# Scott's may have traded insolvent for months, administrators warn

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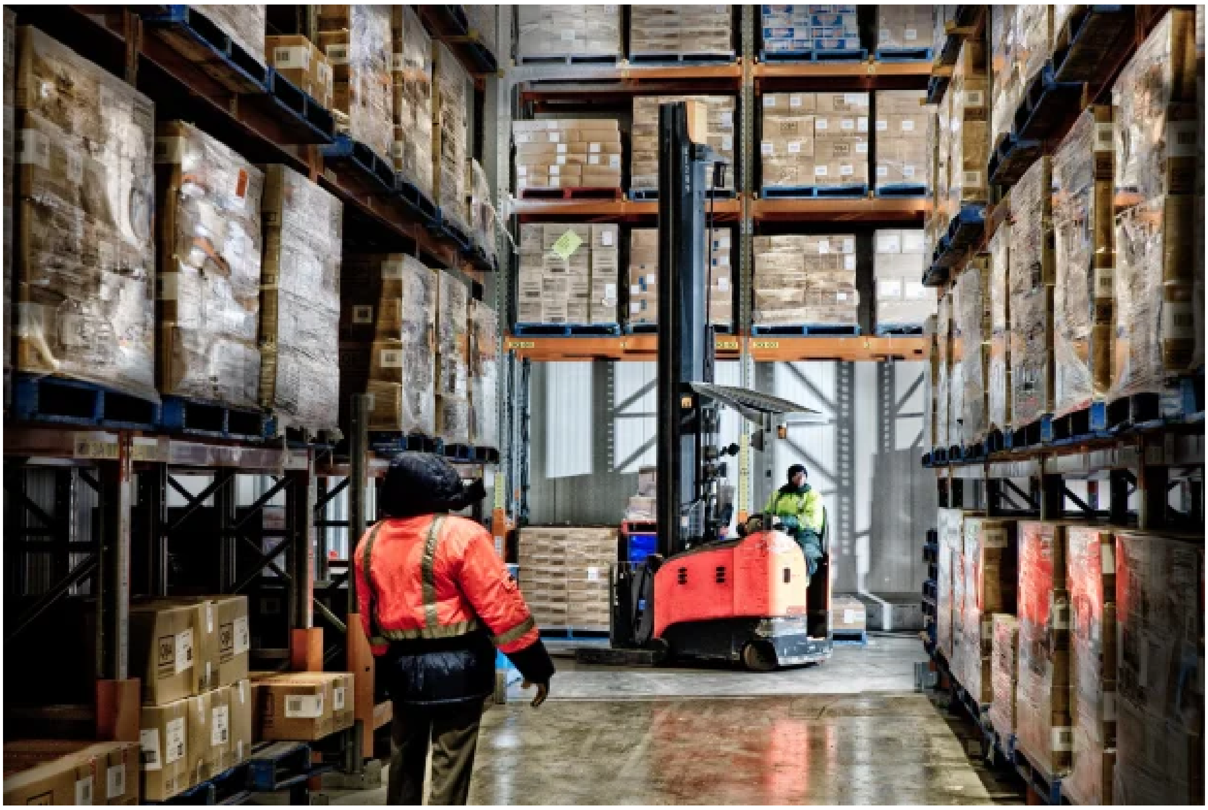
Scott's Refrigerated Logistics [https://www.afr.com/companies/transport/out-in-the-cold-how-scott-s-came-undone-20230314-p5cs1x] may have been insolvent nine months before its collapse, according to the company's administrators McGrathNicol.

The Anchorage Capital Partners-owned transportation group – one of the largest in the country and a key supplier to retailers including Coles, Aldi and IGA – collapsed in late February.

In a report lodged with the corporate regulator, McGrathNicol said it was also possible the company had been insolvent, on a cash flow basis, only a week before they were called in.



Scott's Refrigerated Logistics, which transports frozen foods to supermarkets, was placed into voluntary administration in late February.

On a "balance sheet basis", the administrator's report added, "Scott's Group was potentially insolvent ... from as far back as May 2022".

"Further investigations by an appointed liquidator will consider the headroom in available lending facilities provided by ScotPac and ACP, and the extent to any formal agreements with creditors to extend trading terms, with the aim of establishing more precisely the date that the Scott's Group became insolvent," the report reads.

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However, McGrathNicol noted, local courts had determined that the primary test of solvency was cashflow.

Scott's fell into administration on February 27, although its key lender – Gordon Brothers – quickly engaged KordaMentha as receivers in a bid to protect their interests following the collapse of discussions with Coles over potential financial support [https://www.afr.com/companies/transport/anchorage-capital-sought-last-minute-funds-from-coles-20230308-p5cqae]. KordaMentha attempted to sell the business but later moved to wind it down, and is now selling assets, after negotiations with interested parties failed.

## History of underperformance

Gordon Brothers has the largest exposure to the Scott's collapse with security over the 1688 vehicle fleet against its $70 million asset-backed financing facility. Another lender, ScotPac, provided a debtor financing facility with a limit of $100 million.

Scott's had a long history of underperformance, with issues including a major IT systems upgrade failure, operating disruption due to floods, train derailments and pandemic-related staffing issues. It also had service failures leading to lost volume, weak margins and an ageing fleet with above-average maintenance costs, according to McGrathNicol's report to creditors.

"Due to continued trading losses and the requirement for additional borrowing, the net assets of the Scott's Group reduced $143.0 million from $50.9 million at 30 June 2021 to a net asset deficiency of $92.1 million as at 31 January 2023. The Scott's Group reported a deficiency in net assets from 31 May 2022," the administrator said in the report.

McGrathNicol confirmed the value of Scott's net assets fell since the book value of property, plant and equipment reduced, and there was limited capital expenditure on needed fleet upgrades due to its cash crunch. Scott's sought additional debt to fund ongoing trading losses, including $34 million as part of the Gordon Brothers refinance in August.

Gordon Brothers and ScotPac are expected to be repaid in full from the sale of assets while unsecured creditors with estimated claims totalling $34.3 million are unlikely to see any returns.


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