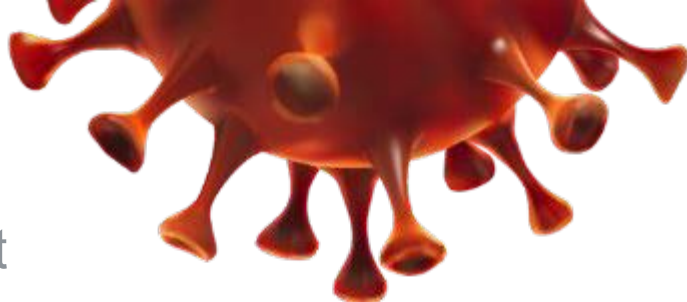


Managing liquidity and solvency during the Covid-19 crisis

Bankruptcy Commission
of Saudi Arabia



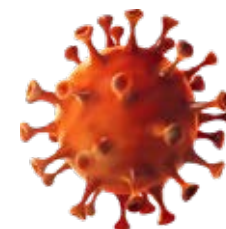
Webinar, 13 May 2020



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Prelude – Rough seas make successful sailors

Key takeaways

No clear end in sight

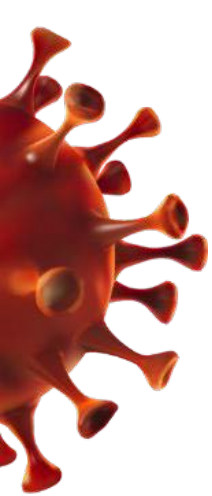
Act quickly and prepare for the recovery

Smart companies focus on liquidity/ cashflows

Stakeholder collaboration is key

Seek advice when needed





A. Team Introduction



Your speakers today

Team profile



**Stefan
Schaible**

Global Managing
Partner

Global Managing Partner, Roland Berger Worldwide – Digitalization and large-scale business transformation

- > As Global Managing Partner at Roland Berger, Stefan Schaible steers the company globally, together with two other members of the Board of Managing Directors
- > Functional focus is on digitalization and large-scale business transformations
- > In terms of industries, he has in-depth experience in the public sector, financial services as well as infrastructure-intensive business segments



**René
Seyger**

Middle East
Managing Partner

Managing Partner, Roland Berger Middle East – Automotive, transport and healthcare expert

- > More than 20 years of consulting experience with three decades of overall experiences
- > René specializes in strategy, restructuring, and is an avid proponent of new mobility concepts such as with respect to autonomous vehicles
- > In 2012, he published 'Trojan Horses of Decline', a book that addresses how management can recognize corporate decline at an early stage



**Dr. Johannes
Distler**

Middle East
Partner

Partner, Roland Berger Middle East – Transportation, consumer goods and retail expert

- > More than 10 years in management consulting, thereof 8 years in the Middle East, with strong focus on transportation, consumer goods and retail
- > Multiple projects in restructuring, performance, transformation & transaction expert including several assignment in the Kingdom of Saudi Arabia
- > Comprehensive experience in small- to large-scale restructuring assignments in the transportation sector in the GCC

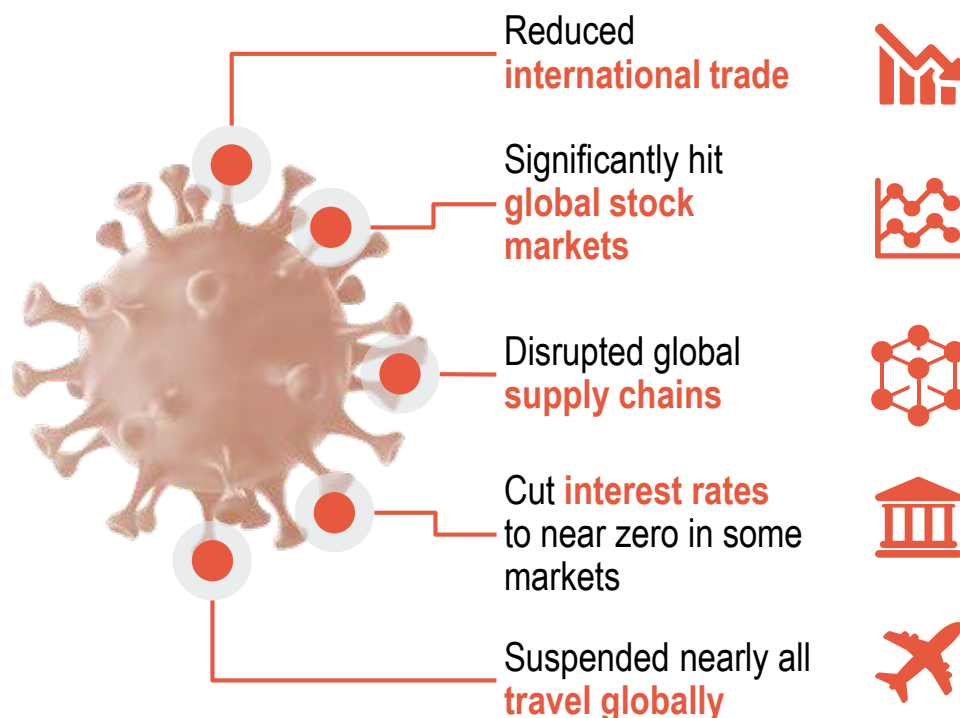
Webinar 1

B1. Impact of Covid-19 & preparing for a 'new normal'

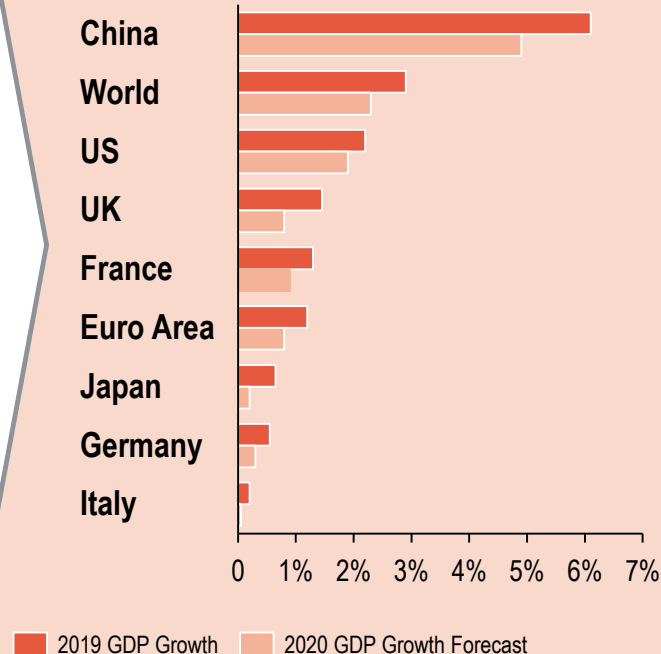


COVID-19 has already challenged globalization and is expected to have a significant macro-economic impact

Globalization disrupted!

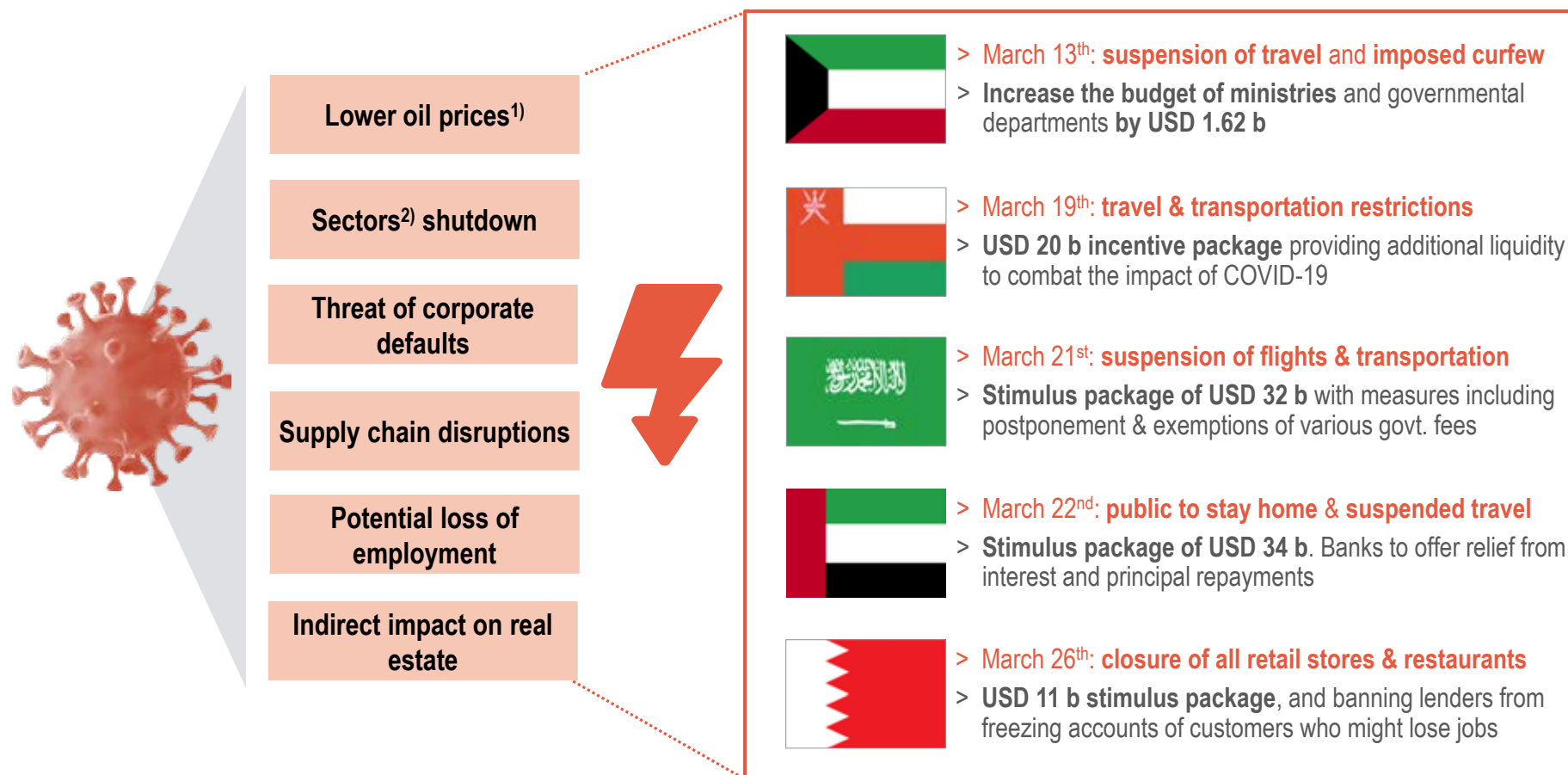


Impact is being translated into immediate **downgrades in growth forecasts**



GCC is directly impacted and governments have announced measures to contain the virus & reduce economic impact

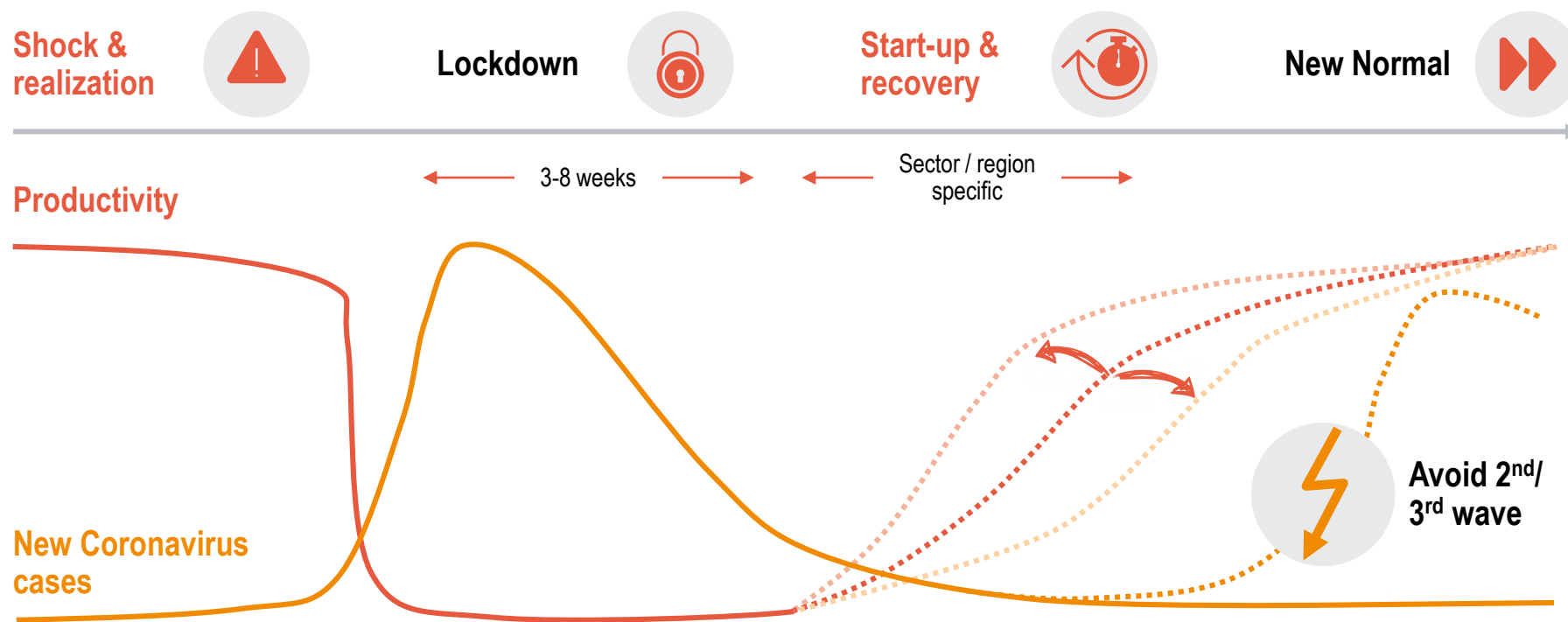
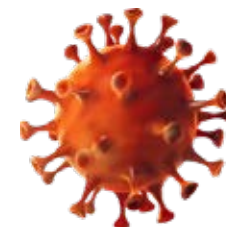
Impact on the Middle East region & regional governments' reactions



1) Also due to over-supply currently 2) E.g., travel & tourism

Intensity of economic disruption depends on how long it will take to contain pandemic and adapt to New Normal

Development path of COVID-19 crisis



Three potential global scenarios could play out

Macroeconomic scenarios & impact

1 Fast Recovery

- > Outbreak contained with rapid & effective measures
- > Quick implementation of relief and stimulus
- > Business normalcy returns by mid-2020



2 Delayed Cure

- > Preventive measures not enough to contain the spread of the virus
- > Healthcare systems become overwhelmed
- > Economic rebound delayed to end-2020



3 Profound Recession

- > Second wave of global outbreak
- > Healthcare systems lack capacity; Corona virus becomes endemic
- > Eco. recession which continues into 2021



Economic impact: (to varying degree across scenarios)

Lower demand / consumption



Increased loan defaults



Rise in unemployment



Higher social inequality



...& More ?

Industries expected to ramp-up step by step as lockdown and safety precautions are lessened

Industry focus

- > Pharma & healthcare
- > Information & comm.
- > Online retail
- > Energy
- > Craftsmen
- > Finance
- > Food
- > ...

- > Education
- > Logistics (incl. cargo flight)

- > Manufacturing
- > Machinery & plant eng.
- > Retail
- > Automotive

- > Tourism & hotels
- > Airlines (passenger)
- > Catering & hospitality

Waves principle

Lockdown Basic services & healthcare

- > During the lockdown phase, **only the basic needs** of society are provided/ health protection measures taken

1st wave Wider range of basic services

- > **Public infrastructure**, education
- > Free flow of goods restored – Border crossings within 15 minutes incl. health check

2nd wave Manufacturing & first service providers

- > **Manufacturing industry** and associated **service sector** are ramped up

3rd wave Services, transport & hospitality

- > **Tourism** (incl. flights) ramped up region by region
- > **Services** come back on line **with hygiene rules to be followed**

Support

↑ Increase the range of offers available ↓




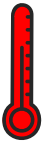


Levers: Financial injections (liquidity/loans)

Levers: Vouchers for consumers, tax breaks

↑ Increase demand ↓

KSA economy needs to confront second degree impact of COVID-19 on oil & gas and travel-related sectors

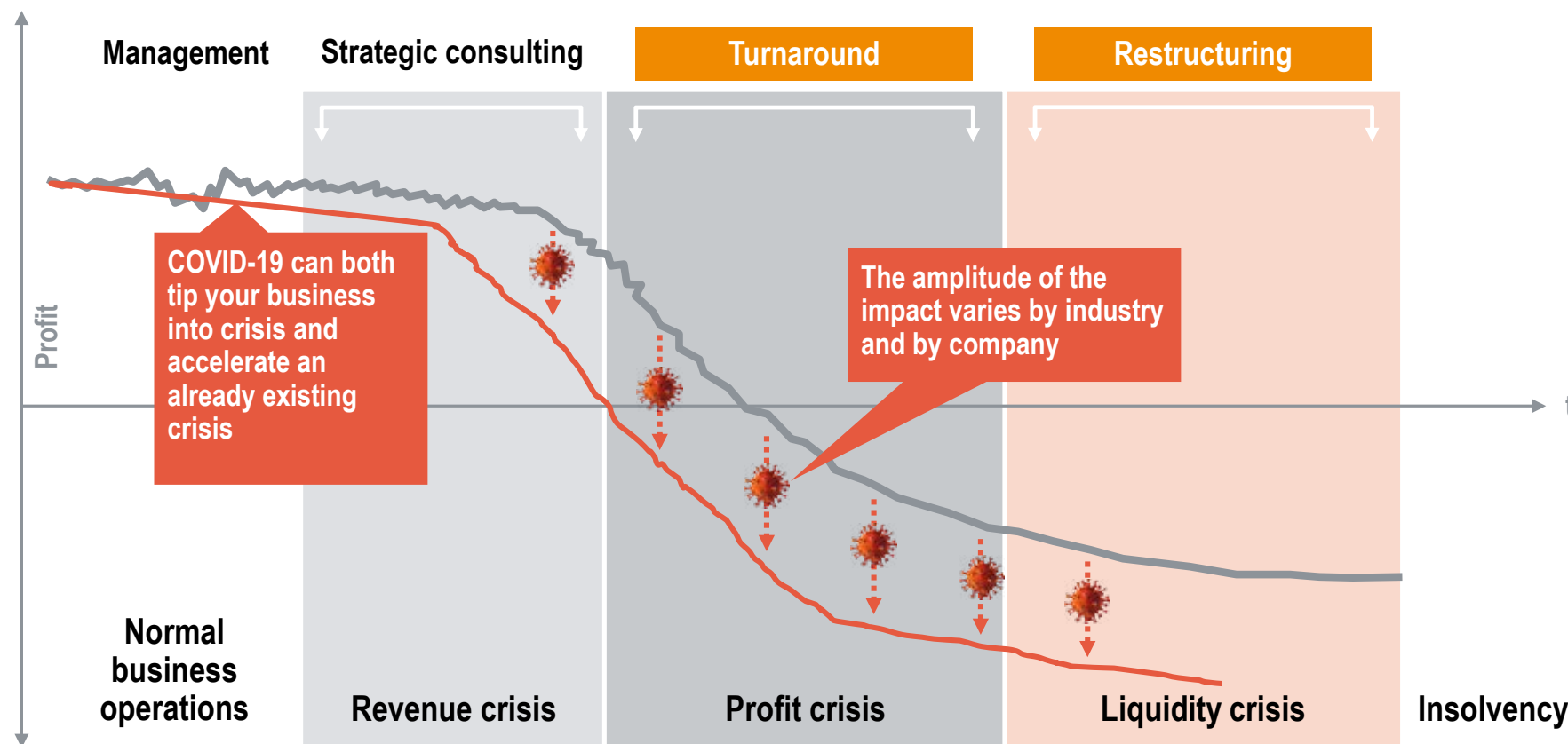
Impact on select KSA industries

Industries	Overall impact	Short-term liquidity impact	Profitability impact 2020
Oil & Gas  		<ul style="list-style-type: none"> > COVID-19 triggered demand crash for flights/traffic > Threat of structural supply-side challenges as industry workers increasingly test positive for COVID-19 > Disintegration of OPEC+ consensus leads to excess supply and plummet of oil prices 	<ul style="list-style-type: none"> > Decrease in industrial production and traffic reduces global demand – and leads to inventory devaluation > At oil price of 30 USD/bbl upstream FCF close to zero > Significant impact on government budget and long-term ability to support KSA market
Tourism & Travel  		<ul style="list-style-type: none"> > Short-term suspension of international flights and domestic movement > Lock-down of the holy cities Mecca and Medina for religious visitation 	<ul style="list-style-type: none"> > Annual Hajj pilgrimage cancelled in 2020 > Uncertainty of recovery in longer-term as travel restrictions and social distancing measures extend globally
Air-lines  		<ul style="list-style-type: none"> > Short-term cancellations and tendency towards flexible bookings lead to cash shortage > Long-term financing of aircrafts limits possibilities to adjust cash outflow accordingly 	<ul style="list-style-type: none"> > Globally imposed travel restrictions will significantly reduce 2020 results since rebound effects are limited after crisis has ended > Highly interlinked with tourism and travel industry

For individual companies, immediate actions will determine whether business downturn spells crisis or opportunity

Phases of corporate crisis and how they are accelerated by COVID-19

Illustrative



On the upside, the crisis will bring opportunities to KSA industries as businesses and individuals adapt to a 'New Normal'

Selected impact on KSA industries



Focus on local supply chain production in manufacturing?



Boost for consumer goods through e-Commerce?



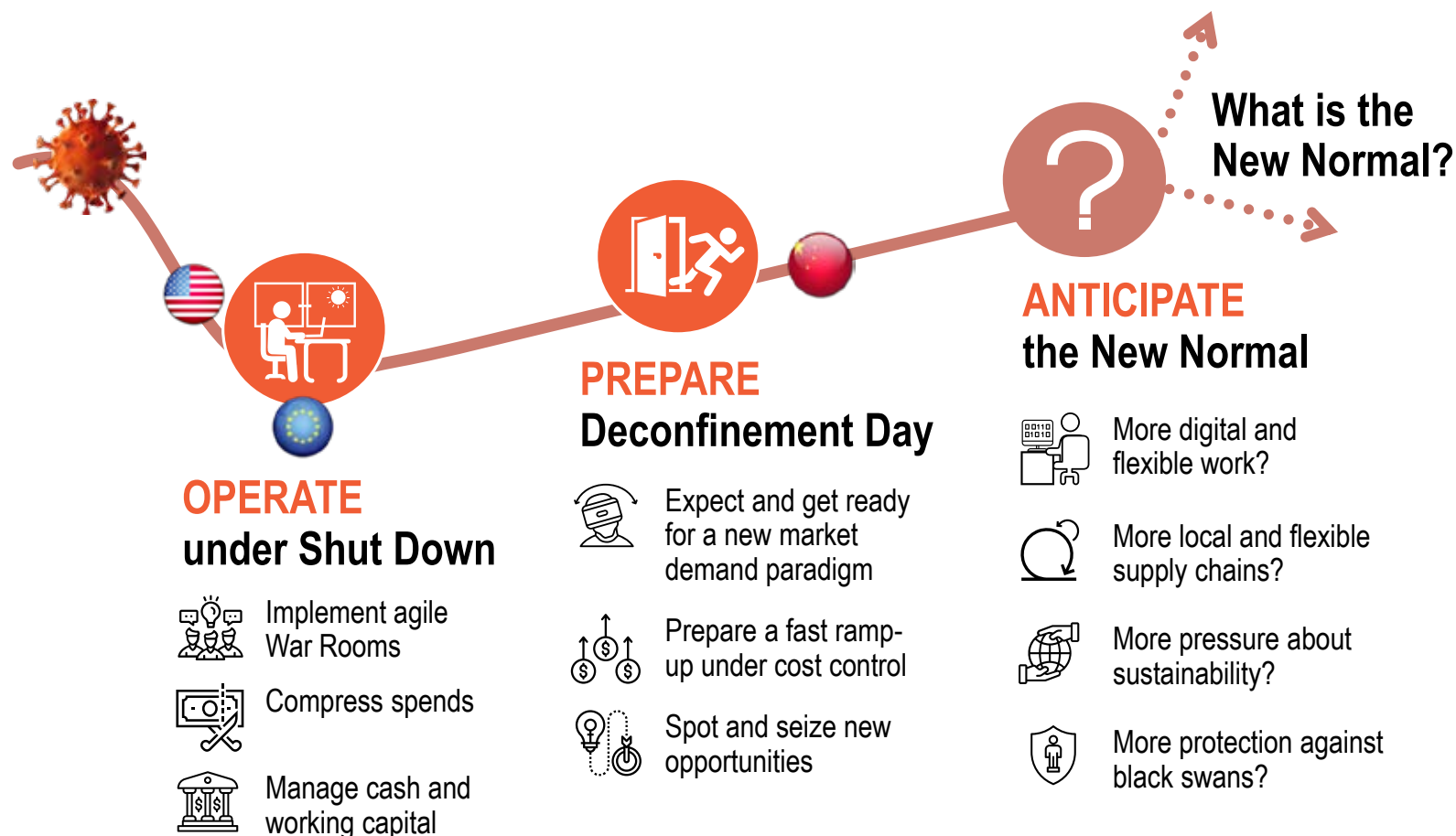
Rise of telehealth and remote medicare services?



Expansion of the discourse and efforts surrounding sustainable energy?

To continue operating in a new world, businesses will be forced to optimize costs, 'sweat' their assets and consider new rev. models

Company path to deal with COVID-19



COVID-19 as a catalyst for change

Key takeaways and questions

Key takeaways

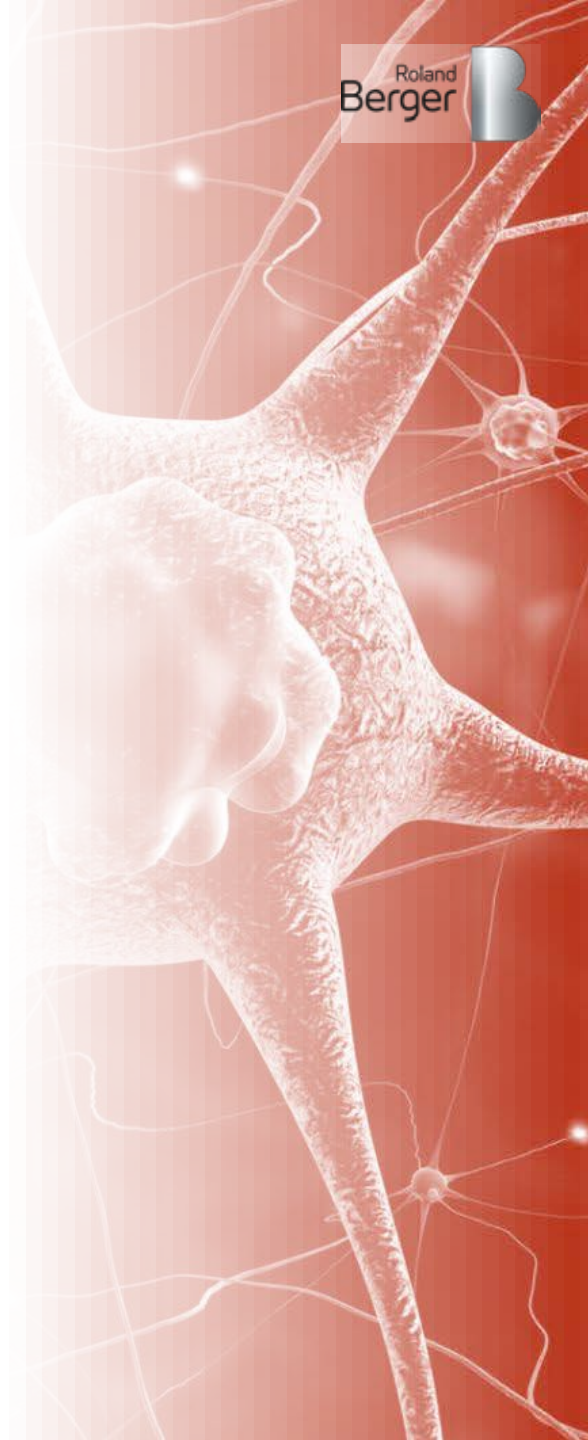
- > **Economic impact with varying strength across industries – but all sectors affected**
- > **Recovery predicted to occur in waves with large uncertainty in timeline**
- > **Short-term liquidity crisis may cascade into long-term insolvency for individual businesses**
- > **Companies must consider new revenue models & optimize cost to mitigate crisis and protect long-term profitability**

Questions?



Webinar 2

B2. Techniques for effectively managing liquidity




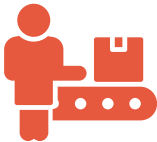


In the current abnormal business conditions, smart companies are shifting their focus from profit & loss to working capital

Working capital elements



It is important to make sure you are getting the basics right when it comes to working capital management

Traditional working capital levers

	Lever	Objective	Typical measures
Levers	 Systematic receivables management	Reduce accounts receivable	<ul style="list-style-type: none"> > Collect aggressively > Bill timely & accurately > Collaborate w/ customers > Suspend delivery > Take legal action
	 Optimized inventory management	Reduce the level of inventories	<ul style="list-style-type: none"> > Sell excess inventory > Analyze and reduce slow moving items > Review returns > Set up consignments
	 Effective payables management	Increase trade accounts payable	<ul style="list-style-type: none"> > Sell excess inventory > Analyze and reduce slow moving items > Review returns > Set up consignments
	 Cash Conversion Cycle	Reduce overall input to cash cycle	<ul style="list-style-type: none"> > Monitor CCC against industry standards > Track to ensure in reduction of CCC days

We have also experienced various alternative and effective initiatives to manage liquidity and build resilience during the crisis

Non-traditional liquidity management initiatives

Cash pooling – **consolidate all funds** in a single liquidity position.
Reduces liquidity costs per subsidiary/ vertical and **lowers overall minimum cash requirement**

Explore **new business channels** and **execute** initiatives **immediately**

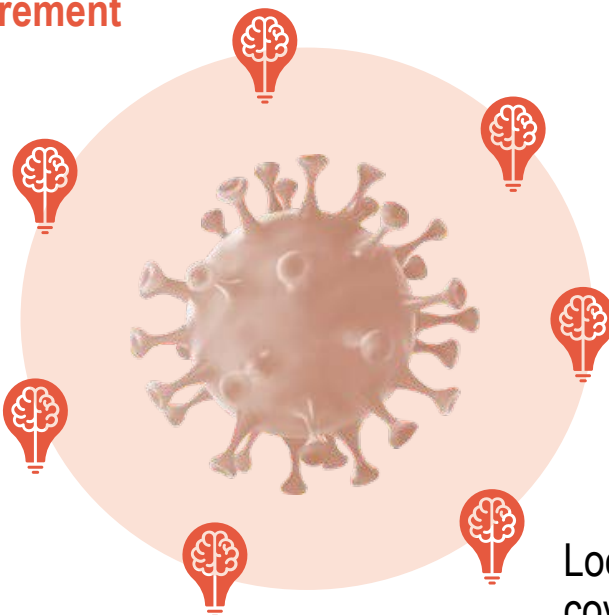
Renegotiate the **price rates** and **payment terms** you have with all your **suppliers**. If you do not reach out to them, **they will not offer concessions**

Develop a '**Cash War Room**', to brainstorm, identify, implement and **track liquidity measures**

Cut costs that **do not impact customer experience** or **core operations**

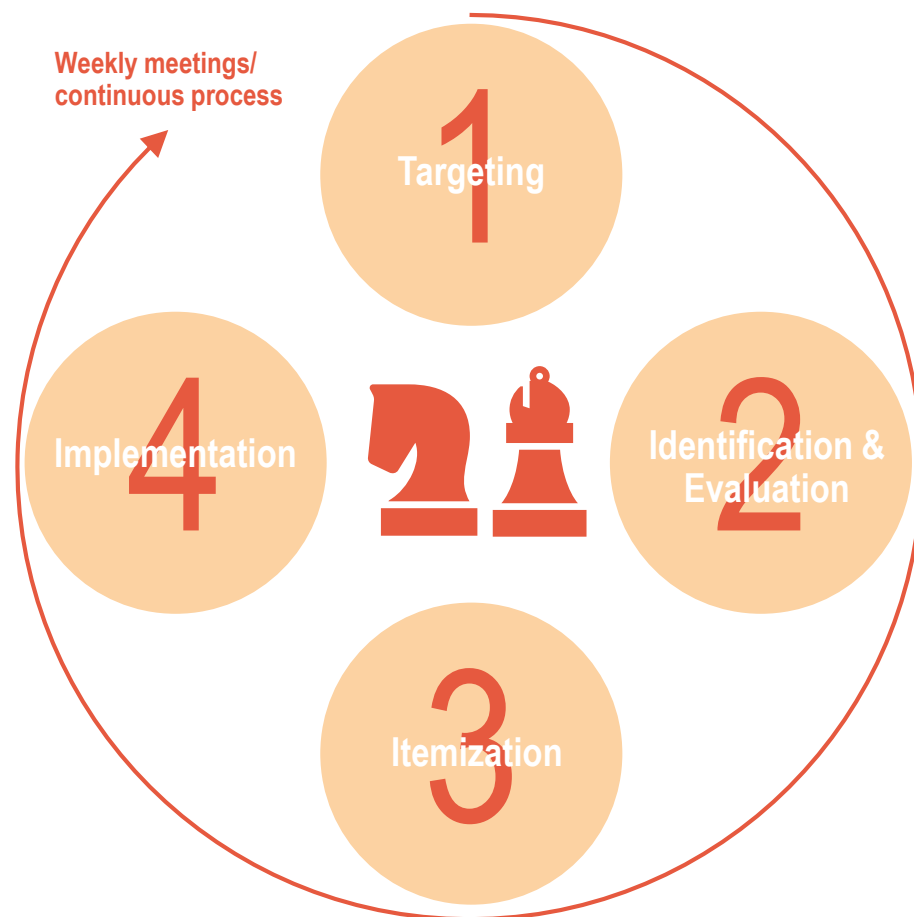
Reflect on all operational **mistakes made before** the crisis and **address them now**

Look at your **insurance policies** and coverage for **business disruption**



A 'Cash War Room' can be a useful approach to ensure the right measures are identified, executed and tracked

Cash War Room process flow – Single source of truth



1 Targeting

- > Create and update a thirteen-week and year-long cash forecast
- > Prepare scenario analysis, including worst-case and buffer

2 Identification and evaluation

- > Hold workshops with responsible departments to identify measures
- > Describe measures and estimate cash effect
- > Evaluate measures through financial bottom-up view

3 Itemization

- > Analyze in detail the impact of the measures on liquidity development
- > Evaluate impact on business
- > Obtain approvals from key stakeholders for implementation
- > Consolidate approved measures

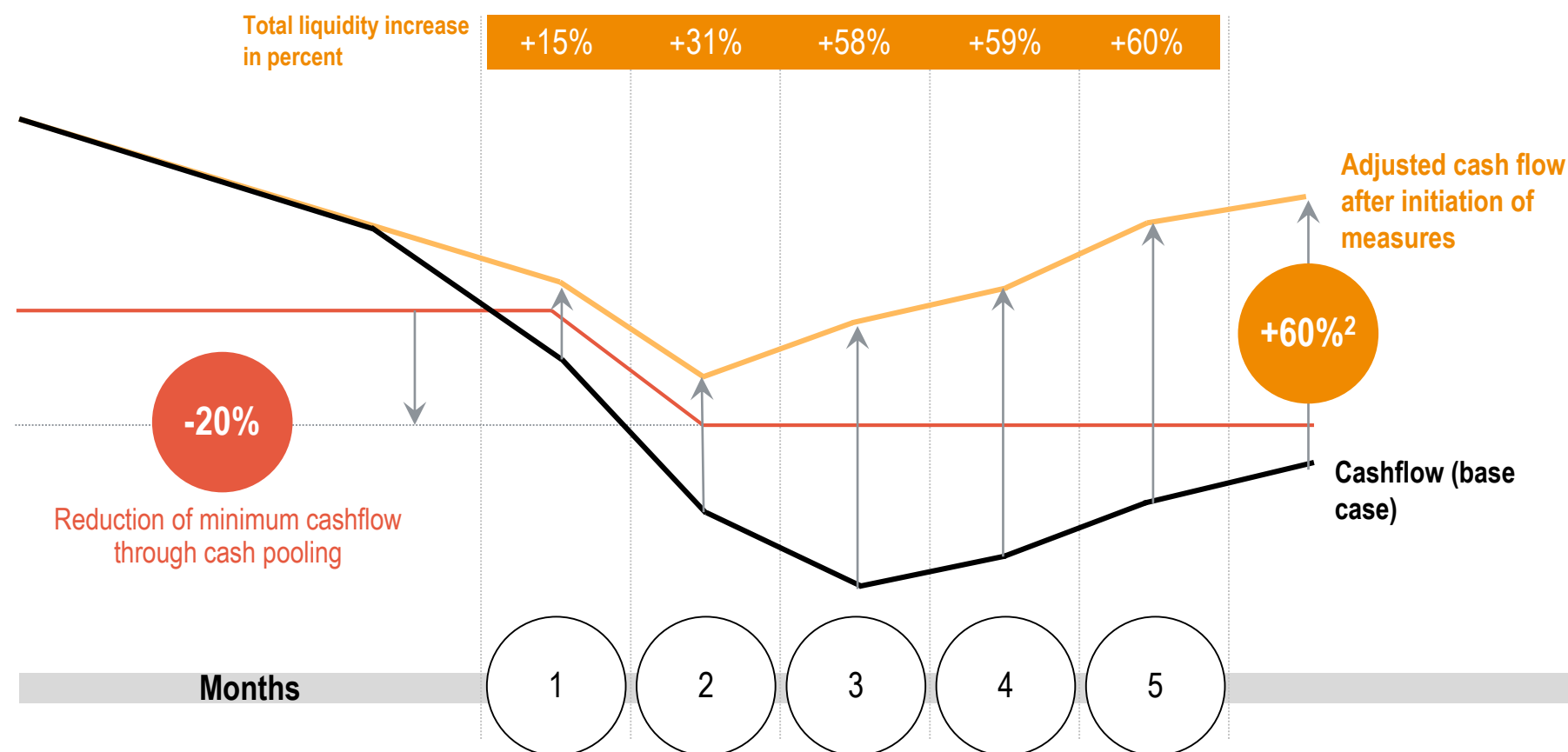
4 Implementation

- > Guarantee measures are being implemented and continuously monitored
- > Quantify and track savings against set goals
- > Rapidly initiate new measures, when necessary

Project example – Rescued liquidity from the base case by adopting several liquidity initiatives/ measures

Development of a cash curve with and without liquidity measures [example]

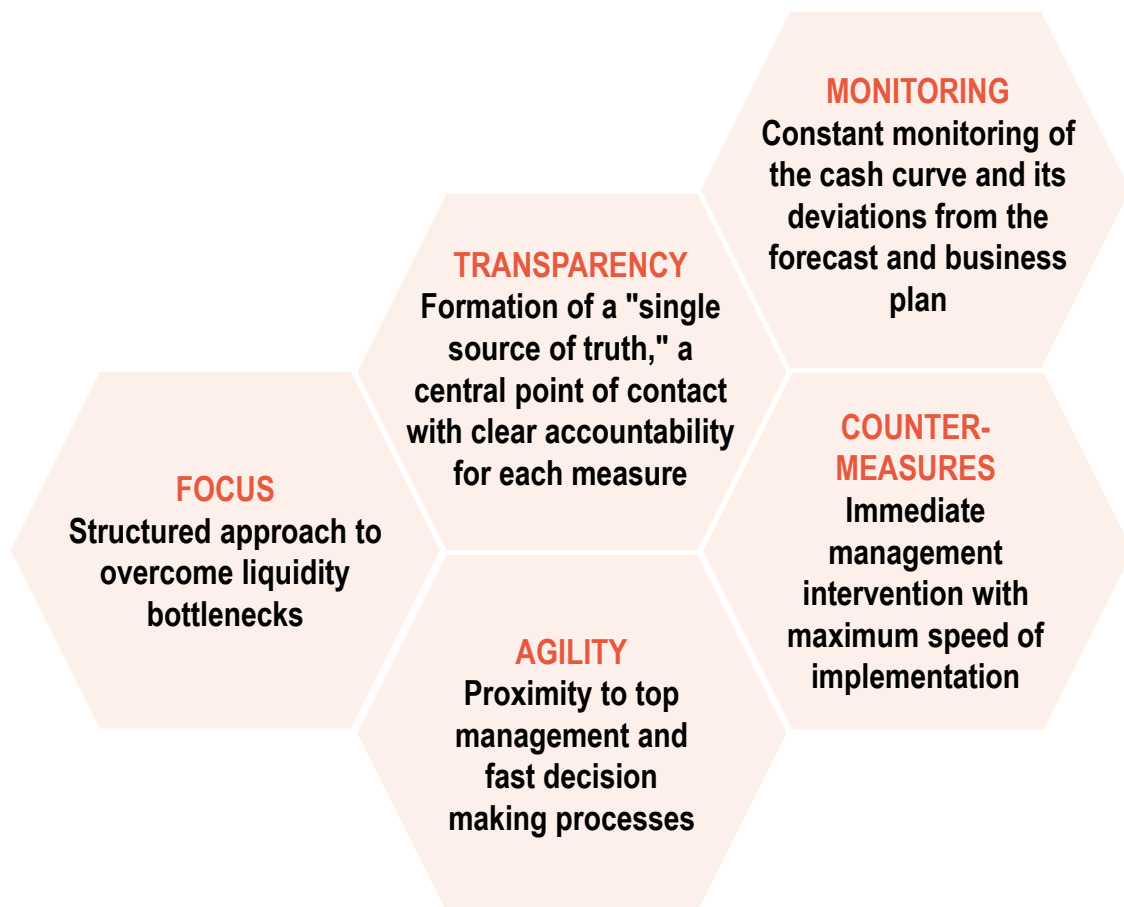
Illustrative



2) Cumulative improvement of free liquidity in %

Success can be achieved by being prepared for everything and reacting flexibly to change

Liquidity management success factors



Liquidity management is a continuous process

Key takeaways and questions

Key takeaways

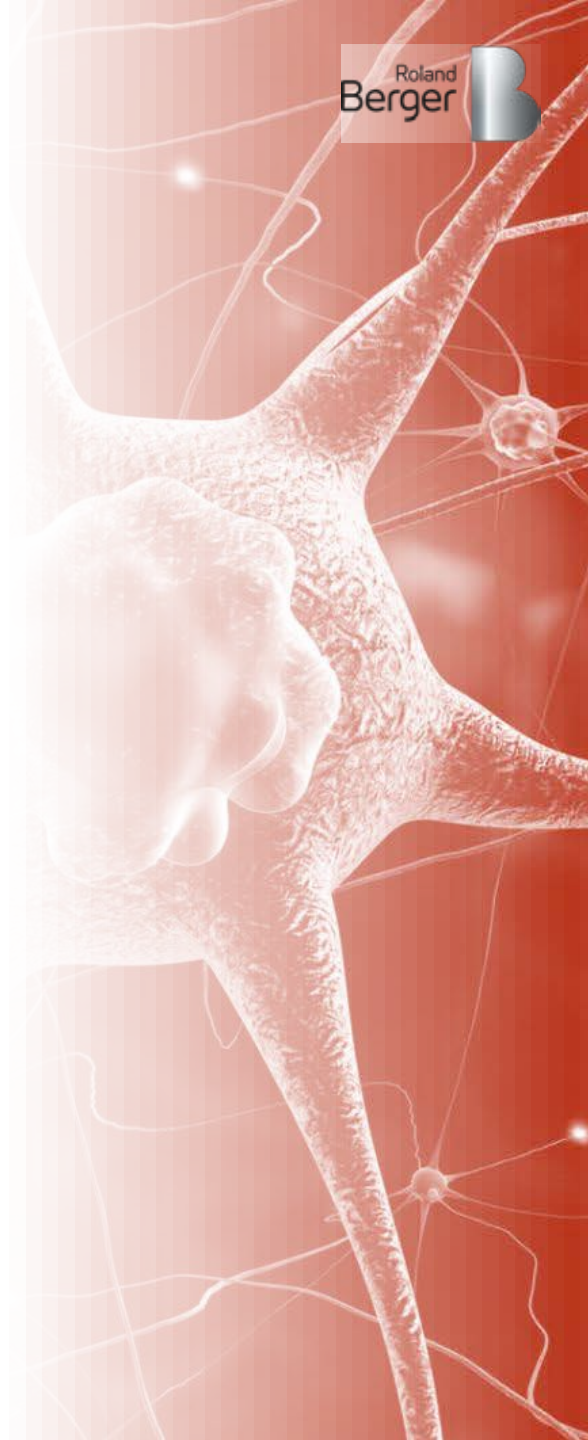
- > **Get the basics right on working capital management**
- > **Think differently about your assets, revenues and costs to generate liquidity**
- > **Reflect on mistakes and re-develop quickly in anticipation of recovery**
- > **Meet frequently to identify and implement liquidity measures**

Questions?



Webinar 3

B3. Bank & government support options for companies in KSA



Two sources of external support for corporates

1

Support from banks through restructuring and refinancing options

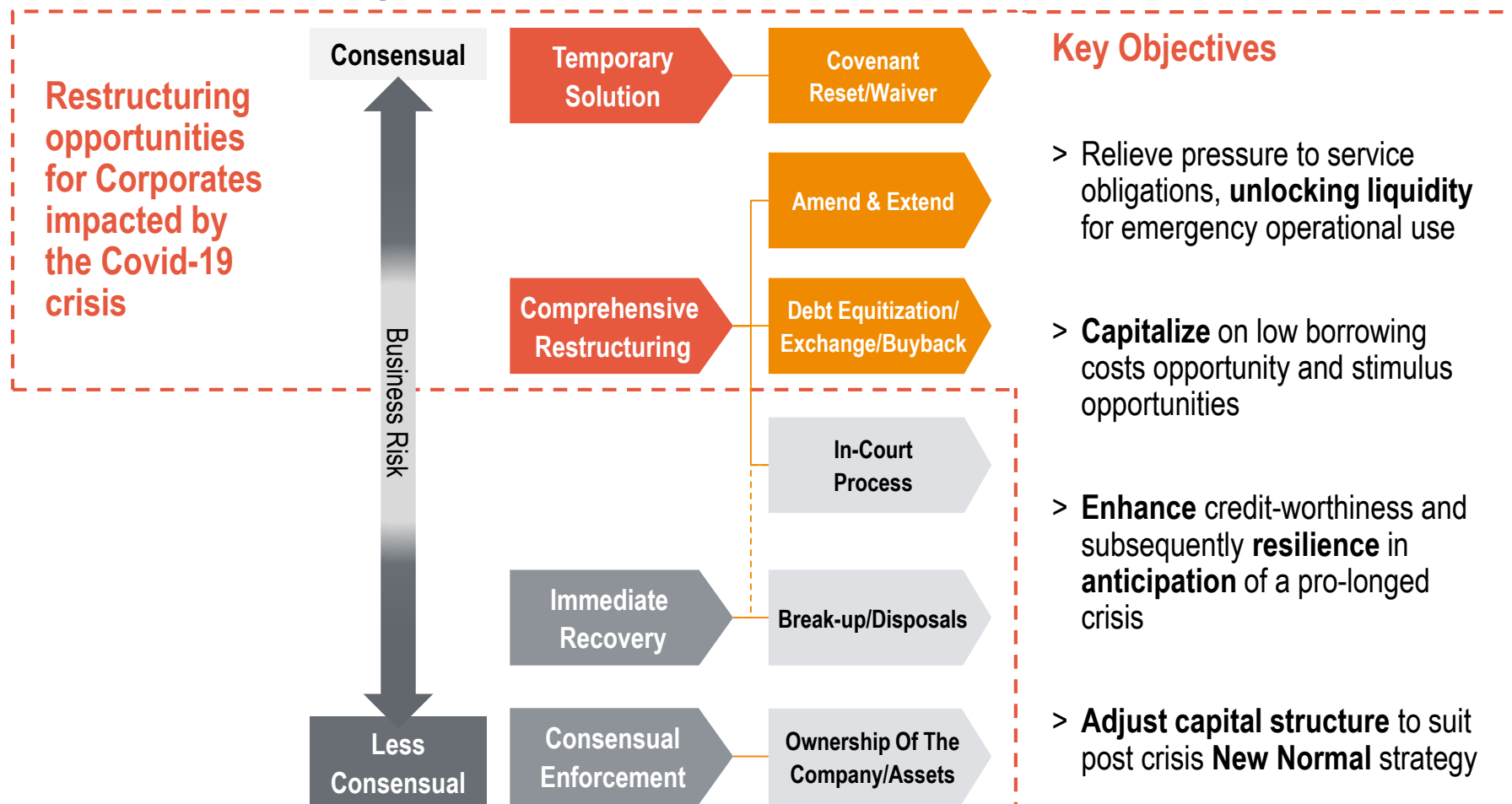
2

Support from the government through various COVID-19 stimulus packages



Current crisis exacerbates companies' needs to restructure – Low borrowing costs and cashflow disruptions make it a timely decision

Financial restructuring variants



By working with banks, corporates can restructure through several levers that suit needs and objectives

Bank restructuring levers

1 Loan term



Extending the due date for interest payments, principal repayment at maturity or both

2 Repayment structure



Readjusting the way payment is collected (equal installments, balloon payments, PIK, etc)

3 Interest rate



Recalculating the way interest rate is applied to the loan, either through reduction or restructuring

4 Security offerings



Offering various collaterals and guarantees in exchange for direct payment according to schedule

5 Covenants & waivers



Revisiting conditions under which loans must be repaid and associated penalties

6 Strategic alignment

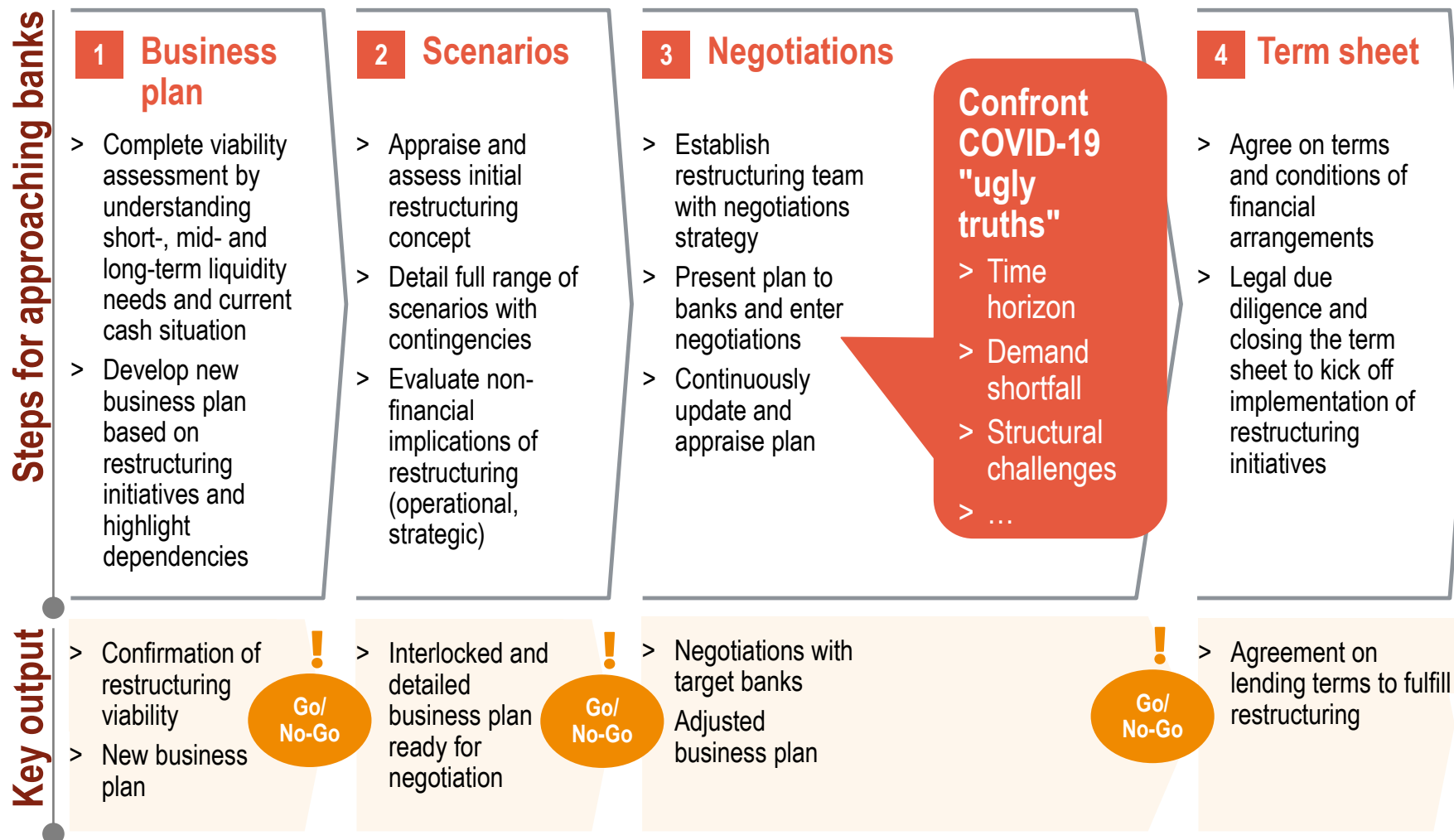


Realigning banking products to true uses (e.g. working capital loans converted to term loans)

Considerations

- > What are the restructuring options available?
- > What are the biggest cash flow pain points?
- > What is the time horizon?
- > How are internal and market realities expected to change?
- > What are shareholder and managerial preferences?
- > What government support is available for various options?

Approaching banks for restructuring typically consists of 4 steps – Several hard-nosed considerations for current crisis environment



Lessons learned from restructuring during times of crisis

Collection of insights from past Roland Berger experience



**Look for new
business
opportunities in spite
of the crisis**

*Economic downturn can
affect liquidity sooner than
you think*

**Prepare cost structures for
any possible decline in
business volume**

**Rigorous restructuring
programs carried out during
the crisis... sustainably
improve [companies']
competitiveness**

**Reducing the cost base and focusing on
core business are key opportunities of the
crisis**

**Liquidity was ensured
mainly through operational
management**

**Slump in revenues
during the crisis hit
equity sharply**

**Strategic planning as a key – constant
changes require permanent
adaptations and new ways of working**

**Working capital actions (e.g.
inventory management) will
remain crucial**



Two sources of external support for corporates

1

Support from banks through restructuring and refinancing options

2









Support from the government through various COVID-19 stimulus packages



In line with global efforts, Saudi Arabia has embarked on a Covid-19 stimulus effort to ease the effect of crisis for corporates





Commitments of stimulus packages

Breakdown of packages

1 Monsha'at 	2 Ministry of Finance 	3 SAMA 	4 Other funds 
<ul style="list-style-type: none"> > Exemption of expired labor documentation fees and extending their visas till end of June > Extending working permits for 3 months without any additional costs > Expanding the base for loans recipients without requiring Zakat & income certification > Exemption of 30% of electricity fees, with up to 50% deferral of payments for 3 months 	<ul style="list-style-type: none"> > Exemption of foreign labor from residency fees till end of June > Postponement of 3 month for commercial entities for: <ul style="list-style-type: none"> – Select. tax, VAT, corporate tax – Zakat returns – Fees of government and municipalities – Customs fees > Postponement of 3 month for loans from devel. funds 	<ul style="list-style-type: none"> > Deposited SAR 30 bn towards financing institutions > Rescheduling of loan payments > Postponement of 6 month for small and medium commercial entities' loan payments – 14th Mar till 14th Sep > Exemption from electronic payments fees for 6 months > Refund fees of bookings' cancelation or money exchange 	<ul style="list-style-type: none"> > Extending the grace period and rescheduling loans (amounting to more than SAR 6 bn) > SAR 1 bn for direct and indirect loans to finance working capital > SAR 4 bn to support >300,000 local beneficiaries – Training and support programs > SIDF to reschedule all payments for entities impacted greatly 

Government stimulus packages to cascade to businesses through various schemes

Breakdown of stimulus package

	 Monsha'at	 Ministry of Finance	 SAMA	 Other
Budget allocated	SAR 120 bn ¹⁾	SAR 120 bn ¹⁾	SAR 50 bn	SAR 56 bn
Size of company²⁾	✓ Small ✓ Medium ✗ Large	✓ Small ✓ Medium ✓ Large	✓ Small ✓ Medium ✓ Large	✓ Small ✓ Medium ✗ Large
Sector focus³⁾	> Retail > Industrial	> Private sector	> Retail > Financial	> Industrial & agricultural > Healthcare
Type of support	> Exemptions of labor fees and Zakat > Postponement of loans payment > Reduction of electricity fees up to 30%	> Deferred loans for small and medium entities > Postponement of loans payments	> Exemptions from credit card and low balance fees > Deference of payments on bank loans	> Rescheduling of loans due dates > Providing support for local workforce > Providing support for the healthcare system

1) Both derive initiatives from the same budgeted allocation, 2) A small entity is one with 6 – 49 FTEs and with revenue between SAR 3 to 40 ml, medium entities has 50 – 249 FTEs with revenue between SAR 40 to 200 ml, large entity has >249 FTEs and with a revenue of SAR >200 ml, 3) Identified most impacted and targeted sector for those stimulus packages funds

Source: Roland Berger

Enterprises of all sizes can find shelter from Covid-19 impact in these stimulus packages if they meet the terms and conditions

Eligibility for stimulus packages

Non-exhaustive



- > Apply for support with **rental costs** for small and medium¹⁾ enterprises via Kafalah website – Supported by SAMA



- > Allow **all small and medium enterprises** to restructure their installments via their website
- > Impact on **medium & large enterprises** will be assessed to determine eligibility for assistance/restructuring offers

Connect with the right stimulus package provider



Details of other stimulus packages to be announced in the coming days



- > Apply via Tagat (one of Hrdf initiatives) website to receive **support with employees compensation** for small and medium enterprises



- > Apply for a **6 months deferment of instalment payments** for all agri-projects³⁾ with Agricultural Development Fund via their website

1) A small entity is one with 6 – 49 FTEs and with revenue between SAR 3 to 40 ml, medium entities has 50 – 249 FTEs with revenue between SAR 40 to 200 ml 2) A large enterprise is one with >249 FTEs and with a revenue of SAR >200 ml, 3) For projects to be eligible they must not have restructured their debt before with AFD or received instalment assistance

External support is available in KSA but obtaining it needs preparation and discipline to follow the process

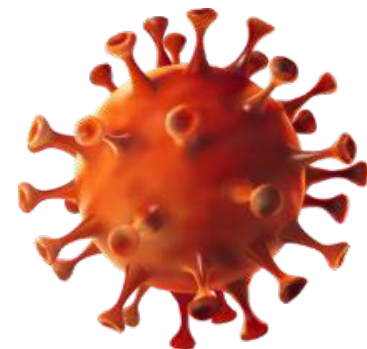
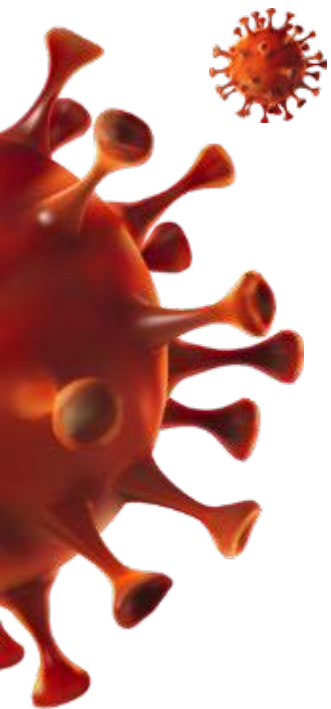
Key takeaways and questions

Key takeaways

- > Don't jump into liquidation or a fire sale immediately
- > Try the consensual and quick restructuring approach first
- > Banks and stimulus packages are in reach and generally accessible
- > The key is to understand the landscape, levers and third party processes
- > Don't be worried to share the 'ugly truths' and remain transparent

Questions?





Roland
Berger
THINK:ACT

