

The End is Nigh! Nah, just kidding.



This morning I queued at Woollies in Noosa at 6:30am to be somewhere near the front of the line for the 7am pensioners and seniors hour of power. I carried with me a doctor's letter confirming I was buying essentials for my mother-in-law and supporting pensioner concession and seniors' cards plus a photo of said pensioner holding the cards. I was tenth in the queue and by the time I had acquired my allocated one 6 pack of toilet paper and done one lap of the shop the entire toilet paper shelf was empty.

Empty!

The psychology of linking a flu like virus with a need to stockpile toilet paper escapes me but once the mob is on the move there seems to be no stopping them. Rhyme and reason are out the window and a new global economic crisis looms. This will surely be followed by a cure (at some point) and then the mother of all economic recoveries. In the interim we will do what societies do these days which is to overreact and panic. Think of the GFC with a temperature and a cough.

If you are reading this, you are almost certainly in the accommodation business. If you run a permanent management rights or a motel in a large regional centre my guess is you are going to be ok. If you have a leisure or corporate short stay management rights, hotel or motel it's likely to get tough, if it hasn't already. This will be particularly the case in markets that rely on international tourism, conferences or domestic tourism outside established drive markets. I expect even the traditional strong performing drive markets (think Noosa and Byron) will suffer.

If you are carrying debt (aren't we all) there is some good news in the midst of this debacle. The banks have made it absolutely clear to us that they will go out of their way to support their clients. Many have already implemented strategies to give businesses scope to reduce and defer loan repayments, capitalise interest and negotiate mutually agreeable outcomes. We are assisting clients in need and have retained all our staff to ensure we can focus on client support. If you have finance approved and are unconditional on a new purchase, we firmly believe the banks will honour that commitment and provide whatever assistance is required post settlement.

If you are negotiating a purchase of a leisure based accommodation business we think it would be prudent to ensure your contract allows for the possibility of settlement once the crisis has passed. No doubt deals will still get done but the uncertainty out there right now is palpable, and we think that contract conditions that allow sales to proceed while taking into account the current trading environment are a worthwhile discussion to have.

If you are a vendor looking down the barrel of a Covid-19 impacted net profit do not despair. I think it's reasonable to suggest that valuers will treat the current situation for what it is. A once in a generation event that should be netted out of P and Ls for sale purposes. Indeed, valuers I talk to suggest that they are inclined to focus on maintainable net profit, not a one year report that may reflect the sort of aberrations we are currently witnessing. If ever there was an argument for moving to 3-year financials for management rights sales I think we are seeing it play out right now. Perhaps we could adopt the COVID-19 MLR accounting standard as the new industry expression for sales predicated on 3-year financials. Just a thought.

Anyway, back to current operators and a few suggestions. Firstly, don't even think about refinancing and beware anyone who suggests this is a way to get your cash flow problems solved. Stick with your current bank, they are all seeing the crisis pretty much the same and they are all working on strategies to support their clients. It's a moving target for sure but moving in the right direction. The banks all have financial distress help lines and as a minimum you can expect most lenders to offer a 3 month repayment holiday once you apply. We will help anyone who asks but ultimately you may end up on the help line queue. Be patient and please know that the person you end up talking to has been dealing with distressed borrowers all day. Please play nice, we are all in this together.

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Talk to your accountant about the various government schemes available to help you get through. Everything from subsidies to help pay staff to interest free loans are on the table and your accountant is the best source of this specialist information. The level of government stimulus funding now available, combined with the current RBA cash rate presents an unprecedented response in support of the economy.

Don't stop trying! Look at the markets you can attract and keep promoting your business. It's easy to take a defeatist attitude when all the news is bad, but some demand will remain, particularly in drive markets. We are told by some clients in regional tourism locations that they have not lost a single booking. They put it down to people looking for somewhere to get away from the doom and gloom newsfeeds and chill out. Either that or wait for the zombie apocalypse I guess.

When this is all over and we are back to some sort of normal I would encourage all operators to reflect on working capital and contingency provisioning. I have been surprised and a bit shocked to learn how many people live week to week and how many businesses have almost no emergency cash reserve buffer. It's an area of business planning we focus on with clients, but I suspect seldom followed post settlement.

I know it's hard to imagine in these dark days, but we will recover and prosper in our industry. In the interim I expect banks to play a fair hand, the government to move heaven and earth to avoid a recession and permanent management rights values to rise. Yep, it's the GFC all over again.

I'll leave you with Winston.....the darkest hour is just before the dawn, or, if you prefer..... if you're going through hell, keep going!

Stop Press: Even as I write this article bank announcements keep appearing. The game is moving so fast I am not going to outline the current state of play in any detail. By tomorrow the info may well be obsolete. Suffice to say that following the ABA announcement we are now in no doubt that the Reserve Bank, the retail banks and the government are in lock step. One thing to note though. The announcements of loan repayment holidays for up to 6 months won't be automatically applied to your loan. You will need to ask and I expect the banks will want some justification for your request. I don't expect this to be onerous as the impact will most likely be self evident. If you are contacted by your bank and offered a repayment holiday take it. Even if you think you can get through now is the time to stay as liquid as possible. If you are in a partnership give some thought to reducing monthly distributions and building a liquidity war chest. We expect the banks to capitalise interest to your loan balance and restart repayments once the economy recovers. I think the most likely approach will be to extend the loan term so your repayments, once we are back in our feet, stay pretty much as they were pre crisis. Thank god the banking royal witch hunt, whoops, commission, didn't materially weaken our banks or impact confidence in the system. We are fortunate indeed to have a stable and well capitalised banking system that I suspect is now the envy of the world.

BTW....I don't care if you are a client of ours or not.....if you need some help or just a shoulder to cry on give us a ring. We've got plenty of tissues! No toilet paper, but lots of tissues.

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