

Considerations when appointing an External Advisor

BANKERS' BOOT CAMP

2020



Speaker



Said Jahani
National Managing Partner
– Financial Advisory
Grant Thornton Australia

Housekeeping

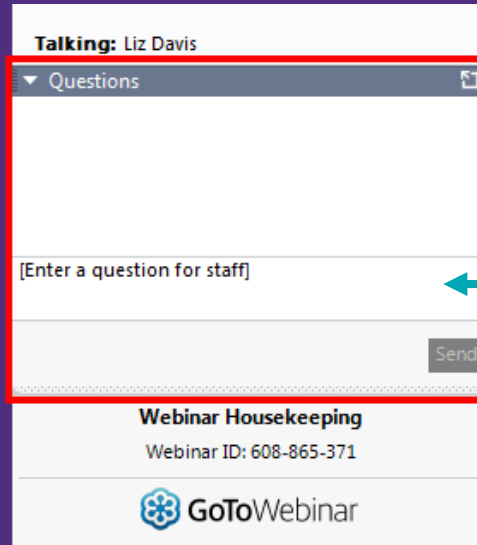


This is an interactive session so we encourage your participation



This session is being recorded and will be shared with all registrants and on our GTAL website and socials.

How to ask questions?



Submit your questions via the Questions panel

Agenda

1. When and why use an external review (pre-lend/IA)?
2. Scoping and what do you want to achieve
3. Managing your risk
4. Key takeaways



External reviews - Overview

Objectives

- Assessing risks in providing new, extended or restructured debt
- Understand profits, cashflow and asset base
- Structure appropriate finance
- Focus on future cash flows

Benefits

1. Assessment of management
2. Financial platform that meets cash requirements of the business
3. Maximise lending opportunities where requirements outside normal asset values or covenants

Challenges

1. Leverage process to win new business
2. Ensure process is positive experience for borrowers
3. Adequately address bank's key issues



Scope of works

Key areas that should be considered:

1. Client's strategy and operations
2. Financial analysis – historical and forecast
3. Assessment of management and board
4. Estimated Security Position
5. Other Key Issues
6. Options and recommendations

External reviews – Key elements

Client's strategy and operations	Financial Analysis	Management and EOS	Other key issues
<ul style="list-style-type: none">• Client's market position• Strategic direction• Sustainable competitive advantage• Industry review – what external factors are at play• Supply chain: suppliers through to customers• Systems• Personnel and culture• Head office function	<ul style="list-style-type: none">• Historical trading history - understanding key business drivers• Integrity of the financial statements• Corrective action undertaken• Methodology in preparation of forecasts and past track record• Reasonableness of key assumptions in the model – application of sensitivities• FME (normalised) - sustainable level of debt• Relevance of existing covenants	<ul style="list-style-type: none">• Competence and resourced• Trust• Skills to turnaround the business• Succession plan• Fixed v floating charge assets• Level of priority creditors• Valuation – assumed value• Going concern businesses and desktop analysis as a cross check	<ul style="list-style-type: none">• Customer contracts• Supply agreement• Litigation• Statutory Obligations• FX or derivate exposure• WHS• Insurance

Factors impacting scope for funding acquisitions

Seeking reliance on DD reports...being done for a different purpose

Share purchase

- Tax considerations
- Unrecorded liabilities
- Surplus assets
- Recoverability of assets
- Warranties

Business and assets

- Separately identifiable
- Change of control provisions
- Valuation
- Going concern and working capital

Financing alternatives will also impact the scope

Secured Lending



Fixed Charge

Scope focuses on historical information and financial position

May involve valuation of assets for fixed security

Includes a review of realisable value covenants

Focuses on the quality of assets pledged

Cash Flow Lend



Debt Serviceability

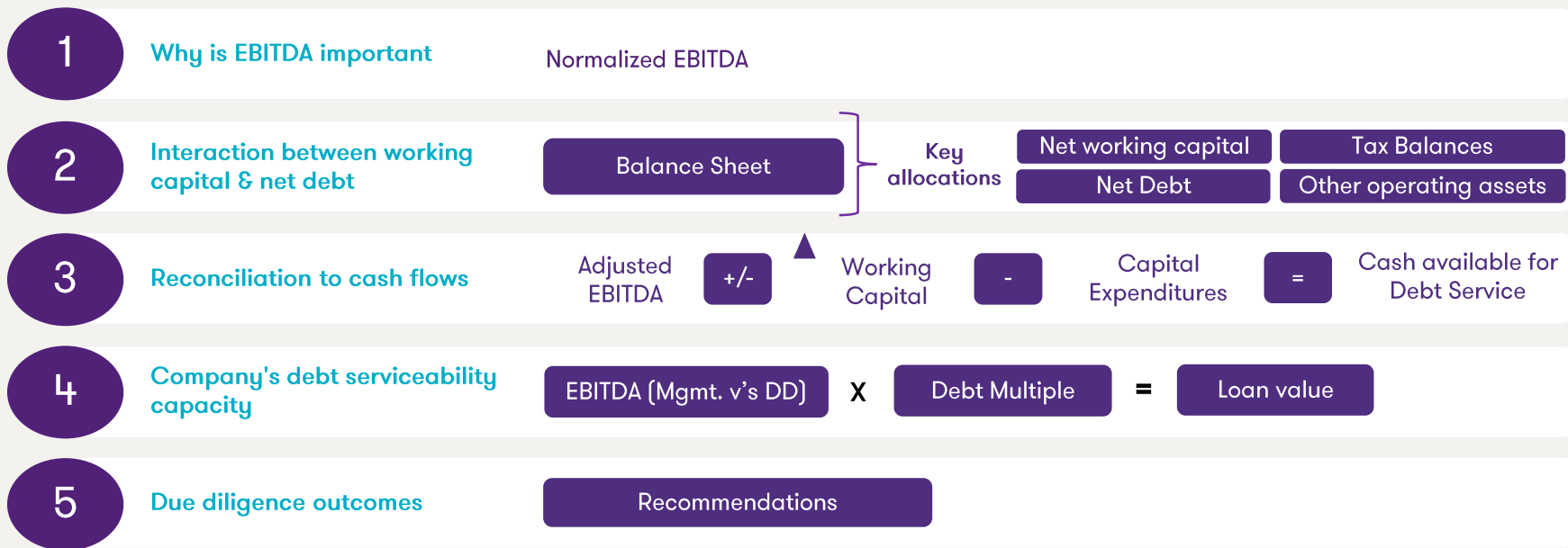
Focuses on financial performance, forecasts and maintainable EBITDA

Includes a review of debt serviceability covenants

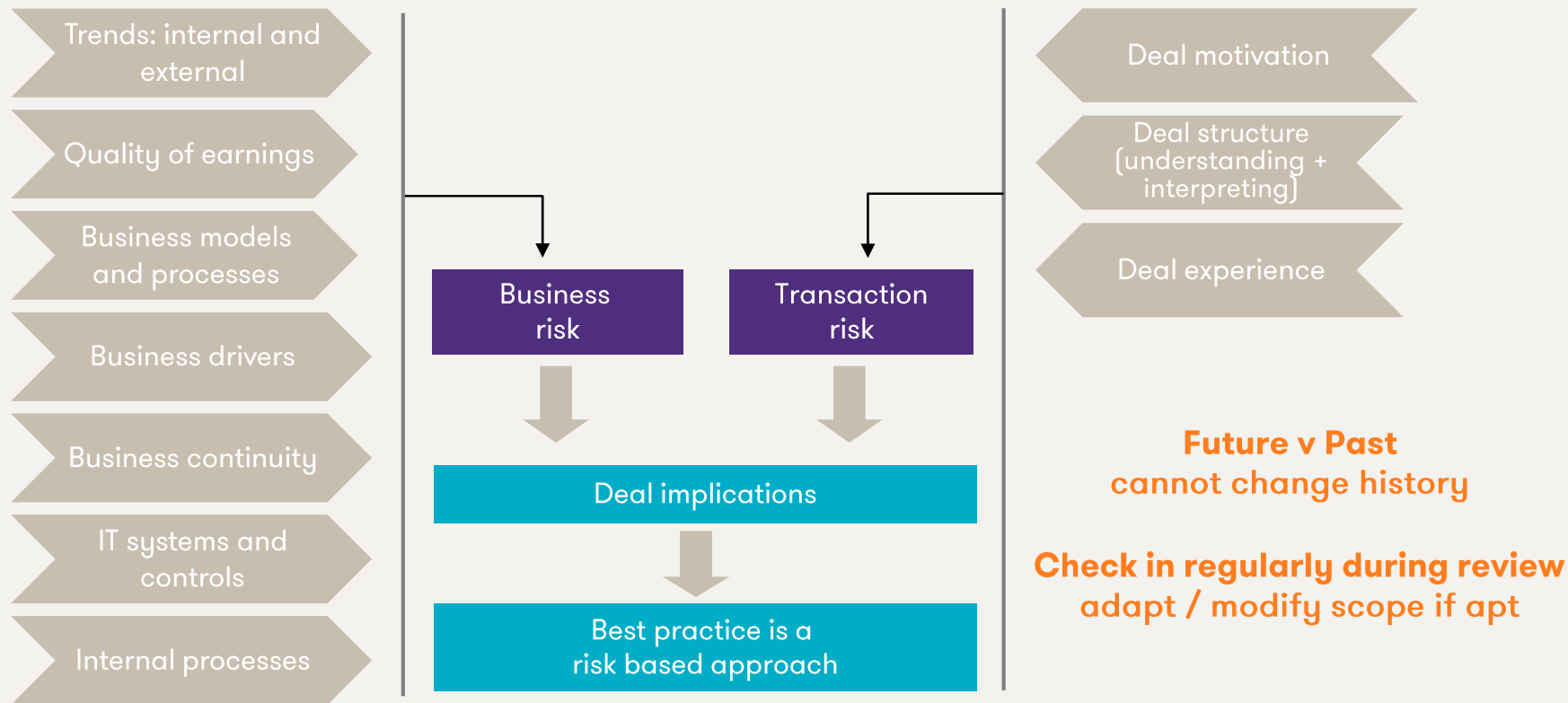
Earnings are adjusted for one off items

Working capital cycles and capex profile important

Our approach around the financials



A risk based approach



Wrap up



Be clear what your end purpose is before you start



Approach has to be collaborative for best outcome (noting may not be possible all the time)



Inform the selected advisor of what your expectations are



Q&A



Thank you

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