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PE Pulse

Quarterly insights and intelligence on PE trends

April 2020

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Contents

The PE Pulse has been designed to help you remain current on capital market trends. It captures key insights from subject-matter professionals across EY member firms and distills this intelligence into a succinct and user-friendly publication. The PE Pulse provides perspectives on both recent developments and the longer-term outlook for private equity (PE) fundraising, acquisitions and exits, as well as trends in private credit and infrastructure. Please feel free to reach out to any of the subject matter contacts listed on page 26 of this document if you wish to discuss any of the topics covered.

Businesses are faced with more uncertainty than in any period since the global financial crisis.

Executive summary

As COVID-19 continues to impact countries globally, businesses are faced with more uncertainty than in any period since the global financial crisis. As an industry with more than US$3.4t in AUM that employs more than 20m people across the world and owns companies across a wide range of industries, PE is positioned to feel the full gamut of effects from across the portfolio, including the need to find new ways to execute on deals.

There is no question the rapid progression of the pandemic and the resulting shock to the markets has been unnerving for the PE industry. A few interesting data points emerged during the course of EY Capital Confidence Barometer Survey, which took place 10 February-24 March 2020. The responses over that period reveal the breaking realization of one of the most impactful global crises in recent memory.

In February, despite one of the longest bull markets on record and a number of macro indicators flashing red for the global economy, only a minority of PE executives were modeling a recession to hit in 2020. However, by mid-March, as the global scope of the crisis became known, the proportion jumped to two-thirds.

“In February, despite one of the longest bull markets on record and a number of macro indicators flashing red for the global economy, only a minority of PE executives were modeling a recession to hit in 2020. However, by mid-March, as the global scope of the crisis became known, the proportion jumped to two-thirds.

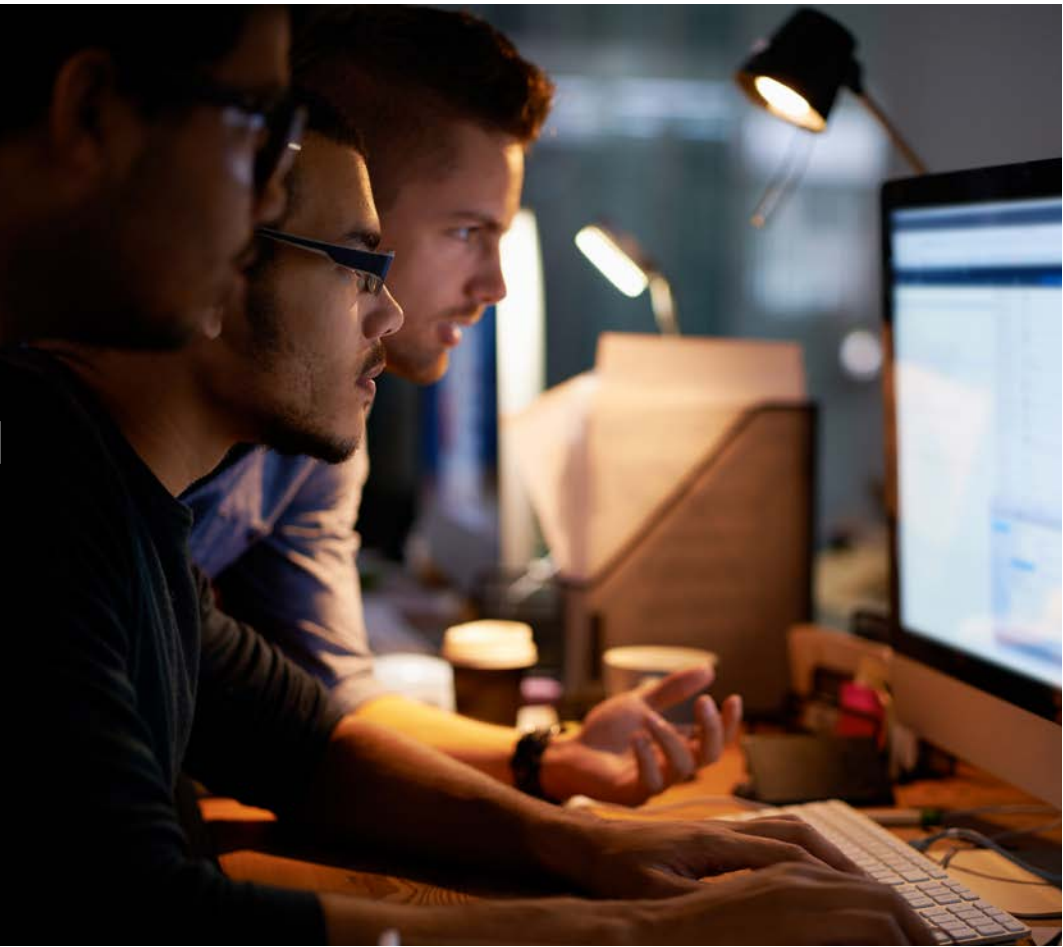
Andres Saenz, EY Global Private Equity Leader

Similar impacts are seen on measures of confidence. When asked in February whether their firm was more prepared for a recession than it was a decade ago, a resounding 93% replied that they were. However, as it became increasingly apparent that the current recession would be unlike any other experienced before, confidence began to slip, with 23% of mid-March respondents signaling they were perhaps less prepared for COVID-19 than for the financial crisis of 2008. Similar trends can be seen in sentiment around the preparation of the industry at large, the relative discipline in dealmaking and the ability of deals to withstand a downturn.

The flip side, of course, is that despite evidence of declining sentiment, a strong majority of PE professionals remain convinced that the model remains robust, and that the industry remains well-positioned to adapt and respond, even after knowing (or at least having strong indications of) the massive amount of disruption that was poised to occur and that is still unfolding.

Consequently, most PE professionals are expecting some measure of decline in deal activity – although the overwhelming majority of respondents feel it will not exceed 25%. Indeed, while the coming months will test the model in ways that it's never before experienced, firms are working diligently to manage the crisis and communicate with investors.

Despite evidence of declining sentiment, a strong majority of PE professionals remain convinced that the model remains robust, and that the industry remains well-positioned to adapt and respond, even after knowing (or at least having strong indications of) the massive amount of disruption that was poised to occur and that is still unfolding.



Now – a focus on the portfolio

For most funds, tackling thorny issues at the portfolio level is the first priority. Firms are setting up crisis management teams; they're working to model downside scenarios, and optimize cost structures and working capital. In some cases, they're diversifying their revenue streams and preparing for longer hold periods.

The nature of the crisis means that there are critical factors that PE funds and portfolio companies need to consider. Specifically, supply chain issues across the portfolio, ensuring sufficient liquidity and working capital across both the portfolio and at the fund level; working with companies to revise strategies and pivot as needed for an unpredictable operating environment; and understanding the wide range of tax issues that are arising out of the proliferation of government stimulus.

The top five focus areas

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1 Assessing supply chains

Firms are performing supply chain intelligence and analytics exercises to understand where constraints exist, what their options are and how to build better communication between network nodes. Firms are helping companies to dynamically optimize where necessary, and to perform integrated planning and supplier management.

2 Strategy refresh and revenue impacts

Firms are working with companies to understand if the current strategy still makes sense in today's environment. Are there things companies are doing within their existing footprint and revenue strategy that need to be accelerated and adapted? Are there potential supply and demand gap dynamics that need to be addressed, and if so, what are the options? Is a pivot in the company's strategy required, such as a shift from brick-and-mortar to a heavier online presence, and if so, what elements are required to execute?

3 Understanding liquidity needs

For many portfolio companies, a combination of immediate higher cash needs and a limited ability to fund them can lead to liquidity shortfalls. Firms are helping to better identify portfolio companies with short- to medium-term cash needs, and the size of those needs over the next several months under a range of different scenarios. For some, corrective actions will be available, while others may require additional equity from the sponsor.

4 Tax impacts

Firms are also working to understand the tax implications of the downturn and the full range of legislative responses across the world. In some cases, firms are acquiring the debt of their own portfolio companies, which can trigger tax consequences. In addition, tax filing deadlines are being moved and legislation is changing week to week.

5 Value creation

While many firms have mobilized large teams of operating partners, the scale of the disruption has seen them inundated. Teams are helping management to frame issues in a way that enables them to make smart and fast decisions around people, facilities, operating arrangements and technology. Agility and teaming are the new norm.

PE is well-positioned to be part of the solution.

With deep benches of operational knowledge, PE firms can help their portfolio companies prepare to mitigate the impacts of COVID-19. Moreover, with ample stores of dry powder, PE firms are well-positioned to provide capital and expertise at a time when many companies need both more than ever.

1.

Private equity insights

1.i. Fundraising

Executive summary

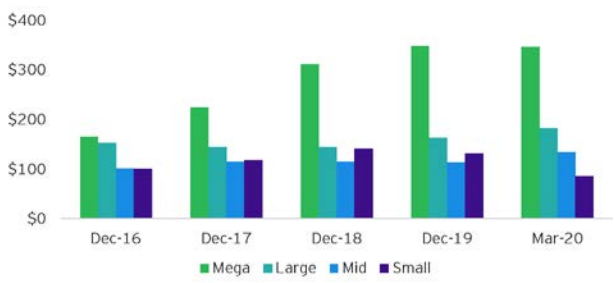
- The COVID-19 crisis impacted PE fundraising adversely in 1Q20. Firms raised US$164b in 1Q20, vs. US$182b in 1Q19, a decline of 10%.
- Mega funds, those raising US$5b and above, continue to dominate activity. Average fund sizes increased 13% in 1Q20 vs. last year.
- Buyout strategies accounted for 31% of the funds raised in 1Q20 followed by infrastructure (23%), real estate (13%) and secondaries (12%).
- Dry powder declined marginally by 1% in 1Q20 to US$749b. Analysts expect high dry powder with PE to support resilience post-COVID-19 crisis.

Current state

While a near-term slowdown in fundraising may occur, PE firms have sufficient dry powder to pursue new opportunities.

- PE firms raised US$164b during 1Q20, compared with US$182b in the previous year, a decline of 10%. Volume dipped by 24% in 1Q20 from last year with 228 funds closed.
- The average size of funds closed in 1Q20 reached US$786m, up 13% vs. 1Q19 as uncertainties led investors to place their bets on bigger names with proven track records.
- PE dry powder remains flat vs. the beginning of the year, at US$749b. PE firms are broadly viewed as having sufficient warchests to pursue low valuation opportunities in the current market.

Dry powder – buyout funds by size (US$b)
Source: Preqin



Environment and horizon

Investors looking at allocations in light of the return of the "denominator" effect.

- Private Equity International's LP Perspectives study recently revealed that more than half of investors are considering or are planning to reduce the number of fund commitments in 2020. The same study also highlighted that more than half of the respondents have either planned or are considering allowing more flexibility with GPs for investing beyond their investment mandates.
- According to a recent article from *The Wall Street Journal*, pension funds are analyzing their liquidity position to ensure sufficient cash availability for meeting spending requirements. Funds low on cash reserves may reduce their activity in the short term, given the spread between public market allocations, which have declined relatively significantly in recent weeks, and private market valuations, which have declined less – a phenomenon known as the "denominator effect."
- Historically, investors who had to pull back on private market commitments have missed out on some of the best performing funds. For example, vintage 2008 PE funds posted median returns of 13.9%, vs. 2006, which posted median returns of 8.1%. Further, PE funds raising capital on a deal-by-deal basis, instead of raising pool of capital, may attract investors at least until travel bans are eased out and mainstream processes resume.
- First-time fund managers may be among those most impacted by the crisis, as they are unable to hold in-person meetings with limited partners (LPs), a vital part of cementing a partnership. Moreover, amid the difficult macro-environment, some LPs are preferring to re-invest with their existing fund managers with whom they have existing track records and close-knit relationships.

Top funds raised in last quarter – 1Q20
Source: Preqin

Fund	Type	Value (US$b)
Brookfield Infrastructure Fund IV	Infrastructure	20.0
Lexington Capital Partners IX	Secondaries	14.0
Platinum Equity Capital Partners Fund V	Buyout	10.0
Trident VIII	Buyout	7.0
ArcLight Energy Partners Fund VII	Infrastructure	3.4
Energy Capital Partners IV	Infrastructure	3.3
Odyssey Investment Partners Fund VI	Buyout	3.3
Westbourne Infrastructure Debt Fund Program 3	Infrastructure	3.0
HarbourVest Partners XI	Fund of funds	2.6
Westbrook Real Estate Fund XI	Real Estate	2.5

PE fundraising by quarter (US$b)
Source: Preqin

Dry powder by fund type (US$b)
Source: Preqin

1.ii. Acquisitions

Executive summary

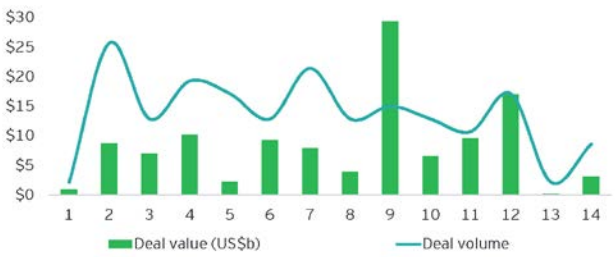
- Despite the COVID-19 crisis, the beginning of 2020 saw an increase in investment activity by value vs. the same period last year as a result of strength in January and February.
- PE funds announced deals valued at US$116b in 1Q20, up 9% from the same period a year ago.
- Funds managers are currently focusing on the existing portfolio, managing disruption caused by the COVID-19 crisis, employee well-being and liquidity.

Current state

PE firms shifted focus to the portfolio as the crisis unfolded.

- Global PE deal activity climbed moderately by 9% in 1Q20 from previous year. However, volume of deals worth US$100m or more in 1Q20 dipped 10% y-o-y.
- EMEA witnessed a growth of 74% in deal value during 1Q20; Asia and Americas saw a decline of 12% and 22% respectively.
- The number of deals worth US$100m and above faded week over week as 1Q20 progressed. It dipped to its lowest by end of the 13th week of the year.

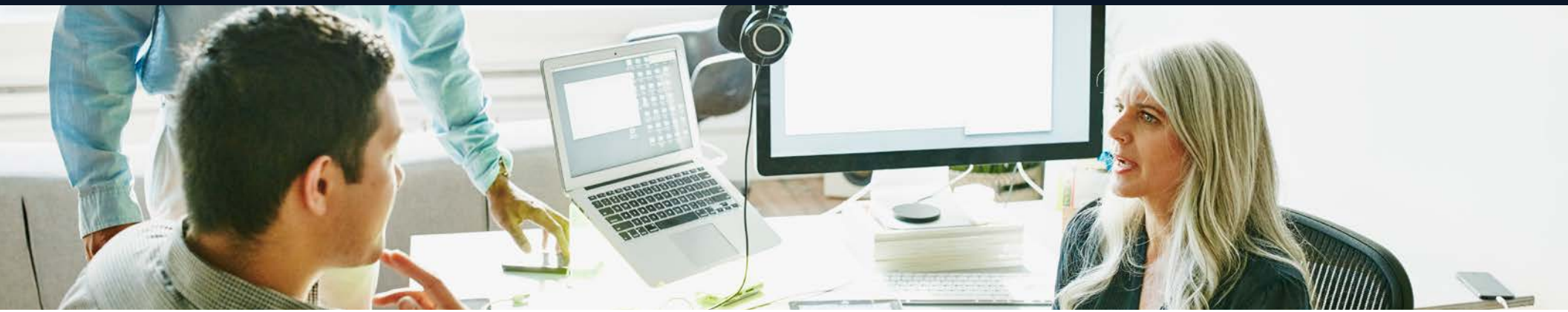
PE deal activity by value (US$b), by week – 1Q20
Source: Dealogic; includes deals up to 5 April 2020



Environment and horizon

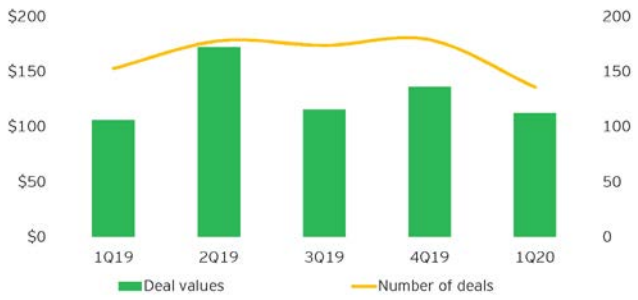
- For now, many PE firms are focused on their portfolio, working through the disruptions caused by the spread of COVID-19 – employee health and well-being, managing supply chain disruptions, and heading off liquidity issues. However as logjams in the deal market resolve in the coming weeks and months, PE firms will focus on deployment.
- Analysts expect that high levels of dry powder will enable funds to invest in companies with lower valuations, in particular public companies that were expensive pre-pandemic period. These firms target high-quality, liquidity-constrained companies with proposals for capital if they need it. However, due diligence of such assets remains challenging due to the travel ban and limits access to financing as banks become cautious about extending credit.
- A recent survey by Eaton Partners suggests that LPs consider PE to be well-positioned among other asset class amid current COVID-19-triggered volatility. Though 29% agreed that the COVID-19 situation will impact their investment strategy for 2Q20, it's the US recession that is a major cause of concern for 33% of the respondents. 78% of LPs affirmed not pulling out of private investments in a particular geographic region.
- PE firms are helping to respond to the pandemic in a number of ways – establishing employee assistance programs, and more broadly, helping community efforts to fight the spread and impacts of COVID-19. One outcome of the crisis could be an increased focus on ESG and long-term value – the view that the health of business is inextricably linked to the health of the social and environmental systems in which it is embedded.
- Amid COVID-19, many PE firms may be willing to pay a premium for stability over growth while seeking opportunities in resilient sectors likely to be less affected by the virus – technology, business services, software – or where its impact can at least be quantified.

1.ii. Acquisitions



PE acquisition values and volumes by quarter (US$b)

Source: Dealogic



Note: Volume data for transactions value of USD100m+

Top deals in past 12 months

Source: Dealogic

Target	Industry	Sponsor	Value (US$b)
ThyssenKrupp AG (Elevator technology business, 100%)	Industrials	Advent International Corp Cinven Ltd	18.8
GLP US Income Partners I (US logistics assets, 100%)	Real estate	Blackstone	18.7
Zayo Group Holdings Inc (100%)	Technology	Digital Colony Management LLC EQT AB	14.3
Buckeye Partners LP (100%)	Energy	IFM Investors Pty Ltd	11.1
Nestle Skin Health SA (100%)	Consumer	Abu Dhabi Investment Authority Ltd-ADIA EQTAB Public Sector Pension Investment Board - PSP INVESTMENTS	10.1
Genesee & Wyoming Inc (100%)	Industrials	Brookfield Capital Partners Ltd GIC Pte Ltd	9.0
TEGNA Inc (100%, Bid No 4)	Telecom	Najafi Companies LLC	8.7
Transportadora Associada de Gas SA - TAG (90%)	Utility	CDPQ	8.6
Tallgrass Energy LP (55.29%)	Utility	Blackstone GIC Pte Ltd	7.0
Andeavor Logistics LP (23.17%)	Oil and gas	Kayne Partners Stonepeak Infrastructure Partners	6.9

1.iii. Exits

Executive summary

- PE exits through M&A dropped by 31% in 1Q20 vs. 1Q19. The volume of exits worth US$100m or higher announced in 1Q20 declined by more than 20% from the previous year.
- Exit value through IPOs, however, quadrupled in 1Q20 compared with 1Q19, reaching US$5.8b. However, COVID-19 has effectively shut the IPO window for the foreseeable future.
- The denominator effect and liquidity issues could compel some investors to divest PE interests in the short term.

Current state

PE is set to hold investments for longer amid COVID-19 uncertainty.

- PE exits through M&A dropped by 31% in 1Q20 y-o-y to US$82b from US$119b in 1Q19.
- The volume of PE-backed M&A exits worth US$100m or more in 1Q20 dropped by 20% to 219 from 273 in 1Q19.
- Analyzing activity by each week revealed that activity plunged from the 10th week onward due to imposed lockdowns, travel bans and uncertainties in the market.
- Sales to other PE firms continue to occur, with a 53% increase in 1Q20 vs. the same period a year ago. Analysts expect secondary sales to continue to present opportunities for investors to sell assets.

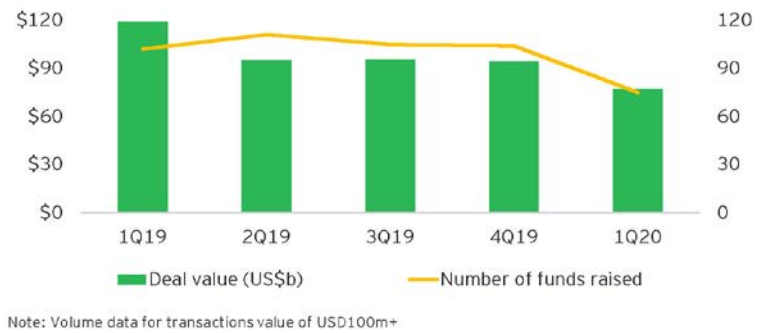
PE exit activity by value (US$b), by week, 2020
Source: Dealogic; includes both M&A and IPO deals up to 26 March 2020

Environment and horizon

- The denominator effect could compel some investors who are required to adhere to strict allocations to illiquid assets to become active sellers over the short term.
- PEI's LP Perspectives survey revealed that the denominator effect has led one in every five respondents to be either planning or considering to be an active seller on the secondaries market amid expected drop in their liquid portfolio.
- Given the negative impact of COVID-19 outbreak on global economic activities, IPO markets are not expected to quickly rebound in 2Q20. However, 3Q, which typically is a slower time of the year, may witness increased IPO activity as the market attempts a reset and the global pipeline looks for the next IPO window.

PE exits by deal type - deal value (US$b)
Source: Dealogic

PE M&A exits by quarter (US$b)
Source: Dealogic



PE-backed IPOs by quarter (US$b)
Source: Dealogic

Largest PE exit deals in past 12 months
Source: Dealogic

Target	Industry	Sponsor	Value (US$b)	Type
Refinitiv US Holdings Inc (100%)	Technology	Blackstone CPPIB GIC Pte Ltd	26.7	M&A
GrandVision NV (100%)	Retail	Hal Investments BV	8.8	M&A
Univision Communications Inc (64%)	Telecom	Madison Dearborn Partners LLC Providence Equity Partners LLC Saban Capital Group Inc Thomas H Lee Partners LP TPG Capital LP	8.3	M&A
Bombardier Transportation GmbH (100%)	Industrials	CDPQ	8.1	M&A
Credit Karma Inc (100%)	Technology	Silver Lake	7.1	M&A
Acelity LP Inc (100%)	Health care	Apax Partners CPPIB Public Sector Pension Investment Board - PSP INVESTMENTS	6.7	M&A
Hess Infrastructure Partners LP (100%)	Oil and gas	Global Infrastructure Partners	6.5	M&A
Iqsa Group Ltd (100%)	Consumer	Blackstone Goldman Sachs Capital Partners	6.0	M&A
Altran Technologies SA (100%)	Consumer services	Apax Partners SAS	5.7	M&A
Red de Carreteras de Occidente SAB de CV (100%)	Industrials	GIC Pte Ltd Goldman Sachs Capital Partners	5.5	M&A

2. Infrastructure

2. Infrastructure

Executive summary

- Fundraising activity for infrastructure funds accelerated in 1Q20 as they raised US$40b in 1Q20, compared with US$27b in 1Q19.
- Over the past 12 months, infrastructure funds have raised US$123b, compared with US$102b over the prior 12 months.
- Firms have record levels of dry powder available for deals, with US$221b in capital to deploy. The bulk of this is focused on the US and Europe.
- In the US, policymakers are aiming to allocate US$2t funds into infrastructure.

Current state

- 1Q20 infrastructure fundraising increased 49% from 1Q19, to US$40b across 20 funds. Over the last 12 months, infrastructure funds raised US$123b through 112 funds, up 20% from the prior 12 months.
- Infrastructure deals increased in 1Q20 compared with 1Q19 both in terms of deal value and volume. There were 630 deals in 1Q20 with aggregate deal value of US$80.4b, up 15.8% from 1Q19.
- Firms have a collective US$221b in capital available for deals, up 4.2% from the end of 2019. Nearly 85% of this amount is focused on opportunities in the Americas and Europe.
- The aggregate amount of capital raised by infrastructure fund managers in the last 10 years amounts to US$670b.

Top infrastructure funds raised last quarter – 1Q20

Source: Preqin

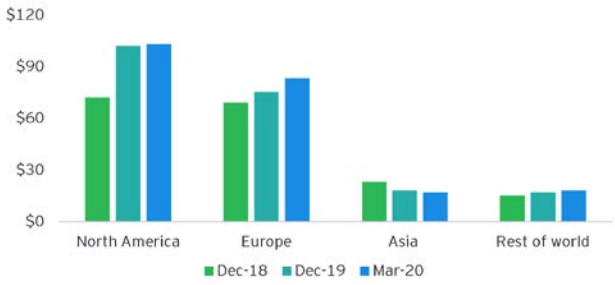
Fund	Target (US$b)	Commitments (US$b)	Type
Brookfield Infrastructure Fund IV	20.0	20.0	Brownfield, greenfield
ArcLight Energy Partners Fund VII	6.0	3.4	Brownfield, greenfield, secondary stage
Energy Capital Partners IV	6.0	3.3	Brownfield, secondary stage
Westbourne Infrastructure Debt Fund Program 3	2.5	3.0	Brownfield, greenfield
iCON Infrastructure Partners V	1.8	1.8	n/a

Environment and horizon

- The outlook for infrastructure remains positive amid continued investor interest in the asset class. According to Nov 2019 Preqin survey, 38% and 43% of the investors are planning to commit more capital to infrastructure funds in the next 12 months and in the longer term respectively.
- Continued investor interest is driven by attractive past performance and positive expectations in the future.
  - Eighty-seven percent of investors in the Nov 2019 Preqin survey cited that their infrastructure investment met or exceeded their expectations in 2019, while 87% believe that their infrastructure portfolio will perform the same or better in the next 12 months, compared with the prior 12 months.
- However, the COVID-19 crisis is expected to slow down deal and fundraising activity in the near future, as governments imposed lockdowns restrict travel and construction activities across the globe.
- To combat the impact of COVID-19 on the US economy, the US Government may inject US$2t into infrastructure projects focused on boosting the domestic economy and job creation.
  - Projects could include the redevelopment and expansion of Amtrak stations and services, ports and harbors, and passenger rail network along with dedicated funds to expand broadband access.

Infrastructure fundraising by quarter (US$b)
Source: Preqin

Infrastructure dry powder by region (in US$b)
Source: Preqin



Infrastructure deals by year (US$b)
Source: Preqin

Note:- Only completed deals were considered.

3.

Private credit

3. Private credit

Executive summary

- Private credit fundraising activity dipped by 37% in 1Q20 from the previous year. The number of funds closed fell by 31% in 1Q20 vs. 1Q19.
- With nearly US$280b in dry powder available for new investments, private credit firms are well-positioned to provide capital to solid businesses experiencing a liquidity crunch.
- The number of leveraged loans trading at distressed levels has increased dramatically. In the US, 57% of leveraged loans are currently trading at distressed levels – up from just 4% at the beginning of the year.

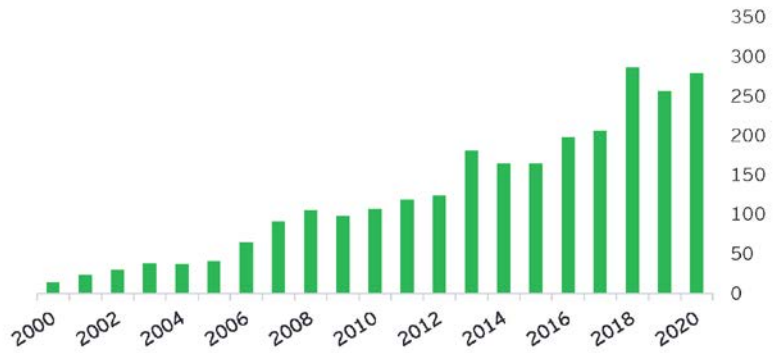
Current state

- Private credit fundraising activity saw a decline of 37% in 1Q20, to US$16b from US$25b last year. Direct lending experienced a decline in both value and volume – 36% and 31%, respectively.
- Similar to other asset classes in the private capital space, fundraising over the next several months could be impacted by LPs' inability to travel and the resurgence of the denominator effect.
- However, as an industry with nearly US$280b in dry powder available for new investments, and nearly US$800b in aggregate assets under management, the private credit industry is well-positioned to respond to increased demand for capital, particularly in the SME space.

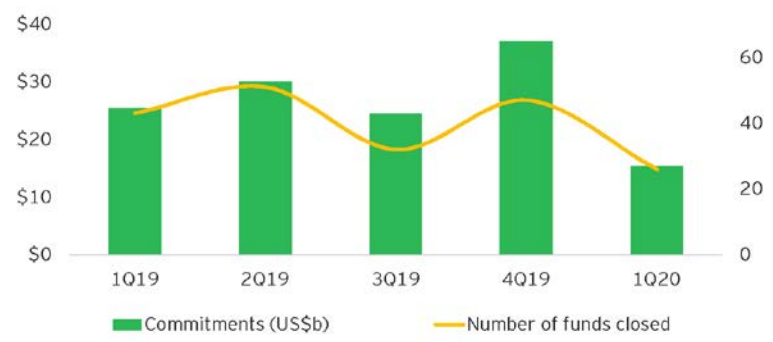
Environment and horizon

- Widespread selloffs in the leveraged loan and high-yield markets have seen prices fall at a record pace. According to S&P Leveraged Commentary and Data, during the week of 16 March, the volume of US leveraged loans trading below 80, a historical measure of distress, more than quadrupled. Over the same period, the number trading below 90 jumped from 16% to 97%. Currently, 57% of the US leveraged loans are trading at distressed levels – up from just 4% at the beginning of the year.
- Many credit funds are actively seeking opportunities. Over the near term, they are looking for par recovery opportunities in publicly traded companies where the debt is trading well below par, where conviction is strong that companies will survive the downturn and where diligence is more easily conducted and transparency is higher. Some firms expect that government interventions may be insufficient, and that many companies will be seeking additional supersenior financing in the coming weeks. For many publicly traded issues, price discovery is an issue, as there are relatively few trades on which to base bids.
- Not all credit firms are jumping into today's market with both feet. There are many reports of market participants remaining on the sidelines for now, expecting that even larger opportunities will materialize in the coming weeks and months.
- Some credit funds attached to multi-asset managers are looking at supporting certain portfolio companies with credit investments, while being mindful that these must be arms-length transactions at market rates.

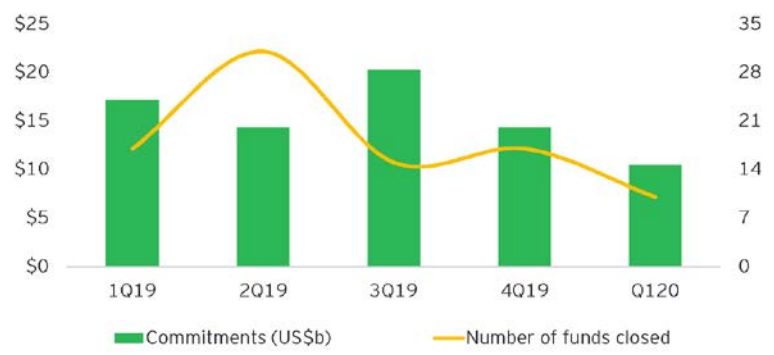
Private credit dry powder over time (US$b)
Source: Preqin



Private credit fundraising by quarter (US$b)
Source: Preqin



Direct lending fundraising by quarter (US$b)
Source: Preqin



Share of the US S&P LSTA Leveraged Loan Index trading below 80
Source: S&P Leveraged Commentary and Data

4.

Back to business

The emergence and spread of the novel coronavirus (COVID-19) is undoubtedly one of the most challenging events in recent memory. The sheer scope of the disruption is, outside of periods of global conflict, nearly unprecedented in its scale and speed. While most managers both within and outside the private equity space are rightly focused on solving the most immediate threats to their businesses, attention will soon shift to a new set of challenges – how, and under what circumstances, can large scale economies reopen after such a sudden and unprecedented shutdown.

For that, we can look to China for a measure of reference. On 8 April, after 76 days, Wuhan's lockdown lifted for its roughly 11m residents; non-essential businesses reopened, travel bans were ceased and the city went back to work, albeit under close monitoring. As the country begins to emerge from lockdown and loosens restrictions, its citizens and businesses are emerging to an environment that's different from what it was before – one that is almost certainly changed permanently. Indeed, the pandemic has the potential to accelerate changes in consumer behavior, technological innovation and the ways that businesses operate.

As China's economy begins to reopen, there are four key lessons for businesses across the rest of the world.

1 Risk mitigation for the workforce

Keeping the workforce safe and healthy has been the number one priority for companies across the world as COVID-19 spread and shutdowns ensued. As China's businesses begin to reopen, worker safety remains a key priority, and businesses are taking steps to try to reduce the potential for future hotspots to emerge.

Across all businesses, a personal health code system enabling contact tracing has been launched and recognized across different provinces to speed up the process of getting people back to their company. Temperature checks continue, with businesses positioning infra-red thermometers at entrances. Start times are staggered and flexible hours are encouraged to reduce congestion at rush hours. Meetings are limited in the number of people that attend in favor of increased use of online meeting platforms. Workers are provided with personal protective equipment such as masks to limit the spread of airborne particles. Elevator buttons and door handles are cleaned hourly, hand sanitizer and other cleaning supplies are made widely available and workstations are spread out as much as possible.

In factory settings, some businesses are running more shifts per day, with fewer workers on each shift. They're also limiting the movement of staff in each production process and eliminating the need for workers to cross over to other processes. Mealtimes are staggered to allow for fewer people at a time in dining areas.

Communication with staff is critical – to that end, firms are pushing communications regularly via email and other apps (such as Wechat) on COVID-19 matters. They're also organizing staff into teams to help ensure that key messages are fully communicated in a timely manner via the team leaders. In some cases, companies are tracking staff via questionnaires, where each week employees answer questions about their and their family's health and their travel histories, and other relevant information is collected.

2 Reassess and secure supply chains where necessary

One of the first and most visible impacts of COVID-19 was exposing the vulnerability of global supply chains to disruption. As factories across China closed, both domestic manufacturers and those located abroad were unable to source many of the components they required. As China's economy begins to reopen, supply chains remain a key priority. In some cases, purchasing departments are assigning extra full-time staff to call suppliers multiple times a week on orders and to closely monitor the logistics of the supplies. In some cases, staff are making visits to suppliers' factories to help ensure the orders are properly executed. In other cases, companies are rethinking their supply chain more holistically and attempting to reduce their reliance on subcontractors and increasing vertical integration, bringing additional capabilities in-house in order to reduce future disruptions to supply chains.

Additionally, many companies continue to diversify their production locations. The last several years have seen many companies, from within China and abroad, expand capacity to Southeast Asia to mitigate high production costs and in response to ongoing global trade tensions. Initially, these companies were less impacted during the peak of COVID-19 in China, as they could move the orders to offshore facilities. Now, however, with China starting to reboot its economy, supply chains in Southeast Asia are facing more severe challenges from COVID-19, leading some companies in China to consider moving back some of their supply chain to China or to find substitute suppliers in China.

3 Adjust delivery models where necessary

COVID-19 hit the world at a time when many business models were already under huge amounts of pressure. Technology-enabled competitors and changing consumer preferences meant that many companies were already in the midst of significant transformational change when the virus emerged. As companies reopen after the lockdown, many are likely to find that some of the delivery models they've used in the past may no longer be optimal.

Sectors such as retail, catering and education may need to have their business models adjusted in terms of how companies connect with their customers. Shifts that began years ago are being accelerated as consumers see the greater benefits of online service offerings and are likely to continue to use these modalities as COVID-19 recedes.

Companies are also leveraging opportunities to speed up digitalization. For example, some car companies and consumer goods companies have already taken actions to encourage their dealers to launch more digital marketing and sales campaigns during COVID-19 period. Now, some of them even think broader to systematically building up their digital system to strengthen direct touch with end customers to fundamentally improve retail efficiency.

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Businesses are flexing their delivery models in order to remain responsive to customers under the constraints of the pandemic. The elevated levels of uncertainty that we're likely to experience over the next 12 to 18 months mean that the companies that survive, and even thrive, will be those that can most quickly pivot and adjust to changing conditions.

Ignatius Yi-Meng Tong, EY-Parthenon Asia-Pacific Leader

4 Be prepared for rolling lockdowns amid a "seesaw" recovery

While several promising treatments are currently being tested that may mitigate the stress on the health care system, experts' consensus is that an effective vaccine remains 12 to 18 months away. As a result, companies need to consider that the path toward normalcy is likely to be non-linear. Indeed, the most likely path to normalcy may be that of a "seesaw" shaped recovery that necessitates a series of short-term adaptations that will differ by sector.

Companies are having significantly more internal meetings – even daily in some instances – to discuss and quickly respond to changing markets, supply chain issues and evolving government policies. For some companies, actions can include shoring up the IT infrastructure that's been hastily assembled over the last three months to enable remote working and developing more robust policies that support employees working from home.

For companies with large labor forces, automation may play a key role in helping to reduce the reliance on human workers. At the same time, short-term actions such as encouraging workers to take vacations are being undertaken in some companies to relieve cost pressures. In many companies, additional cost-cutting programs are being undertaken, such as pushes for greater paperless work, and strict controls on non-critical expenses.

Companies have to be prepared to seize upon windows of opportunity as they arise, as they may be brief. A scenario-based action plan that contemplates limited periods of operations and potential limits on the scale of those operations can be a critical tool for companies to build resilience to ongoing periods of disruption. Companies can work on creating buffers, for example, in supply chains that allow them to continue operating with only intermittent access to materials. They can model liquidity scenarios that envision additional periods of downtime, and they can prioritize sales and distribution to key customers and markets, overall, building greater agility and flexibility into the operating model.

In many ways, reopening the global economy will be even more challenging than locking it down. However, as China's experience shows, judicious policy considerations combined with tech-enabled vigilance can allow businesses, workers and consumers to re-engage with prudence. And while specific considerations and constraints will vary across geographies, many of the same techniques will be key as the rest of the world looks to position toward what lies beyond.

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