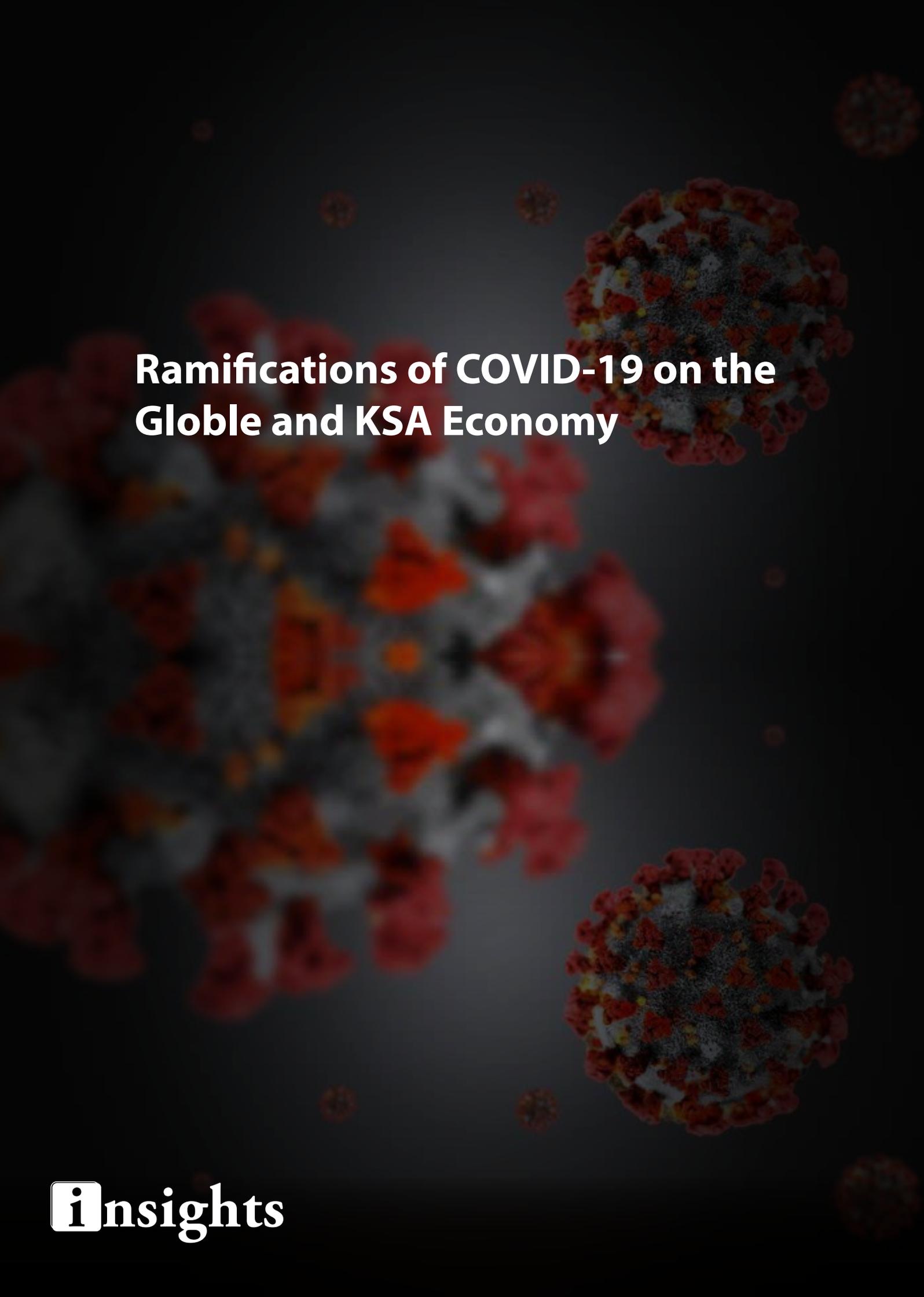


Strategic Priority Amid COVID-19 Global Crisis

Working Capital Management During Economic Lockdown

The pandemic noticeably affecting the organizations, disrupting the normal operations in this new evolving world.

Only bailout for organizations is Cash Flow Optimization Strategies

The background of the slide features several 3D models of COVID-19 virus particles. These particles are spherical with a grey, textured core and a surface covered in red and orange protrusions, representing the viral envelope and spike proteins. The particles are scattered across the dark grey background, with some appearing larger and more detailed than others.

Ramifications of COVID-19 on the Globe and KSA Economy

Global Perspective of COVID-19 Implication

- The world is currently experiencing the global recession in 2020 as nations' economic activity facing shutdown in order to contain the spread of COVID-19.
- COVID-19 is exceptional as it has disrupted both the demand and supply, having severe impact on the domestic and international markets.
- IMF analysis of federal budget's assumptions and breakeven prices suggests that the continued downward pressure on prices will strain producer fiscal budgets.
- Containment measures like social distancing policies, quarantines, travel bans and closure of public spaces results in declining demand pertaining to loss of consumer confidence, tourism, education and other service sector.
- Coupled with declining demand, supply side impact also aggravating the situation due to factory closures, cutback in service provisions and supply chain disruption.
- Changing consumer behaviors along with the restrictive governmental measures and new world lifestyle certainly effect the consumption. Hence, affecting the manufacturing, trading and services sectors in general.





KSA economy hit by oil price war and COVID 19

- Falling oil prices accompanied by Saudi Arabia cutting of its crude production and issues with Russia for not complying with OPEC's proposed production cuts, hints the declining profits to KSA government from its oil revenue.
- Hard for the government to ensure liquidity and flow of funds to gear the slowing economy in times to come.
- Q1 GDP growth already experienced a noteworthy impact from COVID-19. Q2 and Q3 will observe further deterioration in GDP from falling consumption, business investment, and exports.
- COVID-19 demonstrating severe challenges to the manufacturing and services sector.
- Due to lower consumption and elevated uncertainty, lower inventory accumulation arising pertaining to combined effect of supply shock and weakened demand.

Impact of COVID-19 on KSA - Sector wise

Impact of COVID-19 on KSA - Sector wise

Businesses must take immediate actions in order to assess the organizational exposure and positioning them to support key stakeholders such as employees, suppliers and customers, appropriately.

Energy

Oil and gas are severe hit commodities as air travel halted, assembly plants stopped production and crude oil prices dropped intensely following disagreement of KSA and Russia.



Air Tourism

Global restrictions on air travels in almost every country is resulting in the airlines and hotels experiencing sharp decline in demand for their services.

Airlines have grounded all of their commercial fleets and some also have laid off their employees for the cost cutting and organization sustainability purposes.

Entertainment

Entertainment and hospitality sectors are severely impacted as result of social distancing policy.

Cinemas, restaurants and the events are totally closed pertaining to the lockdown.



Impact of COVID-19 on KSA - Sector wise

Healthcare

As a result of closure of medical supplies and equipment plants, items such as face masks and hand sanitizers are becoming increasingly scarce.

Moreover, hoarding of medical drugs and infection protection causing the pharmaceutical stores to ration their supply for dealing emergencies.



Consumables

Supermarkets/stores among the booming businesses since COVID-19 outbreak

The quarantine has caused surge in sales of such businesses due to the panic buying by the consumers.

Manufacturing

Decreasing consumer confidence as a result of job losses and reduced incomes, consumers only using disposable income to buy necessary non-durable consumer goods.

Decline in the demand for durable goods such as consumer electronic and automobiles affecting the production/manufacturing.



Why working capital management matters & How do we help?



How do we help the business in distress?

Working Capital Management is an important tool to managing both foreseen and unforeseen events like natural calamities, economic crises, and pandemics that disrupt the normal operations of the organizations. Proper management of working capital is need of the hour and is essential to a company's financial stability and operational performance as effective Working Capital Management can develop the right balance amongst growth, profitability, and liquidity.

Large corporates, private equity, start ups/growing organizations, and distressed companies facing liquidity problems during the **COVID-19** crises can benefit from optimizing working capital management. Companies facing the following issues can maximize their existing capacity of working capital by implementing the following corresponding mitigation strategies:

- ❑ Shortages of raw materials and mounting up of WIP/finished goods inventories due to supply chain disruption: **Revisiting the inventory forecast in line with the supply and demand predictions accordingly to overcome this problem.**
- ❑ High proportion of receivables indicating risks of write-off: **Chase up the late payments from cash strapped customers and work should be done on improvement in billing mechanism.**
- ❑ Continual delay of payments to suppliers, which in turn masks the overall net working capital position: **Renegotiate supplier payment terms.**
- ❑ Excessive reliance on external financing, resulting in a high gearing ratio and debt repayments that be difficult in liquidity crisis: **Aggressive cash preservation be suitable in such circumstances.**





Why working capital management matters?

Why working capital management matters?

Cyclical nature of macro-economic variables and uncertainty in markets puts unprecedented pressure on companies and their supply chains. With investors and rating agencies feeling increasingly exposed, it has become important to focus on maximizing liquidity, free cash flow and solvency in the short term. Based on our engagements with clients to improve their working capital, company's executives/stakeholders are currently likely to face the following issues:

- COVID-19 has impaired the demand in almost every sector of economy so therefore, reduction in sales will directly bring liquidity issues to the company.
- Significant bad debt write-offs and high levels of overdue receivables will be observed due to the customers inability to pay in unusual times.
- Due to supply chain disruptions, the raw material (inventories) levels will diminish in coming days as deliveries will be late resulting in shut down of production facilities.
- Work in progress (inventories) will increase due to reduction in consumer demand and ensuing sales.
- Sub-optimal controls concerning management of payment terms to suppliers will arise.
- Lack of knowledge regarding the measures/ratios to ascertain the working capital performance across the organization will adversely affect the decision making capabilities of the company.
- Absence of cash awareness will be observed across departments, with no stringent cash centric culture.

Guide to Maintaining Working Capital Management Resilience

Insights proposing the working capital solutions by sustaining the day-to-day operations of businesses through:

- Managing Inventories
- Managing Accounts Payable
- Managing Accounts Receivable

Sustaining daily operations by managing Inventories

Immediate Strategy

- The uncertain times require **real time monitoring and inventory forecasts** to be in line with the sales demand, supplier availability and supply chain disruptions.
- **Economic Order Quantity (EOQ)** could be a way out for efficient inventory management. Minimum inventory levels to be maintained as to prevent the business from suffering the obsolescence of inventory and at the same time, running out of stock when the demand for the products will rise in unprecedented times.
- **Buffer stocks** to be maintained considering the business' supply chain risk exposure i.e. time delays, quality or service issues.
- Streamline the production with the sales demand to **prevent the piling up of WIP/finished goods**.
- **Consignment based stock** could be way forward.





Sustaining daily operations by Managing Accounts Receivables

Immediate Strategy

- Only **early cash conversion** can prevent business from cash disruption in current circumstances. Therefore, invoices need to be raised at their earliest.
- **Reviewing the contracts with the key customers** in order to understand liability in event of the supply shortage.
- Reviewing company-wide sales and tactical business planning across all business functions and **revisit the extend of leniency in recovery of receivable from customers** to map the cash requirements and liquidity of company.
- Monitor cash collection on daily basis by **prioritizing customers with larger debtor balances**.
- **Early settlement discount** could be offered as discount offered will be less than the opportunity cost of fund that be utilized in case of non recovery of receivable to sustain the normal operations.

Things to Avoid

- In current situation, avoid extending the credit terms with the customers with large standing debtors or poor payment history

Emerging Requirements in Contemporary World

- **Factoring** could be a way forward strategy in which a business sells its accounts receivable (i.e. invoices) to a third party (called a factor) at a discount, given the financial institutions in KSA support this service to corporates. This will be highly crucial to meet present cash needs, given the customers inability to pay in the unprecedented situation nowadays.

Sustaining daily operations by Managing Accounts Payables

Immediate Strategy

- For effective management of trade payables, **revisit the supplier contract and obtain satisfactory credit terms (extending credit)** to maintain good supplier relationships in the changing dynamics of the business.
- Ensure the **supplier payment terms** are in line with the industry practices these days.
- Schedule **the priority payments** to the supplier with long standing amounts based on the **ageing analysis**.
- Check for the early payment benefits if offered by suppliers in **dynamic discounting**.

Things to Avoid

- Avoid Early payment to the suppliers if the opportunity cost of getting finance is more than benefits gained from obtaining the early payment discount.

Emerging Requirements in Contemporary World

- Establish a team to focus on supply chain assessment - Conducting the trade-offs according to needs, cost, service, and risk scenario analysis of all viable options in case the supply chain disruptions hamper the delivery of services and products.





KSA Government addressing the financial impact of COVID-19

Take Advantage of Government Initiatives

Take Advantage of Government Initiatives

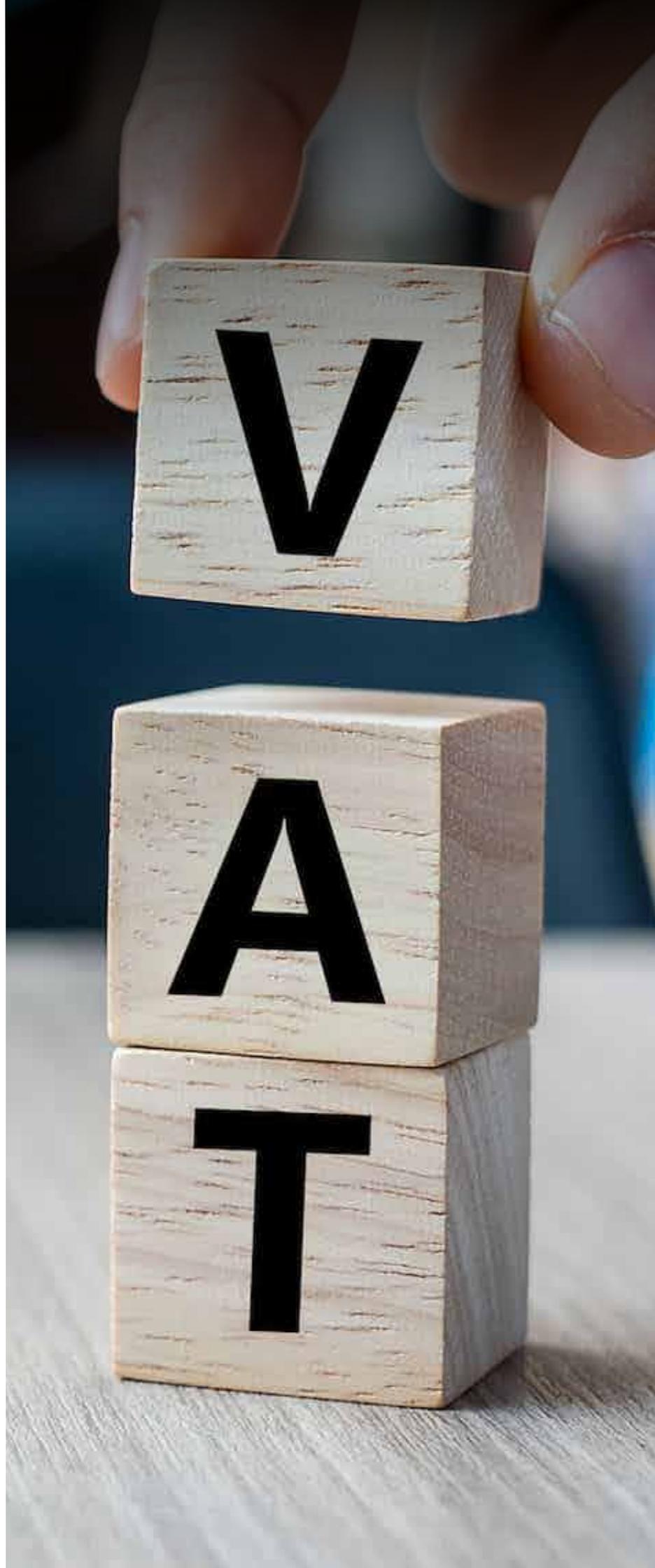
The Kingdom of Saudi Arabia (KSA) through its Ministry of Finance (MoF) has announced several measures in order to encounter financial and economic impact of **COVID-19** on the government budget. The changes are made to compensate the unprecedented financial burden due to declining oil prices in the international market.

Increase in VAT Rate

- an increase in the VAT rate from 5% to 15%. New rates will be applicable with effect from July 1, 2020.

Postponement of Tax returns & Exemptions

- Postponement of Tax returns filing, which includes zakat, income tax, withholding tax, excise tax and value added tax. VAT returns and payments extended for three months.
- KSA - Temporary Exemption of Penalties April, 2020: MoF offered exemption against some tax related penalties. General Authority of Zakat and Tax (GAZT) announced a voluntary disclosure initiative on 2 April 2020 for income tax, withholding tax, value added tax, and excise tax. GAZT will exempt any penalties on the amount owed from the due date on non-submitted or amended declarations during the initiative period.





Take Advantage of Government Initiatives

Bailout Package for Private Sector

- The Government prepared urgent initiatives over SAR 120 billion to support the private sector and economic activities most affected by the virus.
- King Salman ordered the Government to afford 60% of private sector employees for the duration of three months amounting up to SAR 9 billion. SAMA funded Private Sector Financing Support Program with a total value of about SAR 50 billion.

Assistance to Foreign Workers

- Enabling employers to refund the fees of issued work visas that were not used during the ban, or extend them for a period of three months without charge.
- Enabling employers to extend exit and re-entry visas for a period of three months without charge along with many other procedures.

Decrease in Interest Rate

- On 16 March, SAMA cut the Repo rates by 75 basis points for preserving monetary stability given evolving global developments.



Key considerations for addressing the financial impact of COVID-19 on

- Manufacturing Industry
- Service Industry
- Trading Industry

Key considerations for addressing the financial impact of COVID-19 on Manufacturing, Service and Trading Industry

Manufacturing

- Petroleum, Chemicals , Metal Manufacturing and Plastics.
- FMCG (Fast Moving Consumer Goods).
- Real Estate Development.
- Pharmaceutical.
- Textiles, Clothing, Leather and Footwear (TCLF) industries.

- Optimizing EOQ for raw materials.
- Make adjusted production forecasts with underlying crisis management objective as well.
- Carry out periodical review of production flow, manufacturing process, manufacturing cycle, and technology in use to effect savings in time, cost, and fuel consumption.
- Removing bottlenecks in the final inspection, testing, and assembly area.
- Reviewing preventive maintenance activities.
- Planning for reconditioning/ retrofitting, calibration, and repair.
- Regular reconciliations of stock through spot check and cycle counting.
- Diversification into areas where the company has the capability and the experience related to the existing product range.

Service

- Transportation services,
- Information services,
- Professional services
- Health care services,
- Entertainment
- Hospitality

- Ascertaining financial implications involved in maintaining working capital at a particular level.
- Ensuring proper accounting and reporting in relation to working capital.
- Identify and realise cash and cost benefits across the end-to-end value chain.
- Optimise operational processes that underpin the working capital cycle.
- Implement digital working capital solutions and data analytics.
- Achieve rapid cash conservation in crisis situations.
- Close monitoring and identification of customer credit worthiness.
- Create a cash culture and upskilled organisation through our working capital support.

Trading

- Retail (establishments comprising of both retail and wholesale units)

- Optimizing EOQ for products.
- Introducing a second check before placing a purchase order to control rejections and higher inventory build-up.
- Ensuring faster circulation/ disposal of slow moving and non-moving inventory.
- Improving codification and classification systems to ensure effective monitoring.
- Creating a mix of suppliers so that the average number of credit days may be maximized.
- Roll-out trade and supply chain financing solutions.

Key Considerations during pandemic

- Achieving the adjusted-budgeted level of working capital
- Reducing the cost of financing working capital
- Becoming cost conscious in using working capital assets
- Strengthening the database on working capital management
- Degree of short-term solvency required
- Existing working capital gap and future cash projections
- Quantum of short-term credit availed
- Intensifying productivity efforts in the organization
- Making management information system effective



Why Insights emphasize optimizing Working Capital Management Strategy?

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Smooth Operating Cycle

- One of the main objectives of Working Capital Management is to ensure a smooth operating cycle i.e. the cycle should never stop as a consequence of illiquidity whether it is for buying raw materials, salaries disbursement, payment of taxes, etc.
- In current circumstances, we need to ascertain the impact in all the areas whether revenue generation or supply chain disruptions having possible ramifications.

Lowest Working Capital

- While targeting the smooth operating cycle, it is important to keep the working capital requirement at the minimum. This could be achieved by enhancing the payable days from agreeing favorable credit terms with suppliers, rapid receivables recovery from customers and faster production and sales cycle along with effective inventory management to maintain moderate inventory levels.
- Forecasting to deliver service is a key to current situation to sustain the working capital fluctuations appropriately.





Why Insights emphasize optimizing Working Capital Management Strategy?

Minimize Opportunity Cost

- The Management should negotiate well with the financial institutions, maintain optimal capital structure, choose the right mode of finance, etc. to reduce the reliance on external funding, hence, minimizing the opportunity cost.
- Project ranks should be established, prioritizing the unavoidable cost and deferring the rest, and Major expenditure like capex should be well planned and carefully executed.

Maximum Return on Investment

- Businesses often have a liquidity crisis at one point in time and excess liquidity at another. During the time of excess liquidity, the management should have sorted the good short-term investment avenues to take benefits of the surplus.
- The visibility and control of the management on the governance of cash decisions is extremely crucial during/post COVID-19.

How Insights contributes to its clients for greater purpose?

We have a dedicated team specialized in identification and in-depth analysis of the factors affecting the working capital requirements of our clients. We formulate and implement customized strategies with our clients to release cash tied up in working capital and generate sustainable positive returns. We can provide assistance in any stage of the project to help mitigate short, medium and long term cash flow funds. Insights' value adding role to your organization:

Indepth Analysis

- Perform a high level assessment of working capital performance and benchmark performance against other companies in the industry.
- Transactional data analysis to understand the impact of the working capital drivers and quantify the potential benefits.
- Conduct stakeholder interviews and workshops to understand the primary constraints and subsequent business implications.

Implementation

- Assist with the roll-out of activities to improve working capital performance. Ensure effectiveness of reporting activities through efficient dashboards and in depth analysis at strategic and operational level.
- Establishment of local Project Management Office (PMO) to drive change throughout the organization.





Why Insights emphasize optimizing Working Capital Management Strategy?

Strategies and Blueprints Development

- Define tailored strategies to gain sustainable benefits in a timely manner.
- Together with the client, create implementation blueprints for each area of opportunity including a detailed business case, where necessary.
- Triggering quick wins and achieving cost and compliance benefits.
- Develop key metrics at strategic and operational levels to ascertain the success of the program.
- Initiate working capital best practice trainings for stakeholders.

Sustainability

- Embed the changes through a programme of training, coaching, and communications to enable continuous improvement.
- Monitor progress and contribute to ongoing working capital related steering meetings.

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