

# ARGO ASSOCIATES

**Briefing 26 February 2020**

*How to protect your business during a pandemic*

This week has seen a turning point in assessments of the risk of the COVID-19 virus. With infections spreading rapidly in South Korea, Italy and Iran it is clear that this is no longer a Chinese or even an Asian problem. Although the World Health Organization has not yet pronounced it as such, many virologists now believe that the world is in the early stages of a pandemic. Many companies and investors, however, are still treating the outbreak as an event limited in terms of both geography and time – the assessments made thus far in the business world have tended to focus on the disruptions to global supply chains caused by the effects of the virus in China (and the government's measures to control it). These assessments have tended to assume that this disruption would be largely limited to the first quarter of 2020, with a subsequent bounce back in economic activity after this time. This assessment may still end up being correct but is now looking less likely; it is increasingly probable that the global spread of COVID-19 will have longer-lasting economic effects, and ones different in character to those seen thus far in the containment stage of dealing with the virus.

At Argo Associates we are not virologists nor experts in healthcare. In our research into the possible commercial impacts of COVID-19 we have therefore utilized the mathematical modelling and predictive studies of the spread of the virus that have been undertaken by a number of research institutes and specialists in epidemics. All of these studies and projections currently have very large margins of error as knowledge about the virus, its severity and its modes of transmission are all still subject to clarification. Broadly speaking, however, businesses now face three main scenarios:

- 1) COVID-19 is contained within China and the other countries to which it has spread – especially South Korea, Italy and Iran – and dies out within a limited period, perhaps in part due to the impact of warmer Spring weather upon the virus;
- 2) COVID-19 continues to spread widely and becomes an epidemic circulating within a wide variety of countries over a period of perhaps 12 – 18 months;
- 3) COVID-19 becomes a seasonal virus that will continue to circulate, predominantly during the winter months. It is possible that a vaccine will provide some immunity once this is developed and has been put through trials, perhaps in a year or so.

Option 1 is currently looking a lot less likely than it was a few weeks ago, although it is still possible. The spread into the Middle East will bring the virus into countries such as Syria where the health system will not be able to successfully treat or contain it. Countries such as Afghanistan and Iraq are already reporting suspected cases. Some epidemiologists believe that we are failing to detect roughly two-thirds of infected people travelling with the disease

meaning that contact tracing is becoming increasingly difficult – this is clear from the Italian situation where the authorities have been unable to locate “patient zero” for the outbreak there.

Rather than simply hoping that the outbreak will be contained we believe that it is now time for companies and investors to prepare for the impact of a pandemic upon their operations and portfolios. So, what changes are we likely to see? Firstly, the types of restrictions on international travel that we have seen thus far are likely to become less relevant. There is little point in trying to restrict travellers from other countries once health systems are dealing with local outbreaks. This can be seen in the restrictions in place in South Korea and Italy where the focus has moved to controlling and restricting travel within the affected countries (focused on the city of Daegu in Korea and on various small towns near Milan in the Italian case). As the outbreaks in both South Korea and Italy have moved beyond a situation in which all or most of the relevant contacts can be traced, the effectiveness of even these local restrictions are questionable. Ironically, the global nature of the spread of COVID-19 may lead to an easing of some of the supply chain issues that we have seen thus far (which have been quite extreme in China). As some of the travel restrictions that companies and governments are imposing become less relevant this does not mean that business travel will return to normal; instead, companies are going to have to consider restricting a significant amount of such travel irrelevant of the location. Once COVID-19 has spread to the point at which business travellers could be exposed to it almost anywhere it will make sense for companies to restrict employees’ exposure to airports and air travel in general. Companies should now consider what arrangements they will put in place if they have to significantly cut all business travel.

A number of companies have already operated some degree of remote working in those locations that have thus far been more affected by COVID-19, including China, Hong Kong, Singapore and South Korea. Companies will now have to consider how they can operate remote working more widely across their global operations and how they might sustain this over a significant period of time. Childcare will also become an important factor as countries might be forced into extensive periods of school closures (something that we have already seen in Hong Kong). For those companies that are unable to support remote working they will need to consider what protection they will offer to workers – will they need to supply masks, gloves, hand sanitizers, and so on? How will they operate in the case of extensive periods of absence of key staff due to illness? What guidelines should be applied to other employees once a staff member has become ill with COVID-19? In the case of an epidemic quarantine of potential contacts is no longer possible due to the extent of the spread and most cases will

need to be treated at home (fortunately, it seems that the overwhelming majority of cases will probably be mild). How can companies reconsider the configuration of their workspaces, which are currently typically set up to maximize the number of employees within any given space (not a set up conducive to the “social distancing” advised in dealing with the virus).

The extended economic disruption caused by the global spread of COVID-19 would clearly create major challenges for any sectors involved in travel or any situations in which significant numbers of people gather together – cinemas, restaurants, sporting events, departments stores, hotels and so on. It may, however, boost growth in a number of areas – online shopping (with contactless delivery), streaming services, medical supplies, and so on. As a number of businesses would suffer from severe cashflow problems there will be M&A opportunities for investors that are sitting on sufficient cash reserves. This will raise questions about how to carry out such deals in situations where travel and physical contact (including face-to-face meetings) may be more limited. Due diligence, for example, may be more difficult to undertake if there are restrictions on visits to certain locations or key individuals are unable to assist due to illness.

A further point to consider is whether an extended period of disruption due to a pandemic may create permanent changes in behaviour. Most analysis thus far has tended to focus on a short-term disruption followed by a return to previous structures of economic activity. Supply chains, however, have already been disrupted by trade wars (particularly between the U.S. and China) and further disruptions may make companies reconsider them more widely, possibly accelerating the move towards greater modular and automated production for items such as the iPhone, for example. In addition, shifts in behaviour away from business travel to remote conferencing facilities and events streamed online (especially once 5G is more widely available) could become permanent if disruption were to continue for twelve months or more. A move away from bricks-and-mortar retailers to online purchases could be accelerated. The damage to the business models of airlines may become permanent or at least very long-term. Companies may think more deeply about their office spaces and how they should be designed in the long term.

None of the above are predictions, of course. COVID-19 may still be contained, or alternatively it may be a limited global pandemic, which might not dramatically alter behaviour or cause too much economic disruption, as was the case with the H1N1 pandemic a decade ago. Nonetheless, companies and investors should start to consider and prepare for some of the worst-case scenarios now.

# About Argo Associates

Argo Associates is structured around a single overriding purpose: providing our clients with the information and intelligence that will allow them to navigate acquisitions, investments, disputes, or frauds in a clear-sighted and rational way, minimizing risk and maximizing opportunities.

Information gathered may clarify the profile and background of key business people and managers; it could illuminate the operations of a company or demonstrate a history of fraud or mismanagement; or it could help our clients to assess the political situation in a given jurisdiction and how it may affect their investments or business operations.

Headquartered in Hong Kong, Argo Associates assists clients across Asia and – through international partners – globally.

## Intelligence Gathering

“Intelligence” is central to making sense of the world and to decision-making. Argo Associates has developed a network of well-placed human sources across Asia and – through our partners outside Asia – globally. This network provides insights beyond what is available publicly – into leadership, operations, strategy, corruption, red flags, political connections and so on - and is supplemented by extensive research and analysis of publicly available sources – corporate filings, litigation filings, regulatory communications, media articles, social media postings and so on. In a world in which information is increasingly commoditized, high-level intelligence and analysis provides the insights that give our clients an edge over their competitors.

## Fraud, Corruption and Disputes

Our intelligence-gathering techniques and in-depth research and analysis have also helped our clients uncover frauds within their operations or in those of a portfolio company or recent acquisition. Our professionals have provided numerous reports for arbitration or legal proceedings to recover the proceeds of fraud. We have also assisted clients in tracing assets globally when bringing a high-value claim against a company or individual. In high-profile disputes we have assisted a number of top law firms in gathering information, evidence and intelligence in support of their clients’ cases.

## Political Risk

Our political risk work has developed naturally out of our intelligence and investigative capabilities. We see political risk as an important part of the evaluation of many investments, mergers and acquisitions, as well as a key element of commercial disputes in many markets. We have helped our clients look at political risk in a new way, not just in terms of the broad outline of potential political developments in various countries, but with a focus on the impact on their businesses. For example, will growing frictions between two countries lead to tariffs that could impact the specific sector in which a portfolio company operates? Or, how will rising protectionism in a country alter the possibility of a fair result in an ongoing commercial dispute? Frequently, politics is local as much as national and we understand the importance of drilling beneath the widely-circulated opinions to a real understanding of what is happening.

## Our Founder – Jason Wright

Jason Wright is the founder and Managing Director of Argo Associates.

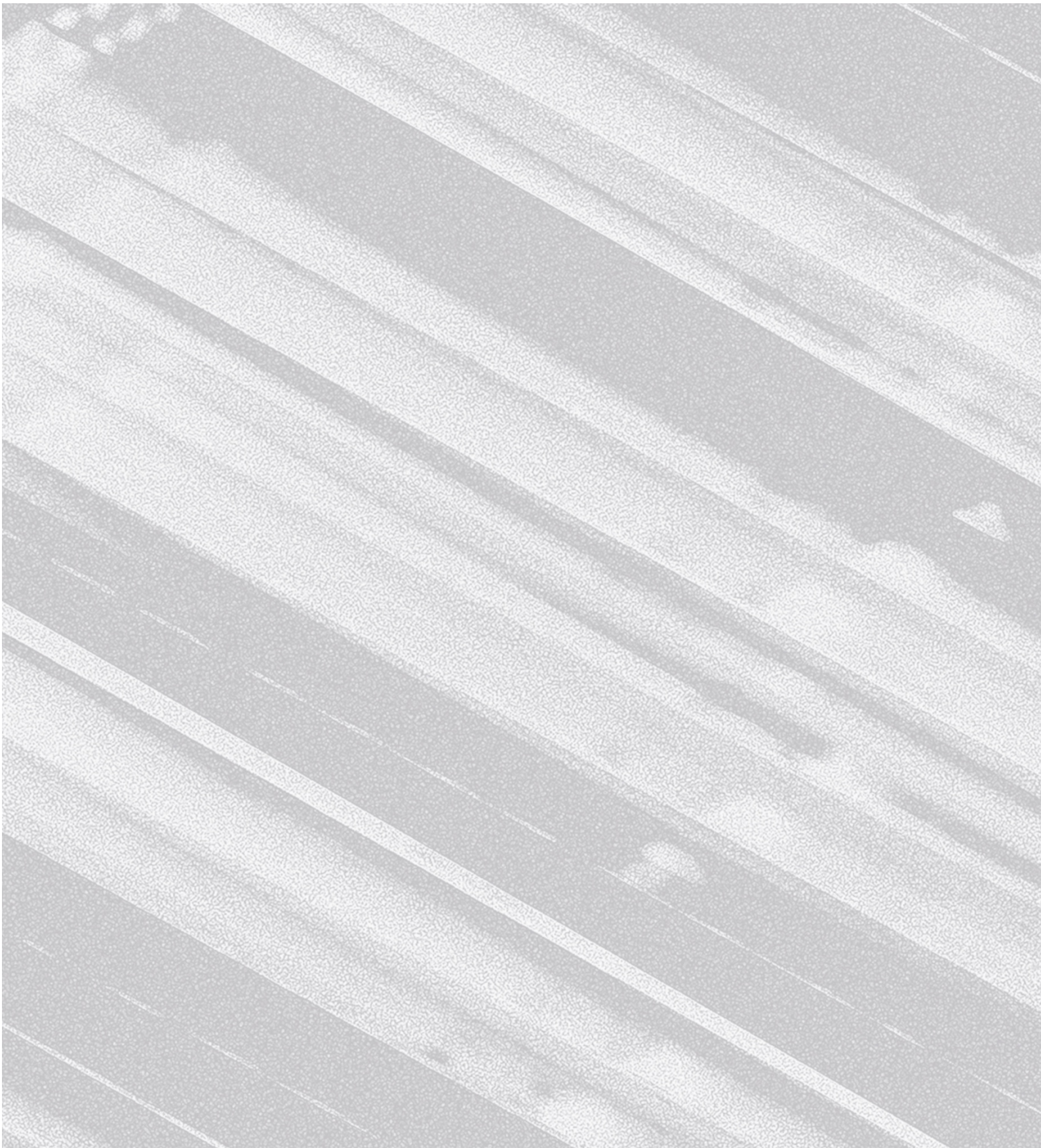


Prior to founding Argo, he was a Managing Director in Hong Kong for Kroll, the company that created the modern investigations and intelligence sector. Before moving to Asia seven years ago he worked for Kroll in Italy for five years and then briefly in London. While assisting clients on numerous transactions, investigations and disputes in Asia and Europe, particularly for private equity funds, banks, hedge funds and special situations investors, Jason has also specialized in the analysis of political risk, whether that has involved examining the role of local politicians, regulators and other stakeholders, or broader geopolitical concerns.

Although he has managed projects across the whole Asia- Pacific region he has been particularly focused on Korea, China, and Southeast Asia, especially Indonesia, Vietnam, Malaysia and Thailand.

Jason is a scholar of St. Catherine's College, Oxford, having been awarded a Master of Arts (Oxon) in English Language and Literature, as well as a Master in State Management and Humanitarian Studies from La Sapienza University in Rome, Italy.





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