



**3 FORECASTS,  
4 THEMES &  
4 REACTIONS**

**Beyond Coronomics:  
The Path to the next Normal for  
Puerto Rico Owned Business.**

*As we share this issue of The Zenith Investor, I would like to first thank Francisco “Paco Pepe” Rodriguez Castro, President & CEO of Birling Capital for his valuable contributions to the Puerto Rico Chamber of Commerce all these years with his collaboration and leadership in various successful investor conferences. This time, we have the opportunity to collaborate in a monthly financial publication. If you want to stay on top of the latest financial trends, as well as getting solid, long-term insight that you can use in your financial and investment planning efforts, reading The Zenith Investor on a regular basis can be a big help.*

*I take this opportunity to also invite you to have a deep and active reflexion about our role as businessmen and women and encourage you to be well informed about our global competitive environment. Today, our country’s context and global competitive position demands that we reinvent ourselves, rediscover new strengths and advantages, focusing more on our human capital; along with the financial and social capital. We are planning significant events for 2020 that will provide a timely and unparalleled opportunity for deep discussion that we hope will lead to the type of entrepreneurial solutions that will rekindle our economy and lead to sustained growth.*

*Jose E. Ledesma-Fuentes, CFA  
President and Chairman of the Board  
Puerto Rico Chamber of Commerce*

*As we enter into this third month of confinement due to the COVID-19 pandemic, I think it is a good moment to reflect and evaluate everything that has been happening and how our lives have changed. For one, I, being the optimist that I am, have been trying to identify the “silver lining” within all these events. I have to confess it has not been easy, but have to admit that, probably, all this has forced us to do things differently. And has also forced us to leap bound and adopt new technologies and ways of doing business that probably, in our comfort zone, we had not even considered. So, for whatever it’s worth, let’s look at the positive aspect and embrace all the good things that this unfortunate event has brought us.*

*Please keep safe and enjoy this issue of our Zenith Investor.*

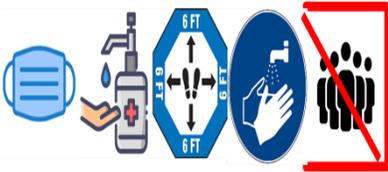
*Miguel L. Vargas-Jiménez  
Executive Director & CEO*

*We are pleased to share our anniversary edition of The Zenith Investor, “Beyond Coronomics” this is our twelfth issue, and it seems like yesterday when we started this successful publication. The team at Birling Capital takes great pride in providing our readers with a comprehensive review of the most significant issues impacting the national and global economy, markets, geopolitics, and world issues, such as the Coronavirus pandemic. As Puerto Rico and the world slowly emerges from the lockdowns, we must all embrace the changes that this pandemic has imposed on all of us.*

*We miss our lives, families, friends, and co-workers, and I must admit even traffic jams.  
Thank You for your continued support.*

*Francisco Rodriguez-Castro  
President & CEO  
Birling Capital Advisors, LLC.*

As we publish The Zenith Investor for June 2020, we are just beginning to reopen the U.S., Worlds, and Puerto Rico economies with that we must all begin to think or our life after the pandemic. With that in mind, we have started to discuss what our economy will look like, to what we call "**Beyond Coronomics: The path to the next normal for Puerto Rico Owned Business.**"



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 twenty well-known corporations:**

- The ALDO Group
- Avianca
- Borden Dairy
- Centric Brands
- CMX Cinemas
- Dean & DeLuca
- Debenhams
- Digicel
- Frontier Communications
- Gold's Gym
- Hertz
- JCPenney
- J.Crew
- Latam Airlines
- Pharmaceutical Mallinckrodt
- Neiman Marcus
- Pier 1
- RavnAir
- True Religion
- Virgin Australia

**We can only wonder how many Puerto Rico businesses will file 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 once the COVID-19 crisis has passed.

**The critical question is, 'What will the new normal look like?'**

No one can say for sure how long the crisis will last and what life will look after COVID-19; however, it is our job to see past the crisis.

Here in Puerto Rico, our situation is very much different than most of the U.S. or for that matter the world.

**Let's discuss some facts:**

- Puerto Rico went into a sudden lockdown on March 15, 2020
- Only Supermarkets, Pharmacies, Hospitals, take out restaurants, and Gas stations were allowed to operate.
- Private sector employees filed 240,996 new unemployment claims, or 37% of the labor force.
- Economists point out that there are 359,000 unemployed.
- Thousands of businesses face insolvency after over two months closed without any income; bankruptcies will quadruple.
- Sales of bags of cement fell 60% in April.
- Auto sales fell 96% in April.
- The Small & Midsize Business has severely affected, and as many as 12,000 will not reopen.

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 and great grandparents dealt with the stark realities of a World War.

**As we review the World War 2 playbook, we must develop a call to action 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. This the 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. In facing 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 is 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. The crisis has forced the Re-Invention.

### 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 include utilizing the crisis models 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 way of life of many countries and on the surviving population. Such was the case with the first cholera pandemic (1817–1824), the devastation of which highlighted the importance of clean water proper sanitation, paved roads, aqueducts,

sewers, bathrooms, and the consequences of wealth inequality among the countries.

As shown above, the five phases as detailed offer leaders a clear path to begin the journey to transport us to our next normal, **Coronomics will emerge out in three repositionings:**

**First**, some fundamentals will never regain their former status; it will impact how we conduct physical proximity—how we go to restaurants, stadiums, or concerts. Will people return to airplanes and cruise ships? How will we get our groceries and supplies? Will we use face masks from now on to protect ourselves from future outbreaks?

**Secondly**, some of the current trends will surge because their immediate need has been indisputable during this critical period that there will be so many more adopters who will experience the benefits from now on. For example, online education, take-out food, online shopping, working remotely, video-conferencing, portability of offices, among others, and this new trend may be irreversible.

**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.

### Forecast 1: After being divided into two Islands, Puerto Rico's, The Private Sector will not recover quickly.

We were led to believe that Puerto Ricans were united by our sense of purpose, by our rich culture, by our traditions, by our respect for others, After all, we are one country, we share the same soil, we all have dreams and face the same problems and challenges.

We used to think that the private sector's strength was also the strength of the Public Sector, so it was every Puerto Rican's responsibility to work in unison to make Puerto Rico better.

Since 2014 when the Puerto Rico Government chose the easier route and decided not to honor the constitution by preferring to default 69 billion dollars in bonded debt, that was the day we became segregated on two different islands, inhabited respectively by people from the public and private sectors.

These differences have grown more profound and starker after the initial lockdown order issued by Governor Vaquez. It was initially a good idea; Now, it has become the worst possible nightmare for the private sector. Let look at the lives of each Island:

### The Island of the Public Sector:

- 201,900 Government employees are quarantined at home; only essential agencies are working.
- All receive their payroll payments on the 15 and 30 of every month.
- 70% without working for a single hour.
- Each accumulates vacations and sick days
- Receives free or highly subsidized medical insurance
- Most agencies are closed, so they cannot perform their mandates and services to the public.
- Critical essential services such as Unemployment benefits, the Government's health plan, Nutritional Assitant programs such a "PAN" of the School meal services are either not being provided or closed.
- The Government does not have been capable of executing the needs of its citizens.

As the Government does not recognize that all these luxuries that it provides to its employees are paid for by the revenues it collects from taxes and other Government imposed payments from the Private Sector.

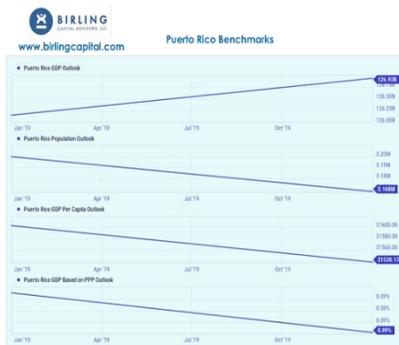
### The Island of the Private Sector:

- The private sector hires 80% of the country's workforce, with more than 650,000 workers and a payroll that exceeds \$ 30.2 billion a year.

- The private sector works hand in hand with communities, non-profit entities that collectively add up \$40 billion or 83% of the total income of the economy.
- Currently, the private sector employees have filed 240,996 New Unemployment Claims, or 37% of the total private-sector labor force, which according to the labor department numbers, was 654,224.
- Most economists point out that the overall number of unemployed is more than 359,000 or 55% of the Total Private Sector Labor Force.
- Private Sector workers lost not only their jobs; they will soon lose their health insurance and any other benefit.
- Thousands of businesses face insolvency with over two months closed without any income; the bankruptcies will quadruple.
- Puerto Rico Hospitals have lost \$202 million in 60 days, with losses mounting, 30 hospitals could dramatically reduce operations, and there is a Systemic Risk in healthcare in Puerto Rico that will, in turn, create a full-fledged humanitarian crisis.
- The only components that have been allowed to operate marginally are supermarkets, drug stores, and take out restaurants.
- Sales of bags of cement fell 60% during April 2020.
- Auto sales fell 96% during April 2020
- Banks are sure to take an enormous hit due to increased delinquencies, including commercial, mortgage, auto, personal, and credit cards, among others.

As you can see from this list, The Island of the Private Sector is facing insolvency, bankruptcies, losses, high unemployment, and the potential loss of life if our hospitals begin to close.

While the Island of the Public Sector remains undeterred from the crisis



and continues to operate, as usual, the Island of the Private Sector weakens. The Government of Puerto Rico will not be able to realize the tax income that usually seeks from the Private Sector and may ultimately face the unthinkable for any Governor or Politician, layoff thousands of Public Sector workers.

The private sector indeed represents the vertebra that sustains the Puerto Rico economy.

So if the Government does not seem capable of recognizing the critical importance of the Private Sector, the Government will realize soon enough the critical mistake it has made by not allowing the Private Sector to reopen albeit with significant safeguards,

No one should forget that the private sector is not just big corporations, the private sector is also the cashier, bagger, butcher, nurse, cook, car salesman, mechanic, construction worker, waiter, teacher, engineer, dentist, doctors, and the business owner too.

There is undoubtedly a misperception of what some call us the private sector 'Grandes Intereses.' We are 'Grandes Intereses'(Great Interest). Our concern is to create jobs, wealth, capital, business, factories, places to eat, and car dealers. Our most significant interest in them all is that Puerto Rico thrives so that we may be able to revamp our economy, reopen our business, and create a new way of life that follows this pandemic.

Every pandemic has lasting impressions on the surviving population such was the case with the Cholera pandemic (1817-23); which after its destruction, highlighted the importance of proper, clean water, modern sanitation, paved

roads, aqueducts, sewers, bathrooms and the consequences of wealth inequality among the countries.

We do not realize how much the world will change forever, If Puerto Rico is to learn anything from this crisis is that no sector is more important than the other, we all need each other to survive, if not to thrive.



**!A last name never makes a person...  
Rather it is the person  
that makes a last name!  
Ing. Efrain Vassallo-Ruiz**

### Forecast 2: The HEROES Act Stimulus 4 to become law by June.

The House of Representatives approved the Stimulus 4 Bill, known as the HEROES Act. The bill consists of a \$3 trillion stimulus proposal, The bill, known as the "Health and Economic Recovery Omnibus Emergency Solutions Act" or "HEROES Act," is a significant development as it marks the commencement of formal negotiations with the White House and the Republican-controlled Senate.

The HEROES Act, as passed, will cost more than the other three and a half stimulus bills signed into law.

#### Some Highlights of the Bill Include:

1. **Increased Funds for state and local governments:** with some conditions prohibiting the use of funds.
2. **Additional changes to the Paycheck Protection Program:** make it more flexible and generous, However, at this time we do not see additional funding for the program;
3. **Increased funds for hospitals and front-line medical professionals,** as hospitals, are losing \$50 billion a month in the U.S. and \$101 million in Puerto Rico.
4. **Increased funding for COVID-19 testing:** as more states reopen, testing becomes a critical tool.

5. **New Tax incentives-** for U.S. corporations that bring manufacturing jobs back. While the focus on China, the incentives are for any operation around the world. The bring back manufacturing strategy is Puerto Rico's chance to make sure that the Island is included in any policy to benefit from bringing back manufacturing. Negotiations conducive to pass the Stimulus 4 Bill among House leaders, Senate leaders, and the White House is not likely not to begin until next month. The urgency for the Stimulus 4 seems to be of less interest among Republican Leaders and the White House than for previous stimulus bills. We do believe that as the recent Presidential race polls show President Trump trailing Vicepresident Biden by as many as 8 points, this will ultimately force them to negotiate and pass the Stimulus 4 into law. The Key Issues in our view will be the Paycheck Protection Program (PPP), with \$650 billion in two of the previous stimulus bills, could receive additional funds. The program currently has about \$120 billion for loans that may be exhausted by the time a new bill is passed. More significant than new funds are changes to provide borrowers with enhanced flexibility.

**Among the changes mentioned are:**

- Using loan proceeds beyond eight weeks (to 24 weeks).
- Allow companies to use more of the forgivable part of the loan for non-employee expenses.
- Extending the time businesses have to rehire employees (and therefore qualify for loan forgiveness) beyond the existing June 30 deadline.
- Extending the period that businesses have to repay the non-forgivable parts of the loans beyond the current two-year requirement.

As this may be the last Stimulus bill passed before the November elections, a lot of political capital is riding on its success.

**Forecast 3: The Worlds Real GDP Growth Forecast:**

The creative economic destruction that has ensued from the Coronavirus pandemic shock has been symmetrical as it impacted both supply and demand. On a positive note, we must mention that the rapid actions by the political institutions and the Worlds Central Banks; however, the massive shock that Coronavirus forced in most of the world economies proved too forceful to alleviate.

As all the citizens of the world went into lockdown, and workers and firms were unable to operate while the epidemic was overwhelming healthcare systems worldwide. It became quite clear that the economic impact would be severe, if not shocking. Most of the stimulus came into action as the economies were closing, with millions of workers being laid off. However, the stimulus does provide income insurance and casts a wide enough safety net for the vulnerable.

The COVID-19 pandemic has impacted mobility for most and has affected those businesses that rely on physical interaction to provide services such as travel, hospitality, entertainment, and tourism.

Also, as most businesses close, it disrupts supply chains and decreases overall productivity.

With Layoffs spreading, income declining, and the fear of contagion spreading, the uncertainty forces people to spend less, triggering further business closures and job losses.

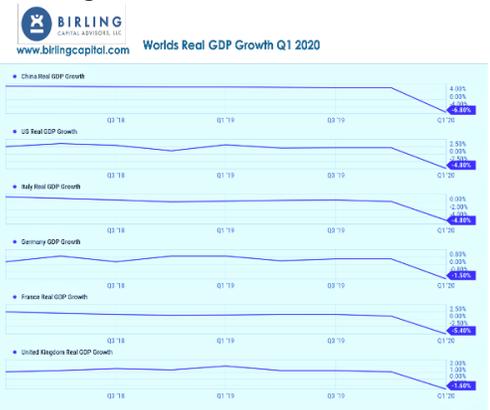
As we review the actual results of the en of the **First Quarter GDP of 2020:**

- China GDP fell to -6.80%
- U.S. GDP fell to -4.80%
- Italy GDP fell to -4.80%
- Germany GDP fell to -1.50%
- France GDP fell to -5.40%
- U.K. GDP fell to -1.60%

We also provide the outlook for the remainder of 2020 and part of 2021.

- Spain is forecasted to contract in 2020 by -8.00% and for 2021 a growth of 4.30%
- Italy is forecasted to contract in 2020 by -9.10% and for 2021 a growth of 4.80%

- U.S. is forecasted to contract in 2020 by -5.90% and for 2021 a growth of 4.70%
- Puerto Rico is forecasted to contract in 2020 by -6.00% and for 2021 a growth of 1.50%
- China is forecasted to grow in 2020 by 1.20% and for 2021 a growth of 9.20%
- Germany is forecasted to contract in 2020 by -7.00% and for 2021 a growth of 5.20%
- France is forecasted to contract in 2020 by -7.20% and for 2021 a growth of 4.50%.



**Theme 1: U.S. Initial Jobless Claims reach 40.82 million:**

As the Coronavirus Pandemic forced thousands of businesses all across the U.S. to close, the job losses mounted weekly, and by April 11 or in only five weeks for the U.S. economy to erase 100% of all the job gains, it added over the last 11 years. While it seems quite unreal to absorb when we review the weekly numbers, we can see the tidal wave of initial unemployment claims.

**Let's see the timeline of how the job losses accumulated:**

- March 21 3.3m
- March 28 6.8m
- April 4 6.7m
- April 11 5.3m
- April 18 4.5m
- April 25 3.9m
- May 2 3.1m
- May 9 2.6m
- May 16 2.5m
- May 23 2.1m
- **Total 40.8m**

The job loss figure represents **25%** of the total U.S. labor force difficult numbers to absorb. Let's look at the facts, and we detailed above, it took 11 years to the U.S. economy to create 22 million jobs. After the permanent effect, the Coronavirus will have significant portions of the economy.



The Federal Labor Department reported on May 28 that 2.123 million new unemployment applications which increases to 40.8 million or 25% of the United States workforce and unemployment is at 14.7%



**Theme 2: Month in Markets: Optimism Rules on Reopening the World,** the U.S. stock, and global markets had one its best months in recent memory. However, it was also a highly volatile month for investors with significant 100 points swings. The exuberant investor optimism continued to repress the weakening economic data. Investors are betting that the reopening of the world's economies, which began during the month, will allow for a much faster recovery. Another situation that has captured the market in the recent U.S. & China tensions as Hong Kong is losing all autonomy following a proposed Chinese national security legislation. Additionally, the White House announced that it was officially withdrawing all funding to the World Health Organization as it blames them from mishandling the Coronavirus pandemic, all told the U.S. contributed \$900 million in funding.

Dow Jones Industrial Average closed May 29, 2020, at 25,383.11 for a gain of 1,037.39 points, or 4.26% percent return. The S&P 500 closed May at 3,044.31 for an increase of 131.88, a return of 4.53%. The Nasdaq closed May at 9,489.87 for a gain of 600.32 points and 6.75%.

The Birling Capital Puerto Rico Stock Index closed May at 1,491.60 for an increase of 38.93 or a return of 2.68%. Meanwhile, the U.S. Treasury's 10-year note closed at 0.65% or a rise of 1.56%, and the U.S. Treasury's 2-year note fell to close at .16%, a loss of -20.0%.

Monthly Market Close Comparison	5/29/2020	4/30/2020	Change%	YTD Return
Dow Jones Industrial Average	25,383.11	24,345.72	4.26%	-11.12%
Standard & Poor's 500	3,044.31	2,912.43	4.53%	-5.80%
Nasdaq	9,489.87	8,889.55	6.75%	5.80%
Birling Puerto Rico Stock Index	1,491.60	1,452.67	2.68%	-26.81%
10-year U.S. Treasury	0.65%	0.64%	1.56%	-1.30%
2-year U.S. Treasury	0.16%	0.20%	-20.00%	-1.50%

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**Why there seems to be a disconnect between Wall Street and Main Street?**

If you do not understand why the stock market is rising when economic benchmarks demonstrate a weakening economy, while this tends to feel like wall street and the main street are on different planets, frequently the Stock Markets are looking well into the future.

As the reopening of the Eurozone and the U.S. was announced, the U.S. and Global markets began their path forward, expecting a rise in the World's GDP and Corporate Profits.

While the recent market upswings should not lead you to believe that

the Bear market has ended, historically strong rallies happen during the bottom half of a bear market.

Additionally, the strong performance of the U.S. stock markets is signaling that the unprecedented fast and decisive action of the Federal Reserve Bank and Congress, combined with the administrations focused on reopening the U.S. has allowed investors to look ahead.

In terms of the overall economy, since WW II, it has taken an average of twelve months for the economy to the bottom during recessions, and an average of nearly twenty-four months for the economy to return to pre-recession GDP levels.

However, since this particular recession was self-inflicted by the lockdown orders, we tend to believe that the return to economic growth will be achieved much faster as the economy gets into the gear.

**Theme 3: 75 Days and 75 Nights that changed Puerto Rico:**



www.birlingcapital.com

Wall Street Close May 29, 2020



We realize that 75 Days and 75 nights is the journey that every Puerto Rican has been under trying to survive the COVID-19 Lockdown order and its direct effects on all our lives.

75 Days and 75 nights have made us realize how little we need to live and have forced us to create new habits in our daily routines.

As Puerto Ricans continue to experience disruption of the usual way of life due to the pandemic we must realize that thousands of families barely have food on their tables, more than 359,000 are unemployed, we see a path of confluence in the destruction of lives of those who have less, we see a deterioration in the way of life of each citizen.

During the Great Depression of the 1930s, 65% of all Puerto Ricans were unemployed. This crisis significantly affected the economy, which was mainly agricultural, and specifically, sugar. As the depression clothed the United States and with it, the severe drop in sugar prices. The response of Congress was to implement the Jones Act, which established quotas for sugar production, Puerto Rico 86 years later continues to debate the Jones Act, with no end in sight.

We have said it before, and we repeat it, the safety net that the Government must provide to the less fortunate must be large enough to allow every Puerto Rican to prosper, not just survive.

The Puerto Rican spirit is the force that drives our hope and pushes us to discover our real limits and purpose. We are facing the worst health and economic disaster in the last 100 years.

For so many of us, we miss the lives we all used to live; we miss our families, friends, hugs, and handshakes, happy hours, concerts, schools, and universities. This Friday, when coming home, I was stuck in a traffic jam and was delighted to be in one.

It is quite unfortunate that so many fellow Puerto Ricans have lost their

jobs and have had their lives turned upside down. With thousands of businesses unable to operate due to the lockdown, we all are wondering when we will be going back to normal. Until there is a cure or vaccine for the Coronavirus, our way of living will entail face masks, alcohol, sanitizer, wipes, constant hand washing, disinfection, social distancing, and all the precautions necessary to prevent being infected by the Coronavirus.



**"Motivating through fear may work in the short term to get people to do something, but over the long run, I believe personal pride is a much greater motivator. It produces far better results that last for a much longer time." John Wooden**

After several weeks of clamoring by the private sector and as the number of infections in Puerto Rico have slowed down after 70 plus days of lockdown, the economy began to reopen Tuesday slowly.

Gov. Wanda Vázquez issued a new executive order that slowly began to open the economy for a significant part of the economy to reopen. Under the order, the following businesses can operate:

- Restaurants
- Barber Shops and Beauty Parlors
- All Retail sales, including Malls
- Auto Sales, Car Wash
- Laundry and Grooming
- Funeral Homes
- Private Schools
- Realtors
- Arms Dealers
- Travel Agents
- Boating and Beaches



The order is a massive step in the right direction. Now it is every citizen's responsibility to respect everyone else's space by wearing masks everywhere we go. We must take every precaution by using alcohol-based hand sanitizer and being very aware of our surroundings to protect anyone from infection. The coronavirus pandemic is by no means over; we largely dodged the bullet as the Government acted early and implemented the strictest lockdown order of any U.S. state or territory. Vázquez took this prudent action, keeping Puerto Rico mostly healthy, with 3,647 Covid-19 cases on the Island and 132 deaths. We have been lucky, and to stay that way, we cannot let our guard down, our new normal is wearing masks and taking all precautions to sanitize our surroundings as well as ourselves.

However, over this past two weekends, the first in 75 days after Vázquez's executive order was relaxed, it was notable how many abused this flexibility. Hundreds of beaches were filled with people, with huts, chairs and leaving lots of trash. There were the usually motorized posses. One of which caused a chase that left an officer seriously hurt.

In many places, mothers with children in swimming pools without protection, seemingly unaware of how infectious this novel virus is.

Judging by the events of the weekends, many have not yet realized that although the Coronavirus has not devastated Puerto Rico, it is because of one of the strictest curfews, or "toques de

queda," in the United States was implemented. That is the reason we have been relatively fortunate. It seems that thousands of citizens still do not understand that this virus is here to stay and that as soon as we lower our guard, it will destroy the lives of thousands of Puerto Ricans.

Now the job of protecting citizens from infections falls on the private sector and every citizen individually. The Government did its best to protect us; now, it is up to us to prevent Covid-19 from spreading.

#### **Theme 4: Government Employees Keeping your Job is your Bonus:**

This past week as the private sector was reopening, and as the U.S. Labor Department reported, 40.8 million people, or 25% of the labor force, filed for unemployment. The Governor of Puerto Rico announced all agencies of the Government would reopen gradually beginning on June 1 with the staff of human resources, finance, budget, and purchasing.

We immediately began to hear from the Government of Puerto Rico labor unions heads after 75 days. Among their requests include the following:

- Reopen in stages.
- Test 100% of the 201,900 Government Employees.
- Prepare the agencies to comply with the Social Distancing rules of 6 feet.
- Provide employees with all necessary protective gear and assure that their workspaces are safe.

While we agree with most of their requests, we must make every agency head responsible for the safe reopening of each agency. The labor leaders must understand that the status quo of receiving pay without working cannot continue as creates a divide between the Island's main constituents.

Since 2015, when the Government of Puerto Rico chose not to honor the constitution by preferring to default on Puerto Rico bonded debt of \$69 billion, that was the day that

Puerto Rico was segregated into two different islands, inhabited respectively by people in the public and private sectors.

These differences over the years have become more profound and sharper, especially after the Lockdown order issued by Governor Vázquez. The only responsible for creating these differences is the political leaders who have created a bubble for the Public Sector isolating them from the closure of the country. At the same time, the Private Sector faces the worst crisis in Puerto Rico's modern history.

All 201,900 government employees on payroll have continued to receive their pay every 15th and 30th of the month. Close to 70% of all government employees have remained at home without working, only venturing to the supermarket or drugstore. We are not only paying their wages while not working, but also allow them to accumulate vacation and sick leave days.

As if that were not enough, now the Government labor leaders want to reopen with a schedule that extends the closure of agencies well into August. None of the labor leaders complained during the last 14 years, the government payroll increased 6.5% every year since 1999, growing just shy of \$3.5 billion.

While the private sector suffers we have over 452,409 private-sector employees without jobs and most without the unemployment benefit checks that the Department of Labor was supposed to process.

So please don't seek to extend the paid leave as it promotes two class of citizens. We would like to see a little compassion and empathy towards the private sector.

**So, government employees understand that "Keeping Your Job is Your Bonus."**

Even during the best of times, more than 80% of Puerto Ricans live from paycheck to paycheck. The slightest emergency—a hospitalization, the car breaking down or one of the kids needing new shoes—can make it

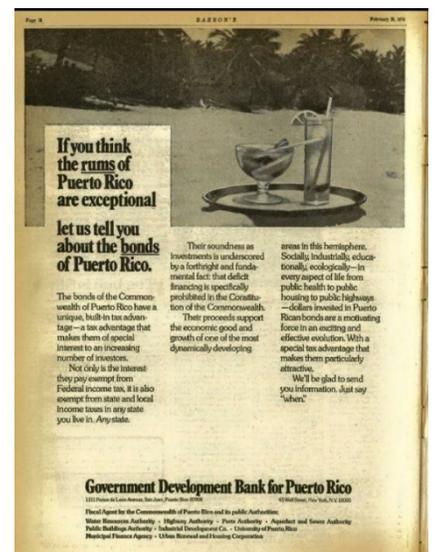
quite challenging for most to fulfill their responsibilities.

The situation in Puerto Rico is even worse as the median household income of \$20,873.80 is a little higher than the poverty level.

The impact of government lockdown that began March 15 has been severe to the daily lives of all families that are unable to work. Most will not be able to meet their debt obligations, much less receive health care, or even be able to buy groceries.

The Governor must make sure that as thorough as she was with the lockdown to protect us from the pandemic. The Government has the moral responsibility to make sure that it provides a safety net for those harmed economically, which is big enough to allow them not only to survive but to thrive.

#### **A February 1974 advert promoting Puerto Rico Government Bonds**



**"The words, speech, and writings of many politicians are largely based on defending the indefensible."**

**Francisco Rodríguez-Castro**



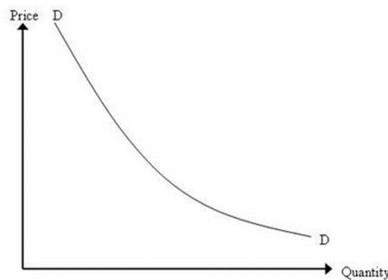
## To Discount, or Not To Discount?

by CPA Cesar Hernández-Monagas, Principal Birling Capital

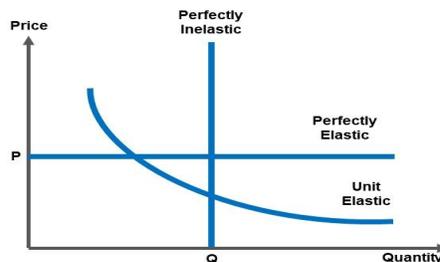
Quote adapted from the play Hamlet, "To be, or not to be? The idea of whether it is better to live or to die, which is the focus of all business owners during the current economic crisis.

Executive Order 2020-041 authorized the gradual reopening of many businesses on the Island effective on May 26, 2020. Most businesses were closed for 75 days following the Executive Order of March 15 to control the risk of contagion of Coronavirus in Puerto Rico. As a result of the opening, retailers have started publishing advertisements on different discount offers to recover the lost sales of the past 75 days. We have received numerous calls from our customers on how to improve their financial position as they get ready to reopen their businesses; therefore, we decided to write about the negative impact of discounts. Although we use examples of specific industries, the information presented could be applied to any industry.

Common sense and microeconomic theory suggest that demand for a product will increase (see table below). This fundamental principle is based on the premise of the downward-inclined demand curve. As prices fall, this curve shows that the demanded quantity will increase (keeping other factors constant)



There is another factor that affects the prior theory known as price elasticity, which reveals how much demand changes in response to a change in price. Price elasticity works as follows: If a specific price discount percentage produces more than a particular percentage increase in sales, demand is called elastic and total revenues are higher than before. Changes in income depend on the elasticity of demand prices. If demand for a product is elastic in terms of prices, falling revenues will increase. However, if demand is inelastic in price, then a certain percentage cut will bring an increase less than that percentage in demand, and income is lower than before.



Using the hospitality industry as an example, many people assume that it's better to have a full hotel at a lower rate than having a lower occupancy at a higher rate. Although lowering rates tends to fill a hotel, studies show that hotels that maintain their rate structure make more money than those who filled their rooms with discounts. This type of analysis becomes more critical in times of a bad economy like the one we find ourselves in.

Hotel market analysts have used what they call the 2-percent solution as an example to assist hotels in determining their rate structure. In summary, the study conducted by the Cornell University School of Hotel Administration titled Why Discounting Doesn't Work: The Dynamics of Rising Occupancy and Falling Revenue among Competitors. The study states that "Businesses that essentially held their prices equivalent to those of their competitors (that is, dropped or raised their relative prices by less

than 2 percent) experienced both increases in volume and revenue gain relative to their competitors. On the other hand, when businesses dropped their relative prices by more than 2 percent below their competition, they were rewarded with higher relative volume, but punished with lower relative revenue. At the same time, businesses that kept their prices higher than those of their competition enjoyed relatively higher revenue."

As shown in the example above, discounts may be dangerous to a business's profits and can have a more significant impact on the business image and customer loyalty. When was the last time that you got a deal on something? When you talk about this experience with your friends, do you talk about what you bought or about the discount you got? Surely, you probably do not even remember what you purchased, but for sure, remember how much you saved. From a business owners' perspective, we love the increase in sales through discounts, but the chances that customers attracted by discounts converting into loyal customers are low. Studies have shown that loyal customers are the most important for any business. Although loyal customers tend to be about 15% of a business's total customers, what makes them company critical is that these customers tend to spend three times as much as the regular customers. How do we turn a regular customer into a loyal one? Through the purchase experience as a whole, not because they received X% off. On average, it takes 4 to 6 visits to a business for the customer to become loyal. Once loyalty is created, the customer not only returns but is willing to pay more for a product that they can get somewhere cheaper. Using these statistics, some businesses offer the same discounts over a long period, hoping to convert regular customers into loyal customers while hurting the business profitability. Once the business owner notices that profits are declining, even though sales are increasing, discounts are stopped, and customers do not return.

Other businesses decide that they want to be the ones selling the cheapest product on the market, but what happens when a competitor lowers their prices? A *price war* begins in which all businesses lose; more sales at lower prices equals less profit. The following graph shows us how consumers think, by age, when it comes to discounting. The younger the customers, the more they are willing to wait for a better discount. Which brings us to what was stated above, the more loyal the customer, the more they are willing to buy without a discount.



Using daily specials is another strategy that is not recommended. Restaurants tend to use this strategy more often. Selling a plate of food at a reduced price increases the cost of food and reduces the money available to cover the other operational expenses. This type of discount also affects the customers who visit the restaurant regularly. If they can eat their favorite meal tomorrow at a discount, why are they going to visit the restaurant today? In any business, what sets us apart from our competitors is the key to success. If we all sell pizza, why is mine the best? When designing a sales strategy, you cannot focus exclusively on price; you have to add value and experience to what you sell.

Another example of discounts that do not work is the use of programs like Groupon in the United States or Gustazos; it's equivalent in Puerto Rico. Have you ever revisited a business after using these programs? Market studies indicate that 87% of people who used these programs never returned to that business. Customers who use these programs are already used to buying at a discount, and their perception of the value of a product has been affected. Those customers are more concerned about the next discount, regardless of the location, and do not return until they are offered another discount. value of a product is has been affected. Those customers are more concerned about the next discount, regardless of the location and do not return until they are offered another discount.

The following was a review of a user of these programs: "I had the realization that good restaurants don't use this website because they don't have to. Bad restaurants use this website because they have to—and any place that can discount so much for their customers makes me question how ridiculous their prices are to start."

When we talk about brands like Apple, Ferrari, Louis Vuitton, we always think of high quality, exclusivity, and especially, expensive. In addition to these characteristics, these brands have another quality in common; they rarely offer discounts. They know that to keep the image of a premium brand, they must maintain the perception of luxury, and above all, they need to defend the cost of their products. The same can be applied to whatever your product or business is.

Although through this writing we have given examples of why discounts are not good, there are some situations in which deductions can be advantageous. Instead of providing the same discount to everyone equally, you can create a discount structure in which the loyal customer is rewarded. An example of this structure is the loyalty programs. The customer who visits us frequently is presented with a reward, although not necessarily a discount.

The objective of establishing your pricing structure is to make customers understand what differentiates your product from your competition. Why should the customer pay more for a product like the competition?

To conclude, I would like to emphasize on customer loyalty. Every business decision should be directed into converting a regular customer into a loyal customer. Loyal customers return; they spend more, and most importantly, they are willing to pay a higher price. This takes us back the Hamlet quote, and whether it is better to live or to die, all these factors combine into higher profitability, which will keep your business alive.

## The Final Word: Corporate Financial Planning (CPF)

Birling offers its customers the service of corporate financial planning which consists of an objective and comprehensive report on the current financial situation and the development of strategies based on their goals and needs analysis. Taking into account from the income, financing needs, investment, economic development opportunities, evaluation of potential risks and transaction tax and other specific opportunities in each client.

Thinking and planning long term can be a challenge when there are immediate financial pressures and uncertain income forecasts. Given the worsening economic conditions due to the government lockdown and economic pressures that follow the pandemic this is an opportune time to seek a thorough review of your current operating conditions, the process is necessary to achieve financial sustainability, change the nature of your business and develop new strategies to face the Coronomics transformation. From business review and planning, revenue and profit improvement, cost reduction strategies, asset base analysis and optimization, corporate simplification, to cash flow management, liquidity review, stabilization and optimization to achieve a full financial transformation, Birling combines both operational and financial expertise to provide a full service offering and we design the solutions to suit your specific needs, please give us a call.

We hope that you have enjoyed this issue of The Zenith Investor ©, and we very much welcome your comments, thoughts, and ideas; you may reach us at [frc@birlingcapital.com](mailto:frc@birlingcapital.com) or 787-247-2500.

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

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