How voluntary administration provided a vital lifeline for an Aussie business

Voluntary administration is often misunderstood, with many making the mistake of associating it with the winding up of a company. The reality is that it can be a great business rescue process. The purpose of voluntary administration (VA) is to rescue a business and to achieve a better return for creditors compared with a straight winding up of the company.

A recent matter handled by Jirsch Sutherland illustrates the many benefits of a VA and how the outcome was far better than if the company had been wound up.

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> **Irene Falcone**

Background

Irene Falcone / Sans Drinks (credit: Sans Drinks Instagram)

Established in 2020 by entrepreneur Irene Falcone, Sans Drinks was largely an e-commerce retailer of non-alcoholic beverages. The business expanded into developing its own brands, and subsequently opened a physical retail store on Sydney’s northern beaches. The early stage growth and brand awareness was strong, with Sans Drinks generating over $6 million in sales revenue. However, in 2023 sales growth stagnated, attributed to the changing behaviour of consumers since Covid lockdowns and restrictions were lifted (such as returning to places of work and doing more traditional social interactions), in addition to the higher cost of living, which saw people curtailing their discretionary spend.

Sans Drinks had been funded by the director and via non-traditional financing options, and the capital cost of developing new products and brands, together with the set up costs of a physical retail store, had eroded the working capital of the business. The pressures were further exacerbated by supply chain and logistical challenges, and at the time of Jirsch Sutherland’s

appointment, the financial position was dire. “The business would not have been able to continue to trade without the financial support of the director,” explains Jirsch Sutherland Partner Andrew Spring.

Solution

Voluntary administration was deemed the best solution for Sans Drinks, and Spring and his team began the process of marketing the business and working with the director on a Deed of Company Arrangement (DOCA). A VA enabled Jirsch Sutherland to continue to trade the business and effect a sale, along with working with the director to develop the subsequent DOCA, which was approved by the creditors.

Andrew Spring, Jirsch Sutherland Partner

“The VA process moves quickly, which enables administrators to focus on the best solution to preserve value for creditors, which is the case with Sans Drinks,” says Spring. “As an independent party, an administrator can come in and assess the business and determine the best path out. It takes the pressure off the directors and gives the business the best chance of survival.”

Sans Drinks had a large online presence, and the public nature of the voluntary administration process provided a platform for prospective trade purchasers to consider the opportunity of purchasing the business and its assets. “Due to the nature of the VA process, but specifically the position of the company, we sought to engage and accelerate negotiations with interested parties,” explains Spring. “An insolvency sale is unlike a traditional merger & acquisition, so due diligence is limited, and the administrators will not provide any warranties, which is reflected in the ultimate sale price. A purchaser must be clear on the value of the opportunity to them and accept the lack of recourse post completion of the sale.”

Results

The business and assets of the company were purchased by one of Australia’s leading online wine retailers, Just Wines, with the new owner calling Sans Drinks “an excellent addition to the Just Wines platform”.

In addition, creditors resolved to accept the DOCA proposal, which meant secured and employee creditors were paid in full. The third party unsecured creditors are expected to be paid approximately 48 cents in the dollar.

“It’s an excellent result compared to if the business had ceased to trade. The business has survived and will likely continue to trade with many of its historical suppliers,” says Spring. “If Sans Drinks had been wound up, only priority creditors would have been paid in full, with the secured creditor receiving a small portion of the amount owed and unsecured creditors not being paid anything. The VA has resulted in the strengthening of the business through a trade sale, while providing a significantly improved outcome for all creditors.”

Says Ms Falcone, “The decision to enter into voluntary administration was a difficult one, and I’m incredibly grateful to the team at Jirsch Sutherland, who really guided me every step of the way. I’m thrilled that Sans Drinks is part of the Just Wines family and I’m looking forward to the next chapter for Sans Drinks.”