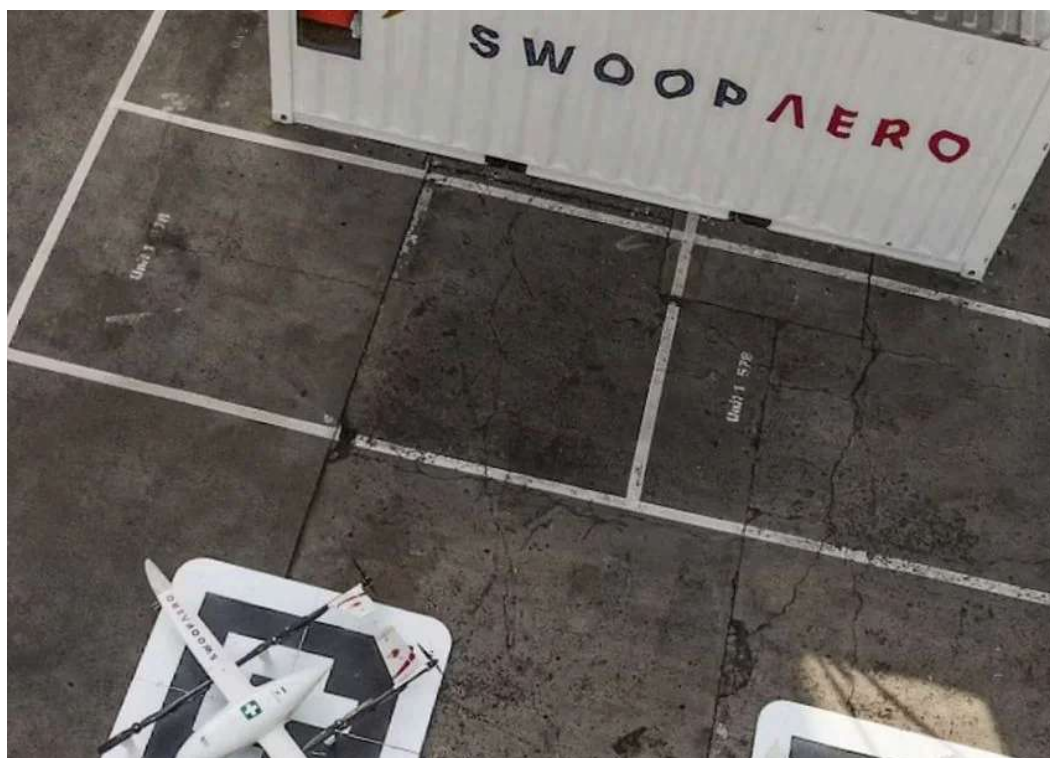


Administrator seeks Swoop Aero wind-up amidst "limited revenue" and mounting liabilities

By Matt Ogg

14 November 2024



The trading operation of Melbourne-based drone logistics operator Swoop Aero may have been insolvent for at least three months prior to the **appointment in October of a voluntary administrator** (<https://www.businessnewsaustralia.com/articles/swoop-aero-in-the-hands-of-administrators-as-turbulence-strikes-drone-logistics-group.html>), who has recommended the company be wound up amidst a negative net trading position that is eating into funds available for creditors.

Creditors will decide on the matter at afternoon meetings for the company and its parent Kookaburra Aerospace next Tuesday, 19 November.

Merchant banking group Iridium Private has shown interest in the company, but administrator Simon Nelson of BPS Reconstruction and Recovery warns its advised 60-day timeframe for a transaction "may not be feasible given the circumstances".

The creditors' report for Swoop Aero Pty Ltd adds that indicative non-binding offers have also been received and shortlisted.

Nelson cites a number of cash flow issues at the company since his appointment, with a trading profit of \$283,000 outweighed by trading liabilities of \$311,000 that remained unpaid when the report was released on 11 November.

With the company's finances going backwards, a sales process ongoing, and a substantial portion of its assets tied up in a stock of completed drones whose value depends largely on Swoop's technology and operating systems, the recommendation is that the business be liquidated.

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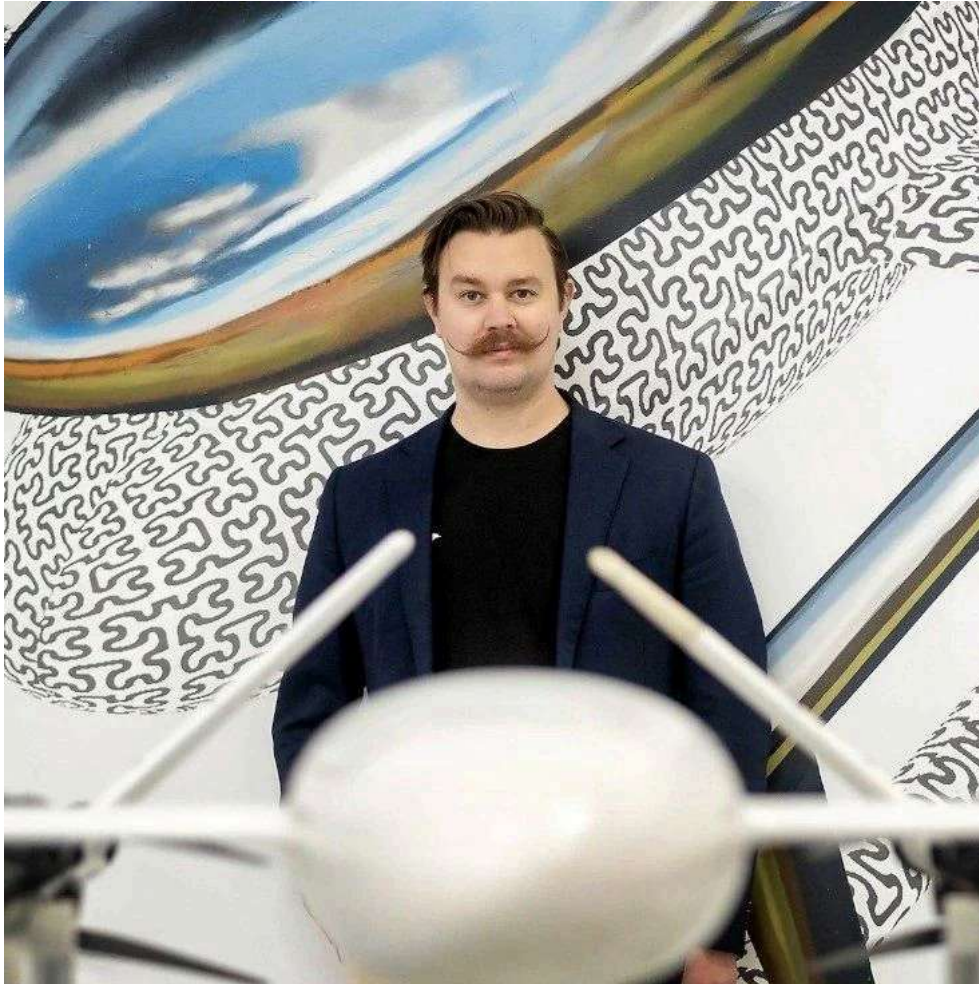
Nelson's appointment as administrator also covers Swoop Aero Pty Ltd's holding company Kookaburra Aerospace, which was the channel through which approximately \$26 million was raised from investors including Main Sequence Ventures, Giant Leap, IQ Tel, Flight Club, Capital Growth, Folklore Ventures, and Quickstep Holdings (ASX: QHL).

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Additionally, in mid-2023 the group secured an \$8.5 million convertible note which was put together by Main Sequence Ventures and the Queensland Investment Corporation (QIC) - all funds that helped its mission to deliver millions of items, such as medical supplies, to remote or underserved areas around the world.

The report notes a \$37 million debt is owed by Swoop Aero to Kookaburra as an unsecured creditor - a debt the administrator does not expect to be returned, and one that co-founder Eric Peck describes as an "intercompany transfer method".



Swoop Aero co-founder Eric Peck.

Kookaburra is, however, expected to be able to pay between 2.9 and 14.4 cents in the dollar to its unsecured creditors, with funds available of up to \$1.26 million.

It is still yet to be decided whether the assets of both entities will be pooled into one group or treated separately.

George Hazim, a spokesperson for Swoop Aero directors Eric and Ron Peck, says they had sought an additional \$2 million in funding to bridge cash flow and drive the company toward profitability - an offer that was open to all shareholders.

"While some minority investors showed interest, major venture capital investors, including Main Sequence Ventures, declined to participate," Hazim says.

"The directors made every effort to secure further investment and shield the business from liquidity issues, demonstrating a commitment to supporting the company through challenging financial conditions."

The administrator attributes Swoop Aero's inability to raise further funds to several factors, including significant expenditure on research and development (R&D), under capitalisation, "poor strategic management", inadequate cash flow or high cash use, poor economic conditions, and significant trading losses.

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In FY23 losses had ballooned to \$9.3 million, up from a loss of \$2.7 million two years earlier. But revenues were also rising rapidly, up 54 per cent in that year alone to reach \$6.6 million.

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"The venture capital landscape constricted. It became a challenging time financially for the company. The product is great and the team have done an amazing job, and I'm still working very closely with the administrator to get the best possible outcome for everyone, to retain the maximum number of the team as possible," Eric Peck tells *Business News Australia*, clarifying that 15-20 critical staff have been retained in Australia.

There are also 30 staff in Malawi who run a US Agency for International Development (USAID) contract for Swoop Aero - a contract that Peck claims is ongoing.

"Whatever buyer we work with, we'll be seeking for them to take on that contract and continue the operation," he says.

Peck adds that directors made the decision to let go of 10 staff in late 2023, while Main Sequence had requested 15-20 staff be made redundant in mid-2023.

Nelson, the administrator, says cashflow shortages, trading losses, the \$37 million owed to Kookaburra, and non-payment of statutory debts contributed to him taking the view that Swoop Aero Pty Ltd may have traded while insolvent. However, he sees little value in pursuing an insolvent trading claim against the directors.

"My prima facie view is that the company may have been insolvent for at least three months prior to my appointment," Nelson says.

"Based on my investigations to date, I believe there may be limited commercial utility in pursuing an insolvent trading claim."

Hazim disputes the administrator's view on the the company's solvency, emphasising the appointment of an administrator was made proactively by the board and senior management in response to delayed payments and challenging market conditions.

"Directors and key senior management collectively contributed \$950,000 in bridge financing to maintain solvency and avoid disruption, while additional investment discussions were ongoing. This effort highlights the commitment of the leadership team to protect the business and its stakeholders," Hazim says.

Nelson believes that \$1.1-1.3 million can be recovered for secured creditors of Swoop Aero Pty Ltd, with 99 cents in the dollar to be returned to priority creditors. The latter includes some 23 employees who claim to be owed around \$700,000, of which around \$150,000 worth of superannuation would not be covered by the Commonwealth's Fair Entitlements Guarantee (FEG) scheme in the event of a liquidation.

The administrator adds that if a purchaser is found for the business, entitlements may be transferred to them as a liability but more than \$300,000 worth of redundancy and pay in lieu amounts may not crystallise.

One such former employee, who requested to remain anonymous, says it started to become apparent in January or February this year that superannuation payments weren't being made properly.

The former employee alleges that senior leadership would tell staff the matter would be resolved "next week" or "in a couple of weeks", but "nothing ever changed".

"They would do these "Swoop Social" things every two weeks where we would go go-karting or to a bar with bar tabs, and we were like, 'can we not do this and just put the money towards what's owed?'

"In late 2023 there were significant layoffs, which led to a steep drop in company morale.

"We were later informed by the head of production that Josh Tepper, Swoop's co-founder, would be stepping down."

In response, Hazim claims the company "continued to provide clear communication to employees about the financial situation and the steps being taken to secure their entitlements".

"The narrative of mismanagement or misleading information is not supported by the facts," he says.

Peck agrees that layoffs led to a reduction in company morale, but claims it was a necessary step taken to stabilise the business. He tells *Business News Australia* that he is working closely with administrators to "make sure all those debts are covered".

"Once it became apparent there'd be an issue there, the directors were aware that the R&D tax incentive that was incoming we intended for that to be used to ensure all staff statutory requirements were fulfilled and not outstanding

The employee says Tepper's resignation was compounded by other resignations in the senior leadership team before and after, estimating more than 10 resignations at the company since late 2023.

"Signs of financial strain became obvious. Eric started having people try to sell company assets - things like air conditioning units and soundproof working booths - on eBay" the former employee claims.

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"Yet in meetings, he kept insisting Swoop was thriving, boasting of achievements nobody found that credible, especially with superannuation still unpaid."

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"The breaking point came when the main operations support manager resigned. She'd been there four years, and given that she wasn't being paid properly, it was understandable she left. Her departure left the ops team under even more pressure, and it was clear to everyone that keeping the drones in the field operational would be challenging without her."

In response, Hazim says the selling of non-core assets was "a strategic decision to maintain solvency and did not indicate panic or desperation".

Peck argues that the breaking point was when he felt he couldn't keep leading the company in its current form, with a "series of customer payments that were multiple months overdue, that were placing extreme cash flow strain on us".

"With a little bit of extra time they could be rectified, but this was the right mechanism to ensure that the interests of the company were protected, and we have the best opportunity to restructure the business, so the staff, the creditors, and even the shareholders, have an opportunity for a positive outcome.

"Unfortunately this is one of the highs and lows of the venture capitalist cycle. I sit here and I've remained committed to fronting it and making sure I get the best outcome for everyone, rather than abandoning it, running away and leaving everyone to their own devices."

The former employee describes the state of affairs as frustrating because "the product itself had real potential, and what made Swoop great was the exceptional tech team on both the software and hardware side".

"It'd be great for someone to come in and buy for however much is considered reasonable. There's no reason why someone couldn't come in and either rebrand it or just just get the right people in there to run it, and it would be an amazing company."

A former senior staff member, also on the condition of anonymity, describes the sentiment at the company prior to their departure in late 2023.

"I think there was absolutely low morale. How can there not be when it's such a difficult time and you're working, you know, so hard on something you love?" the former staff member said.

"It's a very unique business in the sense that everybody that was working there was incredibly passionate. This was a deeply technical advanced company where everybody was really intelligent and really passionate about the work that they were doing to develop something new, and it was being utilised in such a meaningful way.

"Props to everybody who stuck it out and kept coming every day."

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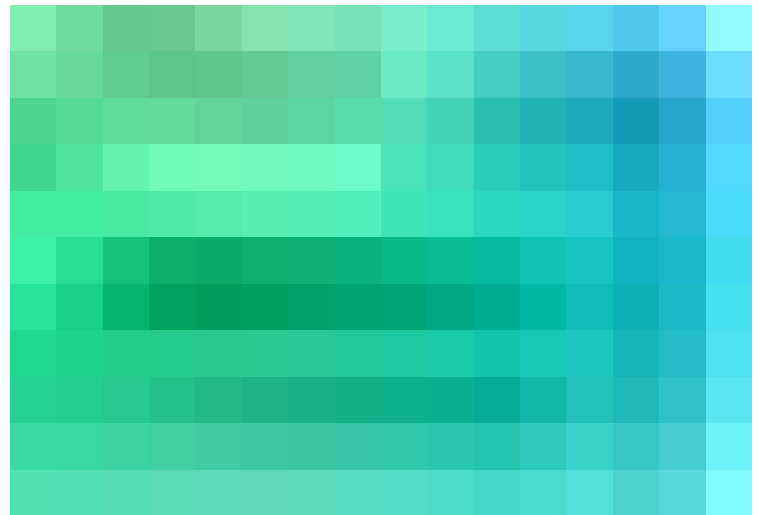
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