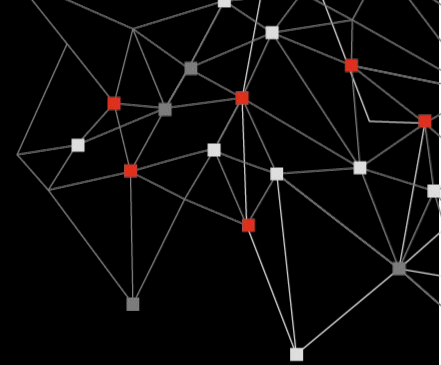


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Considering sector specific impacts of the COVID-19 outbreak

Technology



Macro trends: Technology



Malaysia's economy reported its weakest growth since 2009, with first quarter 2020 GDP coming in at 0.7% y-o-y according to Bank Negara Malaysia. Businesses bore the brunt of the COVID-19 impact, especially from the agriculture, mining and construction sectors, and also export oriented industries.

Second quarter GDP is expected to fall due to the full impact of the Movement Control Order (MCO) and Conditional MCO before it gradually recovers in the second half of 2020, supported by the sizeable fiscal and monetary policy stimulus introduced by the government.



Contracting semiconductor market worldwide

At the start of 2020, COVID-19 added further challenges to the technology industry still recovering from the protracted US-China trade war and 2019 down-cycle. IDC estimates a 6% revenue contraction in 2020 (with a 54% probability) for the worldwide semiconductor market via its scenario analysis forecast.



Emerging technologies could spur recovery locally

In Malaysia, the technology industry managed to continue production during the MCO period with a minimal workforce. It is also expected to benefit from demand recovery from China and depreciation of the Ringgit against the US dollar - this could partially offset the negative impact of the pandemic.

Despite the short-term negative outlook, emerging technologies like 5G, IoT, data centres, high-performance computing, and intelligent edge could spur investments and recovery in the technology sector.

Have you considered your tax strategy?

Businesses face various financial and operational challenges arising from the COVID-19 outbreak and the MCO implemented by the government. Tax obligations should not be neglected at this point in time as it would have various consequences. At the same time, proper management and planning would improve cash flow for companies.

- **Assess capabilities of the tax function** - are you able to meet your tax obligations with the work from home arrangement? This includes (1) filing and paying your tax liabilities in a timely manner; (2) meeting the tax incentive / facilities requirements in light of the current economic conditions; and (3) tax implications arising from the movement of people during the MCO period as well as new ways of doing business-
- **Improve cash flow from a tax perspective** - (1) review your tax estimate and revise the tax instalment scheme where appropriate to minimise cash outflow; (2) seek refund on overpayment of corporate income tax and / or goods and services tax; (3) review capex spending plan to maximise capital allowance claims.
- **Impacts arising from accounting adjustments** - various accounting adjustments might be taken up in the financial statements. This requires companies to have proper reviews of the situation to ensure documentation is in place to secure tax deductions or adopt accurate tax treatments in tax returns. This would include areas such as income recognition, provision for doubtful debts, provision for obsolete inventories, and impairment of investments.

The next few pages set out operational considerations for technology companies when reviewing your COVID-19 response.

Setting up your COVID-19 response: Technology



COVID-19 response strategy



Workforce

Protect your people and plan your workforce

Across the technology sector, much of the workforce is 'extended' - made up of a mix of permanent and part-time employees, temps and subcontractors. Managing this extended workforce is complex. Companies need to ensure there is a plan in place to protect all of their individuals in their organisations whilst future proofing their business.

- ❑ Have you completed workforce profiling to understand where work levels are likely to decrease or increase in the coming months?
- ❑ Have you identified critical projects and established a plan to remediate risks related to key roles?
- ❑ Do you have contractors working for multiple organisations and how do you manage the different policies?
- ❑ Have you considered how new government rules on sick pay impact your business, temp staff and 'gig' workers? Have you updated your policies to reflect this change?
- ❑ As the government advises avoidance of non-essential contact with others, how are you supporting those working remotely?
- ❑ Have you reviewed your HR policies (e.g. flexible working, carer / parent responsibilities, immigration, travel, etc.)?
- ❑ Do you have a system in place to monitor changing laws and regulations (e.g. travel restrictions) affecting your workforce?
- ❑ As the majority of your workforce are now working at home, what processes are in place to train, review and monitor performance?
- ❑ Have you reviewed the sales targets and compensation packages of your commission based sales teams?



Operations and supply chain

Maintain business continuity and protect your supply chain

The technology sector is one of the most impacted by global supply chain issues. Many companies, who rely on a vast global workforce to manufacture their products and components are seeing the impact of widespread closures to factories, and are now starting to feel the impact of the closures of offshore operation centres. These challenges on supply chains and operations are not only impacting their own business but also their customers, who rely on their equipment and services.

- ❑ Have you performed an operational risk assessment and considered the impact of disruptions on critical business functions in Malaysia and overseas?
- ❑ Do you have full visibility of your supply chains (down to the lower tiers)? Even minor component delays from affected countries can halt production lines.
- ❑ How are you balancing supply of goods and components between sales / manufacturing and customer warranty / faulty product replacements?
- ❑ Have you considered the impact of alternative sourcing in terms of regulatory requirements?
- ❑ Do you have any third party single points of failure?
- ❑ Have you liaised with key third parties to ensure they will be able to continue to deliver to desired service levels?
- ❑ Have you evaluated strategies for alternative sourcing, including the impact of tariffs to cost?
- ❑ Do you have a communications strategy in place for key supply chain stakeholders?



Communications strategy

Provide clarity to employees and stakeholders and enable business continuity

Organisations must ensure there is a communications plan in place for employees, as well as customers, especially for those businesses that have a global workforce. It is more important than ever to be transparent and utilise the various sources of media that is now at our disposal i.e. Facebook, Twitter. The wellbeing of employees should be at the heart of every comms plan.

- ❑ Have you created an internal and external stakeholder map for key communications (i.e. staff, customers, suppliers, regulators, etc.)?
- ❑ How are you communicating with your workforce?
- ❑ How are you keeping employees regularly informed about the latest updates and guidance?
- ❑ Are you providing reassurance and consistent messaging to all staff and showing a duty of care?
- ❑ In light of a potentially prolonged period of working from home, what wellbeing initiatives have you put in place?
- ❑ Do you have a clear means for your employees to communicate issues to you?
- ❑ Are you prepared to handle significant inflow of contact from employees and customers / clients?
- ❑ Do you have a clear communications strategy in place to protect your reputation and maintain the trust of your stakeholders?
- ❑ How are your crisis communications aligned with your organisation's culture and communications requirements?

Setting up your COVID-19 response: Technology



COVID-19 response strategy



Focus on data

Gain insight and assess your exposure to risk

The situation is very fluid and it's paramount that businesses have access to the right insight to make informed decisions. Technology businesses need to play a key role in ensuring that the data they hold for clients is secure and is trusted by businesses and consumers.

- ❑ Have you done an impact assessment to understand where affected countries / regions might impact the commercial performance of your business?
- ❑ Have you undertaken modelling to understand the impact that the global or country-specific slowdown, combined with Brexit, will have on your business?
- ❑ Are you able to access robust data insights to underpin key decisions that you need to make?
- ❑ Do you have the time and skills to digest and analyse existing data sources in new ways to enable decision making?
- ❑ Are you able to rapidly automate data capture processes for new data sources?
- ❑ Do you have up to date data (GDPR compliant) on your employees and know how to contact them, as part of a business continuity plan?
- ❑ Have you undertaken an assessment of the potential elevated risk of a cyber breach as a result of increased remote working and increased network traffic?



Customers and revenue

Balance customer care with commercial priorities

Whilst many challenges exist, there are also opportunities for businesses across the technology sector. For example, an increase in remote / home working will drive the need for IT hardware, virtual private networks (VPNs) and conferencing tools. However, it's key that with rising demand and pressures on the network, attention is still given to maintain service levels.

- ❑ Have you updated your sales and demand planning strategy, including assessing changes in customer behaviour?
- ❑ Do your policies reflect the need to protect both your customer and commercial interests (e.g. updating policies to be flexible on cancellations and changes, rationing products with insufficient stock sales to top customers)?
- ❑ Have you carried out analysis to understand high risk clients / customers where recovery of debt may be an issue?
- ❑ Have you carried out analysis to understand where you may not be able to fulfil contractual obligations with clients?
- ❑ Have you evaluated your competitive position under the new environment, identifying both risks and opportunities?
- ❑ Can you innovate and invest in available sales channels (e.g. online versus in-store)?



Head office functions

Join up efforts on a cross-functional basis to ensure business continuity and resilience

The technology sector is global and many of the largest players have locations around the world. Businesses need to ensure that they can continue functioning effectively but have explored where the risks lie for their business, and what support is available.

- ❑ Do you have a crisis response team in place to make key decisions (stop discretionary spend, look at future operating model, identify and manage key stakeholders internally and externally etc.)?
- ❑ Do you need to financially or operationally restructure your business to reduce risk and protect value?
- ❑ Have you reviewed costs and updated your working capital plans and forecasts?
- ❑ Have you reviewed your headcount and identified if there is a need to flex individuals' responsibilities according to business needs?
- ❑ Are you aware of and taking advantage of the relevant government grants and support available?
- ❑ What are your contractual obligations as a customer, and as a supplier?
- ❑ What insurance policies and access to emergency insurance do you have in relation to various potential scenarios?
- ❑ What technology infrastructure and resilience capabilities do you have? Can your IT infrastructure support extensive remote access demands?

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