



June 19, 2020

## Puerto Rico Coronomics: The Shape of the Recovery

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### Coronomics: The next normal for Puerto Rico Owned Business.

We present our must recent study on the shape of the economic recovery for Puerto Rico. The coronavirus pandemic not only one of the worst health crises of the last 100 years, but it has also forced a complete overhaul of the global economy. We have seen once-mighty corporations fall as Coronavirus has impacted their Business so dramatically that it forced them to file bankruptcy. Among them the following well-known corporations such as Avianca, Hertz, JCPenney, Neiman Marcus, and Virgin Australia

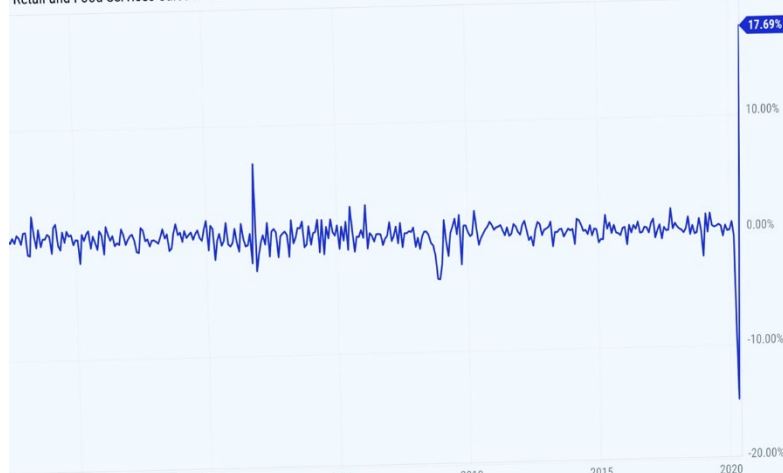
We can only wonder how many Puerto Rico Businesses will file for bankruptcy. For most corporations near term, survival is the only item on their list, while Others were attempting to see beyond the Crisis to determine how to position themselves.

On the economic front, a critical financial benchmark, U.S. Retail, and Food Services Sales, rose much more than the 8% forecast, to a record 17.69% gain in May, compared with a record 14.75% drop in April.



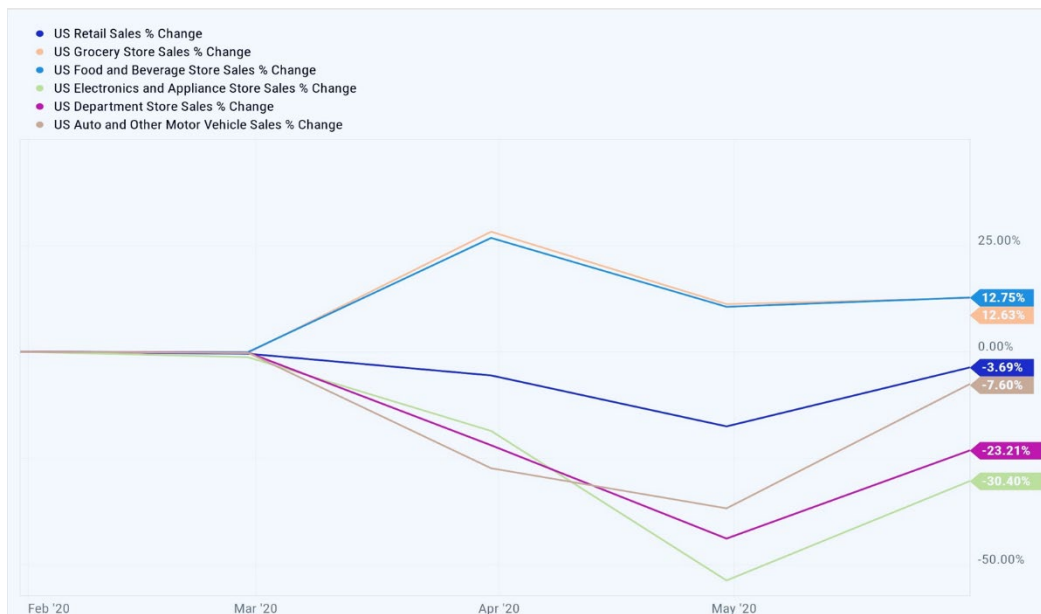
U.S. Retail and Food Services Sales as reported June 16, 2020 had its best sales growth in history

Retail and Food Services Sales MoM

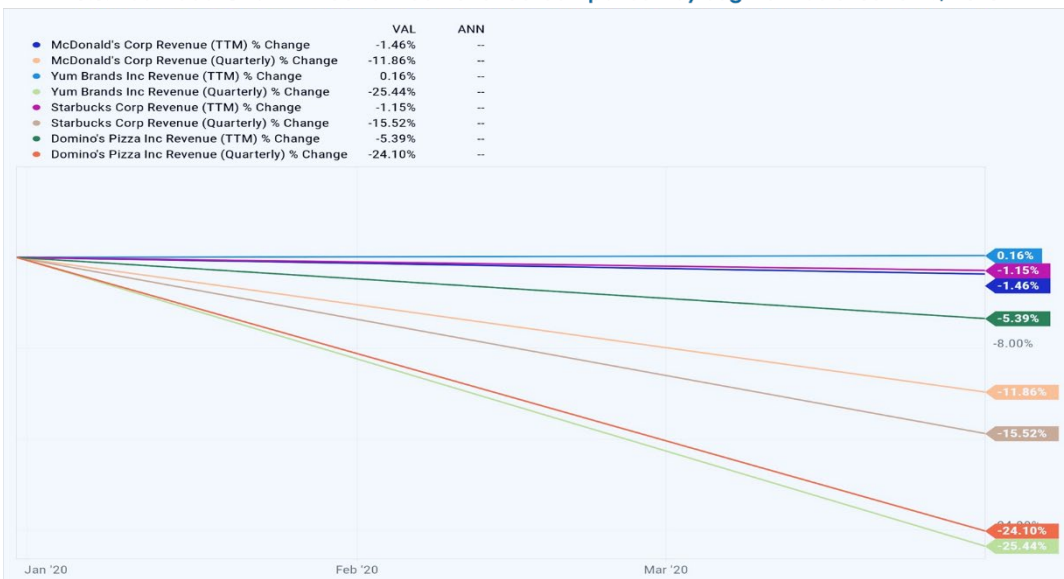


Period	US Retail and Food Services
5/31/2020	17.69
4/30/2020	-14.75
3/31/2020	-8.22
2/29/2020	-0.44
1/31/2020	0.79
12/31/2019	0.09
11/30/2019	0.03
10/31/2019	0.50
9/30/2019	-0.44
8/31/2019	0.45
7/31/2019	0.58
6/30/2019	0.43
5/31/2019	0.36
4/30/2019	0.49
3/31/2019	1.57
2/28/2019	-0.07
1/31/2019	1.51
12/31/2018	-2.15
11/30/2018	0.09
10/31/2018	1.12
9/30/2018	-0.09
8/31/2018	-0.19
7/31/2018	0.54
6/30/2018	-0.24
5/31/2018	1.29
4/30/2018	0.26
3/31/2018	-0.07
2/28/2018	0.17
1/31/2018	0.25

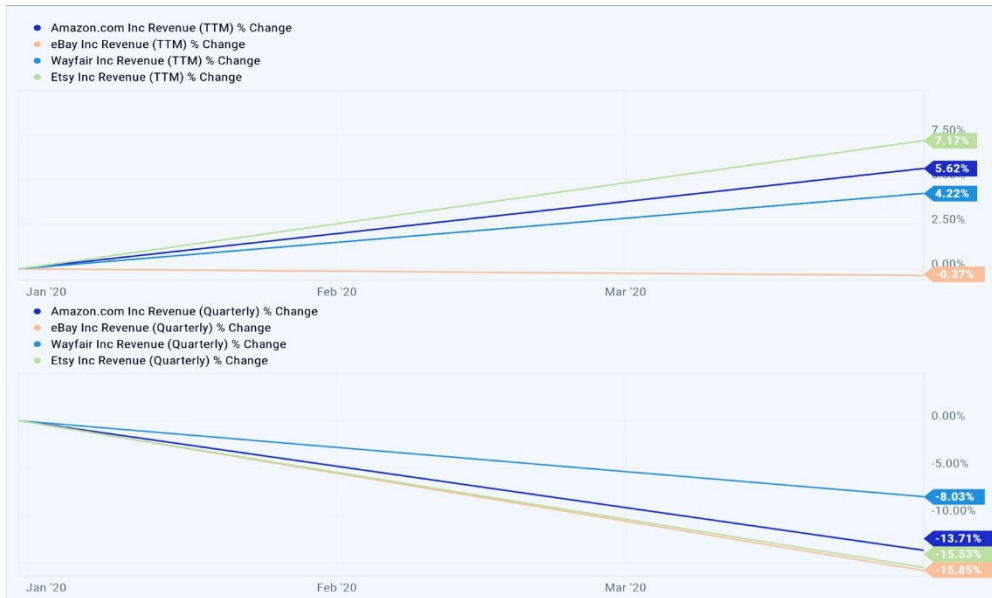
### U.S. Retail Sales comparison by segment as of June 19, 2020



### U.S. Fast Food Chain in Puerto Rico Revenue comparison by segment as of June 19, 2020



### U.S. Online Retailers as of June 19, 2020



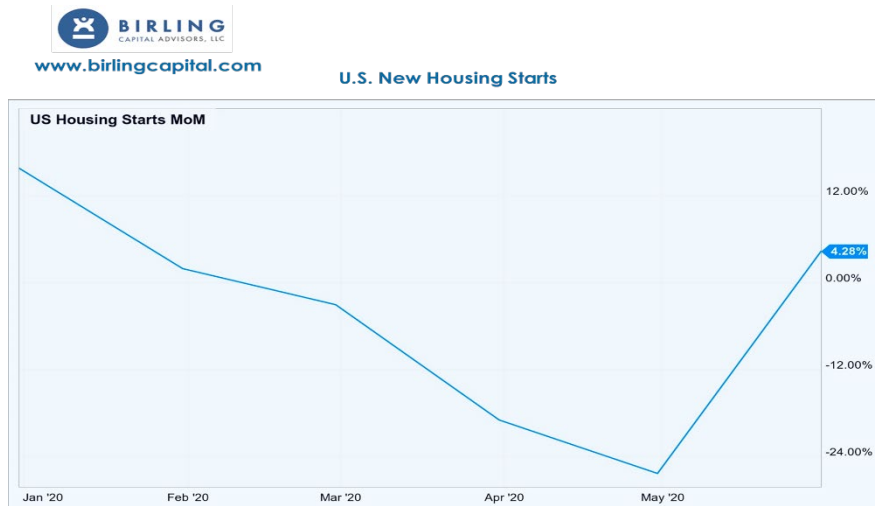
### U.S. Wireless Companies Price & Revenue comparison by segment as of June 19, 2020



Also, the U.S. Labor Department announced that there were more than 1.5 million, or 3.7% fewer, new unemployment claims, While the number is worse than the 1.3 million applications forecasted. Finally,



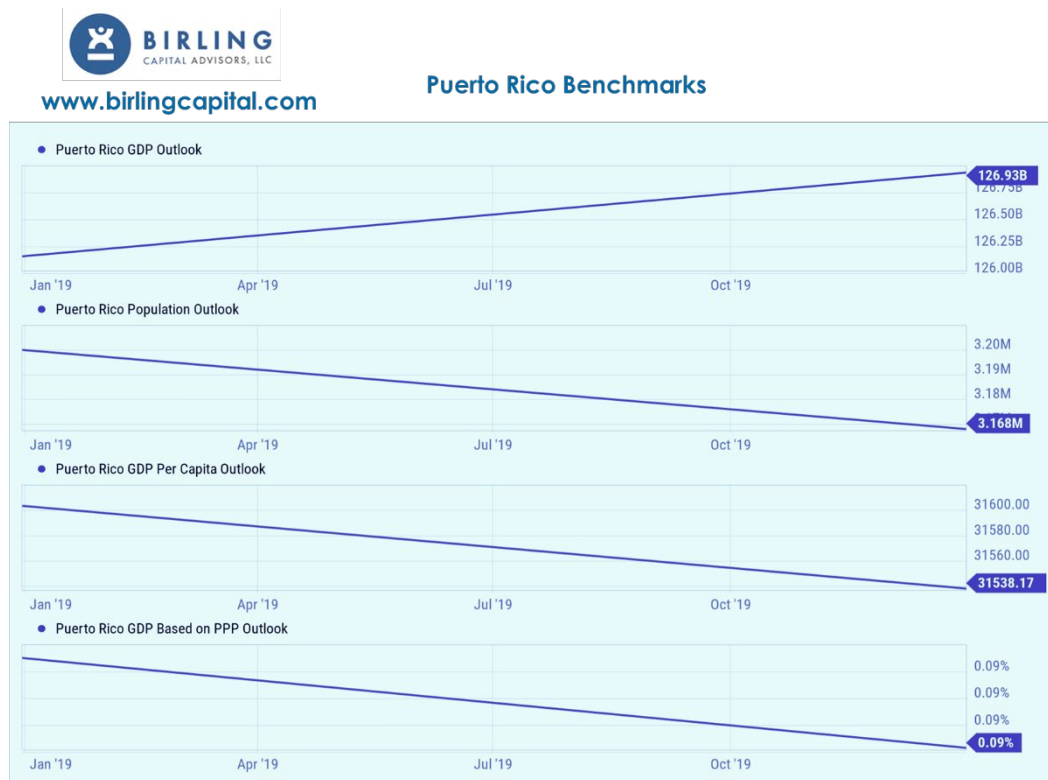
U.S. Housing Starts increased by 4.28%, with some 974,000 new homes built in May, which compares favorably with the 26.4% drop reported for April.



During the week, the Federal Reserve Bank announced it was expanding its credit market activities by purchasing corporate bonds. Finally, there is consistent chatter that the White House and the senate may be working on an infrastructure plan that may be as large as \$1 trillion. We believe that the combination of job gains in May and the rebound in retail sales can give investors some confidence that an economic rebound is underway. The combination of these actions was able to reverse the market losses.

**Puerto Rico Must capitalize on the excess liquidity of federal funding, that is more than anyone would think; we highlight as follows:**

- **\$ 83 billion related to hurricanes included in the Fiscal Plan 2019 & 2020**
- **\$ 600 million associated with the earthquakes**
- **\$ 14 billion pertaining to COVID-19**
- **A Total of \$97.6 Billion in increased federal funding and liquidity.**



**Our job in Birling Capital is to guide you past the Crisis and prepare most businesses for the new normal**

As our traditional methods, customs, metrics, and typical operational behaviors have been rendered useless. Many leaders are finding the answers using a World War 2 playbook and how our grandparents dealt with the stark realities of a World War.

We have developed a series of actions across five phases.

- **Boldness**
- **Resilience**
- **Re-invention**
- **Restitution**
- **Revolutionize**

Each Phase will vary in duration depending on the industry, sector, rules, and regulations; most entities will find themselves operating on several stages at once. The key is to go from surviving to thriving.

### **Boldness**

The key to Boldness is the speed of the actions; it is not enough for companies to recover revenues over time as the pandemic staves off. As owners rethink their income streams, they must position the Business for a long term haul; to get ahead of the competitions, one must operate with a Start-up frame of mind. Start-up favor actions, implementation, and testing new ways of doing Business. Start-up favor technology, innovation, and agility. In our review, we note that 60 percent of companies early May stated that their new remote sales models were proving as much 29 percent and more effective by as much as 33 percent from the traditional channels. A unique opportunity to accelerate the digital and technological innovations to enhance the Business.

### **Resilience**

As we review that available data, all the numbers lead us to conclude that the shock to our way of life from the economic impact of the lockdown efforts has been the most impactful on 100 years. In Puerto Rico alone, the decline in economic activity in a single quarter has been far more significant than the losses during the Great Depression. As we face these difficulties, resilience is not only needed is vital for survival. We are facing liquidity, solvency, loss of sales, changing business models, and paramount. Most businesses must face this shock with broader resilience plans as the pandemic shock will change long-established industry structures and models.

### **Re-Invention**

If, as a business, you never thought of online sales, curbside pick-up, or deliveries, this it the time to implement it and fast. Much of the progress will come from shifts in operating models, developing a new set of clear goals, focused teams, and rapid decision making. Over the past three months, we have witnessed a transformation in the ways we interact with family, co-workers, perform our work, seek medical attention, and a plethora of daily routine transactions. These changes have increased the migration to digital technologies at stunning scale and speed, across every sector.

### **Restitution**

Seeking to return to things as they were before maybe a lovely thought, however one that may prove to be unobtainable. For that reason, leaders must reassess the entire organization and its business model, and develop plans of action to create a restitution model that becomes effective, scalable, and productive and allows the acquisition of new environment changes.

### **Revolutionize**

After the pandemic, its lessons will also provide an opportunity to learn from a plethora of innovations and experiments that utilize the crisis models that were implemented during the epidemic for the long term. The changes include the incremental of the remote working

environment, flexitime, distance learning, decreased brick and mortar sales, and the establishment of social distancing behaviors as permanent fixtures of the new economic model. Pandemics usually bring about transformative changes in the lives of many countries and the surviving population.

As shown above, the five phases as detailed offer leaders a clear path to begin the journey to transport us to our next normal, which will be radically different than before COVID-19.

### **Corononomics will emerge out in three repositionings:**

**First**, some fundamentals will never regain their former status.

**Secondly**, some of the current trends will surge because their immediate need has been indisputable during this critical period.

**Thirdly**, unique ecosystems will be created around these new heightened levels of personal protection and health security.

The transformation will impact at least three generations and will be irreversible, altering human behavior through their lifetimes. Every transformation brings about brand new economic opportunities, and we are here to help you navigate them.

### **The Final Word: The Shape of the Recovery "V," "U" or "L"**

The Coronavirus Pandemic crisis has resulted in one of the fastest economic contractions in history. We have begun to analyze what may determine the shape of the recovery in the U.S. and Puerto Rico.

As the economy of the U.S. and Puerto Rico came to a halt, we knew that the economic impact would be fast and severe. However, what we need to figure out is how we come out of this economic contraction. There are three distinct variables to the economic recovery that follows. In these situations, the recovery represents itself in either "V," "U," or "L" shape. We predict a "U-shaped" recovery since it better represents the gradual resumption of activity that the White House Medical Task Force is favoring after the prolonged period of social distancing measures begins to ease.

The Spyglass Advisor: The Shape of the Economic Recovery: "V," "U" or "L"

The Coronavirus Pandemic is a classic example of what economists call an "exogenous shock," which means that it is an event or development coming from outside of the system itself that has excellent effects on an economy. Some examples include wars, natural disasters, technological change, changes in demographics, and pandemics.

### **Defining the "V," "U," and "L" shaped economic recoveries:**

- **The "V" shape:** it's probably the most bullish, the thought process is that the economy was fundamentally strong before the Coronavirus lockdown. Thus, a V-shaped recovery implies a fast return to the same levels the economy was and the second half of 2020 absorbing the shortfall of the first half, which would result in 2020 contracting by -1.2%. Odds of occurring 27%.
- **The "U" Shape:** this recovery occurs gradually, and the economy does not return to normal levels quickly, and the rest of 2020 does not recover fully. Those that predict the "U" shape recovery is based on the Coronavirus not spreading after the lockdown and



social distancing have been reduced. What the "U" shape predicts is that human behavior will change and alter how Business is conducted, socialization happens. We tend to agree with the "U" shape as we are convinced that human behavior will be changed for the next three generations. You see, it takes a human being, on average, 66 days for a habit to become automatic. We will reach 66 days of lockdown on May 19, 2020, and once that happens, our new reality becomes a habit. In this scenario, GDP contracts by -3.2% in 2020, and even by late-2021, GDP has not returned to 2019 levels. Odds of occurring 58%.

- **The "L" Shape:** of the three, the "L" recovery is by far the most pessimistic, as it would maintain economic weakness and Coronavirus causing permanent damage to the economic model. The "L" shape would keep unemployment at higher levels, and thousands of businesses filing bankruptcy as the Government safety net would prove inadequate. In the "L" shape, depression takes place lasting beyond 2021. Odds of occurring 15%.

We predict that the economic recovery will look like "U" shape recovery as the recovery occurs in phases. The economy returns to normal levels during the rest of 2020 and part of 2021. Our "U" shape recovery prediction is based on the Coronavirus not spreading after the lockdown and maintaining social distancing, and making obligatory the use of masks, face shields, gloves, alcohol and hand sanitizer. Furthermore, the "U" shape recovery predicts that human behavior has changed and will permanently alter how Business is done and socialization happens.

In conclusion, we must comment that we were quite positively surprised with last week's U.S. Retail and Food Services Sales, rose much more than the 8% forecast, to a record 17.69% gain in May. Consumer spending represents 70% of Gross Domestic Product, the increase of the retail sales signals that the worst was left behind us in March and April. Moreover, this behavior offers the impression that as lockdown orders are eliminated, consumers are ready to step in and spend their money. While there may be some nonrecurrent payout such as stimulus checks, payment protection plan payout, and the increased unemployment benefits has provided in some households with increased liquidity. While we are quite impressed with the rise in the retail sales fortunes, we are also concerned with the so-called "New Wave" of COVID-19 infections. The increase of cases has been reported in several key states. If this wave continues, and with it, an increase in cases, hospitalizations, and deaths occur, the implications for the still young economic recovery will be quite severe.

We continue to adhere to our view that should a more durable "New Wave" of COVID-19 infections occur, it may as it did during the 1918 Spanish Flu, it may come back more severe. The Spanish Flu infected 500 million people and killed between 20 to 50 million, lasting two years. Thus the reactivating of the economy will not be simple and easy with significant roadblocks along the way. New Waves of COVID-19 may cause business closure,

Francisco Rodriguez-Castro  
President & CEO



## About Birling Capital, LLC

Birling Capital is a leading corporate advisory & consulting firm that offers broad corporate finance & advisory services to institutional, Government, corporate, middle-market companies, family corporations, and their owners in identifying and resolving organizational finance-related issues. We use a holistic approach to both assets and liabilities sides with integrated Business, family needs, and objectives. Over the past two decades, our firm's principals advised on more than hundreds of transactions in the corporate, healthcare, education, insurance, banking, and government markets.

### Corporate Advisory

Our corporate advisory practice is involved in a broad range of engagements related to financial advisory to economics, finance and accounting. We provide critical insight and expert testimony in legal and regulatory proceedings, strategic decision making and public policy debates. We also have deep expertise in mergers and acquisitions, securities and risk management, and valuation. We provide corporations with a comprehensive array of economic services to assist them in the opportunities and issues they face.

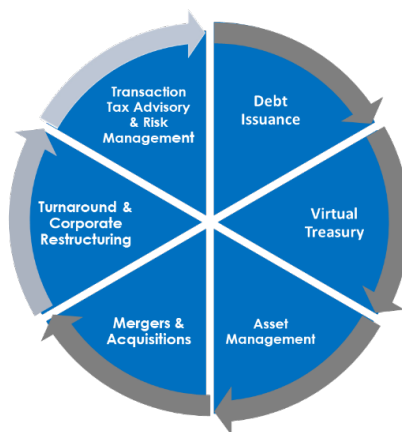
Our extensive industry experience a broad sector of the economic spectrum including, auto, pharmaceuticals, retail, commercial real estate, transportation, financial services, media & insurance.

- Mergers and Aquisitions
- Corporate Advisory
- Restructutings
- Economic Impact Analysis
- Business Feasibility Studies
- Business Performance Improvement Programs
- Manufacturing Sector Impacts
- Infrastructure Development

### Corporate Financial Planning (CFP)

Birling offers its customers the service of corporate financial planning (CFP). Our CFP suite consists of a holistic approach reporting on the current economic situation and the development of strategies.

Corporate Financial Planning (CFP)  
Corporate Financial Planning (CPF)



The strategies are based on their goals and need analysis—taking into account the income, financing needs, investment, economic development opportunities, public-private partnerships, evaluation of potential risks, and other specific opportunities in each client.

Think and plan long term can be a challenge when there are immediate financial pressures and uncertain income forecasts. Given the worsening economic conditions and economic forces, the costs are rising faster than inflation, aging infrastructure, and increasing expectations about service levels. The process can be complicated, but necessary to achieve financial sustainability.

**You have problems...**  
**We provide long term solutions.**  
**Doing the right thing**  
**at the right time.**