COVID-19 Economics, Way Forward for Facilities Management Industry in GCC

Presentation by Group CEO, Tariq Chauhan
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Objectives

• This presentation has been prepared in context to the current COVID-19 Crisis and how the industry should act in this hour of need.

• The various surveys and analysis are based on EFS current portfolio, spanning over 21 countries with 500+ contracts across different business verticals.

• Specific elements highlighted in this presentation are based on the last three months client interactions, COVID-19 related exigencies, contingency measures and definitive steps taken with learnings therein. Please be noted that this presentation has also capitulated the impact of COVID-19 on the ongoing quarter results with some definitive positive outcomes.

• The objective of this presentation is to provide deep insight on COVID-19 impact to FM professionals, helping them to understand the impact assessment and measures required to meet ongoing challenges.
 GCC Outlook | Double Impact

Middle east has been hit by two large and reinforcing shocks namely, COVID-19 and the plunge in oil prices.

- As per ILO estimates of April 7, 2020, 8.1% reduction are foreseen in the Arab States equivalent to 5 million full-time workers.
- This is in addition to existing unemployment of 7.3% or 4 million people looking for jobs.
- USD 120 billion to be diverted towards stimulus in GCC for mitigating impact of COVID-19 which was earmarked for growth and infrastructure.
- UAE economy will be impacted from COVID-19 and deferment of Expo 2020 has also added to the revenue burden. The estimated revenue loss for FY 2020 can be up to USD 40 billion.
- Similarly, all GCC countries are facing significant revenue loss including impact from Tourism.
- Saudi Arabia may follow a route of temporary deferment of major investment plans.

Impact 1: Oil Price

- 62% decline in oil prices over a period of 1 month

Impact 2: Job Losses and Wealth Erosion

- For the citizens in the Arab States, the loss of job will result in reduced spending as well as reliance on government support for the purpose of daily survival.
- It is estimated that majority of the migrant workforce will return to their home countries without employment.
- This will reduce the consumer spending in the Arab States as well as impact business activity.

Impact 3: Government Budgets

- USD 120 billion to be diverted towards stimulus in GCC for mitigating impact of COVID-19 which was earmarked for growth and infrastructure.
The economic impact will be substantial, with the region contracting in 2020 by an average of 3.1%, equivalent to removing USD 425 billion from the region’s total output.

Oil exporting countries are double hit on account of lower global demand and lower oil prices, with oil exports expected to be reduced by USD 250 billion across the region.

Fiscal balances are expected to turn negative, exceeding 10% of GDP in most countries.

Lower growth of tax revenue and scaled-up spending are expected to raise public debt to almost 95% of GDP in MENA region.

Assuming FM industry margins to be in single digit, the risk category is identified as under:
- 30% + - High
- 5-30% - Medium
- <5% - Low

Source: IMF and WEF
Major Impacts/Trends Post COVID-19

Shift in Consumer Trends: 2020

Immediate spike with long term demand
- Remote work
- Contactless delivery
- Self-centric & minimalism
- Local produces
- Community outlook

Approach Evolution
- Workplace safety and health wellbeing
- Forward thinking on contingency planning and disaster management

No Change
- Environment friendly

Immediate Drop
- Transportation needs
- Reuse / Recycle
- Personalization / Private services

Government Spending
- Shift from growth orientation to stimulus

Debt and Borrowings
- Increase in public borrowings
- Debt restructuring, reschedulings, liquidity challenges

Employment
- Job losses and increase in unemployment
- Realignment of skills and automation will re-define workplace needs

Consumer Spending
- Non-essential spends to go down with rationalized demand for food and durable goods only
- Reduced disposable income to impact demand in long term due to economic slowdown

Technology
- Increased reliance on remote work tools, IoT and automation
- Increased demand for technology for replacing human contact points

Immediate Impact
- Budgetary constrains, increased social welfare & healthcare spending
- Realignment of skills and automation will re-define workplace needs

Long term Impact
Micro Impact of COVID-19 on Facilities Management
**FM Industry Overview | COVID-19 Impact**

- The industry is expected to have a medium to low impact as FM being essential services will only be subject to limited scale down, but it will be subject to client pressures to reduce costs.

- The economic slowdown will lead to deferment of existing pipeline that will impact new revenue growth on a low-medium basis.

- The industry is likely to have a U-Curve recovery. However, this U-recovery will be subject to those industry players adding new service lines, tapping new opportunities, finding efficiencies, leveraging on saving opportunities on supply chain and overheads.

- The industry is to be mindful of likely contractual disputes due to COVID-19 Force majeure and distressed contractual exits.

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**Country-wise FM Growth – 2020 – 2025 – Before COVID19 Impact**

<table>
<thead>
<tr>
<th>Country</th>
<th>2020</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>66.0</td>
<td>152.1</td>
</tr>
<tr>
<td>Saudi</td>
<td>80.8</td>
<td>90.8</td>
</tr>
<tr>
<td>Qatar</td>
<td>45.5</td>
<td>56.7</td>
</tr>
<tr>
<td>Bahrain</td>
<td>8.8</td>
<td>10.7</td>
</tr>
<tr>
<td>Kuwait</td>
<td>13.4</td>
<td>20.5</td>
</tr>
<tr>
<td>Oman</td>
<td>20.0</td>
<td>9.1</td>
</tr>
</tbody>
</table>

**Country-wise FM Growth – 2020 – 2025 – After COVID19 Impact**

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<thead>
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<th>Country</th>
<th>2020</th>
<th>2025</th>
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<tbody>
<tr>
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<td>36.3</td>
<td>61.3</td>
</tr>
<tr>
<td>Saudi</td>
<td>39.9</td>
<td>1.6x</td>
</tr>
<tr>
<td>Qatar</td>
<td>7.8</td>
<td>11.4</td>
</tr>
<tr>
<td>Bahrain</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Kuwait</td>
<td>106.8</td>
<td>44.0</td>
</tr>
<tr>
<td>Oman</td>
<td>9.5</td>
<td>6.8</td>
</tr>
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</table>

**Growth Trend - FM Market GCC**

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>168.4</td>
<td>191.9</td>
<td>219.2</td>
<td>250.8</td>
<td>280.6</td>
<td>302.2</td>
<td>321.0</td>
<td>339.9</td>
</tr>
</tbody>
</table>

**Growth Trend - FM Market GCC**

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<tr>
<th>Year</th>
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<th>2020</th>
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<th>2024</th>
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<tbody>
<tr>
<td>Value</td>
<td>168.4</td>
<td>191.9</td>
<td>180.8</td>
<td>195.1</td>
<td>214.6</td>
<td>230.6</td>
<td>244.6</td>
<td>258.7</td>
</tr>
</tbody>
</table>

**Source:** EFS internal assessment, Global FM Report 2018
FM Jobs Overview

Level-1
C-Suite, Project Directors, General Managers

Level-2
Managers, Engineers, Accountants, HR Personnel, etc.

Level-3
Administration Officer, Site Supervisors, HSEQ Officer, Public Relations Officer, Computer/Call center Operator, Guest services, payroll officer etc.

Level-4
Technicians, Receptionist, Cashier, Store Keeper, Clerks etc.

Level-5
General Helpers, House-Keepers, Handyman, Cleaners, Loaders, Office Boys, Gardeners, Security Guards etc.

Risk legend

<table>
<thead>
<tr>
<th>Risk</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>30%+</td>
</tr>
<tr>
<td>Medium</td>
<td>5%-30%</td>
</tr>
<tr>
<td>Low</td>
<td>&lt;5%</td>
</tr>
</tbody>
</table>

Job loss

- Low
- Medium
- High

Salary cuts

- Low
- Medium
- High

# Going Forward - Key Drivers of FM Industry

<table>
<thead>
<tr>
<th>Key driver/elements of FM</th>
<th>Influencers</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 1. Low government spending on new projects and austerity measures likely to trigger decrease in budgets and deferment of new projects. | 1. Increased public health care spending  
2. Focus on facility upkeep rather than expansion  
3. Emergence of new service lines to boost revenue and profits  
4. Building partnership with clients to help ease the pain and moving from fixed to “gain-share” innovative models | 1. Pressure on client budgets  
2. Reduced consumer demand affecting overall business growth prospects  
3. Arbitrary contract cancellations and disputes |
| 2. Private sector contraction to result in cost cutting and scaling-down. | | | |
| **Direct project costs**  |             |              |         |
| 1. Stability in project manpower costs (medium to lower downward adjustment)  
2. Equipment and consumables cost (including PPE cost)  
3. Tool and Machine automation  
4. Supply chain service alignment  
5. Logistics and operational overheads  
6. COVID related compliance needs | 1. Manpower costs will remain under control due to reduced cost of living and fewer work opportunities due to high unemployment  
2. Back-to-back arrangements with specialized services to reduce impact on margins  
3. Supply chain efficiencies and innovation to meet savings  
4. Manpower headcount rationalization through tool and machine automation | 1. Idle manpower due to contract cancellations, scaling down etc.  
2. Increased health and safety of employees, with higher cost allocations towards safety and well being  
3. Cost escalation due to increased spending for quarantine and isolation facilities.  
4. Supply chain disruptions  
5. Consumable cost escalation (such as PPE, cleaning consumables) |
| **Indirect costs**        |             |              |         |
| 1. Management costs re-alignment  
2. Rent, utilities, communication Travel, lodging costs rationalization  
3. Financing costs control (interest rates, bank charges etc.) | 1. Non-Project Management costs to be aligned to revenues and rationalized.  
2. To leverage low rentals and operating costs  
3. Technology to be adopted as a key driver for process automation to reduce headcounts in support operations | 1. Reduced revenues and minimal growth opportunities can increase the burden of overheads on company profits.  
2. Work culture will require a shift due to technology infusion and work-from-home solutions. |
With reduced branch network and de-scoping, ATM and customer experience centers will increase, thus, offering increased shared services leading to extension in scope of demand for workplace spaces.

Industry to provide innovative and cost effective solutions for aviation
Industry to leverage on new COVID related compliance services such as disinfection, sanitization due to IATA standards.

Drop in oil prices has not led to reduction to oil production, thus the demand for FM services would continue

Shift to e-commerce to boost demand for industrial/warehousing space.  
As more people work from home, demand for cloud kitchen, storage space facilities and other niche real estate classes will increase. These asset classes would require additional FM scope

Banking network might shrink with added use of technology in day-to-day operations. Physical branch network is a costly

Shrinking bottom line will add pressure on FM spend and with corporate downsizing and underutilization of offices, the demand for IWP services in aviation will reduce

FM spend might come under client review due to Brent price impact

The cost budgets might shrink due to low capital values, abundant space availability and low consumer demand

**Likely Impact**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aviation</td>
<td>Low</td>
<td></td>
<td>High</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>Low</td>
<td></td>
<td>High</td>
</tr>
<tr>
<td>Real Estate</td>
<td>Low</td>
<td></td>
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**Likely Impact**

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**Aforesaid impact is based on EFS existing portfolio across various business verticals and portfolio of 21 countries that we operate in.**
Retail companies offering necessities will see rampant growth in the near future. Increased emphasis on hygiene, both in store and extending to supply chain partners offer a market for FM services.

Public health services such as disinfection and sanitization will offer variable revenue streams to organizations.

Increased demand for disinfection services and hygiene consumables. Remodeling of the office space from HSE perspective can bring tremendous revenue stream.

Increased output for basic goods and requirement for maintenance of highly specialized equipment.

E-commerce offers opportunities to FM companies to offset the detrimental impact of retail (non-essential) shrinkage. They will require FM services for their growing number of warehouses and distribution centers.

<table>
<thead>
<tr>
<th>Likely Impact</th>
<th>Industry</th>
<th>Likely Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Retail</td>
<td>High</td>
</tr>
<tr>
<td>Low</td>
<td>Real Estate Residential</td>
<td>Medium</td>
</tr>
<tr>
<td>Low</td>
<td>Integrated Workplaces</td>
<td>Medium</td>
</tr>
<tr>
<td>Low</td>
<td>Industrial</td>
<td>Medium</td>
</tr>
<tr>
<td>High</td>
<td>E-Commerce</td>
<td>Low</td>
</tr>
</tbody>
</table>

There can be a shift in consumer behavior towards online buying. Retail space is likely to decline, thereby impacting the FM market.

The cost budgets might shrink due to clients and tenants looking for lower service charges, thereby, impacting FM budgets.

Significant down-shift in office space may be witnessed due to increased tech-based and work-from-home solution, thereby, leading to severe cuts in real estate expenditure.

Reduced workspace due to enhanced robotics will reduce requirement of staff based services to plants.

Office space occupied by such companies may reduce as they already enjoy a widened technology base for enabling and adopting mobile working solutions.

The aforesaid impact is based on EFS existing portfolio across various business verticals and portfolio of 21 countries that we operate in.
Emerging Trends In Facilities Management

Facilities Management industry is looking for next level of disruption where outsourcing, workplace strategies and technological innovations hold great potential for reducing costs and improving productivity. Although technology is available for FM, there were obstacles that inhibited adoption. **COVID-19 has raised the need for industry transformation powered by technology and automation.**

1. Integrated value and services to streamline processes and improve performance
2. Workplace personalization and wellbeing strategies to enhance employee engagement and retention
3. A changing relationship between the client and partner with much more collaboration to develop longer term partnerships
4. Higher skillsets and compliance needs for built environment
5. Higher client expectations on asset life cycle, longevity with a shift from preventive to predictive maintenance focus on green building protocols
6. Need for hybrid commercial models to meet commercial goals and proactive contract management
7. IoT development enabling more visibility across a range of applications with well defined KPIs to allow data analytics to address costs and performance, thus enabling predictive maintenance
8. Robotic automation to undertake repetitive and hazardous tasks in order to reduce risk and costs
9. Augmented reality supporting the operator with remote assisted maintenance
EFS – Defining Impact and The Way Forward
Way Forward, How To Maintain The COVID-19 Equilibrium

COVID EQUILIBRIUM

COVID-19 Impact

- Isolation / Quarantine requirements
- Cleaning chemicals costs
- Reduction of Scope
- Margin Reduction
- Increased PPE Costs
- Increased Logistics Costs
- Unavailability of Staff

COVID-19 Savings

- Partnership with Clients, Trust & Transparency
- Savings and Innovation
- Efficiencies
- Sub-contractor benchmarking
- New Revenue Lines

Savings and Innovation
Efficiencies
Sub-contractor benchmarking
New Revenue Lines
Aligning FM Key Drivers To Achieve COVID-19 Equilibrium

<table>
<thead>
<tr>
<th>Element</th>
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<th>Management Strategy</th>
<th>Action points</th>
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<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existing Business</td>
<td>• Reduction of overall topline due to service contraction</td>
<td>• Lower contribution due to reduced topline</td>
<td></td>
<td>RESOLVE</td>
<td>• Strong Client engagement to promote partnership sharing pains and gains. Exercise strong contract management to ensure changes are within contract ambit.</td>
</tr>
<tr>
<td></td>
<td>• Tight client budgets for reduced margins and descoping</td>
<td>• Margin reduction</td>
<td></td>
<td></td>
<td>• Change management to be transitioned effectively</td>
</tr>
<tr>
<td></td>
<td>• Contract re-alignment with clients</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Business Generation</td>
<td>• Limited growth possible due to cost pressures</td>
<td>• Limited growth for the organization at large</td>
<td></td>
<td>RETURN</td>
<td>• New business targets to be re-estimated on the basis of sectoral analysis for FY 2020-21 to ensure sustainable growth</td>
</tr>
<tr>
<td></td>
<td>• Slowed economic activity resulting in delayed tendering process</td>
<td>• Expansion goals deferred to ensure sustainability</td>
<td></td>
<td></td>
<td>• Country specific outlook to be factored</td>
</tr>
<tr>
<td></td>
<td>• Competitive vs Margins challenge to stay for foreseeable future</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variations</td>
<td>• Drop in general discretionary spend from client</td>
<td>• Variation margins were an important contributor to company’s gross margins</td>
<td></td>
<td>RESILIENCE</td>
<td>• Operations to keep focus on additional variation jobs to eliminate detrimental impact of reduced topline</td>
</tr>
<tr>
<td></td>
<td>• Lockdown disrupting service delivery capability</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Service Lines and Revenue Streams</td>
<td>• Emergence of new services such as disinfection</td>
<td>• Companies to provide capital and cash flow management for new business</td>
<td></td>
<td>RE-IMAGINATION</td>
<td>• New services to be promoted throughout FY 2020 to encash on the business opportunity available</td>
</tr>
<tr>
<td></td>
<td>• Increased awareness towards health and hygiene</td>
<td></td>
<td></td>
<td></td>
<td>• Change the way business is done in usual practice</td>
</tr>
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## Aligning FM Key Drivers To Achieve COVID-19 Equilibrium

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</thead>
<tbody>
<tr>
<td><strong>Cost of Sales</strong></td>
<td>Manpower costs</td>
<td>Increase in employee wellbeing element</td>
<td>Increased cost of accommodation and transportation costs</td>
<td>RESILIENCE</td>
<td>Avoid lay-offs with minimal salary reductions, manpower costs needs to be taken care with prudence.</td>
</tr>
<tr>
<td></td>
<td>Specialized services cost</td>
<td>Contract clause implementations with OEMs.</td>
<td>Mismatch between cost and revenue generated</td>
<td>RESOLVE</td>
<td>Service benchmarking, Streamlining contract resolution process, SLA and BOQ alignment, Aligning sub-contractor costs to new service lines and costs</td>
</tr>
<tr>
<td></td>
<td>Consumables, Spare parts and tools/equipment</td>
<td>Supply chain disruptions</td>
<td>Increase in cost of sales</td>
<td>RE-IMAGINATION</td>
<td>Effective BOQ exercise, Ordering as per increased lead times to avoid last minute “costly” purchase</td>
</tr>
<tr>
<td></td>
<td>Other direct operational costs</td>
<td>Logistics costs have been impacted</td>
<td>Increased mobility and logistics costs</td>
<td>RESILIENCE</td>
<td>Minimize wastage and introduce austerity across all overheads</td>
</tr>
</tbody>
</table>

- **Increased in Insurance costs for FY 2021**
- **Isolation and quarantine costs burden**
- **Future contingency planning costs**
- **Higher cost of employee well being**
- **Avoid lay-offs with minimal salary reductions, manpower costs needs to be taken care with prudence.**
- **Increased communication and employee engagement**
- **Effective manpower management and supervision to boost productivity**
- **Service and role integration for manpower optimization**
- **Conflict and relationship management issues**
- **Mismatch between cost and revenue generated**
- **Relationship management issues**
- **Effective BOQ exercise**
- **Ordering as per increased lead times to avoid last minute “costly” purchase**
- **Minimize wastage and introduce austerity across all overheads**
### Aligning FM Key Drivers To Achieve COVID-19 Equilibrium

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Overheads and Selling, General and Admin. Expenses (SG&amp;A)</strong></td>
<td>Management and support staff costs</td>
<td>• Reduced topline has increased the percentage of SG&amp;A manpower costs to company revenue  • Cost alignment to meet revised revenue levels</td>
<td>• Fixed cost base with lower revenues, leading to pressure on EBT levels.</td>
<td>RESILIENCE</td>
<td>• Compensation alignment  • FM being single digit business, needs to ensure that operating overheads are contained to less than 5%  • Austerity to contain non-essential costs</td>
</tr>
<tr>
<td></td>
<td>Rent and Utilities, Travelling, Marketing, Legal and Professional Fees</td>
<td>• Real Estate usage and rentals rate have been hit hard in the crisis  • There will be a shift in consumer behavior patterns now  • Travelling has been hard-hit due to the crisis</td>
<td>• This holds a positive impact from company perspective as we are in a position to negotiate a deal.  • All fixed contracts can be negotiated for legal/professional and marketing expenses.</td>
<td>RESOLVE</td>
<td>• Negotiation of existing rental contracts  • Area assessment of the office space and exercise options such as sub-lease or moving to a smaller space</td>
</tr>
<tr>
<td></td>
<td>Financing Costs</td>
<td>• Increased cost of financing due to delays in payments and deferment of cash flows.</td>
<td>• Higher fund requirements  • Capital ratios to be effected impacting capital adequacy  • Overall increased financial exposure</td>
<td>RESILIENCE</td>
<td>• Renegotiation with banks  • Exercising better collection policies for reduced Debtors Sales Outstanding (DSO) days  • Working capital life cycle management</td>
</tr>
<tr>
<td></td>
<td>Technology infrastructure, Systems and communications</td>
<td>• People were left with no option but to go “digital”  • This has raised awareness about the use of technology in day-to-day business activities  • Technology will make us more sustainable in the long-run</td>
<td>• We might require a certain level of capital expenditure to ramp up the system to meet the needs of users in the extended crisis scenario</td>
<td>RESILIENCE</td>
<td>• Sessions can be conducted to further train the users with our softwares to maximize utility gains</td>
</tr>
</tbody>
</table>
Way Forward For FM | Steps Needed For Future

**REVENUE**

- Emphatic and assertive business development strategy to tap new opportunities and businesses
- Building client partnerships and engagement to support captive business
- Focus on new service lines – such as Disinfection and Space Management

**DIRECT PROJECT COSTS**

- Advancement in skill-set of personnel to meet changing needs of business
- Manpower optimization and productivity enhancement powered by technology and automation
- Role and service integration
- Higher employee engagement and communication to boost morale
- Supply chain consolidation from outsourced to in-house model
- Integrate technology for process automation

**INDIRECT COSTS**

- Align culture to new norms of responsible spending and austerity (if needed)
- Adapting to remote working culture
- Leveraging off-shore work resources and adapt to outsourcing model for back-end services
- Enhanced focus on working capital management and reducing financial cost burden
Thank you