



Guide your company through the crisis after COVID-19

The Day After Tomorrow

April 2020

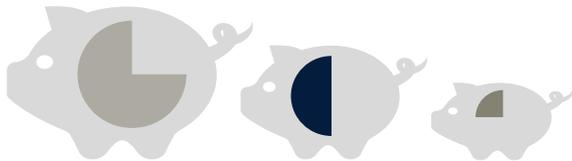
"Egzakta - The Day After Tomorrow SH 202004v006.SAM"



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Is this the end of the world as we know it? Is this crisis bringing the World economy in the new “ice age” or we are going to recover...

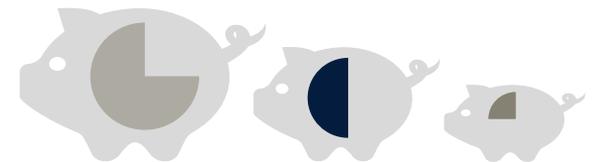
- During the 2008 financial crisis, one frequently asked question was ‘**when will things get back to normal?**’ It is natural in any crisis to hope for a return to the same as it was before. It took a long time for people to realize that this was simply not going to happen. By 2019 the world economy had stabilized and was no longer in crisis, but the stability, the new normal, was very different from the economics of pre-2008.
- The same is likely to be true for the world after the COVID-19 crisis. **The world will come through the health crisis and recover from the recession that will follow it. But to expect life to go back to how it was in 2019 would be wrong.** The twin crises – health and economic – will change society in two ways in particular.



- First is the shape of the developed world economy. Most western economies are moving towards a larger role for the state. There will be more state support for essential services, the out of work, workers in the gig economy and the homeless. **Many countries will have to either support or nationalize large parts of their economy.**
- The second big change will be to the shape of international trade. **It is unlikely that we will return to the just-in-time global supply chain economy, which characterized the last 10-20 years.** Europe will need to review its long-distance supply chains and reliance on just-in-time deliveries from halfway across the globe. Which European company will want in the future to be reliant on a factory in Asia now?

...fast and continue where we stopped beginning of 2020? Not likely! Every company will fight a war of its own to survive.

- The COVID-19 crisis will pass, and after the storm, the sun will shine again. But it will shine in a slightly different world. Day After Tomorrow will come.
- The measures announced by the Serbian government are going to help the Serbian economy to run through the storm. They are following the same logic the developed economies have imposed.
- It will be interesting to see if the government, but also the private sector, will use the momentum and the developments in the world to **push towards the development of the local industry and especially production**. If the investments announced are going to finish only in working capital and liquidity gap closure, we will not have the full positive effect and not use the opportunity, rising from these unfortunate times. For us, it is clear, that **local economies shown to be significantly dependent on imports will have to push the local development and production as well as promoting local producers**. Positive samples of small investments into surgical masks production, as well as the first Serbian respirators, are the path we should follow.
- However, **the real fight is not going to happen on the level of the government, but rather on the level of every company for itself**. The right attack on the crisis and the fast response, especially after the crisis, is going to be essential for the survival and the sustainability of the company. **Just like with COVID-19, not everyone will survive**. There will be some casualties, especially in the industries hardly hit by the crisis.



COVID-19 has spread globally, and this is the largest outbreak since the Spanish Flu in 1918



- The novel coronavirus has infected hundreds of thousands of people globally. It is taking a severe toll on individuals, families, and economies as productivity drops, and stock markets reflect increased global uncertainty. This document provides some baseline facts and guidance for business leaders as to critical questions to address in the immediate and near-term to ensure the continuity of their business and the safety, health, and wellbeing of their workforce and customer.

- COVID-19 is the name for the illness caused by the novel coronavirus that originated in Wuhan, China, in December 2019. It is from the same family of viruses that cause some common colds, as well as Severe Acute Respiratory Syndrome (SARS) and Middle East Respiratory Syndrome (MERS). It is considered to be similar to other respiratory infections such as influenzas, where symptoms range from fever, cough, shortness of breath to more severe cases of pneumonia and organ failure.

How and when will we recover completely?

H1N1 analogy

- 6 months until vaccine approval
- 12 months of critical conditions
- 18 months until the end of the pandemic

How long could that take?

- **In short, 18+ months is likely for development, trials, approval and mass production**
- The best comparison we have is the development of H1N1 vaccines under similar circumstances



What is the current status?

- Several vaccine types could be considered for COVID-19:
 1. Traditional protein-based (longer development, manufacturing timeframe but proven approach)
 2. mRNA-based (quick to design but less proven technology and efficacy)
 3. DNA-based (quick to design but less proven technology)
- At the outset of the pandemic, multiple biotechs have moved to create a COVID-19 vaccine
 - the first out of the gate are mRNA varieties
 - Moderna, biotech, is the first to have launched clinical testing of an mRNA vaccine in humans on 3/16/20 but has not yet partnered with a larger, scaled PharmaCo
 - Pfizer and BioNTech have partnered to test another mRNA vaccine starting in late April 2020
- What are the key issues (aside from the science of producing an effective vaccine)?
- Large-scale manufacturing capacity would be needed and is not readily available/scalable (GSK Shingrix example demonstrates multiyear lag between vaccine approval and production scale)
- Timelines to produce required safety and efficacy clinical trial results estimated to take 12-18 months, even if 'fast tracked'

The world will have to adapt to the new reality

When will it really end and return to something that resembles genuine “normality”?
This will probably not take place until:

01

Such a large proportion of the population has been infected with the virus that herd immunity exists (80%+)

02

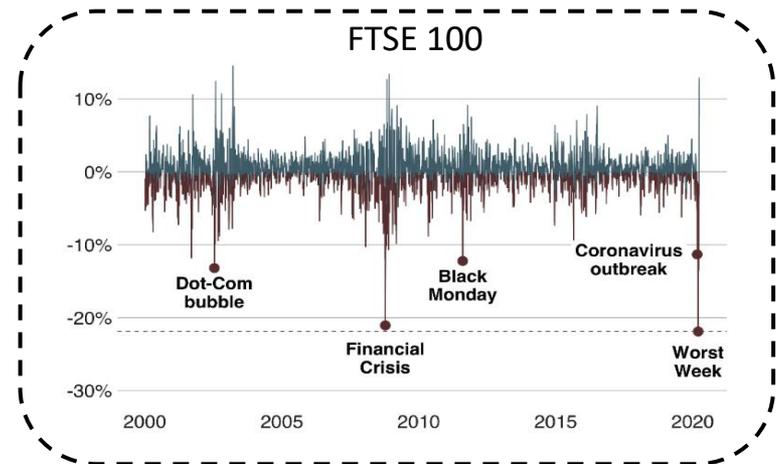
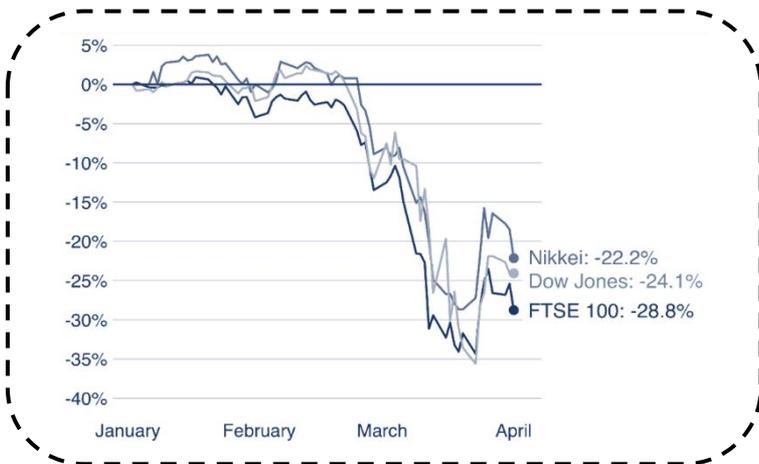
An effective vaccine has been established (consensus view is a 12-month horizon)

03

Effective treatment for the conditions caused by the infection has been established

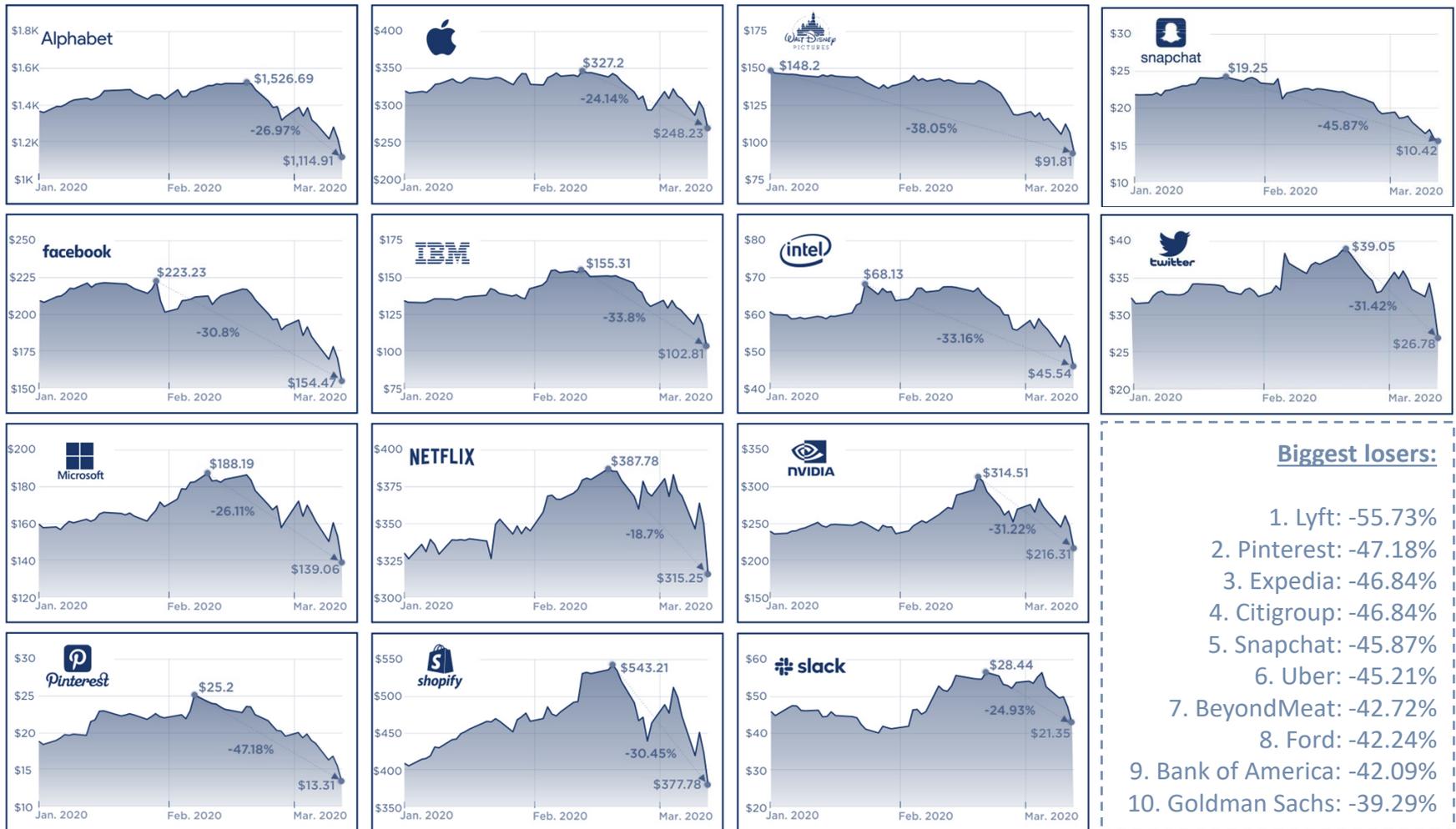
- In short, in our base case scenario, social and economic pressure will be at such high levels that some European countries will try to ease some of the lockdown measures at the end of April. It may not be until May/June before countries now suffering large-scale infections in Europe (later for the US) are in a position to ease back their restrictions on travel and movement.
- It may take until the end of the year or the New Year before countries are operating closer to “normality”.

The impact of COVID-19 on stock markets and companies since the start of the outbreak are obvious...



Source: Bloomberg 27. March 2020 and 01. April 2020

...with all major global companies hit significantly



Various industries are, or are going to be under pressure but not with the same impact

- The highest impact on industry-level GDP are generally expected in industries that require (or are strongly linked) to in-person consumption



- Retail Trade
- Transportation
- Entertainment
- Accommodation
- Tourism

- Manufacturing
- Wholesale Trade
- Construction
- Food/Drinking places
- Mining

- Finance, Insurance, RE, Rental
- Professional services
- Information
- Other services
- Agriculture
- Education

- Government
- Health Care
- Utilities
- General Merchandise Stores
- Food and beverage stores

Some economies are going to get hit harder than others due to GDP depending on most hit industries like accommodation and tourism

- 
- Due to the COVID-19 impact on domestic demand and global commodity prices, inflation should fall below the 1.5%-3.5% target band set by Serbia's central bank in March, bottom out around mid-year and then slowly climb back into the target range
 - The average GDP of the region will shrink by 4.7% in 2020
 - Serbia will be the country least affected by the coronavirus crisis in Central and Eastern Europe (CEE), as its economy is expected to contract by just about 2.1% in 2020
 - The closure of the service sector for at least a month and a half will halt consumption growth in such categories as restaurants, hotels, and culture. Tourism-oriented countries such as Croatia and Slovenia will thus face a severe recession (our estimates are at -7.5% and -6.7%, respectively)
 - The sharp drop of foreign demand will leave a mark on small open economies

The Serbian economy will shrink in 2020 by 2.1% y/y, before growing up by sharp 4.7% in 2021

The CEE countries are feeling the heat of the COVID-19 crisis **via collapsing demand both domestically and globally**. With world trade coming to a halt, weaker domestic exchange rates no longer act as an offsetting factor to weaker domestic growth. **We expect all CEE countries to show negative growth in 2020**, with fiscal stimulus only softening the blow. As for the growth trajectory, 2Q20 should constitute the bottom, with some modest rebound in the second half of this year.

The Serbian economy will enter into a recession in the third quarter of 2020 due to the novel coronavirus disease (COVID-19) outbreak, before growing by a sharp 4.7% in 2021.

The magnitude of the disruption caused by the outbreak of COVID-19 has prompted the need for further downside revisions. **We now expect the Serbian economy to contract by 2.1% y/y in 2020**, basing our scenario on gradual normalization during 3Q20.

Domestic demand will now weigh heavily on the headline gross domestic product (GDP) figures. At the same time, net exports should offer some relief, as was the case during the financial crisis in 2009, due to disruptions in the supply chain. **We expect the economy to rebound sharply in 2021, with GDP growth forecast at 4.7%.**

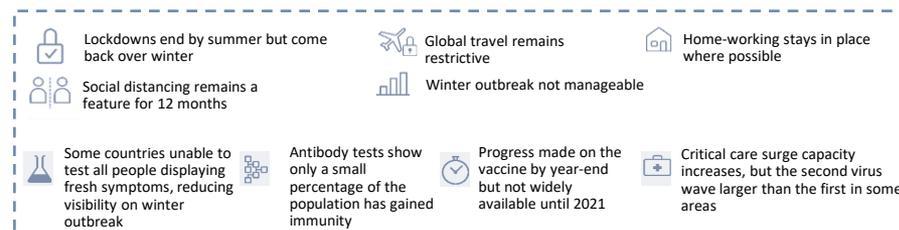
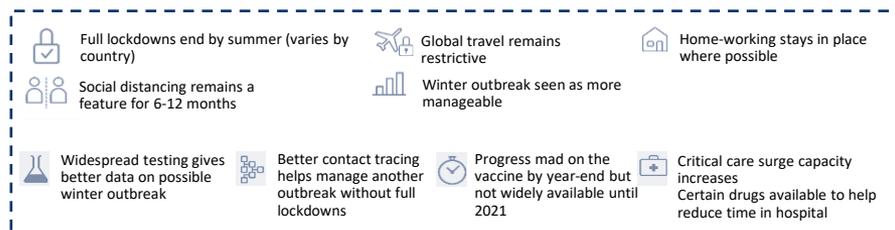
We have developed four potential scenarios for the crisis (1/2)

Base scenario

- It assumes that the lockdowns eventually manage to flatten the curve, although not entirely.
- The first European governments decide to begin relaxing the lockdown measures at the end of April. Others will follow in May.
- The return to normality is gradual, and social distancing continues for at least the entire summer.
- A proportion of those who can work from home continues to do so for the foreseeable future.
- Global travel remains restrictive, but a combination of vaccine development, more widespread testing capacity and higher surge capacity within critical healthcare services, means full lockdowns can be largely avoided if the virus spreads again as we approach the northern winter.
- As a result, the economic recovery will be “U-shaped”.
- Still, most countries will experience a more severe contraction of economic activity than during the financial crisis.

Winter lockdowns

- This is a slight variation in our base case scenario.
- It starts off in much the same way, with a gradual easing of lockdown measures in May and June.
- However, in this scenario, the virus returns in the autumn, and despite more widespread testing efforts and contact tracing, the new spread pushes most economies back into lockdown.
- Crisis management is more experienced than in Spring 2020, and containment measures could be more tailor-made, keeping some regions, sectors up and running.
- For indicative purposes, we're assuming it will take until April 2021 before the virus is back under control, and economies, as well as societies, begin to return to normality.
- This is a “W-shaped” recovery.
- It may well take until late-2022 before most economies have returned to their pre-crisis levels.



We have developed four potential scenarios for the crisis (2/2)

The “worst” case

- We assume here that the lockdown measures last until the end of the year.
- We're assuming that things return to normal from Q2 2021, perhaps if a vaccine is developed and able to be deployed over the winter months.
- The recovery here may be a little faster and stronger than in the other scenarios, as the virus is assumed to be completely under control.
- This is an “L-shaped” recovery scenario. This is an extreme scenario and one that looks pretty unlikely at this stage.
- Most economies would experience almost unimaginable contraction in Q2 2020 of around 50% QoQ annualized.
- The year 2020 would go down in history as the year with the most severe recessions ever.
- The rebound in 2021 would be relatively muted, and it would take until 2023 before most economies have returned to their pre-crisis levels.

- Lockdowns remain largely in place until year-end
- Global travel remains restrictive
- Home-working stays in place where possible
- Social distancing remains a feature for 12-18 months
- Winter outbreak not manageable
- Countries unable to test all people displaying COVID-19 symptoms
- Antibody testing not rolled out to masses. Limited visibility on % of population that is now immune
- Vaccine unavailable to the masses for 12-18 months
- Immunity is found to be shortlived and/or virus shows signs of mutating

The “best” case

- The world follows in the footsteps of China by ending the lockdowns as soon as the curve of new infections has been flattened.
- A quick return to normality is assumed to materialize towards the end of April.
- This scenario also assumes that the virus doesn't come back again in the winter, either because a larger-than-expected proportion of people have already had the virus and built immunity, or because control measures become much more effective.
- Some economic losses would not be offset immediately. But government measures like guarantees, liquidity support, and short-time work schemes foster a quick and strong rebound. This is effectively a “V-shaped” recovery scenario.
- In this scenario, most economies would experience a mild recession of some 2-3% YoY, but growth in 2021 would accelerate, returning most economies to their pre-crisis levels.

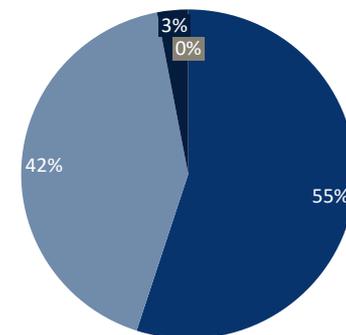
- Full lockdowns end by summer (varies by country)
- Global travel returns close to normal
- Businesses and world trade returns to normal
- Social distancing is phased out over summer
- Winter outbreak seen as less likely
- Widespread antibody testing reveals large, chunk of the population already had the virus (so are immune)
- Warmer weather sees case growth drop noticeably over summer months
- The vaccine developed and entered mass production sooner than thought
- Forthcoming research suggests that immunity to the virus should prove long-lasting

Serbian companies are well aware that the crisis will hit hard

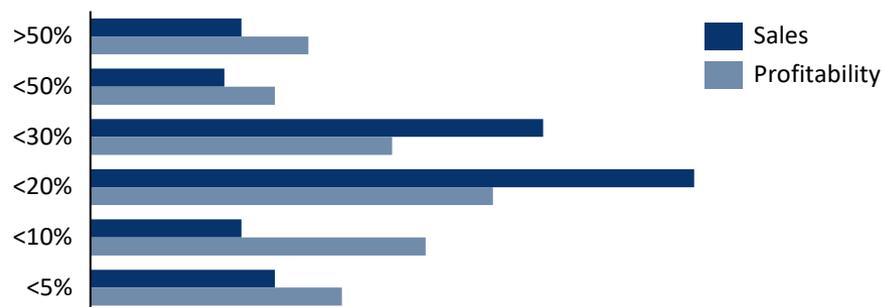
- The biggest challenge the companies are facing at this moment is the organization of work and managing people (73%).
- The employers are facing difficulties in maintaining the business processes in the contexts of a different way of communication with their employee's synchronization between employees working from home and on business premises as well as motivating people to maintain the level of work and work ethics.
- Reducing the ability to travel is affecting 67% of companies, especially in tourism, but also other industries that are connected to foreign partners and customers like logistics and distribution, ICT, health, and pharmacy. Field sales are especially hit by the limited ability to travel.
- Same % is for companies that expect a slowdown in sales and a negative effect on their cash flow. The main reason for this is the lack of demand for certain products and services which vary per industry. Even though the food industry had short term growth in demand, the volumes will drop due to lockdowns closing of restaurants and fewer social events like celebrations, weddings, etc. Other industries like logistics and distribution, ICT, Education, HR will have a drop in sales due to reduced demand and change of priorities of their clients in these circumstances. Among others challenged in the supply chain (54%), logistics (43%), and optimization of required employees due to lack of demand (30%) is identified.

Does your company feel the impact of COVID-19?

- Yes, we already feel the difficulties
- Not yet, but we are expecting difficulties
- No, we don't expect significant difficulties
- Yes, we are expecting a positive impact



What will be an economic impact on your business from COVID-19?



Do you expect difficulties in payment of liabilities?



The Serbian government is following the logic similar to the rest of the world with 11% of GDP (5.1bn EUR) planned for economic measures

Additional fiscal spending

(everything except liquidity and guarantees) %GDP

Short-time working

Tax forbearance

Liquidity and guarantee

Household income support

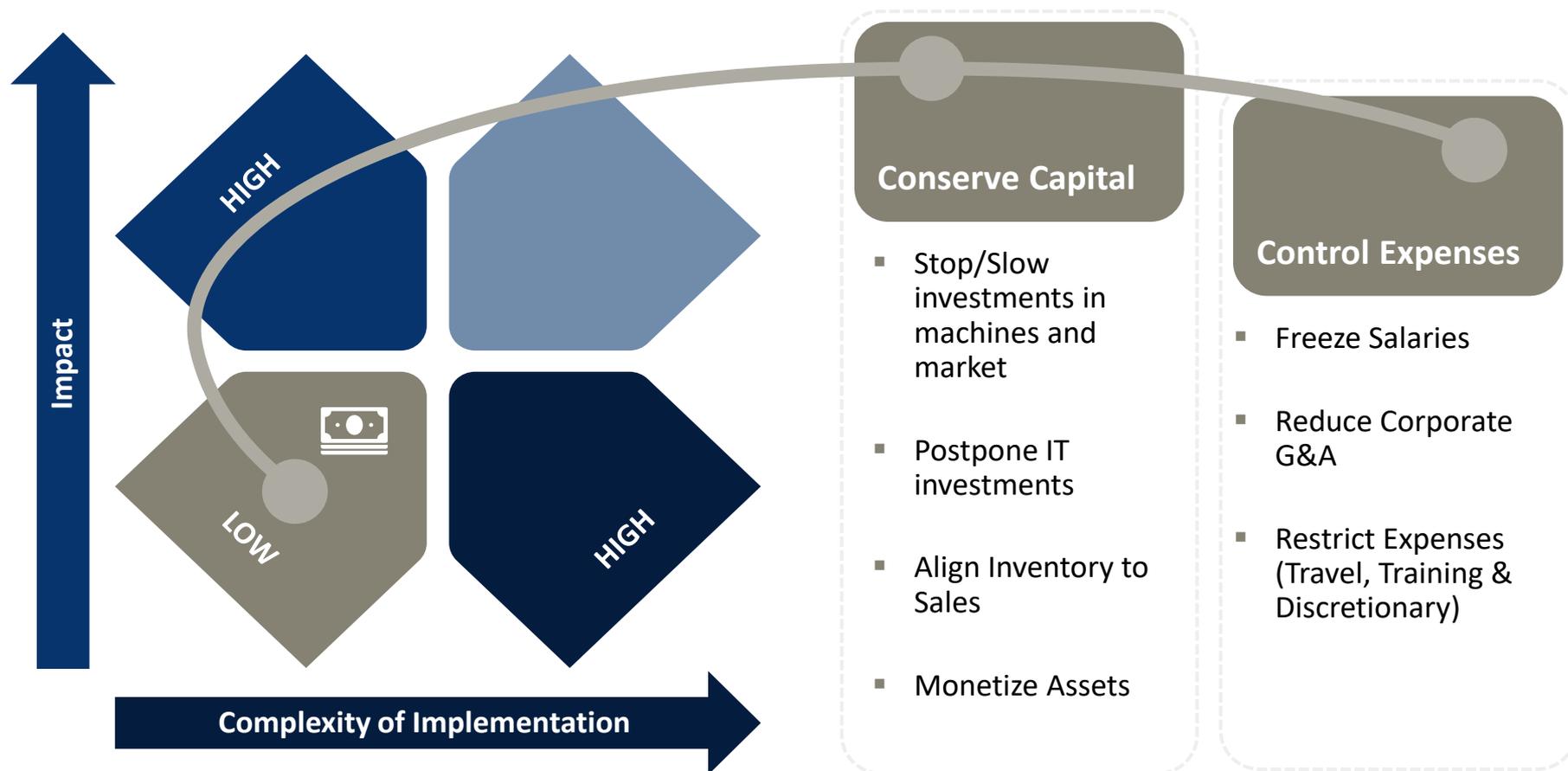
Additional fiscal spending (everything except liquidity and guarantees) %GDP	2.3%	7.7%	6%	4.5%	1.9%	1.4%	1.4%	1.5%	2%	0.1%	0.9%	6.6%	7.5%	11.3%	7%	4.3%	11%	
Short-time working	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Tax forbearance	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Liquidity and guarantee	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Household income support	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

The Program includes economic measures, as following:

- Postponement of payment of payroll taxes and contributions for the private sector, during the State of Emergency, with subsequent repayment of any liability incurred in installments starting at the earliest from the year 2021
- Delaying the payment of income tax advances in the second quarter
- Exemption for donors from the obligation to pay VAT
- Direct subsidies to entrepreneurs
- Direct subsidies to large companies
- Measures for Liquidity Preservation with loans and guarantees granted by the Development Fund of the Republic of Serbia
- Direct economic help in the amount of 100 EUR, paid in RSD, to all adult citizens

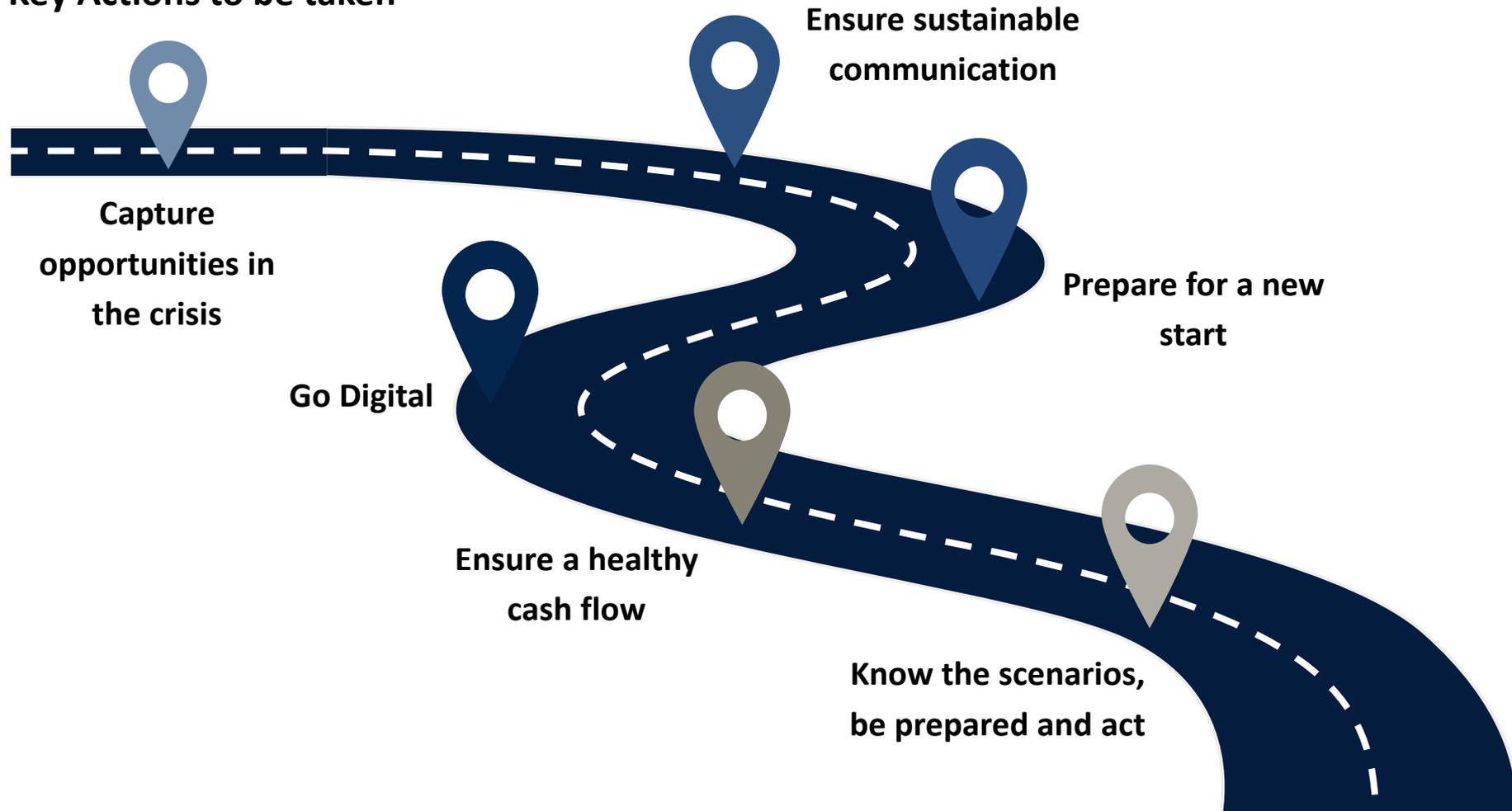
Many companies are responding to the crisis by taking action in the obvious areas...

Easy-to-Implement Levers

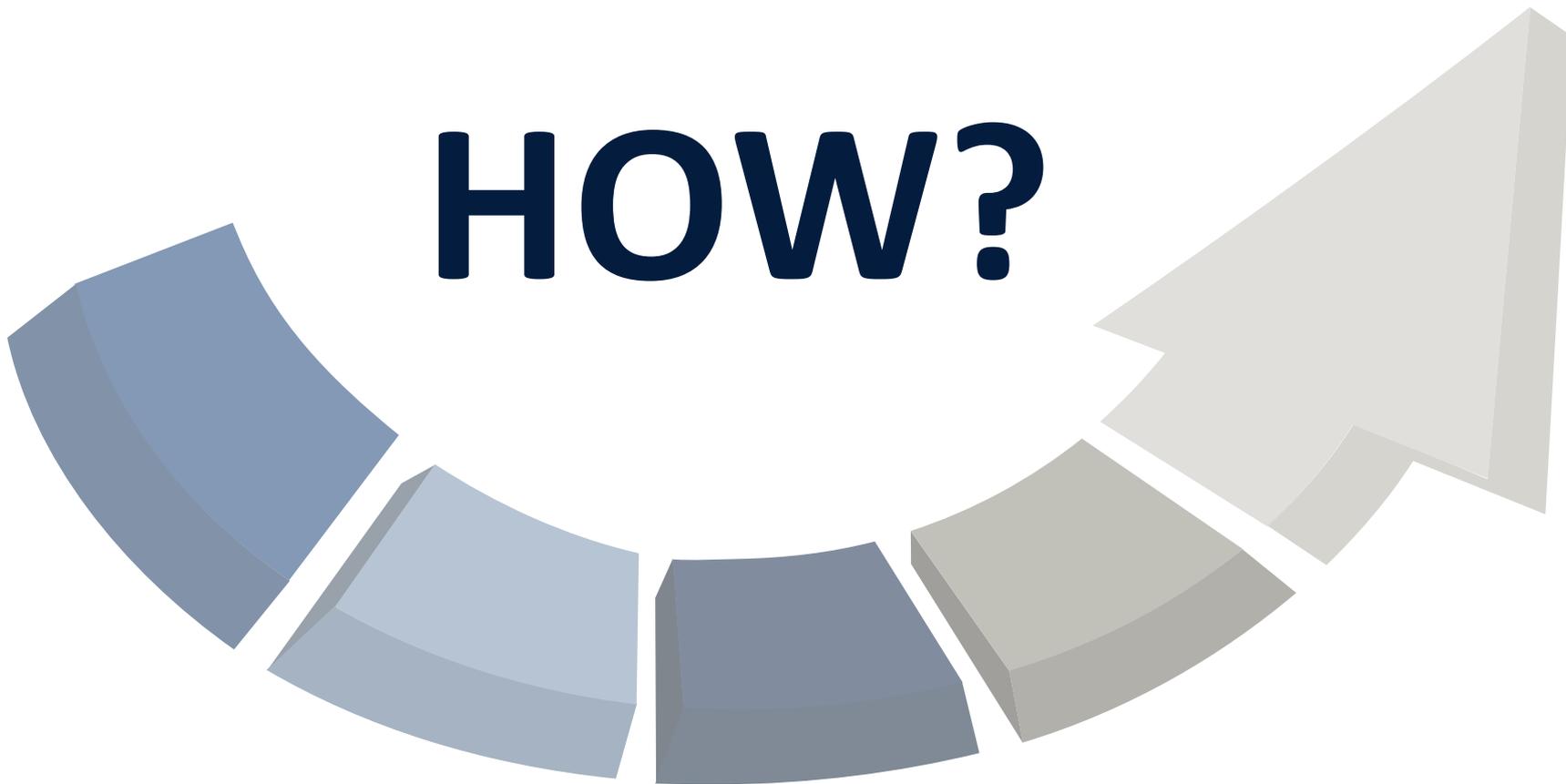


Your company has to be prepared and to actively respond to the situation with the number of actions to be taken

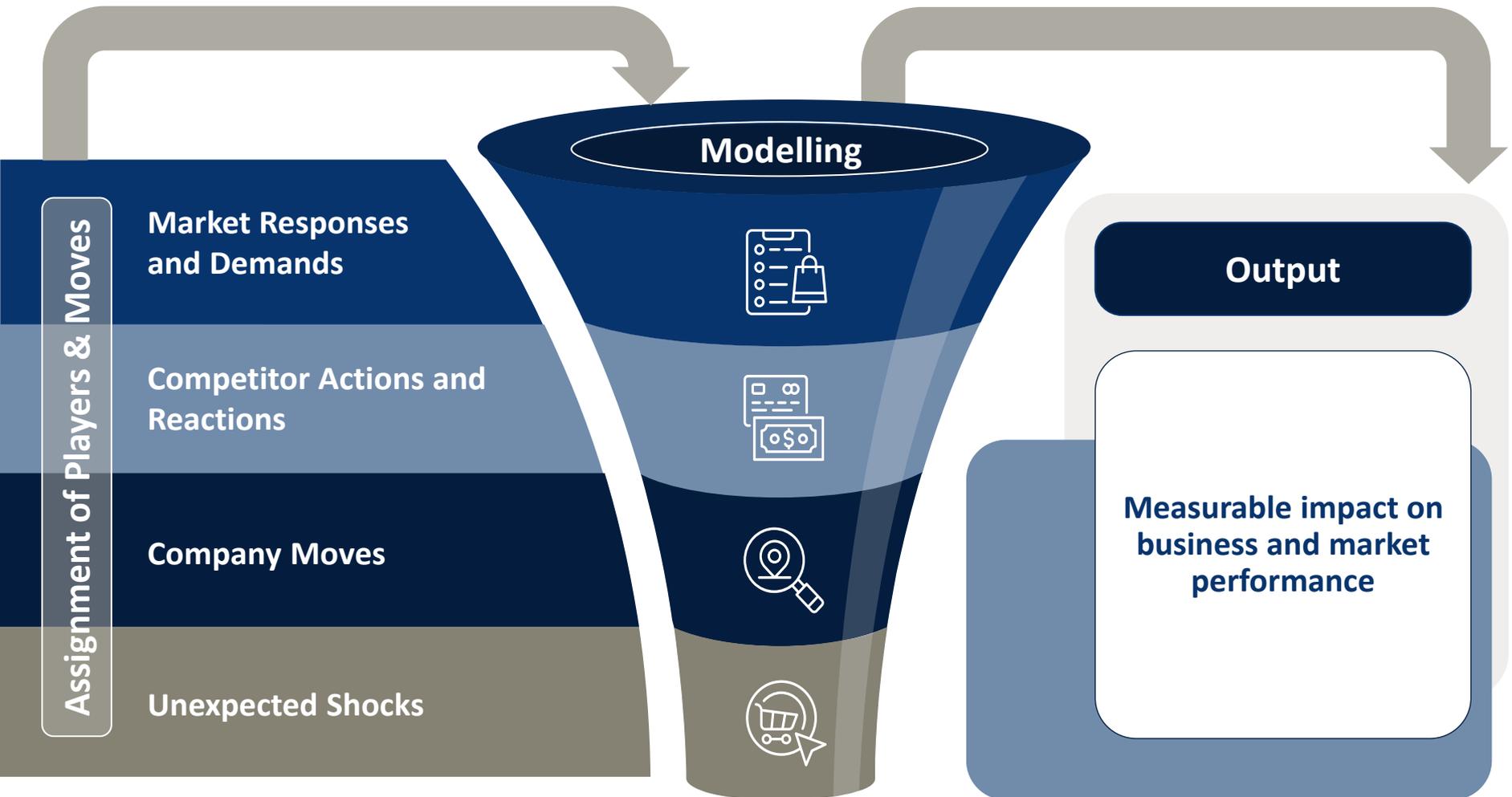
Key Actions to be taken



HOW?

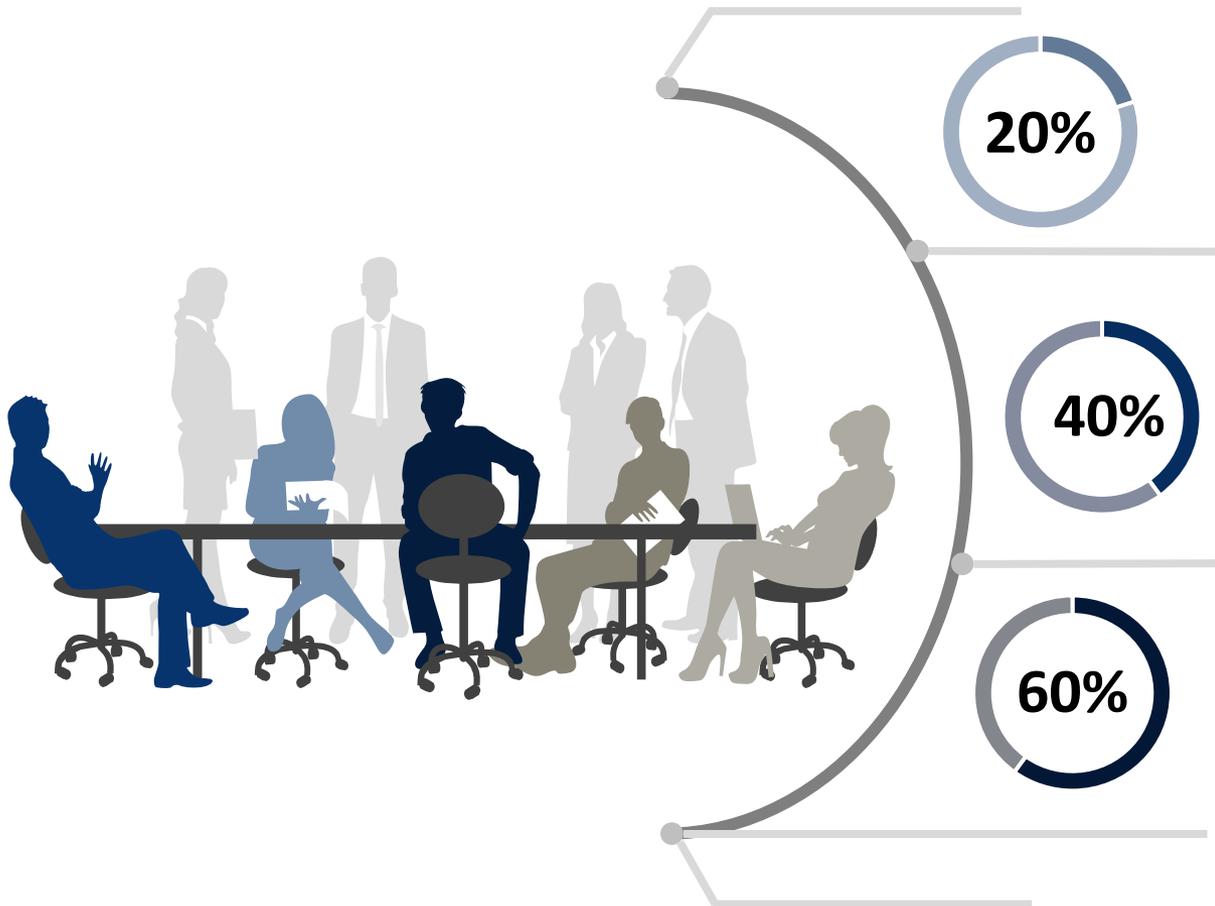


The structured workshop will be the start to understand what needs to be done in this crisis period



Know the scenarios, be prepared and act

Take time now with your leadership team and other trusted advisors to envision exactly how would you respond to a:



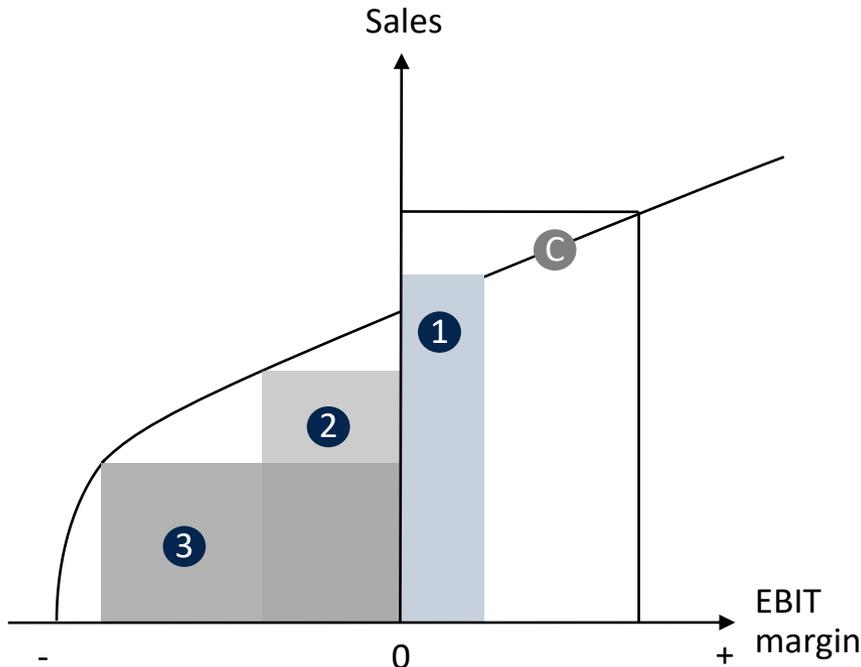
"V-shaped" scenario in which the crisis passes before summer, allowing economic activity to fully rebound after a brief period (**sales drop up to 20%**)

"U-shaped" scenario in which the economy is impacted through Q2 and Q3, but shifts into a slow recovery in Q4 2020 (**sales drop up to 40%**)

"L-shaped" scenario in which COVID-19 is the trigger for global recession, causing the downturn to extend forward 18 months or more (**sales drop up to 60%**)

Due to the current economic situation sales are dropping and shaking profits and cash-flow in most industries

Key points of crisis scenarios (illustrative)



Impact of scenarios on profitability:

$EBIT = Sales \times EBIT\ margin$

- C & ● 1 = positive EBIT
- 2 & ● 3 = negative EBIT

C

Current situation

- Positive EBIT Margin
- Turnover

1

Scenario: Staggering Sales

- Sales drop by 20%
- Missing scale effects lower EBIT margin to nearly 0%
- Fix and variable cost still covered
- Positive Cash Flow
- Recovery in Q3 2020

2

Scenario: Black eye

- Sales drop by 40%
- EBIT margin gets negative
- Fix cost can still covered
- First month with negative cash flow
- Key stakeholders demand turnaround program
- Recovery in Q1 2021

3

Scenario: Business Inferno

- Sales drop by 60%
- EBIT margin deep negative
- Not even fix costs can be covered
- Negative Cash Flow
- Key stakeholders demand major restructuring
- Recovery not before 2022

Ensure a healthy cash flow - Consolidate your finances

Task your leadership team to develop a set of immediately executable actions that could help stabilize financial liquidity, which could be severely threatened.

The scan should provide a rapid but rigorous reassessment of current investments, pinpoint ways you could quickly reduce net working capital, and identify alternative sources of financing.

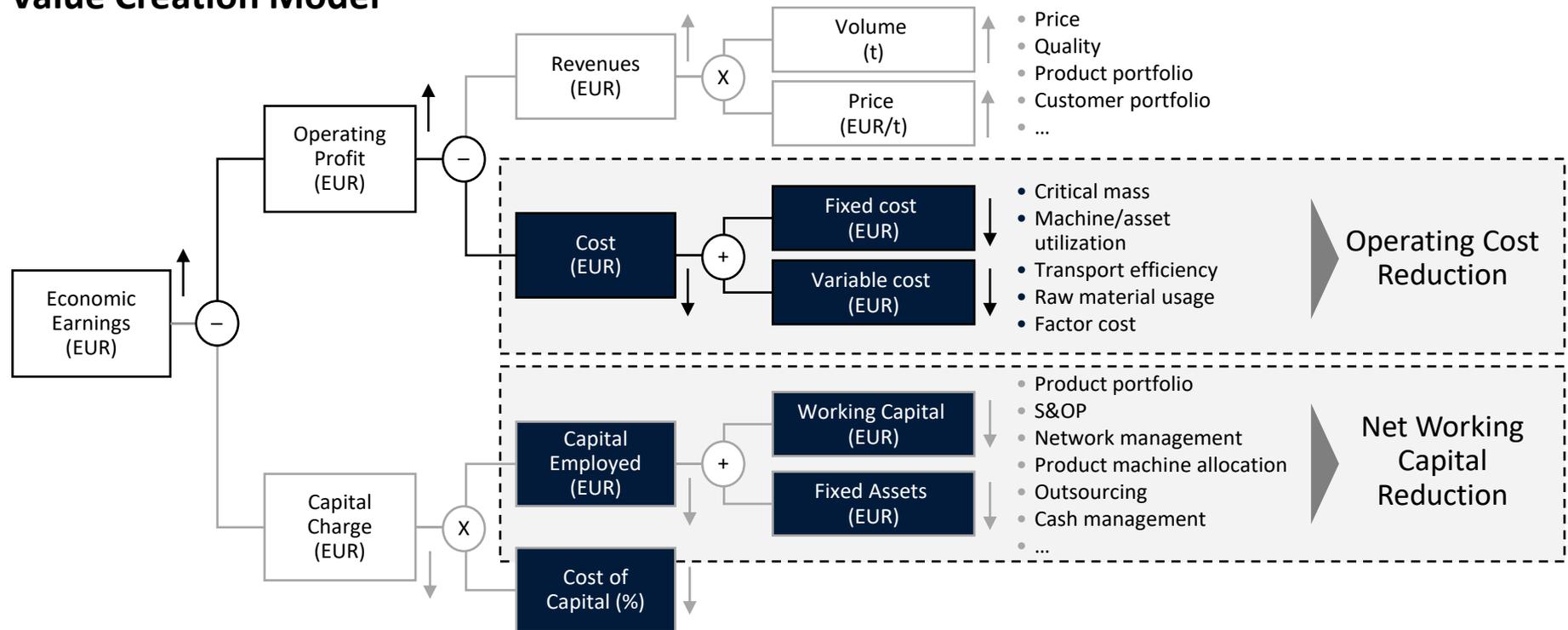
Do this even if you believe you already have a clear picture. Things are moving fast, and in the midst of the coming storm, you may soon see your choices in a new light.

Appoint a crisis leadership team, and personally chair it. Crisis response must be your top priority in the weeks and months ahead.



The focus of immediate CF improvement lies on operational cost, working capital, and debt restructuring

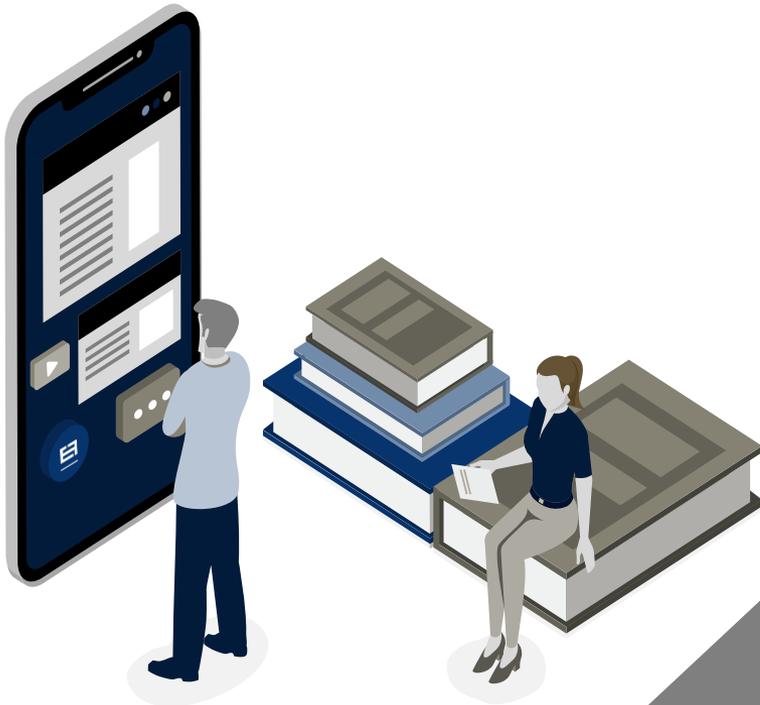
Value Creation Model



Key measures to be taken

- Debt restructuring and working capital reduction
- Validation of planned investments
- Cost center budget audit
- Immediate purchasing quick wins
- Reduction of flex workers and hiring freeze
- IT development validation

Go Digital

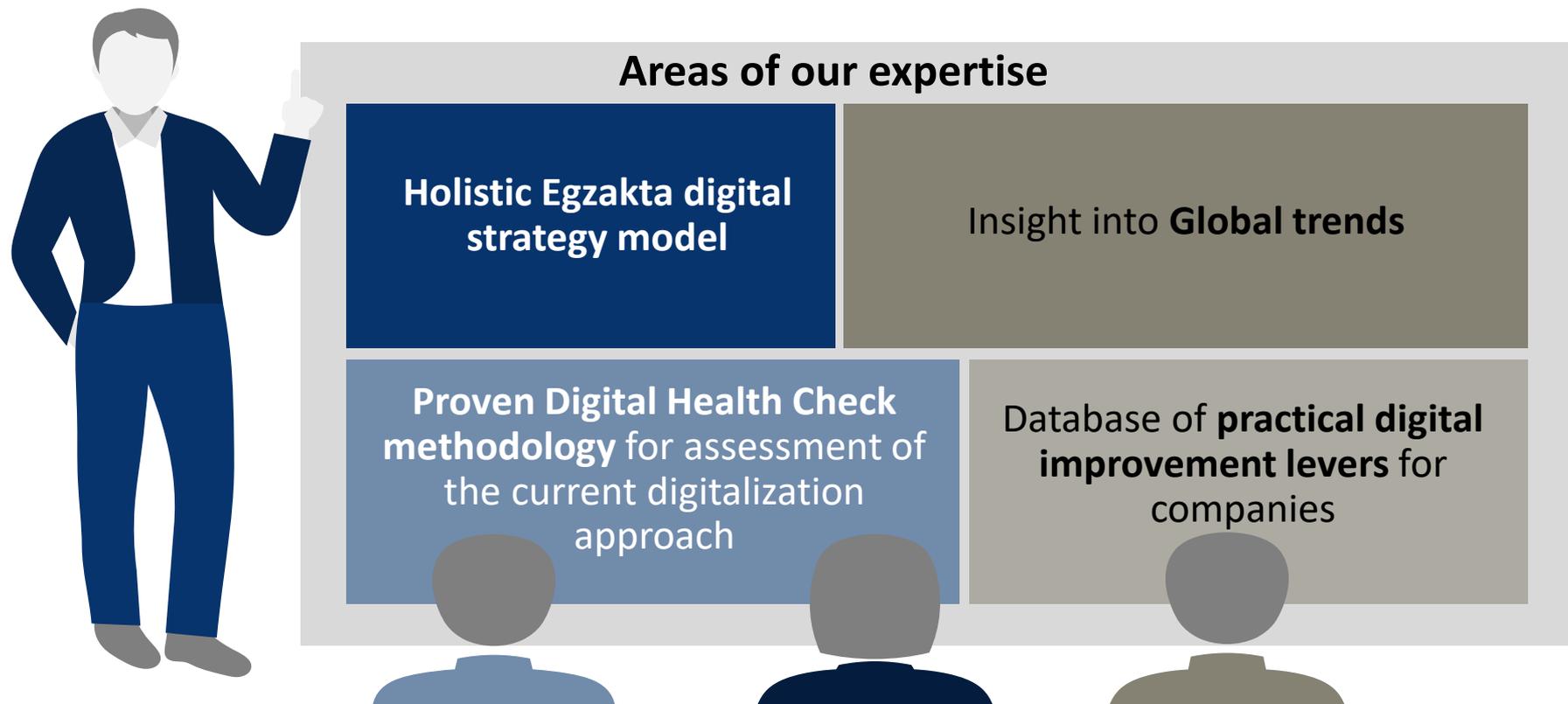


- Actively explore how you might help your people to remain as productive as possible under current constraints.
- Make the most of virtual meeting technologies. Adjust employees' roles and priorities wherever possible to focus them on contributions they can make by working via digital technologies. This will help you keep your best employees—people you will urgently need to help rev up your operations once this crisis runs its course.
- Actively experiment with alternative delivery channels that can help you meet customer needs in the time of widespread closures and social distancing. Demonstrate you're willing to go to extraordinary lengths to be reliable, and thus retain their loyalty. Learn from the experience to capture long-term channel efficiencies. Service companies, in particular, have been trying to push customers toward digital channels for years. This crisis is the perfect time to show late adopters the benefits of digital self service.

Egzakta can help you in the full implementation of digital, from both strategic as well as operational view

We use Digital Health Check to provide insights into current trends, peer comparison, and improvement

Digital Health Check



Comprehensive analysis of the current status of digitalization activities and their improvement potential

Prepare for the new start



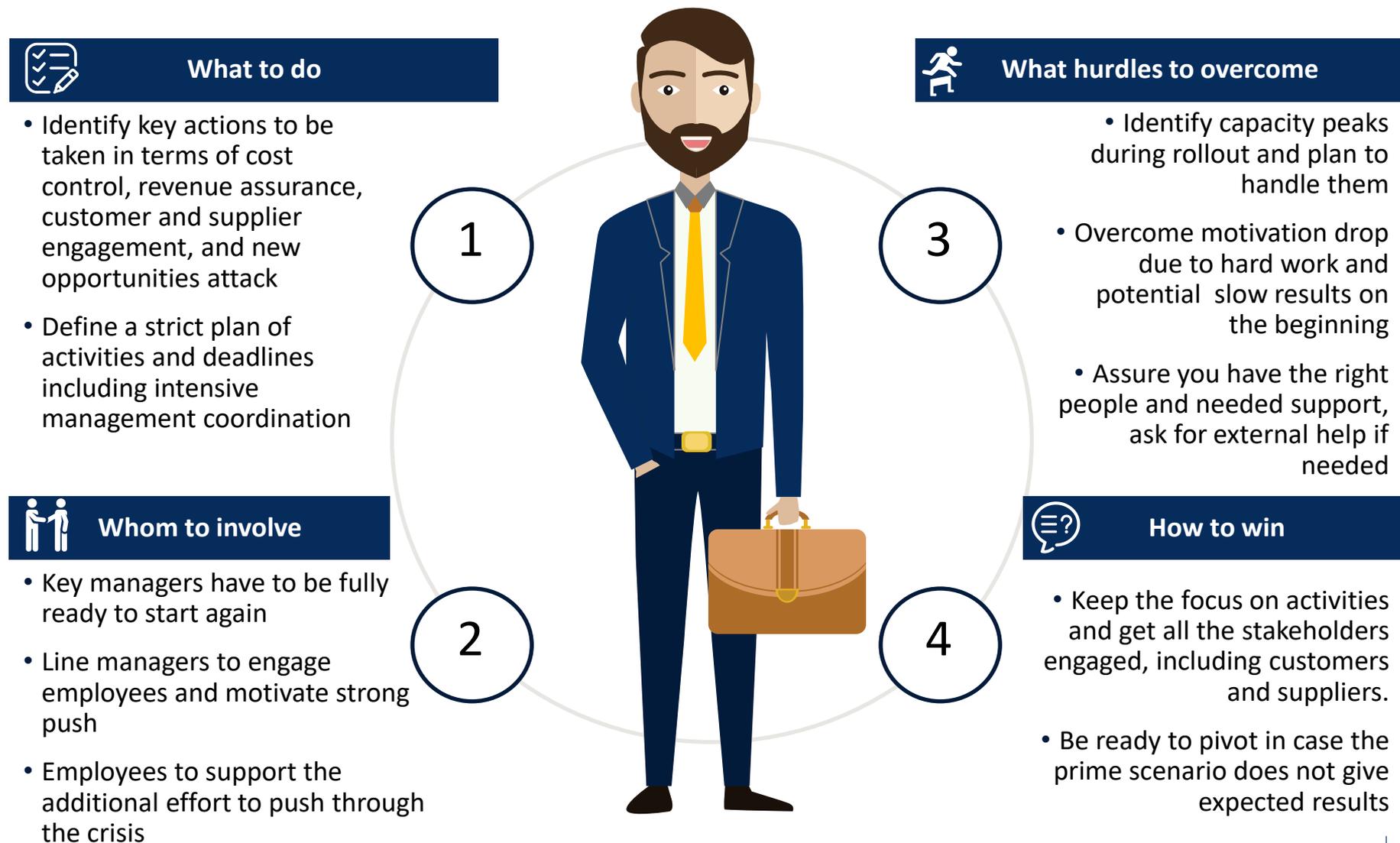
This crisis will stop at some point

And when it does, you want to be in a good new starting position, ready to make the most of available growth opportunities

The outlook could turn positive unexpectedly, given the robust strength of the global economy coming into 2020

Your crisis response strategy should therefore include a detailed comeback plan covering a range of ramp-up imperatives including marketing and customer re-engagement, facility restarts, capacity adaptation, employee communications, and supplier reboots.

The restart has to be ready from all aspects



Ensure a sustainable communication



It's only natural to avoid questions for which you have no ready answers. Right now, you don't have that luxury. Take personal charge of your communications, and communicate much more frequently than you usually do.

Proactively engage your customers, seeking insights into how you can best serve them in these unusual and difficult circumstances.

Use digital platforms to stay connected with your employees, letting them know that you are genuinely concerned for them, and reinforcing the belief that this is a storm you will all weather together.

Model how to face the challenges with courage and resolve promptly

An impactful communications and change strategy needs to address all stakeholder groups

Core team



Your core team and employees should be fully aware of all aspects of the current situation in the company.

Extended team



All relevant employees that can bring value to the resolution with their **invaluable business expertise!**

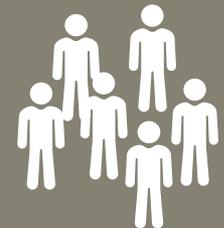
Stakeholder groups

Key stakeholders



Line managers and other stakeholders whose commitment is **critical to ensure change success!**

Other stakeholders



All the impacted employees that ask the question, “**What does this mean for me & each of us?**”

Customers that will ultimately feel the **long-term impact of the transformation!**

Capture opportunities in the crisis

1

"Sometimes you need a little crisis to get your adrenaline flowing and help you realize your potential."

Jeannette Walls

2

The open question in the days of crisis is: What might your company gain in the process? Your business results will likely suffer over the next few quarters, but a number of opportunities will also arise. You can use this opportunity to restart and even grow.



3

Finally, crises can create space to make structural fixes to your business that seemed too painful to tackle under less stressful conditions.

It is on you and your team to realize all the potential opportunities that are coming along the changes around you.

The opportunities should be assessed on market, product and acquisition levels

“What?” Market strategy

Customers

- Target segments
- Unique selling proposition
- Value for customers (primary customer needs to target)



Target markets

- Primary industries to target
- Geographical areas to focus
 - Market potential



Competitive landscape

- Competitive positioning
- Focus on competitive advantages



“How?” Go-to-market

Channels

- Channels in scope
- Channel mix per segment
- Sizing for channels



Offerings

- Offer per segment/channel
- Price positioning and strategy



Customer experience

- Sales cycle model (lead, sales, sales closure, etc.)
- After-sales service model (customer support)



Market entry strategy framework

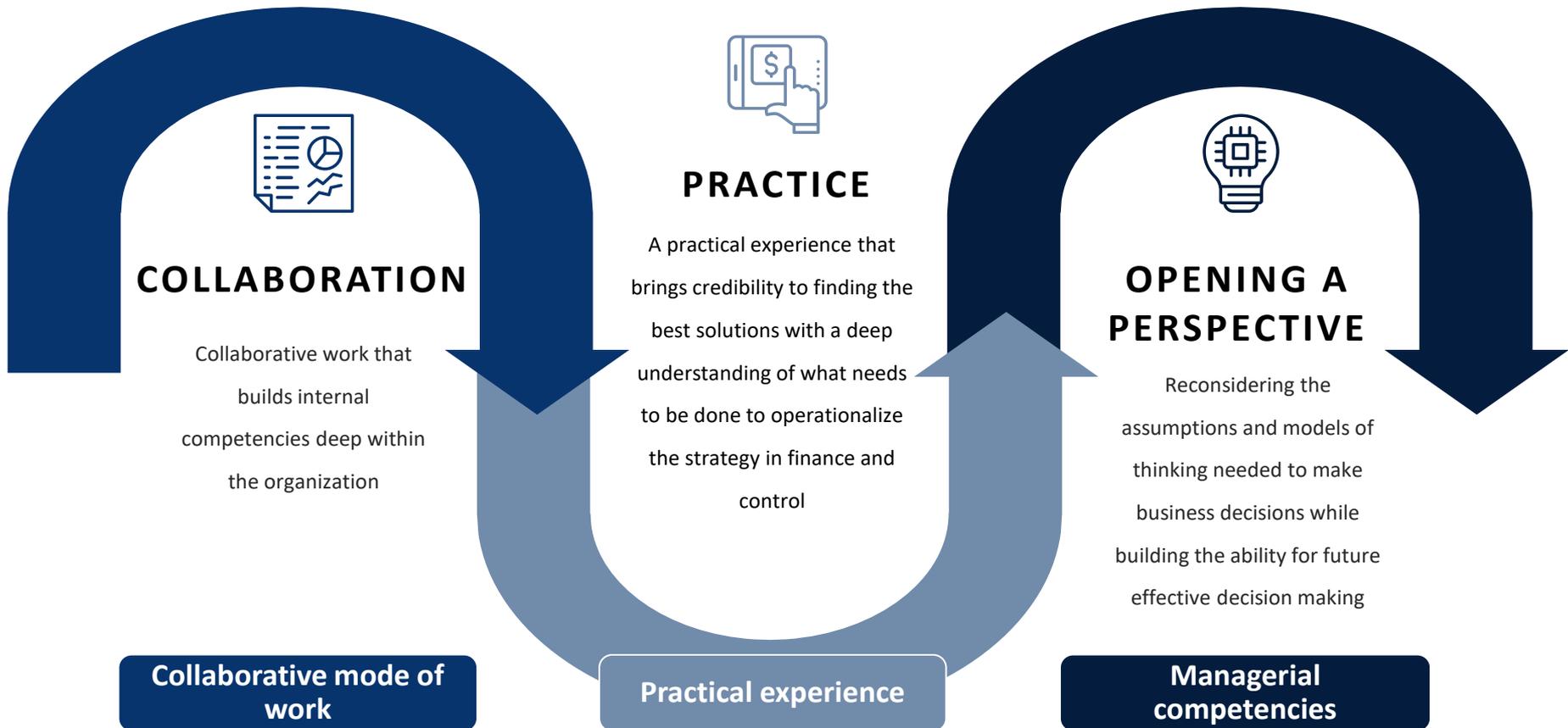
We are committing a strong partner and senior team with experts on Strategy, SOP, Cost Efficiency, IT, Governance, Organization, Process...

<p>Marko Marković Partner</p> 	<p>Nenad Tešić Partner</p> 	<p>Zoran Radisavljević Partner</p> 
<p>Ivana Višnjić Senior Director</p> 	<p>Slađana Radak Senior Director</p> 	<p>Srđan Čečarić Finance Director</p> 
<p>Ljiljana Milić Consultant</p> 	<p>Bojana Šašić Consultant</p> 	<p>MANAGEMENT CONSULTING FINANCIAL ADVISORY BUSINESS DEVELOPMENT</p>
<p>Sanja Vesić Associate</p> 	<p>Aleksandar Panajotović Associate</p> 	<p>Davor Kukić Associate</p> 

Free 2h online Workshop facilitated by Egzakta

[BOOK YOUR WORKSHOP NOW](#)

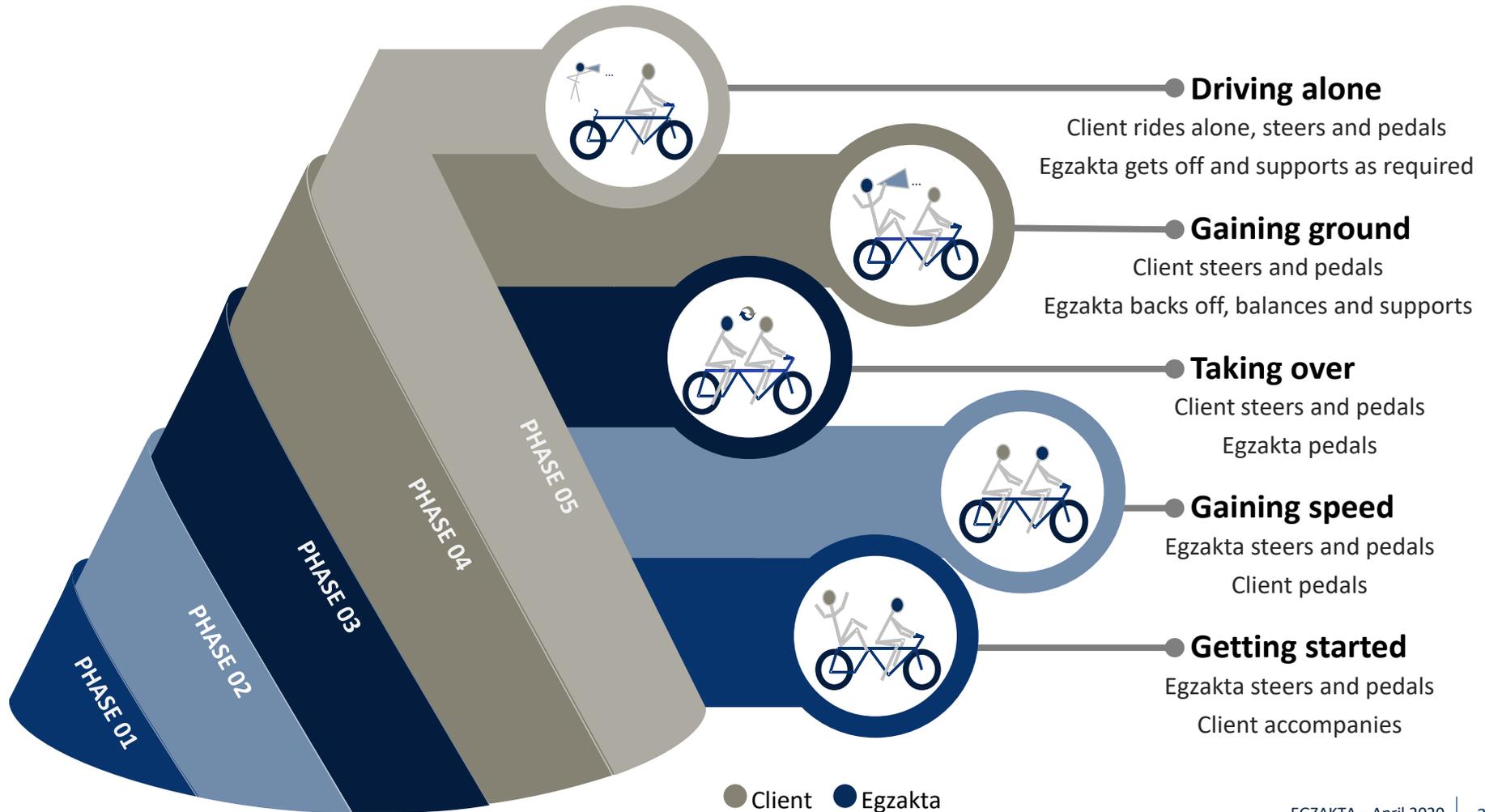
Through joint work, using structured methodologies we are building future personnel



Collaborative work, practical experience and opening up the perspective build competencies and executives and line managers

Egzakta gradually transition the leadership and execution of the transformation to the client

Grounded transformation management illustrative approach



And our team members have successfully completed several projects in the region and beyond in previous years

Selected references



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