

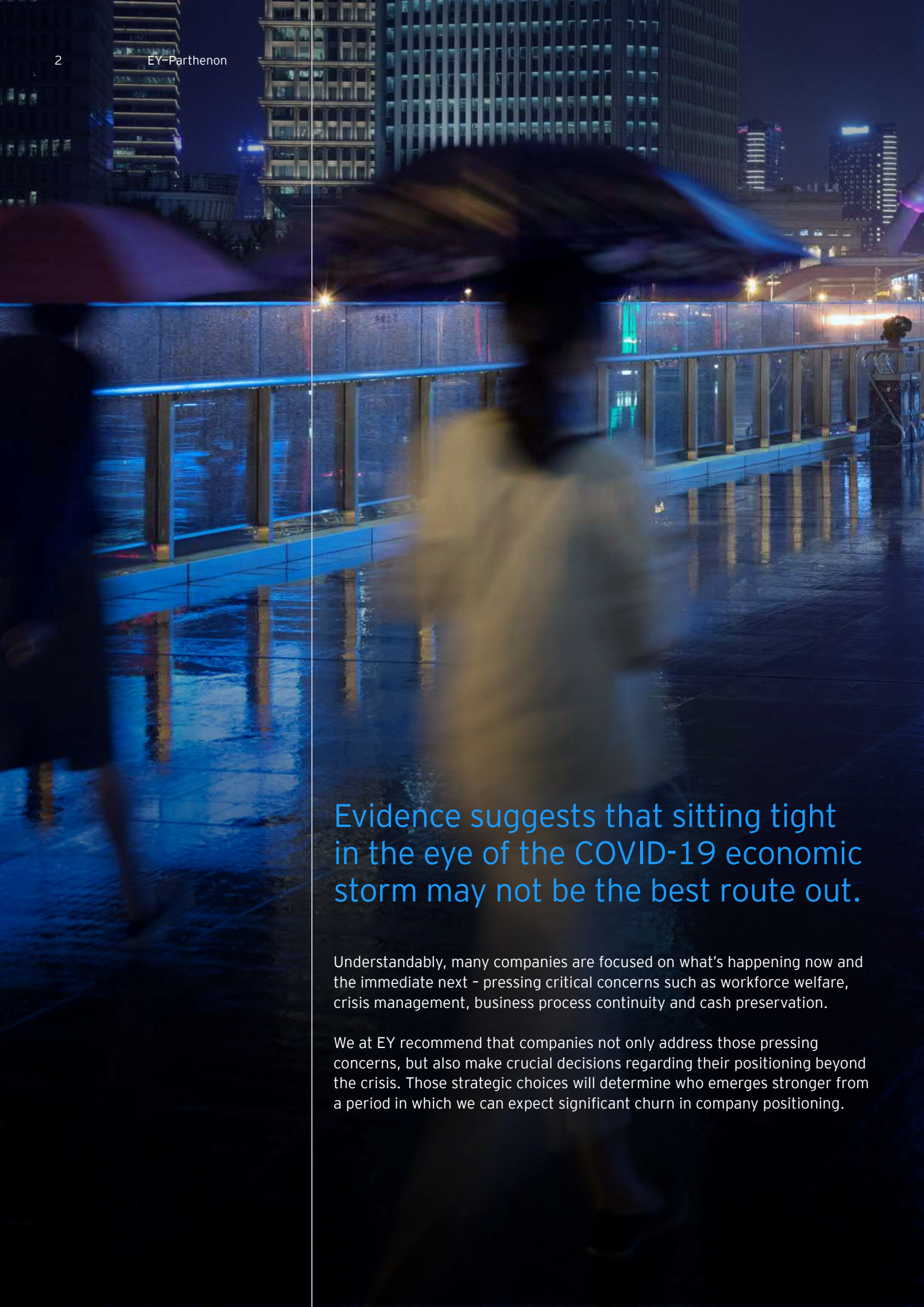
We're in the same storm - but are we all in the same boat?

Strategic decisions taken now will determine which companies emerge beyond the Covid-19 crisis in a stronger position.

Strategy realized



The better the question. The better the answer.
The better the world works.



Evidence suggests that sitting tight in the eye of the COVID-19 economic storm may not be the best route out.

Understandably, many companies are focused on what's happening now and the immediate next - pressing critical concerns such as workforce welfare, crisis management, business process continuity and cash preservation.

We at EY recommend that companies not only address those pressing concerns, but also make crucial decisions regarding their positioning beyond the crisis. Those strategic choices will determine who emerges stronger from a period in which we can expect significant churn in company positioning.

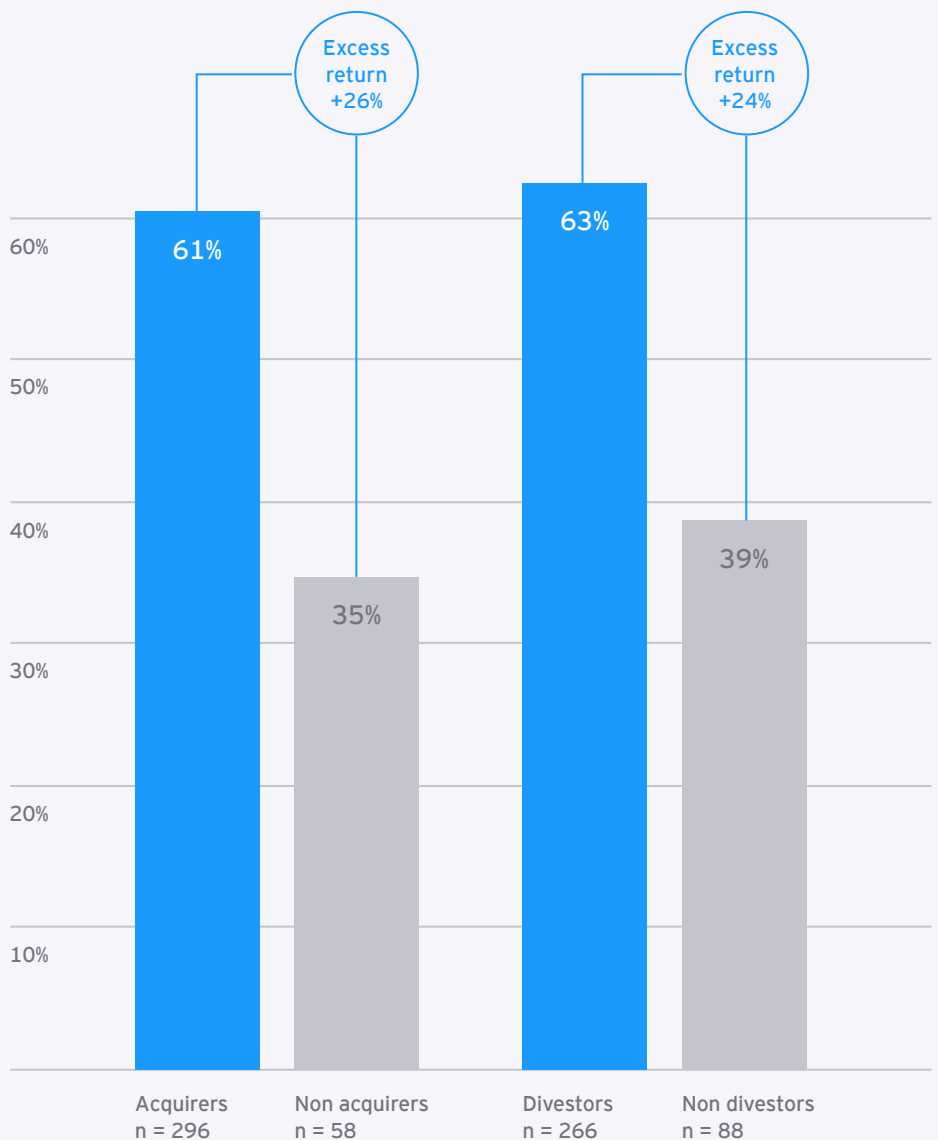
Learning from the past to reshape your future - transactions

Early and bold choices on portfolio transforming investments, particularly acquisitions and divestments proved decisive in the wake of the Global Financial Crisis (GFC).

Those were brave choices in the 2008-2010 given they often lowered near-term cash flows at a time when preserving capital was high on boardroom agendas. However, there is compelling evidence that these proactive strategies paid-off. Similar bold strategies employed in the midst of COVID-19, could result in the creation of competitive strength and long-term value.¹

25%
Increase transactors (acquirers and divestors) had in total shareholder return (TSR) over non transactors.

Median change in TSR (2010-18) of transactors vs non transactors (deals in 2008-10)²



Source: EY analysis and S&P Capital IQ

¹ 354 companies with a market capitalization greater than US\$1b located in Europe and North America from the life sciences, consumer and industrials sectors.

² Company TSR adjusted for currency and benchmarked against global sector indices to calculate excess returns

Learning from the past to reshape your future - transformation

Similarly, transformational investment strategies in the same period - driving capital formation and embracing digital technology - proved decisive.

Across sectors those who made the highest investments (top quartile) had returns in the multiples (2-3x) over the lowest quartile. In the industrials sector, companies in the top quartile of capital expenditure as a percentage of sale between 2008 and 2012 more than doubled the return to shareholders compared with companies in the bottom quartile.

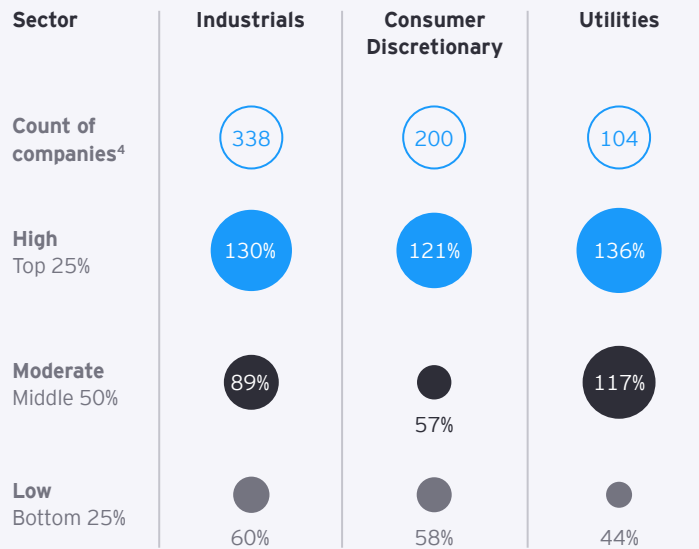
One global industrial company made significant investments in its production infrastructure and IT capabilities to build a leading edge "as-a-service" post-production offering for customers. This created a new and far more stable source of revenue in an industry that had historically been reliant on significant one-off sales, such as turbines or generators.

2-3x

Across sectors those who made the highest investments had returns in the multiples over the lowest quartile.



Median returns based on Capex/sales 2008-2012³

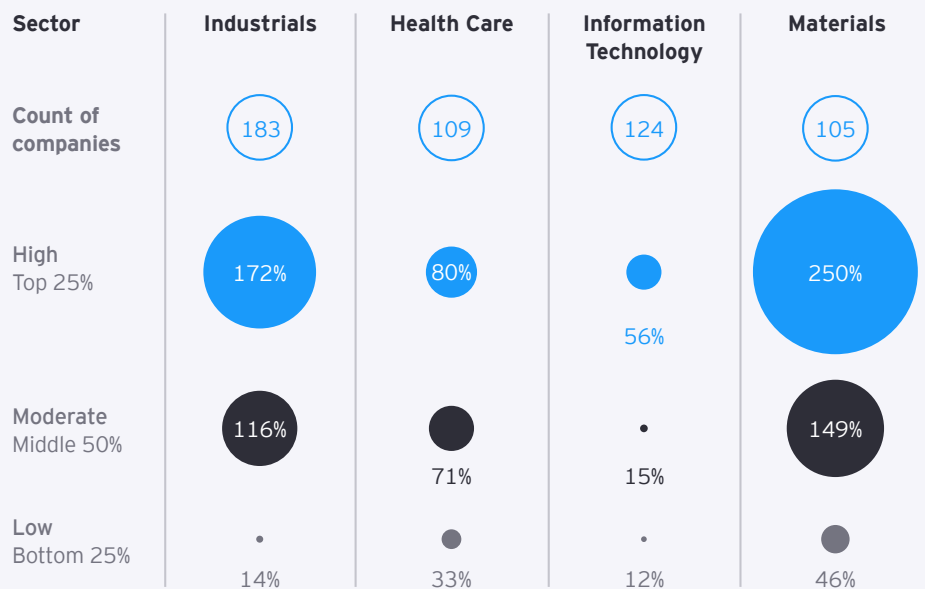


In the technology sector, top quartile investors in research and development delivered four times the return to shareholders than companies in the bottom quintile during the same period. The tech industry reaped the benefits of increased R&D.

Many of the investments made in that early recovery period enabled technology companies to increasingly move across traditional sector boundaries, most prominently in the retail and entertainments sectors.

In short, actions you take today to address what comes beyond the pandemic could reframe the future of your whole organization. The vital first step on this transformation is clearly understanding the recovery dynamics of your sector and your company's competitive position.

Median returns based on R&D/sales 2008-2012



The tech industry reaped the benefits of increased R&D

³ Companies headquartered in North America, Europe and Oceania with a market capitalization of more than US\$1b at the end of year 2007, excluding those who did not report CAPEX/R&D separately in their financial statements during 2008-2012. Ranking based on the CAPEX/R&D as a percentage of sales from 2008-2012. Company TSR adjusted for currency and benchmarked against global sector indices to calculate excess returns for 2009-2018

⁴ See ey.com/en_gl/transactions/we-are-in-same-storm-but-are-we-all-in-same-boat

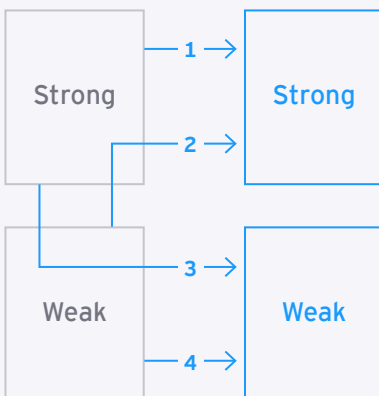
Reshaping your future portfolio - before the future reshapes it for you

When it comes to Covid-19, we are all in the same storm, but we're not all in the same boat. All sectors are affected, but the impact varies considerably by industry - and optimal strategies vary according to the sectors and the companies position within the industry.

For the stronger sectors we at EY are seeing an investment push to expand while in the weakest sectors we expect significant capacity to be taken out and only a few players to survive. In some cases, the crisis has accelerated existing megatrends and companies will need to further embrace digital transformation to future-proof their business models.

Industry position	Industry	Examples of Strategies
1 Strong Industry was strong/gaining going into the COVID-19 outbreak and may emerge unchanged/stronger	Pharma Consumer Tech	Need for further investment both to cope with increased demand during the crisis, and to strengthen position post-crisis
2 Transformed Affected by demand drop and will come out with a greater need for a changed business/operating model	Automotive FMCG Commercial Food Real Estate Last Mile Logistics	Need for business transformation , e.g. automotive companies are exploring robotics and real estate developers and looking into transformative acquisitions and digitization initiatives
3 Reshaped Industry already facing structural decline hastened by the event.	Physical Retail Oil & Gas	Need for divestitures and repositioning , e.g. Oil & Gas players need to diversify their risk with new revenue streams ; traditional retailers need to strongly leverage online channels
4 Unknown Industry's future is uncertain and the demand recovery is long-term	Hospitality Travel	Need for longer-term resilience , e.g. hospitality and travel players need to focus on shoring up and strengthening financials

Repositioning is possible: sector and company rotation



1. Best placed

- ▶ Resilient sector and strong balance sheet
- ▶ Able to invest through the crisis
- ▶ High chance of coming out stronger

2. Unique opportunity

- ▶ Strong balance sheet - allows for unique opportunity to leap ahead of competitors by making timely investments and acquisitions
- ▶ Bold strategy could be enabled by strong management

3. Fallen angels

- ▶ Strong player but financially exposed
- ▶ Could be short-term blip, to be determined by the length of downturn
- ▶ Could fall prey to competitor of other acquirer

4. Last chance saloon

- ▶ Weak sector and weak balance sheets will hasten decline
- ▶ Valuable IP or talent could be available to acquire

What the Global Financial Crisis demonstrated:

(a) Companies that moved boldly to acquire/divest during crises had significantly higher total shareholder return

(b) Companies that acquired/divested during crises took initial balance sheet hit, but generated much better cashflow longer-term

Transformation realized?

Strategies to reshape, reimagine and reinvent a better future

As a result of this crisis we know some companies will fail, others will merge or be acquired. Some of these shifts were inevitable but have been hastened by the pandemic. This rapidly changing environment offers what could be once-in-a-lifetime opportunities for CEOs - and smart, well-informed strategic choices will likely determine whether their companies will shape the future or be shaped by it.

Active steps now can secure strong positions beyond the crisis:

1

Deploy dynamic scenario planning. Take a top-down approach, modelling the pandemic, assessing its economic impact, and creating working scenarios specific to the industry and current market position. While rigorous and exacting, this process should

be flexible enough for changing conditions and will help companies understand the range of potential outcomes. To emerge stronger in the future, organizations must learn to navigate the dilemma of balancing today's imperative actions while planning for an uncertain tomorrow.

2

Build operational resilience. In this crisis, strategic and operational agility is a fundamental capability that companies need to build - and quickly.

There is a possibility of a second or third wave of the pandemic. For a company's strategy to be realized it needs to be flexible enough to pivot at speed.

3

Understand the megatrends. While everything seems dis-located and different now, companies should distinguish between the enduring changes versus temporary shifts in behaviour.

These deeper fundamental drivers of change always remain. Planning around those needs to be at the heart of a company's long-term value strategy regardless how fierce the urgent pressures.

4

Be open to capital agenda decisions. While preserving cash is important for business continuity, for some it's an opportune time to make critical investments or take decisive action

to buy or sell assets. Any or all may accelerate their transformation journey.

Positioning for now, next and beyond

Major companies we at EY are working with are considering a two-pronged path of transformation and transactions - for example, [M&A](#) and [divestments](#) are in the strategic toolbox of many executives. These proactive strategies based on smart scenario planning and strong understanding of sector dynamics and the changing market landscape should enable future competitive strength.

From sector to sector, leaders should ask how they will better position their companies to emerge stronger beyond the crisis. Would an acquisition futureproof growth? Can I transform my portfolio through divestments? Where do I allocate my investment capital?

Securing long-term value means finding the right answers to tough questions. Realizing strategies will vary across industries - one size doesn't fit all when dealing with this heightened uncertainty.

But one thing is certain - waiting it out is not the best option.

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EY-Parthenon teams work with clients to navigate complexity by helping them to reimagine their eco-systems, reshape their portfolios and reinvent themselves for a better future. With global connectivity and scale, EY-Parthenon teams focus on Strategy Realized - helping CEOs design and deliver strategies to better manage challenges while maximizing opportunities as they look to transform their businesses. From idea to implementation, EY-Parthenon teams help organizations to build a better working world by fostering long-term value.

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