

JobKeeper & other government subsidies

**James Samson, CFA &
Nikitha Kariyawasam**
9 September 2020

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Summary

Approx. 28% (81 of 290) ASX300 listed entities that reported May - August disclosed they had received government subsidies. Most entities clearly disclosed government subsidies.

JobKeeper (JK) and other subsidies have implications for investor forecasts on future cost bases and earnings sustainability. Investors should be aware of varying accounting treatment – JK can be an offset to wages or booked as ‘other income’ under government grants. To date minimal disclosed evidence of widespread supplier and rent concessions for listed entities.

Aggregate subsidies for ASX300 disclosed \$1.785bn, with JK accounting for more than half - at least \$933mn - with JK recipients also receiving \$555mn via government subsidies in other countries (or under other schemes). Another \$296mn in foreign government subsidies was received by entities that received no JobKeeper.

The four largest JK recipients – QAN (\$267mn), CWN (\$111mn), GEM (\$86mn) and SGR (\$65mn) - accounted for over half of all JK payments. QAN received additional government subsidies of \$258mn with GEM receiving a further \$89mn in childcare related subsidies from the Australian Government. QAN, GEM, FLT & CWN all received more than \$100mn in subsidies.

Approx. 39% of entities (24 of 62) receiving Australian Government subsidies disclosed aggregate executive bonuses of \$23mn for FY20. Numerous entities who paid dividends also received material assistance from government subsidies.

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Analysis of the 290 entities in the ASX300 that reported either full year or half year results for periods ending between 31 March and 30 July showed that 81 received government subsidies related to COVID-19 of whom 62 received payments under the Australian Government's JobKeeper program (JK). The remaining 18 companies received government subsidies outside of JK.

Temporary subsidies for businesses have significantly impacted some entities' financial results for 2020 and have implications for investors when considering a company's underlying cost base and earnings sustainability. Accounting choices for JK and other government subsidies varied between entities. Some accounted for stimulus grants as an offset to employee expenses, and

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others booked payments as other income. Some others did not make explicit where such items appeared in their accounts but disclosed it as part of their 'operating & financial review' disclosures and in a small minority of cases some entities provided no disclosure of government assistance but the existence of such assistance was disclosed by the government itself.

Investors should also give consideration to the sustainability of results in cases where employees receiving JK continued to work and so wage expenses for non-stood down employees were being directly subsidised. Similarly, judgement should be made about the potential impact of temporary reliefs such as rental deferment (or forgiveness) and lending concessions made in favour of ASX listed entities - major listed landlords had disclosed at least \$658.5mn in rent concessions to tenants in FY20. Disclosures by listed entities to date show minimal benefit from relief provided by landlords and suppliers outside of QAN, AX1 and SUL (one major listed discretionary retailer, Premier Investments, was yet to report at the time this report was finalised).

Graph 1: Top 20 ASX-listed recipients of JobKeeper payments



¹ - subsidy amount not detailed into JK and other subsidies therefore entire balance classified as JK as majority likely to be derived from JK.

² - includes JK payments received by franchisees

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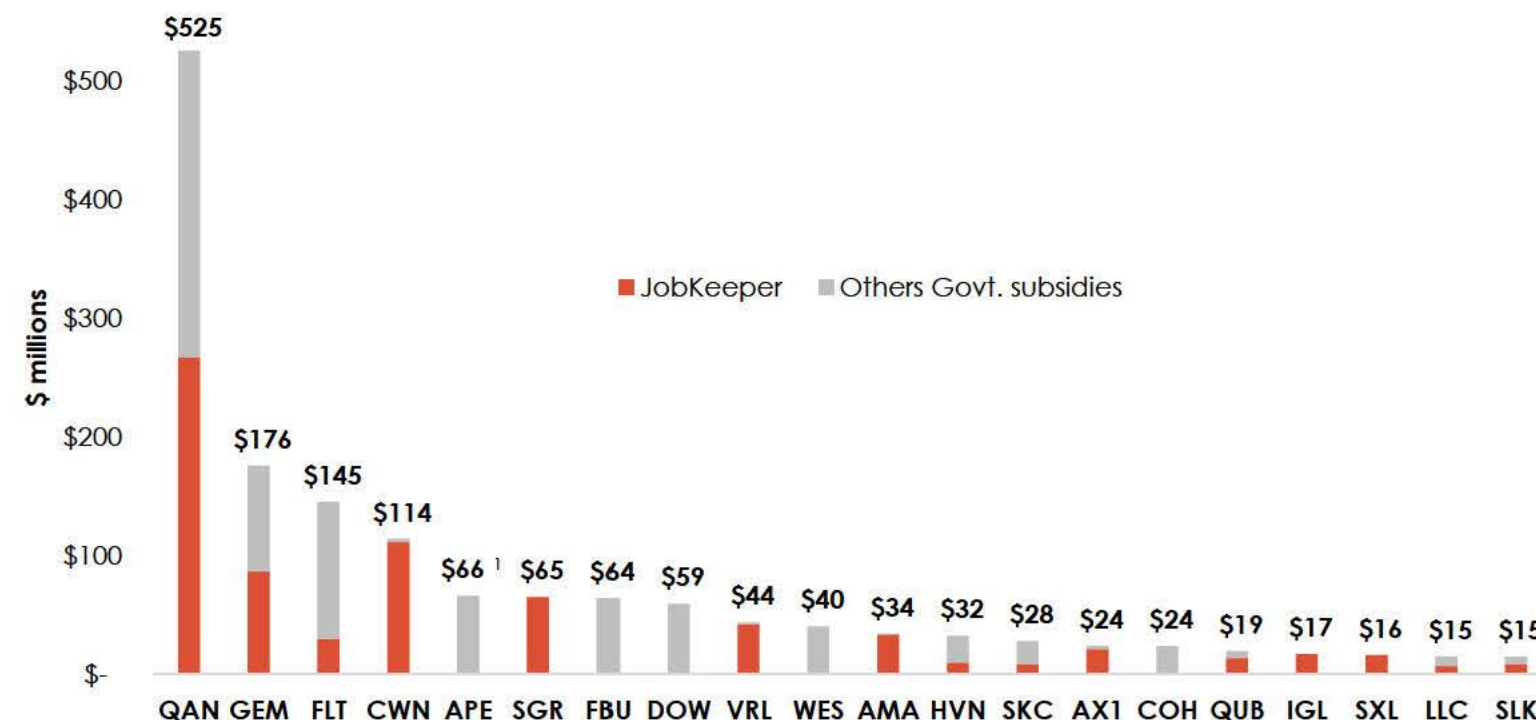
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Entities in the ASX300 that disclosed JK payments received at least \$1.785bn in total COVID-19 related subsidies. JK, with \$933mn, accounted for the majority of subsidies disclosed to date - unlike NZ's wage subsidy scheme, where all employers who received payments were disclosed in a publicly available online database, no such disclosure was required under the Australian Government scheme. Entities that received JK also received a further \$555mn in government subsidies mostly in foreign jurisdictions. The 19 entities that did not receive JK payments in Australia received at least \$296mn in subsidies from foreign governments, mostly relating to NZ.

Graph 1 above shows the top 20 recipients of JobKeeper among the ASX listed entities surveyed while Graph 2 shows the top 20 recipients of all government subsidies.

Graph 2: Top 20 recipients of all government subsidies (including from foreign jurisdictions)



¹ - total government subsidies disclosed with no further detail on amounts received under JK

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Not included in the government subsidies data were payments received by RHC to ensure their private hospitals remained open and able to support public hospitals in dealing with the pandemic which were \$424.8mn in FY20 with more than half of this coming from the French Government.

To qualify for JK, businesses with revenue under \$1bn were required to have actual or forecast revenue declines of 30%, with actual or forecast revenue declines of 50% for businesses with revenues above \$1bn. The decline was able to be calculated in multiple ways: GST turnover for the month of March 2020 vs 2019, projected April 2020 vs April 2019 or projected Apr-June 2020 quarter vs 2019. It was clear that some ASX 300 entities applied for and received JK at the subsidiary level.

The median JobKeeper payment for eligible ASX300 entities was \$5.05mn with upper and lower quartiles \$9.74mn and \$1.93mn respectively; these amounts may not seem substantial in the context of many listed entities but \$5.05mn in JK at \$1,500 per employee per fortnight for the last quarter of FY20 was equivalent to ~520 employees with the total amount disclosed JK received across the ASX300 equivalent to ~95,700 employees. The top 20 recipients of JobKeeper accounted for ~85% of all payments with QAN, at \$267mn, ~28% of all payments and larger than the next three largest recipients combined (the CEO and chair received no salary for the final quarter of FY20 and other directors and senior executives also took significant pay cuts for this period).

Casino operator CWN was the next largest recipient of JK at \$111mn followed by SGR receiving \$65mn; both entities disclosed that a proportion of JK was paid to employees who continued to work. At CWN, \$43.4mn related to employees who continued to work at full or partial capacity while at SGR the amount was \$9.6mn. The casino operators (including SKC who received \$8mn) accounted for ~20% of all JK payments received amongst those ASX300 entities that have disclosed to date.

Executive incentive outcomes for those entities where JK payments were meaningful have already come under political and media scrutiny. Of the 62 entities who received JK payments, 24 have to date disclosed executives bonus awards for FY20 of \$23.30mn in aggregate although

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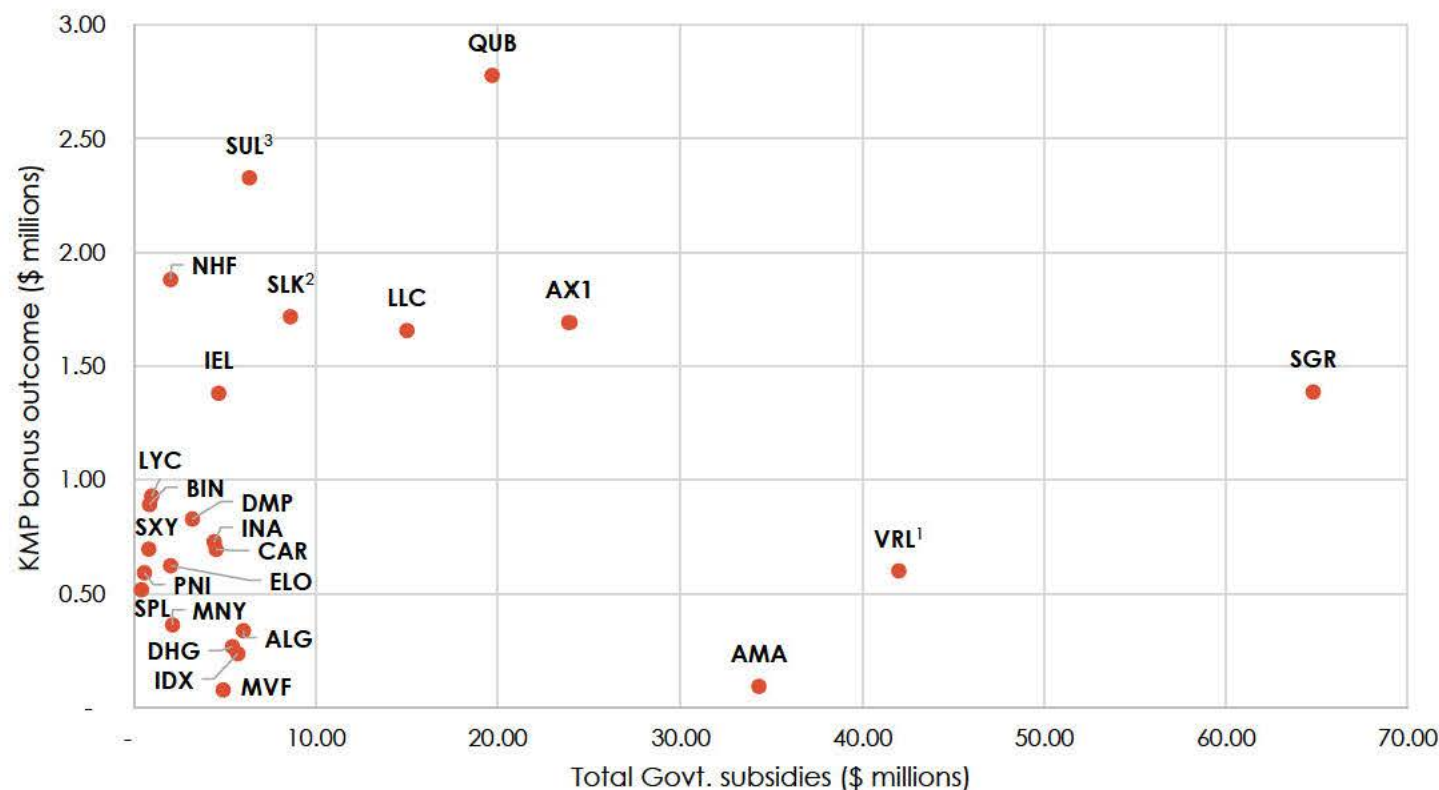
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some entities are yet to release their FY20 remuneration reports. The cultural signal of a board deciding to pay – and a management team electing to receive – bonuses in a year where a listed entity received significant government subsidies is an important one for investors to consider, especially for listed entities with significant exposure to government as a regulator or customer. Graph 3 depicts KMP bonuses against government subsidies (including provided by foreign governments) in cases where an FY20 bonus has been disclosed.

Graph 3: Total government subsidies received vs KMP bonus awarded (including equity awards)



1 – represents annual bonus accruals for FY18-20 for a member of KMP

2 – includes contractual bonuses related to retention as well as discretionary bonuses linked to COVID19 response

3 – includes sign-on bonuses to KMP

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The specific circumstances of each entity are also relevant and differ widely: in some cases, such as LLC, investors also provided material support through capital raisings while in other cases subsidies were minimal or confined to a single part of a company's operations (such as NZ where in many cases subsidies were paid to employees who were stood down during the country's 'hard' lockdown).

The company to date receiving the most from government subsidies that awarded senior executives bonuses is SGR. The casino operator's board elected to award bonuses as deferred equity to the disclosed executives at an average 40% of target (\$1.39mn across four executives including \$830,000 for the CEO). There is little doubt SGR was eligible for JK – revenue fell from an average \$198mn per month for the first eight months of FY20 to just over \$40mn per month for the last four months.

Also notable among the entities that received significant levels of JK was retailer AX1 which in addition to receiving JK of \$21.4mn (55% of AX1's wage subsidies were paid to employees who continued to work) also received rent waivers of \$7.6mn. AX1 was rare in that it provided explicit disclosure of how it qualified for JK: Its audited accounts disclosed a 58% revenue decline in March and April 2020 relative to the same period in 2019. The CEO and CFO were awarded 100% of maximum bonus for FY20 - \$1.69mn in aggregate - based on EBIT growth (adjusted for a COVID-19 impairment) of almost 12%.

At QUB, the five disclosed executives were awarded FY20 bonuses of \$2.78mn including \$1.17mn to the CEO. In its FY20 results release QUB said it estimated COVID reduced FY20 revenue by ~\$135mn. Underlying revenue at QUB's operating division grew 5.8% in 2H20 relative to 2H19 although it fell 6% in its infrastructure & property division in 2H20 relative to the pcip. Software business ELO claimed up to \$2mn in JK payments as a result of forecasting a revenue decline of over 30%. Subsequent to accessing the scheme, ELO did not appear to experience any visible revenue decline with FY20 revenue growing ~25%, Q3FY20 quarterly cash receipts growing ~40% when compared to Q3FY19 and Q4FY20 cash receipts growing 8% vs PCP. ELO paid cash bonuses in FY20 to the CEO and CFO totalling \$623,000. Real estate digital advertising business DHG received \$5.4mn from JK, and awarded bonuses to its two disclosed executives of \$267,000 in

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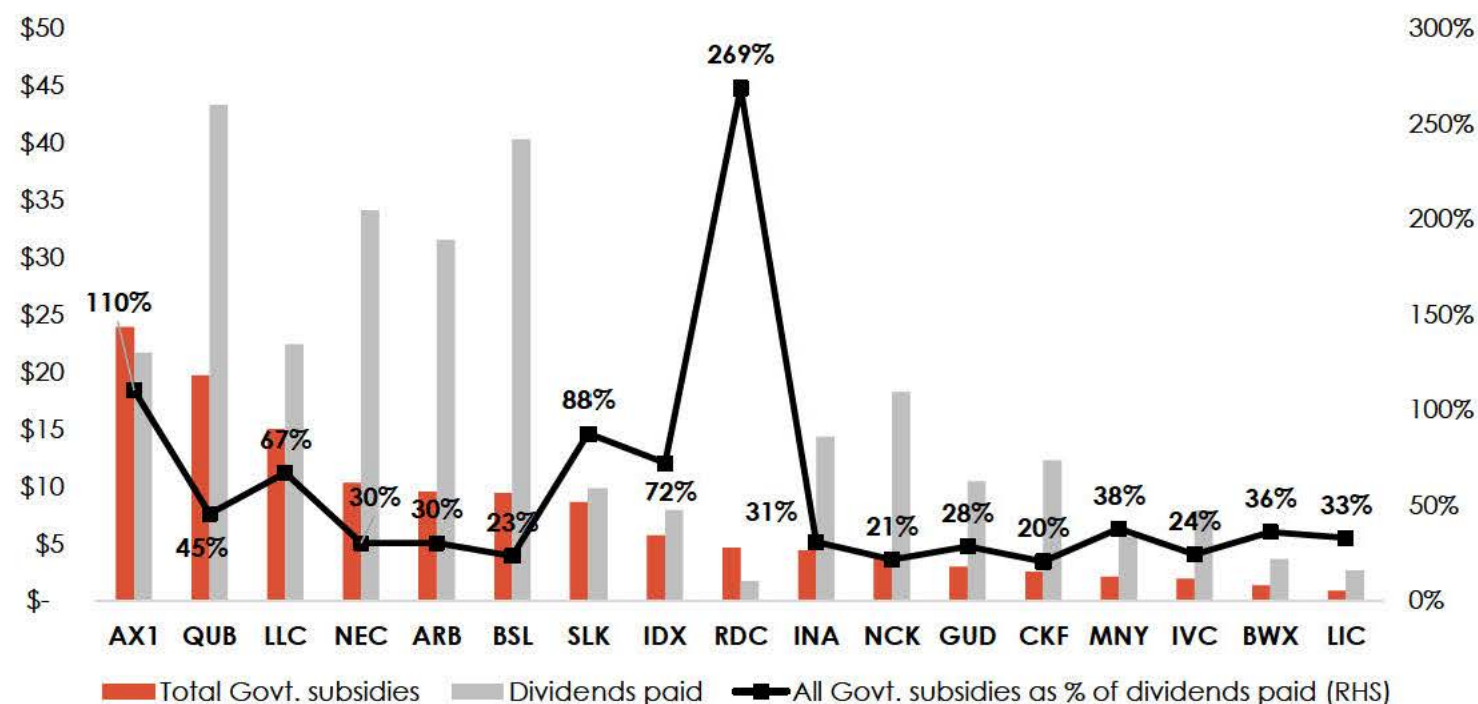
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aggregate; DHG also disclosed that \$0.7mn of all JK received was transferred to the balance sheet as capitalised labour costs.

A number of entities that accessed JK and other government subsidies including in foreign jurisdictions continued to pay dividends. Graph 4 below depicts those entities that were recipients of government subsidies with dividend declarations and a record date post 31 March 2020.

Graph 4: Entities declaring and paying dividends in excess of 20% of subsidies received



The detail and quality of disclosure of stimulus amounts and sources was variable and investors are encouraged to further interrogate financial statements to understand what temporary boost, if any, stimulus payments may have provided.

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Appendix 1: Subsidies disclosed to date

This note only includes entities where disclosures or publicly available data confirms the quantum of government subsidies received; actual number of companies who received government subsidies and quantum of payments are therefore likely higher. Data used in this research note is available for reference below.

Company	JobKeeper received (\$mn)	Other govt. subsidies (\$mn)	Total govt subsidies (\$mn)
QAN	267.00	258.00	525.00
GEM	86.40	89.32	175.71
FLT	30.00	115.22	145.22
CWN	111.30	2.60	113.90
APE		66.00	66.00
SGR	64.80		64.80
FBU		64.05	64.05
DOW		59.24	59.24
VRL	42.00	1.70	43.70
WES		40.00	40.00
AMA	33.45	0.80	34.26
HVN	9.99	22.28	32.27
SKC	8.30	19.76	28.06
AX1	21.36	2.47	23.83
COH		23.60	23.60
QUB	13.50	5.85	19.35
IGL	16.80		16.80
SXL	16.10		16.10
LLC	6.80	8.20	15.00
SLK	8.60	6.30	14.90
SEK	8.20	5.00	13.20
BSL		12.80	12.80
HLS	12.70		12.70
LOV	11.09	1.26	12.35
MMS	10.03	1.24	11.27

Company	JobKeeper received (\$mn)	Other govt. subsidies (\$mn)	Total govt. subsidies (\$mn)
VCX	10.80		10.80
NEC	6.10	3.97	10.07
ARB	8.60	0.90	9.50
MGR	9.00		9.00
IDX	7.71	0.39	8.11
VRT	7.20	0.50	7.70
OML	6.78	0.30	7.08
CCL		6.80	6.80
SUL	1.50	4.83	6.33
ILU	6.00		6.00
ALG	6.00		6.00
DHG	5.40		5.40
CAR	5.33		5.33
VEA	5.10		5.10
SYD	5.00		5.00
MVF	4.90		4.90
IEL	4.46	0.19	4.65
RDC	4.60		4.60
INA	4.40		4.40
GPT	4.10	0.30	4.40
TAH	4.00		4.00
AIA		3.95	3.95
NCK	3.73	0.18	3.91
CCX	3.65	0.24	3.89
TYR	3.87		3.87

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Company	JobKeeper received (\$mn)	Other govt. subsidies (\$mn)	Total govt. subsidies (\$mn)
RWC		3.70	3.70
BAP		3.69	3.69
DMP	1.00	2.20	3.20
GUD	2.41	0.54	2.95
JBH		2.84	2.84
FXL	2.80		2.80
WEB	1.45	1.09	2.54
CKF		2.50	2.50
ALD	1.89	0.21	2.10
MNY	1.64	0.46	2.10
ELO	2.00		2.00
NHF	2.00		2.00
BWX		1.90	1.90
EOS	1.90		1.90
IVC		1.88	1.88
STO	1.50		1.50
IPH		1.07	1.07
GWA		1.05	1.05
BKL	1.00		1.00
LYC	0.96		0.96
LIC	0.86		0.86
BIN	0.84		0.84
BLD		0.80	0.80
SXY	0.80		0.80
CCP		0.75	0.75

Company	JobKeeper received (\$mn)	Other govt. subsidies (\$mn)	Total govt. subsidies (\$mn)
SLC	0.71		0.71
PNI	0.56		0.56
AD8	0.43	0.02	0.45
SPL	0.40		0.40
SGF		0.22	0.22
PET	0.04		0.04

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