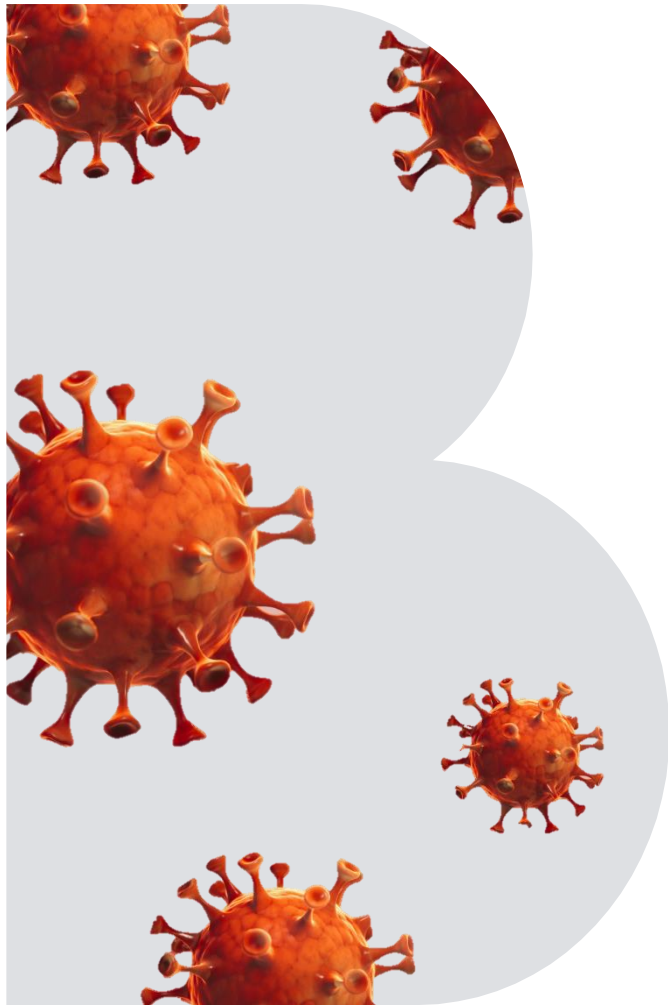


# COVID-19 impacts & priorities



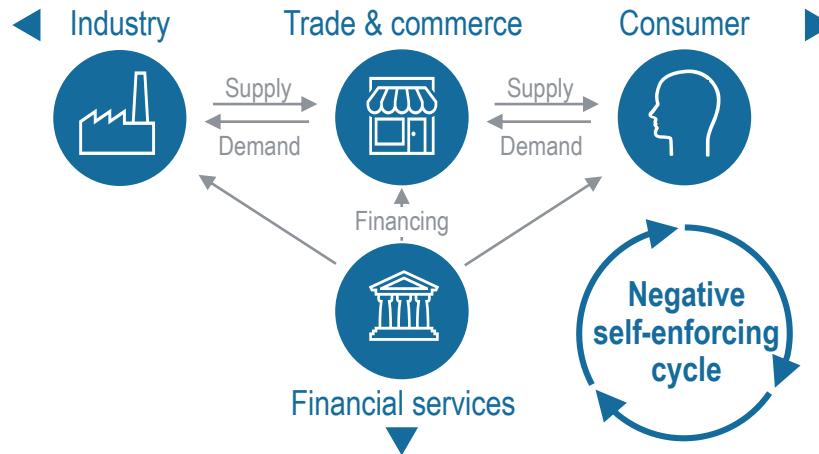
# Confinement measures have triggered economic crises all around the world with impacts across all parts of the economy

## 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 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

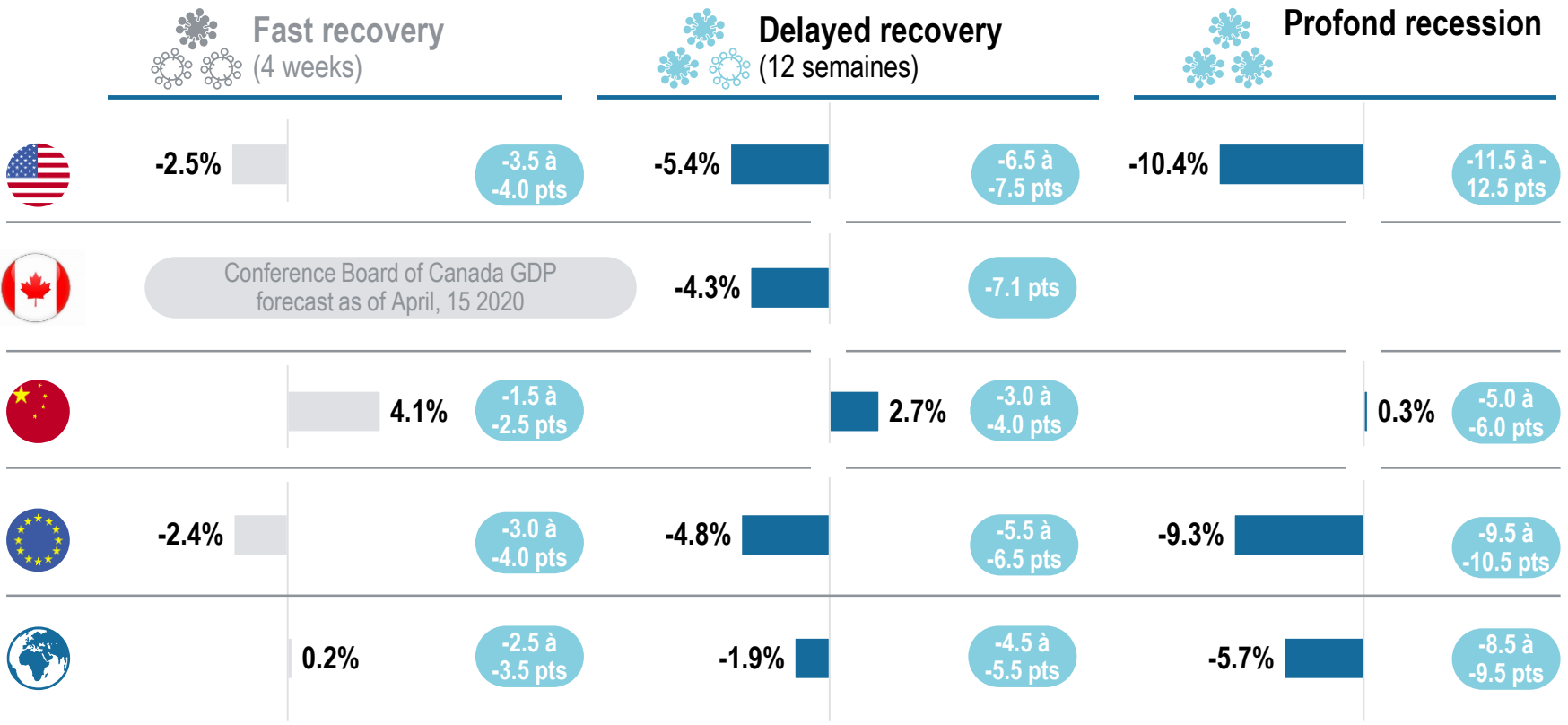
## Overview of main scenarios



	 <b>Fast recovery</b> (4 weeks)	 <b>Delayed recovery</b> (12 semaines)	 <b>Profond recession</b>
<b>Scenario description</b>	<ul style="list-style-type: none"> <li>&gt; Government's preventive measure have been effective and number of new cases are under control</li> <li>&gt; Quarantine measures are successively reduced after a 4-week period of economic disruption</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Virus continues to spread leading governments to extend social and economic restrictions</li> <li>&gt; Measures become effective only in mid Q2 2020 and recovery starts after a 12-week period of economic disruption</li> </ul>	<ul style="list-style-type: none"> <li>&gt; High number of infections over a long time frame despite full lock-down in place</li> <li>&gt; Health system are overwhelmed</li> </ul>
<b>Potential economic impacts</b>	<ul style="list-style-type: none"> <li>&gt; Recession in 2020, negative growth in Q2 2020, recovery in Q3 2020</li> <li>&gt; Supply chock is limited as shut-down only impact certain companies until the first weeks of Q2-2020</li> <li>&gt; Consumer confidence only stirred, not shaken</li> <li>&gt; Quick recovery based on the strong US economy, stable domestic consumer and governmental demand and relief packages</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Recession in 2020, very deeply negative growth in Q2 2020, recovery not before Q4 2020</li> <li>&gt; Lengthy disruption of production</li> <li>&gt; Although companies are supported by governmental relief packages, many cut their staff numbers, leading to lower consumer demand and rise in unemployment</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Strong perturbation of production as many companies go out of business</li> <li>&gt; Unemployment increase significantly</li> <li>&gt; The collapse of the oil market hits the North American economy hard</li> <li>&gt; Lack of government capacity to stimulate economic growth</li> <li>&gt; The situation is exacerbated by the bursting of asset (housing) and credit (credit cards, student loans) bubbles</li> </ul>
<b>Assessment</b>	 <b>Not realistic anymore</b>	 <b>Most likely</b>	 <b>Still possible</b>

# 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]

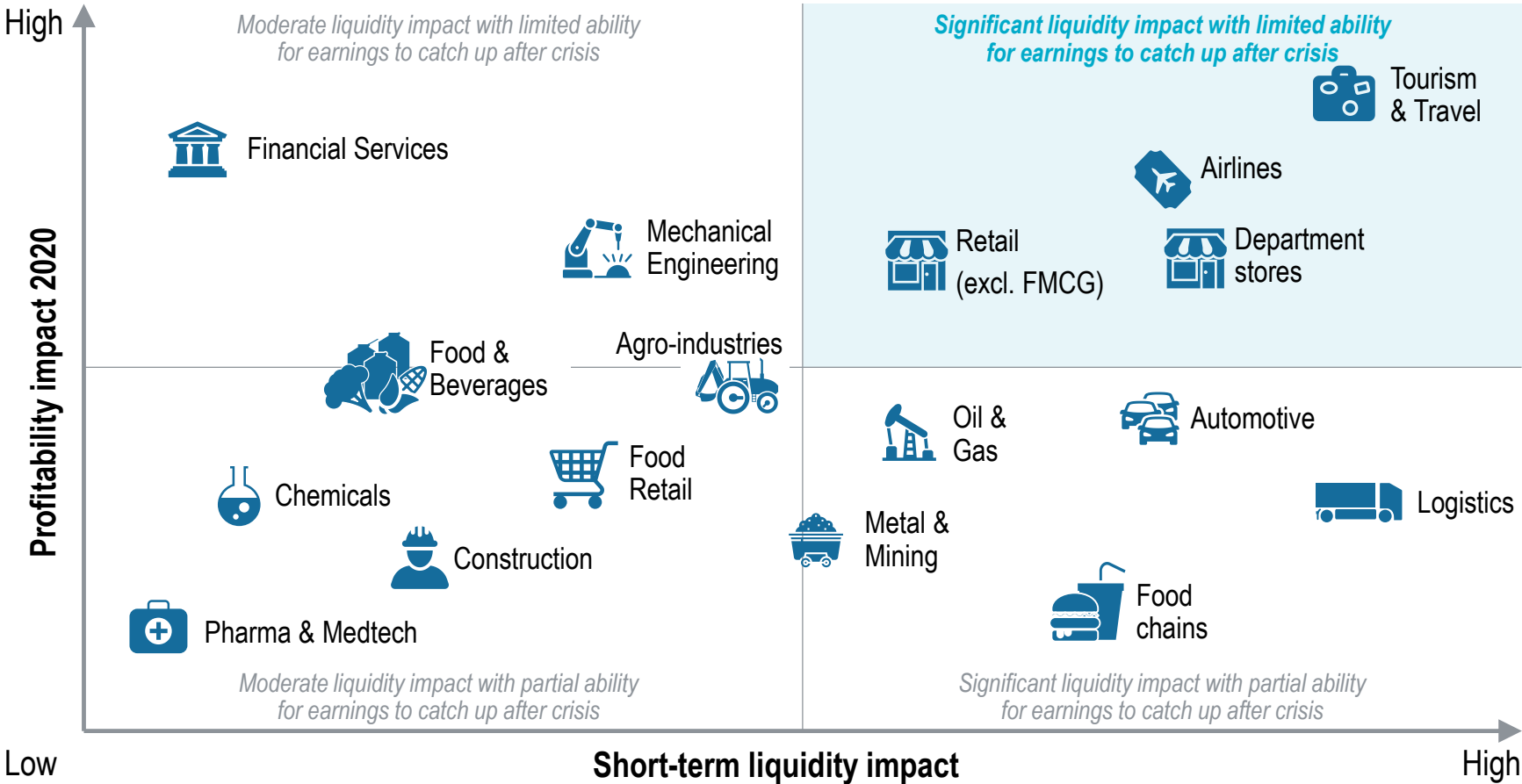
**Volatile figures**



 GDP growth in 2020 [%]     % points – Cumulative impact on GDP in 2020 (compared to projected GDP growth in 2020)







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

## Potential impact by sector – Selection



# Smaller firms will be hit harder, driving dramatic knock-on repercussions given their paramountcy in providing employment

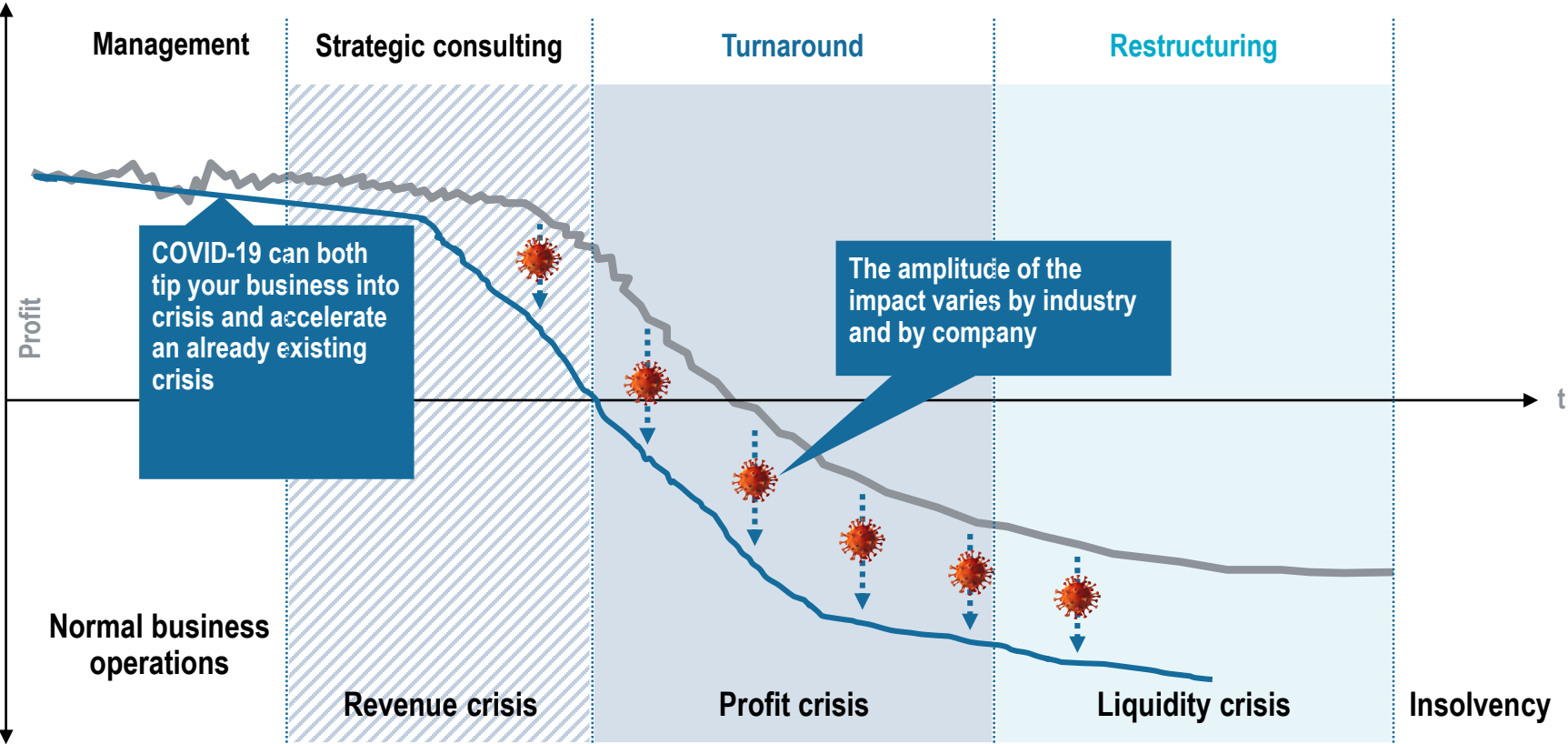
## Differentiated crisis impact across company sizes


Company size [annual revenue]	Potential trajectory	Contributing factors (illustrative – non exhaustive)
 <p><b>MNCs and large corporates</b> [ &gt; 500 M ]</p>		<ul style="list-style-type: none"> <li>&gt; Usually large cash reserves</li> <li>&gt; High chance of bail-outs by government</li> <li>&gt; Typically less long-term demand elasticity</li> <li>&gt; Significant cost down scalability</li> <li>&gt; Low cost credit for carrying asset investments</li> <li>&gt; Professional crisis management</li> </ul>
 <p><b>Medium-sized companies</b> [ 25 &lt; x &lt; 500 M ]</p>		<ul style="list-style-type: none"> <li>&gt; Medium cash reserves and robust services</li> <li>&gt; Significant bail-outs possible</li> <li>&gt; Mission critical value propositions (e.g. automotive suppliers, technology)</li> <li>&gt; Fewer capital raising opportunities</li> </ul>
 <p><b>Small businesses</b> [ &lt;25 M ]</p>		<ul style="list-style-type: none"> <li>&gt; No / little cash reserves</li> <li>&gt; Government support comes slowly and with hurdles</li> <li>&gt; More onerous or patchworked assistance / weak 'individual negotiation' posture</li> <li>&gt; Heavily impacted value proposition</li> </ul>

# 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

Illustrative



 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"





# Based on our experience, external support is particularly relevant for 3 main topics during crisis management

## Main relevant topics for external support

### 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)

Each War Room is focused on anticipating issues, ensuring up & down communication, proposing and making fast decisions

Priorities for War Rooms

<b>Human Resources War Room</b> <ul style="list-style-type: none"> <li>Ensure total employees safety</li> <li>Leverage government support schemes in each region</li> <li>Manage social issues, with transparency and swiftness – watch psychological risks</li> <li>Communicate empathetically with employees, create a sense of community</li> </ul>	<b>Production &amp; Supply Chain War Room</b> <ul style="list-style-type: none"> <li>Monitor the desynchronization between regions: CN, EU, US, India... that will not be in the same dynamic at the same moment</li> <li>For remaining running activities, closely monitor all critical purchases and react immediately (e.g., finding alternative suppliers) if risks increase significantly or materialize</li> </ul>
<b>Finance &amp; Procurement War Room</b> <ul style="list-style-type: none"> <li>Monitor financial parameters (liquidity, covenants), negotiate with lenders</li> <li>Implement spend compression and cash mgmt. measures</li> </ul>	<b>R&amp;D War Room</b> <ul style="list-style-type: none"> <li>Reorganize R&amp;D programs, focus resources working remotely on tasks not requiring lab/testing or validation</li> <li>Leverage global footprint (and deconfinements) to deal with urgencies</li> </ul>
<b>Sales War Room</b> <ul style="list-style-type: none"> <li>Ensure commercial continuity. Keep a link with customers, adapt business model and value proposition if needed</li> <li>Take decisions on media investment</li> </ul>	<b>IT &amp; Digital War Room</b> <ul style="list-style-type: none"> <li>Enable distant work: identify relevant tools, define and communicate on rules, support change management, ensure bandwidth</li> <li>Monitor cyber risks and IT upgrades</li> </ul>

Company can immediately compress spend by up to 30% towards the implementation of eight modules

Spend Compression – Modules

I Compress spend		II Secure sustainability of effects	
Spend Level ↓ up to 30% savings		"Lose" reductions or anchorage in budgets	
Compress...		Sustain... Corridor	
1 "Demand Challenge" Radical challenge of large spend	2 "360° Spec Challenge" Radical review of approved spend and specification regarding specs, comfort, link, etc.	3 "Commercial Pressure" on top/legacy suppliers (re-negotiation, lock-downs etc.), target of >5%	4 "Budget Cut" Immediate cut of current budget, reflection for future budgets
5 "Negotiation Factory" Sourcing alternatives and "Post-procurement" discount claim	6 "Muds last dance" Radical identification of excessive expenditures leveraging input from employees and streamlined implementation	7 "Supplier contribution" smaller suppliers (general, undifferentiated, extra savings demand 2-5%)	8 "Control Tower" Digitally enforced process / Speed compliance to monitor risks of savings leakage

Business in the driver seat supported by Finance and Procurement

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

Cash Preservation – Modules

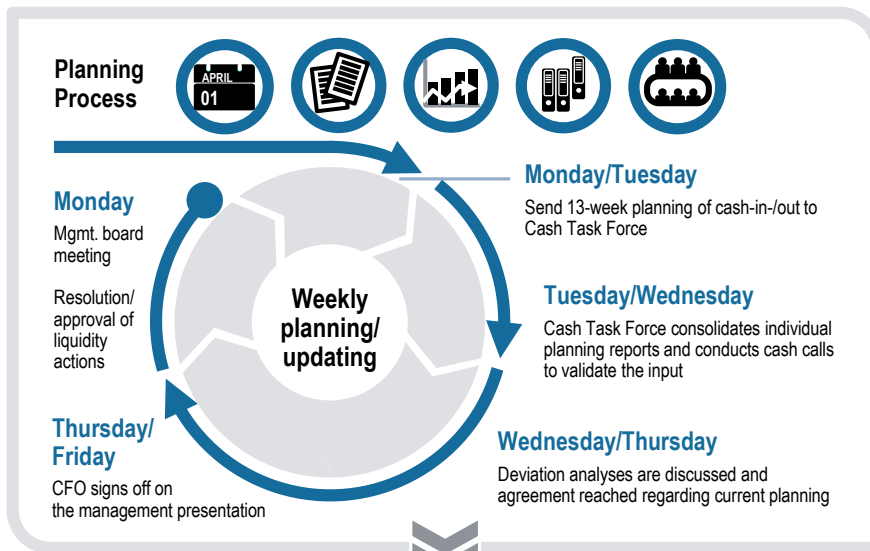
- "Variable costs reduction"**
  - > Investigate activities where non-permanent workforce can be reduced/stopped and reallocated to permanent workforce
  - > Stop/layoff recruitment...
- "Trading and cash flows reforecasting"**
  - > Evaluation of impacted operations
  - > Scenarios planning and cash requirements estimation
- "Financing flexibility Negotiation"**
  - > Regular discussions with financial stakeholders to get financial support & ensure lines of credit
  - > Exploration of re/additional options incl. supply chain financing
- "Supply Chain risks insurance"**
  - > Insurance policy for supply chain risks negotiation
- "Supply & Production Continuity"**
  - > Key trading terms assessment
  - > Assessment of suppliers capacity to maintain business continuity & contingency plans definition
  - > Stock quick reduction & JIT production
- "Transactions Audit Factory"**
  - > Audits on payables and receivables transactions
  - > Extension of payables and quick collection of receivables

Business in the driver seat supported by Finance and Procurement

# Implementing a Cash Office will enable to manage liquidity via 13-week plan with clear reporting and iteration cycles

## Cash Office set-up

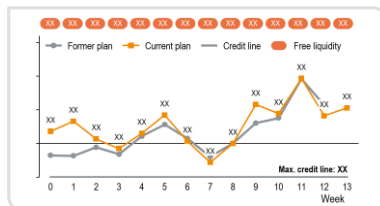
Illustrative



### Result

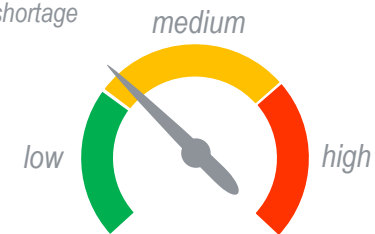
- > Live consolidation of all **necessary cash-outflows** and **expected cash-inflows** (direct cashflow) to determine **free liquidity with given credit lines**
- > **Weekly update** of 13-week liquidity plan to **identify liquidity needs early and initiate required measures**

### 13-week liquidity plan



### Proposed measures depending **liquidity shortage**

level of liquidity shortage



- | low  | medium  | high   |
|--|---|--|
| <ul style="list-style-type: none"> <li>&gt; Stop all <b>non-vital contracted work</b></li> <li>&gt; Cut down <b>other expenses</b> (travel, catering etc.)</li> <li>&gt; Cancel all <b>external events/trainings</b></li> <li>&gt; Terminate all <b>non-essential internal projects</b></li> <li>&gt; ...</li> </ul> | <ul style="list-style-type: none"> <li>&gt; Strictly demand <b>outstanding invoices</b></li> <li>&gt; <b>Freeze</b> any non-legally binding <b>investments</b></li> <li>&gt; 100% <b>hiring freeze</b></li> <li>&gt; Stop any <b>orders</b> that are <b>pending approval</b></li> <li>&gt; ...</li> </ul> | <ul style="list-style-type: none"> <li>&gt; Reduce <b>minimum cash balances</b></li> <li>&gt; Decide on <b>deferring bonus payments</b></li> <li>&gt; Cut <b>management salary</b></li> <li>&gt; Reduce <b>external workforce</b> to almost 0</li> <li>&gt; ...</li> </ul> |

# 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

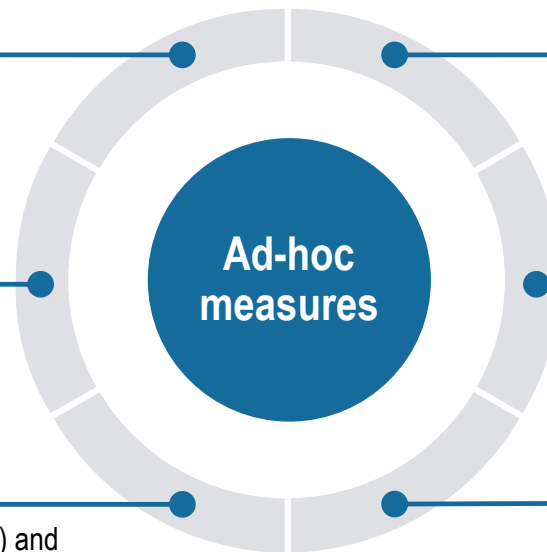
Consistent "clearing" of account balances in subsidiaries, reduction of minimum cash balances

### 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
- ...

### 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)
- ...

### 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 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 majeure'** insurance term
- ...

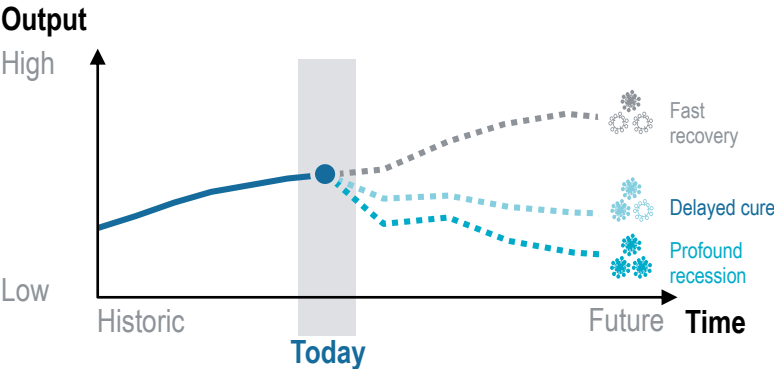
# Scenario-based analysis and rolling forecasts are used to proactively manage liquidity

Liquidity management – scenario planning

Illustrative

## Input

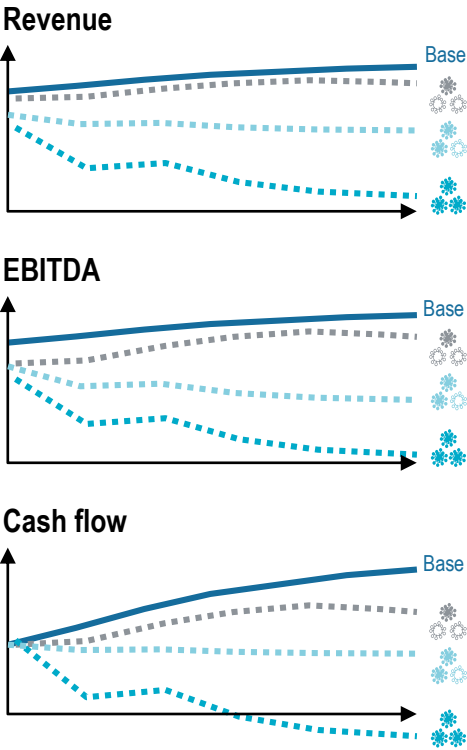
Roland Berger scenarios



## Roland Berger Analytics & experts

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

## Output



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


Roland Berger approach

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

Implementation of a cash office for implementing the liquidity measures 

### 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**

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 a 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

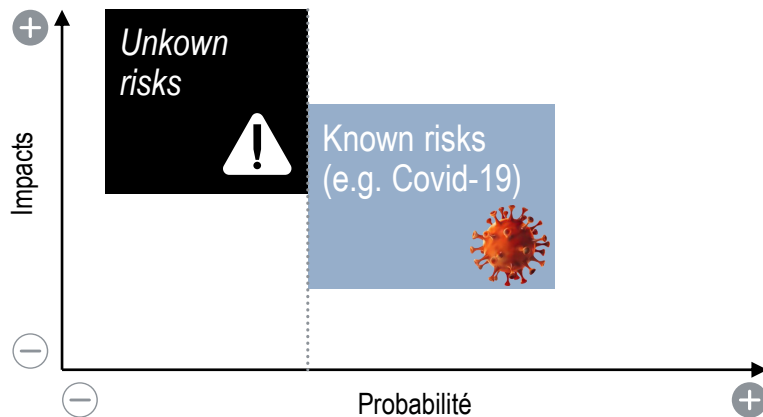
- > Grab aggressive **M&A opportunities** with distressed / undervalued companies
- > More easily build win-win **new alliances** to favor the recovery

### 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!



- > **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



## 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*)

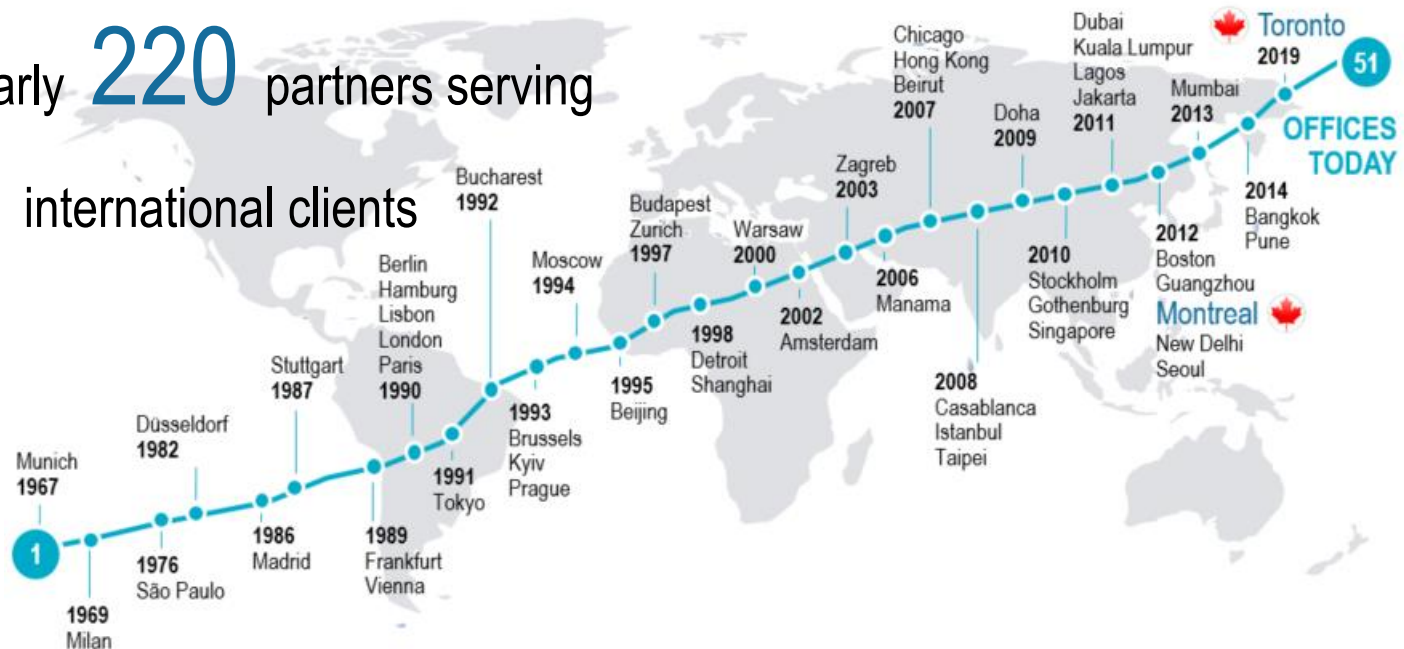
# Roland Berger is a global consultancy firm and active in over 50 offices across 35 countries

Roland Berger at a glance

Founded in **1967** in Germany by Roland Berger

**51** offices in **35** countries, with **2500** employees

Nearly **220** partners serving over **1000** 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)




    <p>Dominique Gautier Rahul Gangal Thomas Dupuy d'Uby</p>	    <p>Didier Brechemier Thierry Duvette Julien Gautier</p>	       <p>Sascha Haghani Christian Fischer Michael Blatz Sven-Erik Gless Christof Huth Andreas Robeck</p>	<p><b>Asia</b></p>     <p>Thomas Klotz Kuhan Jeganathan Anthonie Versluis Philippe Chassat</p>		
   <p>Olivier Hazimeh Frederic Choumert</p>	    <p>Eric Kirstetter Ambroise Lecat Julien Nathan Magali Testard</p>	      <p>Gerd Sievers Falco Weidemeyer Tim Zimmermann Fabian Engels Joerg Eschmann Matthias Holzamer</p>	     <p>Alex Xu George Ren Isao Endo Takashi Watanabe</p>		
  <p>Brandon Boyle Giovanni Schelfi</p>	     <p>Andrea Marinoni Edoardo Demarchi Roberto Crapelli Paolo Massardi</p>	   <p>Fabian Huhle Sven Kleindienst Klaus van Marwyk</p>	     <p>Jens Nackmayr Vladimir Preveden Rudolf Kemler Roland Falb</p>	    <p>Jeffrey Jacob Keisuke Takahashi Keisuke Yamabe</p>	
   <p>Gustavo Lopes Jorge Pereirada Costa</p>	     <p>Rene Seyger Tijo Collot d'Escury Alexander Belderok Mark de Jonge</p>	  <p>Michel Vlasselaer</p>	   <p>Jan Beckeman Gunnar Albemark</p>	   <p>Maria Mikhaylenko Eduard Cherkin</p>	<p><b>Middle East</b></p>     <p>Sassan Hatam Vatche Kourkejian Johannes Distler Mark de Jonge</p>

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




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