COVID-19: Risk Management Challenges for Finance Leaders in H2 2020

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Agenda

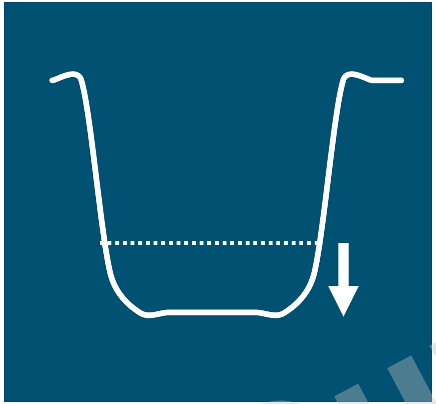
Impact of COVID-19

Key Global Risks for Businesses

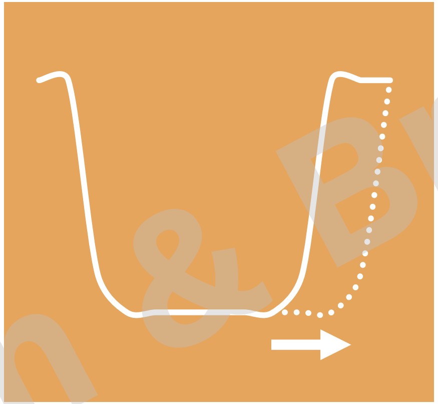
How to Prepare Your Organisation to Survive, Recuperate And Thrive

Key questions that business leaders are asking

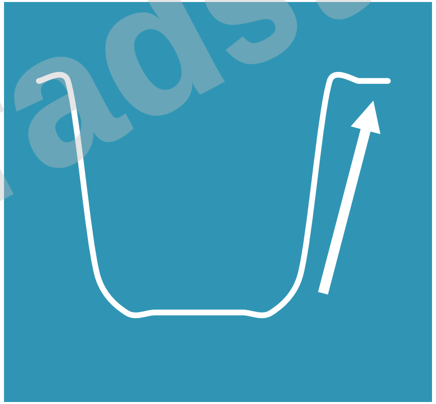
Depth of Disruption
How deep are the demand reductions?



Length of Disruption
How long could it last?

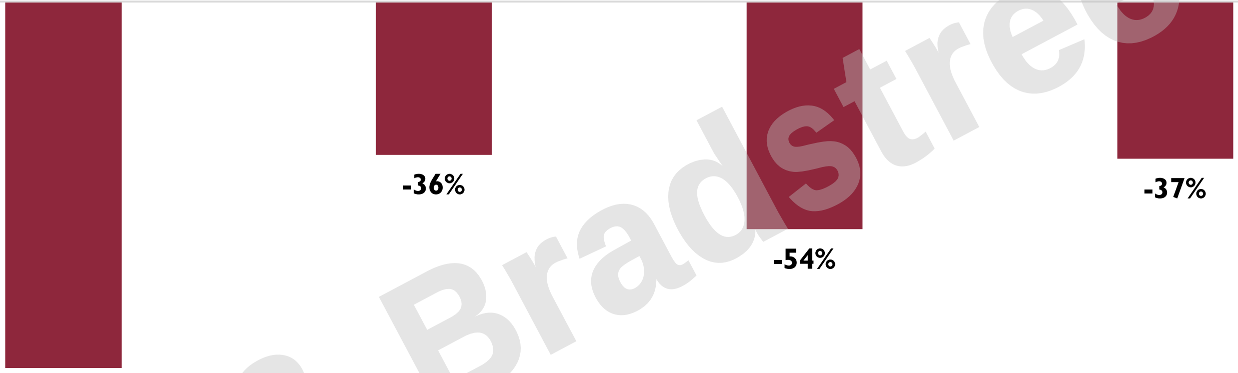


Shape of Recovery
What shape could recovery take?



New Normal
How to survive and thrive?

The pandemic has resulted in acute market volatility

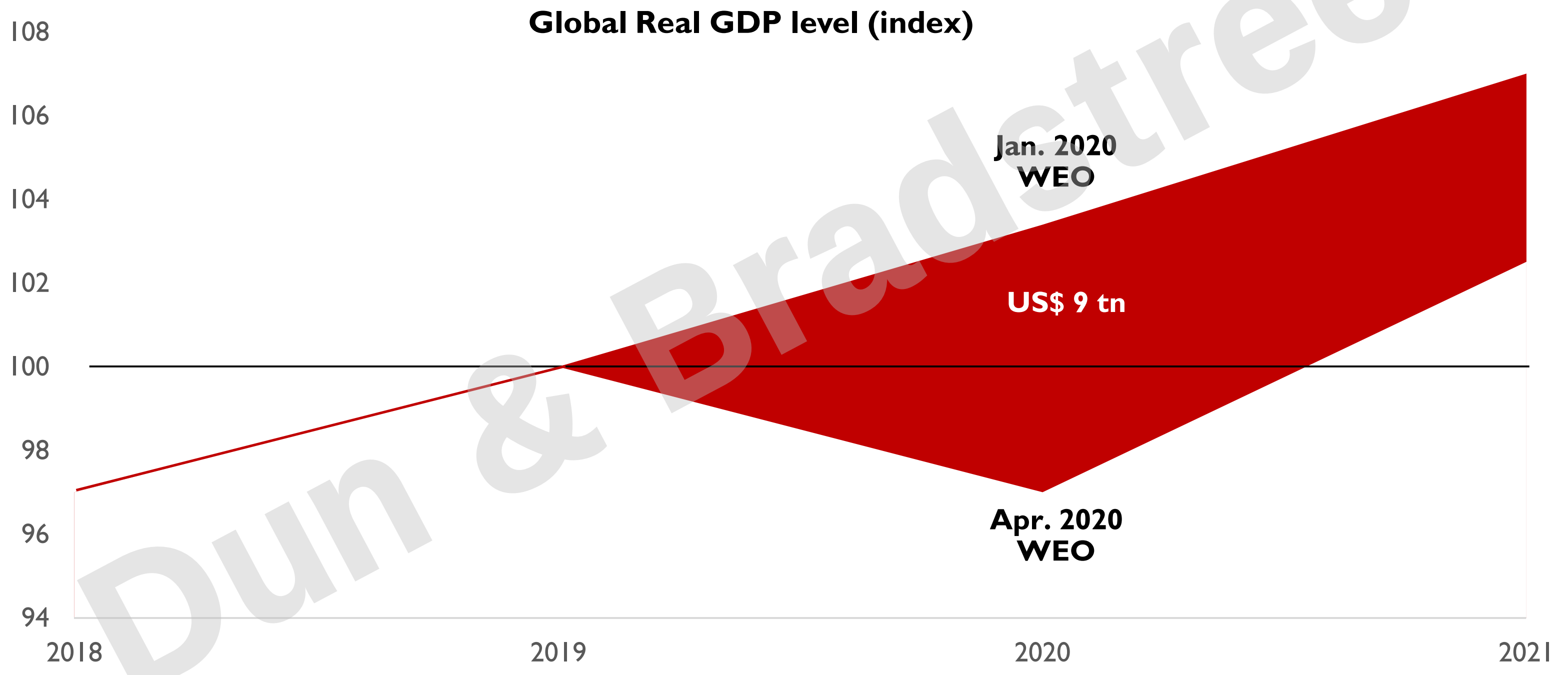


	1929 - The Great Depression	1987 crisis	2008 - Global Financial Crisis	Coronavirus outbreak
Peak-to-Trough (P-T) Decline % (Dow Jones Industrial Average)	**-87%**	**-36%**	**-54%**	**-37%**
P-T Decline (Months)	**6**	**2**	**17**	**1.5**
Recovery to Peak (Years)	**22**	**2**	**5**	**?**

Note: Data as on March 23, 2020

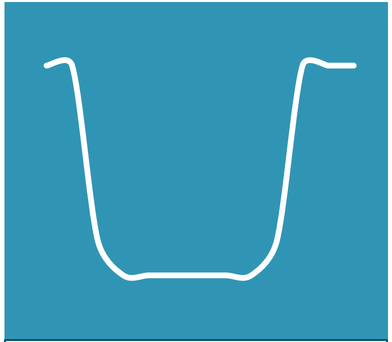
Source: Dun & Bradstreet Analysis, WSJ, fedprimerate.com

The cumulative output loss over 2020 and 2021 from the pandemic crisis could be around US$ 9 tn. The world economy will experience the worst recession since the Great Depression of 1929



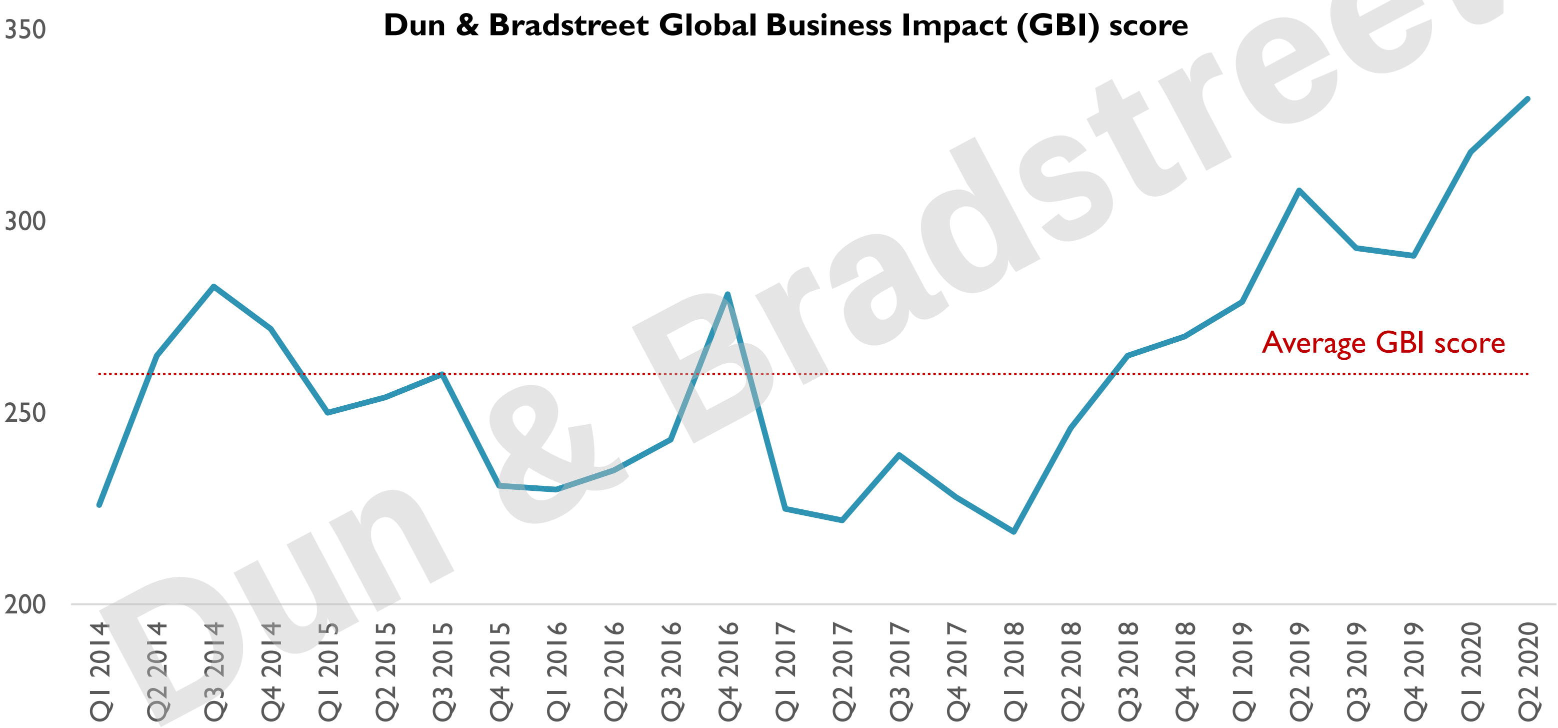
Note: Estimates as on April 14, 2020
Source: IMF, World Economic Outlook; and IMF staff calculations

Different scenarios of recovery

Most likely	Plausible	Unlikely	Can't rule out
			
Growth recovers within a few quarters but leads to some permanent loss of output	Growth recovers quickly with no/small permanent loss of output	Growth takes several quarters to recover leading to heavy permanent loss of output	Growth recovers very quickly but plunges again leading to some permanent loss of output
Pandemic and containment peaks in the 2nd quarter, and recedes in the 2nd half of this year	*Pandemic and containment peaks in the 2nd quarter, and recedes quickly*	*Deterioration in public health leading to prolonged lockdown*	*Easing of lockdown initially boosts activity but growth plunges due to 2nd wave of COVID-19 or ineffective policies to prevent bankruptcies and extended job losses*

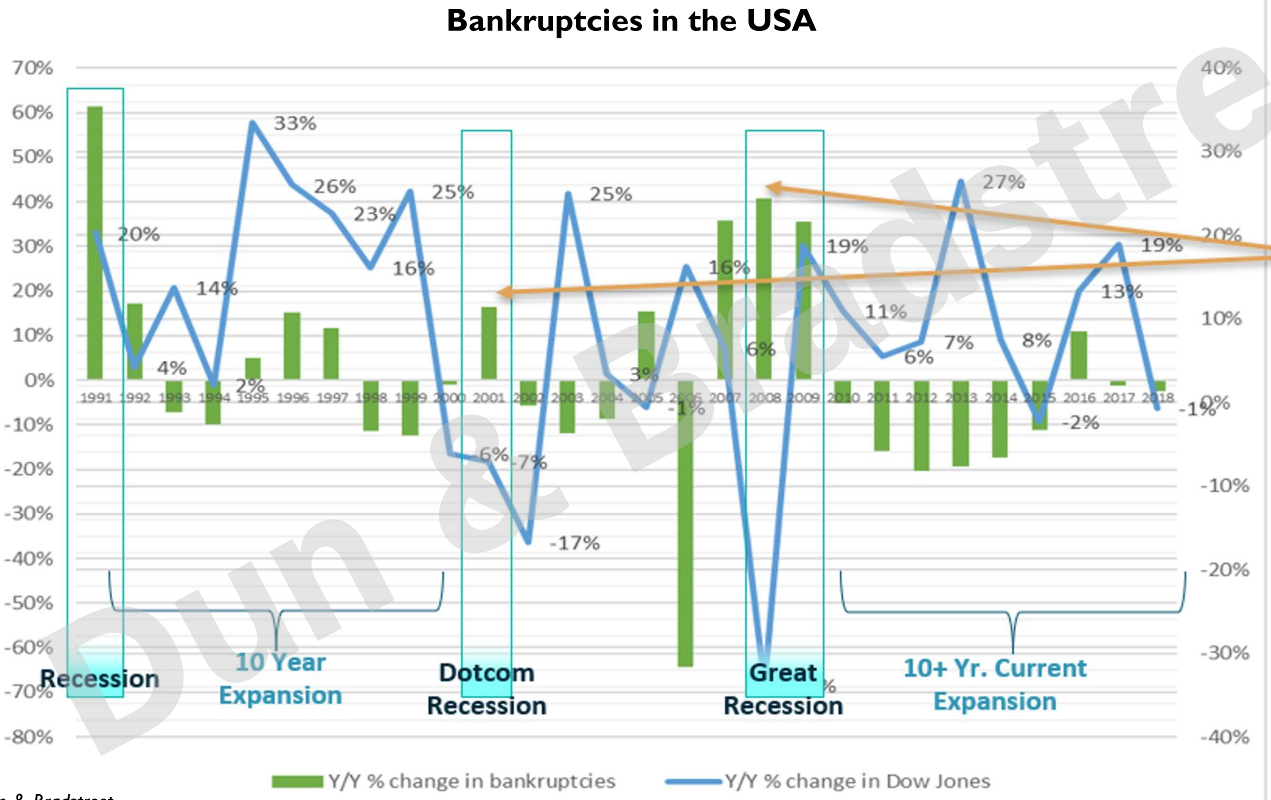
Source: Dun & Bradstreet

For the second successive quarter, Dun & Bradstreet's GBI score worsened to its highest-ever level. This rise indicates the high level of uncertainty facing businesses that operate cross-border



Source: Dun & Bradstreet

D&B research shows that the past two recessions, in 2001 and 2008, have been accompanied by precipitous increases in bankruptcies



Bankruptcies Increase Dramatically

Source: Dun & Bradstreet

Ten Key Global Risks for Businesses

1

The COVID-19 pandemic brings an unprecedented fiscal emergency damaging all grades of sovereign creditworthiness for the medium term

=2

US-China relations deteriorate, impeding global public health co-operation and damaging equity values through the return of higher geopolitical risk premia

=2

The continuation of protective trade policies emanating out of the US puts additional pressure on global supply chains

=2

As leading economies struggle to return to normality in Q3, global equity valuations fail to recover from their collapse in Q1 2020

Source: Dun & Bradstreet

Ten Key Global Risks for Businesses

=2

The deterioration in fiscal positions of governments around the globe creates long-term funding challenges including public and social projects and programs, resulting in deteriorating infrastructure quality undermining global business opportunities

6

The Federal Reserve losses control of overnight borrowing rates in the Repo market, sending the overnight rate back to September 2019 highs, severely disrupting global capital markets

7

The fallout from COVID-19 raises unemployment significantly, heralding in populist governments with nationalist identities in the democracies and increased anti-government protests in authoritarian countries

=8

The increased government debt stocks, caused by coronavirus rescue packages leads to a renewed euro zone crisis, disrupting global supply chains.

Source: Dun & Bradstreet

Ten Key Global Risks for Businesses

=8

The further decline of the automotive sector causes problems for Europe's industrial sector, with knock-on effects for global supply chains

10

Threats of cyber-attacks, data theft, fraudulent activities by state and non-state actors, and the risks of outages of information and networks rise continuously, thereby undermining the global business environment

Source: Dun & Bradstreet

A downturn response should address all three levels though the level of focus may vary depending on the company's financial and strategic position

Maintaining Viability

Businesses need to ensure that they remain viable. They can do so by establishing a spend control tower, divesting unprofitable business, undertaking cost transformation programme, etc.

Building Resilience

Businesses need to ensure that they become resilient. They can do so by focusing on their core, promoting inclusive work culture, securing funding to strengthen core areas, etc.

Increasing Vitality

Businesses need to ensure that they are able to thrive. They can do so by investing in product leadership, grabbing attractive mergers and acquisition opportunities, etc.

Source: Dun & Bradstreet, Various articles

Key considerations for your organisation

Recession Recovery Decision Matrix

Strategic Position	Weak (Financial Strength)	Strong (Financial Strength)
Strong	➢ Undertake Strategic Cost Transformation programme ➢ Focus on core areas of competitiveness	➢ Invest in Product Leadership ➢ Grab attractive Mergers & Acquisition opportunities
Weak	➢ Spin off certain business units ➢ Sell stake in the company	➢ Create core areas of competitiveness ➢ Securing funding to strengthen the core areas

Strategic Position: Strong ↑ / Weak ↓

Financial Strength: Weak ← → Strong

Source: Dun & Bradstreet, Various articles

In the last downturn, 'Resilient companies' did three things to create an earnings advantage

Cleaned their balance sheets

They reduced their debt by more than $1 for every dollar of total capital on their balance sheet, while peers added more than $3 of debt. During the recovery phase, they shifted to M&A, using their superior cash levels to acquire assets that their peers were dumping in order to survive.

Cut costs ahead of the curve

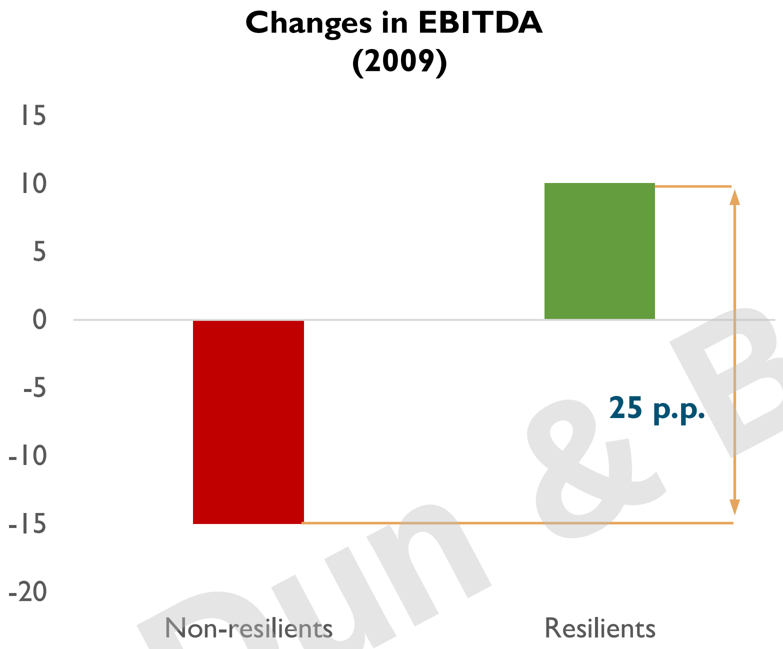
Resilients focused primarily on operational effectiveness, reducing their cost of goods sold, while maintaining selling, general, and administrative costs roughly in line with sales.

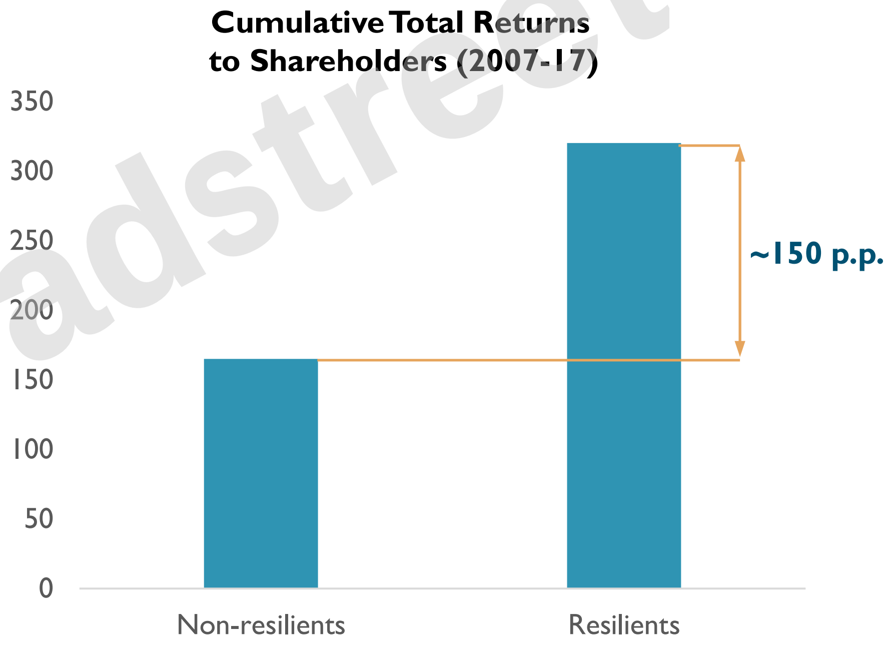
Focused on their core

Resilients in countercyclical sectors focused on growth, even if it meant incurring costs.

Source: Dun & Bradstreet, Various articles, McKinsey

The results of their actions are:





Note: Total returns to shareholders (TRS) calculated as average of subsectors' median performance within resilient and non-resilient categories; excludes financial companies and real-estate investment trusts. Resilient companies defined as top quintile in TRS performance by sector. EBIITDA - Earnings before interest, taxes, depreciation, and amortization
Source: Dun & Bradstreet, Various articles, McKinsey

Thank You!
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Dankjewel
merci
ありがとう
धन्यवाद

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