



COVID-19 crisis

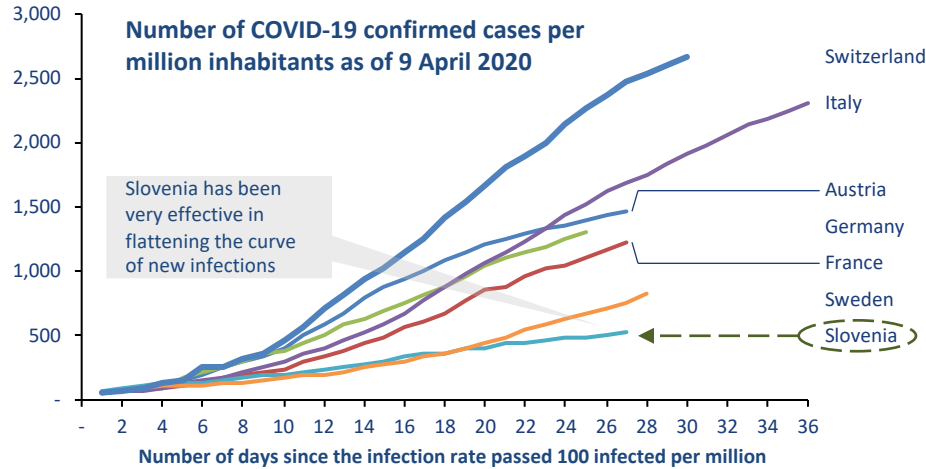
Albacore analysis and emergency response services

16 April 2020

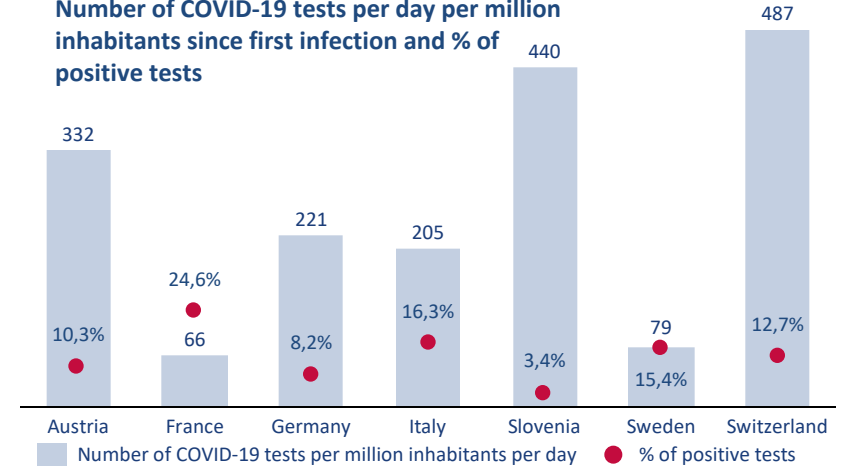
COVID-19 in Slovenia



Slovenia appears to be one of the most successful countries in Europe to date in containing the COVID-19 virus, largely due to highly effective distancing measures. As the threat from the global pandemic recedes, our focus will turn to mitigating the economic impact of the measures and supporting recovery.



Number of COVID-19 tests per day per million inhabitants since first infection and % of positive tests



- In analysing the spread of confirmed cases of COVID-19 in selected European countries we sought to present information that is comparable from country to country, therefore we showed the growth in the number of cases per million inhabitants from the date when the rate passed 100 cases per million.
- If the virus were to spread unchecked then we would expect exponential growth until saturation point is reached. There is no exponential growth above, so every country has managed to limit the spread, but with varying degrees of effectiveness.
- We have included all of the countries which border Italy as this was the first European country to be heavily impacted. We also included Germany as the most important trade partner of Slovenia and Sweden due to the fact that it is not implementing any distancing measures.
- So far Slovenia seems to be doing extremely well in mitigating the spread of the virus, but must now turn to balancing immediate health concerns with the economic future.

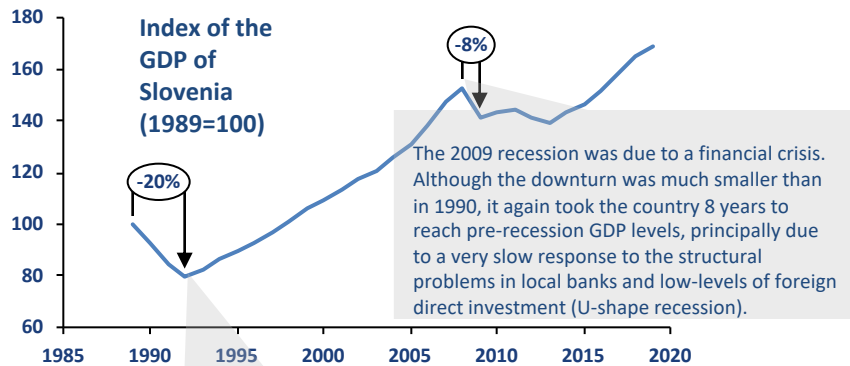
- Countries have adopted widely different approaches to testing. In some countries people who only show mild symptoms are sent home into self isolation and they are not reported as being infected.
- True infection rates will only be accurately measurable when a reliable test for COVID-19 antigens is applied across representative population samples.
- The chart above demonstrates that Slovenia has taken a comprehensive approach to testing and therefore the measured infection rates are more reliable than in countries where testing has been less comprehensive.
- The corollary to the above is that countries with lower levels of testing probably have true levels of infection which are higher than those reported.



Past economic shocks in Slovenia

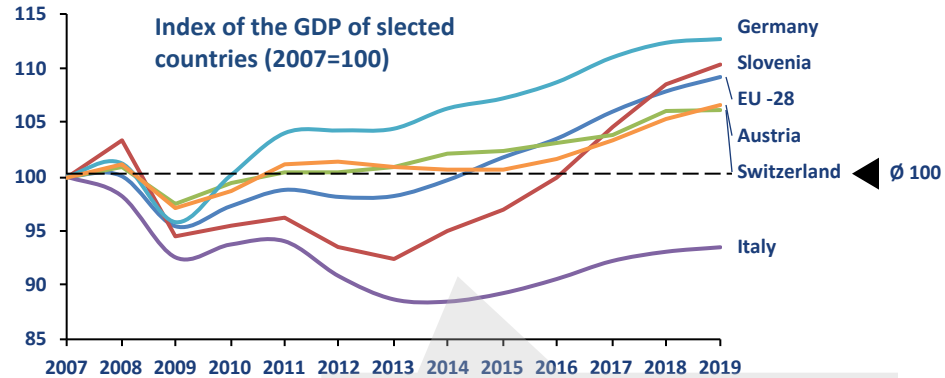


Slovenia has experienced two recessions in recent years. The first one in 1990 had similar fundamentals to the current coronavirus crisis with an outside shock influencing demand and supply, while the second one was caused by a financial crisis. We believe that while the government was ill-prepared to deal with the second one due to inexperience, the measures taken to address the current crisis are appropriate.



In 1990 the crisis was the result of a one off shock not unlike the current coronavirus crisis. Overnight, companies in Slovenia lost most of their traditional markets and many went bankrupt as they were inefficient by international standards. It took 8 years to reach pre-recession levels as the government had no money, however ultimately policymakers were able to utilise the money supply to increase competitiveness.

- 1) The definition of a recession is fairly simple. It occurs when GDP is negative for at least for two consecutive quarters.
- 2) The bigger scenario question revolves around the shape of the shock and its structural legacy. What drives the economic impact path of a shock, and where does Covid-19 fit in?
- 3) The key factor is the shock's ability to damage an economy's capital formation. When credit intermediation is disrupted and the capital stock doesn't grow, recovery is slow, workers exit the workforce, skills are lost and productivity falls. The shock becomes structural.
- 4) Almost all countries are implementing similar measures to mitigate the initial impact of the economic shock: distributing funds directly to people and companies to enable them to survive during the lockdown (lowering the intensity of the shock) and forcing banks to accept moratoriums on the principal as well as interest in some countries.
- 5) As yet, there is little consensus as to how to best restart the economy after the lockdown which will determine the shape of the recovery.



We compared the growth trajectory of GDP after 2008 in those countries Slovenia likes to compare itself to, and also to Italy which is the most badly hit by the coronavirus. Germany, Austria and Switzerland all had V shaped recessions as they had low levels of government debt compared to GDP, sufficiently capitalised businesses, and first class banks that were quick to recover after being bailed out. However Italy did not truly recover as it did not implement any structural changes to the government spending, did not reduce government debt and its banks did not adequately restructure, instead just rolling over debt (L-shape recession). Today Slovenia has government debt below the EU average, a healthy banking system and far fewer indebted companies giving it the strength to recover more quickly after the crisis.



Pandemic economics and Slovenia



The initial slump can be predicted but it is the efficiency and quantum of government intervention that will determine the path to recovery

Intensity of the initial shock

- Oxford Economics (a leading global economic think tank) quantifies the initial slump to developed economies such as Slovenia through the impact on consumer spending. Around 40% of consumer spending is discretionary and this is being heavily impacted by the enforced lockdown.
- Their forecasts are based on how many people and businesses are affected by the lockdown (currently 90%), and the length of the lockdown (6-12 weeks). This predicts a slump in consumer spending of between 16-32% in the quarter of the lockdown.
- After the lockdown it will take time for consumer spending to recover. The expectation is that it will take from 4 to 8 quarters. The models forecast a reduction in annual consumer spending of 7-12% if there is an initial 16% initial slump and of 17-24% if there is an initial with the 32% slump.
- We have prepared a simple GDP scenario with a €3 billion stimulus in the form of government spending and a 40% reduction in capital expenditure due to businesses delaying their planned projects to 2021.
- Under such a scenario the forecast drop in Slovenian GDP in 2020 will be 11%.

€m	2019	% change	2020	19/20 Indeks
	€m		€m	
Export of goods and services	40,535	-15%	34,455	85
Import of goods and services	(36,149)	-20%	(28,919)	80
	4,387		5,536	126
Consumer spending	24,823	-20%	19,858	80
Government spending	8,846	30%	11,500	130
Capital expenditure	9,951	-40%	5,970	60
Domestic consumption	43,620		37,329	86
GDP	48,007		42,865	89

Understanding the damage mechanisms

- Research in the Harvard Business Review and by Boston Consulting Group link the intensity of the downturn to the underlying virus properties, policy responses, as well as consumer and corporate behaviour in the face of adversity. But the shape of the downturn is determined by the virus' capacity to damage economies' supply side, particularly capital formation. At this point, both a deep V-shape recession and a U-shaped recession are plausible. The battle ahead is to prevent U-shaped recession.
- COVID-19 can damage the supply side in two ways:
 - 1) **Financial system risks:** The impact of Covid-19 has already generated significant stress in capital markets, Despite mitigation efforts, it seems probable that liquidity problems will persist and lead to write-downs, with capital issues resulting for companies.

Understanding the damage mechanisms

- 1) **Financial system risks (cont.)** - From a policy perspective the primary solutions are likely to be provided through the supply of credit to companies through the banking system, even if potentially politically controversial. This will be required to prevent a prolonged slump with damage to labour and productivity as well.
- 2) **Extended real economy "freeze."** The truly unprecedented possibility. Months of social distancing could disrupt capital formation and ultimately labour participation and productivity growth. Unlike in previous financial crises, an extended freeze of this magnitude damaging the supply side would be new territory for policy makers.
 - The financial and real economy risks are interrelated in two ways: first, a prolonged Covid-19 crisis could drive up the number of real economy bankruptcies, which makes it even harder for the financial system to manage. Meanwhile, a financial crisis would starve the real economy of credit.
 - The risk profile of the Covid-19 crisis is particularly threatening. While there is a policy playbook for dealing with financial crises, none exist for a large-scale real economy freeze. There is no off-the-shelf cure for liquidity problems of entire real economies.

Economic supply side threats of corona and the response in Slovenia

	Financial system shock	Real economy freeze
Liquidity problems	Liquidity problems hamper credit intermediation and investment Slovenia response so far: SID bank guarantees to commercial banks, moratoriums on corporate loans	Healthy households and companies face severe cash flow problems hampering investment Slovenia response so far: Money for people on stand-by, s.p., limited tax breaks, deferrals of tax
Capital problems	Capital problems shut credit channel, damaging capital formation and ultimately growth Slovenia response so far: None. Idea to utilise DUTB and SID	Damaged household and company balance sheets cripple investments and ultimately growth Slovenia response so far: None

Source: Harvard Business Review and BCG

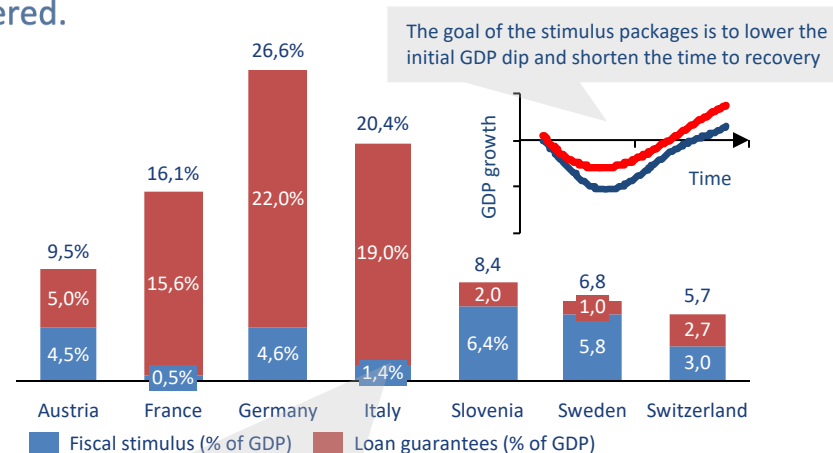


Pandemic economics and Slovenia



As with the response to the health crisis, we believe that Slovenia is implementing appropriate measures to minimise the economic impact and ensuring the health of the economy. The principal risk is that the stimulus measures are insufficiently co-ordinated or not efficiently delivered.

- In today's world countries are constantly fighting to improve the wealth and standard of living for their citizens. If the GDP of a country is growing faster than that of other countries the country is becoming relatively wealthier and if it grows slower it is becoming relatively poorer.
- Since it became independent Slovenia has grown its GDP per capita significantly but lost out on some of the wealth because of the slow implementation of crisis measures after the slowdown in 2008.
- Nonetheless, Slovenia is better equipped to implement economic initiatives than some other countries:
 - The bad bank DUTB is still functioning and can be used as an additional organisational structure to distribute money to companies through debt and possibly equity
 - Over the last few years the economy of Slovenia has opened up a lot through the sale of many companies to financially strong international players
 - The banking system has been cleaned of the NPLs and most of it is now privatised
 - Slovenia has a relatively strong bankruptcy law
- The lessons learned from 2008 would indicate that Slovenia should focus on ensuring that it delivers a stimulus package which is sufficiently large to deal with the unprecedented business interruption which is resulting from the COVID-19 virus. It should actively seek to boost government and private spending in sectors which have strong multiplier effects such as infrastructure.
- We expect increasing levels of digitisation of public services and possibly new and unconventional legislation such as for the growing of medical cannabis (growth from this in FYR Macedonia), regulation of cryptocurrencies, increased tax breaks for capital expenditure, privatisation of all state owned companies which are not deemed as being strategic, etc.
- The low levels of interest rates which have endured for some years have allowed governments to service much higher levels of public sector borrowing than before. The old fiscal rules are less relevant in a low interest rate environment when a government has to respond to an economic shock which is unprecedented in living memory.



The published stimulus packages of all of the countries are significant and will have a positive impact on reducing both the depth of the recession and the time to recovery. There is, of yet, little detailed information on how the amount of the economic stimuli were arrived at.

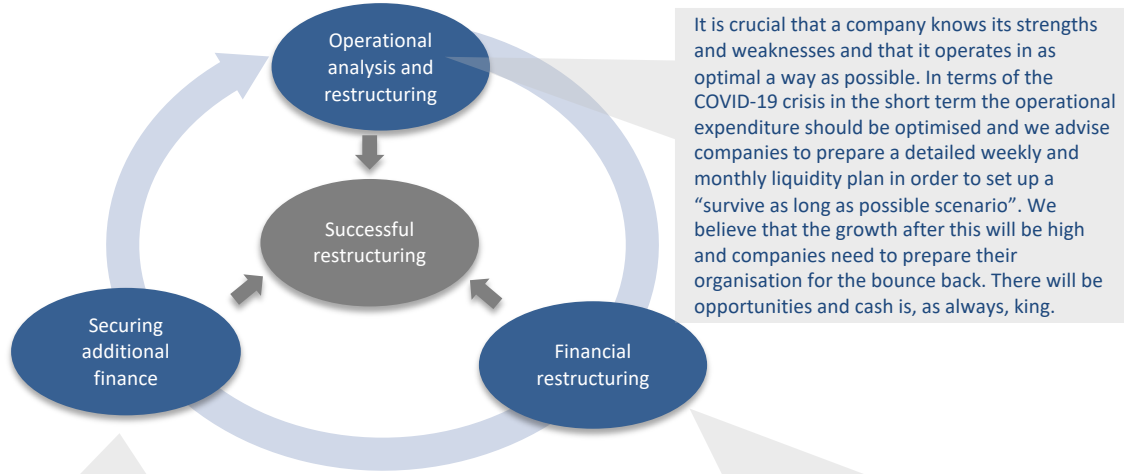
The measures announced in Slovenia appear to be similar in size to those announced in Sweden, the country with the largest fiscal stimulus package, however the devil lies in the detail. For example, in the US the primary stimulus was to transfer funds directly to people with annual income below a certain threshold, whereas European measures have been far more focused on supporting corporate entities.

Given the urgent need for stimulus packages, the Slovenian government should be commended in taking prompt action and offering such significant levels of support. However it is difficult to structure support in the most effective way. Many recipients of support will not require it, and there is a clear risk that underperforming companies are subsidised to the detriment of better performing competitors

How we can help you to weather the storm



At Albacore we specialise in restructuring and special situations and can assist you with making the right strategic, operational and financial moves under pressure. In general crisis situations and restructuring always progress in a similar fashion and this time round the crisis is symmetrical – it affects us all. As for countries, what is going to separate the winners from the losers among businesses is the reaction to the crisis



It is crucial that a company knows its strengths and weaknesses and that it operates in as optimal a way as possible. In terms of the COVID-19 crisis in the short term the operational expenditure should be optimised and we advise companies to prepare a detailed weekly and monthly liquidity plan in order to set up a “survive as long as possible scenario”. We believe that the growth after this will be high and companies need to prepare their organisation for the bounce back. There will be opportunities and cash is, as always, king.

Albacore financial modelling expertise

As mentioned on the left controlling your cash and preparing a robust business plan for different scenarios is the key to your future success. The results of our investigations into our clients business are used for the preparation of a comprehensive integrated financial model on a monthly basis.

We recognise that many businesses often have their own financial projections, however, for most of our projects we try to prepare our own projections built on internationally recognised best practices.

The best practices that we utilise in the construction of our models are designed to minimise the risk of model error and maximise our clients’ understanding of the funding need and key financial drivers. Our models are often used as the primary tool for planning cash flow, strategic balance sheet structuring and in calculating the value of our client’s business.

The good news is that securing additional financing during the crisis is possible. The options available for debt are bank financing, SID bank, Slovene entrepreneurs fund, private investors, debt funds, etc. and for equity we would like to note that private equity funds and individual investors are still active and that we are in close contact with them.

The financial restructuring involves the creation of several scenarios and in addition to the operational short term liquidity plan needs to include longer term monthly projections of the cashflow. After modelling the operational cash generation during and after the crisis, crucial capital expenditure and the repayment of existing debt obligations we help you to determine which sources of funding would be most suited to bridge the financing gap. As a general rule talking to existing creditors and owners is easier than raising new funds and suppliers should be treated with caution as a tightening of trade payable days can lead to a downwards spiral.

Simple formulas	Best practice financial models by Albacore	Clearly labeled inputs
No hard coding		Internal model checks
Logical structural desing		Model testing procedures
Flexible model structure		No multiple linked models

Minimise error

Maximise analysis



Example of financial model results



The main result of each of our financial models is a detailed financial projection of both the performance and cash flow of the business. By forecasting on a monthly basis throughout the period our clients are able to predict any monthly shortfalls in cash and react in the appropriate manner.

Cash flow projection example from one of our refinancing projects

	Jan 18	Feb 18	Mar 18	Apr 18	May 18	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	Dec 18	Jan 19	Feb 19	Mar 19	Apr 19	May 19	Jun 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19	Dec 19	
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	
Operating cash inflows																									
Receipts from customers	4,591	2,970	3,340	2,969	3,181	3,086	3,153	2,839	2,635	3,033	3,632	4,370	4,677	3,046	3,428	3,004	3,221	3,125	3,192	2,873	2,669	3,068	3,674	4,422	
Operating cash outflows																									
Payments to suppliers	(1,743)	(1,696)	(1,438)	(1,121)	(1,066)	(1,127)	(1,193)	(1,209)	(1,049)	(1,034)	(1,024)	(1,358)	(1,620)	(1,576)	(1,402)	(1,137)	(1,082)	(1,144)	(1,211)	(1,227)	(1,064)	(1,049)	(1,039)	(1,378)	
Other payables	(1,686)	(1,411)	(1,744)	(1,563)	(1,612)	(1,516)	(1,641)	(1,565)	(1,492)	(1,653)	(1,607)	(1,745)	(1,706)	(1,415)	(1,749)	(1,568)	(1,617)	(1,520)	(1,646)	(1,570)	(1,496)	(1,658)	(1,613)	(1,751)	
VAT payments	(360)	(196)	(220)	(254)	(206)	(221)	(222)	(197)	(163)	(238)	(325)	(365)	(398)	(195)	(219)	(253)	(206)	(220)	(222)	(196)	(161)	(237)	(325)	(366)	
Tax payments	-	-	-	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(247)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
	(3,789)	(3,302)	(3,402)	(2,949)	(2,896)	(2,874)	(3,067)	(2,982)	(2,714)	(2,935)	(2,967)	(3,479)	(3,734)	(3,197)	(3,382)	(3,206)	(2,922)	(2,901)	(3,096)	(3,010)	(2,738)	(2,961)	(2,994)	(3,512)	
Net operating cash flows	802	(332)	(62)	20	285	212	86	(144)	(79)	97	666	892	943	(150)	46	(202)	299	224	96	(137)	(70)	107	680	910	
Investing activities																									
Purchase of fixed assets	(25)	(23)	(28)	(25)	(26)	(25)	(26)	(25)	(25)	(26)	(25)	(26)	(26)	(41)	(50)	(44)	(47)	(44)	(47)	(46)	(44)	(47)	(44)	(47)	
Sale of fixed assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net cash flow from investing activities	(25)	(23)	(28)	(25)	(26)	(25)	(26)	(25)	(25)	(26)	(25)	(26)	(26)	(41)	(50)	(44)	(47)	(44)	(47)	(46)	(44)	(47)	(44)	(47)	
Financing activities																									
Interest paid	(37)	(36)	(35)	(34)	(34)	(33)	(32)	(32)	(32)	(32)	(32)	(30)	(29)	(28)	(28)	(27)	(26)	(26)	(25)	(25)	(25)	(25)	(24)	(23)	
Principal payment	(188)	(188)	(188)	(188)	(188)	(138)	(138)	(138)	(138)	(138)	(138)	(155)	(155)	(146)	(146)	(146)	(146)	(146)	(146)	(146)	(146)	(146)	(146)	(146)	
Drawdown of new debt (2017)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Drawdown of senior term loan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Drawdown of subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Repayment from supplier	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	
Dividend from affiliated company	-	-	-	-	35	-	-	-	-	-	-	-	-	-	-	-	35	-	-	-	-	-	-	-	
Net cash flow from financing	(218)	(217)	(216)	(215)	(180)	(164)	(163)	(163)	(163)	(163)	(163)	(178)	(176)	(167)	(166)	(166)	(130)	(165)	(164)	(163)	(163)	(163)	(163)	(161)	
Net cash flow in period	559	(572)	(306)	(220)	79	23	(104)	(332)	(266)	(92)	478	688	740	(359)	(171)	(412)	122	15	(115)	(346)	(277)	(103)	473	701	
Cash balance b/f	466	1,025	453	147	(73)	6	30	(74)	(406)	(672)	(764)	(285)	402	1,142	784	613	201	323	338	223	(123)	(400)	(504)	(31)	
Cash balance c/f	1,025	453	147	(73)	6	30	(74)	(406)	(672)	(764)	(285)	402	1,142	784	613	201	323	338	223	(123)	(400)	(504)	(31)	670	

As can be seen the peak financing need in this case is €800k. We then helped the company to obtain an additional revolving loan facility. During the COVID-19 crisis it is very important to quantify the damage and financing need due to different causes such as the the loss in revenue, increase of payment terms, bad debt. Working with Albacore will deepen these insights and shorten the time to getting the appropriate financing in place.




Albacore profile



Albacore is an independent professional services firm specialising in the provision of transaction advisory and restructuring services. Our sole priority is to provide our clients with the highest quality advisory and consulting services therefore allowing them to preserve and grow shareholder value

We have extensive transaction experience in many different industries and complex situations

T-2

 Telecommunications
 Adviser to the company in relation to the issuance of commercial loan notes
 2019

Inatel

 TELEKOMUNIKACIJE d.o.o.
 Telecommunications
 Adviser to the company in relation to the sale to a strategic buyer
 2019

Ensol

 Family entertainment centres
 Financial modelling, debt raise and strategic options analysis
 2019

Transport Gaj

 Logistics
 Adviser to the company in relation to the refinancing of its financial liabilities
 2019

Telesat

 Telecommunications
 Adviser to the buyer in relation to the acquisition of the company
 2019

Biotera

 Waste collection
 Adviser to the company in relation to the sale to a strategic buyer
 2018

T-2

 Telecommunications
 Adviser to the company in relation to arranging a bridge loan from private investors
 2018

Diss

 IT hardware distributor
 Adviser to the company in relation to the sale to a strategic buyer
 2018

Tink

 Metal wholesale
 Financial due diligence for the buyer of the company
 2018

SRC

 IT
 Adviser to the company in relation to the refinancing of its financial liabilities
 2017

Beautique

 Cosmetics retail
 Adviser to the owner in relation to the sale of a store portfolio in Serbia and Bosnia and Herzegovina
 2017

Modiana


 Fashion retail
 Adviser to the buyer in relation to the acquisition of a retail store portfolio
 2016

Hostel Celica

 Hostel
 Adviser to the owner on the sale of the business
 2015

Ocean Orchids

 Horticulture
 Independent business review of the company's ability to meet the terms of its restructuring agreement
 2014

Tušmobil

 Telecommunications
 Adviser to the company in relation to a €30m debt raise for the acquisition of frequency spectrum
 2014

How we work

- Identify your needs and expectations**
each client is unique and we need to understand our client in order to deliver what they want
- Design a plan that will fit your goals**
once the destination has been defined, we build a road map which will allow us to reach that destination, with a fee structure that means our goals are aligned to your goals
- Implement the plan in partnership with you**
we work closely with our clients to allow us to tailor our services for their needs

Our values

- we listen**
clear and open communication can only happen if we willingly enter into a dialogue, listen to each other, and try to understand the perspectives of all parties
- our people are our only asset**
we seek to attract people with the best skills for the job, invest in their development, and nurture a work environment that imbues the highest levels of quality and client service
- we adhere to the highest professional standards**
our corporate culture focuses on achieving consistently high standards of thought, action and communication
- service delivery is our sole objective**
measure us by what we do, not by what we say we will do

“Give me six hours to chop down a tree and I will spend the first four sharpening the axe.”
 — Abraham Lincoln



Contact



Greg McPartlin
Director
Albacore d.o.o.
Poljanski nasip 8
1000 Ljubljana
Slovenia

t +386 59 049 499
m +386 41 360 714
greg.mcpartlin@albacore.si
www.albacore.si

Matej Reisman
Director
Albacore d.o.o.
Poljanski nasip 8
1000 Ljubljana
Slovenia

t +386 59 049 498
m +386 51 673 048
matej.reisman@albacore.si
www.albacore.si