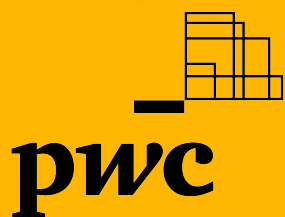



The high level impact of COVID-19 on the PH economy

A briefing for La Camara Manila

April 2020





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Raoul's industry expertise covers construction and building materials; education; automotive; real estate; financial services; knowledge process outsourcing; food and consumer goods; aviation, transportation, and logistics; deathcare; remittance and alternative financial services; pharmaceuticals; non-profits; media & entertainment; healthcare; hospitals and clinics; and hospitality & tourism.

He has worked with a core team to build the Real Estate; Deals Strategy; and Commercial Due Diligence practice from a zero base in 2014, to the point where the team has accomplished more than 48 projects in strategy, M&A commercial due diligence, competitive analysis, market entry studies, value chain analysis, and in other areas.

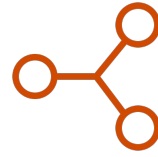


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Executive Summary



Public and private recovery measures are critical for the service sector and consumer spending.



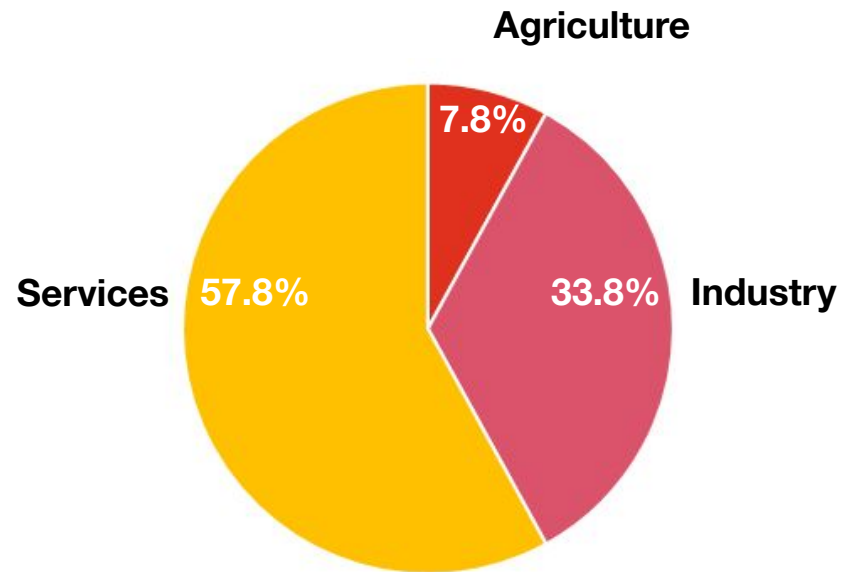
The impact on specific industries depends on how close they are to non-discretionary consumer spending.



Confidence and credit are important to a recovery. Prepare for business unusual. All businesses are connected. Customer, supply chain considerations, and cash flow, command attention NOW.

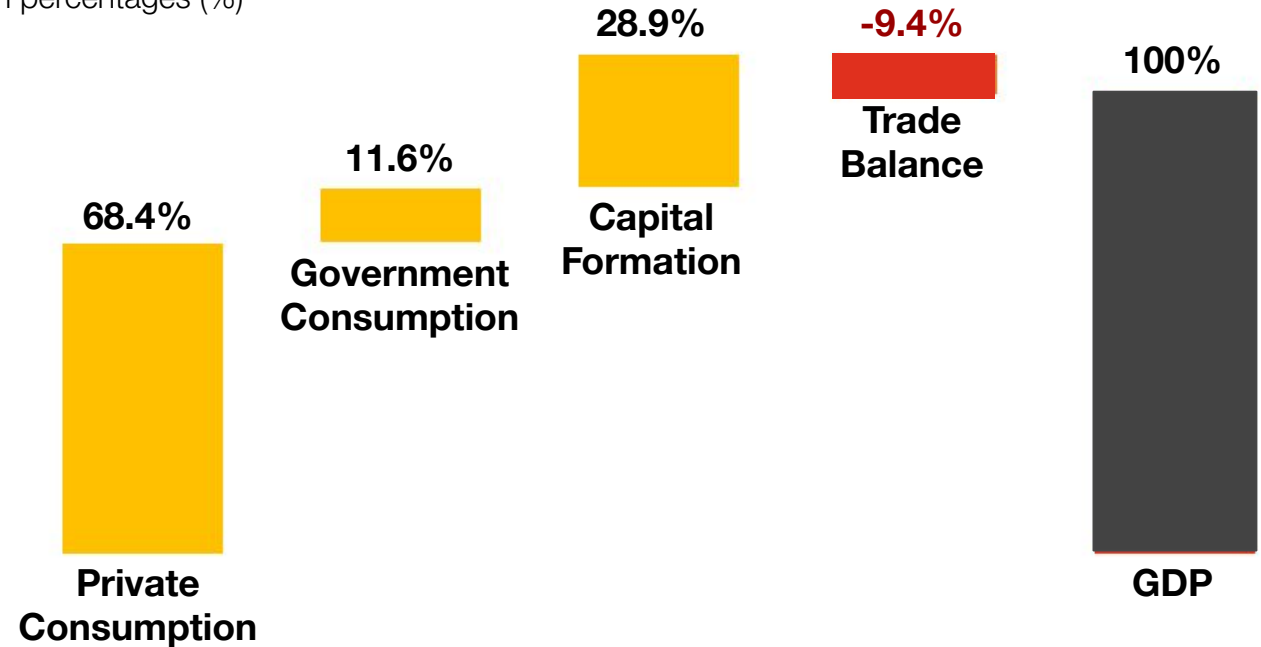
Services drive economic output, while private consumption drives spending. Measures to help both sides are critical to driving recovery.

Share of output sources to GDP (2019)
in percentages (%)



*Source: Philippine Statistical Authority (PSA)

Share of sources of GDP Spending (2019)
in percentages (%)



*Source: Philippine Statistical Authority (PSA)

- The marginal impact on private consumption due to the quarantine drives the largest impact on GDP growth. Confidence in **preserving or creating jobs and maintaining income** becomes a **critical goal**.
- **Addressing consumer confidence and spending** will also assist a **recovery in the service sector**.

One GDP scenario by source of output: a massive fiscal and monetary stimulus is necessary to bounce back.

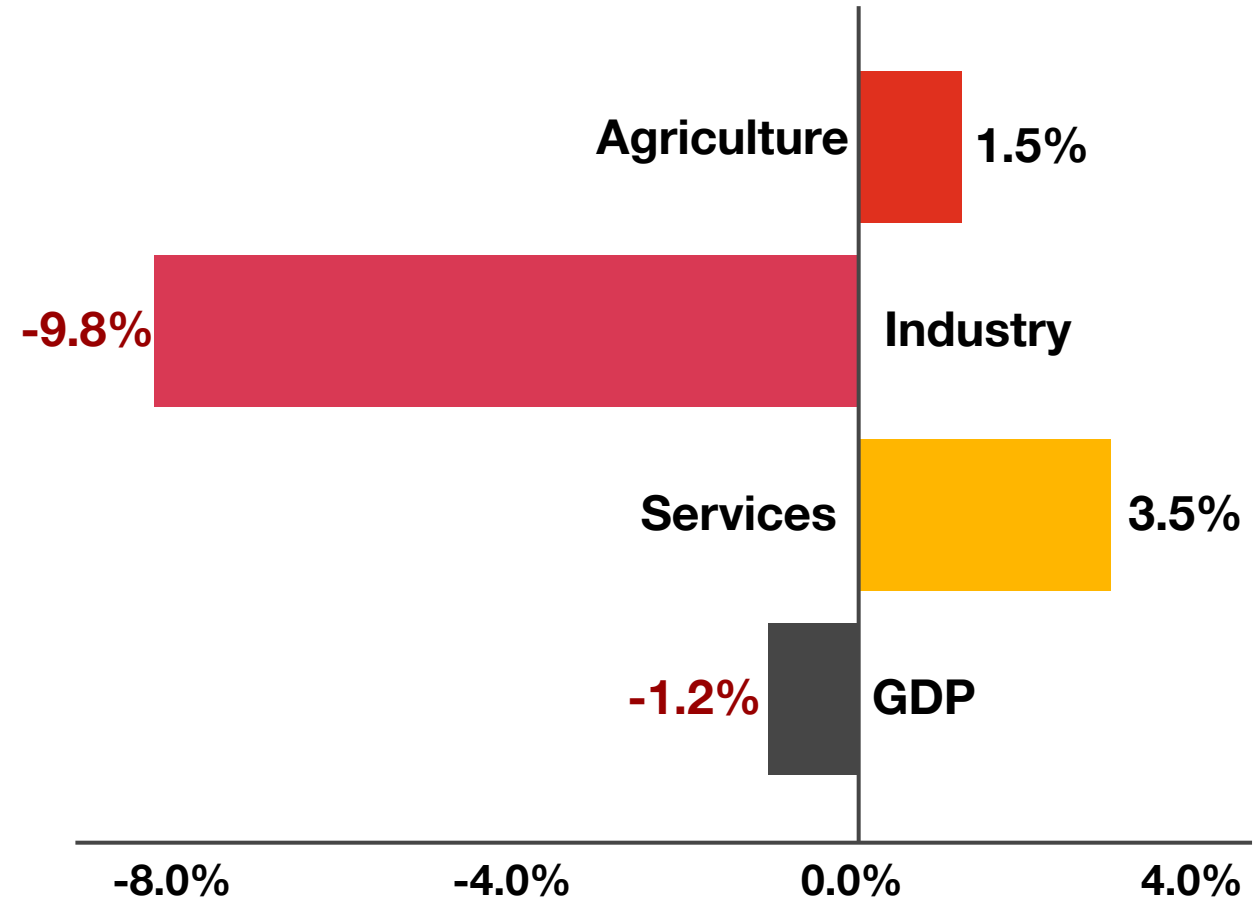
ILLUSTRATIVE

Agriculture might **retain resiliency** as people will still need to eat.

Industry has **vulnerability** to **COVID-19**. **Manufacturing** is going to **lose a significant part of output**.

Services growth will slow and **faces major challenges** to minimize vulnerability and retain resiliency.

Estimated GDP growth by Industrial Origin
In percentages (%)



*Source: PwC Analysis



Industries that benefit from necessary spending might bounce back faster. Consumer confidence will take time to recover.

Healthcare

Agri. and food commodities

Insurance

Home improvement

Education

Logistics

Energy and Utilities

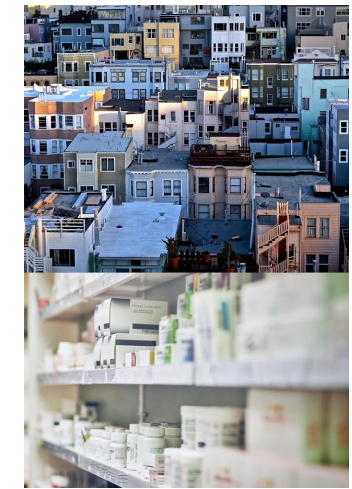
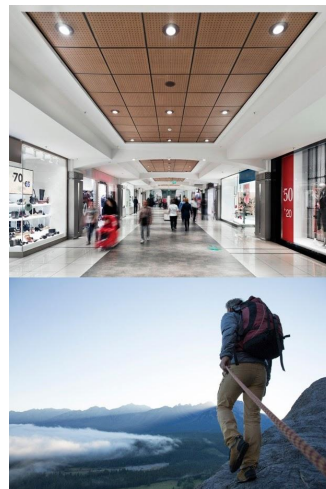
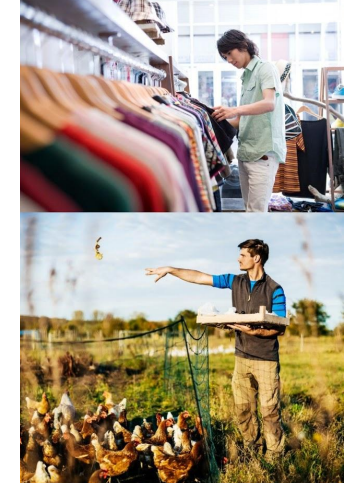
Real estate

Discretionary retail

Manufacturing

Tourism - Travel/Dining/Hospitality

Airlines



*Source: PwC Analysis

Resilient: industries that are directly relevant to how we coped with COVID-19. They will likely have a shorter runway to bounce back.

Healthcare

The public and private sector will re-examine and prioritize healthcare investments. Consumers will look to beef up their budgets here.

Insurance

The need for protection has never been so highlighted. Major insurance firms are focused on selling and are looking to expand new business volume.

Education

Schools and universities will adapt to make distance learning an integral part of their programs. Parents will still prioritize education.

Agri. and food commodities

The population of 105+ million still needs to eat. The challenge remains maintaining robust supply chains for locally produced and imported agri products.

Home improvement

Quarantines highlight the importance of remaking the home to make extended isolation a possibility. This echoes what happened after the 9/11 attacks when people stayed home for longer periods and spent more on their homes.

Logistics

Supply chain issues highlight the importance of moving goods and supplies during normal times, and extreme disruptions. COVID-19 has emphasized the importance of the last mile of the supply chain.

Vulnerable industries depend on consumer spending, which will take time come back. People will not go back to their old habits easily.

Energy & Utilities

The drop in demand from industrial users will be offset somewhat by the higher demand from consumer users during the quarantine. The country needs energy to bounce back.

Discretionary retail

Lower consumer confidence means people will cut back where they can. Mass luxury retail might be especially vulnerable as consumers cut discretionary budgets.

Tourism - Travel/Dining/Hospitality

Fears of the lingering effects of COVID-19 will affect this industry, perhaps disproportionately. People will not restore their former plans quickly.

Real estate

Tenants are hurting because their businesses are hurting. Incremental effects include lower demand, and a loss of sales momentum. Development might slow down. Valuations are likely to become more reasonable.

Manufacturing

The drop in orders, workers, and output will affect manufacturing greatly. Cash flow and liquidity are a major concern for small and medium manufacturers.

Airlines

The drop in travel and tourism means airlines might suffer the most. Requests for government intervention will receive great consideration. Tough choices lie ahead.

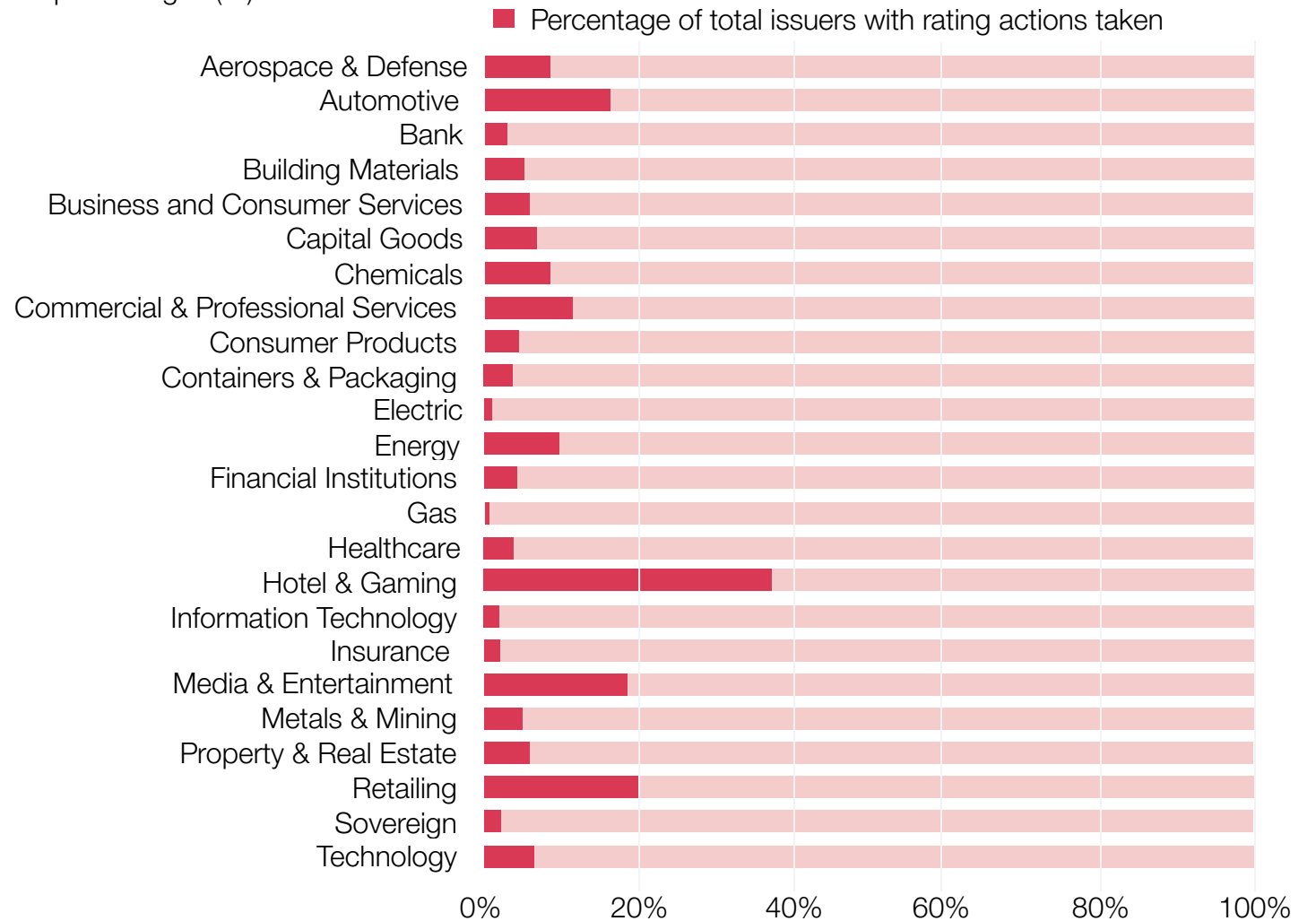


Developments in the credit markets show the vulnerable industries across the globe. Our analogous industries are in the same boat.

S&P has done 400 negative rating actions due to the COVID-19 and Oil Price War.

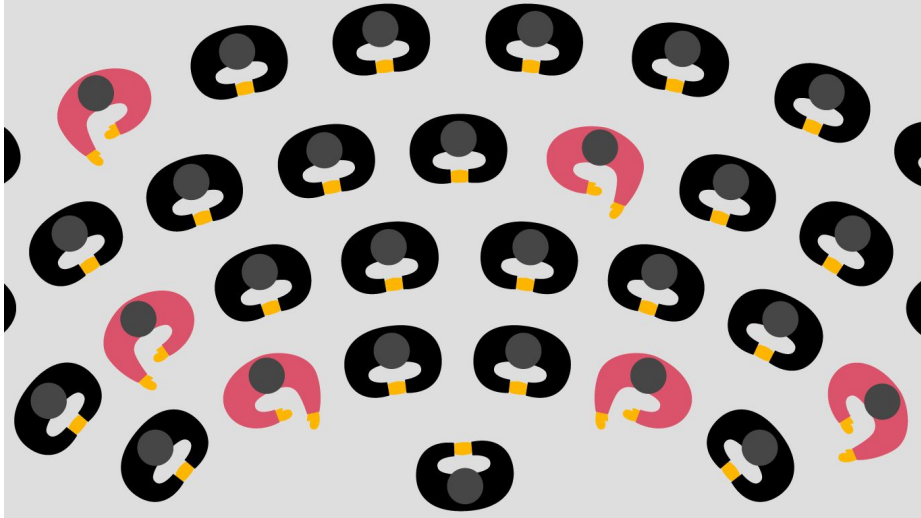
(Downgrades, Outlook changes, CreditWatch Negative)

Total issuers with rating actions taken
in percentages (%)



*Source: S&P Global Ratings

Confidence and credit will be extremely important for the economy to bounce back. Any interruptions in these will delay the rebound.



The PH economy is **not likely to bounce back right away**. Job losses, reduction in income, and reduction in consumption will eat away at consumer and business confidence. **People and businesses need to feel confident to get demand moving again.**



The economy will have a **critical need for banks** and analogous institutions to **keep credit flowing**. Should the private and credit markets (both consumer and institutional) grind to a halt, it will jeopardize a prospective recovery.

You know business as usual? We are now challenged by “business unusual.” Re-imagine what it means for your entire business model.



Leadership

Adversity reveals leadership skill. Take the time to assess how well the team responded. What developmental efforts are required going forward? Does your leadership structure allow flexibility and responsiveness?



Future strategic plans

How do you adjust your growth plans? What new thinking do you need to incorporate in your planning and scenario analysis process to account for a wider range of factors that disrupt future outcomes?



Products/ Services

How might you retool or pivot your products and services to become relevant in the economy in which we operate?



Role of technology and tech enablement

How can you use tech to operate in business unusual on an ongoing basis?

“Business unusual:” the changes might be long-lasting. Enterprises will adapt to stay relevant and competitive in this changed world.



Customers/ going to market tactics

How did this affect your access and supply chain leading to your customers? What opportunities do you have to work together more closely to lessen the effect of future disruptions?



Pricing

How do major disruptions affect pricing? What adjustments do you make in the short term? Do you adopt more sustained changes in pricing practices?



Organization/ human capital

Re-evaluate staffing and headcount requirements - what are the vital functions and the “nice to have but not critical?”



Government and regulatory relations

Build tighter and more resilient relationships with government agencies, especially those that regulate your industry.



Community responsibility

Examine changes to engagement with community and stakeholders.



Short-term: customer, supply chain and cash flow issues will dominate the conversation. The entire management team must act in concert, and the focus will be on the CFO.



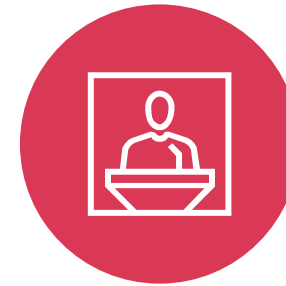
Customers

Ask how they are doing - ***get a feel for how this is affecting their cash flow,*** because it will affect yours.



Vendors

See how they are doing - be ***forthright on the risks*** you see. Your situation will affect them.



C-Level

Engage with c-level colleagues and ***have an active discussion*** on what needs to be done.



Financial

Have a ***candid conversation*** with the finance, accounting, and treasury organization on the ***risks seen in financial reporting, cash flow, and working capital.***

Prioritize cash, but recognize that your entire ecosystem matters. Things are so fluid that one must be ready to do an about-face at a moment's notice, given new and reliable information.



Cash balances

Review your cash balances and **figure out your 30-60-90 day forecasts** for collections and disbursements. Plan out **cash position scenarios**.



Credit line

Engage your bank account officer and **review your credit lines** - have a point of view on your risks and how to manage them.



Ecosystem

Do a **mental reset and keep an open mind**, because you will need to **communicate with your entire supply chain and working capital chain** to collaborate and **find out solutions together**.



Flexibility

Be **ready to revise your point of view** and act - the situation is fluid and requires people who can **change their minds based on better information**.

Isla Lipana & Co is PwC in the Philippines

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We get an **in-depth understanding of the client's business and industry**, the internal control environment, overall **business objectives and the risks** associated with those objectives.



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We specially package business and tax advisory services for our clients based on their needs. This is a better way of **handling tax compliance** that makes us **achieve their business objectives**. We have made it easier for companies, whether large or small, to **lessen their tax problems and meet tax compliance obligations**. We deal with main taxes affecting all businesses, and those in difficult areas such as **international tax, expatriate tax, and value-added tax**.

Talk to PwC - we can help you get through this.



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Thank you!

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