COVID-19 impacts & priorities

April, 2020
Confinement measures have triggered economic crises all around the world with impacts across all parts of the economy

Macro-economic impacts

**Supply shock**
Plant shutdowns and logistics bottlenecks reduce supply of consumer and industrial goods. Investment and activities are being reduced.

**Demand shock**
Imposed quarantine measures curtail, resulting in disposable income drops, and loss of confidence in the future negatively impact consumer spending.

**Credit crunch**
Business and consumer lending is hampered. Liquidity constraints further reduce investments and consumption.

**Capital market**
Anticipation of negative impact from COVID-19 on global economy
- Reduction of investment capital and consumable wealth
- Widening of credit spreads negatively impacts lending
Among main recovery scenarios, a delayed recovery is the most likely today

Overview of main scenarios

<table>
<thead>
<tr>
<th>Scenario description</th>
<th>Fast recovery (4 weeks)</th>
<th>Delayed recovery (12 semaines)</th>
<th>Profond recession</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scenario description</strong></td>
<td>Government’s preventive measure have been effective and number of new cases are under control</td>
<td>Virus continues to spread leading governments to extend social and economic restrictions</td>
<td>High number of infections over a long time frame despite full lock-down in place</td>
</tr>
<tr>
<td></td>
<td>Quarantine measures are successively reduced after a 4-week period of economic disruption</td>
<td>Measures become effective only in mid Q2 2020 and recovery starts after a 12-week period of economic disruption</td>
<td>Health system are overwhelmed</td>
</tr>
<tr>
<td><strong>Potential economic impacts</strong></td>
<td>Recession in 2020, negative growth in Q2 2020, recovery in Q3 2020</td>
<td>Recession in 2020, very deeply negative growth in Q2 2020, recovery not before Q4 2020</td>
<td>Strong perturbation of production as many companies go out of business</td>
</tr>
<tr>
<td></td>
<td>Supply chock is limited as shut-down only impact certain companies until the first weeks of Q2-2020</td>
<td>Lengthy disruption of production</td>
<td>Unemployment increase significantly</td>
</tr>
<tr>
<td></td>
<td>Consumer confidence only stirred, not shaken</td>
<td>Although companies are supported by governmental relief packages, many cut their staff numbers, leading to lower consumer demand and rise in unemployment</td>
<td>The collapse of the oil market hits the North American economy hard</td>
</tr>
<tr>
<td></td>
<td>Quick recovery based on the strong US economy, stable domestic consumer and governmental demand and relief packages</td>
<td></td>
<td>Lack of government capacity to stimulate economic growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The situation is exacerbated by the bursting of asset (housing) and credit (credit cards, student loans) bubbles</td>
</tr>
</tbody>
</table>

**Assessment**

- **Fast recovery (4 weeks)**: Not realistic anymore
- **Delayed recovery (12 semaines)**: Most likely
- **Profond recession**: Still possible

Source: IMF, Oxford Economics, Roland Berger
Severity of impacts is increasing as the pandemic progresses – CBOC foresees deep downturn in 2020 with sharp rebound in 2021

Estimated impact on economic growth [2020]

<table>
<thead>
<tr>
<th></th>
<th>Fast recovery (4 weeks)</th>
<th>Delayed recovery (12 semaines)</th>
<th>Profond recession</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP growth in 2020 [%]</strong></td>
<td>-2.5%</td>
<td>-5.4%</td>
<td>-10.4%</td>
</tr>
<tr>
<td><strong>% points – Cumulative impact on GDP in 2020 (compared to projected GDP growth in 2020)</strong></td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td><strong>Conference Board of Canada GDP forecast as of April, 15 2020</strong></td>
<td>-3.5 à -4.0 pts</td>
<td>-6.5 à -7.5 pts</td>
<td>-11.5 à -12.5 pts</td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td>-4.3%</td>
<td>-7.1 pts</td>
<td></td>
</tr>
<tr>
<td><strong>4.1%</strong></td>
<td></td>
<td></td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>-1.5 à -2.5 pts</td>
<td>2.7% à -4.0 pts</td>
<td></td>
</tr>
<tr>
<td><strong>-2.4%</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>European Union</strong></td>
<td>-3.0 à -4.0 pts</td>
<td>-5.5 à -6.5 pts</td>
<td></td>
</tr>
<tr>
<td><strong>-4.8%</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Global</strong></td>
<td>0.2%</td>
<td>-1.9%</td>
<td>-5.7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-2.5 à -3.5 pts</td>
<td>-5.7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-1.9%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-4.5 à -5.5 pts</td>
<td></td>
</tr>
</tbody>
</table>

The impact on profitability and short-term liquidity will be different by sector (and company within a given sector)

Potential impact by sector – Selection

- Financial Services: Moderate liquidity impact with limited ability for earnings to catch up after crisis
- Mechanical Engineering: Significant liquidity impact with limited ability for earnings to catch up after crisis
- Food & Beverages: Moderate liquidity impact with partial ability for earnings to catch up after crisis
- Agro-industries: Significant liquidity impact with partial ability for earnings to catch up after crisis
- Construction: Moderate liquidity impact with partial ability for earnings to catch up after crisis
- Food Retail: High
- Oil & Gas: Food & Beverages
- Automotive: Logistics
- Food chains: High
- Pharma & Medtech: Low
Smaller firms will be hit harder, driving dramatic knock-on repercussions given their paramountcy in providing employment.

Differentiated crisis impact across company sizes

<table>
<thead>
<tr>
<th>Company size [annual revenue]</th>
<th>Potential trajectory</th>
<th>Contributing factors (illustrative – non exhaustive)</th>
</tr>
</thead>
</table>
| MNCs and large corporates [ > 500 M ] | → | > Usually large cash reserves  
> High chance of bail-outs by government  
> Typically less long-term demand elasticity  
> Significant cost down scalability  
> Low cost credit for carrying asset investments  
> Professional crisis management |
| Medium-sized companies [25 < x < 500 M ] | ← | > Medium cash reserves and robust services  
> Significant bail-outs possible  
> Mission critical value propositions (e.g. automotive suppliers, technology)  
> Fewer capital raising opportunities |
| Small businesses [ <25 M ] | ↓ | > No / little cash reserves  
> Government support comes slowly and with hurdles  
> More onerous or patchworked assistance / weak 'individual negotiation' posture  
> Heavily impacted value proposition |
COVID-19 can trigger or accelerate a corporate crisis – Time for urgent action

Phases of corporate crisis and how they are accelerated by COVID-19

Management  |  Strategic consulting  |  Turnaround  |  Restructuring

COVID-19 can both tip your business into crisis and accelerate an already existing crisis

The amplitude of the impact varies by industry and by company

Revenue crisis  |  Profit crisis  |  Liquidity crisis  |  Insolvency

Effect of the coronavirus
A mixture of both operational and strategic measures need to be considered to survive the crisis and thrive in the "New Normal"

I. Crisis Management
Immediate future

- Secure and monitor ongoing liquidity position
- Establish a crisis mgmt. taskforce to manage/monitor crisis response
- Ramp down operations and secure continuity of critical functions
- Monitor health of critical suppliers, and provide necessary support
- Compress spending and launch cost optimization measures without destroying the basis to recover
- Ensure commercial continuity and link with the customer
- Redirect surplus resources towards COVID-19 medical equipment/consumables (if possible)

II. Recovery
2020 and 2021

- Re-align production and supply chain planning in line with revised demand signal
- Secure operational ramp up in a timely and cost controlled manner in both MAKE and BUY
- Monitor health and longevity of business & supply chain operations
- Begin shifting operations and resources back-to-normal mode
- Capitalize on opportunities (e.g. acquire distressed assets, divest non-core operations, renegotiate favorable terms, secure talent)
- Prepare for the "New Normal"

III. "New Normal"
2021+

- Optimize existing footprint in line with changes in industry demand/landscape
- Launch operations efficiency programs (e.g. engineering efficiency, cost reduction, plant performance boost)
- Integrate any acquired businesses, if applicable
- Revisit and revise corporate strategy to fit with the "new normal"
- Review supply chain strategy and configuration to fit with the defined corporate strategy
- Assess and revise operating model in line with changes in strategy
- Anticipate and prepare for future Black Swans

O Mesure opérationnelle
S Mesure stratégique
Based on our experience, external support is particularly relevant for 3 main topics during crisis management:

### Implementation of agile 'War Rooms'

- **Set-up of a COVID-19 task force to monitor further developments and take effective actions**
  - Definition of the profile and degree of activity reduction for each function
  - Support of 'war rooms' in anticipating problems, their communication and decision-making

### Spends compression and costs reduction

- **Development of a short and medium term profit and liquidity improvement program**
  - Quick-wins et budget reduction
  - Review of needs (quality, service levels, etc.) definition of tactics and ambitions for short-term renegotiations depending on suppliers

### Cash and working capital management

- **Support liquidity assessment and management**
  - Calculation of financial effects to proof liquidity need for investors, banks and state aid
  - Quick optimization of working capital (conjunctural and structural)

---

### Priorities for War Rooms

<table>
<thead>
<tr>
<th>Human Resources War Room</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure total employee safety</td>
</tr>
<tr>
<td>Leverage government support schemes in each region</td>
</tr>
<tr>
<td>Manage social issues, with transparency and sensitivity - switch for remote work</td>
</tr>
<tr>
<td>Conduct empathy empathy, with employees, create a sense of community</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Finance &amp; Procurement War Room</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support liquidity programs (liquidity, covenant, negotiate with suppliers)</td>
</tr>
<tr>
<td>Implement spend compression and cash impact measures</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sales War Room</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales focus on marketing, sales, accounts, adapt business mode and value proposition if needed</td>
</tr>
<tr>
<td>Test decisions on media investment</td>
</tr>
</tbody>
</table>

---

### Spend Compression – Modules

**Compress spend**

- **Transactions Audit Factory**
  - Deep dive on payables and receivables transactions - assess suppliers and quick collection of receivables
- **Supplier contribution**
  - supplier negotiation and purchase order optimization to target of >5% |

**Secure sustainability of effects**

- **Variable costs reduction**
  - Radial challenge of large spend 2-5% |

---

### Cash Preservation – Modules

**Cash Preservation** is an actionable holistic approach addressing liquidity management & WCR, consisting of six modules

Business in the driver seat supported by Finance and Procurement

---

Focus on next pages
Implementing a Cash Office will enable to manage liquidity via 13-week plan with clear reporting and iteration cycles.

Cash Office set-up

### Proposed measures depending liquidity shortage

<table>
<thead>
<tr>
<th>Level of liquidity shortage</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Stop all non-vital contracted work</td>
</tr>
<tr>
<td>Low</td>
<td>Strictly demand outstanding invoices</td>
</tr>
<tr>
<td>Medium</td>
<td>Freeze any non-legally binding investments</td>
</tr>
</tbody>
</table>

- **Stop all non-vital contracted work**
- **Cut down other expenses** (travel, catering etc.)
- **Cancel all external events/trainings**
- **Terminate all non-essential internal projects**
- **100% hiring freeze**
- **Stop any orders that are pending approval**
- **Reduce minimum cash balances**
- **Decide on deferring bonus payments**
- **Cut management salary**
- **Reduce external workforce to almost 0**

### Planning Process

- **Monday**
  - Mgmt. board meeting
  - Resolution/approval of liquidity actions
- **Monday/Tuesday**
  - Send 13-week planning of cash-in/lout to Cash Task Force
- **Tuesday/Wednesday**
  - Cash Task Force consolidates individual planning reports and conducts cash calls to validate the input
- **Wednesday/Thursday**
  - Deviation analyses are discussed and agreement reached regarding current planning
- **Thursday/Friday**
  - CFO signs off on the management presentation

### 13-week liquidity plan

- Live consolidation of all necessary cash-outflows and expected cash-inflows (direct cashflow) to determine free liquidity with given credit lines
- Weekly update of 13-week liquidity plan to identify liquidity needs early and initiate required measures

### Illustrative

- **Crisis Management – Immediate future – Cash and working capital management**
Companies must focus on internal cash measures – Preparation of necessary financial assistance by the federal/state government

Internal and external measures

1. Internal measures
   - Cash Office setup
   - Focus accounts receivable management
   - Extension of creditor terms
   - Review investments
   - Setup immediate cost cutting
   - Daily liquidity management
   - Raising liquidity reserves
   - Proactive bank communication

2. Public financial aid
   - Protective shield for businesses and companies
   - Easier access to guarantees
   - Special programs for companies in crisis
   - Export credit guarantees
   - Tax relief
   - Flexibilization of short-time working allowance

Support from Roland Berger during the entire process to achieve liquidity-securing effects through internal and external measures
Securing liquidity means a consistent and immediate reduction of payouts

Ad-hoc measures to secure liquidity

**Cash Pooling**
Consistent "clearing" of account balances in subsidiaries, reduction of minimum cash balances

**Stock optimization**
Reduction of overstocks, adjustment of buffer stocks, adjustment of volumes and order quantity to new sales volume

**Investments**
Stopping investments (even those already started) and reducing them to a minimum – the basis is sensitive planning so as not to endanger the business model in the long term

**Accounts Payable Management**
Switch from cash discount payments to payment terms, extension of payment terms

**Accounts Receivable Management**
Consistent claiming and reminding of due invoices, negotiation of partial/advance payments in project business

**Cost Cut**
Identification of costs that can be stopped immediately: e.g. travel, events, fairs, service providers

In addition to securing liquidity, the core task of internal measures is to ensure solvency
The Cash Office evaluates how and when to implement additional ad-hoc measures to manage short-term needs

Ad-hoc measures checklist (exemplary)

**Personnel**
- Mandate reduction of overtime accounts to 0
- Stop all ongoing salary/wage increases
- Reduce external workforce
- Halt prolongation of temporary working contracts
- Freeze hiring
- Initiate furloughs & temporary salary reductions
- Cut management bonuses
- Develop work-sharing plan
- Prepare for large-scale dismissals
- Agree on later salary payments to your workforce
  ...

**Working capital**
- Clear overstock
- Reduce inventory buffers
- Stop any orders that are pending approval
- Forego early payment discounts
- Negotiate extension of payment dates/ terms
- Demand outstanding invoices strictly
- Reduce minimum cash balances
  ...

**Other operating expenses**
- Stop all non-vital contracted work
- Cut down other expenses (travel, catering etc.)
- Cancel all external events/trainings
- Renegotiate short term conditions with vendors (prices)
- Terminate all non-essential internal projects
- Negotiate payment relief of expenses (rent, loans)
  ...

**Other levers**
- Negotiate partial payment of ordered project work
- Withdraw cash from subsidiaries (incl. in other countries)
- Freeze any non-legally binding investments
- Utilize any available tax deferral options
- Consult experienced legal counsel and financial advisors
- Manage ongoing communication plan with stakeholders
- Leverage potential ‘force majeur’ insurance term
  ...
Scenario-based analysis and rolling forecasts are used to proactively manage liquidity

Liquidity management – scenario planning

**Input**

Roland Berger scenarios

**Output**

Revenue

EBITDA

Cash flow

Roland Berger Analytics & experts

Continuous analysis and assessment of crisis progression for selected regions and industries

Official Roland Berger assessment of liquidity need to be used in discussions with investors, banks and government (state-aid)
Our approach is based on the parallel implementation of internal and external measures to secure liquidity in the short term.

Roland Berger liquidity assurance program

1. Implementation of internal measures
   - Design and implementation of Roland Berger Cash Office to secure short-term liquidity
   - Updating/implementation of daily liquidity planning
   - Update medium-term planning incl. scenarios
   - Ensuring the correct documentation and prompt invoicing of services

2. Obtaining external financial assistance
   - Coordination of the process with stakeholders (house bank, health insurance companies, etc.)
   - Support with the creation of necessary applications to obtain state aid
   - Support with documentation

Implementation of a cash office for implementing the liquidity measures

Fulfilment of the formal and content requirements and coordination of the entire process
Preparation of the Deconfinement Day, 3-5 weeks in advance, will enable a fast ramp-up and a tight control of costs & cash

Prepare the Deconfinement Day

Objectives

> Secure the optimum ramp-up of business operations: product & service delivery, sales, R&D, ...  
  ... in an uncertain context: demand acceleration (or not), supply chain conditions, company assets & employees remobilization

> Prepare cost containment and further cost compression to absorb losses resulting from the shut down: avoid costs coming back to pre-covid level during the ramp-up, turnaround the cost structure ... and potentially restructure

> Deal with extreme cash constraints: ramp-up will keep on burning cash

Approach

> Consider the Deconfinement Day (D.D.) as the start of a race for survival (EBIT, Cash, Stock Market)

> Prepare a robust, detailed and holistic ramp-up and cost containment/compression program ... as for a PMI: realistic demand scenarios, delivery/capacity/inventory planning, actions to reboot of the value chain, cash planning

> Ensure synchronization between internal stakeholders and with external stakeholders (e.g. customers, suppliers, lenders, shareholders)

> Set-up real-time steering of the preparation and of the execution: HR, Operations, Finance, Communication
COVID also creates opportunities to be grabbed after the Deconfinement Day… or even before!

COVID opportunities – Selection

### Suppliers
- Negotiate **favorable long-term terms with suppliers** in exchange for secured volumes
- Refinance with **lower interest rates**

### Regulations
- Negotiate with **Governments Bodies more favorable regulations** to help the industry to recover

### Company
- Catch up on **R&D project backlogs**
- Catch up on **plant evolutions / reparations**
- Negotiate favorable **working conditions with unions** and employees to restore company profitability and ensure its sustainability
- Speed-up **digitalization** by surfing the wave of remote working imposed by COVID

### Ecosystem
- Grab aggressive **M&A opportunities** with distressed / undervalued companies
- More easily build win-win **new alliances** to favor the recovery

### Customers
- Negotiate **specific terms** with best customers in exchange of delivery priority for ramp-up
- Leverage **post COVID Smart Pricing**
- Adapt **CRM / Marketing Campaigns before and after** Deconfinement Day
Anticipating the "new normal" will also mean anticipating and better preparing for future black swans

A better resilience to black swans? Get prepared!

Start by preparing your company to known risks

> **Objectively assess** if your company is prepared to deal with known risks with low likelihood
> **Understand WHY** it is not the case
> **Change mindsets** and update the mitigation plans

Then, prepare your company to deal with unknow risks (the real black swans)

> **Train selected managers**, at all levels of the organization, to deal with the unexpected as **Commandos** do
> **Build a network of sentinels** trained to imagine Black Swans related to your business, run war gaming and propose preventive actions
> **Leverage analytics** to detect risks and evaluate impacts of scenarios to **ease decision making**
> **Disengage from businesses too much favorable to black swan emergence** *(for large conglomerates)*

> **COVID is NOT a Black Swan**, it was a **known risk** that the world did not decided to mitigate enough
> Your company might have **identified risks** and **implicitly decided** not to prepare their mitigation enough
> Black Swans are **unknow risks** that most companies are **not ready to face to** – Most of Black Swans consist in an **unlikely combination of events** that go into resonance to collectively create a disaster
Roland Berger is a global consultancy firm and active in over 50 offices across 35 countries.

Roland Berger at a glance

Founded in 1967 in Germany by Roland Berger

51 offices in 35 countries, with 2,500 employees

Nearly 220 partners serving over 1,000 international clients
Restructuring is in Roland Berger's DNA and supported by an international internal network of seasoned senior experts

Key Roland Berger restructuring experts (non-exhaustive selection)

Supported by a global network of more than 200 consultants with dedicated restructuring expertise, plus the rest of our global network
Please don’t hesitate to get in touch with us to discuss these implications for your business and our solutions for the same.

**Dominique Gautier**  
Managing Partner Canada  

Phone: +1 514 223-1906  
Email: dominique.gautier@rolandberger.com

**Rahul Gangal**  
Partner  

Phone: +1 647 881-1807  
Email: rahul.gangal@rolandberger.com

**Thomas Dupuy d'Uby**  
Senior Project Manager  

Phone: +1 514 601-8865  
Email: thomas.dupuy-duby@rolandberger.com

**Olivier Hazimeh**  
Partner  

Phone: +1 734 276-3446  
Email: oliver.hazimeh@rolandberger.com

**Brandon Boyle**  
Managing Partner Canada  

Phone: +1 248 525-8924  
Email: brandon.boyle@rolandberger.com

**Giovanni Schelfi**  
Principal  

Phone: +1 312 330-1438  
Email: giovanni.schelfi@rolandberger.com