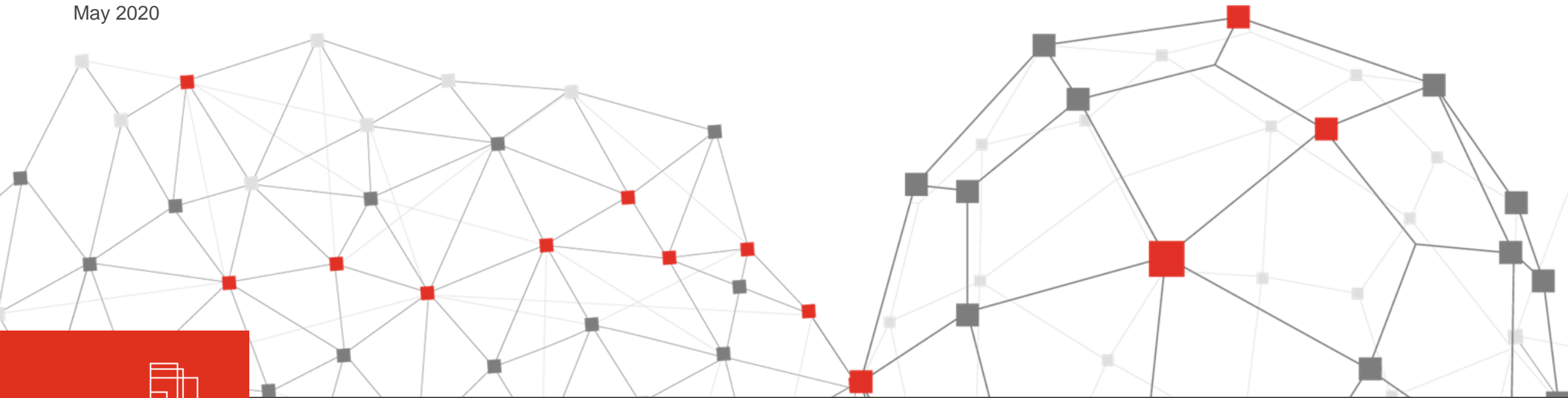


COVID-19

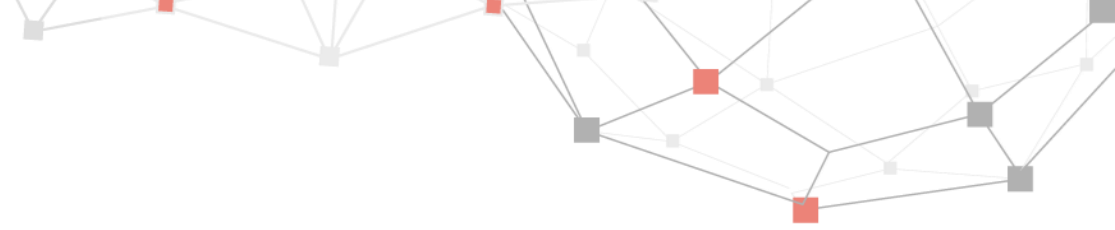
Georgian Business in the face of the Covid-19 Pandemic

May 2020



The study was created in cooperation with Investors Council

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Introduction



The spread of the COVID-19 virus raises the question of the effects of this phenomenon on Georgian companies and different ways that micro, small, medium-sized and large enterprises deal with the crisis. It is important to understand the current problems that businesses have already encountered, their expectations moving forward and areas of support they require.

PricewaterhouseCoopers Georgia LLC (PwC Georgia), together with the Investors Council, has developed a survey questionnaire in order to study the impact of the new Coronavirus (COVID-19) on the Georgian economy and business sector. The purpose of this survey is to properly assess the scale of the impact that companies face during a pandemic and to consider the challenges they will face after it.

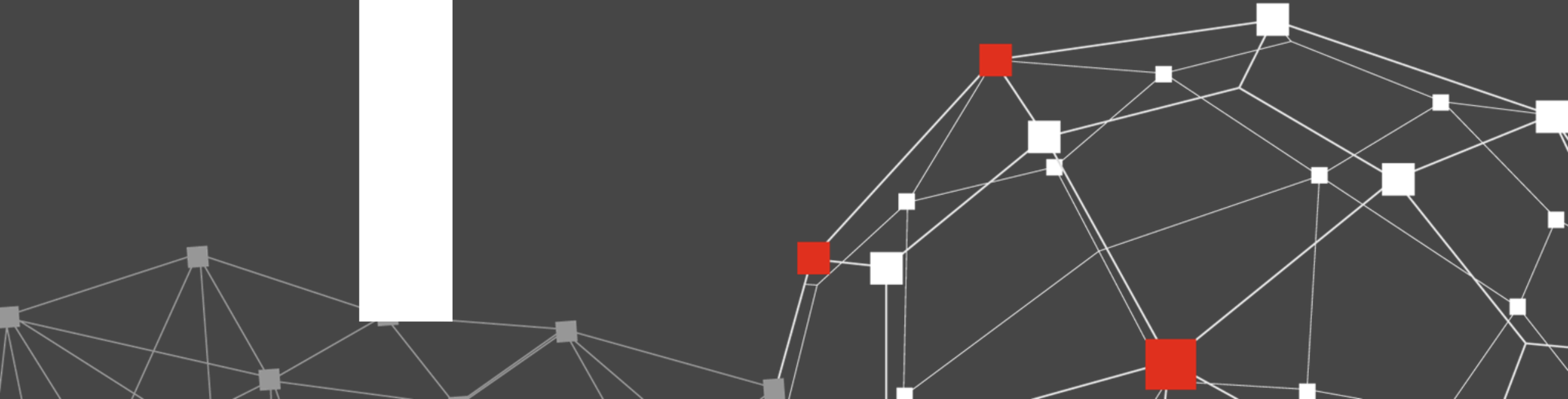
The study was conducted between 16–27 April this year via online survey and was distributed using diverse channels to large group of businesses operating throughout Georgia, generating in total **1,938 responses**. The research was carried out in enterprises from micro, self employing entities to large companies employing more than 250 people. The intention of the study was to capture "first" reactions of businesses to the pandemic situation. The survey answers the question of what difficulties businesses experience, what are their first actions related to combating the effects of the virus, what is the situation of companies in terms of financial liquidity and what are the businesses' predictions regarding the development of the situation in their companies.

We invite you to read the report, at the same time treating it as a contribution to the debate on the necessary actions aimed at supporting companies and the Georgian economy.





Key facts and findings



Key facts

1,938

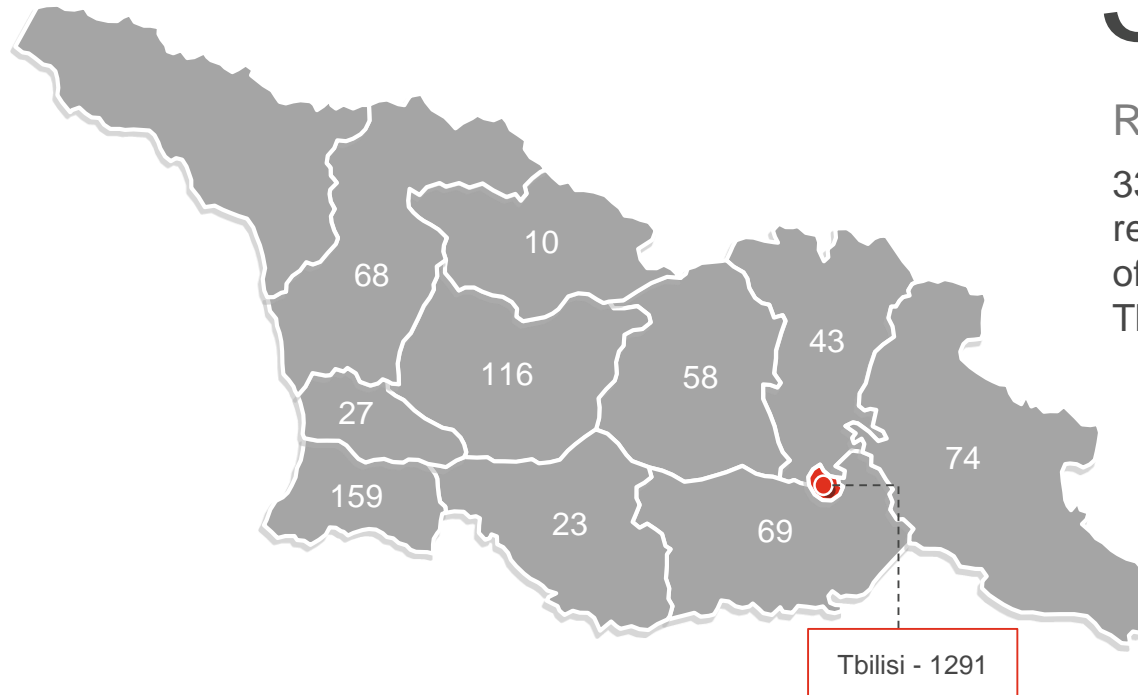
Number of responses

1,938 businesses from various sectors across different regions of Georgia responded to the survey

46%

Size of businesses

46% of respondents are micro enterprises, followed by the small businesses (25%)



33%

Regional coverage

33% of respondents represent various regions of Georgia other than Tbilisi



Key findings



Among all sectors, decrease in demand is the most significant side effect of COVID-19. Decrease in demand meaningfully affected the revenues of the surveyed companies that have already dropped by more than half for 65% of respondents. From all the sectors, the accommodation and food service companies were effected the most – more than 75% of this sector is experiencing significant revenue reduction. Projections from the respondents are somewhat positive and only half of them expect more than a 50% drop in revenue, while the accommodation and food service companies still expect to be the most affected.

Decreased demand, cash collection shortages and changes in customer behaviors triggered liquidity challenges of the companies. 28% of interviewed companies comment that they have already faced liquidity challenges. Around half of the companies are expecting to face liquidity problems in the upcoming 1 to 6 months and only 15% of companies are optimistic that they can maintain liquidity without further reductions or downsizing.

As a quick solution to resolve decreased demand and liquidity issues, companies started to reduce their headcounts. More than 50% of surveyed companies have already experienced some employee reductions, with the tourism and service-related industries being most vulnerable (more than 40% have already reduced 100% of their employees). The agriculture sector has been the least affected from this perspective. Due to the uncertainty, the projections of respondents follow the same trend.

As the trend continues, the majority of companies are facing additional financing challenges. 79% of respondents mention that they need additional financing. However 85% of those companies have not yet approached the financial institutions and the majority that did were not successful in obtaining additional financing. The only exceptions from that segment were large enterprises: 42% of companies who approached banks were able to obtain additional financing, 22% were rejected and 36% are still waiting for a response.

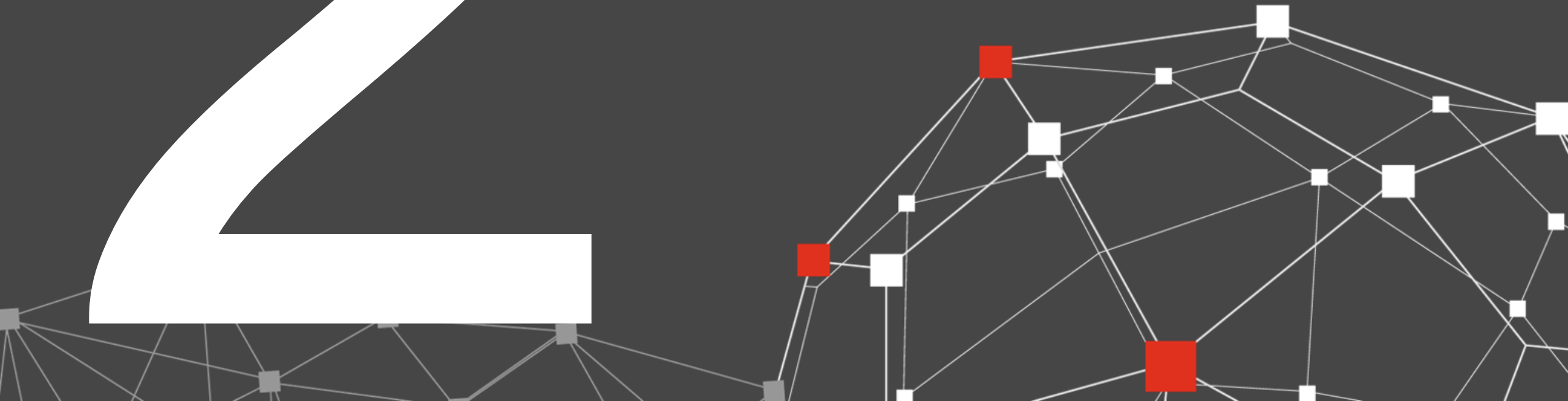
Analysis shows differences in the expectations in the regions compared to Tbilisi. From the surveyed companies, fewer in the regions expect a drop in revenues by more than 50% than in Tbilisi (44% in regions compared to 51% in Tbilisi). These differences are maintained in the headcount reduction field too: 45% of the companies from regions have not planned headcount reductions compared to 37% of companies in Tbilisi.

Georgian business in the face of the Covid-19 pandemic









2

Current effect of the
pandemic on
business



65% of the surveyed companies identify decrease in demand as the major challenge

What are the causes of the difficulties the company is facing?

	 Micro – self-employed	 Micro – 2-9 employees	 Small – 10-49 employees	 Medium – 50-249 employees	 Large – 250+	 All together
Decrease in demand	66%	66%	60%	69%	70%	65%
Disruption in the supply chain	30%	31%	35%	40%	27%	33%
Employees on special leave (childcare due to cancelation of classes)	2%	13%	15%	20%	16%	12%
Employees on quarantine or sick leave	5%	16%	19%	18%	9%	15%
Closure of external borders	28%	29%	26%	27%	23%	28%
Impossibility to fulfill Health and Safety regulations	3%	5%	4%	6%	2%	4%
Late payments from clients	15%	24%	30%	41%	25%	26%
Difficulties related to change in GEL exchange rate	29%	39%	46%	51%	50%	40%

Up to 10% of indications
 10% -20% of indications
 20% -30% of indications
 30% -40% of indications
 40%-50% of indications
 50% -60% of indications
 Above 60% of indications

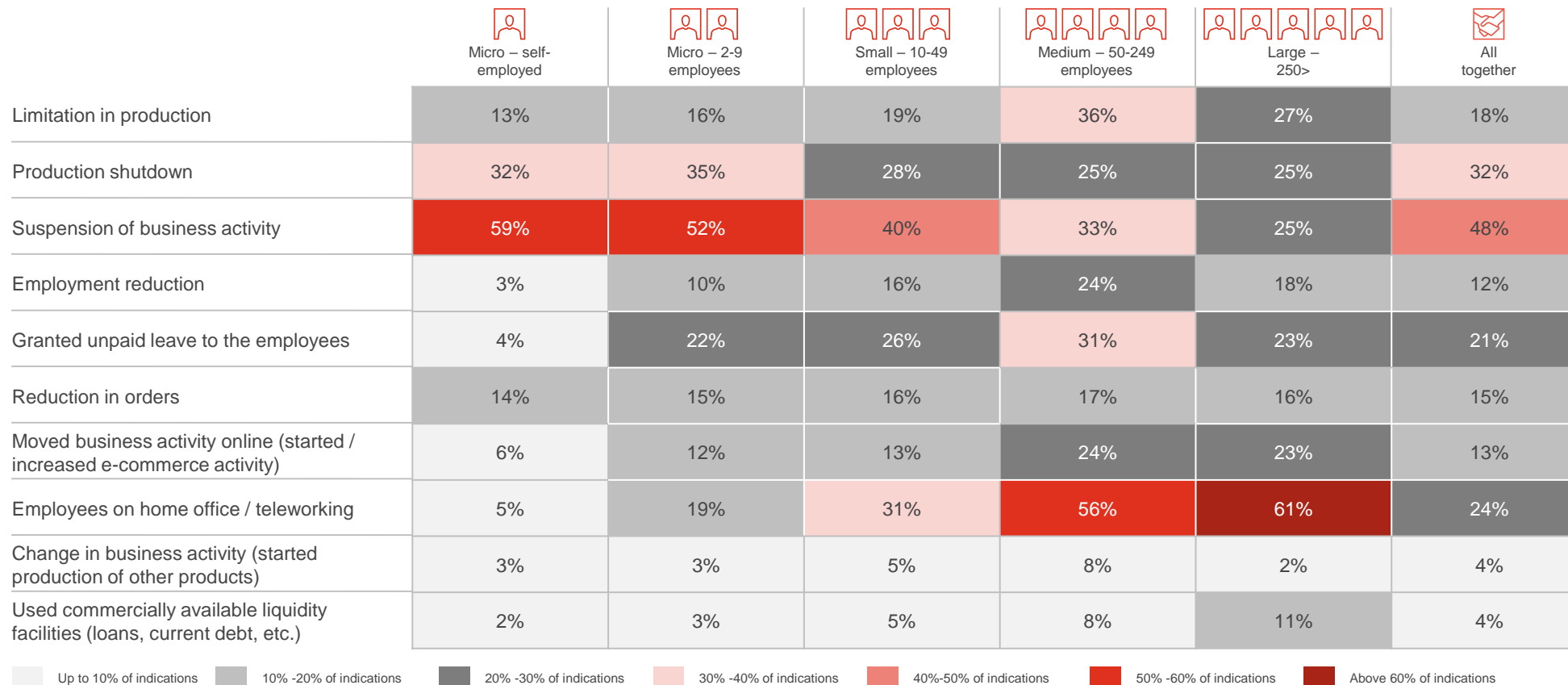
How to read the map?

Heat map indicates what percentage of various sized entrepreneurs pointed out particular difficulties during the pandemic. For example: closing borders caused difficulties for 29% of Micro enterprises employing 2-9 people. Please note, that respondents could choose more than one answer and percentages do not add up to 100%.

- Based on the analysis of the responses, the main difficulty the companies face is decrease in demand followed by the currency rate fluctuations and disruption in the supply chain.
- In addition to the responses recorded in the study, the companies also cited the closure of business due to quarantine and restrictions on transportation as a significant difficulty.
- In terms of sectoral analysis, closure of external borders disrupts mostly accommodation and food service enterprises, with 49% indicating it as a difficulty, as well as transportation and storage business – 41%.
- Almost half of the respondents operating in the construction or ICT sectors are especially concerned by difficulties related to the currency exchange rate and late payments from clients.
- Disruption in the supply chain and difficulties related to the currency exchange rate was identified as a difficulty by companies operating in the agriculture and manufacturing sectors.

Over 59% of micro self-employed enterprises have suspended their business activities in response to the emerging difficulties

What kind of protective measures has the company undertaken so far in response to the emerging difficulties?



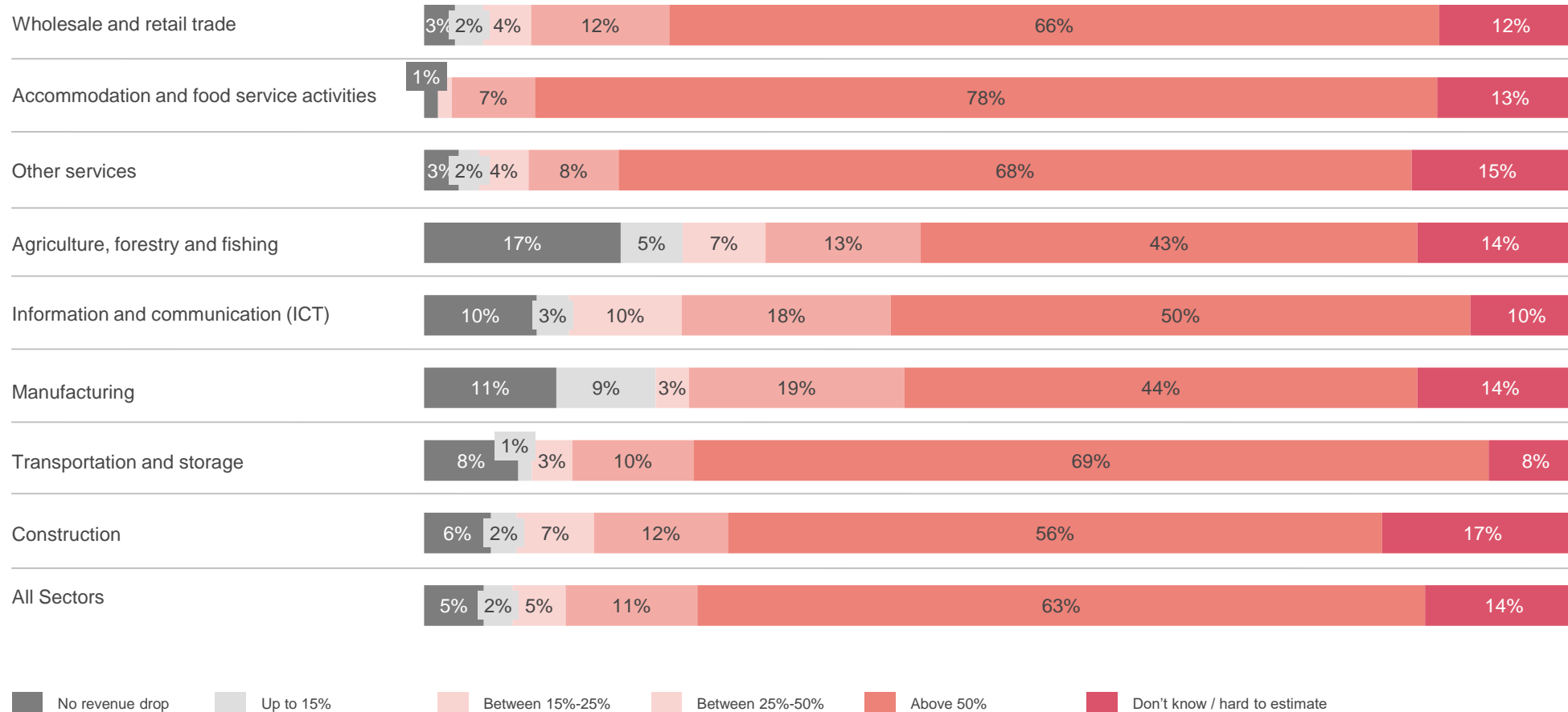
How to read the map?

Heat map indicates what percentage of various sized entrepreneurs undertook the particular protective measure during the pandemic. For example: 59% of micro self employed enterprises chose to suspended business activity. Please note, that respondents could choose more than one answer and for that reason percentages do not add up to 100%.

- Based on the responses, many companies were forced to suspend business operations and/or shut down production due to the pandemic.
- Employees of the companies with more than 50 people more often than others had the possibility to telecommute / work remotely, move their business activity online and to use liquidity facilities.
- According to the survey, slightly more than every tenth of all respondents had to reduce the number of employees and more than every fifth granted their staff unpaid leave.
- From a sectoral perspective, 66% of accommodation and food service providing businesses suspended their activities, followed by wholesale and retail traders with 57%, construction – 53% and other services 50%, while businesses in manufacturing and agriculture, forestry and fishing had to limit or suspend production.
- The ICT sector, due to its nature, was the least affected as the business could quickly adjust to the new reality and navigate through current challenges.

63% of respondents indicated a more than 50% revenue drop in March and April 2020 compared to last year

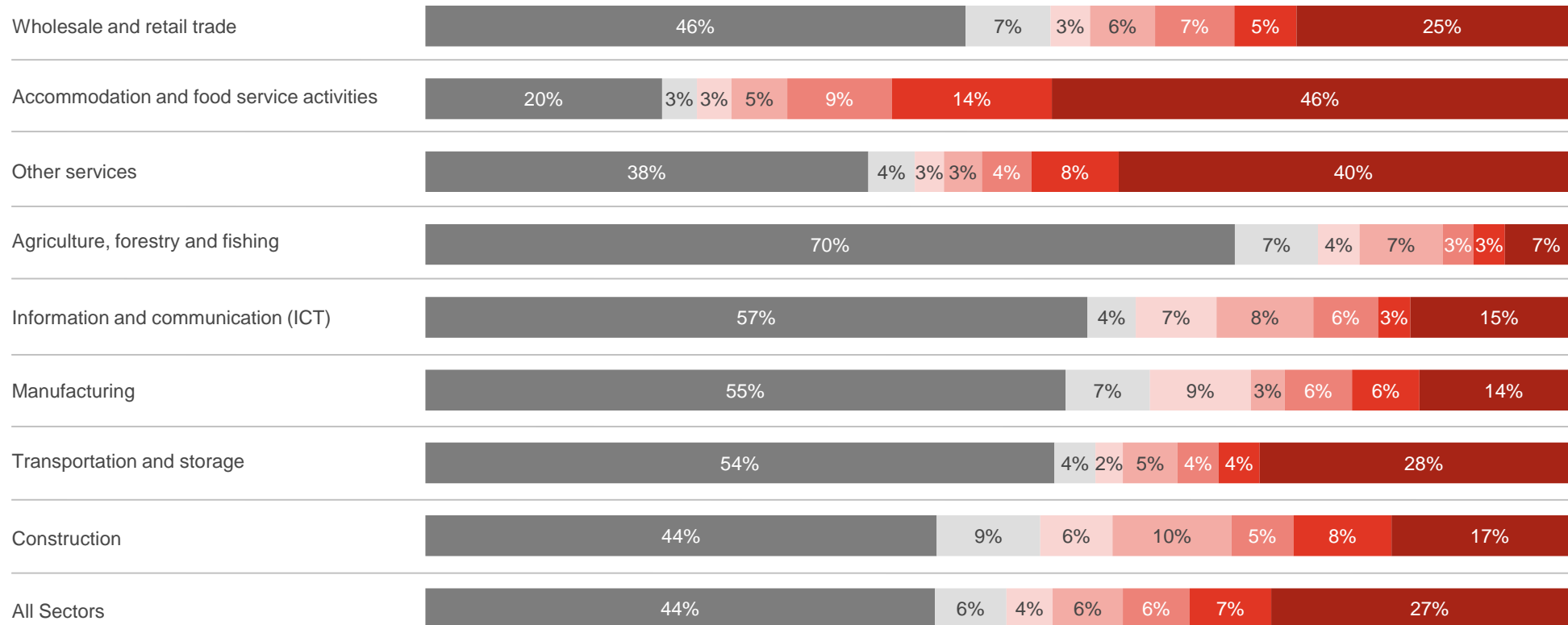
Do you have a drop in revenue in March and April 2020 compared to March and April 2019?



- The most affected sectors during the pandemic are accommodation and food service providing businesses (78%), transportation and storage (69%), other services (68%) and wholesale and retail trade (66%).
- Around 40% of companies in the agriculture and manufacturing sectors reported a 50% drop in revenues, which is comparably lower than other sectors
- Only 5% of businesses disclosed no decrease in revenues in March and April 2020.
- In the context of respondents answers by sizes, 69% of micro-self employed entities stated over 50% of revenue decline, followed by: micro employing 2-9 people (64%), small employing 10-49 (60%), medium 50-249 employees (54%) and large businesses (52%).

44% of companies have not reduced their employees in March and April 2020

If you had to reduce / send to unpaid leave employees, what was the size of the reduction in March and April 2020?

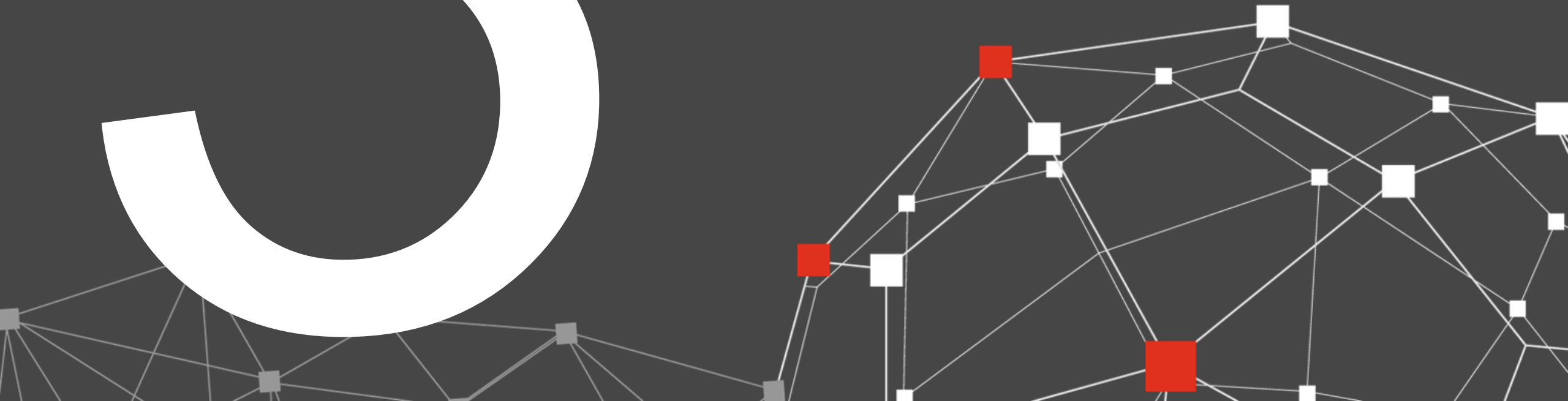


- Based on the analysis of responses, 27% of all enterprises have decreased their headcount by 100%.
- The lowest number of reductions are observed in the agriculture, ICT and manufacturing sectors. However, service industries including accommodation and food service activities, other services and transportation and storage have the highest number of complete staff reductions with 46%, 40% and 28% respectively.
- Analysis of the responses for occupations among dismissed workforce show that the largest decrease was observed among sales and service workers 38.7%, followed by business and administration 10.5%, construction 10%, manufacturing and processing workers 8.3% and transportation service staff 8.1%.

No reduction
 Up to 15%
 Between 15%-25%
 Between 25%-50%
 Between 50% and 75%
 Between 75% and 99%
 100%

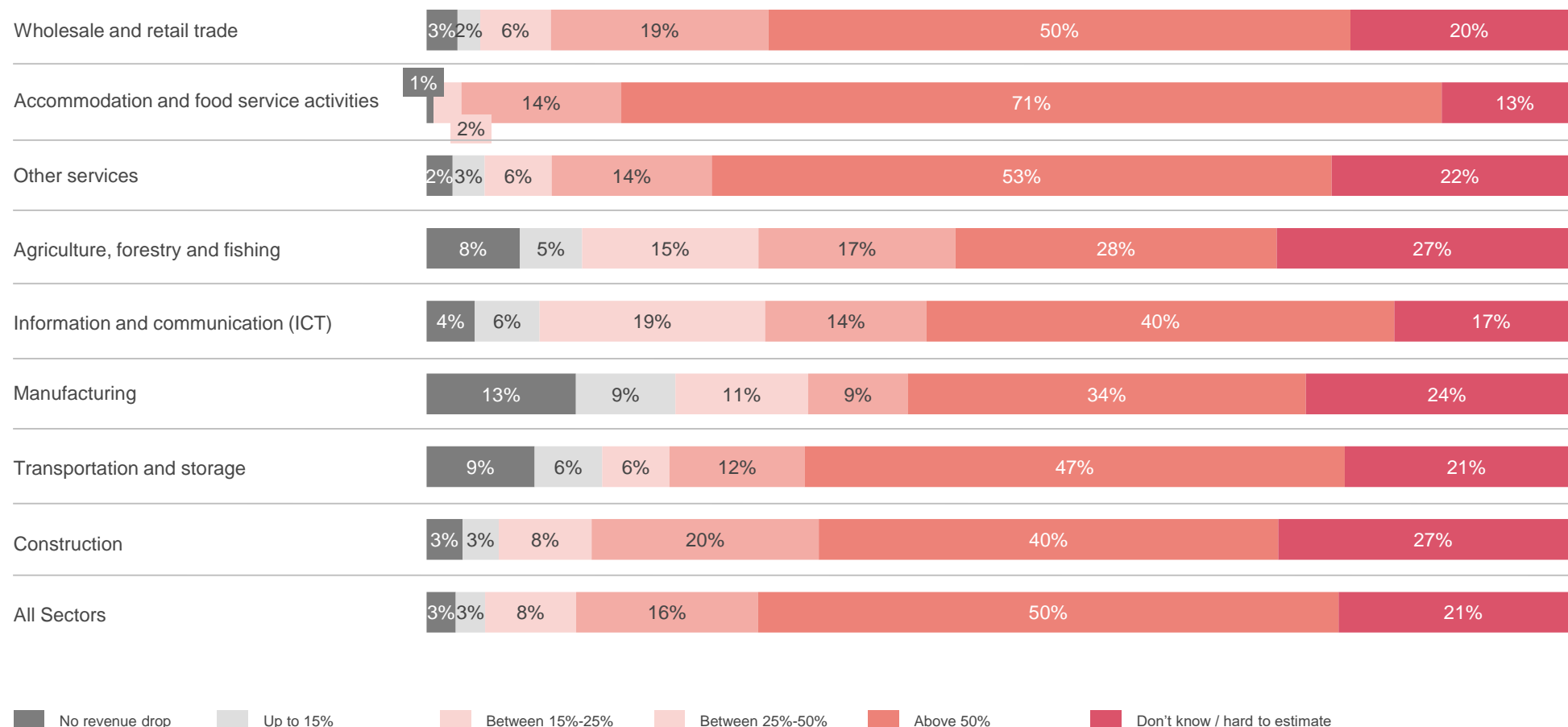
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Expectations of future effects of the pandemic on business



71% of the companies operating in accommodation and food service sectors predict revenue drop above 50% in the upcoming 3 months compared to the previous year

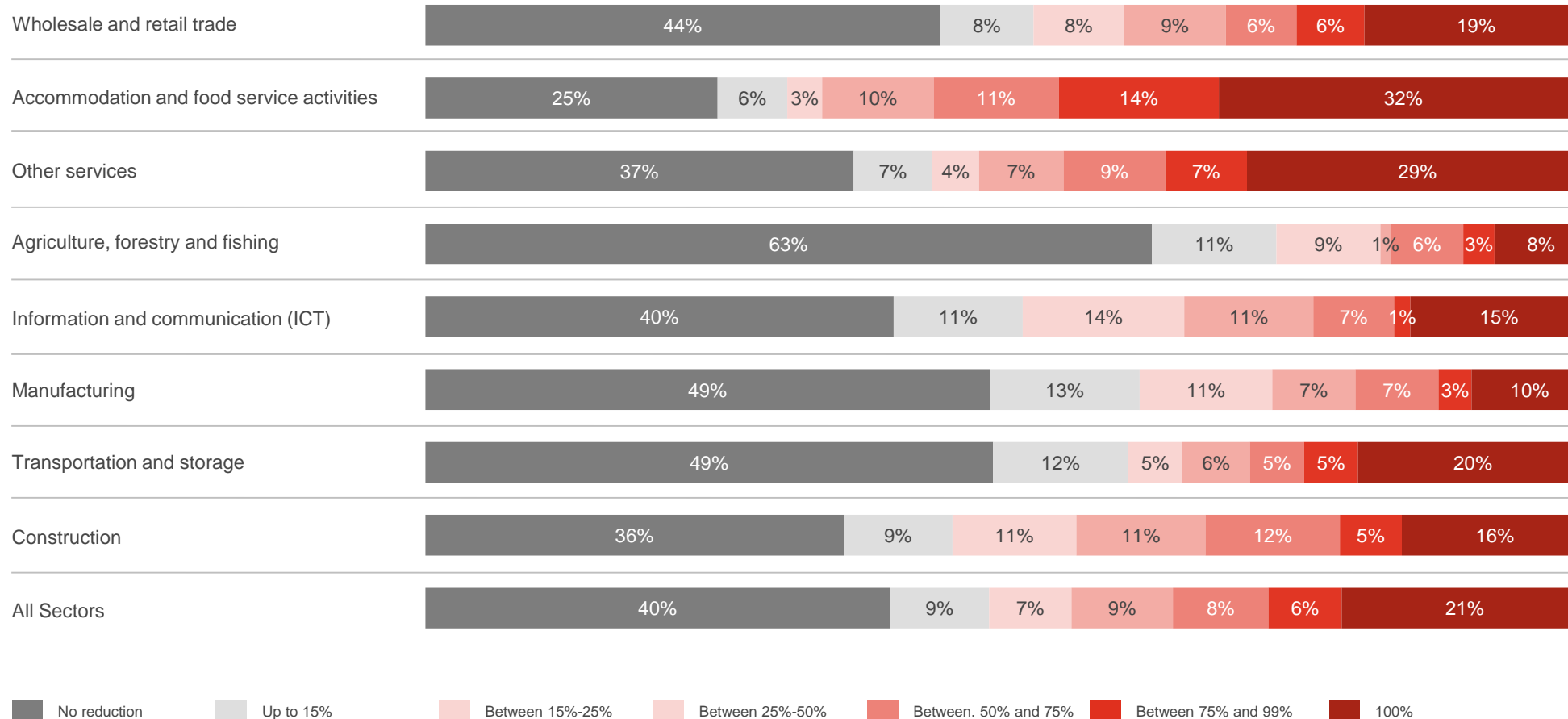
Do you forecast a drop in revenue in the coming 3 months in comparison to the corresponding 3 months of the previous year?



- One half of the companies from all sectors forecast a drop of more than 50% in revenues in the upcoming 3 month compared to the last year. More than one fifth of all companies cannot precisely estimate their drop in revenues.
- The highest uncertainty (don't know / hard to estimate answer) is in agriculture and construction sector.
- Only 3% of companies predict no revenue drop in upcoming 3 month.
- Enterprises operating in service industries have the most negative expectations among all the sectors. 71% of accommodation and food service companies project a significant revenue drop of above 50%. The same applies to 53% of other service providing companies, 47% for transportation.
- One half of wholesale and retail trade and enterprises in other sectors also anticipate more than 50% of revenue drop in coming month.
- To observe responses from the size of companies - among micro-self employed, micro 2-9 employees and small scale enterprises – 53%, 49% and 46% respectively indicating that there will be more than 50% of revenue drop. However, none of the large companies suggested less than 15-25% of revenue decrease.

More than 60% of companies in agriculture sector do not expect reduction in the headcount or unpaid leaves for the employees in the upcoming 3 months

How many employees do you think you will need to reduce or send to unpaid leave in the upcoming 3 months?



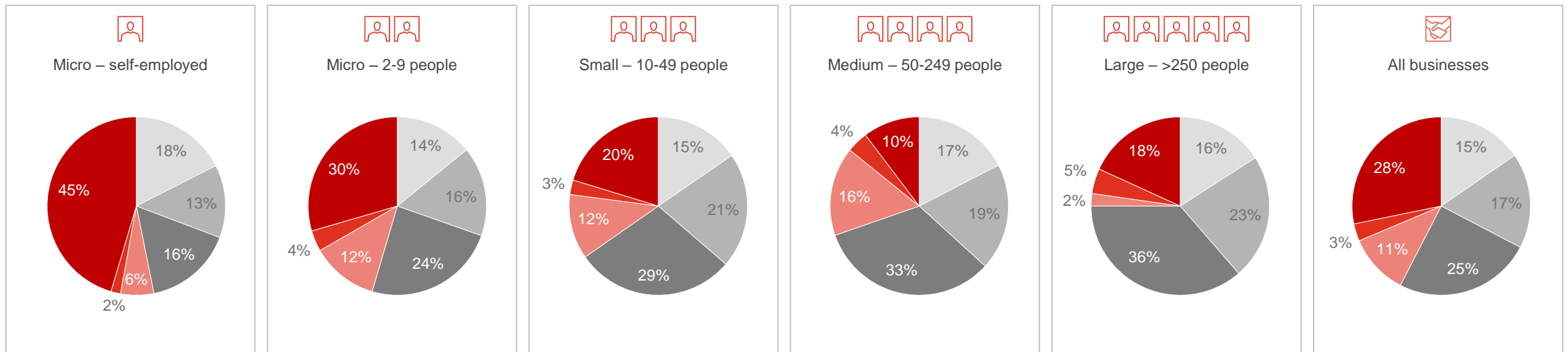
- Based on the responses from various sectors of economy 40% of enterprises do not plan to reduce the number of employees during the upcoming 3 month.
- Around one fifth of all the respondents indicate reduction of headcounts by 100%. The most negative responses come from service providing companies. In particular 32% of accommodation and food service providers predicts 100% reduction in employment whereas 29% of other services.
- Looking at the responses from the company size perspective 24% of micro enterprises employing 2-9 people and 13% of small scale businesses (10-49 people) plan to reduce 100% of their staff. The comparable statistic is significantly lower for medium and large businesses projecting 5% and 7% in total reduction of their workers.

Only 15% of companies forecast that they can maintain their liquidity over 6 months

How long is the company capable of maintaining liquidity, while paying all liabilities and without a reduction in employment?

More than a quarter of the respondents already assess that their business faces liquidity challenges, the majority of such companies being micro enterprises. The result varies significantly across the different groups. More than one third of small, medium and large businesses admit that they are able to maintain financial liquidity for over 3 months, 36%, 37% and 39% respectively.

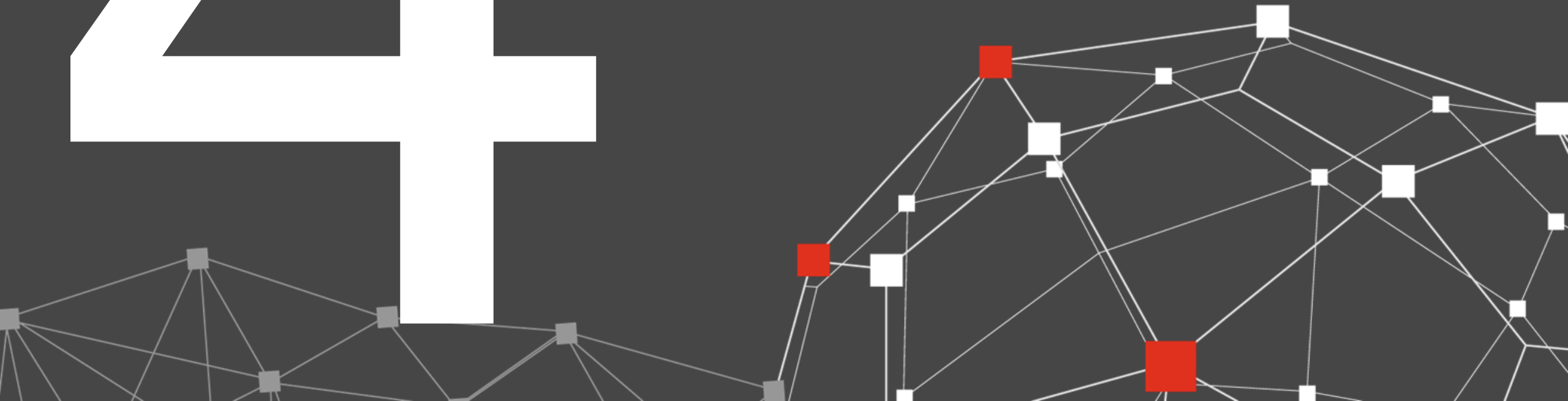
Most of the companies that face liquidity problems are operating in accommodation and food service provision (41%), other services (35%), followed by wholesale and retail trade (30%) and transportation and storage services (27%). The most sustainable sectors during the pandemic, who can continue operating without reduction in employment and maintain liquidity after 3 months, are agriculture (51%), information and communication (46%), manufacturing (45%).



Above 6 months
 Between 3 and 6 months
 Between 1 and 3 months
 Up to 1 month
 Up to 2 weeks
 Company already faces liquidity challenges

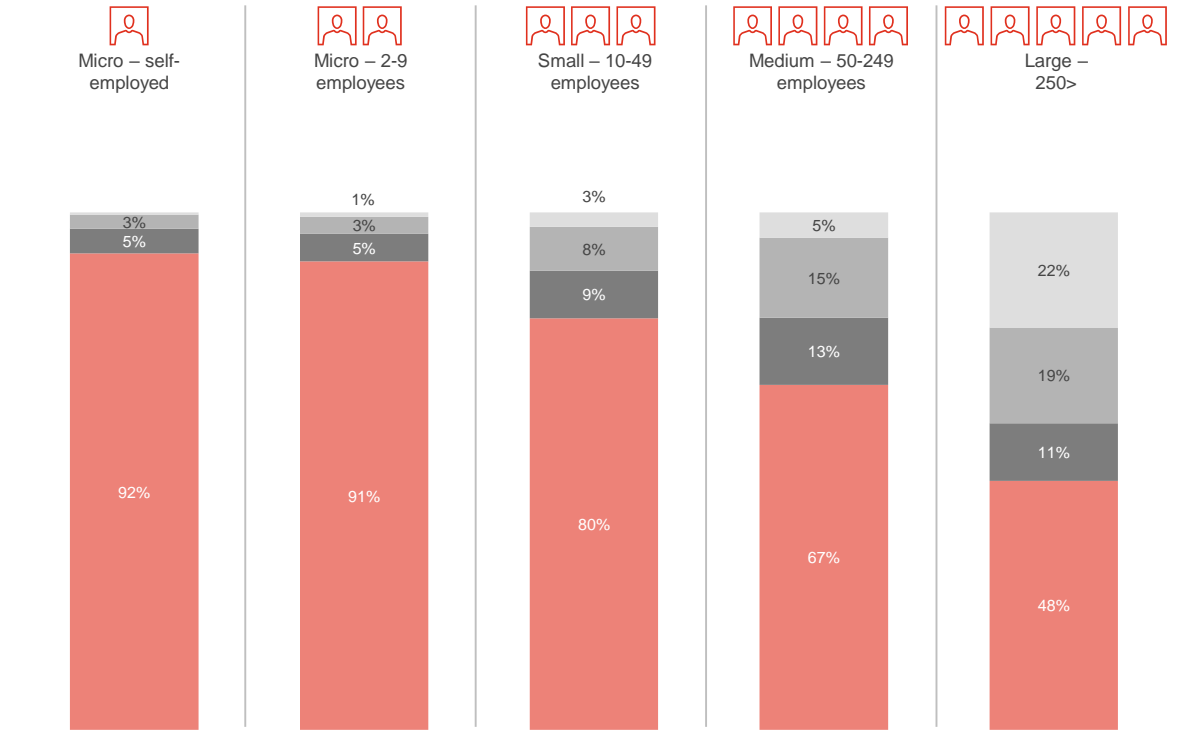
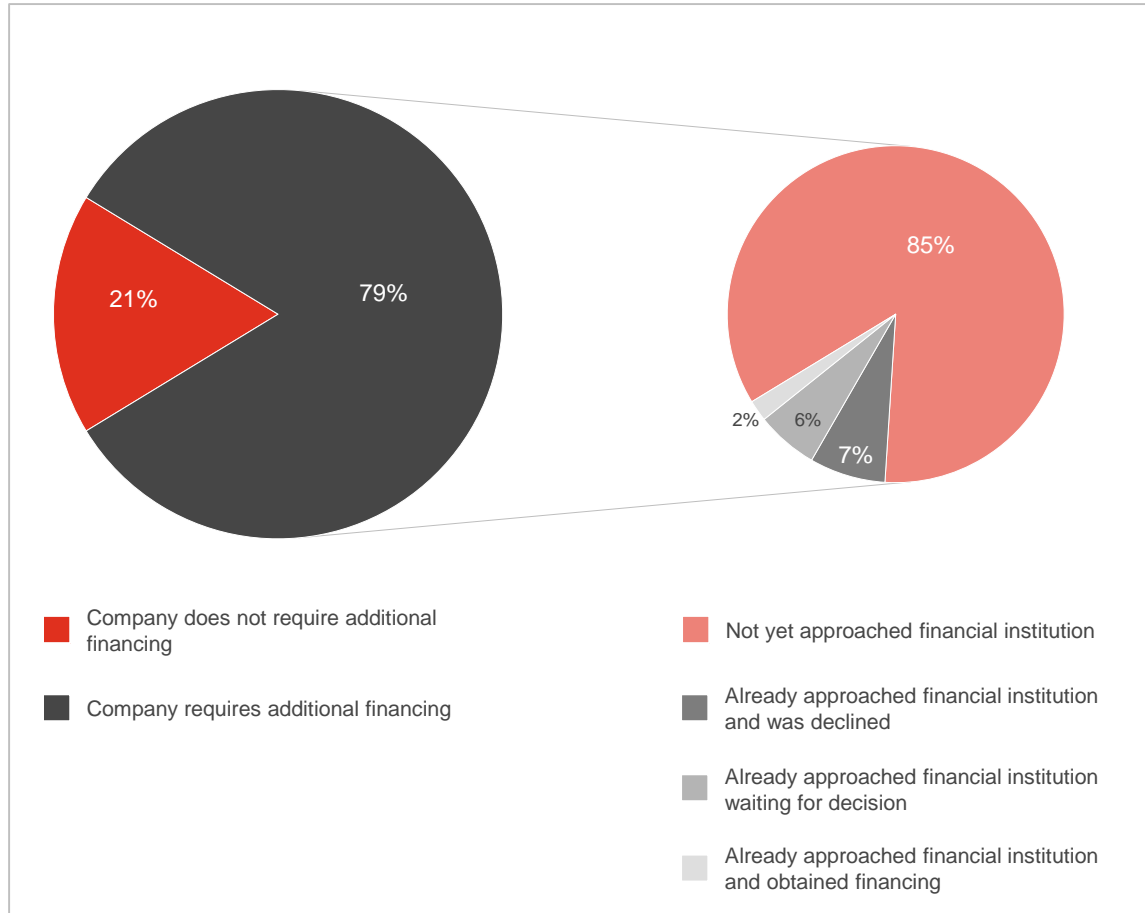
4

Financial challenges
of business in the
pandemic



79% of the respondents see the need of additional financing, from which 85% have not yet approached financial institutions

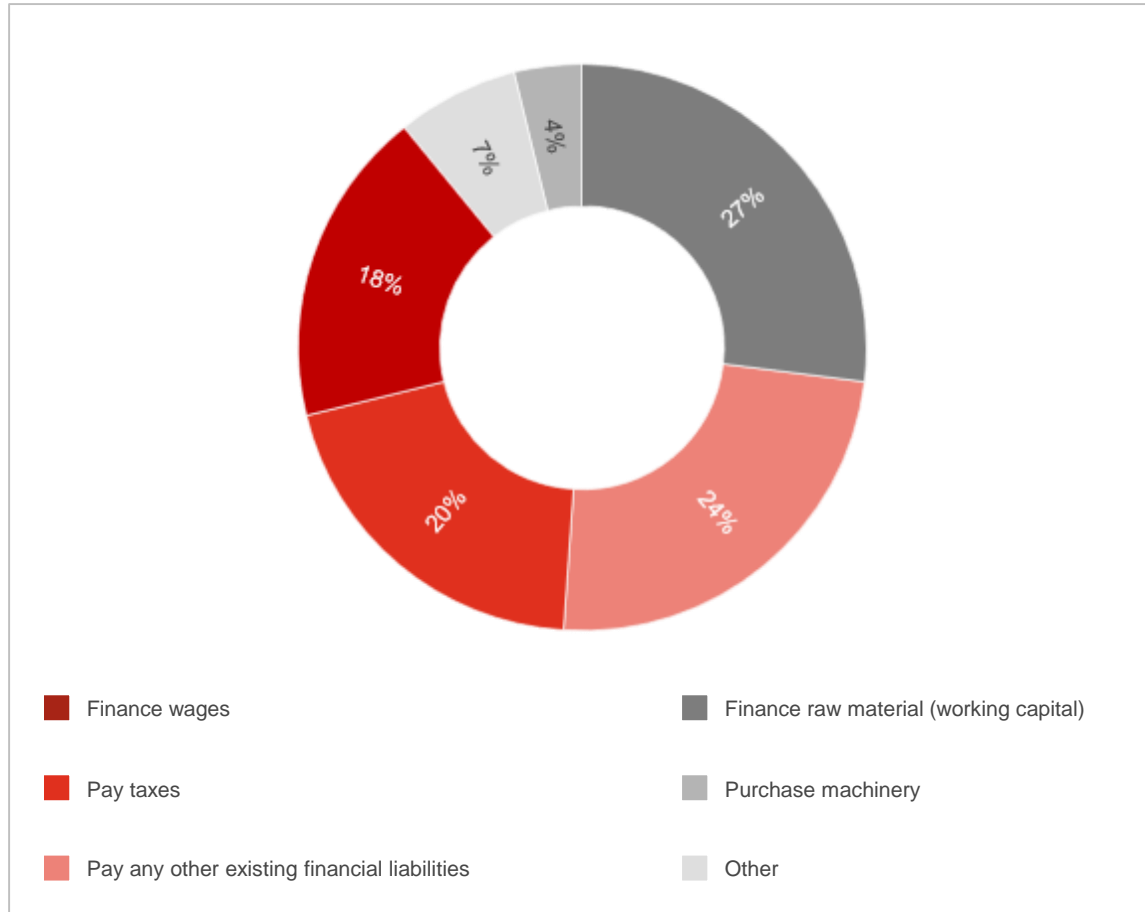
Does your business require additional financing due to COVID-19 related issues?



Statistics vary across the sizes of companies. Slightly more than 90% of micro businesses have not yet approached financial institutions. The situation is completely different for large companies, out of which only 48% have not contacted the financial institutions yet, 22% already obtained financing, 19% are waiting for the decision and 11% got rejected.

27% of the respondents look for additional funding to finance the working capital

What is the main reason your company requires additional financing?



- Businesses have diverse purposes for additional funding. Over one fifth of surveyed companies require additional funding for working capital. Around one quarter of companies need funding to pay their existing liabilities. 20% of all the companies need funding pay existing taxes and 18% for covering the wages.
- It has been stated by a large number of respondents that they request for deferment of taxes, especially VAT and import tax.
- If we compare the data across different sizes of businesses there is not a large diversity for financing purposes. However, more than average - 30% of large enterprises - consider refinancing of existing loans.
- From the sectoral perspective, agriculture, manufacturing and wholesale and retail trade sectors more than others show the need for additional funding for financing raw materials and /or purchasing machinery.

Thank you

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