

# Li & Fung Coronavirus Global Update

April 2, 2020

## Executive Summary

- As some countries like the US and the UK enter a more difficult period over the next 2 weeks in terms of increased infections and cases, there are others in Europe which are now seeing a gradual decline. We expect and see a variable recovery timeline over the next 2 months with some key markets opening up and retailers buying again. With the lead times, they are already planning for the next season now.
- The cash flow situation and financial stability of some retailers remains very fluid as we may see increasing numbers of firms filing for credit protection going forward.

## General Market Updates

- Some Off-price retailers are starting to cancel orders as store and DC closures increase pressure; some planned shipments are currently stuck with forwarders due to the timing of cancellations
- A brief survey of March sales comps suggests a range of between 40% to 80% down across various retail segments
- UK retailer Next has put its headquarters in Leicester and three warehouses up for sale, with the plan to lease them back in order to conserve finances
- A survey by the UK Office of National Statistics of 3,642 businesses showed 27% of respondents were reducing staff levels in the short term and 45% were seeing much reduced turnover for the period to March 22
- European grocery stores are only allowed to sell essentials, but that may loosen as more consumers want games, drawing, etc. to entertain children at home – entertainment and household products will continue to gain traction as most schools will remain closed for the rest of the academic year and restrictions on travels remain for the summer
- Italy's Prime Minister has said that the nationwide lockdown will last until at least April 13

## LF Updates

- Some of our customers have retracted cancellations on basics including some swimwear, chinos/shorts, and also footwear by working on options of holding into next year for Sp '21 season. The same is happening for non-seasonal and year round core products as well.
- Some of our retailers also believe that fashion accessories and footwear will gain strong sales post Covid as they continue developments aggressively
- Our Pan-European customers are looking at loosening in markets which are expected to announce lifting of lockdowns in the next couple of weeks hopefully. Some Scandinavian markets including Sweden are operating normally with Spring sales in full swing.
- We continue to service several requests for medical gowns, gloves, masks, and PPE.

- We are also closely monitoring all our vendors across our production countries as they need to pay wages to workers this week.
- Our LF Logistics teams continues to service customers across several countries which are under partial or complete lockdowns employing complete safety and security measures – the Philippines, Latin America, USA, India, Bangladesh, Malaysia, Singapore, Thailand, the UK amongst others

## Government Stimulus Packages

- The European Commission is considering proposing a EUR100 billion scheme to support a short-term work scheme
- The US Federal Reserve eased capital requirements for large banks to increase lending supply
- China announced new monetary policies to lower deposit reserve requirements for small and medium-sized banks to support lending to small and medium-sized companies
- The Taiwanese government has increased the budget for its stimulus plan from the original \$1.99B to \$34.7B
- Thailand's Deputy Prime Minister said the government will consider an additional stimulus actions to tackle the economic challenges caused by the virus outbreak
- Pakistan's government gave more details on its financial support package and will be refunding \$650 million to exporters in sales tax and duties, \$1.3 billion cash subsidies to poor families, a reduction in interest rates, and deferment of utility bills for poorer families
- In Vietnam, the government is considering a total package of \$2.6B to help those most effected by the current situation targeting poor households and laid-off workers (about 4.1 million people)
- Indonesia's banks are being encouraged by the country's The Financial Services Authority (OJK) to defer debt collection and enforcement activities and has also revised the criteria for assessing bad (non-performing) loans
- India's Finance Ministry has extended payment timelines for certain insurance policyholders until April 21; at the same time India's Reserve Bank has relaxed the time limits for Exports Proceeds Realization from 9 to 15 months from the date of export

*A table at the foot of this email provides a high-level scan of what support initiatives we have seen from these and other countries*

## Country Updates

### *China*

- All LF China offices and distribution centres are operational and resourced
- Our offices and supplier partners continue with strict building entry and in-office safety protocols

### *Korea*

- LF Korea remains on flexible working patterns with 50% at home, and 50% in our Seoul office
- The Korean manufacturing industry logged an average factory utilization rate of 70.7% in February, the lowest in almost 11 years

### *Taiwan*

- The LF Taiwan office is fully open and fully resourced
- We are working with customers where possible to help with current season cancelled goods sell off or storage of goods for SP21

#### *Vietnam*

- LF Hanoi and HCMC offices remain open and applying flexible working arrangements, but following government's social distancing campaign
- A number of factories are voluntarily closing down until April 15
- Some are offering workers to take leave for a month on 75% of basic salary, while others are suspending pay but making small loans to workers (to be paid back once stability returns) and continuing to pay 10% social insurance

#### *Indonesia*

- Jakarta remains under a state of emergency period until April 19, and the the LF Jakarta office remains open but applying flexible work arrangements until April 5, however this is likely to change
- We continue to work with factories that still have production, working in ways that include conducting quality inspection activities via video/Skype
- Most factories are however working on much reduced capacity and/or considering closure until mid-April or early May
- Starting today April 2, the country's largest international airport, Soekarno-Hatta, will ban the entry of foreign visitors and transits are also not permitted

#### *Cambodia*

- The LF Phnom Penh office remains open but applying flexible working arrangements until April 5
- We see factories reducing capacity to between 30-50%
- Suppliers Christmas accessories from Cambodia have been impacted due to the ban on movement over the Vietnam-Cambodia border as products usually ship through Vietnamese ports

#### *Philippines*

- The LF office remains working from home and targets to resume work on April 13
- Almost all Philippine factories are shut down

#### *India and Sri Lanka*

- LF India offices continue operating but remotely until April 14; factories remain closed in both India and Sri Lanka until April 14<sup>th</sup>.
- Prime Minister Modi is expected to address the nation tomorrow evening as the Finance Ministry continues to work on the next wave of stimulus packages for the industry.

#### *Bangladesh*

- LF Bangladesh offices remains operational but working from home until April 9
- The Bangladesh government has not issued any specific directives about the closure of garment factories in light of the extension of the general holiday until April but, generally, factories with export orders and those producing medical equipment can continue operations following proper health guidelines according
- Due to factory closures and uncertainty on salary disbursements, our Compliance team has been engaging with factories and following up on any identified issues

#### *Pakistan*

- The Pakistan government announced an extension to its lock down to April 14 and as a result LF's office will also extend work from home until April 14
- Lockdown rules are becoming stricter, with shorter opening hours allowed, and only for essential businesses; concessions given to essential and emergency transportation

#### *Guatemala*

- The LF office in Guatemala will remain working from home until April 13

- All public and urban transport remain suspended making it difficult to move about within cities even for businesses that remain open
- With the approach of Easter, we expect almost all factories will shut down next week for at least 1-2 weeks

*Other LATAM*

- Brazil – Some of the country's largest retailers have closed stores and asked employees to take annual leave; at the same time, financial donations have been made to hospitals as well as financial support to a 35,000 people in their local community
- Mexico – LF quality teams in Mexico will take annual leave this week; a number of denim factories will close this week until April 15 as orders dry up
- 90% of Mexico City's shops must close, with the only establishments allowed to open being those related to health, food provision and other essential services

*UK*

- All LF UK offices remain operational but working from home
- Some supermarkets are offering workers extra pay for working in stores during the lockdown

*Rest of World*

- Mauritius and Madagascar – both these island nations remain on high alert with most production facilities shut down or heavily reduced
- Ethiopia – reported its first cases of COVID-19 in the past few days however production is not yet affected; we will monitor the situation as it develops