

COVID 19 Trends and Actions - Survey Results

Overview:

Around two thirds of commercial printers expect an average drop in sales of 50% over the next six months (compared to pre COVID 19 sales).

Of all respondents, over that six-month period, 42% expected their sales to drop between 30 - 50%, 16% to fall 50-70%, and 4% to fall 70% or more.

64% intend to “trade on” and adjust staff levels to match sales / production, 9% will look for opportunities to acquire, 10% will downsize and outsource more, 12% to amalgamate, merge or collaborate with others, 6% will sell the business and 0% expect to close.

The complete results can be downloaded in PDF format **here – or go to our website <http://www.ascentpartners.com.au>** See “Surveys” top RHS.

Commentary.

The survey

69 completed surveys were received from the 1,700 Ascent Partners Market Watch distribution. This sample provides a 90% confidence level with a margin of error (confidence interval) of + or – 10%.

The results reflect anecdotal feedback I have received in speaking to commercial printers and my industry network over the past six weeks.

Market Sectors:

82% of the respondents were commercial printers (A3 – A1 Offset and Digital). Other sectors, such as labels, packaging, print managers, and wide format were poorly represented.

Anecdotally, the packaging and labels sectors has fared far better than commercial printers in March and April and many are looking to be marginally down in sales over the next six months. Some reported a spike in sales due to the Supermarket product hoarding period (March / April).

Trends:

A. Actual March 20:

March was the start of COVID 19. In that month 29% said sales were steady and around 22% were improving. The falls in sales were not nearly to the extent experienced from April onwards.

Most of the other half of the respondents fell into the 10-50% fall in sales categories.

B. Actual April 20:

The full extent of COVID 19 was starting to be experienced. Now only 6% of respondents had sales increases. 28% had falls of 30-50%, 24% had falls of 50-70% and 15% had falls over 70%.

C. Forecast - Next Six Months (May to end Oct):

Broadly respondents expected the April results to continue. However, sales rises were fewer (only 10% expected sales to remain steady or increase). Most (42%) thought sales would decrease 30-50% from pre COVID levels).

There were fewer larger falls (fall of over 50%) forecast than were reported in April. i.e. 38% had falls of over 50% in April, and over the next six months only 20% of the sample thought they would fall to that extent.

Actions / Activities:

We provided six likely activities printers would undertake over the next six months (May – end Oct). The responses were as follows:

1. Trade on:

The “trade on” option was the most popular choice (64% of respondents selected this option). However, one needs to ask, with the level of forecast sales declines, whether “trading on” will be achievable, especially if the sales decline continues post October and into the Xmas New year period. Much has to do with how quickly we move out and into the new normal and what volumes will be provided on the sales that return. Will the print pie return to pre COVID levels?

October may well be the “tipping-point”, if the forecast falls come to fruition, as this is when JobKeeper payments stop. At around this time creditors, such as financiers and landlords, who have provided deferrals / reductions / waiving

of payments, will likely then begin to reign in those payments, which will put significant cash flow issues.

2. Acquiring:

9% of respondents (or 150 Aust. printers if this response sample is representative of 1,700 population), expected that they would seek to acquire businesses over the next six months. This is a logical strategy for cashed up buyers looking to “bolt-on” sales to their existing business.

3. Downsizing:

10% (or 170 Aust. printers if this response sample is representative of the 1,700 population), were intending to downsize their manufacturing footprint and outsource more. A good example of this may be a A2 commercial printer, who has experienced a 50% fall in sales, may choose to focus on A3 work, and outsource the A2 work to a trade printer. This would normally also result in moving to smaller premises or subletting out the space freed up by selling the surplus A2 plant.

4. Amalgamating /Merging / Collaborating:

12% (or 200 Aust. printers if this response sample is representative of the 1,700 population), were intending to look for opportunities to amalgamate / merge / collaborate with others. This is a strategy that likely reflects their belief that their business left “as is” is unsustainable and that matching sales to production equipment, via amalgamating / merging / collaborating, is an opportunity to come out the end with a stronger, more viable collective business.

5. Selling:

6 % (or 100 Aust. printers if this response sample is representative of the 1,700 population), plan to sell their business over the next six months. For many of these, I expect that the onset of COVID 19 has likely bought forward this decision. Some may argue now is not the time to sell, however it may be a far better alternative than leaving it too late and trying to prop up a business, perhaps by tipping more funds in, that has little chance of success post October 20.

6. Closing:

Zero % said they would close their business. It could be read into this response that no one expected to fail or be put in the hands of the administrators. All respondents think they will fit into one of the other five categories. I think a logical consequence of such a large, quick fall in sales will be that unfortunately many will be forced to close. Closures, such as these have been regularly occurring over the past 10 years and there is no reason to believe these will cease in the next six months.

Summary:

The results should be read as confined to the commercial print (A3 – A1 offset / digital) segment as they provided 82% of the responses. Responses are in line with anecdotal evidence.

Sales in April and forecast sales to the end of October 20 show unprecedented falls. If the next six months, if the forecast sales come to fruition, it will be a period never previously experienced in the commercial print sector in terms of speed and volume of sales falls.

The Federal Government has provided much needed assistance to the industry in the form of JobKeeper. Other creditors, such as banks, equipment financiers and landlords have provided relief in the form of payment waivers, deferrals and reductions.

At present JobKeeper will cease in late September. That will come at around the same time one could expect deferred business loans will start falling due. Cash flows will hence be severely tested come October for many commercial printers.

Based on the above, and armed with the commercial print industry's forecast sustained reduction of print volumes in the coming months, my belief is that now is the time to take a reality check, understanding that you're not alone in what's happening. Ask the following questions:

- Which of the six activities are you be planning to undertake?
- Objectively, is that activity the right one for your business and is it realistically achievable? Do you have a plan B?
- What are you doing to actively plan and implement those strategies now?

Ascent Partners are well placed to advise and help implement those activities.
This can be done in conjunction with your accountants.

Please call me on 0402 021 101 for a confidential discussion.

All the best,

Richard.