

A nighttime photograph of a city skyline, likely New York City, viewed from an elevated position on a bridge. The bridge's steel truss structure is illuminated with warm yellow lights, creating a strong contrast with the dark blue and black tones of the night sky. In the background, numerous skyscrapers are lit up, their windows glowing with light. The overall scene conveys a sense of urban activity and infrastructure.

Financial Challenges and opportunities in the COVID era

October 28th, 2020



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Agenda

- COVID – Global economic effect
- Financial Challenges
- Opportunities



COVID – Global Economic Effect



- **Dec 31, 2019** - World Health Organization (WHO) says mysterious pneumonia is sickening dozens in China
- **Jan 11, 2020** – China Reports the first deaths due to the novel coronavirus
- **Jan 21, 2020** – First confirmed case in the United States
- **Jan 23, 2020** – China imposes strict lockdown in Wuhan
- **Jan 30, 2020** – WHO declares global health emergency *
- **March 11, 2020** – WHO declares COVID-19 a Global Pandemic *

* Source: <https://abcnews.go.com/Health/timeline-coronavirus-started/story?id=69435165>

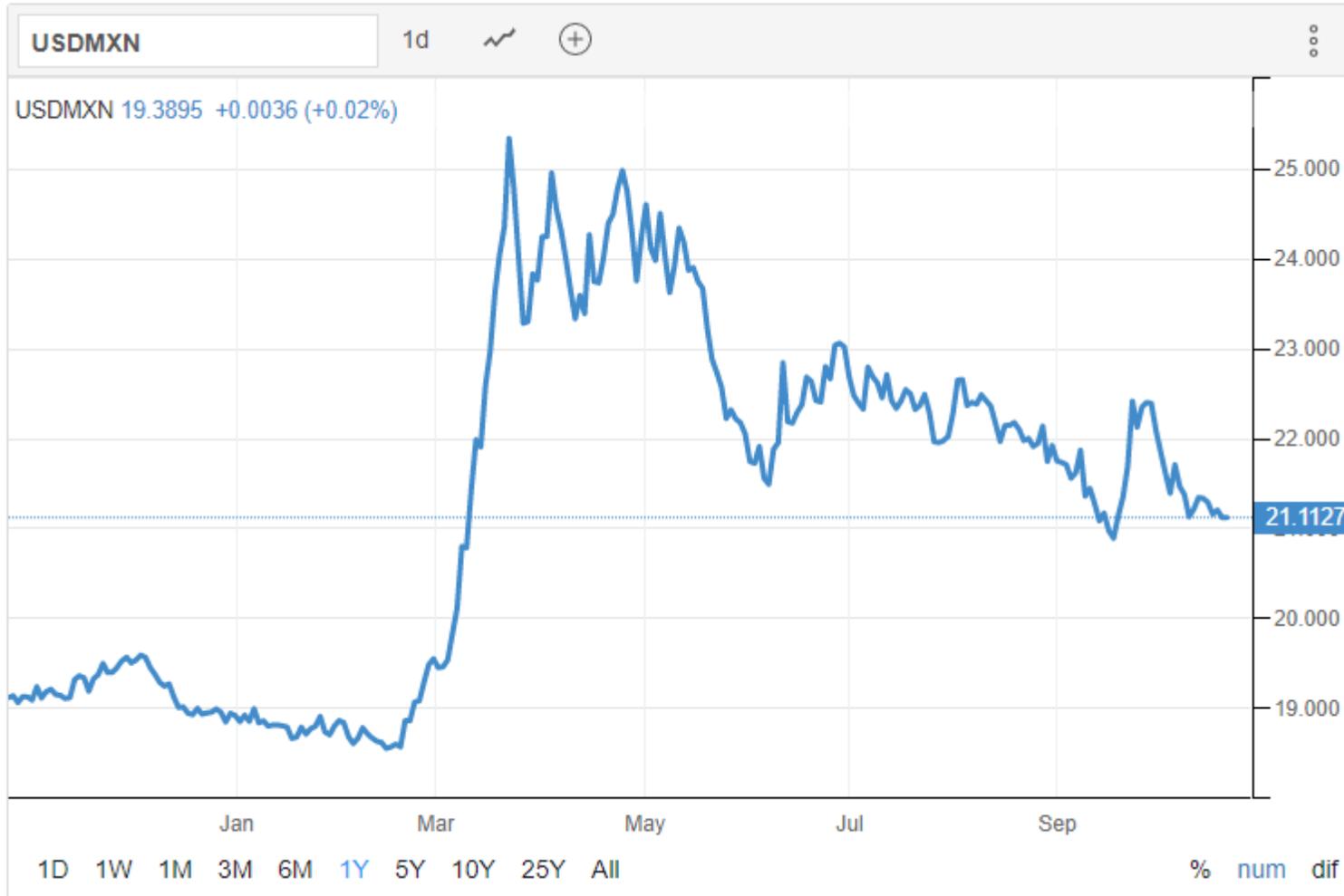


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Global Economic Effect – Exchange Rate



Highest: **25.1185 (March 26th)**

Lowest: **18.5712 (Feb 18th)**

Average: **21.7684**

20.9818 (Oct 28th)



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Global Economic Effect - GDP

According to the World Bank's forecasts, the global economy will contract by **5.2% this year.**

Since 1870, the global economy has experienced **14 global recessions.**

Current projections imply that COVID-19 will be the **4th deepest** in this period, and the most severe since the end of World War II. It is expected to involve per capita output contractions in an unprecedentedly high share of countries.





International Monetary Fund – October 2020 Report

Latest World Economic Outlook Growth Projections

(real GDP, annual percent change)	PROJECTIONS		
	2019	2020	2021
World Output	2.8	-4.4	5.2
Advanced Economies	1.7	-5.8	3.9
United States	2.2	-4.3	3.1
Euro Area	1.3	-8.3	5.2
Germany	0.6	-6.0	4.2
France	1.5	-9.8	6.0
Italy	0.3	-10.6	5.2
Spain	2.0	-12.8	7.2
Japan	0.7	-5.3	2.3
United Kingdom	1.5	-9.8	5.9
Canada	1.7	-7.1	5.2
Other Advanced Economies	1.7	-3.8	3.6

Latest World Economic Outlook Growth Projections

(real GDP, annual percent change)	PROJECTIONS		
	2019	2020	2021
Emerging Markets and Developing Economies	3.7	-3.3	6.0
Emerging and Developing Asia	5.5	-1.7	8.0
China	6.1	1.9	8.2
India	4.2	-10.3	8.8
ASEAN-5	4.9	-3.4	6.2
Emerging and Developing Europe	2.1	-4.6	3.9
Russia	1.3	-4.1	2.8
Latin America and the Caribbean	0.0	-8.1	3.6
Brazil	1.1	-5.8	2.8
Mexico	-0.3	-9.0	3.5
Middle East and Central Asia	1.4	-4.1	3.0
Saudi Arabia	0.3	-5.4	3.1
Sub-Saharan Africa	3.2	-3.0	3.1
Nigeria	2.2	-4.3	1.7
South Africa	0.2	-8.0	3.0
Low-Income Developing Countries	5.3	-1.2	4.9



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Global Economic Effect - Unemployment

Unemployment is projected to reach nearly **10% in OECD** countries by the end of 2020, up from **5.3% at the end of 2019**, and to go as high as **12% should a second pandemic wave hit.**

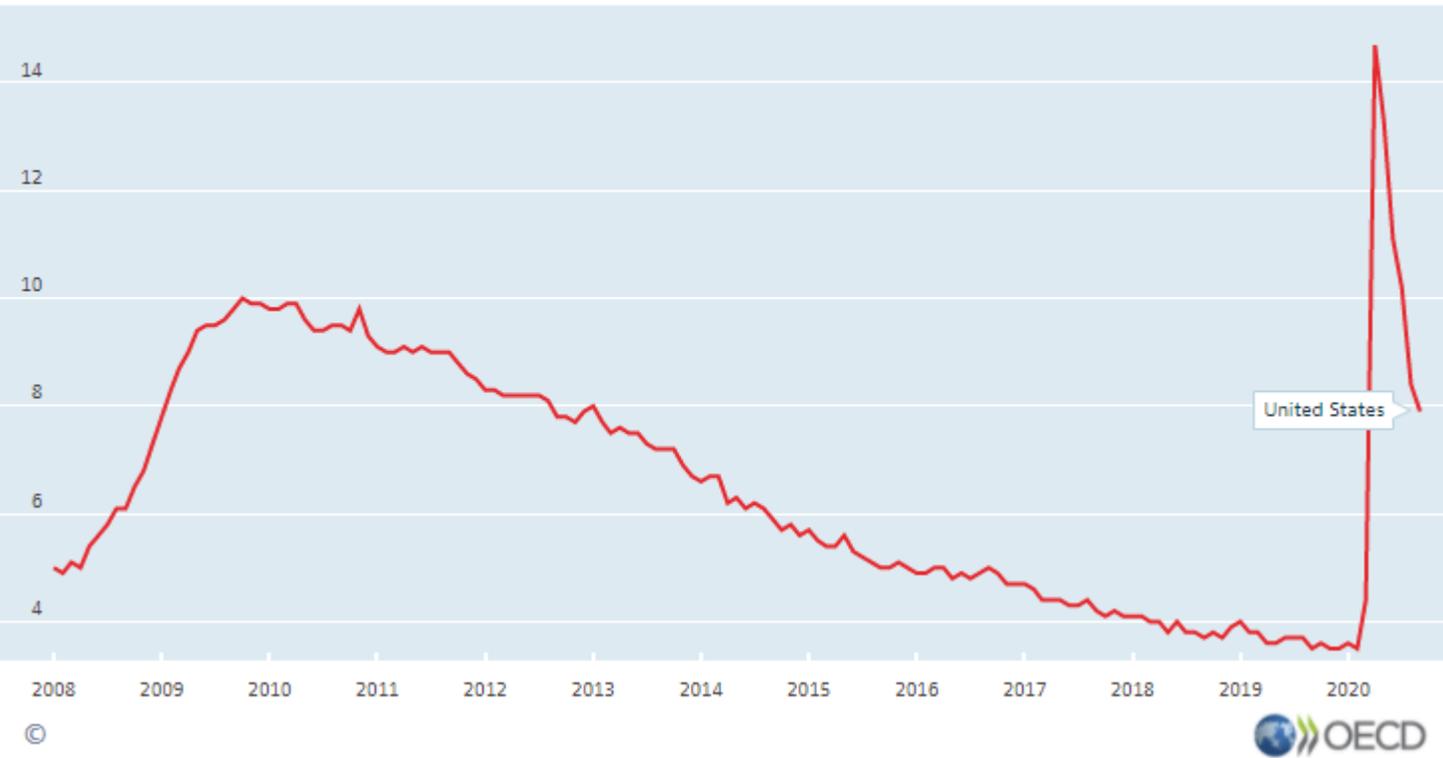
Job recovery is not expected **until after 2021.**





UNITED STATES

Unemployment rate Total, % of labour force, Jan 2008 – Sep 2020



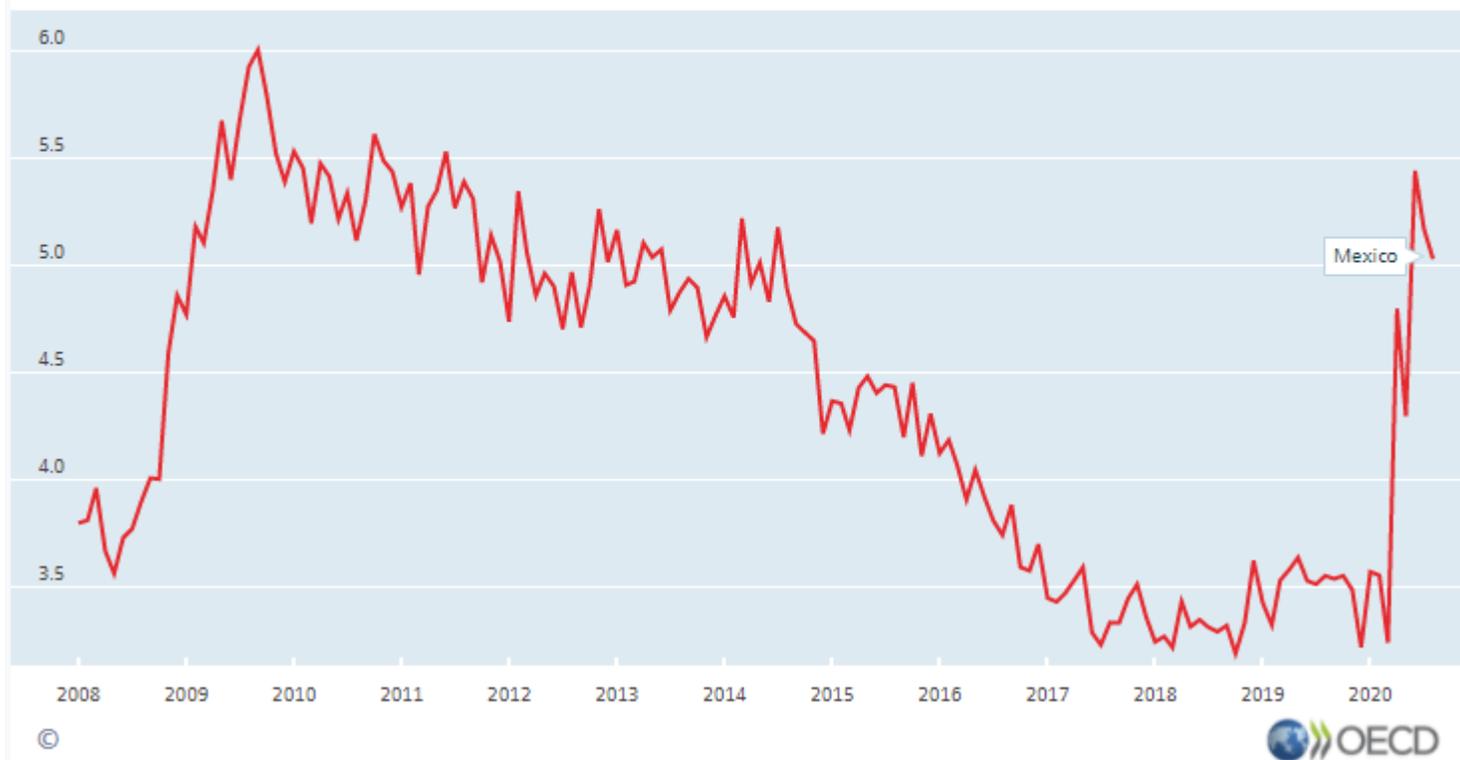
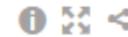
Unemployment rate in US jumped from a 50-year low of **3.5%** in February 2020 to **14.7% in April 2020**, the highest level of the series.

September was **7.9%**



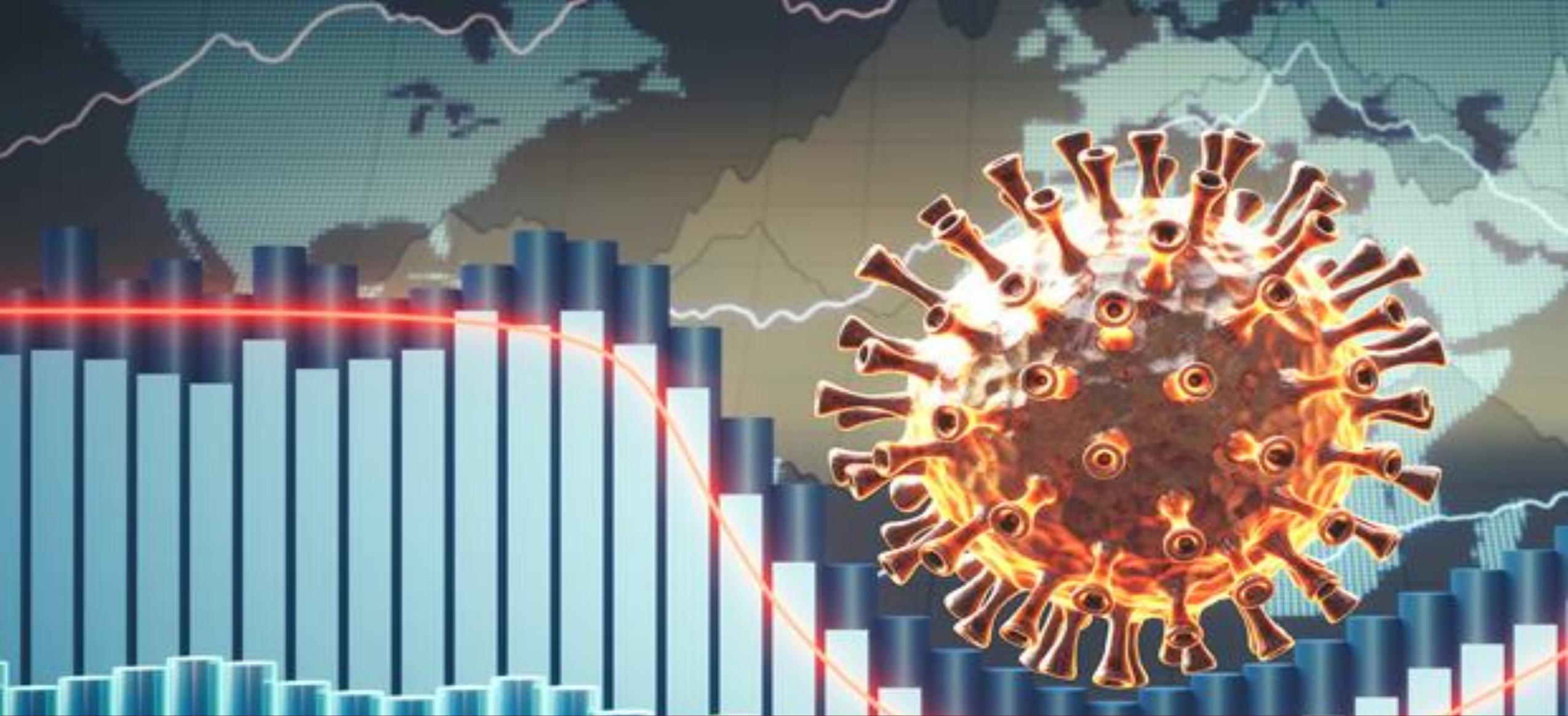
MEXICO

Unemployment rate Total, % of labour force, Jan 2008 – Aug 2020



Highest was **5.4% in July 2020**

August was **5.2%**



Financial Challenges



To Survive

The main challenge in these uncertain times, **is the sustainability of the business itself.**

Companies were forced to stop activities, and there was a breakdown in the supply chain for many industries deriving in an unprecedented closing of entities.

- **Considering the nature of the business, the company must determine how to continue operating to the extent of its possibilities.**



To Survive

Companies had to adapt and implement hygiene measures and obtain permits* so the Government would allow them to continue operating.

- Antibacterial Gel
- K95 Mask
- Gloves
- Sanitizing Rugs
- Temperature Control
- Minimum Headcount
- Social distancing

* Depends on each country or even state or local regulations.





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Liquidity

Identify the **minimum amount** needed to stay afloat and surpass the contingency.*

(When is it going to end)?

Reforecast trading and cash flow frequently (optimistic, bad and worst scenarios.)

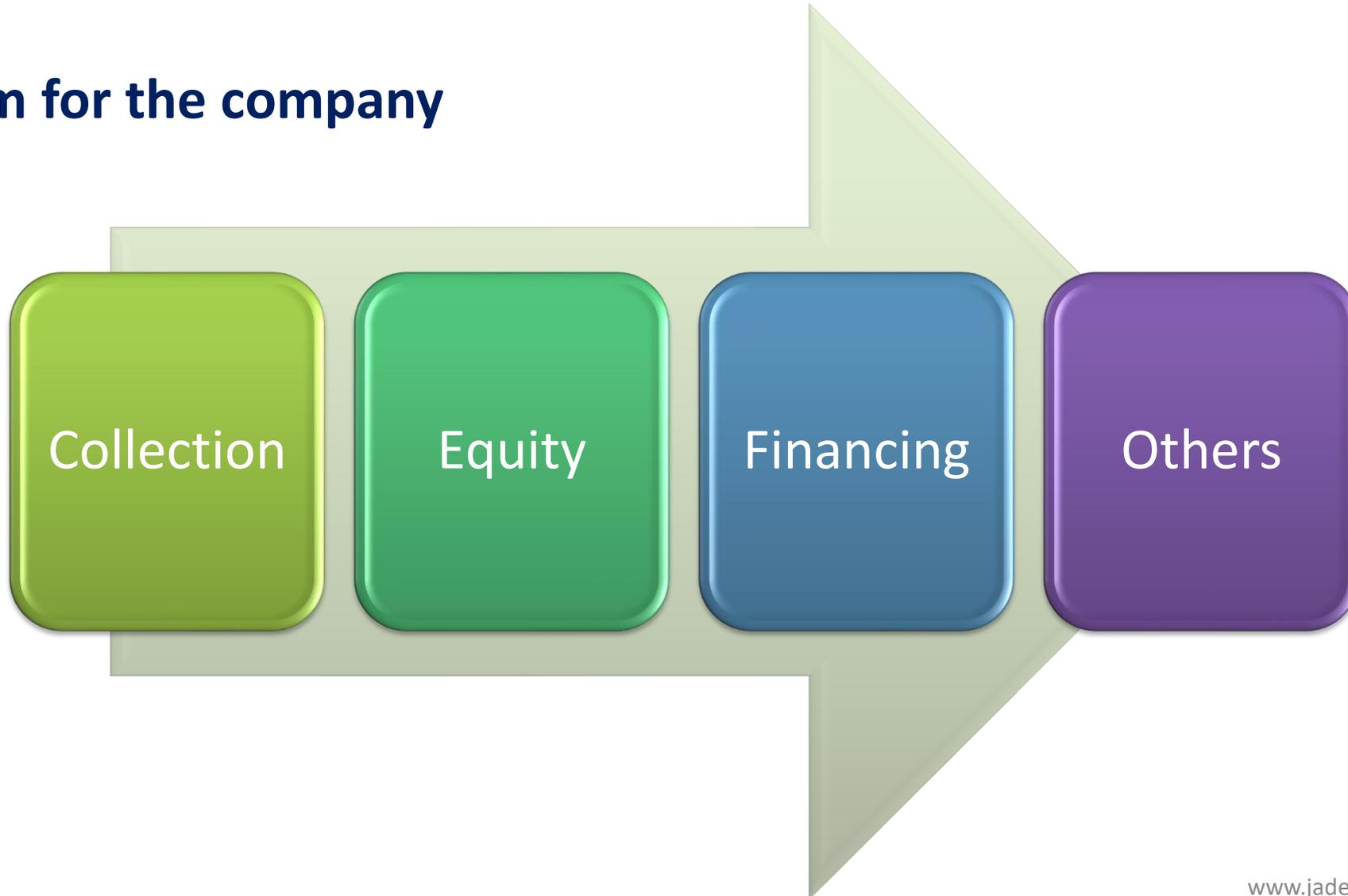


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CASH stream for the company





+ How many clients asked for better payment terms, discounts, returned goods, etc.?

+ How many clients haven't paid overdue invoices, and there is still no payment promise date?



What to do?

- **Advance Payment Discounts**
- **Partial Payments**
- **Update Agreements**



- Can shareholders invest more in the company now?
- Is the company willing to accept other shareholders/investors?

What to do?

- **Hold dividend payment**
- **Reinvest profit**



- + How leveraged is the company?
- + Can the company access another loan/line of credit?
- + Is this the only option to continue business?



What to do?

- **Contact banks and negotiate with them for refinancing loans, payment terms, etc.**
- **Fund raising, convertible notes.**



Factoring

For some companies, traditional financing could not be the best approach.

Invoicing factoring could be a solution that helps companies stabilize cashflow by unlocking the cash sitting in unpaid receivables.

Benefits: You don't have to repay, no interest charged.

Downside: Commission, Discounts, Fees.

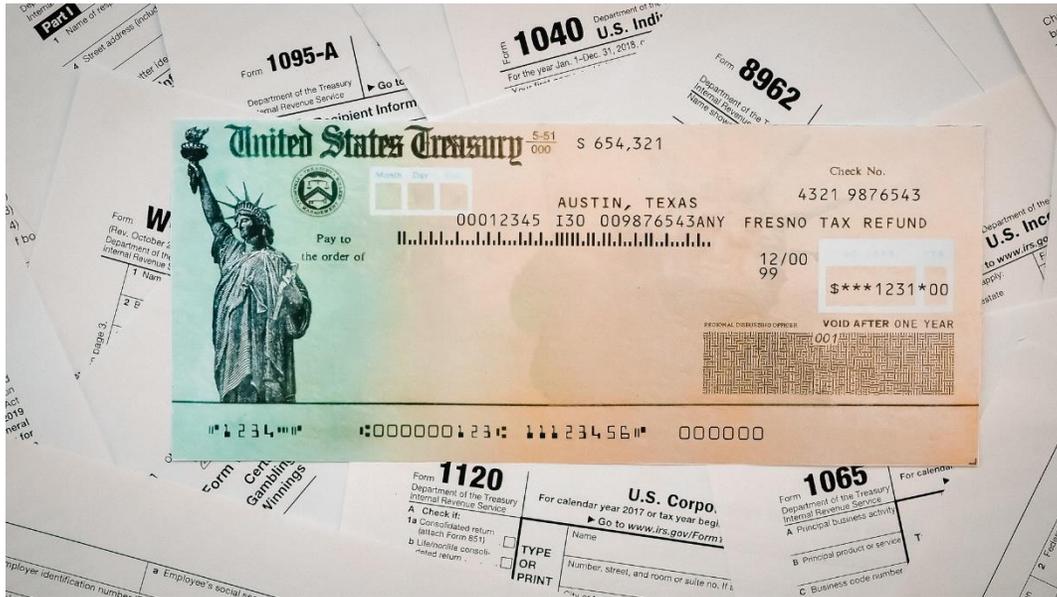


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Other



Tax Refund

Depending on the country, companies can request refunds of balances in favor of various taxes of different periods. Review with your tax team if there are balances subject to be refunded. This could represent a **positive cash flow** for the company to face other obligations.



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Others

Government Incentives

It is true that most governments issue programs to grant resources to help companies continue doing business, paying salaries, etc.

Review requirements, restrictions, amounts, etc.





Selling Fixed Assets

This could be representative if the company switches to the home office modality.

Subleased office space

Other potential source of revenue.





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Reducing Costs

Companies need to prioritize spending and look out to reduce costs to optimize their cash position.

Implement strategic cost management.

Every dollar counts.





Reducing Costs

Salaries:

- 1.- Hold hiring processes.
- 2.- Explore reducing salaries temporarily (labor laws.)
- 3.- Firing non-productive headcount (forecast severance payment.)
- 4.- No salary raise for next year.





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Reducing Costs

Rent:

- 1.- Negotiate with landlord:
 - Payment terms
 - Special discounts/considerations
- 2.- Implement Home Office.





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Reducing Costs

CAPEX:

1.- Defer or **optimize** CAPEX investments.

2.- Invest in technology and infrastructure to support remote work that could reduce other costs like rent, utilities, etc.





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Reducing Costs

Indirect Expenses:

- 1.- Travel & Entertainment.
- 2.- Office supplies.





Reducing Costs

Insource Contractor Activities:

1.- Explore taking over activities outsourced by third parties; this could represent significant savings down the road.

(e.g. Recruiting, Accounting, Training, etc.)



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Reducing Costs

Intercompany Transactions

While the global economy is suffering the effects of COVID-19, there could be some beneficial adjustments from a transfer pricing perspective at the end of the tax calendar year.





Opportunities



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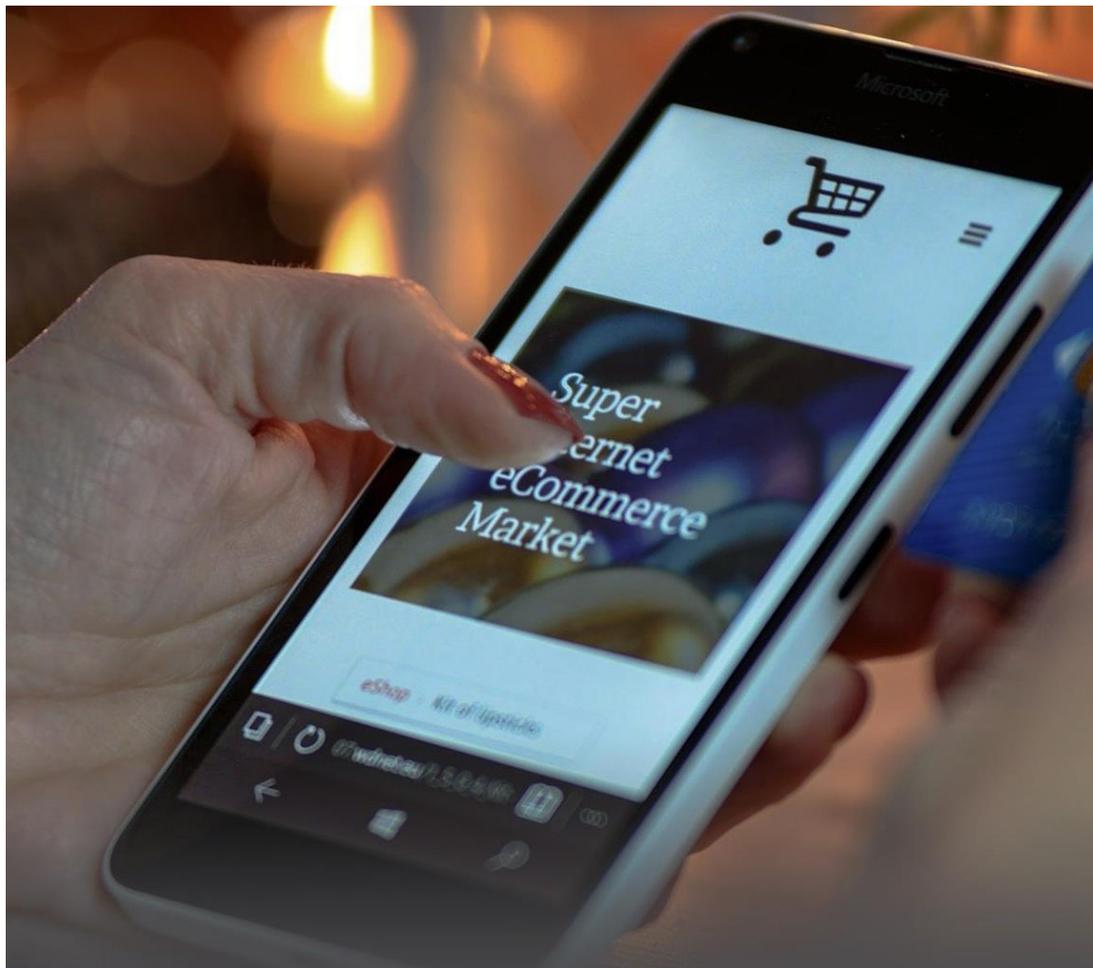
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Oportunities

The pandemic has started a revolution on how multinational entities will strategically approach their business model going forward as they deal with day-to-day operations.

This crisis has forced business to adapt how they operate, manage their work force, adhere to government mandates, and react to customer and employees needs.





E-commerce

Pandemic has forever changed online shopping behavior worldwide.

USA facts:

- 5 years of growth in 6 months (2020)
- E-commerce sales increased **30%** from Q1 to Q2 of 2020
- Industries benefited: **Retail, Grocery, Technology, Entertainment**

5 out of 10 companies in **Mexico** doubled internet sales from **Apr-June 2020** and 2 out of 10 show a growth of **300%** or more.



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Oportunities

Joint Ventures

They represent another source of financing, and it could help to develop new business models or reach new client targets.

It will take longer, but still it could be a perfect time to do research and approach potential allies.





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Opportunities



Home Office

Companies had to adapt and rapidly implement home office models. We knew it was coming but COVID speed up the process.

Companies show a positive result in terms of productivity after implementing Home Office.

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