



Covid as Catalyst for the diversification of supply chains

OAV - 02.07.2020

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Executive Summary

- ▶ 20+ years of Pharma & Lifesciences industry and consulting experience
- ▶ Supply Chain expert leading EY COVID-19 Taskforce
- ▶ Executed operational excellence programs based on Lean & 6 Sigma
- ▶ Up from 2002 introduced production systems driving horizontal /vertical integration

The unexpected outbreak of COVID-19 is having a significant impact on global supply chains in all sectors

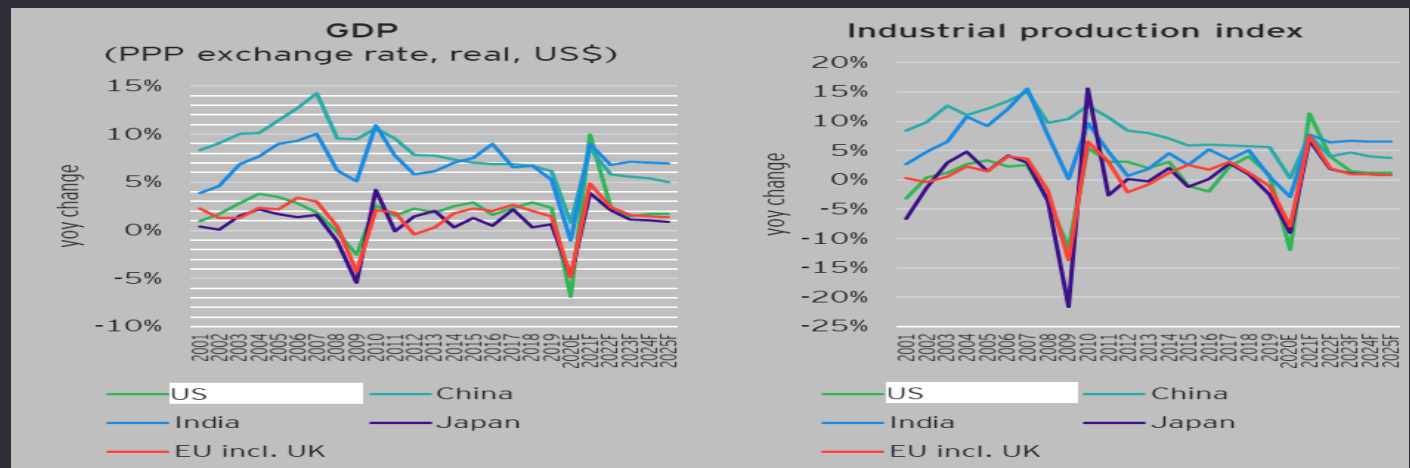
COVID-19 outbreak has over 4.2 mill. confirmed cases which is higher than previous recent disease outbreaks such as Ebola, MERS and SARS combined.

“The current COVID-19 pandemic has caused **disruption through all sectors** with various degrees of impact. It is time for companies to **rapidly assess, recover and respond quickly** through numerous obstacles and challenges that will stand in the way. Through the **chaos of recovery**, it will be very easy to overlook the root cause and gaps within a supply chain that may have **paralyzed businesses** during this unpredictable major event in the first place. Building towards a **resilient supply chain** will be at the **epicenter** of future discussion for years to come.”²

“94% of the Fortune 1000 are seeing coronavirus supply chain disruptions.”³

“European companies face coronavirus hit to supply chains
Italian auto supplier warns production lines may stand still

Increasing consumer confidence will be critical for governments and companies to enable economic recovery.



At EY we consider the impacts of COVID-19 disruption and clients' responses via a NOW-NEXT-BEYOND framework

A company's industry, product portfolio and geographical spread, and the decisions that it makes NOW, NEXT and BEYOND, will influence its recovery trajectory and long-term outlook as it responds to the impacts of COVID-19.

Hypotjees how Supply Chains are affected

Supply chain	Sharing resources	Companies are adapting their supply chain and ecosystem to the new challenges, creating new collaborations, alliances and asset-sharing business models that are blurring the boundaries of established industries.
	Onshoring/nearshoring	Companies are onshoring/nearshoring production and supply chains to increase flexibility and robustness. Near- and offshored SSC & GBS organizations were due to massive and partly rapid lockdown significantly affected by COVID-19. Most of the back-office functions have been able to ensure business continuity and mitigate issues (with captive SSCs seen as slightly better performing than BPOs). Clients have to adapt their Business Continuity Plans (BCP) to virtual work and change toward more touchless operations."
	Supply chain repurposing and adjusting for the "new normal"	Short term re-tooling of manufacturing capability to create needed medical devices and supplies. Companies reassess their supply chain strategies and identify measures to strengthen local/regional supply chains and to reduce assets. They need to develop strategies to protect their operations and supply chains from similar events in the future.
	Infrastructure will become a bottleneck	Logistics are a likely bottleneck impacting global supply chains. While ports have only a limited capacity, land transport might be hampered by closed borders or additional safety measures.
	Financing supply-chain repurposing/adjusting	Adjusting supply chains and increasing regional/local value creation could drive up costs and lack of end to end visibility increases risk of undetected trade and operational costs.
Digitalization	Digitalization of processes and manufacturing is picking up speed	The pandemic shows the weaknesses of today's systems, particularly with regard to flexibility, visibility, paperless processes and visibility.

Survive

Now

Immediate 3 months
Responding to the crisis as clients focus on business continuity and crisis planning.

Recover

Next






3-6 months
Managing a restricted business, leading through ongoing business disruption

Beyond

6 months plus
Bouncing back from the challenges, building a resilient enterprise, reframe the future and transform to succeed

COVID-19 Exit Strategies (1/2)





As of June 03

	Lockdown Exit Status & Strategy	Economic Strategy Crisis Support	Recovery Support	Political consensus	Capacity to respond to a second wave	Signposts
 United States	All fifty states have initiated at least partial reopening.	To date, Congress has passed more than USD 2tn in stimulus to address the immediate impact of coronavirus.	More long-term economic recovery packages are in flux, as negotiations have stagnated.	There is consensus around some priorities, but progress will become difficult as the November election nears.	Most states have health system capacity, but tracing and testing is shaky. Reopening has been rushed for political purposes.	Some states are moving into their phase two of recovery for certain regions.
 European Union	Despite formal endorsement of a joint roadmap, different pandemic experiences and state competence complicate a coordinated exit.	EUR 500bn, mostly in promises of loans from the ESM rescue fund, guarantees and EU support for national short-time work schemes.	Commission proposal of EUR 750bn in grants and loans, to be disbursed through the EU budget to most affected member states and companies.	Member states agree on the need to work together but follow national interests first.	Meaningful EU-wide crisis fighting tools would first have to be set up anew.	The ratio of loans to grants in the eventual recovery fund will reflect the level of ambition that is politically viable among member states.
 China	Exit complete, apart from a few cities in northeast China.	The government is incentivizing banks to increase loans to small businesses in danger of collapse.	Economic stimulus is slowly escalating but remains modest compared to US, EU, and Japan.	Critics of early failures in Wuhan have been largely silenced.	Protocols in place to re-impose lockdown quickly and conduct large-scale testing.	China is mostly closed to foreign visitors but authorities plan to establish green zones" to reopen travel from select countries
 Japan	Gradual phase-out of restrictions on gatherings, inter-prefectural travel. Prefectures relaxing restrictions at different rates. Government issued "new lifestyle" guidelines; business groups developing member company guidelines.	Abe government unveiled a second stimulus packaged that equaled last month's JPY 117.1 USD 1tn) stimulus; focus is mainly on providing relief to small businesses and vulnerable constituencies.	The first stimulus package included some provisions for supply chain relocation, industrial restructuring, but more recent measures are focused mainly on crisis mitigation.	Emergence of new cases could further challenge prime minister's support, as public was skeptical about lifting state of emergency.	Medium - Post-state of emergency social distancing depends on voluntary cooperation with individuals, prefectural governments, businesses, and business associations.	"Reopening" the economy will be a gradual process, occurring through August assuming there are no major outbreaks in the interim. In the meantime, government is preparing additional fiscal stimulus.
 Germany	Regional states now entirely in charge; but return to local restrictions if more than 50 new daily cases per 100,000 inhabitants in a local district.	Over EUR 350bn in fiscal measures and EUR 800bn+ in guarantees, incl. tax delays, short-time work and payments to businesses.	Stimulus package of up to EUR 150bn to be agreed in June, but composition still politically contested.	Grand coalition government, but political competition is rising in the decentralized political system.	High - Decentralized testing, tracking and treatment has enabled a solid response to the pandemic so far.	Germany-wide social distancing measures until 29 June, but regional states might regulate unilaterally going forward.

Source: Teneo

Low Medium High

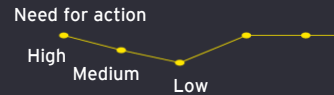
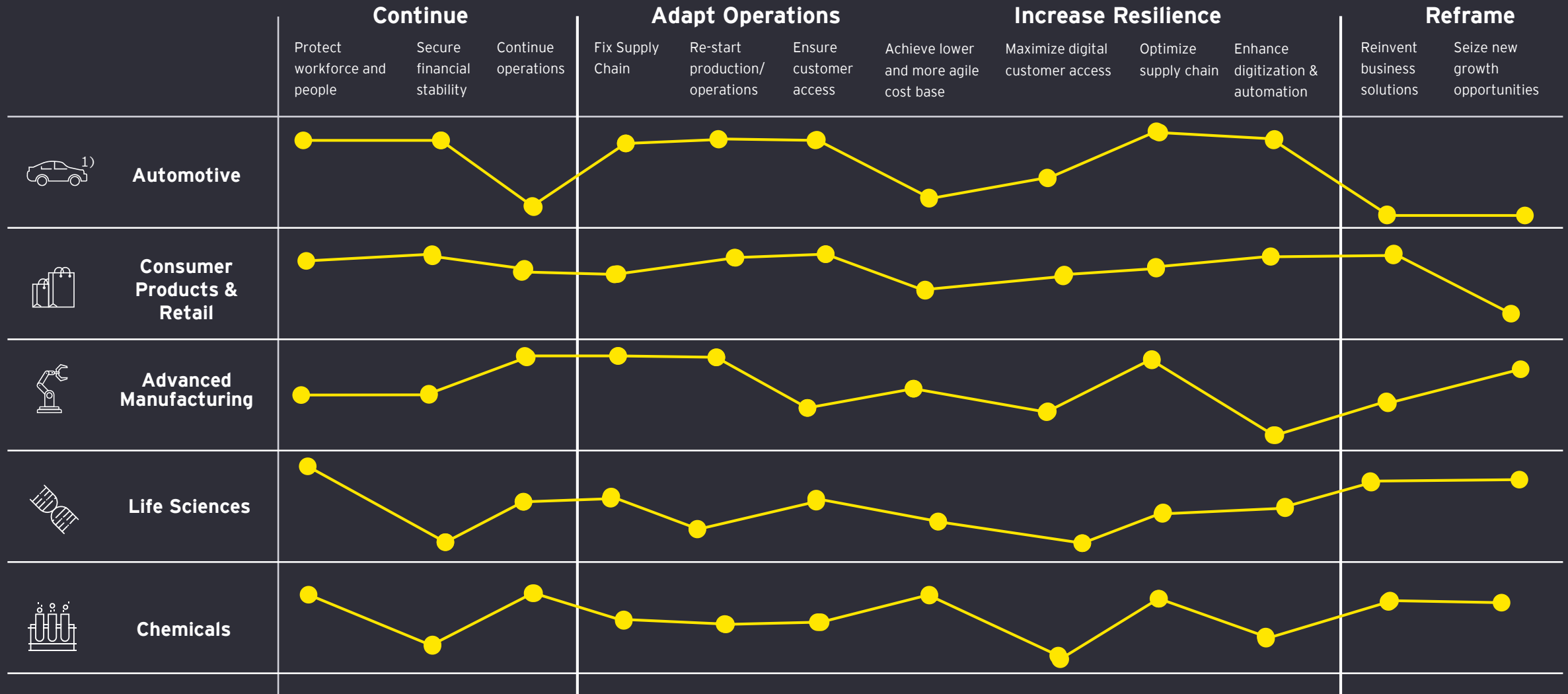
COVID-19 Exit Strategies (2/2)

	Lockdown Exit Status & Strategy	Economic Strategy Crisis Support	Recovery Support	Political consensus	Capacity to respond to a second wave	Signposts
 Indonesia	Central & local governments are coordinating the easing of restrictions starting with Jakarta on 4 June. Lockdowns limited to 2 provinces and 25 cities and regencies.	Total stimulus ~4.2% of GDP, for social welfare programs, support for micro, small and medium enterprises, and bailouts of the large state enterprises.	The government will cut the corporate tax rate to 22% from 25%. SMEs may be eligible for working capital loans and some tax condonation.	Some provinces pushing for more aggressive measures, but President Widodo reluctant due to economic effect.	Testing capacity among lowest globally, only starting to be built up; limited hospital Capacity.	No specific benchmarks; restrictions will continue to be loosened, if gradual decline in cases and fatalities is achieved.
 India	Most restrictions have been lifted but hotels and bars will be allowed to open only on 8 June. A decision on the full opening of public transport will be taken later. Schools and colleges are unlikely to open before July.	Some systems have been relaxed and the prices at which agri-commodities will be bought by government have been hiked, some doubled. This effective subsidy for farmers has proved to be inflationary in the past.	Too early for recovery.	State governments largely support the federal regime. But criticism continues over exit strategy and calls that the INR 20tn stimulus is inadequate for low-income groups.	Testing capacity still inadequate despite doubling. Hospitals are facing equipment and other shortages. A second wave is anticipated as migrant groups return to rural areas.	8 June is the new signpost, but federal government may relax conditions depending on the progress.
 South Korea	Government guidelines for "everyday life quarantine" to ensure that social distancing continues; social distancing measures reintroduced for greater Seoul region.	KRW 23.1tn (USD 18.7bn) to households and businesses. Other schemes have provided financing to big business.	"Korean New Deal" planned for June will include proposals to bolster long-term competitiveness, focused on digitalization and green jobs.	Centralized state, ruling party now wields supermajority in National Assembly.	South Korea has learned from past and current outbreaks, introduced wide-scale testing, is exporting tests and other equipment.	Government focused on mitigating economic impact, but 2nd new cluster in greater Seoul led to reintroduction of strict measures. National social distancing may return if outbreak widens.
 Thailand	By early June, the government will implement the third phase of its easing, removing more restrictions on malls, local travel and sports activities. A full exit is targeted for 1 July.	Parliament has approved a USD 60bn stimulus program to fund cash handouts; loans to SMEs; to stabilize corporate bonds and for job creation programs.	The government may decide next month on whether to join the CPTPP. Some state procurement will be required to target SMEs.	Policy is accepted but government seen as ineffective in other areas such as economy, which is why there may be more focus on growth.	Gradually building up testing capabilities and moderate national healthcare capacity.	Growing confidence in ability to limit and track new cases and sustained decline in new cases could cause government to open more of the economy.

Source: Teneo

Low Medium High

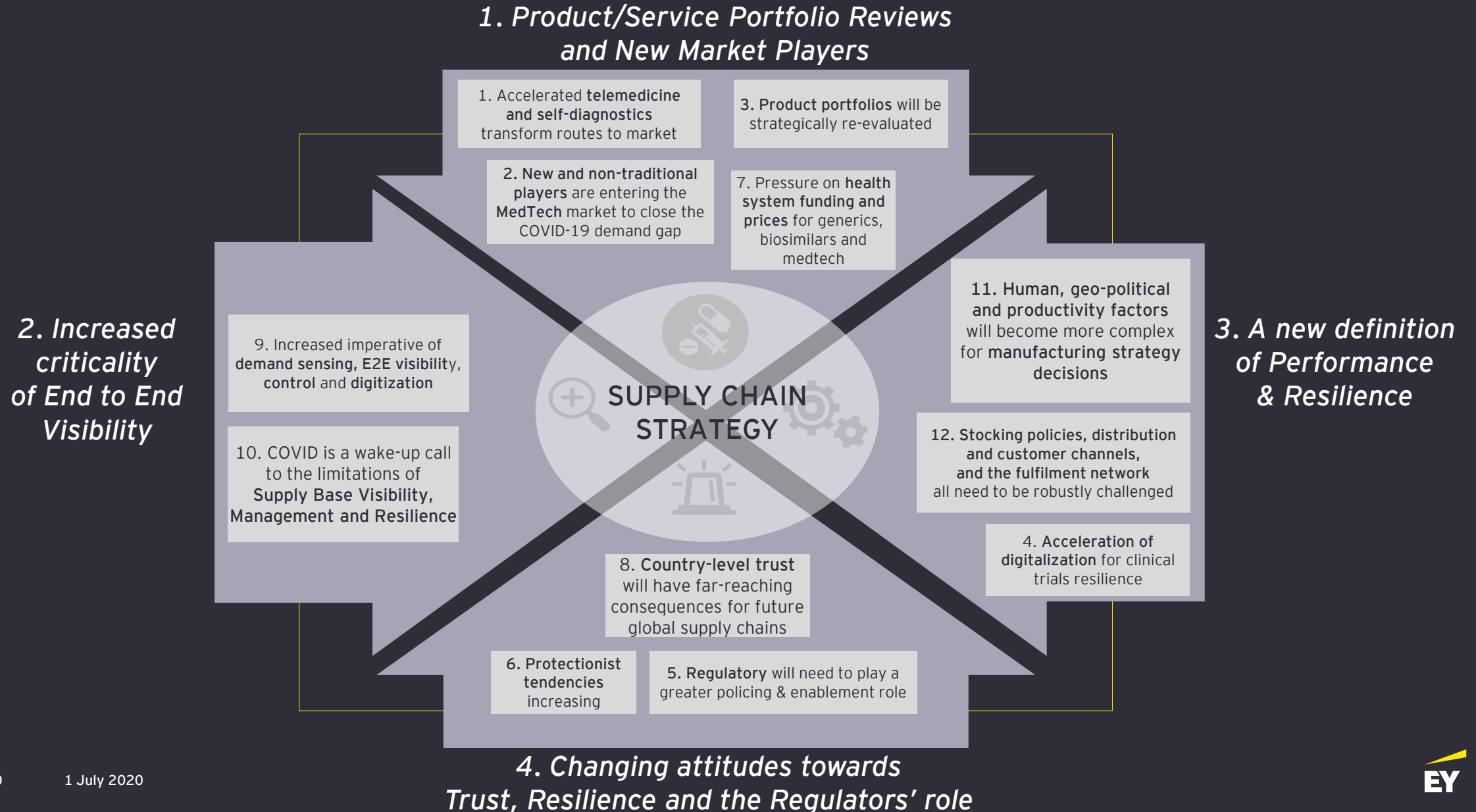
The sectors have different NEXT-priorities - Life Science, Chemicals more likely to seize mid term opportunities, Retail with insecure outlook, Adv. Manufacturing focus on re-ramping up



Sectors that are hardest hit by COVID-19

1) OEMs and supplier

Specifically for LifeScience we have clustered 12 potential hypotheses that may have impact on supply chain networks



COVID-19 is driving Life Science companies to re-assess their Supply Chains

Top three hypotheses - are these catalysts for Life Sciences action?

8

Country-level trust will have far-reaching consequences for future global supply chains

10

COVID-19 is a wake-up call to the **limitations of current Supply Base Visibility, Management and Resilience**

11

Human, geo-political and productivity factors will become more complex for **manufacturing strategy decisions**

“We currently are not in control.”
Dr. Anthony Fauci, 30th Junel 2020

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