Act Now: From Recovery to Growth

Maximise your options for recovery and growth

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Content

Time to bite the bullet for successful business recovery

Introduction

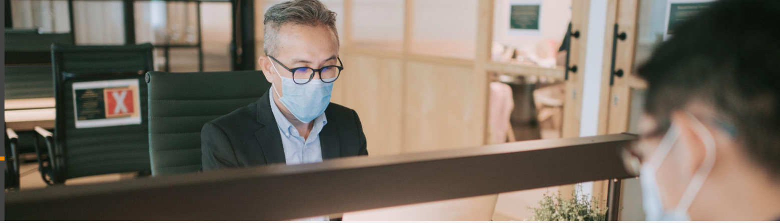
The COVID-19 pandemic has upended the rules of the game for businesses. It has served as a reality check to business owners on their resilience and agility as they confronted systemic shocks and disruptive forces.

Many have been forced to relook at the “nuts and bolts” of their businesses and reevaluate survival strategies to future-proof businesses against these risks.

This report features excerpts from a series of articles which were first published on The Edge Malaysia under the Trust in Resilience column.

The series cites findings from **PwC’s Act Now to Recover (“ANTR”) survey** conducted from 17 June to 14 July 2021.

About the survey



The ANTR survey explores how business owners in Malaysia are impacted by the pandemic, their views on recovery and how they are navigating through these challenges.

Respondents' profiles across 19 sectors

15 Global respondents	**21** SEA respondents	**51** Malaysia respondents
54 CEOs	**23** CFOs	**10** COOs

Annual turnover

33% RM 500 mil and above	**39%** RM 50 mil to RM 500 mil	**28%** Less than RM 50 mil

Industry breakdown (key industries represented)

Retail & Consumer	**20%**
Financial services	**14%**
Industrial manufacturing and services	**14%**
Real estate and construction	**10%**
Healthcare	**8%**

The following industries were also represented (non-exhaustive): technology, media and telecommunication; government and public sector, aviation; energy, utilities and resources; hospitality and leisure; logistics.

Our findings

From the survey, 49% of Malaysian business owners surveyed believe that it will take 13 to 24 months for revenue performance to return to pre-COVID-19 performance levels. A further 16% feel that 2 years or more will be required for recovery to take place.

51%

Believe their liquidity was only enough to sustain their business up to **12 months**

Comprises mostly small companies with annual turnover of less than RM 250 mil

60%

Are either extremely or somewhat conservative on projecting their financial performance over the next 12 months

Amidst the subdued economy, preserving liquidity and effective working capital management are paramount to business survival. While most countries have achieved a tentative balance in their pandemic containment and economy-generating initiatives, an unexpected turn of events may give rise to further supply chain disruptions due to more aggressive cost management measures.

As part of their journey on recovery and growth, business owners may also be looking at additional costs from new investments or may experience increased stakeholder scrutiny. Businesses will need to take careful and practical steps to mitigate their exposure to risks while maximising options for greater resilience.

Businesses share their challenges

Below are some of the common operational and cash flow challenges business have reported facing in the last 12 months and anticipate to experience in the next 12 months.

Operational Challenges		Cash Flow Challenges	
51% Declining margins	**49%** Reduced demand	**39%** Reduced inventory turnover	**22%** Inability to fund CAPEX
49% Supply chain disruption	**45%** Increased costs	**38%** Material variances (forecast & actual cash balances)	**38%** Need to stretch creditor terms

>60% of businesses have not decided to appoint an in-house or external turnaround specialists to devise a turnaround strategy or plan

Key Considerations

Three key things to note in order for recovery to happen:

- Be clear on your current position
- Recognise where you want to progress
- Identify the right tools and resources for progression

It is time for businesses to bite the bullet by taking active mitigation strategies coupled with tools and information that support agile decision-making.

Giving operations an edge

With the resumption of global trade and the Regional Comprehensive Economic Partnership (RCEP) recently coming into force, it's evident that Malaysian businesses are still looking for answers to their supply chain woes.

The COVID-19 crisis has inevitably revealed weaknesses in supply chain resilience. Supply chain bottlenecks continue to persist, and labour shortages and security risks show no signs of abating.
For instance, the recent potato shortage faced by a popular fast food chain in multiple locations regionally prompted the company to limit or halt the sales of french fries in their outlets.

In the Malaysian automotive industry, semiconductor chip production bottlenecks have made it difficult for manufacturers to produce sufficient cars to meet market demand. In other industries, profitability pressures and downward revenue are forcing businesses to re-evaluate their survival plan and respond to changing norms in unprecedented ways.

49% of respondents* have both experienced and anticipate facing a continued supply chain disruption in the next 12 months

*The majority of whom are from the retail and consumer, financial services and industrial manufacturing sectors.

This requires a bold response for businesses to thrive. Business professionals will need to rapidly rethink their cost base, reinvent business models and revamp their value chain to recover and stay competitive.

Many Malaysian businesses have felt a negative impact on their operations, workforce and financial positions, and the reality is that there is no single route to success.
What that path may look like will be unique to each organisation.

A case study: A Malaysian retail pharmacy with a strong brand name and presence in Kuala Lumpur was making losses despite an increase in revenue. The introduction of new stores contributed to further EBITDA deterioration.

A detailed 1-year transformation plan was designed with clear outcomes to drive 55+ initiatives to enable end-to-end value chain improvement. The organisational structure, marketing, warehouse and store operations were redesigned and data analytics was deployed to generate actionable insights. Sales and store profitability subsequently improved with more streamlined operations. The pharmacy also had improved visibility over their operations and key metrics.

Seeking advice early can help you spot obstacles that may be detrimental to your operations and value chain as well as identify the options available to you.

Being equipped with the **right operational insights** can make a difference in revamping your value chain. This includes investing in tools and strategies such as cost-based transformations (“CBT”); finding and realising immediate and successful savings; as well as identifying workforce-related issues.

Other **digital interventions** that can be competitive differentiators are supply chain mapping and analytics; assessment of contractual and commercial obligations; and other operational diagnostics. In short, insights delivered with the use of technology such as automation, can be valuable in relieving pressure on your existing operations and resources.

Besides investing in digitalisation, pursuing growth and profitability is achievable by rethinking the cost base around changing priorities, and reinventing businesses through collaboration and partnerships with other parties.

Key Considerations

01 Are you taking a strategic approach to cutting costs?

02 Could you benefit from working more effectively with your supply chain?

03 Do you know how much value your activities contribute to the business?

Cashing in on uncertain times

While companies recognise the importance of liquidity in their business, they also face challenges in identifying leading symptoms of an approaching cash crunch, isolating problem areas and deploying effective countermeasures.

Tracking financial metrics on liquidity is always helpful. But early symptoms of a cash crunch, such as repeated default on creditor payment terms and persistent difficulties in servicing loans may get overlooked by company leadership as it is concealed within day-to-day operations.

Working with specialists who can assist with **optimising operational processes that underpin the working capital cycle** as well as to help implement supply chain finance programmes can help to rectify any problems that come up, sooner rather than later.

49% of companies have not used a formal short-term cash flow forecasting process

Digital tools and data analytics can also be implemented to enhance visibility and data-driven decision making. Above all, inculcating a ‘cash-first culture’ creates opportunities to avoid distress and fuel future growth.

With the current economic uncertainties, continuous and scenario-based cash flow forecasting is crucial.

A **13-week rolling cash flow forecast** can help management find opportunities to put strategic and operational interventions into action. Initiatives to bolster working capital can include expediting receivables, rationalising inventory levels and negotiating payment terms with creditors.

A sustained focus on operational excellence, better tax management and effective treasury operations will be critical in releasing trapped cash in the system.

Companies that are prepared to act sooner will present themselves with a much greater chance to stabilise their cash flow position and maximise their options to grow.

A case study: A Malaysian manufacturer in the medical/pharmaceutical sector with more than RM600 million in revenue and a healthy order book with exports to 3 continents was experiencing high cash burn and was unable to make timely payments.

A 13-week cash flow forecast was deployed which eventually improved cash visibility through data driven cash flow forecasting. Cash zero days were averted and deferred by classifying payments as essential and non-essential. This enabled management to make informed decisions to reduce cash burn.

Key Considerations

01 Is working capital management a priority across all functions within the company?

02 Do you know where cash is tied up in the organisation?

03 Do you have a complete and accurate view of the short-term cash flow across the entire business?

Placing communication at the heart of restructuring

A restructuring exercise is usually considered when a company is unable to meet its payment obligations as and when they fall due. A restructuring could entail a gamut of actions, from injection of capital to forgiveness of debt by the creditors. These actions are taken to trim the existing debts to a more sustainable level post-restructuring.

Businesses may be able to manage in the short term, but what happens should the worst case scenario materialise i.e. when cash continues to dwindle and the support of creditors runs out?

With that being said, being sensitive to early signs of distress and being proactive in engaging creditors early on will allow businesses to have **more options for restructuring**. As a restructuring often involves creditors accepting less favourable terms on their debt for business' long-term survival, ongoing negotiations with various stakeholders is unavoidable.

49% of business owners have experienced or are anticipating to experience challenges in their business operations in the next 12 months

A case study: The previous downturn in the oil and gas industry saw a large offshore support vessel (OSV) builder unable to meet its debt obligations close to USD500m.

Advisers were appointed to review cash flow projections, draw up a conceptual scheme and participated actively with the management in negotiations with banks and bondholders. There were frequent communication with all creditor groups, including the stock exchange authorities which was key in securing buy-in for the proposed scheme concept and preservation of value. The restructuring scheme was eventually approved by creditors via schemes of arrangement sanctioned by the courts of Malaysia and Singapore.

Timely and effective communication with creditors is an important factor to ensure a successful restructuring exercise. Before the creditors agree to such a compromise, they will naturally want to examine the business' forward plans. Therefore, a comprehensive business plan or cash flow forecast will also enhance the negotiation process with creditors.

When there is a trade-off on both sides, balancing the motivations of different stakeholders and building trust amongst stakeholders should always be a priority.

To make this happen, companies ought to view their creditors as business partners on their recovery journey and communicate their pain points transparently. At the same time, creditors should also work alongside the business owners with an open mind to overcome any impediments to the long term survival of the business.

Key Considerations

01 What is the impact of COVID-19 on your business, its financial performance, liquidity and your capital needs?

02 How are you engaging your stakeholders amidst such uncertain times?

03 How much worse might the situation become and how proactive are you in considering and planning for these scenarios?

Explore all options but be decisive

Government support and consideration from financial institutions have helped to cushion the otherwise significant impact of COVID-19 on businesses in many sectors. However, some businesses may find it difficult to manage the debt overhang and working capital required to restart operations.

What are some options for distressed companies beyond government support? This could include divesting underperforming assets and raising equity or debt from turnaround investors.

Arriving at the right type of mechanism needs careful consideration, depending on the circumstances. This comprises, among others, the sale of encumbered assets to new fund providers, the emergence of new shareholders through debt to equity conversions or a potential white knight.

Rescue mechanisms are available within the Companies Act 2016, namely Scheme of Arrangement, Corporate Voluntary Arrangements and Judicial Management. These are mechanisms designed to provide breathing space and a framework for distressed but otherwise viable businesses to work out a plan, in which a compromise or collective arrangement is proposed to the creditors.

Even in insolvency, not all is lost. Typically, an Insolvency Practitioner (IP) will take control of the business from the Board through a Creditors' Voluntary Liquidation. In this case, the IP will assess the best course of action in the interests of all stakeholders to maximise recovery. This is still the more favourable outcome, compared to a scenario where no action is taken and significant value is thus destroyed.

A case study: A private equity portfolio company in the entertainment/leisure industry was facing liquidity challenges as a result of the COVID-19 pandemic.

After deliberation, the Board of Directors decided to place the group of companies into voluntary liquidation, taking into consideration all available options and matters such as business viability, availability of moratoriums and insolvent trading risks amongst others. The appointed liquidator of the companies divested the majority of the assets to strategic buyers within 9 months, despite uncertainty over the prospect of the industry during the pandemic.

If Boards are able to read the warning signs early, they will have more time to embark on certain value creation initiatives prior to sale. **Financial and operational diagnostics** could be performed to determine if there are key levers to be flexed to rapidly reduce costs without altering the business model or the experience provided to existing customers.

Boards should avoid the “wait-and-see” approach when faced with difficult circumstances. We’ve observed that leaders who respond quickly to disruptions were able to regain control. It’s important that boards consider all options and mechanisms before making a decision and act decisively thereafter.

Key Considerations

01 Are you on the receiving end of shareholder activism and has this led to M&A as a strategic outcome?

02 Has COVID-19 rendered previously core functions as surplus to requirements?

03 What options are you actively considering and implementing to maximise recovery?

Key takeaways

01 Prioritise your operations

Business owners should be equipped with the right operational insights in order to revamp their value chain.

Investing in tools and technologies will give you an edge over your competitors and relieve pressure on existing operations and resources.

Relooking business priorities will also ensure growth and profitability for your business.

02 Manage your cash flow

Having a 'cash-first culture' is integral to the working capital of a business.

Business owners should consider adopting a formal short-term cash flow forecasting process to have a complete view of their entire business.

Digitalisation and analytics can also enhance visibility and data-driven decision making.

03 Communicate your plans effectively

Having conversations with stakeholders early will allow business owners to have access to various options in restructuring.

Effective communication with stakeholders coupled with a comprehensive business plan will pave the way for a smooth recovery journey.

Trust and transparency goes a long way in ensuring the success of a business in the long run.

04 Make strategic decisions now

Based on the recent Global M&A Industry Trends, we observe growing market headwinds in operational matters, supply chain optimisation and regulatory scrutiny, and the rising impact of ESG as deal-making activity continues.

Reading the warning signs early and exploring strategic mechanisms will allow business leaders to plan effectively, regain and retain control.

The decisions and actions you take today will help you build a path towards long-term sustainable and responsible growth.

Connect with us

Find out more on [Act Now: From Recovery to Growth](#).

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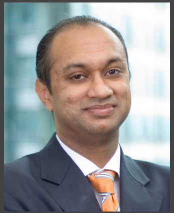

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