence and discipline that's output and decision focused. Low tolerance for "meetings for the sake of meetings"
- Present minimum viable products: a) rolling 6-week calendar of milestones; b) 1-page plans for each workstream; c) dashboard of progress and triggers; d) threat map

3 Financial stress-testing and contingency plan

- Define scenarios that are tailored to the company. Identify planning scenario
- Identify variables that will affect revenue and cost. For each scenario, define input numbers for each variable through analytics and expert input
- Model cash flow, P&L, and balance sheet in each scenario; identify input-variable triggers that could drive significant liquidity events (including breach of covenants)
- Identify trigger-based moves to stabilize organization in each scenario (A/P, A/R optimization; cost reduction; portfolio optimization through divestments, M&A)

4 Supply chain

- Define extent and timing of exposure to areas that are experiencing community transmission (tier-1, -2, -3 suppliers; inventory levels)

- Immediate stabilization (ration critical parts, optimize alternatives, prebook rail/air-freight capacity, use after-sales stock as bridge, increase priority in supplier production, support supplier restart)

- Medium/longer-term stabilization (updated demand planning and network optimization—solve for cash, accelerate qualification for alternative suppliers, drive resilience in supply chain)

5 Marketing and sales

- Immediate stabilization (inventory planning, near-term pricing changes, discounts)

- Medium/longer-term stabilization (investment and microtargeting for priority segments with long-term growth)

6 Practice plan with top team through in-depth tabletop exercise

- Define activation protocol for different phases of response (eg, contingency planning only, full-scale response, other)

- Key considerations: clarity on decision owner (ideally a single leader), roles for each top-team member, "elephant in room" that may slow response, actions and investment needed to carry out plan

7 Demonstrate purpose

- Support epidemic efforts where possible

Source: COVID-19: Implications for business, McKinsey & Company, 2020.



4

Financial stress-testing and contingency plan

Navigating through a period of unknown economic conditions can be difficult, however it is always better to have a plan than none at all. Planning out various scenarios, such as a 10% decrease in sales projections, will enable you to 'stress-test' your business and highlight areas of risk so you can take precautions to mitigate these unforeseen events.

There are common drivers and key influences of cash flow and profit for every business and these are a good starting point to identify the variables most likely to impact your business. They are price and volume (selling and marketing), cost of goods sold and overhead expenses (operational), accounts receivable (customers), accounts payable (suppliers) and inventory (turnover). Businesses should look at:

- Debtors and collection of debtors
- Inventory management – can a reduction be made in this investment, considering impacts on the supply chain
- Management of staff and operating expenses
- Contact with suppliers to negotiate longer payments terms
- Detailed and regular monitoring of projected cash flow

Depending on your business complexity, available resources and accounting software, we are able to utilise various tools for accurate forecasting. Modelling your scenario analysis will offer key insights that improve your strategic planning and empower better decision making. While no one wants to think about worst-case scenarios, preparation is always a good strategy to lean on.

Need more help?

Keen to get on the front foot by taking the time to consider what you can do in your business to make it more resilient now and into the future? Our business advisory specialists have been helping SMEs, corporates, organisations and individual clients gain insight and take control of their business and financial interests since 1989 and are well placed to work with you during these difficult times. With a commitment to helping you maintain profitability and operational simplicity, our experts will help you understand your business and financial interests as they may be affected by COVID-19 and will work alongside you to help you make the right decisions for the future.



5

Off the chain?

In a global economy, virtually every organisation is connected to or dependent upon others. Australia may not currently be suffering the most directly from COVID-19, but may be impacted if a vendor at a critical point in your supply chain is. To mitigate the risks of supply chain disruption, there are some key concerns that organisations should be preparing for. Understanding your dependence on entities outside your organisation is critical.

Are your critical third parties (e.g. suppliers, vendors and service providers) prepared?

To protect your operations and ensure continuity of services or products to your customers, it is important that you:

- Map your dependencies to understand where disruptions might impact your value chains.
- Review the preparedness of your critical third parties (suppliers, vendors, service providers, etc.).
- Identify single points of failure in your ecosystem.

When assessing the impact of a disruption to your ecosystem, it is important to recognise the amount of time before the actual impact occurs.

During both the supply shortage and recovery period, Australian companies will be competing against global competitors for the supply. Impact of this issue needs to be assessed for Australian retailers, with lower bargaining power to secure their share of supply in comparison to the retailers working in bigger markets.

Supply chain leads need to quickly assess their exposure to suppliers in China and develop strategies to source the products from alternate suppliers, if available. Also, working with the commercial leads, promotion and sales plans should be revisited based on the projection of supply from original and alternative sources.

What industries/sectors are expected to be impacted?

- China is Australia's biggest exports 30% of goods sold overseas, with disruptions in export to China, Iron Ore price per tonne has dropped by more than 11% from average AUD136/t in March 2020.
- Brent crude has fallen nearly 37 per cent so far this year. On January 8, 2020, the crude oil, which had touched \$71.75 per barrel, dropped to \$45.19 per barrel on March 6, 2020.
- Airlines taken precautionary measures by cancelling or/and suspending some of their flights, impacting both their own business and tourism. Airlines have cancelled more than 200,000 flights, mostly within China as the government steps up measures to curb the spread of the virus.
- The education system is also being impacted. Students who have travelled to mainland China would be considered on a case-by-case basis and those who were successful would be subjected to a 14-day self-imposed quarantine on arrival in Australia

These are just a few examples of what has happened since the outbreak. Companies need to assess the risk of exposure to the potential disruptions over the short, medium and long term, and prepare for mitigating the disruption risks to their supply and/or demand. This is not just limited to the organisations with direct suppliers in China, the risk is also present for companies with extended supply chains in China or shipment routes through Chinese ports.

How do we as organisations safeguard our supply chain against forthcoming interruptions?

The most similar event to the COVID-19 outbreak is the SARS Pandemic in 2003 and earthquake and tsunami in Fukushima, Japan in 2011 about the supply chain weakness. Supply chains have come a long way since then and lessons learned from those two events should inform but not dictate business decisions today. Those organisations with robust contingency plans for closures and supply chain disruptions will have a head start for co-ordinating their next steps for business continuity.

The concept of supply chain resilience is not new but as supply chain optimisation has become a norm, in achieving greater resilience through integral adaptability, improved monitoring and proactive reporting has taken on increased significance. With supply chains being exposed to potential business interruptions and disruptions in their supply chain sourcing, there is a clear and present need for companies to re-evaluate their resiliency and business continuity capabilities.

Need more help?

The nature and type of activity to minimise risk with regards to supply chain impacts from COVID-19 should both ensure (protect) and enhance (create) your value. At Vincents we offer our clients a pragmatic yet comprehensive approach to internal audit and risk services – one that will ensure you can extract the maximum value from our relationship. Our methodology is not just about performing compliance reviews but also about supporting our clients in creating a strong culture of ethics, good governance, and reliable reporting. Our view is to help clients ensure their value is protected and to achieve real enhancement of their value through improving business performance and having a strategic impact by improving the future value. This approach provides potential areas of focus for internal audit and risk services identifying areas for ensuring and enhancing value.

6

Readying your workforce

As an employer you have a duty of care to provide and maintain a safe workplace during this uncertain time. Consistent communication with your staff is important - keep them informed of their obligations to prevent the spread of COVID-19 and let them know of your internal support mechanisms should their work situation change during this time. Have in place easy to follow guidelines that staff can see and access.

Actions:

- Hang posters around the business for all staff to see on measures to prevent the spread of the disease
- Let all staff know of how they are expected to inform the business if they think or know they have the disease. Who is the person they need to get that information to and how?
- Ensure there is no shame around staff self-identifying as having the virus - this is an important piece to get across to your teams as if staff have concerns around letting the business know of their diagnosis then the virus has more of a chance to spread.

It may be that as an organisation you will need to consider alternative working arrangements for your team, considering flexibility in the form of hours, location and pattern of work across teams could reduce the effects of an emergency and maintain productivity. Consider facilitating your teams to work from home in order for them to be able to perform their usual duties. Using this time of reduced productivity can be an opportunity to upskill employees using online training tools that could make them of greater value when things return to a normal routine.

Actions:

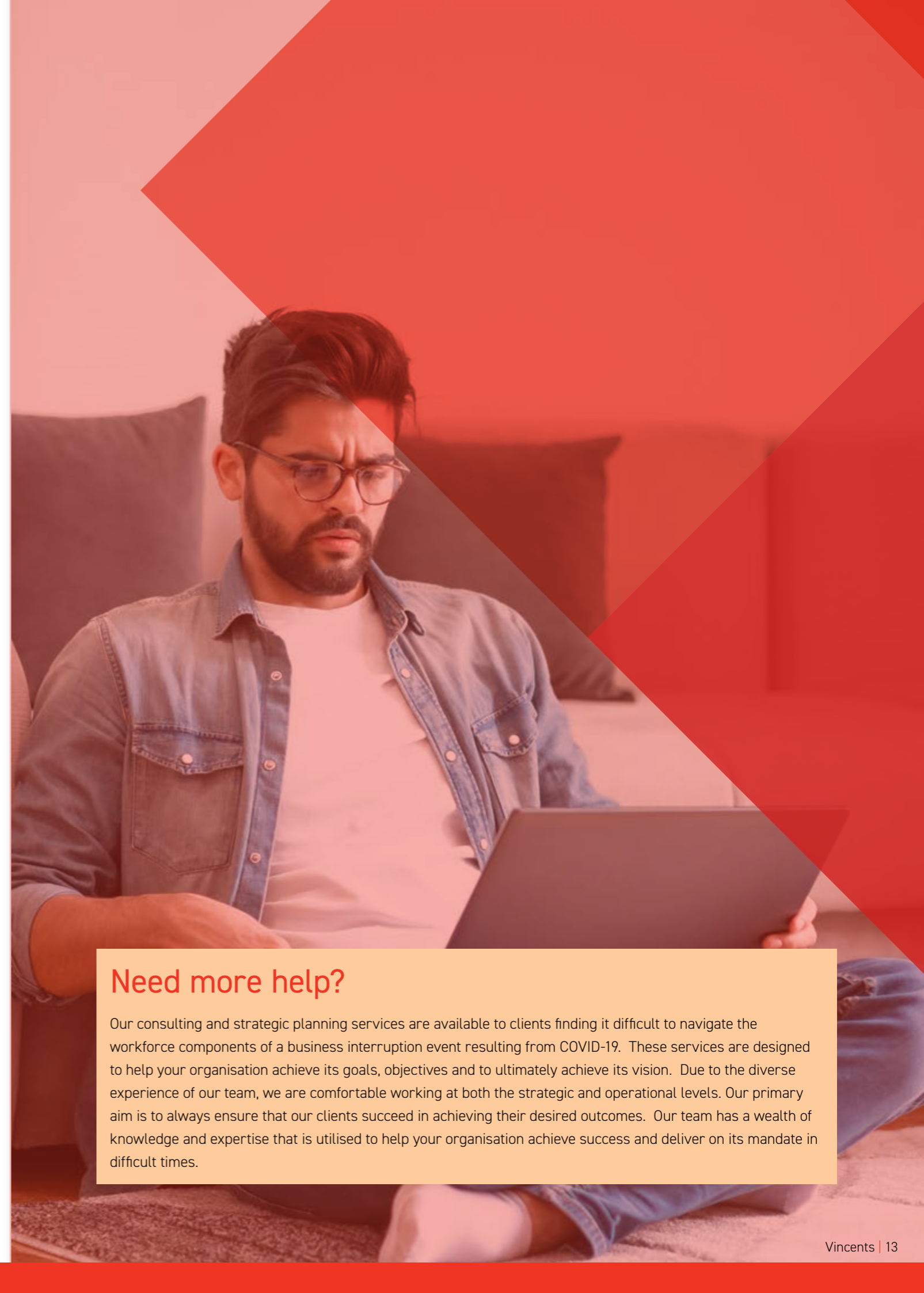
- Create a policy for staff who have laptops to take them home with them each day should situations to the workplace change overnight.
- Should it be necessary for staff to work from home during this time make sure they have a good understanding of what is expected of them and they continue to be supported and managed.

It's important to understand as an employer what your financial obligations are to your staff regarding time off. Employees who have been diagnosed with COVID-19 and have a doctor's certificate are able to access their sick leave. In circumstances where employees have been quarantined due to the COVID-19 disease, they may request to access their personal/carer's leave over this period to mitigate any loss of income. The employee should provide notice and may be required to provide evidence of the reason for the leave upon the request of the employer. It may be necessary for employees to access their annual leave during this time and this type of leave can only be taken by mutual agreement so employers will need to make sure agreement with the employee is reached before proceeding with processing of annual leave.

Action:

- Communicate with all staff prior to a crisis what is expected of them and their leave requirements for all scenarios they may encounter.

The most important thing to remember during this time is to communicate your plan to your staff. Should an emergency scenario affect your business then best practice should be to let your staff know exactly what to do to maintain productivity ahead of time.



Need more help?

Our consulting and strategic planning services are available to clients finding it difficult to navigate the workforce components of a business interruption event resulting from COVID-19. These services are designed to help your organisation achieve its goals, objectives and to ultimately achieve its vision. Due to the diverse experience of our team, we are comfortable working at both the strategic and operational levels. Our primary aim is to always ensure that our clients succeed in achieving their desired outcomes. Our team has a wealth of knowledge and expertise that is utilised to help your organisation achieve success and deliver on its mandate in difficult times.

7

Digital demons

In addition to the possibility your workforce may need to work remotely, for many businesses their customers are also likely to start to stay home (whether by government/ business mandate or personal preference) and as a result will begin to consume more online. To remain viable, many small businesses will need to begin selling online or increase how much they sell online.

To stay ahead of the COVID-19 developments, it is important to consider how your business can potentially sell products or services online as opposed to a "shop front" (or scale this up for ones already doing so).

Get proactive and conduct some comparative research into digital platforms that may be able to help you achieve a shift from face-to-face business.

It is important to note that with the expected rise in digital business transactions will come a rise in cyber security concerns.

As expected, criminals are using the current COVID-19 pandemic to dupe people into clicking on malicious links. Be alert but not alarmed!

The basic tips for protection are the same as for when hackers used celebrity sex-tape scandals for the same purpose:

1. Be on the lookout for phishing emails which may appear to come from a trusted source. Remember, you can look at the sender's details – specifically the part of the email address after the '@' symbol – in the 'From' line to see if it looks legitimate.
2. Be wary of emails offering unexpected or unprompted information, or from unfamiliar sources that contain links or attachments. Do not click on these links, as they could be embedded with malware.
3. Social media companies like Facebook are cracking down on ads spreading COVID-19 conspiracies and fake cures, but some ads may make it past their review process. Remember, it's best to seek information on the disease from official health sources.

Need more help?

Our cyber security team at Vincents partners closely with clients to assist them in creating strategies and frameworks to single out, mitigate and future proof against cyber risks. We take a holistic and hands-on approach to our engagements, taking into account regulatory difficulties, industry intricacies, operating model specifics and technical challenges. With a diverse range of backgrounds including IT, operations, data privacy and forensic technology, our cyber security team is well placed to assist you in navigating the digital landscape as part of changes your business may make to cope with COVID-19.

8

Business interruption claims

Another important consideration for businesses looking to get in front of the impacts of COVID-19 is whether these disturbances to business (such as event cancellations, forced closures of premises, and impacts on suppliers' premises located overseas) are covered by business insurance policies.

The usual avenue for making a claim following a business interruption event is via an Insurance Policy. A Business Interruption claim can only occur if it results from a claim for material (i.e. physical) damage. Physical damage may include closure or evacuation of a premises upon infectious or contagious disease manifested by any person whilst at the business premises. Where there is no material / physical damage and loss, a business interruption claim is not available.

Each insurance policy details the definitions of specific coverage inclusions and exclusions, applicable to the insured business. It is important to review individual policy details.

A common exclusion in business interruption policies is 'any disease notifiable under the Quarantine Act'. COVID-19 has been listed under the Quarantine Act since the end of January 2020.

It is vital to understand the Policy. In the event a claim can be made, the insured business needs to ensure they:

- Document their loss and keep supporting records; and
- Take steps to mitigate the loss, including using due diligence and doing all things reasonably practicable to minimise any interruption of or interference with the business, to avoid or diminish the loss.

Coverage limits are detailed in the Policy schedule. These coverage amounts should be regularly reviewed, to ensure the business is adequately covered. Where a business is underinsured, the Insurer may reduce the amount they pay in the event of a claim. In the event a business owner makes a conscious decision to underinsure to save on insurance costs, it is important to understand the consequences and impacts on a claim.

Need more help?

If you are experiencing or believe you will experience unforeseen damage and disruption to your business via the threat of COVID-19, investigating whether a business interruption claim can be made to get business operations back up and running as soon as possible is important. Engaging an experienced expert to give initial advice, quantify and prepare claims in accordance with your policy cover can ensure that your full entitlements under the policy form part of the claim, while the businesses themselves are focused on getting operations back on track. Working within the largest forensic insurance accounting team in Australia, our well-established team of experts are perfectly placed to be able to provide timely and authoritative quantification and reporting services for you and/or your business.

9

Finance to the rescue

Cash flow is the lifeblood of any business and it is critical in times of uncertainty. Undertaking a review of your required cash flow position as part of your Business Continuity Plan will ensure you are well placed to steady the ship or perhaps even take advantage of opportunities.

In the event that you are unable to return to your premises for a period of time or don't have access to your contents, equipment, stock or suppliers, without a strong plan in place it becomes significantly difficult to continue to manage the following:

- Staff wages and entitlements
- Lending obligations
- Creditor demands
- Rent requirements
- Personal expenses

There are many ways to cover cash flow via funding solutions from Short Term Loans, Business Overdrafts, Asset Trade/ Invoice Finance and Business Lines of Credit - whether you have collateral or not.

Planning ahead and understanding what is available to you from a funding perspective can certainly assist in managing these obligations and what can be a stressful time.

Each of the facilities can ensure a strong buffer. Nothing beats preparation though - so protecting your cash flow position shouldn't wait until it happens to you.

Need more help?

Our Lending Solutions team has over 30 years' experience in various aspects of finance and will work with you to achieve the best possible outcomes for you and/or your business. We specialise in commercial and business lending, construction loans, equipment finance, home & investment loans and SMSF lending. Our experts will process your application in an efficient, hassle free and cost effective manner and work alongside financial advisors and tax advisors under our one Vincents roof to ensure we get you a solution in line with your overall goals.

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Still can't turn things around?

During these difficult times, it is important that you are asking the following questions of your business on a weekly basis.

- Is your business able to pay its creditors when they are due and payable?
- Are you able to meet all your current tax obligations?
- Are you able to pay your employees and meet all employment obligations including superannuation?
- Are you able to make all of your loan repayments as and when they are due?
- Have you got access to sufficient cash reserves or cash assets to cover your debts in the short term?

Over time you may find that increasingly the answer to these questions is becoming NO. Whilst you have taken all the necessary steps to keep your business afloat and have made solid attempts to meet all of your financial obligations, there comes a point where tough decisions have to be made.

If you feel like this is the situation that you are in now or likely to be in shortly, then it is best you seek immediate professional advice as your business may be insolvent or it is close to becoming insolvent.

Directors of Australian companies have clear obligations to ensure that a company does not incur debts while insolvent. If they are found in breach of this duty, directors can be personally liable to pay back debts which the company incurs during this period. It is important during this crisis that you seek advice from the right people.

Need more help?

At Vincents we understand that this is a tough time and difficult process to go through and we are committed to working closely with our clients to deliver the best outcome for all involved. Our dedicated Insolvency & Reconstruction experts specialise in all stages of turnaround or recovery as well as all aspects of personal and corporate insolvency processes. We are willing to have an initial complimentary discussion in relation to the challenges and various solutions that may be available to you and/or your business.

In conclusion

While we understand that the current COVID-19 situation that we find ourselves in is far from being a regular event, it does indicate that how prepared we are can be the difference between a business that survives a crisis or one that doesn't. We want all of Vincents clients to be as fully prepared as possible and to know that we have your back if you need us.

If you are at all concerned about any of the points raised in this document please do not hesitate in contacting us directly for a friendly chat.

What are Vincents doing to maintain business as usual?

We at Vincents are following all the guidelines that have been issued by the Department of Health to minimise the risk to all of our staff, suppliers and clients across Australia.

Please be assured that the welfare of your business is as important to us as it is to you and we have implemented a full business continuity plan to make sure that our staff have the ability to continue to service their clients during this time.

If your business is, or is likely to be, negatively impacted by the COVID-19, then please reach out to your Vincents advisor or call our Vincents COVID-19 Hotline on 1300 846 236.

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Gain insight. **Take control.**

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