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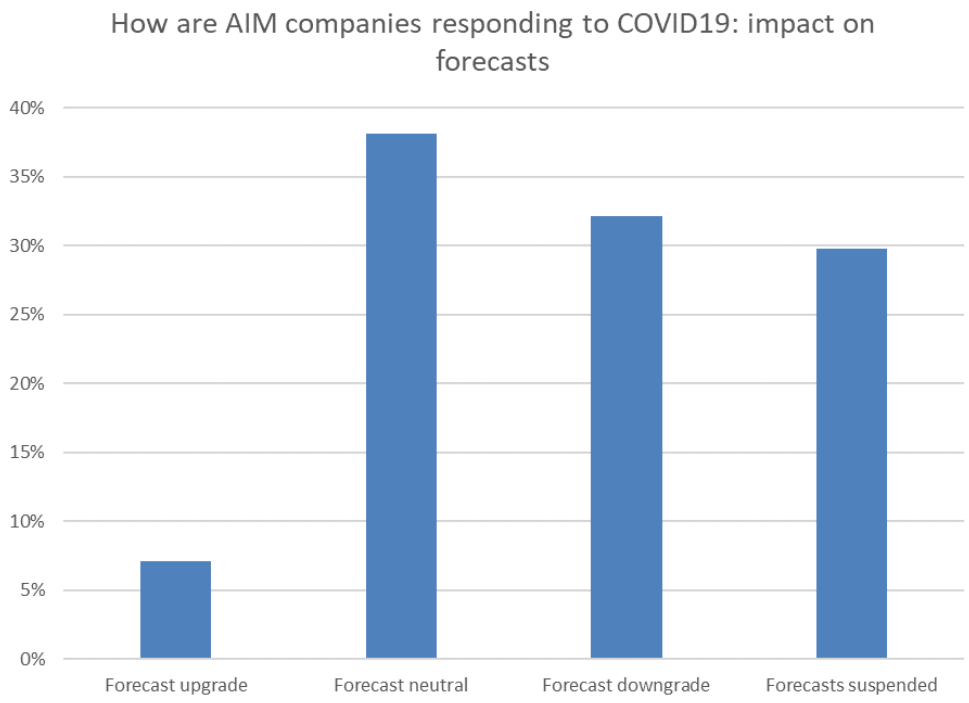
COVID-19 Company Response Report

April 2020

April 2020 | COVID19 | The corporate response | Forecasts



- **Impact on forecasts**
  - Of the two thirds of companies that have issued COVID updates so far:
  - 30% of companies have suspended forecasts in the market until the situation becomes clearer. This is very much on a rising trend.
  - Downgrades are very much to be expected, with so far one third of the market announcing trading falling short of expectations.
  - Of more interest are those companies where trading does not appear to be impacted much, or indeed upgraded.
  - So far 38% of companies have not seen an impact on trading. This list is dominated by Tech (WFH, online payments, recurring revenues) and Life Science companies with a smattering of niche Financials and Industrials.
  - A small number of companies (7%) are directly benefitting: Tech (WFH, online payments, recurring revenues), Life Sciences (Disinfection, COVID treatments) and some Food Producers (pulled forward demand from stockpiling).
  - *NB: columns don't sum to 100% as some companies that withdrew forecasts were clearly signalling downgrades as well, so are double counted*

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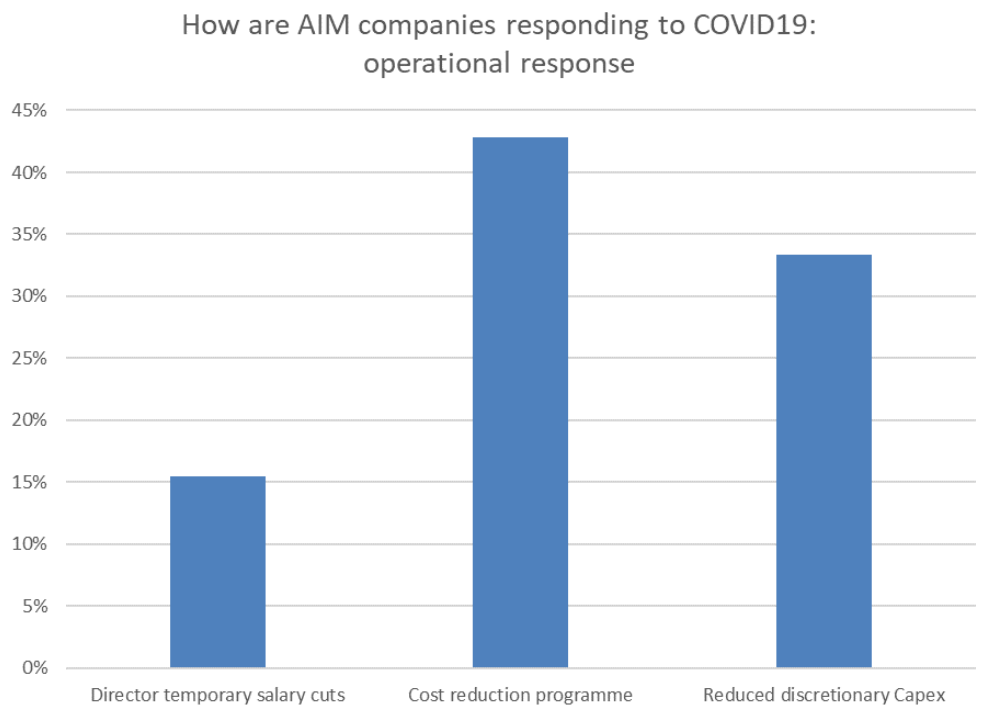
April 2020 | COVID19 | The corporate response | Operational Response



- **The operational response**
  - Of the two thirds of companies that have issued COVID updates so far:
  - 43% have announced cost reduction programmes. This tends to relate to cutting staff, furloughing staff, closing stores (where applicable) and other efficiency measures;
  - One third have announced cuts to Capex budgets for FY2020;
  - Only 15% of companies have announced reduction of director salaries. This tends only to relate to the hardest hit businesses;
  - We would expect all of these proportions to continue to rise as companies get to grips with what they need to do to cope with the current crisis.
  - But there is a clear order of priorities: cut Opex, then Capex, then Director salaries!

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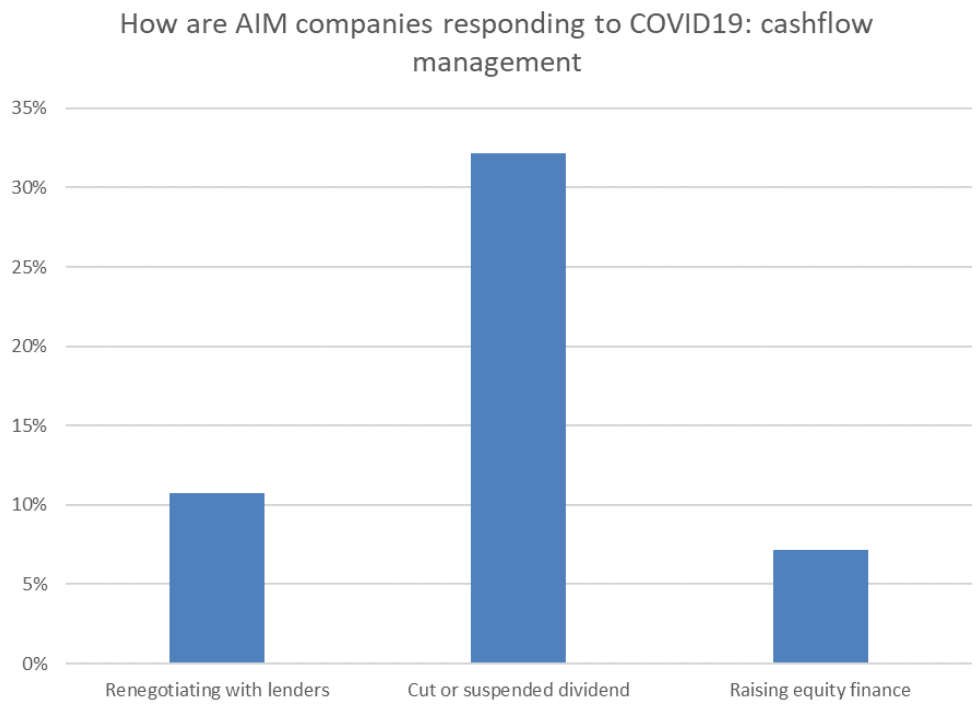
April 2020 | COVID19 | The corporate response | Cash Flow Management



- **Cash Flow Management**
  - Of the two thirds of companies that have issued COVID updates so far:
  - 32% have decided to cut or suspend their dividend;
  - 11% are renegotiating facilities with lenders;
  - 7% have announced an intention to raise further equity.
  - In many ways we should not be surprised by this order of priorities: the easiest thing to do to conserve cash in a crisis is cut the dividend (even if it angers shareholders and pension funds).
  - Organising equity issue takes a great deal more time and effort and is not desirable if equity prices are low. However, if lockdowns continue for longer than expected, we would expect many more companies to have to go down this route.

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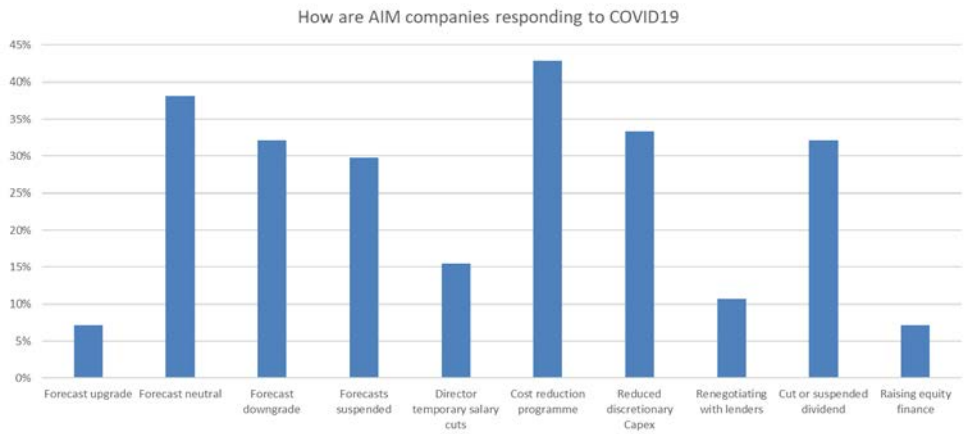
April 2020 | COVID19 | The corporate response | Summary & Conclusions

- **In summary:**
  - 65% of companies have reported on COVID
  - Of these companies:
  - 7% have upgraded forecasts
  - 38% have not changed forecasts
  - 32% have downgraded forecasts
  - 30% have withdrawn forecast guidance
  - 15% have made director salary cuts
  - 43% have initiated a cost reduction programme
  - 33% are cutting discretionary Capex
  - 11% are renegotiating with their lenders
  - 32% are cutting or suspending their dividend
  - 7% are raising fresh equity



- **Conclusions:**
  - We have sampled approximately 20% of AIM companies;
  - Of these, two thirds have specifically reported on COVID. We think it highly likely that the other third will report very soon;
  - However, a very clear picture is emerging:
  - Many companies are choosing to withdraw forecasts and/or signal downgrades;
  - Of significant interest is that a handful of Tech and many Life Science companies are likely to be unscathed;
  - In terms of operational response, cutting Opex is the preferred route right now, closely followed by cutting discretionary Capex;
  - In terms of cash management, cutting or suspending the dividend is the preferred route but equity issuance could become more prevalent if lockdowns continue for a longer period.

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