

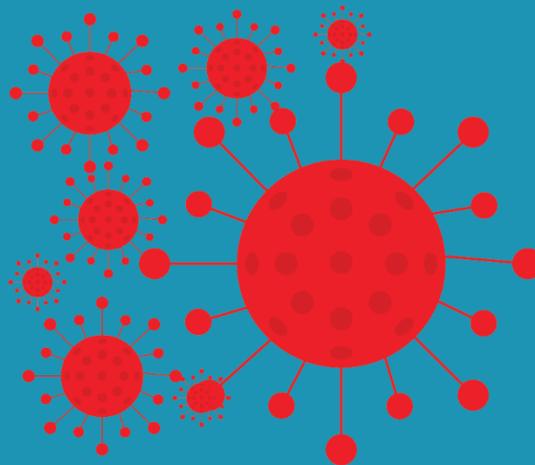


Navigating business crisis

Addressing the economic challenges of COVID19

—
KPMG Deal Advisory

April, 2020

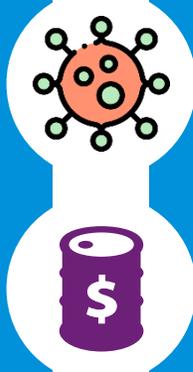


Kuwait's economic growth under threat from COVID-19 and low oil prices

The widespread disruption to normal life and business activities due to the COVID-19 pandemic has led to warnings from IMF and other organizations of an upcoming global recession. The GCC countries that rely on oil revenues have been hit harder as oil prices reached record lows due to a combination of falling demand and increased supply as OPEC+ alliance partners failed to reach a consensus in March 2020 on production cuts. The OPEC+ agreed to a deal on 12 April, 2020 for a daily production cut ~10 million barrels but price outlook for oil price remains weak in light of weaker demand.

COVID-19

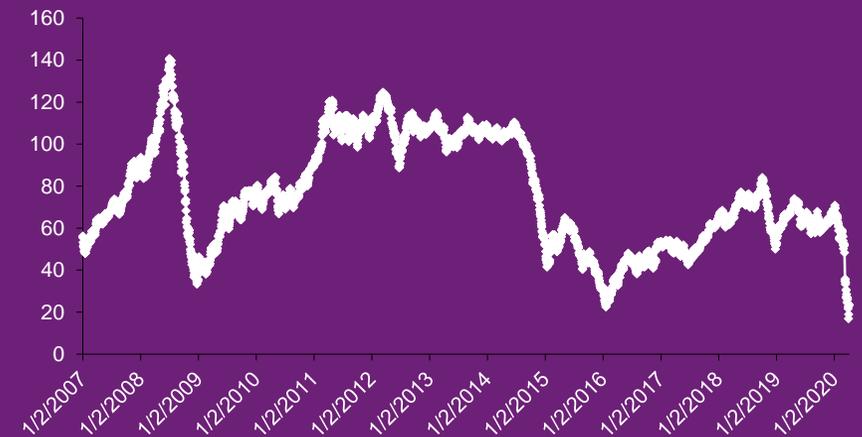
- **213** countries, areas or territories affected with nearly **1,914 thousand cases and 123 thousand deaths** reported*.
- Governments around the world including Kuwait have taken drastic actions such as social distancing, lockdowns, travel restrictions and curfews to contain transmission.
- Economic activity affected through global and local supply-chain disruptions and demand-suppression.
- Governments' efforts to mitigate the economic cost are evolving in response to the crisis. Kuwait Government has announced relief measures – more measures may be in the pipeline.



Decline in oil prices

- ~**70%** drop in oil prices since the beginning of the year 2020**.
- As at 14 April 2020, OPEC Basket crude oil price was reported at **~USD 19.70 per barrel**.
- Constrained industrial demand, saturation of oil storage capacity (strategic reserves) and absence of production limits may lead to continuation of the low oil price regime.
- Kuwait's FY 2020 budget was forecast at USD 55 per barrel.
- A continued decline in oil prices could widen the fiscal deficit and challenge government's ability to spend on planned projects and also inhibit ability to take aggressive measures to prop up the economy.

OPEC Basket Price (USD/Barrel)**



Kuwait is an economy dependent on oil revenues (oil revenues contributed ~45% of Kuwait's GDP in YTD Q3 2019) and decline in oil prices is expected to have a longer term impact on economic slowdown vis-à-vis COVID-19

Source: *WHO, as at 15 Apr 2020, **OPEC.org

While the immediate impact of the economic slowdown is being felt in the consumer-facing industries, other industries are also grappling with cash flow issues that may impact their survival.

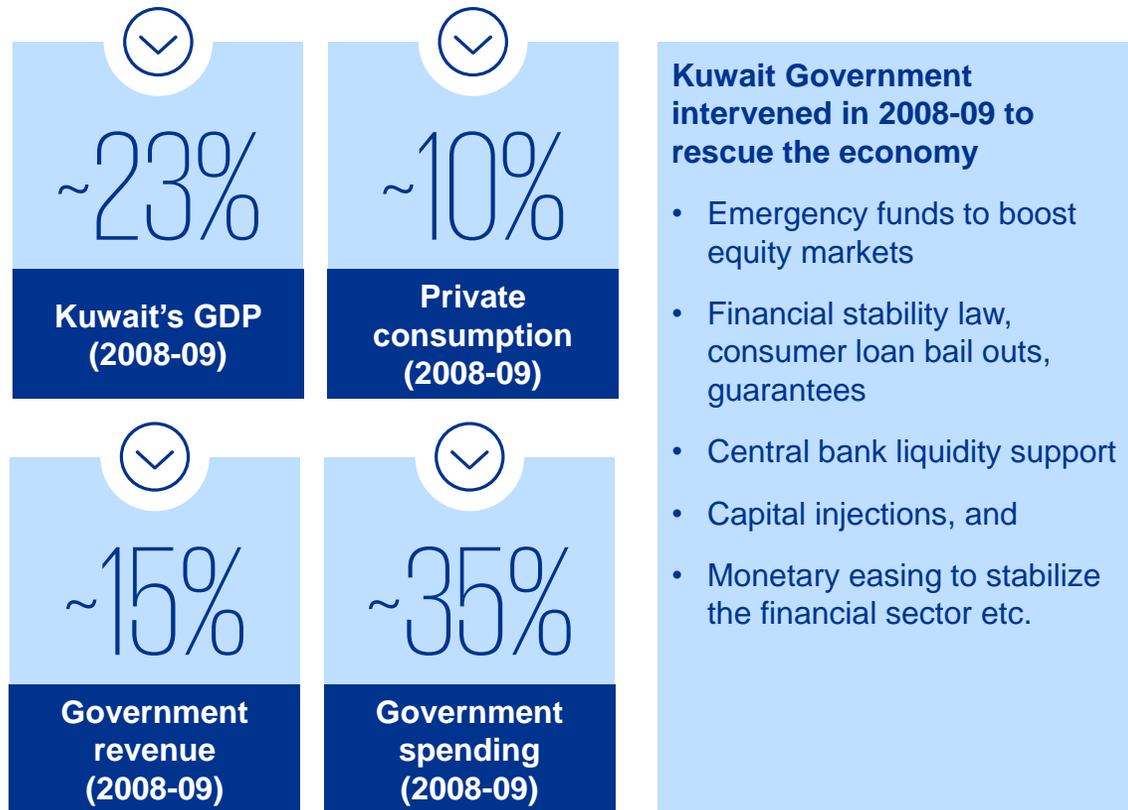
It is critical for businesses to understand implications to be better prepared

We can learn from the events that transpired between 2008-09 on account of global financial crisis and prepare better to encounter the slowdown

Impact of ~60% drop in crude oil prices on account of the global financial crisis during the financial year 2008-09

This adverse economic shock is a combination of supply shock, demand shock and financial markets shock

Decline in key economic parameters of Kuwait between 2008-09



Source: Central Bank of Kuwait



Business health check for early identification of potential threats

Business Stability

- Are you experiencing a rapid decline in revenues?
- Have you assessed the impact of change in macro-economic situation on your P&L?
- Have you revisited your essential and avoidable costs mix to minimize the impact of slowdown on profitability?
- Has your traditional business and operating model been challenged by the market disruption?

Operational Health

- How can you optimize your operational processes to avoid value leakage?
- How far have you modelled the impact of any potential disruption across your supply chain?
- Have you evaluated leveraging technology to improve operational efficiencies?



**Business
Stability**

Liquidity/Financing



Liquidity/Financing

- Have you re-forecast cash flows given the impending slowdown?
- Do you have adequate liquidity over the next 3-6 months for working capital and debt servicing?
- Do you have a visibility of your immediate and medium term funding requirements?
- Have you identified sources (debt/equity) to bridge any funding gap?

Sustainability and Future growth

- What opportunities have you identified to stabilize sales and growth?
- Does your medium term strategy need to be revisited in light of the change in market conditions?

**Operational
Health**

Future growth

Actions points you can consider to address the situation

IMMEDIATE ACTIONS



Liquidity Measures

Reforecast cash flows and assess your liquidity position

Closely monitor your working capital steps to reduce your cash conversion cycle

Consider reducing your non-essential variable and fixed costs

Prioritize near term capex items and defer non-critical capex



Financing

Revisit your financing options

Restructure long term fixed interest rate financing to lock-in current lower interest rates.

Evaluate entering into refinancing discussion with lenders

MEDIUM & LONG TERM ACTIONS



Strategy and Operations

Revisit your business strategy, business and operational models in the context of the changes in market

Evaluate integrating technology into the business for efficiencies

Consider strategic partnerships and need for mergers/hive-offs

Re-design your supply chain to de-risk operations

Re-evaluate your medium and long term capex investments in view of the changed business dynamics

Note: The action points mentioned are indicative and not to be considered as exhaustive. Action points may differ for each business.

How can we help you?

Business Health Check / Independent Business Review



- Quick diagnostics on the current state of the business to identify potential impact of disruptions on the business, assess the extent of impact and evaluate the financial health of the business
- Identifying operational quick-wins and initiatives (*cost reduction, revenue improvement*) to minimize the impact on the business
- Discuss and analyze the various options to realistically consider for restructuring (as appropriate)

Cash management and Working Capital Management



- Liquidity and working capital management
- Immediate and near-term funding requirements analysis
- Development and transfer of robust cash-flow forecasting processes to management.
- Identification of short/near term cash generation/preservation opportunities
- Assistance with implementing these opportunities
- Advice to management on effective communications with all key stakeholders

Operational Restructuring



- **Operational restructuring:** Delivering efficiency and profitability through to the bottom line.
- **Business Turnarounds:** Creating decisive strategic and operational plans to turnaround under performing companies.
- **Performance Improvement:** Providing solutions to achieve operational improvements and measureable results

Financial Restructuring



- Valuations and pricing analysis
- Development of robust operational and financial plans to underpin the restructuring
- Communications and negotiations with lenders and other stakeholders
- M&A and strategic financial advice
- Contingency planning
- Solvent reconstructions and liquidations

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