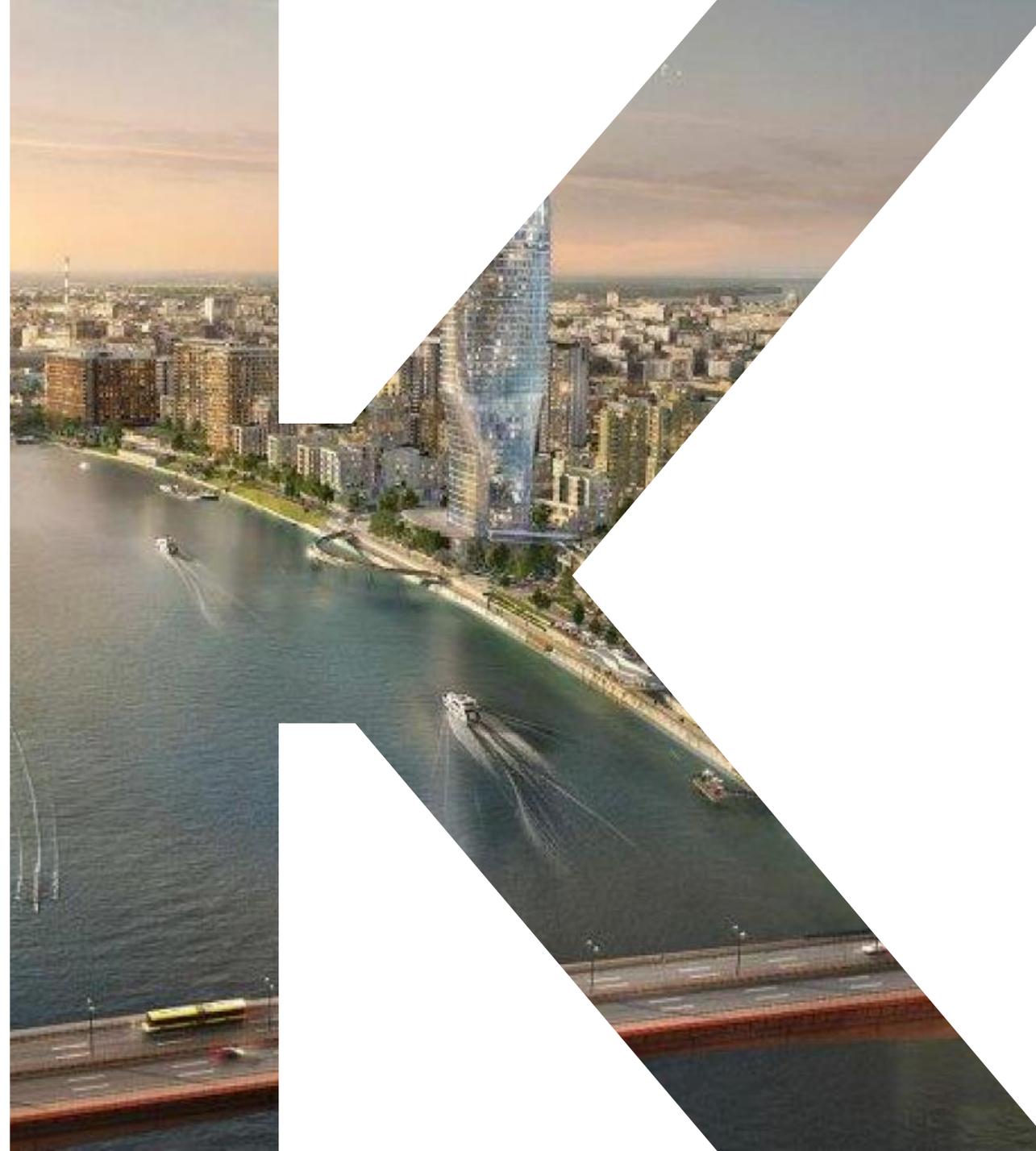


Crisis Response in Times of COVID-19 and Beyond

March 19, 2020

KEARNEY

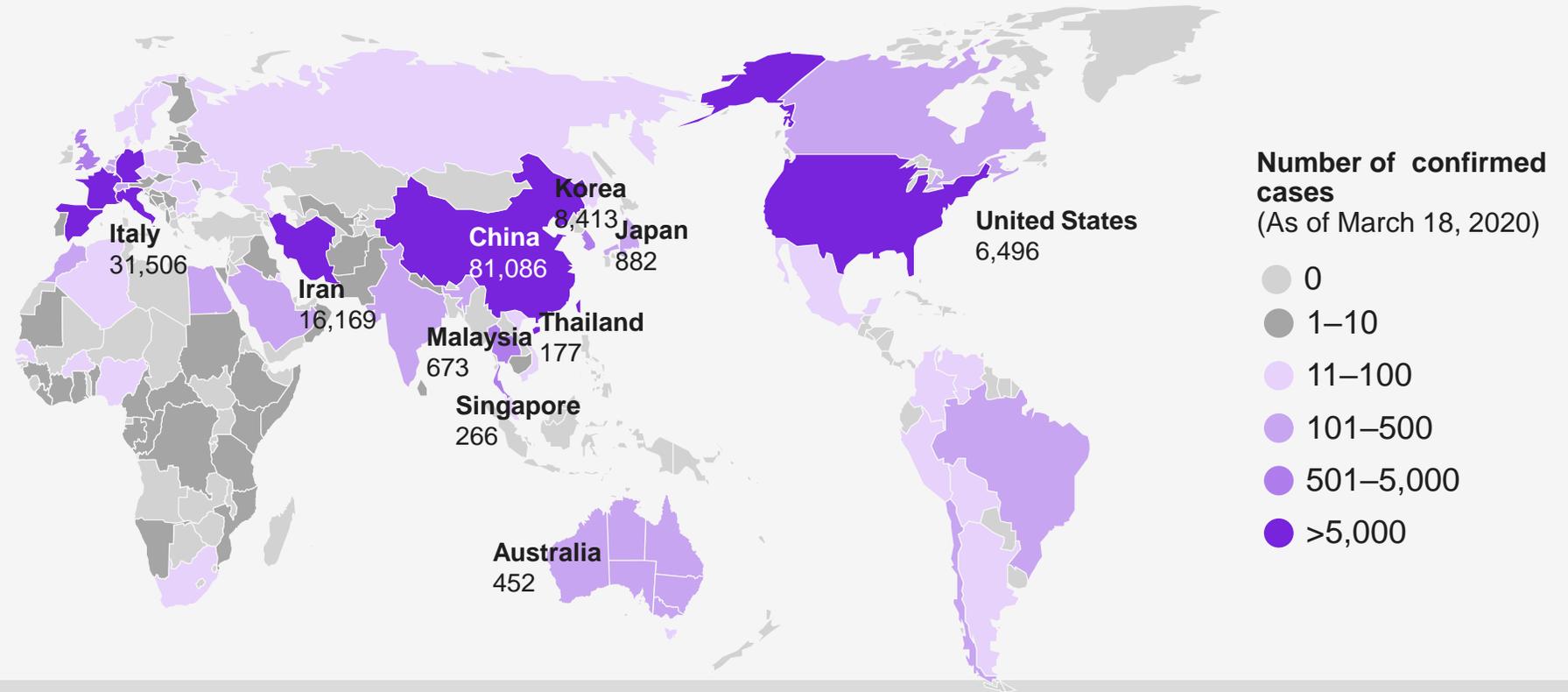


Executive Summary

- **COVID-19 is a black swan event**; traditional ‘crisis response’ approaches will not be enough, we are witnessing an seemingly unparalleled market turmoil
- **Further global crises** such as the **ongoing oil price war** increase both magnitude and quickness of the global economic downturn
- **Protect employees and customers** is first and foremost business responsibility, necessary protective measures need to be taken, **rigorously and immediately**
- The **need for containment** to slow the spread of the virus will result in “island like” and potentially longer lasting **separation of national economies** in a world that relies on globalization
- **Scenario planning for the extreme is paramount** – wait and see is not an option, your business needs to be prepared for the worst
- Considering the nature of the current crisis and its impact on personal and workforce freedom of movement, substantial **supply chain and corresponding revenue disruptions** will be inevitable – a **liquidity crisis will become likely** for many businesses
- **Contingency plans** and a set of **immediately executable actions** must be defined to ensure quick and effective decision-making
- No one knows how long the downturn will prevail – do **not plan with a quick rebound of demand** but for a longer period of “crisis mode”, a **comeback strategy** needs to be in place though to be in the **pole position for the global “re-start”**
- You need to immediately appoint and enable a global **“Instant Response Leadership Team”**, dedicated on crisis management only, seven days a week

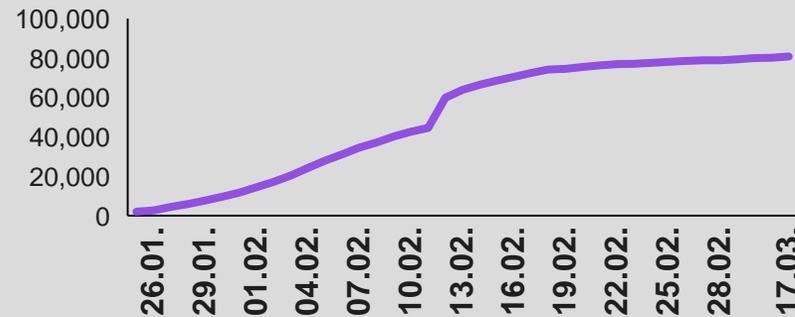
The COVID-19 outbreak is disrupting manufacturing and global value chains, with grave consequences for businesses, consumers, and the global economy

Number of confirmed COVID-19 cases worldwide

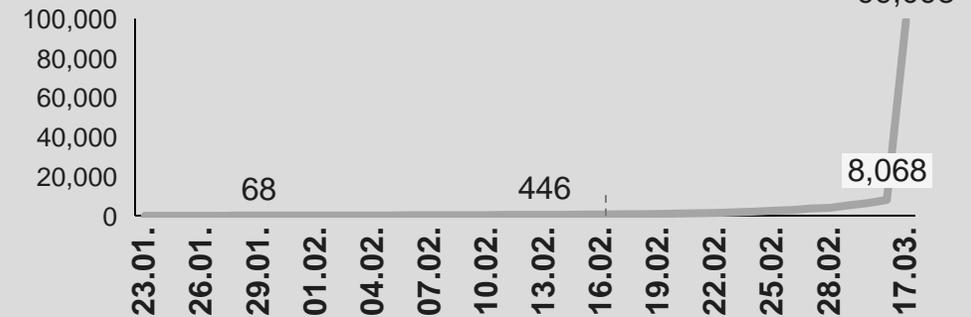


As of March 18

Greater China (including Hong Kong, Macao, Taiwan)



Outside Greater China



1. Including Diamond Princess
Sources: WHO; Kearney analysis

It is not just COVID-19 – other disturbances are challenging the global economic situation

Oil price war

No one is likely to win the oil-price war

Coronavirus and a price war battered oil markets. But the real victims will be far from Wall Street

No End in Sight to the Oil Price War Between Russia and Saudi Arabia

COVID-19

Coronavirus deals China's economy a 'bigger blow than global financial crisis'

Economists predict COVID-19 will lead to a recession

Coronavirus Will Bankrupt Most Airlines by May Without Government Help, Analyst Warns

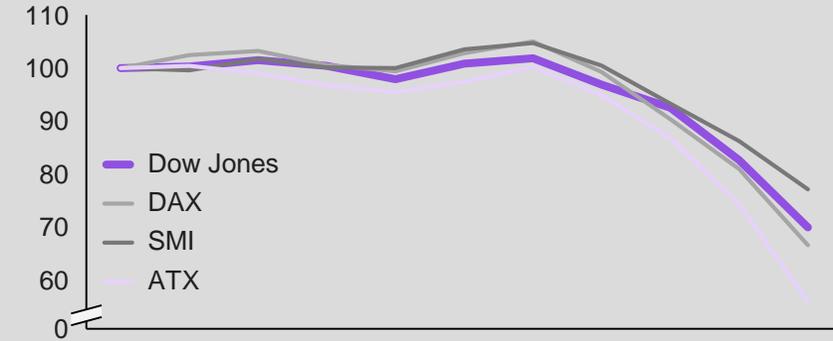
Brexit

'Coronavirus? We're more worried about no-deal Brexit,' say UK firms

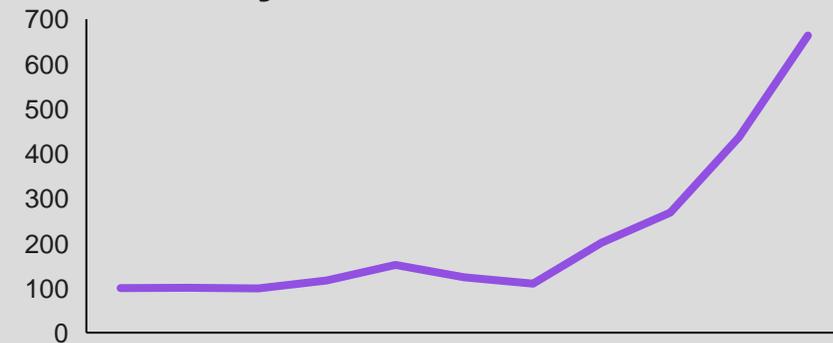
Brexit Is Here: The EU and UK Must Brace for the Consequences

Unexpectedly bad data leaves Europe with little margin for error as Brexit takes effect and the coronavirus looms.

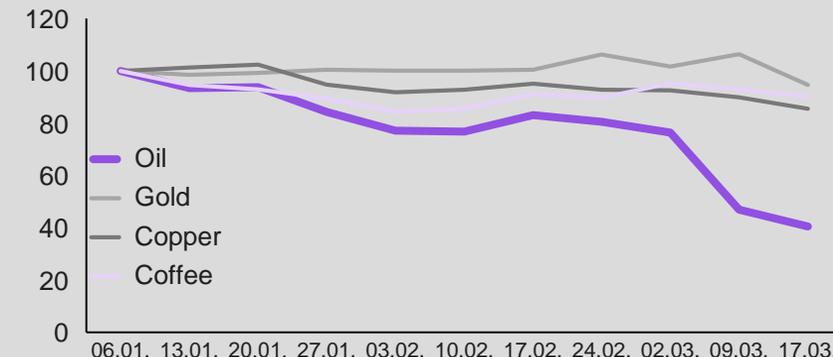
Global stock market development



VIX Volatility Index



Global commodity price development



As of March 17

Companies need to tackle COVID 19 in 3 dimensions – all now, all immediately

Move immediately

Employee **protection & safety**

Business **continuity planning**

Operational **fire-fighting**

Cash & liquidity management

External relations management

Read the Signs

Achieve **clarity on impact on business** for next 6,9,12 months

Develop potential scenarios and respective impact of each scenario

Define respective **triggers to launch**

Capture **opportunities in the crisis**

Prepare & Act

Define **set of actions** for each:

- Supply chain & production
- Sales & marketing
- HR related
- Finance & liquidity

Global coordination of activities across country borders and various crisis status

1

2

3

Most companies have already immediate actions in place – some will still miss out some of the points

1



By taking immediate actions in multiple dimensions, the negative business impact of the crisis can be best mitigated

1

A Employee protection & safety

Checklist

- ✓ Monitor and track employee health status
- ✓ Follow most conservative disease control protocols
- ✓ Define travel guidelines & quarantine requirements
- ✓ Plan for flexible work plans and home office
- ✓ Plan for employee relief measures

A

B Business continuity planning

Checklist

- ✓ Define and align leaders and reporting structures
- ✓ Define clear decision-making processes and responsibilities as well as “new modus operandi”
- ✓ Define range of possible scenarios and measures
- ✓ Ensure and support supplier stability

B

C Operational fire fighting

Checklist

- ✓ Define and execute contingency measures
- ✓ Safeguard most critical customer groups
- ✓ Real-time issue monitoring and response management
- ✓ Secure crucial raw materials for business continuity
- ✓ Categorize ops by level of business criticality

C

D Cash & liquidity management

Checklist

- ✓ Review current financial exposure and short-term financing need
- ✓ Investigate measures to stabilize cash flows and maintain liquidity
- ✓ Define immediate cost reduction measures and corresponding triggers
- ✓ State aid / rescue finance programs

D

E External relations management

Checklist

- ✓ Ensure continuous and transparent communication to external stakeholders
- ✓ Reconsider marketing efforts and cautiously select marketing channels – do avoid freezing all marketing efforts

E



Three Scenarios seem currently realistic



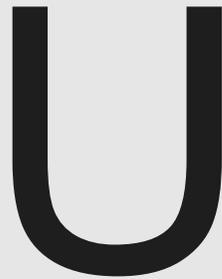
The V-Shape – Quick Recovery

What you believe:

- Firm reaction across countries leads to effective containment
- Seasonality of virus impact
- Peak impact coming soon

What it means:

- Short-term business disturbance until April/May 2020
- Strong recovery thereafter
- Global trade flows picking up quickly



The U-Shape – 2020 is Gone, but it'll be fine

What you believe:

- Public reaction not effective to stop spreading of the virus
- Seasonality of virus impact longer
- Medical treatment still in 2020 possible

What it means:

- Business disturbance will remain through Q2 and Q3 2020
- Slow recovery as of Q4 2020
- Growth to be expected as of 2021



The L-Shape – 18 Months Downturn / Recession

What you believe:

- COVID 19 is the trigger for global recession
- Volatility and insecurity on capital markets remain
- Commodity markets react with strong downturn

What it means:

- Short term disturbances lead to longer market correction
- Insecurity leads to substantially lower investments

Regular updates
on financial
scenario planning
now is paramount

V



U



L



Regular Scenario Planning Adjust 2020 Forecast Regularly

As the crisis – COVID 19, commodity, global recession - further evolves, **regular updates are needed**, as the overall scenarios might change as well as the respective impact on the business

Bi-weekly review and adjustment of parameters currently seems appropriate

Determination and integration of **mitigation actions** respective to relevant scenario

Determination of current and future **cash position vis-à-vis existing credit lines**; integration of **counter – measures respective to relevant scenario** (e.g. CAPEX management, working capital management)



At this point no one can reliably predict when and if at all we will return to the “old business world” at all – there is a good chance that we will be facing an entirely new “new normal”

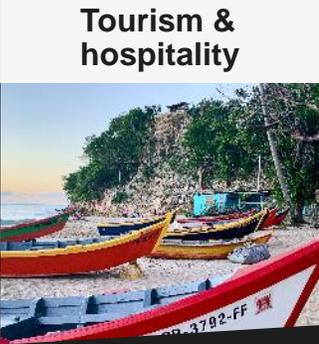
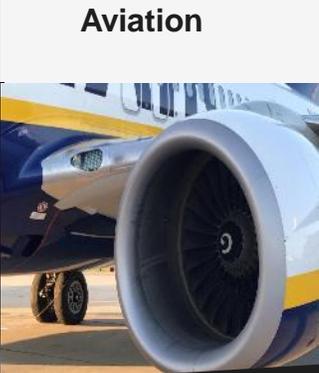
2

Scenario impact – All industries will face significant negative impact. Impact on aviation, oil & gas and tourism & hospitality expected to be longest lasting

Scenario: The U-Shape – 2020 is Gone, but it'll be fine

2

Industries and estimated quickness of recovery



Longest

Industry impact of COVID-19

- Severe supply chain challenges issues in **Asia and especially China**
- Supply delays to be expected **particularly in semiconductors**, and other electronic components
- Overall **recovery expected to resume soon**, especially for semiconductors

- Depending on **country-specific regulations**, moderate to high immediate impact on private consumption
- **Online retail** may experience **significant sales growth potential** which may be **limited by labor shortage** though
- Relatively quick recovery assumed once situation improves

- Significant **decline in cust. demand** especially in key growth market China
- **Supply chain disturbance to be expected** mainly for electronic components, battery production and overall labor shortage
- **Tight inventor.** limit production capacities in 6-10 weeks from now

- Severe and sustained industry headwinds to be expected driven by **national travel and entry bans**
- Many airlines expected to **rely on state sector loans** to survive, especially in Europe
- Pace of recovery may differ significantly by region, overall, **domestic travel** expected to **rebound quickest**

- Current severe oil price decline driven by **short-term supply surplus** e.g. due to decline in public and private transportation
- Turnaround to be expected with resumption of customer demand
- **Long-term price depression possible** once seasonality of virus becomes foreseeable

- Industry player experience severe revenue declines globally – **even countries with no local transmission**
- **Delayed recovery expected** due to overall public caution
- **Pace of recovery may differ significantly by region**, overall domestic travel expected to rebound quickest

Prepare & Act – now!

3

Supply Chain & Production



- Assess **supply-chain disturbance** over time per component and define mitigation measures
- **Determine** potential **counter measures**, e.g. alternative routing, stocking warehouses, alternative suppliers, price adjustments
- Assess **capacity impact in production** and necessary adjustments, e.g. shift patterns, line closures, site closures

Sales & Marketing



- Assess **impact on order-book** (cancellations?!) and short-/medium term order-intake, review demand-supply forecasting
- Develop **appropriate mitigation actions**, e.g. volume-price concessions
- Proactively **address key customers' concerns**, e.g. by waiving cancellation fees

HR- Related



- Determine **adjusted workforce demand**, e.g. revised order book/ strict project prioritization
- Assess **current workforce supply** (fixed, temp, contractors) and operating hours **triggering room for capacity adjustments**
- Evaluate **actions to readjust workforce related costs**, a) strict hiring control/ freeze, b) (temporary) workforce reduction, c) payment adjustments: overtime, vacation, bonus
- Kick-off **immediate execution** and **continuously challenge level of target achievement** (fin. impact) in line with triggers (people movements and cost per employee)

Financing

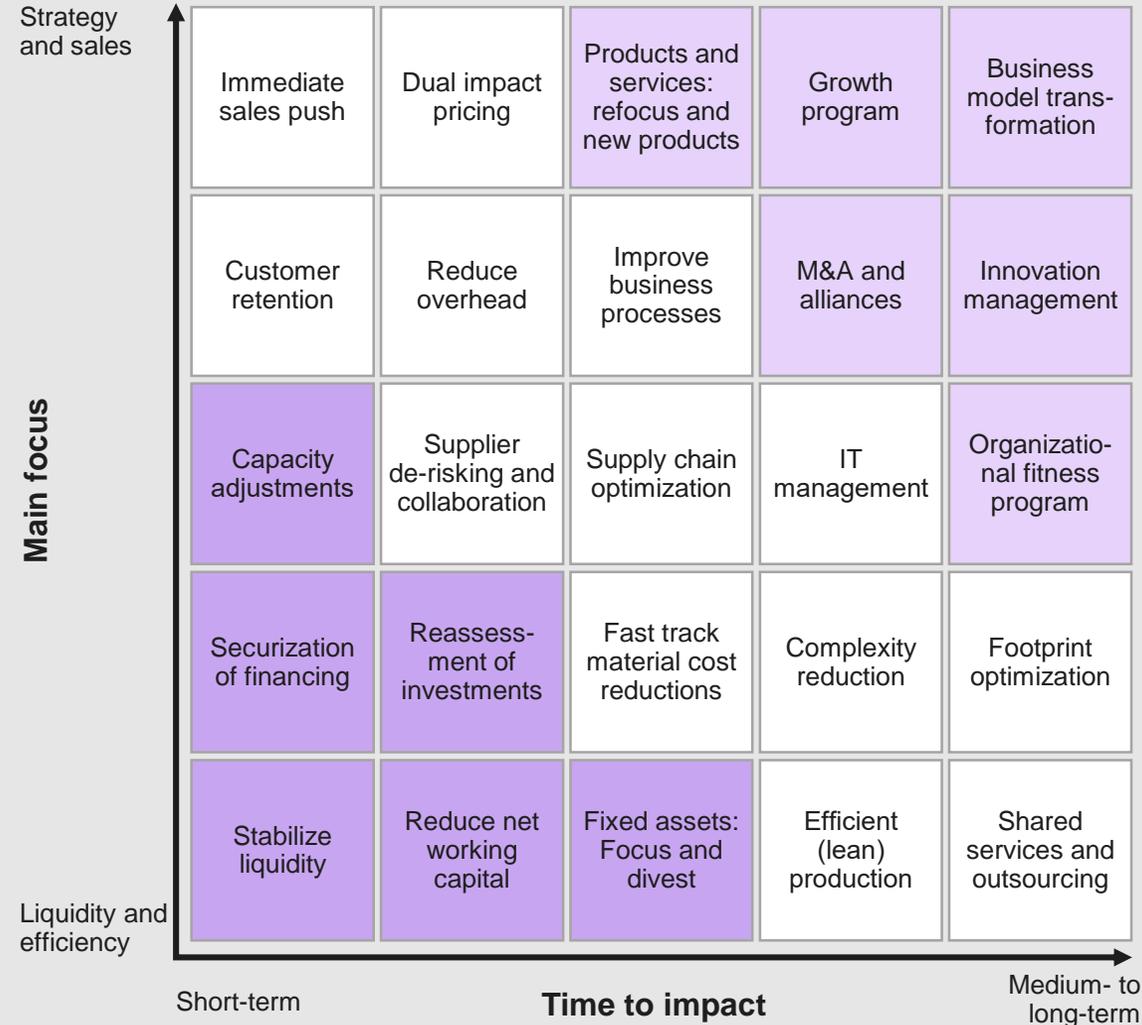


- Assess short and medium term **financial leeway**
- Assess potential to **reduce current cash consumption** e.g. by:
 - Stop/ Challenge CAPEX
 - Improve Working Capital
 - Stop non-critical consulting engagements
- Start negotiation with financiers to **secure remaining mid term cash needs**

Companies need to act quickly and decisively – main focus are actions with short term-impact on liquidity and efficiency

3

Improvement measures range from hands-on to complex



Considering the magnitude of the current crisis, **companies need to act quickly and decisively.**

As such, the focus should be on efficiency and cost cutting **measures with immediate or short-term impact on liquidity and efficiency**

Opportunities ahead – a well managed response to a crisis can create new opportunities that can be harvested

First things first – not hundreds in parallel

- Focus on the core and adjust accordingly
- Diversify from efficiency to robustness
- Simplify product portfolio/ complexity



Not exhaustive

Consider it a point of departure – not arrival

- Take the opportunity to right-size the business
- Restructure the organization or initiate cultural change
- Take time to streamline processes / the business model

Take risks – you can't avoid it these times

- Unlock new accounts/ market segments
- Review potential partnerships/ M&A opportunities
- Establish new way of working, pushing e.g. digital

3

How Kearney can support you – fast and pragmatic

**Development of /
validate
immediate action
plan**

**Discuss and
assess potential
scenarios with
you and your
teams**

**Support financial
planning**

**Definition of
mitigation actions**

**We help you
focusing on your
immediate
business**

**Support
discussion with
financers**

**Execution of
mitigation actions**

Our approach is straightforward and delivers immediate results and a growing advantage

Get set-up
≤1 week

Senior team wake up and alignment

Operational team setup and empowerment

Move immediately
1-4 weeks

Employee protection and safety

Business continuity planning

Operational fire fighting

Cash and liquidity management

External relations management

Read the signs
1-4 weeks

The V-Shape
Quick recovery

The U-Shape
2020 is gone, but it'll be fine

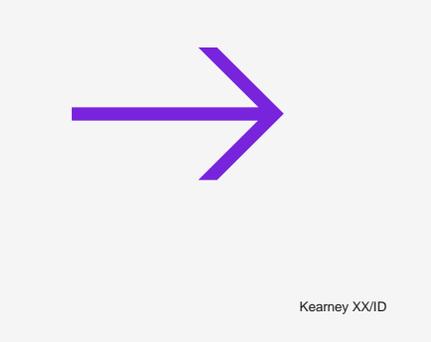
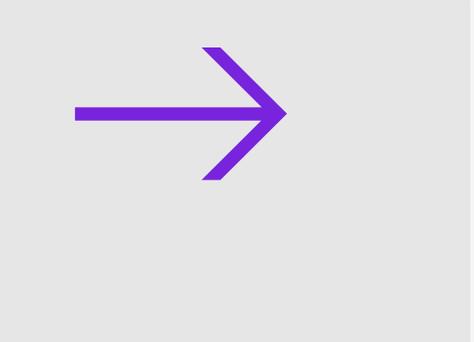
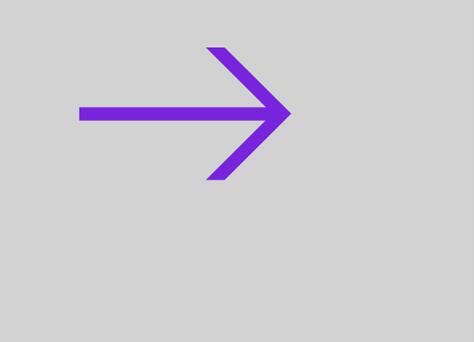
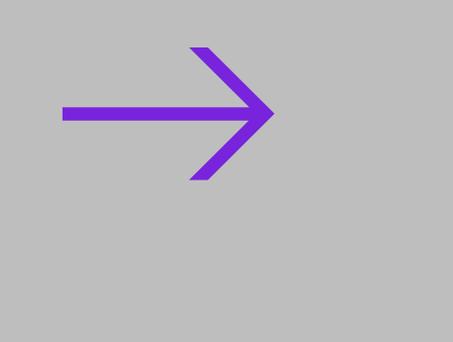
The L-Shape
18 months downturn/recession

Prepare and act
≥2 weeks

Play offense, not just defense:

- Supply chain & manufact.
- Sales & marketing
- HR-Related
- Financing

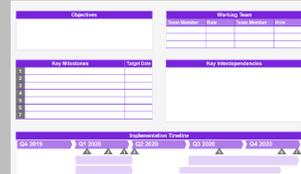
Ongoing program management including communications and engagement (agile; 'handbrake' vs. 'break glass' initiatives)



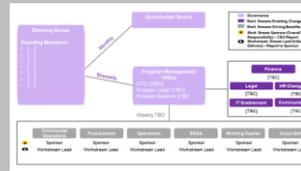
We have proven tools & techniques that we can deploy quickly at every stage to assist program execution

Get set-up ≤ 1 week

- Project charter



- Governance structure

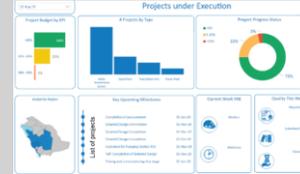


- Impact estimation



Move immediately 1-4 weeks

- Real-time dashboards



- Situation assessments

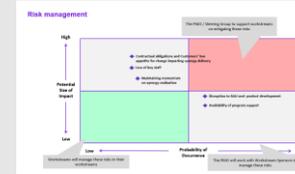
Country	Units	Value	Capacity	Cost	Revenue	Notes
India	25	21	25	18	21	Continue with initial 20 report
India	25	27	30	19	21	April Report
India	25	27	30	19	21	Continue with initial 20 report
India	25	27	30	19	21	Continue with initial 20 report
India	25	28	32	19	21	Continue with initial 20 report
India	25	28	32	19	21	Continue with initial 20 report

- Communication strategy



Read the signs 1-4 weeks

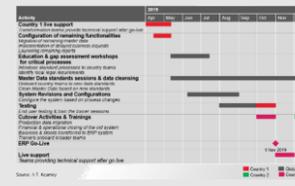
- Risk management



- Drumbeat reports



- Milestones planning



Prepare and act ≥ 2 weeks

- Initiatives prioritization



- Execution planning



- Implementation tracking

ID	Initiative Name	Status	2018 Budget (€ m)	2018 Actual	2018 Forecast	2019 Budget	2019 Forecast
1	Design control function	On Track	0.93	0.93	1.00	1.00	1.00
2	Design for value (product R&D)	On Track	1.93	1.90	2.00	2.00	2.00
3	Smart Sales	On Track	0.93	0.90	1.00	1.00	1.00
4	Forecast - like 1 Optimization	On Track	0.93	0.90	1.00	1.00	1.00
5	Forecast - like 2 Closure	On Track	0.93	0.90	1.00	1.00	1.00
6	Forecast - like 3 Closure	On Track	0.93	0.90	1.00	1.00	1.00
7	Forecast - like 4 Closure	On Track	0.93	0.90	1.00	1.00	1.00
8	Forecast - like 5 Closure	On Track	0.93	0.90	1.00	1.00	1.00
9	Forecast - like 6 Closure	On Track	0.93	0.90	1.00	1.00	1.00
10	Forecast - like 7 Closure	On Track	0.93	0.90	1.00	1.00	1.00
TOTAL			4.34	4.33	4.50	4.50	4.50



Thank you

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