

# **TMT Covid-19 Impact Assessment**

Potential Operating Model Disruption

**May 2020**

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# Covid-19 has been an exogenous shock to the global economy and way of living

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While the overall economic dampening will have a **mixed impact across the TMT sectors in the short run** (e.g. movie theaters vs. online movies), the **TMT industry will emerge stronger in the longer run**. We expect an **acceleration** of three key trends:

- **Virtualization** across most consumer and business experiences
- **Investment in connectivity/ infrastructure** to support virtualization
- **Resilience/ risk mitigation** for supply chain/ infrastructure

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The disruption to the operating model in the longer term will vary by sector

- **Morphing** – substantial change in operating model once economic activity rebounds (e.g. more virtualization of content production and distribution)
- **Surviving** – will maintain the current operating model; revenue expected to rebound with the economy as it is primarily discretionary spend (e.g. ad spend, consulting spend)
- **Staying the Course** – current operating model, providing infrastructure and services to support virtualization, positions it for longer-term success (e.g. software)
- **Net-new Innovating** – potential enhancements to the current operating model to leverage the changes to how people work and live (e.g. faster/ shared deployment of 5G)

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For an **individual company**, its specific **financial health** together with the **impact to the subsector** determines the **path forward**

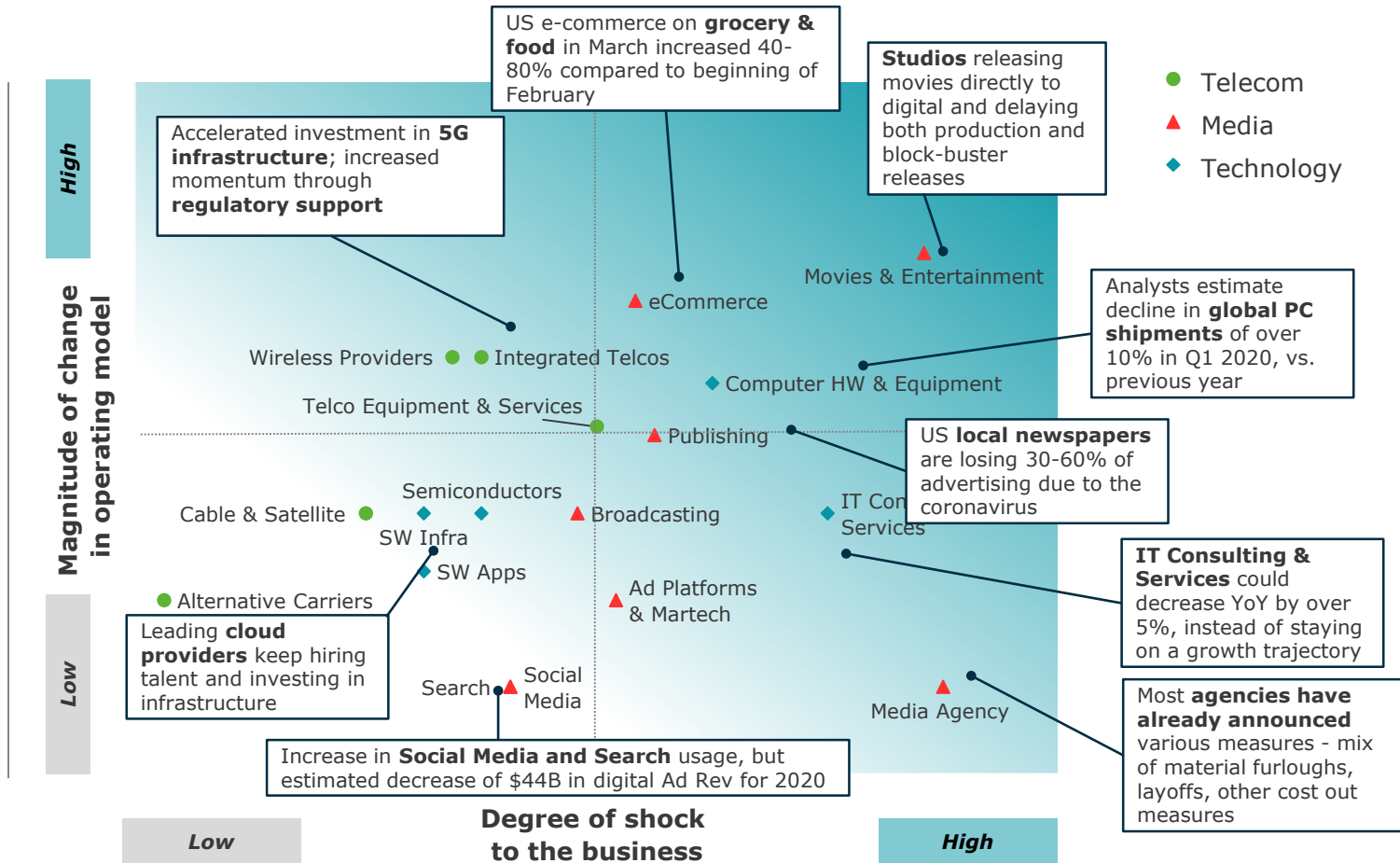
# 1 We see an acceleration towards virtualization, connectivity and automation that will ultimately benefit the TMT industry

Themes	Area	Observations	Implications
<b>Accelerated Virtualization of Consumer and Business Experiences</b>	<b>Content distribution</b>	<ul style="list-style-type: none"> <li>Reduction in theatrical window</li> </ul>	<ul style="list-style-type: none"> <li>Lower utilization of theaters in the future</li> <li>More premium content released to digital immediately</li> </ul>
	<b>Content Production</b>	<ul style="list-style-type: none"> <li>Utilization of CGI; recast of previously produced content</li> </ul>	<ul style="list-style-type: none"> <li>Lower reliance on physical production</li> </ul>
	<b>"White collar" Work</b>	<ul style="list-style-type: none"> <li>More WFH and virtual collaboration; also in education</li> </ul>	<ul style="list-style-type: none"> <li>Better technology, collaboration tools and network bandwidth – seamless interoperability and reliability</li> </ul>
	<b>Social Interaction</b>	<ul style="list-style-type: none"> <li>Minimize "social" interaction across the supply chain</li> </ul>	<ul style="list-style-type: none"> <li>Shrinking of tech-platforms that rely on physical assets to serve "wants"</li> <li>More agile, seamless, and remote production and delivery processes</li> </ul>
	<b>E-Commerce</b>	<ul style="list-style-type: none"> <li>High demand for transactions that support social distancing (Amazon vs. Uber/ Ticketmaster)</li> </ul>	<ul style="list-style-type: none"> <li>Optimized distribution (less reliance on retail stores)</li> <li>Will require better customer success/support</li> </ul>
	<b>E-Service</b>	<ul style="list-style-type: none"> <li>Increase and improve the ability to sell &amp; set up services virtually</li> </ul>	<ul style="list-style-type: none"> <li>Easier for customers to switch suppliers</li> </ul>
<b>Accelerated Investment in Connectivity/ Infrastructure</b>	<b>Infrastructure</b>	<ul style="list-style-type: none"> <li>Surge in demand for bandwidth with social distancing</li> </ul>	<ul style="list-style-type: none"> <li>Investment in new infrastructure (5G)</li> <li>New models for sharing infrastructure to manage peak demand (e.g. similar to electricity)</li> </ul>
<b>Accelerated Redesign for Redundancy/ Risk Mitigation</b>	<b>Manufacturing, Logistics</b>	<ul style="list-style-type: none"> <li>Efficient manufacturing facilitated by robotics in high cost location close to demand</li> </ul>	<ul style="list-style-type: none"> <li>Reliance on robotics in higher cost location</li> <li>Need for less social interaction with reliance on robotics</li> <li>Advances in 3-D printing</li> </ul>

## 2 The impact of COVID-19 is determined by the magnitude of change and the degree of shock to the business by subsector

### Magnitude of post-crisis disruption of operating models, evaluated across:

- Customer Interaction and Channel
- Production and Operations
- Distribution and Logistics Supply Chain



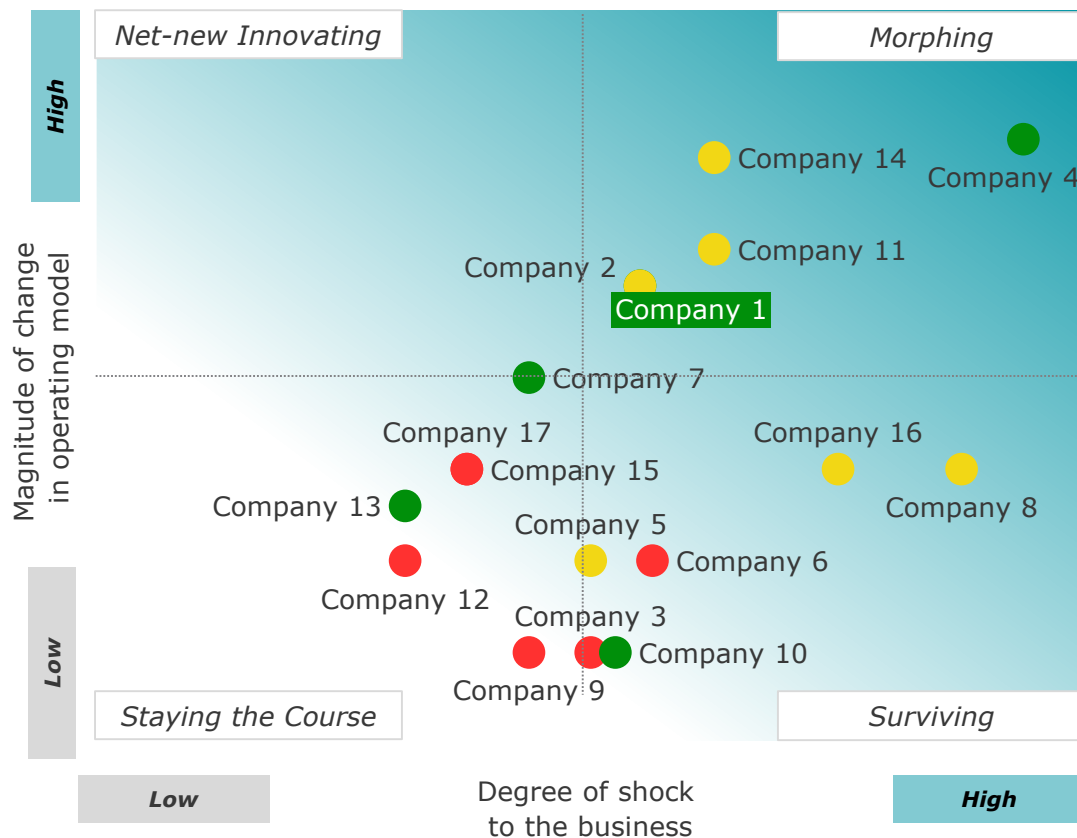
### Gauge of supply and demand impact along COVID-19 key pain points:

- Demand: Social interaction, Need vs Want
- Supply: Virtual vs Physical Product, Asset Reuse, Labor Intensive, Remote vs Local Labor

### 3 For an individual company, its specific financial health together with the impact to the subsector determines the path forward

Assessment: Operating Model Disruption & Severity Impact & Financial Health

Methodology



- **Morphing** – substantial change in operating model once economic activity rebounds (e.g. more virtualization of content production and distribution)
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- **Staying the Course** – current operating model, providing infrastructure and services to support virtualization, positions it for longer-term success (e.g. software)
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#### Financial Health of the individual Company

- Healthy - Ample liquidity to withstand the economic turbulence
- At Risk - Adequate liquidity pre-covid but stretched by pandemic
- Danger - Scarce liquidity pre-covid

Note: Company numbers are random and purely for illustrative purpose

# For more information on our TMT sector analysis, please get in touch



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