

LGA COVID-19 EXECUTIVE SUMMARY

# A Crisis Management Toolkit for Enterprising Families

March 16, 2020

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LANSBERG · GERSICK

[www.lgassoc.com/insights](http://www.lgassoc.com/insights)

# Introduction

Dear clients, friends and members of our extended LGA family,

Now that we have a clearer understanding of nature and spread of the virus, a more coordinated global policy response has begun to coalesce -- acknowledging the need for "**social distancing**" despite the impact this will have on businesses large and small, and a recognition of the importance of "**flattening the curve**" to reduce the burden this virus will place on our already strained public health systems (more on both strategies below).

As the pandemic seizes control of daily life, it will also have a clear and material impact on the performance of operating companies and investment portfolios, and **put strains on the physical and emotional well-being of employees, customers, and families** -- particularly **cherished elders** who are most at risk and the **youngest members** who are struggling to find meaning in this chaotic time. We hope the resources below will help enterprising families navigate this complex challenge.

At LGA we are also taking several additional steps to help ensure the health and well-being of clients and our community. We are also collecting and sharing insights to support your individual response to the crisis on our new [COVID-19 portal](#) on the LGA website, including the report you are about to review. We hope it will provide you with **critical facts and insights** on the COVID-19 pandemic and **help your decision-makers and your family remain informed** as the situation evolves.

**We encourage you to review and share with family members, Board directors and executives to help inform your own response and support strategic conversations – both for coping with the current crisis and for developing protocols and programs to manage the risk of future crises.**

Finally, while we will be acting with extra prudence in the days and weeks ahead, we remain available to support you in any way that might be helpful as the situation unfolds.

Sincerely,  
Your global team of LGA Advisors

THIS PRIMER HAS BEEN DEVELOPED SPECIFICALLY WITH ENTERPRISING FAMILIES IN MIND AND WAS DESIGNED TO COMPLIMENT OTHER DATA AND ANALYSIS YOU ARE LIKELY REVIEWING ON A DAILY BASIS

1

**CRISIS MANAGEMENT:**

Exploring what enterprising families can do in the short-term to respond to COVID-19 and other high-risk episodes

2

**RISK MANAGEMENT:**

Exploring what enterprising families can do in the longer-term with respect to Risk Management

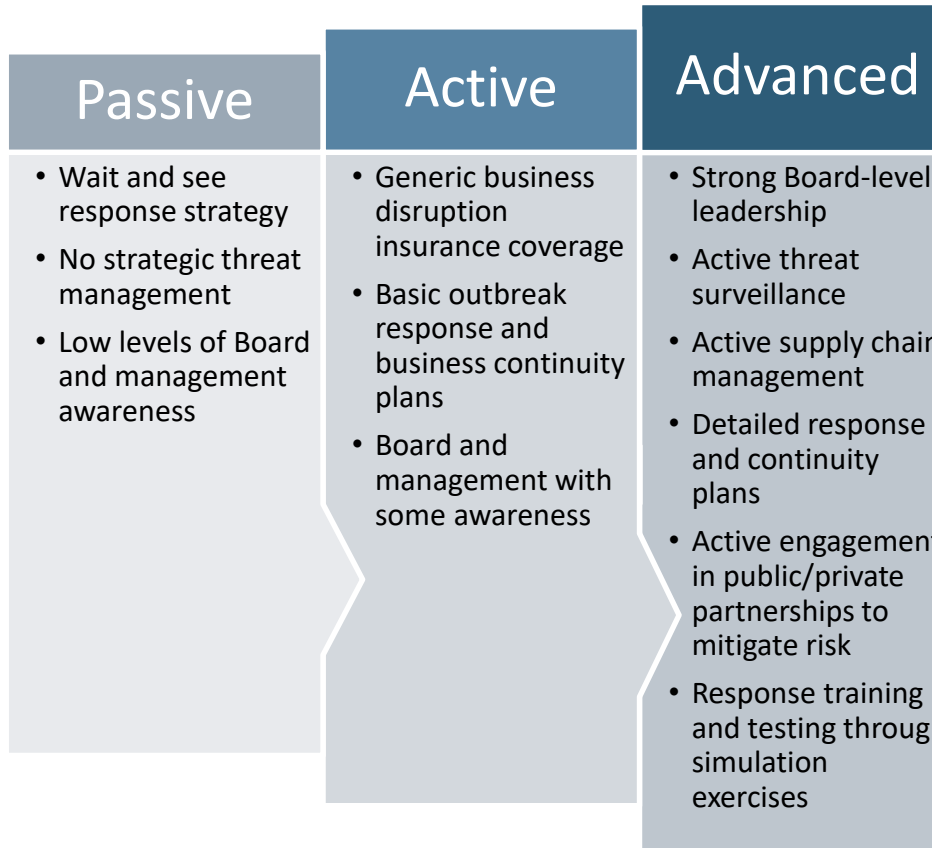
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**COVID BACKGROUNDER:**

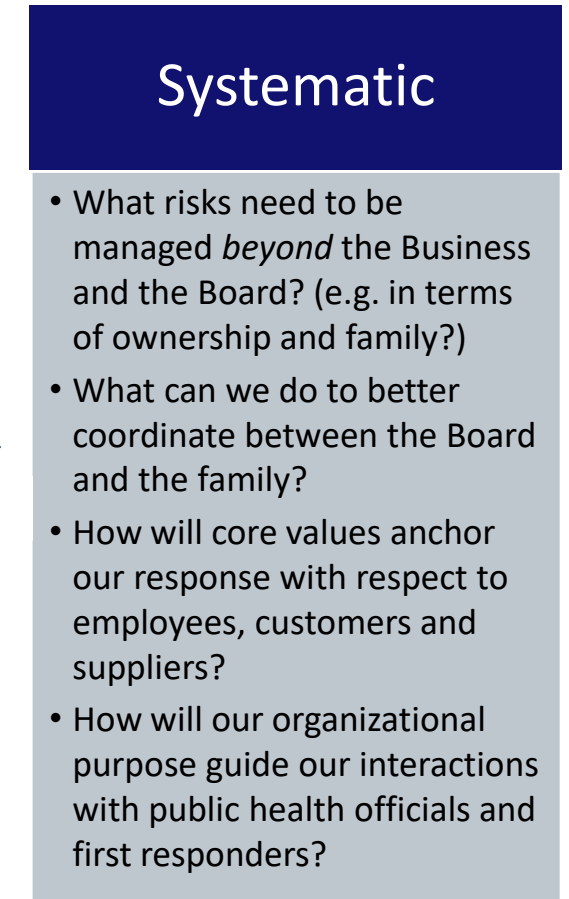
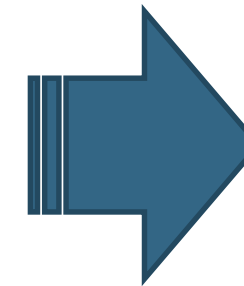
Understanding the origins of the SARS-CoV2 outbreak and its physical, economic, social consequences

# Crisis Response Strategies for Pandemics

WORLD ECONOMIC FORUM PROVIDES EXCELLENT GUIDANCE  
FOR NON-FAMILY BUSINESSES...



BUT ENTERPRISING FAMILIES NEED TO  
MANAGE RISK AT A SYSTEMS LEVEL...

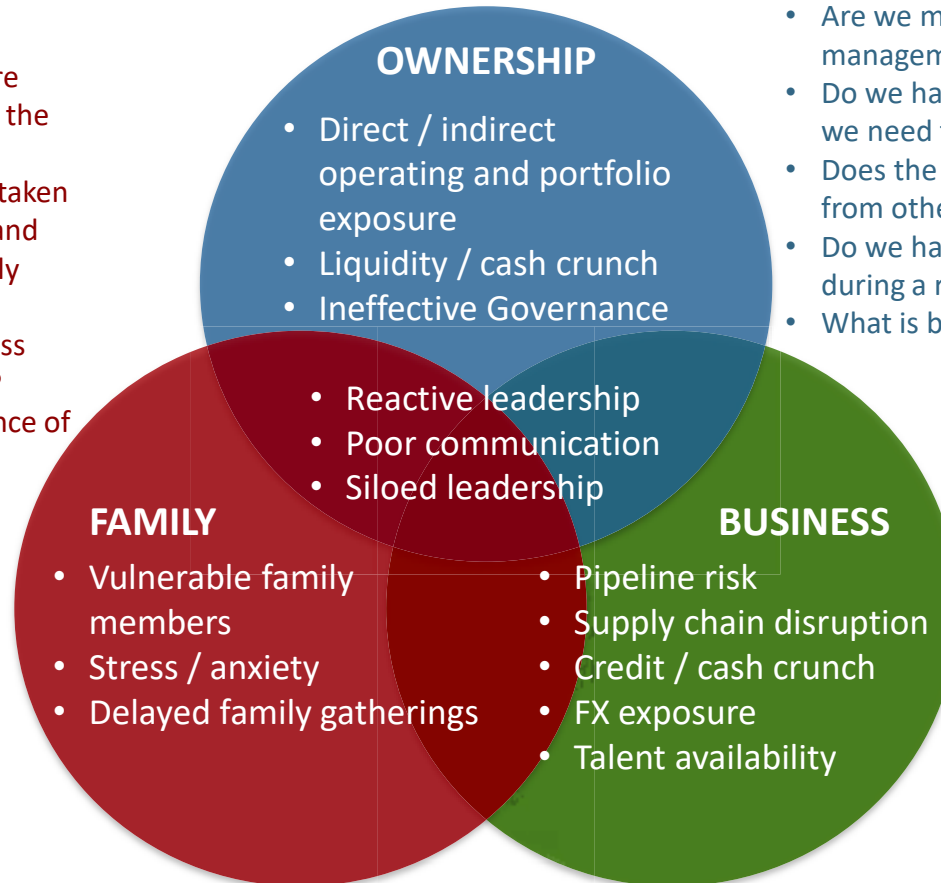


WEF: "CLASSIFICATION OF CORPORATE RESPONSE  
TO INFECTIOUS DISEASE RISK"

# Taking a Systems Level View

## SURVEYING OUR CLIENTS, HERE ARE SOME OF THE TOP RISKS OF COVID-19 FOR ENTERPRISING FAMILIES ALONG WITH KEY QUESTIONS THAT ALL FAMILIES SHOULD ANSWER FOR EACH OF THE THREE CIRCLES...

- How have family members been affected by the crisis? (Economically? Physically? Emotionally? Socially?)
- What role is the Family Council playing in leading or coordinating the family's response?
- How is the family supporting those members who are working actively in the business on the front lines of the crisis? How are their families being supported?
- Are there any ways in which activities already undertaken by the business (e.g. investments in process, policy and risk mitigation) be shared with the family – preferably without compromising the needs of the business?
- How are family members NOT working in the business being informed about the corporate crisis response?
- How are the family members tracking the performance of the Board? Via family Directors? Via regular communications from the Board Chair or Secretary?
- What is being done to support the most vulnerable or exposed members of the family?
- How can this crisis be used as an educational opportunity to inform the family about risk more generally?
- How is the family managing the critical role of social distancing? Particularly with respect to care for high-risk groups? (e.g. those >80)



- Have we adapted our existing governance in response to the crisis?
- Do we have a nest egg outside the main business to help buffer against volatility or material loss?
- Are we meeting frequently enough and asking the right questions of management? Of the owners?
- Do we have the capital necessary to provide liquidity to owners or do we need to preserve to protect the business?
- Does the crisis present an opportunity to sell assets? Or to buy assets from others at attractive prices?
- Do we have the necessary information to make strategic decisions during a rapidly changing environment?
- What is being done to protect decision-making capacity in the system?

- How materially can revenues be expected to decline?
- How materially can costs be reduced without compromising on performance or core values?
- Do we have the leaders we need to guide the business through the crisis?
- Do we have the resources we need? (particularly cash and key inputs, but also talent, credit)
- How can we use this as an educational opportunity to improve future crisis response and risk management?
- What opportunities may be available to help replace lost revenues with new product lines or repurpose resources to adapt to changing customer needs?
- What public resources, incentives and relief may be available to support our crisis response?

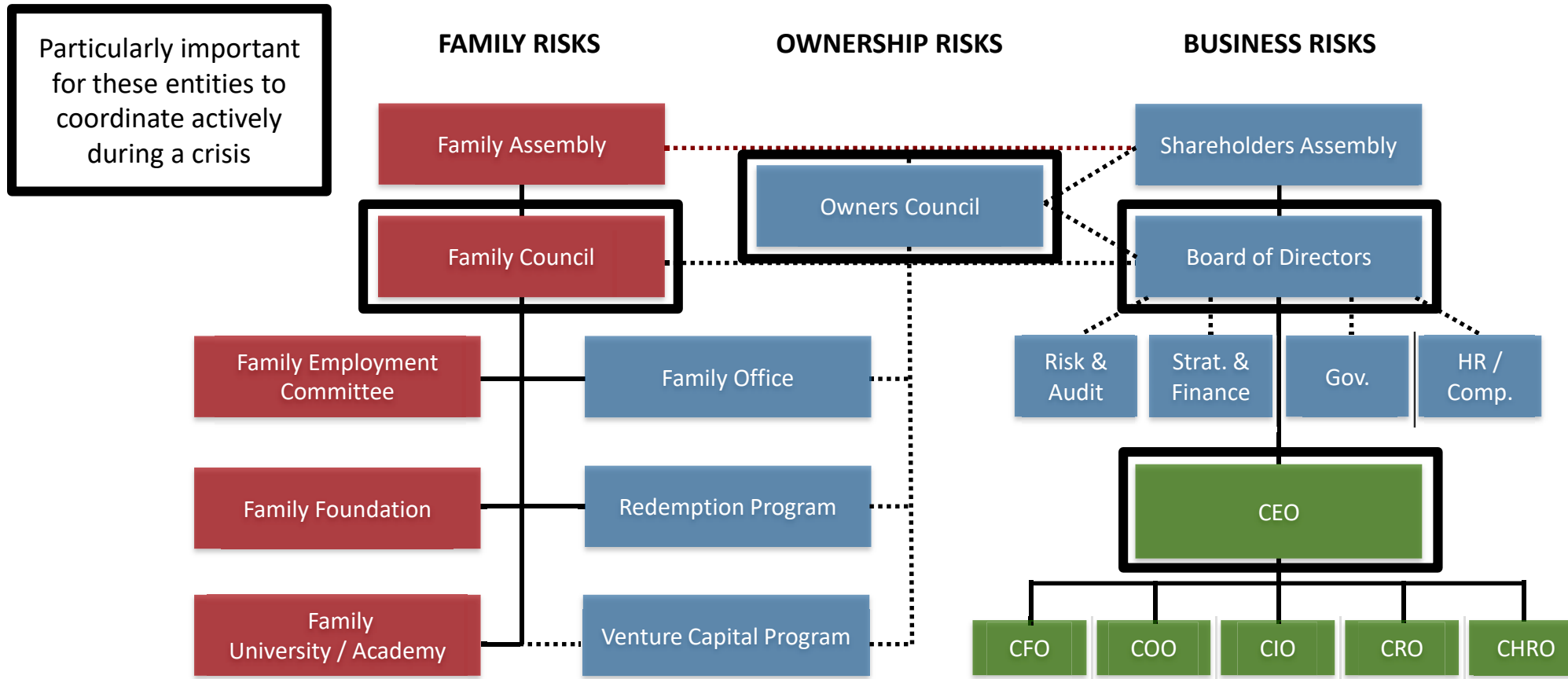
# Develop a Crisis Response Plan

IDEALLY THIS IS DESIGNED AND TESTED BEFORE A CRISIS EMERGES, THOUGH IT CAN STILL BE A POWERFUL TOOL FOR FIRST-TIME CRISIS RESPONDERS...



# Assign accountability for key risks appropriately

THE CRISIS WILL IMPACT EACH ASPECT OF THE ENTERPRISE DIFFERENTLY – AND IT'S CRITICAL THAT THE GOVERNANCE ENTITY BEST POSITIONED TO MANAGE THE ISSUE IS ADEQUATELY EMPOWERED AND RESOURCED



# How a “Risk Intelligent” Board can support your crisis response

## A “RISK INTELLIGENT” BOARD IS:

|                   |  |
|-------------------|--|
| <b>Strategic</b>  | Provides insight, guidance and reassurance to both executives and the Family Council in a timely and responsive manner   |
| <b>Proactive</b>  | Defines the decisions that require the Board’s attention and how frequently it ought to convene – particularly during active crises  |
| <b>Consistent</b> | Establishes the character of the enterprise (particularly around risk culture) – setting the “tone at the top” in terms of the core values of the enterprise which may be challenged during a crisis |
| <b>Adaptive</b>   | Balances long-term and short-term considerations in terms of resource allocation, frequency of contact, and overall crisis response as facts on the ground and operational context shift             |
| <b>Empowered</b>  | Able to request from management, owners and outside experts any information or resources necessary to support strategic deliberations during the crisis  |
| <b>Informed</b>   | Has access to timely, objective and appropriate information about the enterprise’s crisis response (e.g. enterprise risk dashboard) and the ability to share selectively with owners                 |
| <b>Prepared</b>   | Ensures the enterprise has protocols and plans in place to respond to future crises whenever they emerge – and commits to documenting those plans during the current crisis                          |
| <b>Reflective</b> | Understands what is working well and what can be improved about its own strategic functioning and oversight – both during the crisis and afterwards  |

# How a “Risk Intelligent” Council can support your crisis response

## A “RISK INTELLIGENT” FAMILY COUNCIL IS:

|                   |  |
|-------------------|--|
| <b>Strategic</b>  | Provides insight, guidance and reassurance about the crisis to family members in a timely and responsive manner  |
| <b>Proactive</b>  | Shares timely information with the family about how the crisis is affecting the business as well as how activities in the business might be available to support the family              |
| <b>Consistent</b> | Holds the Board accountable for living up to the family’s core values even during times of organizational stress (e.g. treatment of employees or customers affected by the crisis)       |
| <b>Adaptive</b>   | Flexible with respect to any planned family social or educational activities, and utilizing digital infrastructure if possible, to engage the family virtually until the crisis passes   |
| <b>Empowered</b>  | Able to request information or resources as necessary to support the family  |
| <b>Informed</b>   | Has access to timely, objective and appropriate information about the enterprise’s crisis response (e.g. family risk dashboard) and the ability to share selectively with family members |
| <b>Prepared</b>   | Ensures the Council has protocols and plans in place to respond to future crises whenever they emerge – and commits to documenting those plans during the current crisis                 |
| <b>Reflective</b> | Understands what is working well and what can be improved about its own strategic functioning and oversight – both during the crisis and afterwards                                      |

# How a “Risk Intelligent” CEO can support your crisis response

## A “RISK INTELLIGENT” CEO IS:

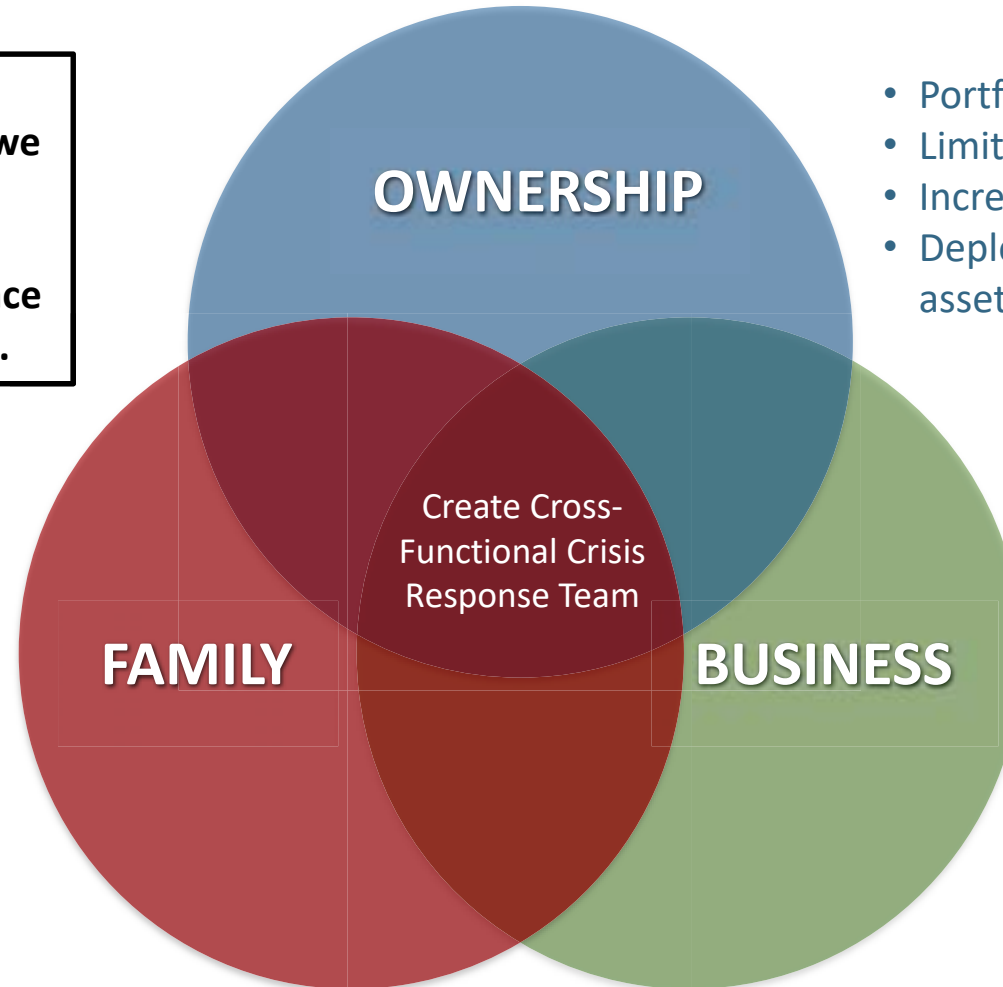
|                   |   |
|-------------------|---|
| <b>Strategic</b>  | Provides insight, guidance and reassurance about the crisis to the Board, employees and key external stakeholders (e.g. customers, creditors, suppliers) in a timely and responsive manner        |
| <b>Proactive</b>  | Anticipates the needs of key stakeholders as the crisis unfolds (e.g. cash flow management, capital spending triage, strategic communications, customer credit) and mobilizes necessary resources |
| <b>Consistent</b> | Holds all employees accountable for living up to the family’s core values even during times of organizational stress  |
| <b>Adaptive</b>   | Balances long-term and short-term considerations in terms of expense management, capital spending and talent management until crisis passes   |
| <b>Empowered</b>  | Able to request strategic input from the Board or outside experts as necessary to support the business during and after crisis  |
| <b>Informed</b>   | Has access to timely and objective information about the enterprise’s crisis response (e.g. risk dashboard) and provides a high-level summary to the Board – updating on a regular basis          |
| <b>Prepared</b>   | Ensures the executive team has protocols and plans in place to respond to future crises whenever they emerge – and commits to documenting those plans during the current crisis                   |
| <b>Reflective</b> | Understands what is working well and what can be improved about their own crisis leadership performance – and shifts back to conventional leadership paradigm once the crisis has ended           |

# Taking a Systems Level View

SURVEYING OUR CLIENTS AND STUDENTS, HERE ARE SOME OF THE TOP RESPONSES TO THE COVID-19 OUTBREAK THAT ENTERPRISING FAMILIES CAN DEPLOY ACROSS EACH OF THE THREE CIRCLES...

We would love to hear about your response to the crisis so we can aggregate and share with other enterprising families around the world as we all brace for a few tough months ahead.

- Defining appropriate social distancing within the family
- Share coping strategies and resources from business and Board
- Group Insurance
- Emergency travel services
- Emotional support









- Portfolio rebalancing
- Limit cash distributions during crisis
- Increase frequency of Board meetings
- Deploy war chest to acquire strategic assets at attractive valuations

- Strong leadership
- Liquidity mgmt.
- FX hedging
- Communication strategy
- Travel protocols
- Flex. work.

# Adaptive Strategies Support Family Enterprise Resilience

## LGA RESEARCH ON STRATEGIES THAT FAMILIES OFTEN USE IN EMERGING AND FRONTIER MARKETS PROVIDE HELPFUL INSIGHTS FOR ALL COMPANIES ON THE FRONTLINES OF CRISIS MANAGEMENT

|  | ADAPTIVE STRATEGY  | EXAMPLES FROM GLOBAL RESEARCH  | EXAMPLES FROM COVID-19 CRISIS   |
|--|--|--|---|
| <b>Redundancy</b><br>       | <b>Building <u>backup systems and resources</u></b> in to protect against disruptive events and ensure continuity of your operations   | A Caribbean hotel chain maintains backup generators and telecom services to sustain activity during frequent natural & social shocks   | Credit Suisse established parallel decision-making teams across their top executives. The two teams do not meet and work in different locations to prevent infection.   |
| <b>Modularity</b><br>       | <b>Investing in <u>joint ventures</u></b> to connect a family's local leadership into a larger network and gain access to expertise, resources, and scale of external partners | A European private bank utilized affiliated financial hubs to move capital and information across borders over centuries – thriving despite wars, recessions and political social change | 40+ restaurants, hotels, and cinema chains in Wuhan adjusted their staffing model and shared employees with Hema (a supermarket chain owned by Alibaba) to provide emergency delivery services as demand spiked     |
| <b>Migration</b><br>        | <b>Quickly <u>pivoting</u></b> to new markets in response to rapidly changing conditions that make existing operations infeasible  | A Yemeni conglomerate converted vacant buildings near manufacturing facility into housing for workers to avoid crossing sniper fire  | Chinese restaurants repurposing waiters to support home deliveries; Retail salespeople becoming online influencers on WeChat; and shifting advertising online   |
| <b>Symbiosis</b><br>       | Developing <b><u>close relationships with influential actors</u></b> to secure growth opportunities, enhance access to resources, and stabilize delivery of services           | A South Korean chaebol (e.g. Samsung, Hyundai, LG) thrive under protectionist policy designed to support economic development, though recently also drawing criticism                    | Google is building a portal to self-diagnose COVID-19 symptoms and identify nearby test centers at Walmart parking lots, supporting CDC and other public & private initiatives aimed at slowing social transmission |
| <b>Simplification</b><br> | <b>Reducing <u>complexity</u></b> to cope with chronic resource scarcity – shifting to the most essential products, services, and processes                                    | A Venezuelan manufacturer responded to a prolonged shortage of key materials and currency by focusing only on most vital products  | Italian authorities control the threat of community transmission by only allowing critical retail services to remain open (i.e. groceries, pharmacies and banks)  |
| <b>Heterogeneity</b><br>  | <b>Promoting <u>diversity</u></b> within the portfolio among suppliers, customers, products and regions to minimize systemic collapse  | A Jordanian manufacturer built 14 factories across 7 countries to reduce dependence on a single market and engage global family  | Social media platform Kuaishou (a \$28B company) just launched new online education programs to service 200+ million students forced out of school/university   |

# From Crisis Management to Risk Management

THIS SECTION PROVIDES A BACKGROUND ON COVID-19 WHICH CAN SERVE AS THE BASIS FOR CONVERSATIONS WITHIN THE FAMILY ABOUT THE RISKS ASSOCIATED WITH THE CRISIS AS WELL AS YOUR SYSTEMATIC RESPONSE

1

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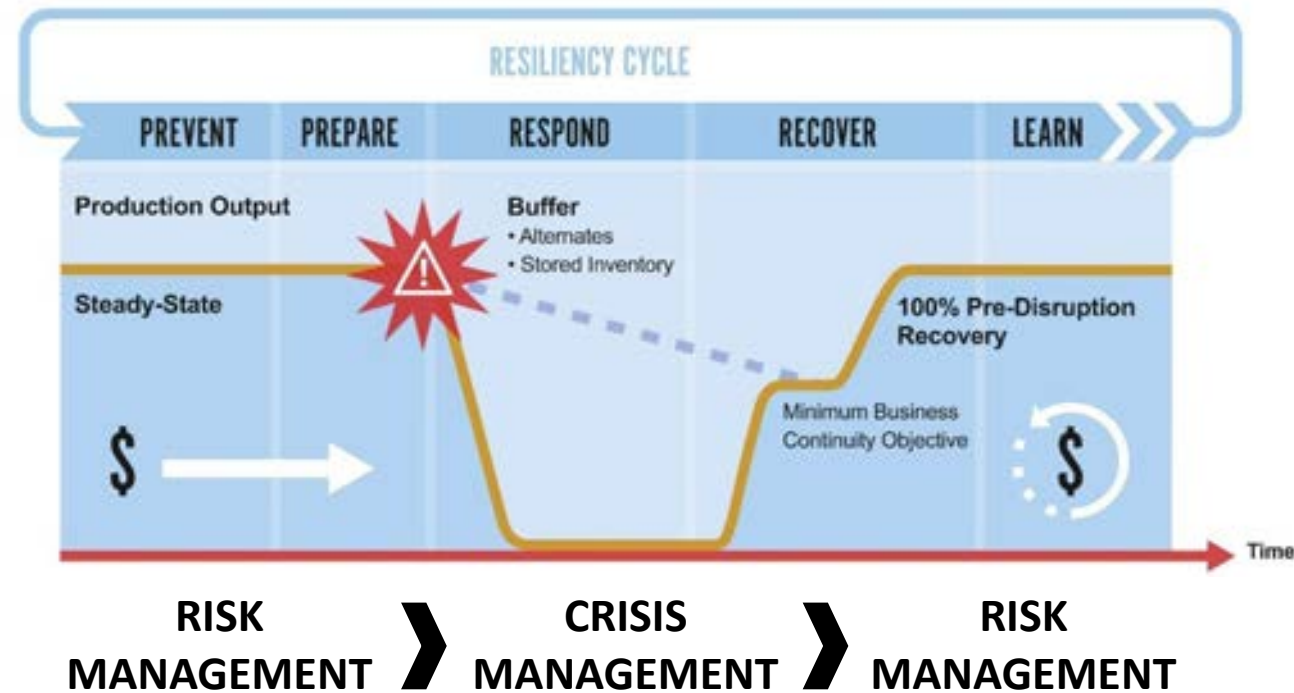
Understanding the origins of the SARS-CoV2 outbreak and its physical, economic, social consequences

# From Crisis Management to Risk Management

## RISK MANAGEMENT IS A FORM OF “CRISIS PREVENTION” THROUGH ENHANCING ORGANIZATIONAL RESILIENCE

British Standard Institute’s BS 65000 Standard defines “Organizational resilience” as:

*“The ability of an organization to anticipate, prepare for, respond and adapt to incremental change and sudden disruptions in order to survive and prosper.”*



# Risk and the Family Enterprise

## WHY FOCUS ON RISK MANAGEMENT?

- Strategic risk management is about making better decisions about the future
  - Governance requires *decision-making*
  - Decision-making requires *risk-taking*
- As leaders stare out into an unknowable future, they are forced to assign probabilities to a distribution of potential outcomes...then take a leap
- With the right data, processes, policies and people, modern family enterprise leaders can be rational and even strategic about managing and mitigating risk



GRAPHIC: CFA Institute

# Longevity and Family Enterprises

## DISPROPORTIONATELY REPRESENTED IN STUDIES OF LONGEST-LIVING COMPANIES

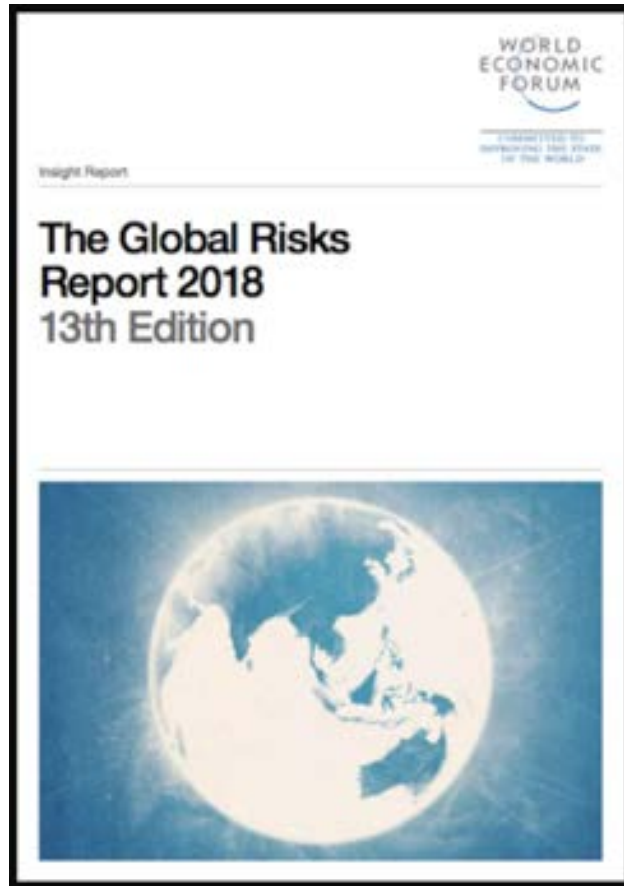
- Collins & Porras / Royal Dutch-Shell studies / Tercentenarian Club / Les Henokiens
- **Survival is built into their DNA!**
  - Long-term planning horizon
  - Speed of decision-making
  - Fiscal prudence
  - Focus on managing downside vs. chasing upside
  - Building good will / nonmarket strategies
  - Reputation management
  - Commitment to community / stakeholders



**Doesn't make FBs immune to 21st century business dynamics**

**FBs can no longer afford to manage risk reactively...**

# We can't study risk in isolation



*“Humanity has become remarkably adept at understanding how to mitigate conventional risks that can be relatively easily isolated and managed with standard risk management approaches.”*

*“But we are much less competent when it comes to dealing with complex risks in the interconnected systems that underpin our world, such as organizations, economies, societies and the environment.”*

SOURCE: World Economic Forum (WEF), “Global Risks 2018,” January 2018.

# Consider Building a Family Enterprise Risk Management Framework

## What could possibly go wrong with our existing risk models?

- How are risks interconnected?
- Have we devoted enough resources to preventative maintenance & disaster planning?
- Do we have a documented crisis response plan?
- Do we model a broad range of scenarios during strategic planning?

## What processes do we have to manage risk?

- Are we tracking the right data?
- What do we do with the data?
- How do we respond to risk events?
- Do we have a healthy risk culture?
- How do we evaluate and adjust our risk appetite and risk capacity over time?
- What is our process for setting and spending reserves?
- How do we communicate about risk?
- What do we do when a new risk emerges?



## What structures do we have to manage risk?

- How involved is the Board in managing risk?
- Who is accountable for managing each key risk?
- What resources are available to train and support them?
- How do we compensate those managing risk?
- Who designed this structure and how often is it reviewed?

## What are the key risks to our strategy, operations and overall enterprise?

- How do we gather information about risk?
- How do we rank these risks in terms of probability and impact?
- Do we consider internal and external risks?
- How are these risks integrated into broader strategic planning?

## How much risk should we take?

- Is there consensus or dispersion among owners in terms of risk appetite?
- Are we good at taking risks?
- Have we articulated our Risk Appetite in a clear, concise and actionable Statement?
- Have we measured our Risk Capacity?
- Have we adjusted our Risk Capacity to accommodate our Risk Appetite?

# Primer on the Pandemic

THIS SECTION PROVIDES A BACKGROUND ON COVID-19 WHICH CAN SERVE AS THE BASIS FOR CONVERSATIONS WITHIN YOUR FAMILY ENTERPRISE ABOUT THE RISKS ASSOCIATED WITH THE CRISIS AND YOUR SYSTEMATIC RESPONSE

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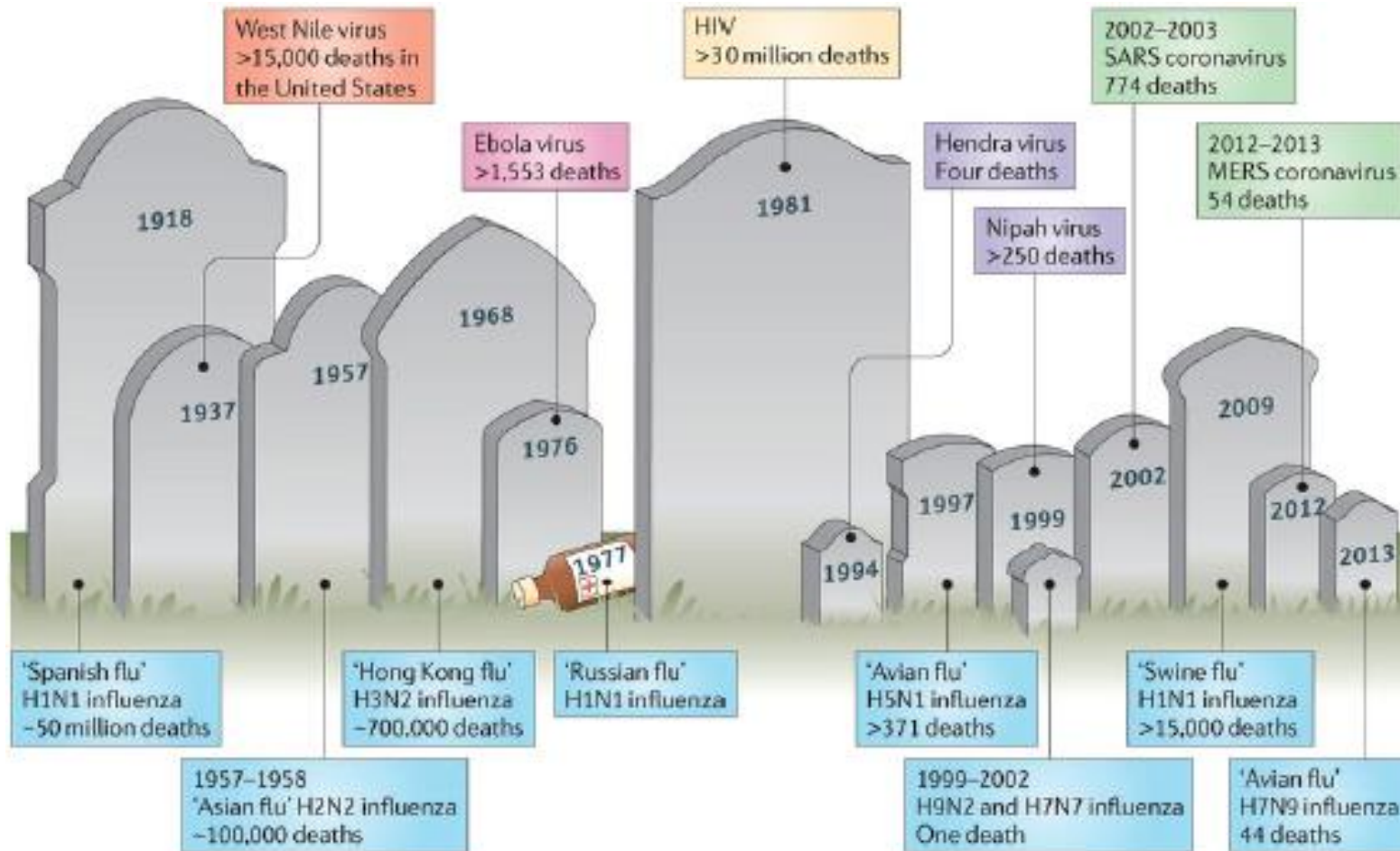
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# Historical Precedent

VIRAL EPIDEMICS AND “ZOO NOTIC DISEASES” ARE ACTUALLY QUITE COMMON...



# Historical Precedent

EARLY INDICATIONS SUGGEST THAT THIS NOVEL CORONAVIRUS HAS A MUCH LARGER POTENTIAL FOR MASS INFECTION THAN SARS OR MERS...

## 1. Total Infections, Deaths, and Fatality Rate

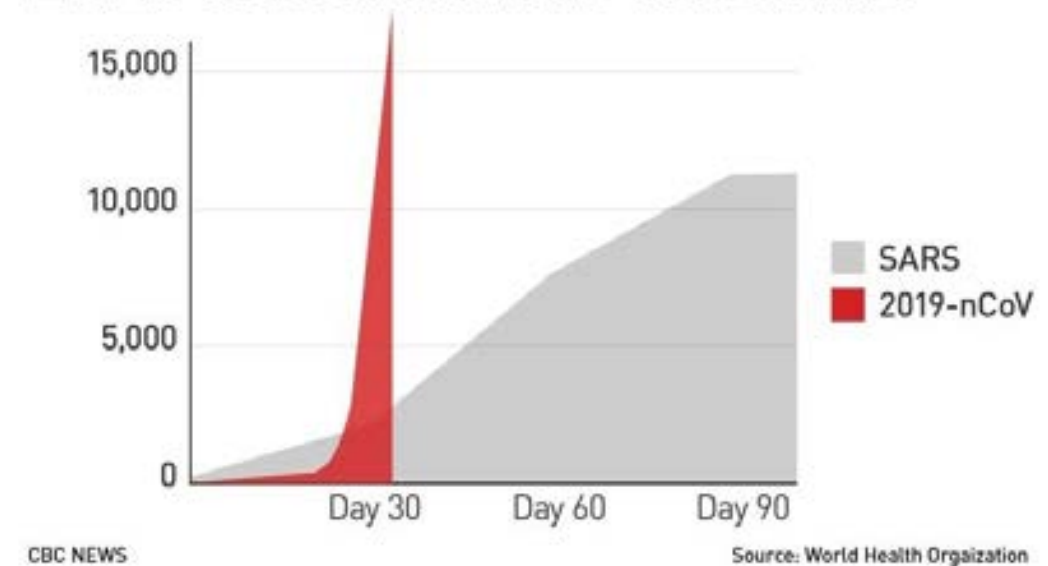
|               | SARS  | MERS  | SARS-CoV-2 | H1N1 in US | Current Seasonal FI in US <sup>1 2</sup> |
|---------------|-------|-------|------------|------------|--|
| Total cases   | 8,096 | 2,499 | 109,209    | 60,837,748 | 32mm – 45mm                              |
| Deaths        | 774   | 861   | 3,788      | 12,469     | 18k – 46k                                |
| Fatality rate | 10%   | 34%   | 3.47%      | 0.02%      | 0.06-0.10%                               |

<sup>1</sup> Preliminary Burden Estimate for the Seasonal Flu by US CDC from October 1, 2019, through February 22, 2020.

<sup>2</sup> For comparison, in 2019, there were 200,000 pneumonia-related hospitalizations and 50,000 deaths in the United States.

SOURCE: Goldman Sachs

## 2019 coronavirus vs. SARS



*“Coronavirus may infect between **40-70% of world's population**...This is **qualitatively different from SARS** and MERS in the sense that it is ten times bigger than SARS already...and it is way more widespread.”*

—Harvard epidemiologist Marc Lipsitch

# China Bought the West Time...But it Has Been Wasted

**“EPIDEMIC PREPAREDNESS STARTS YEARS BEFORE AN OUTBREAK”**

**– EMANUELE CAPOBIANCO, INTERNATIONAL FEDERATION OF RED CROSS AND RED CRESCENT SOCIETIES**

**Why haven't Singapore, Hong Kong and Taiwan been more severely impacted?**

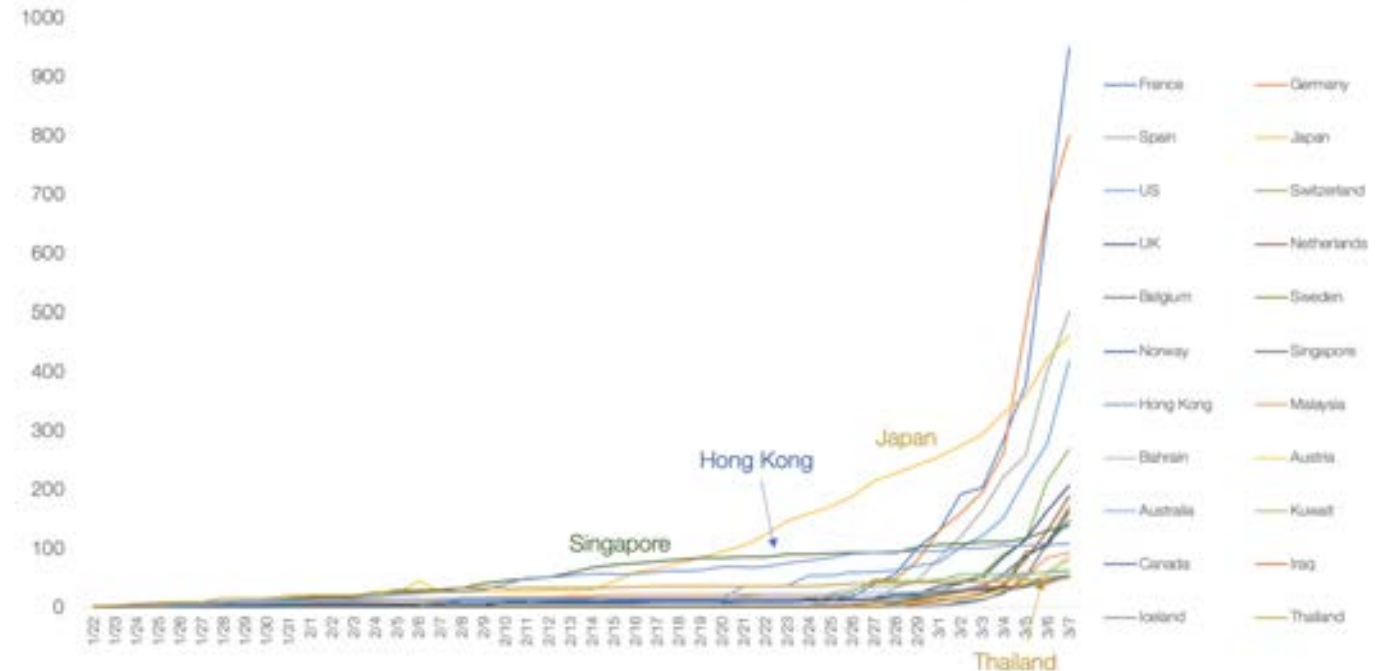
“All of them were hit by SARS in 2003, and all of them learned from it. They learned how viral and lethal it could be, so they knew to take it seriously. That's why all of their graphs, despite starting to grow much earlier, still don't look like exponentials...”

“Coronavirus: Why You Must Act Now”, [Medium](#), Tomas Pueyo

“Following SARS in 2003, Taiwan established a central command center for epidemics. By Jan. 20, it was coordinating the government's response to the coronavirus. It quickly compiled a list of 124 “action items,” including border controls, school and work policies, public communication plans and resource assessments of hospitals...”

“What We Can Learn From Singapore, Taiwan and Hong Kong About Handling Coronavirus”, [Time Magazine](#), MARCH 13, 2020

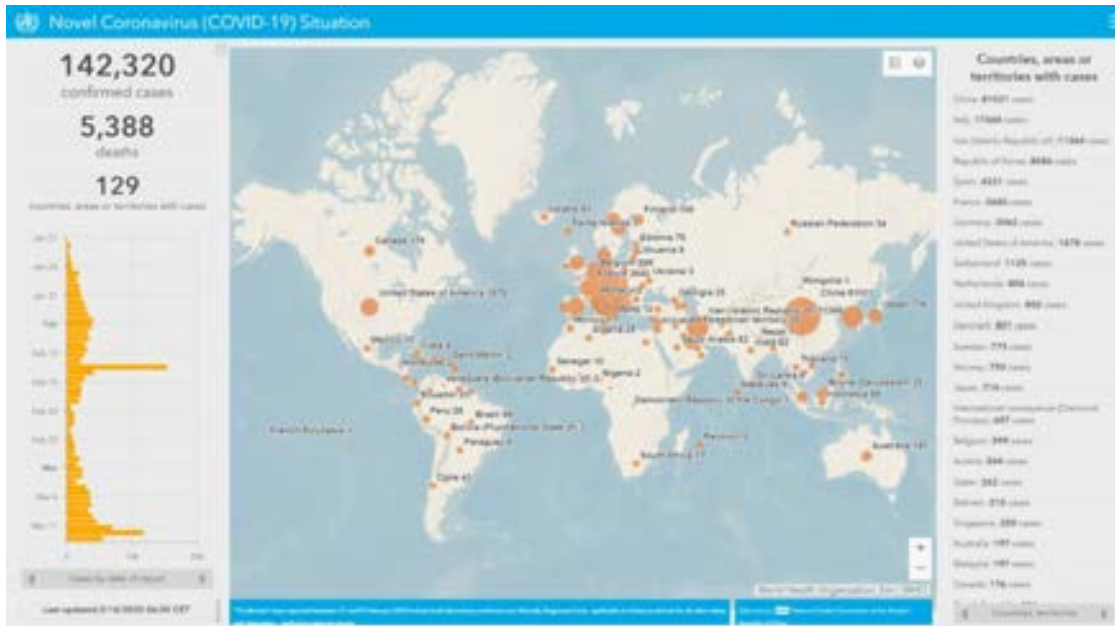
Chart 9: Total Cases of Coronavirus Outside of China  
(Countries with >50 cases as of 3/7/2020)



Source: Tomas Pueyo analysis from primary data from Github:  
[https://github.com/CSSEGISandData/COVID-19/blob/master/csse\\_covid\\_19\\_data/csse\\_covid\\_19\\_time\\_series/time\\_series\\_19-covid-Confirmed.csv](https://github.com/CSSEGISandData/COVID-19/blob/master/csse_covid_19_data/csse_covid_19_time_series/time_series_19-covid-Confirmed.csv)

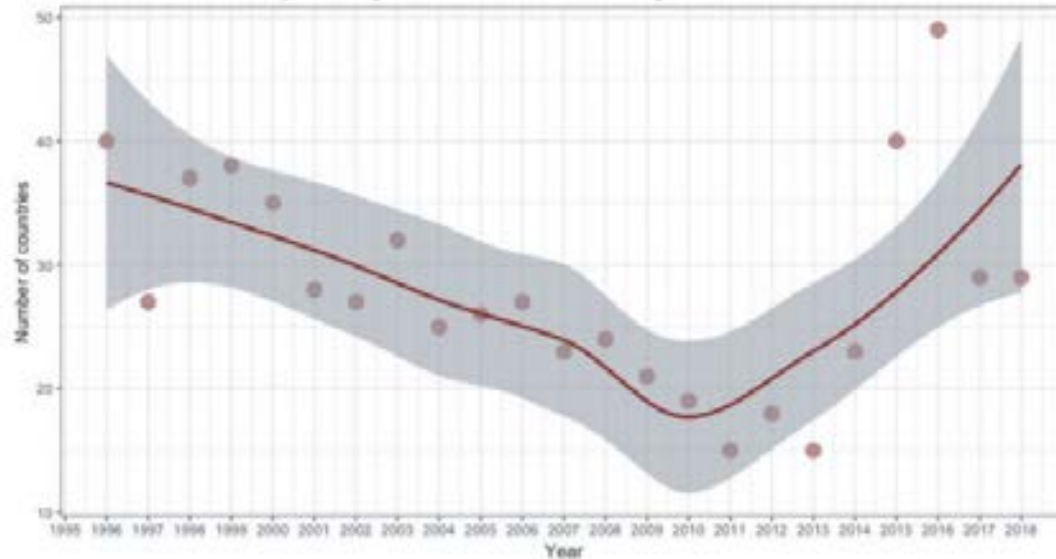
# Tracking COVID-19

AFTER EARLY CHALLENGES WITH TRACKING IN WUHAN, DATA IS NO LONGER A MAJOR HEADWIND (THOUGH UNDIAGNOSED CASES – PARTICULARLY WHERE COMMUNITY TRANSMISSION HAS BEGUN UNDETECTED OR ACTIVE TESTING IS LIMITED – WILL INFLATE THESE FIGURES SUBSTANTIALLY)



A VIRAL OUTBREAK OF THIS TYPE AND MAGNITUDE WAS NEVER A MATTER OF “IF” BUT “WHEN” – AND THE BEHAVIORAL RESPONSE, WHILE SLOWER THAN EXPECTED INITIALLY, HAS ACCELERATED CONSIDERABLY

Figure 1: Number of countries experiencing significant disease outbreaks, 1995-2018



Source: Harvard Global Health Institute/World Economic Forum analysis of data from WHO Disease Outbreak News (<http://www.who.int/csr/don/en/>)

“  
The frequency and diversity of disease outbreaks are expected to grow steadily.  
”

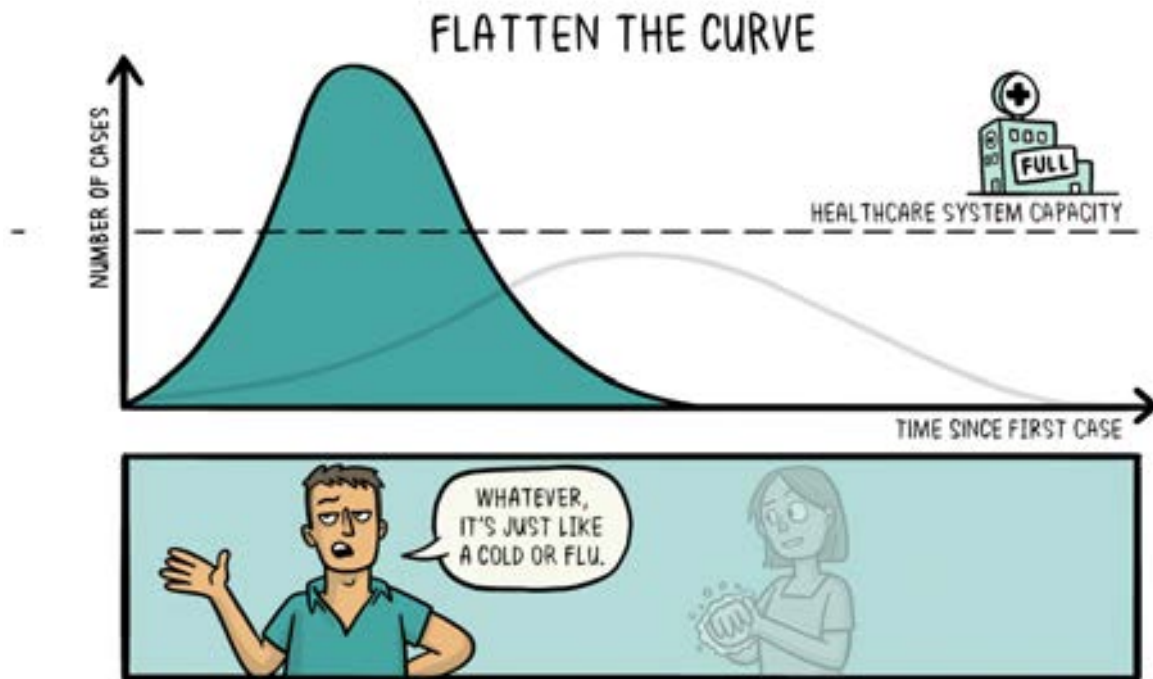
“  
In a modern economy, relatively small numbers of infections could have massive economic effects that can extend far beyond the original outbreak's footprint.  
”

“  
Outbreaks with low infection rates but widespread fear of infection could reduce customer footfall, depressing retail and entertainment spending.  
”

“  
Most economic losses caused by infectious disease outbreaks result from the actions of uninfected individuals.  
”

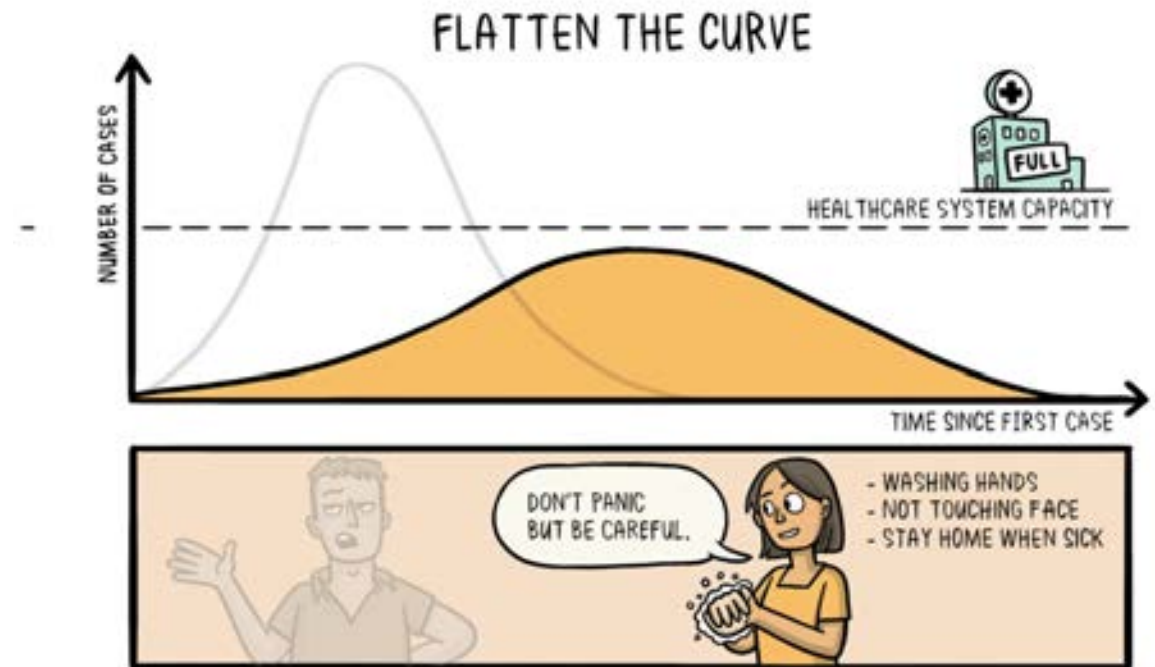
# “Flatten the Curve”

ONCE AN OUTBREAK HAS REACHED EPIDEMIC OR PANDEMIC PROPORTIONS, MASS INFECTIONS ARE VIRTUALLY INEVITABLE, SO THE GOAL BECOMES LIMITING THE BURDEN ON THE HEALTH SYSTEM



@SIOUXSIEW @XTOTL @THESPINOFFTV

\*ADAPTED FROM @DREWAHARRIS, THOMAS SPLETTSTÖBER (@SPLETTE) AND THE CDC\*  
CC-BY-SA



@SIOUXSIEW @XTOTL @THESPINOFFTV

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# Social Distancing to Mitigate Contagion

**SOCIAL DISTANCING IS A CENTURIES OLD PRACTICE. DURING THIS OUTBREAK, IT BEGAN AS A VOLUNTARY MEASURE BUT IS INCREASINGLY BEING IMPOSED BY AUTHORITIES TO MITIGATE THE RISK OF COMMUNITY TRANSMISSION...**



Two lepers denied entrance to town. Woodcut by Vincent of Beauvais, 14th century

“Social distancing is a term applied to certain nonpharmaceutical infection control actions taken by public health officials to stop or slow down the spread of a highly contagious disease.

“The objective of social distancing is to reduce the probability of contact between persons carrying an infection, and others who are not infected, so as to minimize disease transmission, morbidity and ultimately, mortality.”

SOURCE: Wikipedia



“The ultimate goal is to reduce the basic reproduction number, the number of people a single infected person will infect, to less than one. “If you can bring it under one, the epidemic starts to dwindle”

“COVID-19 means its time for Canada to get serious about aggressive social distancing: experts,” [National Post](#)



“The World Health Organization has suggested keeping at least one metre apart from others to prevent spread from coughing, sneezing or direct contact.”

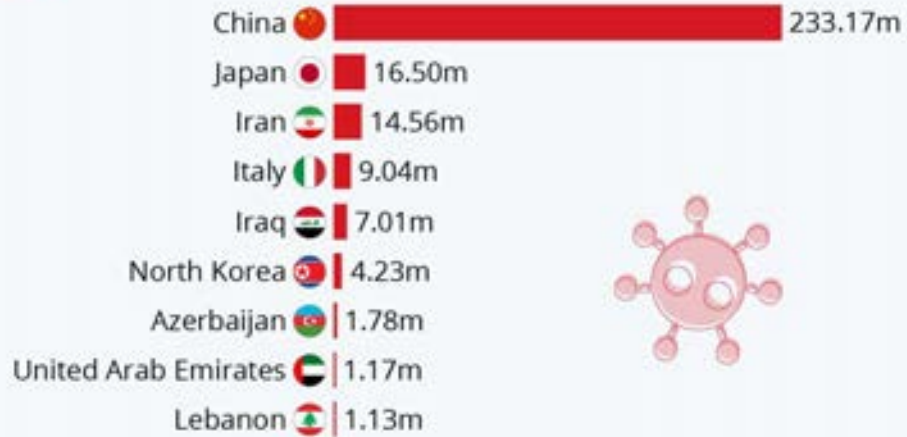
SOURCE: Emanuele Cremaschi, GETTY IMAGES file photo, via [The Spec](#)

# Impact of regulated social distancing

PUBLIC HEALTH OFFICIALS HAVE SHUT DOWN LARGE GATHERINGS IN MOST MAJOR ECONOMIES, FORCING BUSINESS AND CULTURAL EVENTS TO BE CANCELLED, POSTPONED OR SHIFTED ONLINE...

## The Coronavirus Is Keeping Millions Of Kids Out Of School

Number of children impacted by country-wide school closures due the coronavirus\*



\* As of March 4, 2020. Refers to learners enrolled at pre-primary, primary, lower-secondary, and upper-secondary levels of education.  
Source: UNESCO



statista

## Major Events Cancelled Amid Coronavirus Outbreak

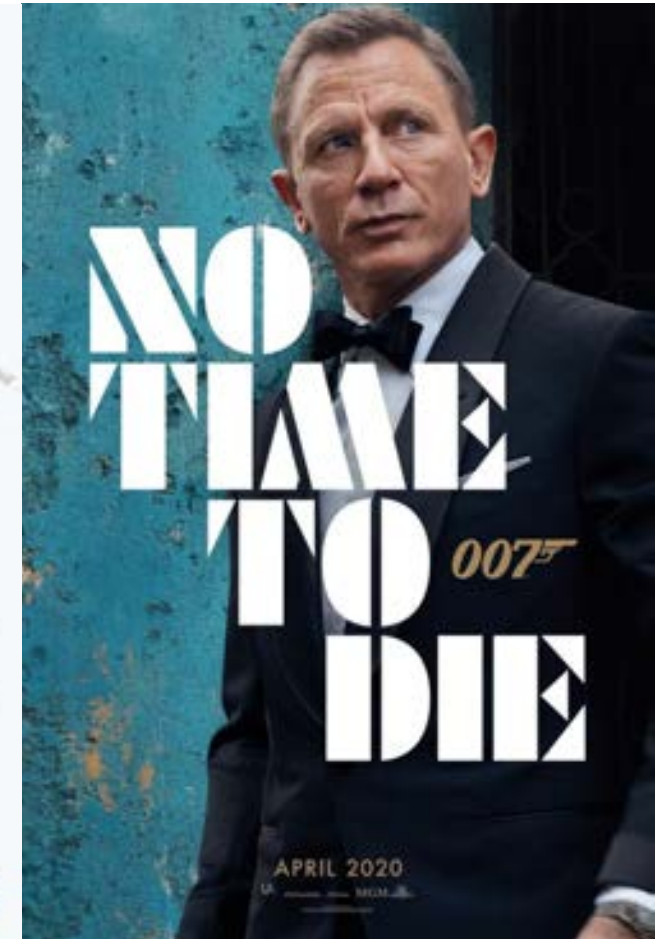
Selection of international trade shows/conferences cancelled or postponed due to the coronavirus outbreak\*



\* Latest available information as of March 4, 2020  
Sources: Organizers and media reports



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# Economic impact

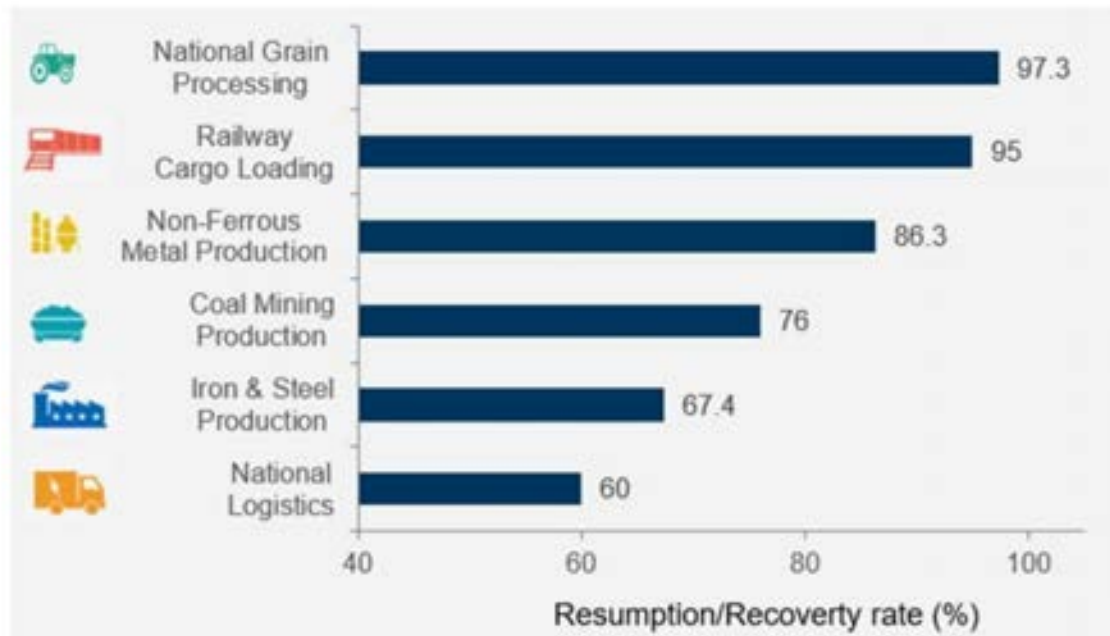
## ESTIMATES VARY CONSIDERABLY, BUT THE TREND IS CLEARLY NEGATIVE

- Expected impact of COVID-19 could be larger than SARS in 2002-2003 (\$54B)
- If 8,098 SARS infections caused \$50B in economic losses, how much damage would 550,000 – 4 million coronavirus infections cause?
  - Estimated \$1-3 trillion knocked off global GDP
  - Global equities shed \$10+ trillion in first month
  - Airline industry forecasts \$100+ billion loss of revenue in 2020
  - Travel industry forecasts \$10+ billion loss in 2020
  - Supply chain disruptions (e.g. autos, cellphones)
  - Lost productivity (factories still not back to 100% capacity)
  - Direct cost of testing and treatment
  - Fiscal and monetary stimulus

# Key industries slow to recover in China

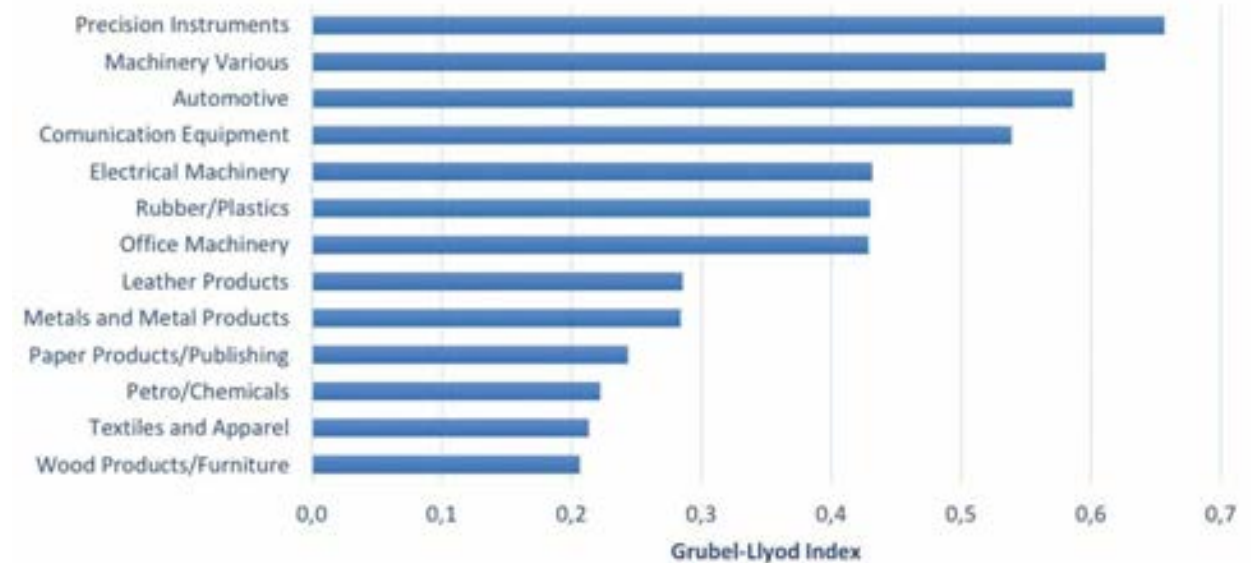
CHINA'S CENTRAL ROLE IN GLOBAL SUPPLY CHAINS AMPLIFIES THE ECONOMIC CONSEQUENCES OF A SLOWER RETURN TO FULL MANUFACTURING OUTPUT

## 1. China: Business Resumption Rate for Key Sectors



SOURCE: Goldman Sachs







## China Integration in Global Value Chains, by sector



SOURCE: The Guardian

# Certain industries may be quicker to recover than others

RESEARCH SUGGESTS THAT THE ENDURING CONSUMER RESPONSE WILL NOT BE EVEN ACROSS SECTORS...

|  |  Tourism and hospitality   |  Aviation / airlines  |  Automotive   |  Oil and gas  |  Consumer products   |  Consumer electronics and semi-conductors   |
|--|---|--|--|--|---|--|
| Estimated degree of impact, in terms of duration | Longest   |  |  |  |   |  |
| Estimated global restart                         | Q4  | Late Q3 / early Q4   | Q3   | Q3   | Q2  | Q2   |
| Key insights                                     | <p>Travel slowdown to and from major Asian travel hubs (20%+ YoY decrease) and select European destinations (e.g., France), coupled with decrease in Chinese tourism spend (\$277Bn, 16% of international tourism spend in 2019), likely to reduce demand globally (up to 40% decline 2020 output) until disease is "under control" across transmission complexes, likely far into Q4</p> <p>Several EU and APAC countries are highly dependent on tourism (7-20% of national GDP)</p> <p>Hospitality sector could proactively protect and prepare its people, anticipate near-term fall in demand, prepare to manage reputational risk and review annual planning in anticipation of long-term impacts</p> | <p>Emergence of new sites of community transmission (e.g., Iran, South Korea) likely to compound existing losses incurred by Asia-Pacific carriers. Travel restrictions, drop in consumer confidence, corporate policies to limit mass gatherings and non-essential travel are acutely impacted industry</p> <p>Impact across airlines to vary, with smaller airlines with low margins and smaller cash reserves more at risk, but larger global network at risk is suggesting much broader, prolonged slowdown</p> <p>As with tourism, expected recovery to be faster for domestic travel (~2 quarters), longer for international (~3-4 quarters), if not longer based on disease evolution</p> | <p>Signs of ongoing disease expansion in Europe (2<sup>nd</sup> largest global automotive producer, 6.1% of total EU employment) to amplify impact, despite ongoing Chinese economic restart. Likely to compound existing market vulnerabilities (e.g., trade tensions, declining sales)</p> <p>Headwinds faced likely to persist into Q3 given tight inventories (fewer than 6 weeks) and complex supply chains (and thereby minimal ability to shift supply chains)</p> <p>Hubei province accounts for 9% of total Chinese auto production (incl. global automakers and component parts), disrupting global supply chains until activity fully resumes</p> | <p>Uncertainty and reduced industry activities (~20% decline in Chinese demand), compounded with travel restrictions and recent spread to Middle East, have led to a drop in prices, where up to 50% is attributed to global slowdown</p> <p>Whereas impact during SARS was short lived, industry restart will be highly dependent on improved markets and Chinese demand, as the world's 2<sup>nd</sup> largest oil consumer and largest importer of liquefied natural gas (Chinese imports have decreased 10% YoY)</p> <p>Lower short-term prices could lead to sharp increases in prices as demand rebounds and supply lags – companies could prepare contingency plans, inc. employee protection</p> | <p>Global slowdown in demand to improve and consumer confidence to recover when disease is perceived "under control" – seeing sustained demand in China (e.g., express delivery, food delivery, though hampered by labor shortage)</p> <p>Retailers with thin margins in affected areas likely to face severe drops in demand and, in parallel, liquidity and working capital constraints, forcing companies at risk (especially smaller and medium-sized enterprises) to lay off workers or dock salaries</p> <p>Governments may step in with stimulus strategy (e.g., postponing employee benefit payments)</p> <p>Risk mitigation by pursuing online / omnichannel strategies given accelerated trend in consumer behavior</p> | <p>Existing market structure already in middle of shifting (e.g., given recent trade tensions, moves to diversify supply chain), and likely to be exacerbated into Q2</p> <p>Wuhan – a hub for semiconductors and fiber-optics is critical in supply chain worldwide – and shutdowns are impacting sites downstream</p> <p>28% of South Korea exports are electronics, leading to further supply chain disruptions if increases in-country transmission, despite a China restart</p> <p>Recovery will differ by sub-segment, depending on labor-intensity and availability of dwindling inventory (e.g., 2-6 weeks estimates for semiconductors)</p> |

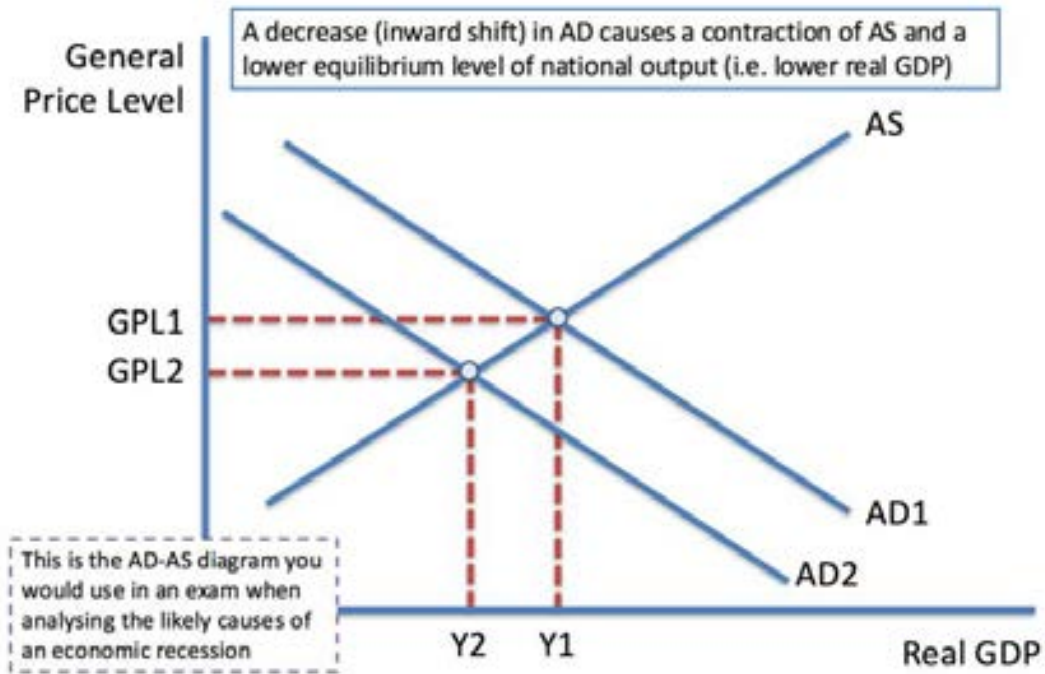
Source: IHS Market; McKinsey Global Institute Analysis; Press reports

McKinsey and Company 13

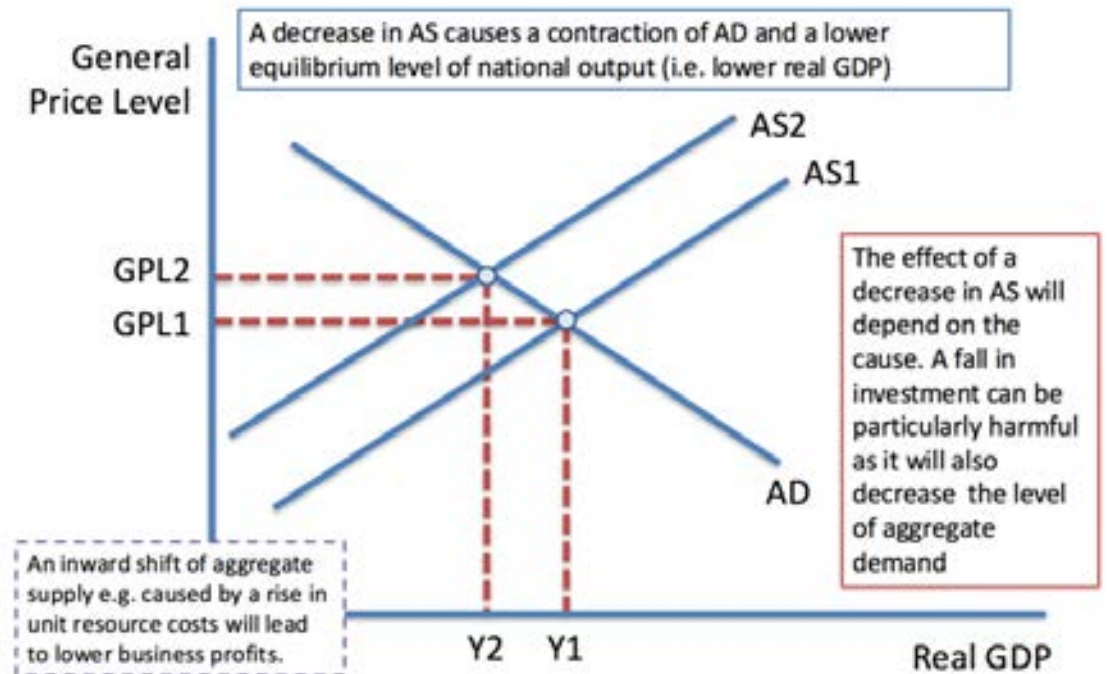
# Simultaneous Demand and Supply Shocks

MACROECONOMIC REFRESHER: DEMAND IS THREATENED BY “SOCIAL DISTANCING”, WHILE SUPPLY IS AFFECTED BY LABOR AND SUPPLY CHAIN SHORTAGES...BOTH ACCELERATING A DROP IN TOTAL ECONOMIC OUTPUT WITH AN UNCERTAIN IMPACT ON INFLATION

Impact of a Fall in Aggregate Demand



Impact of a Fall in Aggregate Supply



← \*Note the leftward shift of the curve in both cases\* ←

# Markets anticipating looming economic slowdown / recession

**MARKETS SUFFERING FROM LARGEST STRING OF 4%+ LOSSES SINCE 1929...THOUGH VALUATIONS STILL NEAR ALL-TIME HIGHS**



Source: Macrotrends, 3/13/2020

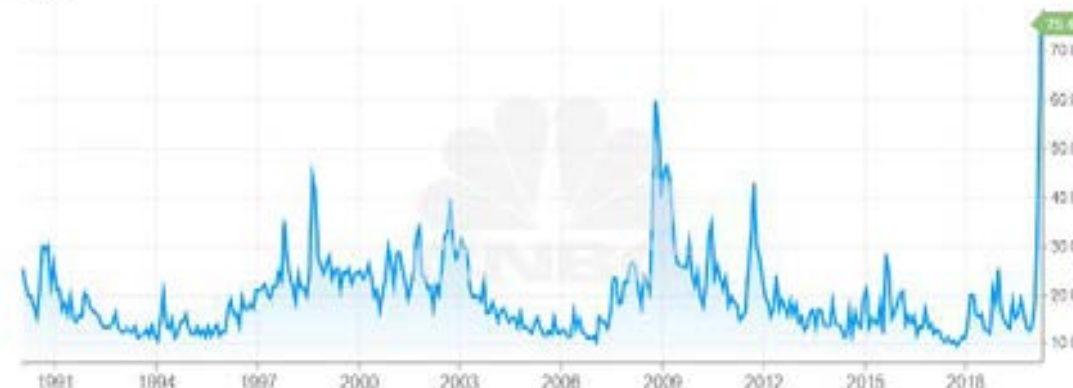
**MARKET'S "FEAR GAUGE" SURPASES LEVELS LAST SEEN DURING 2008-09 CRISIS...**

CBOE Volatility Index (.VIX:Exchange)  
USD

Last 13:24:09 PM EDT

**63.24** -12.26 (-16.24%)

ALL



CNBC

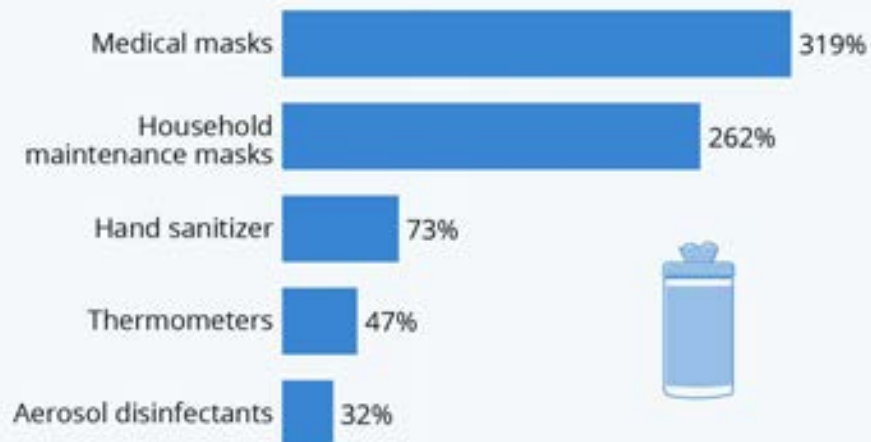
Source: CNBC, 3/13/2020

# Panic is changing consumer behavior

HOARDING OF KEY MEDICAL SUPPLIES AND FOOD IS DISRUPTING MARKET EFFICIENCY – WITH SHORTAGES AND PRICE SPIKES PERVASIVE

## Americans Are Hoarding Face Masks

Year-over-year dollar sales growth of health-related CPG items in the U.S. in the 4 weeks ended Feb. 22, 2020\*



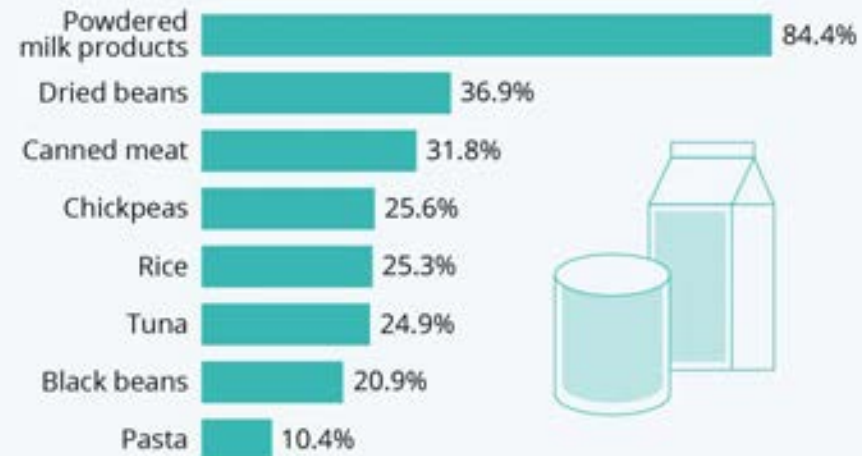
\* CPG=Consumer Packaged Goods  
Source: Nielsen Retail Measurement Services



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## Americans Stock Up On Food As COVID-19 Concerns Rise

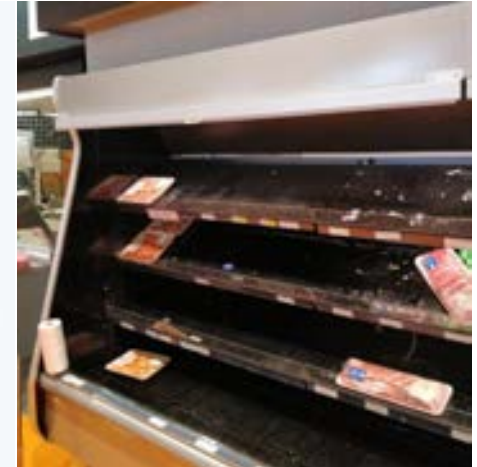
Year-over-year sales growth of non-perishable food items in the U.S. in the week ended Feb. 29, 2020



Source: Nielsen Retail Measurement Services



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SOURCE: Nathalie DeCiantis, Toronto 3/13/2020

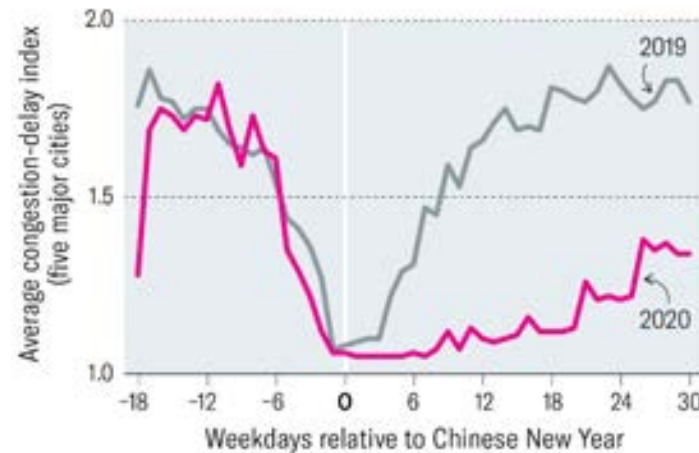
# Conditions in China are beginning to improve

## THIS PROVIDES AT LEAST ONE POSSIBLE RECOVERY MODEL

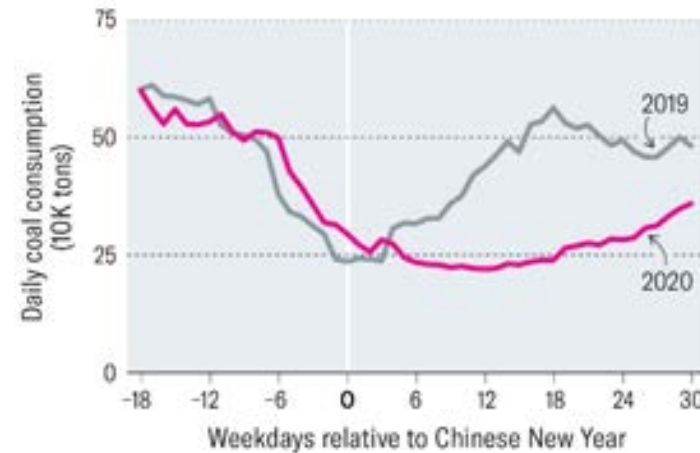
### Impact of Covid-19 in China: Emerging Signs of Recovery

China appears to be in the early stage of an economic rebound, according to data for three benchmarks.

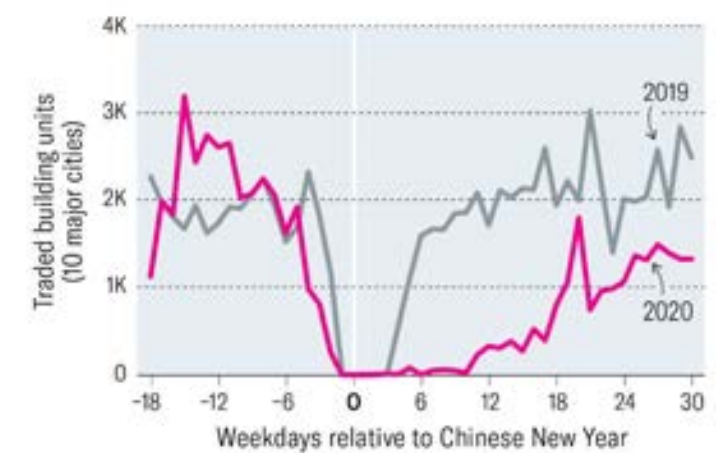
People and goods are starting to move again.



Coal consumption is increasing, which indicates that production is resuming.



Property transactions are resuming, signaling that confidence isn't broken.



Note: Data re-based for weekdays excluding weekends relative to start of Chinese New Year (Feb. 5, 2019, and Jan. 25, 2020). Cities in the congestion-delay index are Beijing, Shanghai, Guangzhou, Shenzhen, and Wuhan. Daily coal consumption is the sum of averages from Jerdin Electric, Guangdong Yudean Group, Datang International Power Generation, and Huaneng Power International. Cities analyzed for building units traded are Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Nanjing, Qingdao, Suzhou, Nanchang, and Xiamen.

Source: Wind, cqcoal.com, and BCG Center for Macroeconomics

# Silver Lining: Finding Opportunities within the Crisis

## SOME INDUSTRIES HAVE SEEN STRONG GROWTH DURING THE PANDEMIC...

### Medical services & devices

- Online medical care
- medical supplies,
- pharmaceuticals,
- insurance

### E-commerce & online entertainment

- Online shopping surges as supermarket shelves empty
- Online games and live webcast surging in popularity
- Delivery and ride-share services adapting (e.g. touchless delivery)

### Online Education

- 730,000 of the 900,000 students in Wuhan learning online through Tencent Classroom
- 300+ million students are at home as schools around the world have been closed to limit community transmission – with online portals flourishing

### Telecommuting

- DingTalk (Alibaba) installed 1.1 billion times since outbreak
- Zoom (ZM) shares up 50% YTD on increase virtual meetings
- Even “ZOOM” shares (ZOOM) have more than doubled even though they have nothing to do with the video conferencing company

# Additional Resources

VISIT THE LGA COVID-19 PORTAL VIA [THIS LINK](#) OR CLICK ON ANY OF THE EXTERNAL RESOURCES BELOW

## DATA DASHBOARDS

- [World Health Organization Dashboard](#)
- [Johns Hopkins Dashboard](#)

## UPDATES AND CHECKLISTS

- [US Centers for Disease Control Situation Updates](#)
- [European Center for Disease Prevention & Control](#)
- [The European Commission: The Coronavirus Response Team](#)
- [Debevoise & Plimpton Coronavirus Resource Center](#)
- [How does quarantine actually work? \(World Economic Forum\)](#)

## POLICY AND ECONOMIC ANALYSIS

- [What Coronavirus Could Mean for the Global Economy \(BCG Henderson Institute\)](#)
- [Coronavirus: Why You Must Act Now \(Medium\)](#)
- [How do I self-quarantine? \(Marketwatch\)](#)
- [The SARS Epidemic: What Have We Learned? \(Journal of the Royal Society of Medecine\)](#)
- [How Chinese Companies Have Responded to Coronavirus \(HBR\)](#)
- [The SARS Epidemic: What Have We Learned? \(Journal of the Royal Society of Medecine\)](#)

## RESOURCES FOR FAMILIES

- [Talking to Children About COVID-19 \(Coronavirus\): A Parent Resource \(NASP\)](#)
- [At-Home Resources for Kids \(and their parents\) \(KiwiCo\)](#)

# For more information

We would love to hear about your own response to the crisis so we can aggregate and share with other enterprising families around the world as we all brace for a few tough months ahead.

We would be happy to schedule a phone or video call to discuss.

**Feel free to contact Devin DeCiantis, our LGA Risk Practice leader at [deciantis@lgassoc.com](mailto:deciantis@lgassoc.com) or +1.203.497.8855**

Additional resources on Crisis and Risk Management for Enterprising Families and information about the rest of our services and global advisory team **available at [www.lgassoc.com](http://www.lgassoc.com)**

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