

Time to breath...Time to plan

By now we should all have a view of how long we can hold our breath before we suffocate.

This may be an unfortunate analogy when we consider the debilitating effects of COVID-19 on our bodies, but the analogy matches the economic outcome flowing from the sensible decisions that have been taken to protect community health.

Business is suffocating under the weight of the social distancing restrictions and the big question is how long as an industry we can hold our breath.

By now management teams and directors should be focused on how they bring their venues back into operation and what the venue will look like in an era of new social values and new hygiene expectations. There are significant challenges ahead. All the planning that has been undertaken pre COVID-19 is probably now largely irrelevant.

We must take the time to reset the operating structure of the club. We must identify our financial capacity into the future and think about the amount our clubs can contribute and support the community. All the financial and economic commentary suggests that we are in for a difficult 2 to 3 years, possibly longer.

Conservatism will come into play to ensure that risk can be mitigated.

Our customers have been affected by the COVID-19 experience themselves, whether they have been directly affected by the disease or not, the impacts on Australians will change how they live their lives, how they socialise, how they spend their money, and how they entertain themselves. Some of the forced changes will impact their behaviours after this crisis has passed. Notably there has been a massive increase in online gaming in the first month following the implementation of social distancing and the closure of venues. The long-term impact on people's propensity to spend can only be estimated.

So, it is now time to significantly reset strategic plans, revise business plans. We need to reconsider what appropriate key performance targets may look like, and to develop business plans with associated financial modelling and forecasts, which are focused on achieving financial viability.

The effect of the closures and holding venues closed for an extended period will be to denude clubs of their financial reserves and their liquidity. This will mean that equity contributions that may have been available for investment in diversified opportunities have probably been largely eliminated except for a select few clubs. The capacity to sustain trading losses will also have been substantially reduced.

Given that our financial reserves will have largely been burnt by holding venues closed, a significant period of risk arises during the initial months after opening if clubs are not able to return to at least cash flow neutral trading.

Financial modelling and scenario analysis are vital business tools that need to be developed and implemented so that stress tested scenarios can be considered, and risk levels evaluated based on costed rosters and varying levels of revenue. Reconsidering access to premises and floor space in the context of social distancing and efficiency will take serious thought and planning. There will be a cost in doing this.

On the most optimistic estimates we are 4 to 8 weeks away from some form of reopening. We hopefully will be given advance notice of an opening date and therefore planning needs to start now. Planning does not need to be done face-to-face; we have the technology to facilitate planning sessions via electronic means.

In addition to the challenges of reopening, we will also face the challenge of preparing our financial reports, in circumstances where there has more than likely been a breach of financial covenants, a significant debt burden and poor liquidity, and potentially an impairment of assets.

There is much to think about, there is a lot of work to be done. Careful planning and having good information will be critical factors in clawing our way out of this crisis.

If the issues described above relate to your club, contact Greg Russell or Harry Harris on (02) 9957 6700 for an obligation free discussion about your circumstances.

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