

McKinsey
& Company

COVID-19: Briefing materials

Global health and crisis response

Updated: July 6th, 2020



Current as of July 6th, 2020

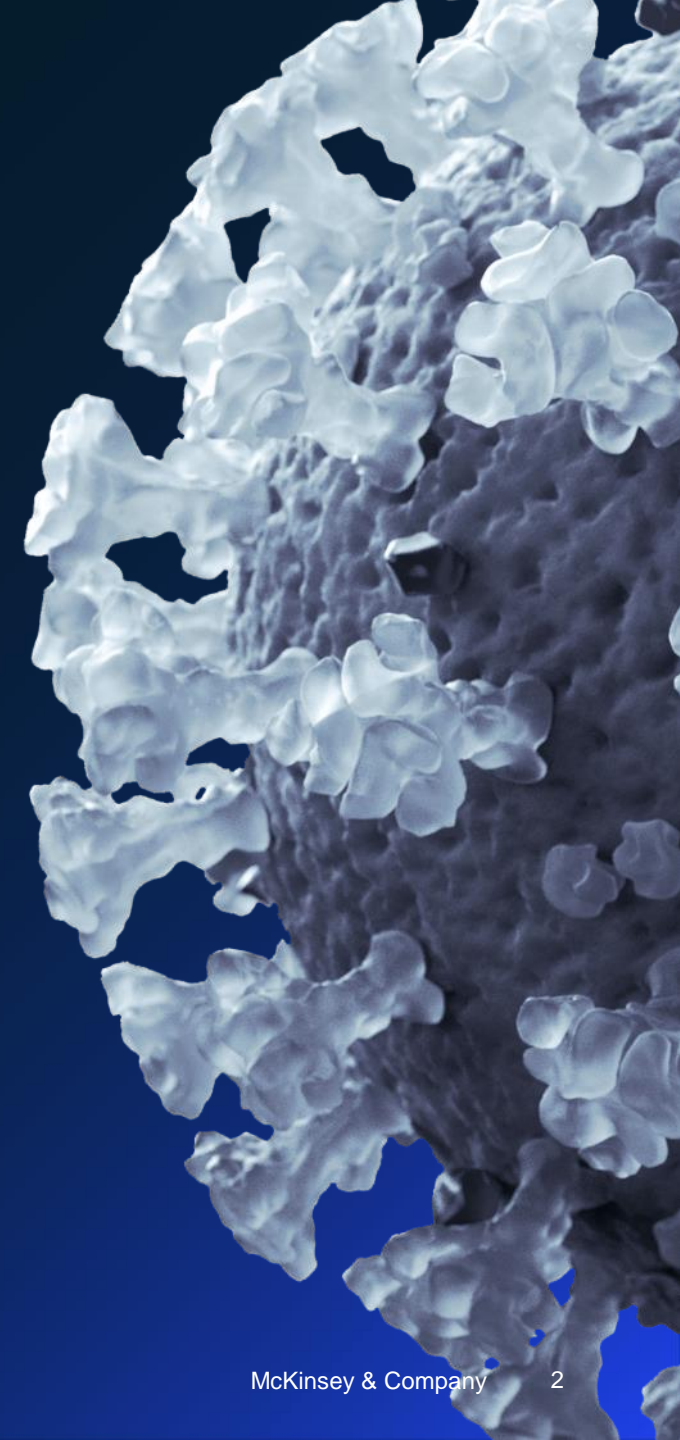
COVID-19 is, first and foremost, a global humanitarian challenge.

Thousands of health professionals are heroically battling the virus, putting their own lives at risk. Governments and industry are working together to understand and address the challenge, support victims and their families and communities, and search for treatments and a vaccine.

Companies around the world need to act promptly.

This document is meant to help senior leaders understand the COVID-19 situation and how it may unfold, and take steps to protect their employees, customers, supply chains, and financial results.

[Read more on McKinsey.com](#) →



Executive summary

The situation now

At the time of writing, COVID-19 cases have exceeded 11 million and are continuing to increase worldwide.

The COVID pandemic has become more serious in the Americas, and as of July 6th, Latin American and Caribbean COVID cases accounted for 30% of total global cases, while US and Canada accounted for 29%. The number of cases in China represents 0.3%.

Resurgence of the virus is highly dependent on two unknowns: inherent characteristics of the virus (infection fatality rate and duration of immunity) and countries' response to the virus.

Economic outlook

Global executives believe that recovery will be bumpy and slow (33%), according to June's survey.

Global economic snapshot surveys shows that almost universally (except in China), the economic situation now is perceived to be worse than 6 months ago.

However, the perception about the future is improving. 37% of the surveyed in June 2020 responded that they believed that companies' profits would increase in the next six months (vs. 27% in April).

Forces shaping the next normal

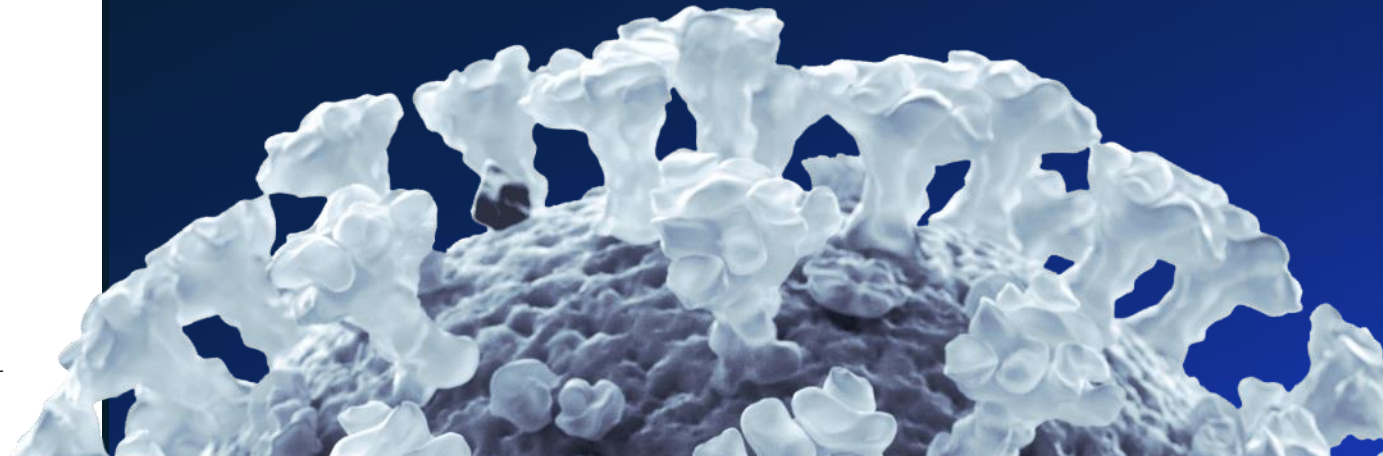
The five forces shaping the next normal are: metamorphosis of demand, altered workforce, changes in resiliency expectations, regulatory uncertainty and evolution of the virus.

It is vital for companies to understand and explicitly address these forces in order to navigate the next normal effectively.

The right organization for the next normal

Success is possible – for example, a manufacturing company was able to function at 90% of capacity with 40% of the personnel.

Other organizations can also be successful by adapting fast to the new circumstances. Key practices are: rewire ways of working, reimagine organizational structure, readapt talent.





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↗ Propagation trend⁵

- >100,000 reported cases
- 10,000-99,999 reported cases
- 1,000-9,999 reported cases
- 250-999
- 50-250
- <50

COVID-19 status as of July 6, 2020

North and Central America¹
 Total cases >3,379,100
 Total deaths >172,000

South America
 Total cases >2,422,800
 Total deaths >91,100

Africa
 Total cases >356,700
 Total deaths >6,700

Middle East³
 Total cases >1,153,200
 Total deaths >27,100

Europe
 Total cases >2,774,200
 Total deaths >199,900

China
 Total cases >85,300
 Total deaths >4,600

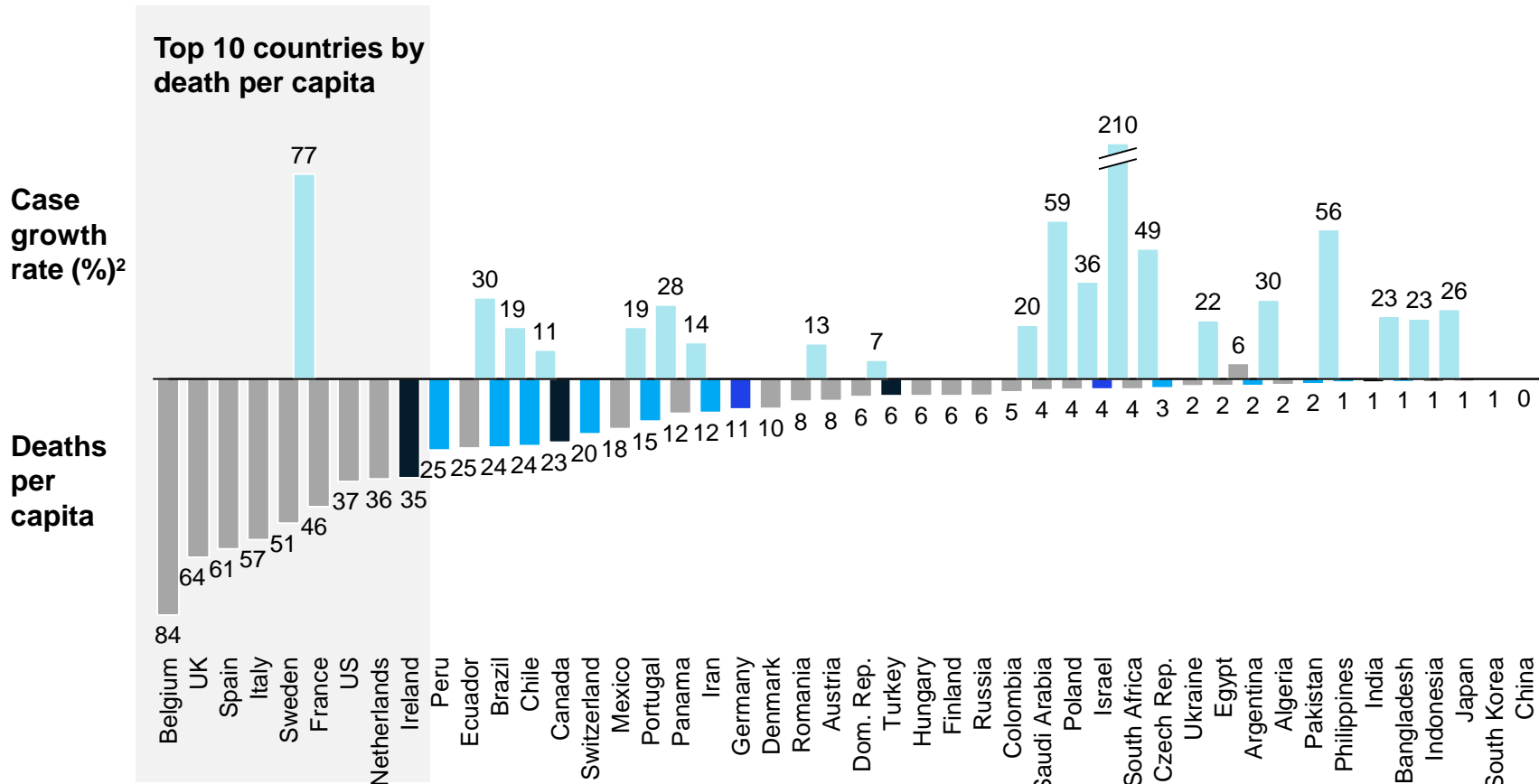
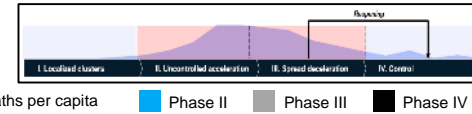
Oceania⁴
 Total cases >9,600
 Total deaths >100

Asia (excl. China)²
 Total cases >1,047,600
 Total deaths >27,180

1. Johns Hopkins data used for U.S., all other North America countries reporting from WHO
 2. Includes Western Pacific and South-East Asia WHO regions; excludes China; note that South Korea incremental cases are declining, however other countries are increasing
 3. Eastern-Mediterranean WHO region
 4. Includes Australia, New Zealand, Fiji, French Polynesia, New Caledonia, Papua New Guinea
 5. Increasing: > 10% increase in cumulative incremental cases over last 7 days, compared to incremental cases over last 8-14 days; stabilizing: -10% ~ 10%; decreasing: < -10%; if difference in incremental cumulative cases over last 7 days is less than 100, stabilizing

The top 10 countries in reported COVID-19 deaths per capita are primarily in Europe and North America, most have stable or declining new cases

Countries with the highest reported COVID-19 deaths per capita¹, Average case growth as percent, total # of deaths per 100K people



Countries use different methodologies for attributing deaths to COVID-19, which accounts for some differences

This trend could be partially attributed to the higher proportion of aging populations in high-income countries

Additionally, greater testing and tracing capacities of high-income countries could increase the likelihood of a death being attributed to COVID-19

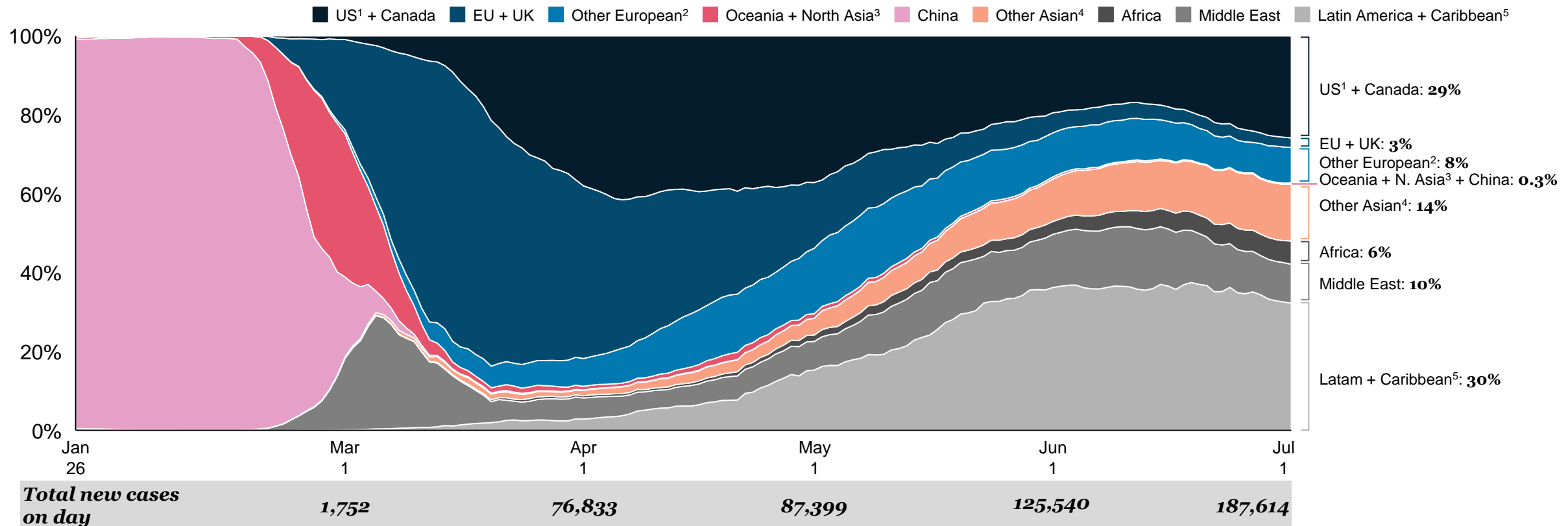
Some of the recent case growth in high income countries (e.g., Israel) is caused by recent re-openings

1. Excluding countries with fewer than 250 deaths; 2. Case growth is negative if not shown. It is calculated as the % difference in the 7 day average of new cases from one week ago to today; countries with case growth of 5% or more shown; growth rates of 0-5% are considered stable. Countries with incremental daily cases <100 are considered stable (even if they have 5%+ growth)

The global distribution of new COVID-19 cases has shifted dramatically over the last 3 months

The proportion of new cases is shifting from countries in Europe, to North America, Latin America, and Asian countries

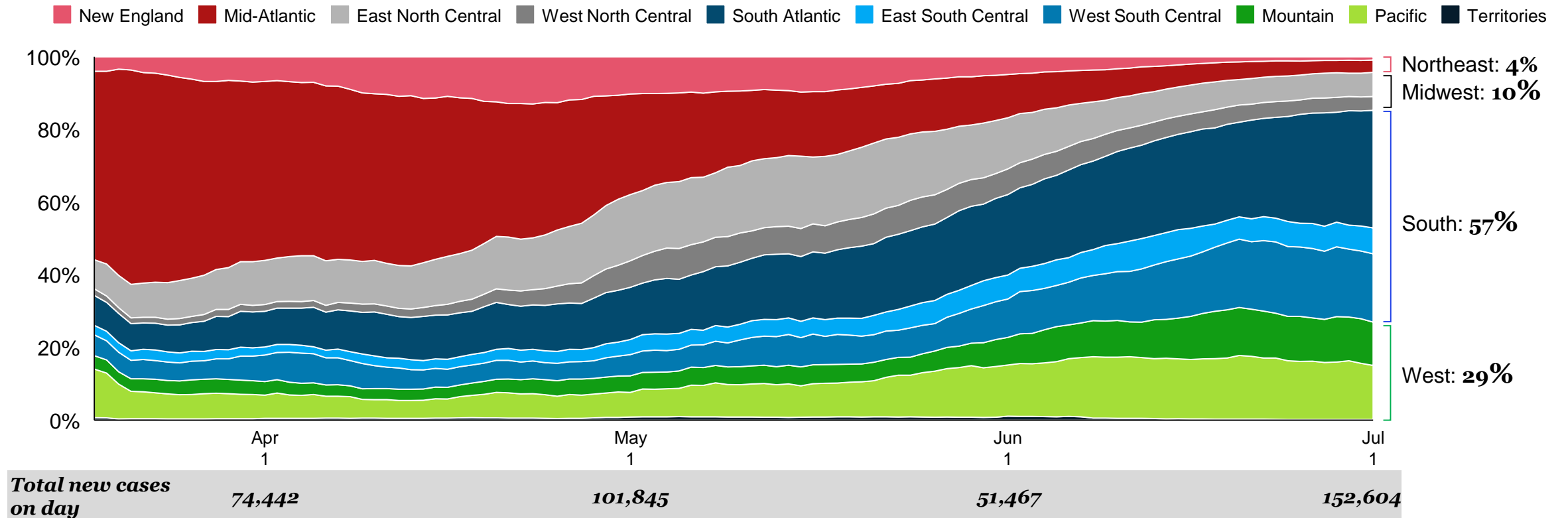
Fraction of daily new cases⁶ as a % of global daily new cases, by country/region



1. Includes Puerto Rico and US Virgin Islands; 2. All remaining European countries, including Russia; 3. Includes Japan, Singapore, and South Korea; 4. All remaining Asian countries, not including Russia; 5. Includes European territories in the Caribbean; 6. Data points shown as 7 days moving average to account for reporting differences (e.g., reporting only once per week), July 3 data not shown since UK adjusted case numbers.

The distribution of new cases in the US has shifted from the Northeast to the Southern and Western states

Daily new cases as a % of total¹ US daily new cases, by US regional divisions



The Northeast includes New England (MA, CT, RI, VT, NH, ME) and the Mid-Atlantic states (NY, NJ, PA)

The Midwest includes the East North Central states (MI, OH, IN, IL, WI) and the West North Central states (MN, IA, MO, ND, SD, NE, KS)

The South includes the South Atlantic states (WV, MD, DE, VA, NC, SC, GA, FL), the East South Central states (KY, TN, MS, AL) and the West South Central states (TX, OK, AR, LA)

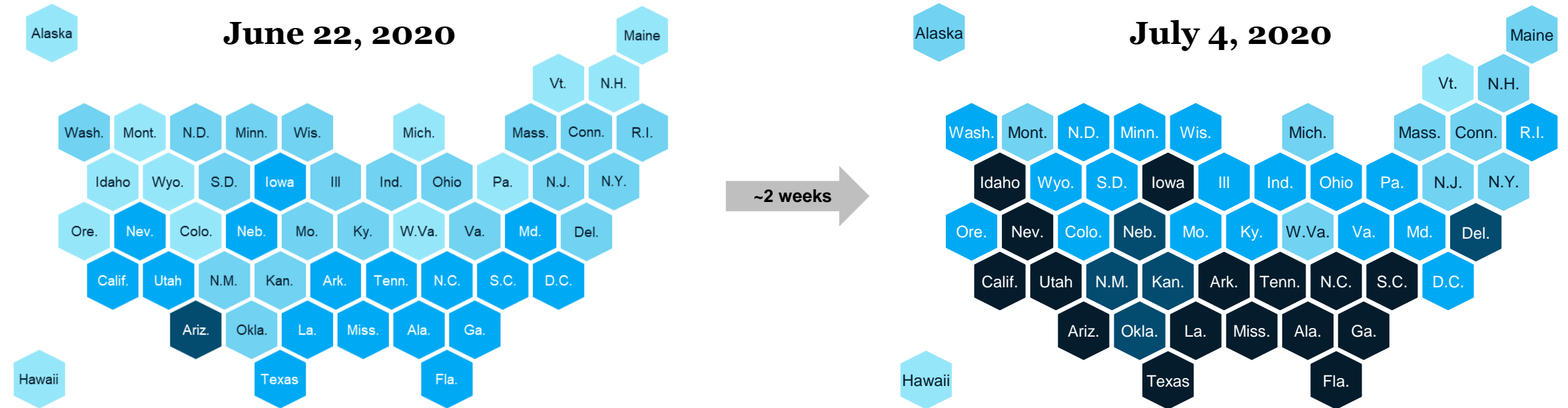
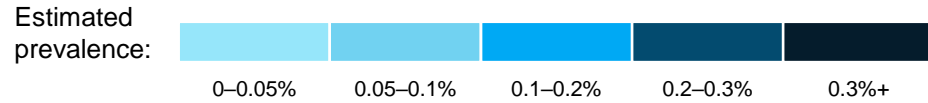
The West includes the Mountain states (MT, ID, WY, NV, UT, CO, NM, AZ) and the Pacific states (CA, OR, WA)

1. Data points shown as 7 days moving average to account for reporting differences (e.g., reporting only once per week), deaths not attributed to a state where not included in this analysis.

Source: [US Census](#), Johns Hopkins University

COVID-19 prevalence has experienced a significant increase in most US states in the past two weeks

Data shows prevalence of COVID-19 cases from June 22nd to July 4th

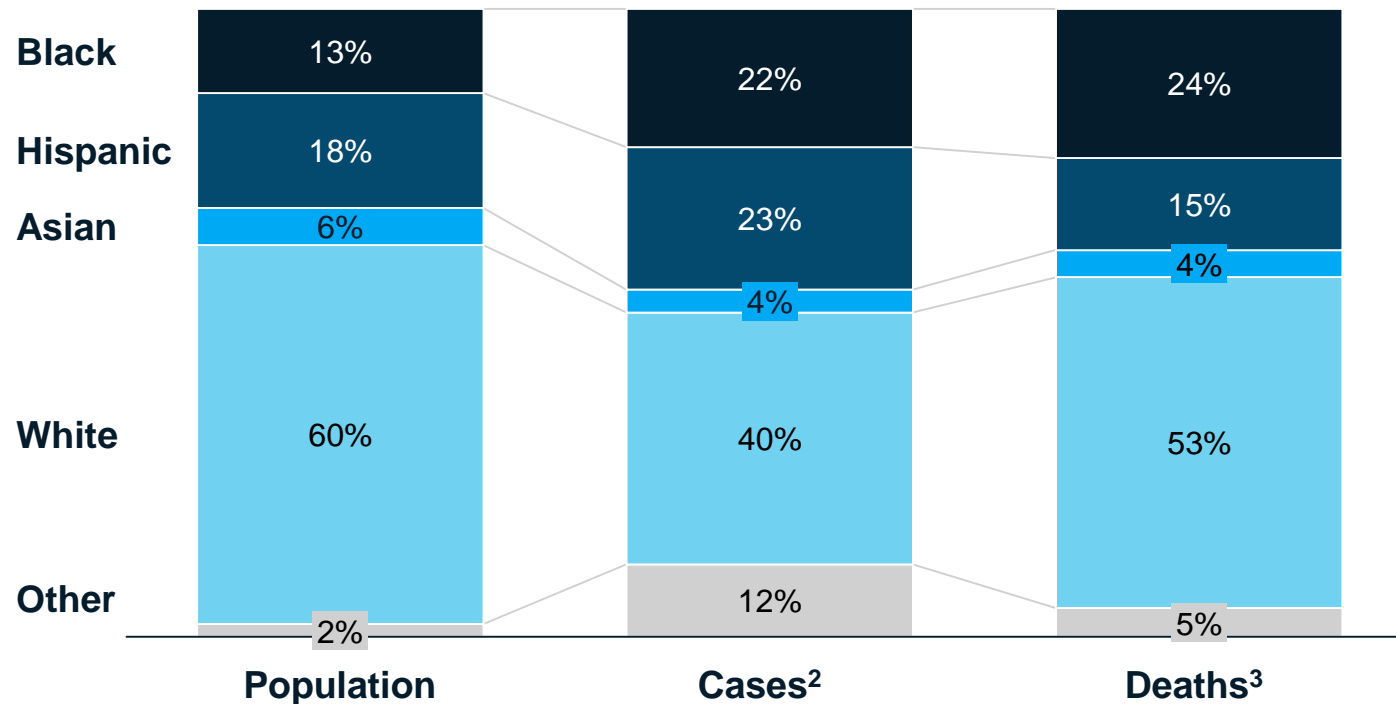


1. Defined as number of new cases over past 14 days / total population
2. Defined as difference between latest estimated prevalence and estimated prevalence as of 1 week prior: < -0.01% marked as decreasing, between -0.01% and 0.01% marked as flat, > 0.01% marked as increasing

The US Black population bears a disproportionate burden of COVID-19

Black people are 13% of the US population but have a disproportionate number of deaths relative to population size

% of totals



1. Includes Pacific Islanders, American Indians, Alaska Natives, Native Hawaiians and multi-racial groups

2. 46% of total cases have no reported race/ethnicity information

3. Approximately 8% of total deaths have no reported race/ethnicity information

Source: [The COVID Tracking Project](#) by The Atlantic, [JAMA](#), [Columbia University](#), [NCBI](#), [University of Michigan](#)

According to JAMA and the University of Michigan's Mental Health Lab, the situation is likely driven by:

Poor access to health care driven by loss of or inadequate health insurance – *Blacks (incl. African Americans) and Latinos are 2x more likely to lose health insurance than a non-Hispanic white*

Increased prevalence of comorbidities that result in death – *Latinos and Blacks are 2x more likely to have diabetes than a white adult*

Inability to physical distance due to economic considerations (e.g., living in crowded, urban settings, livelihoods that qualify as “essential workers”, reliance on public transport)

Some of the initial uncertainty associated with COVID-19 has been reduced—but it remains high



Uncertainty about...

Continuing spread

The effect of public health measures

Extent of structural damage to the economy the longer lockdowns stay in place

When measures may need to change

When a 'near zero virus' package of measures can be put into place

True morbidity and mortality rates

The development of herd immunity

When effective treatment or vaccination will exist



Which could lead to...

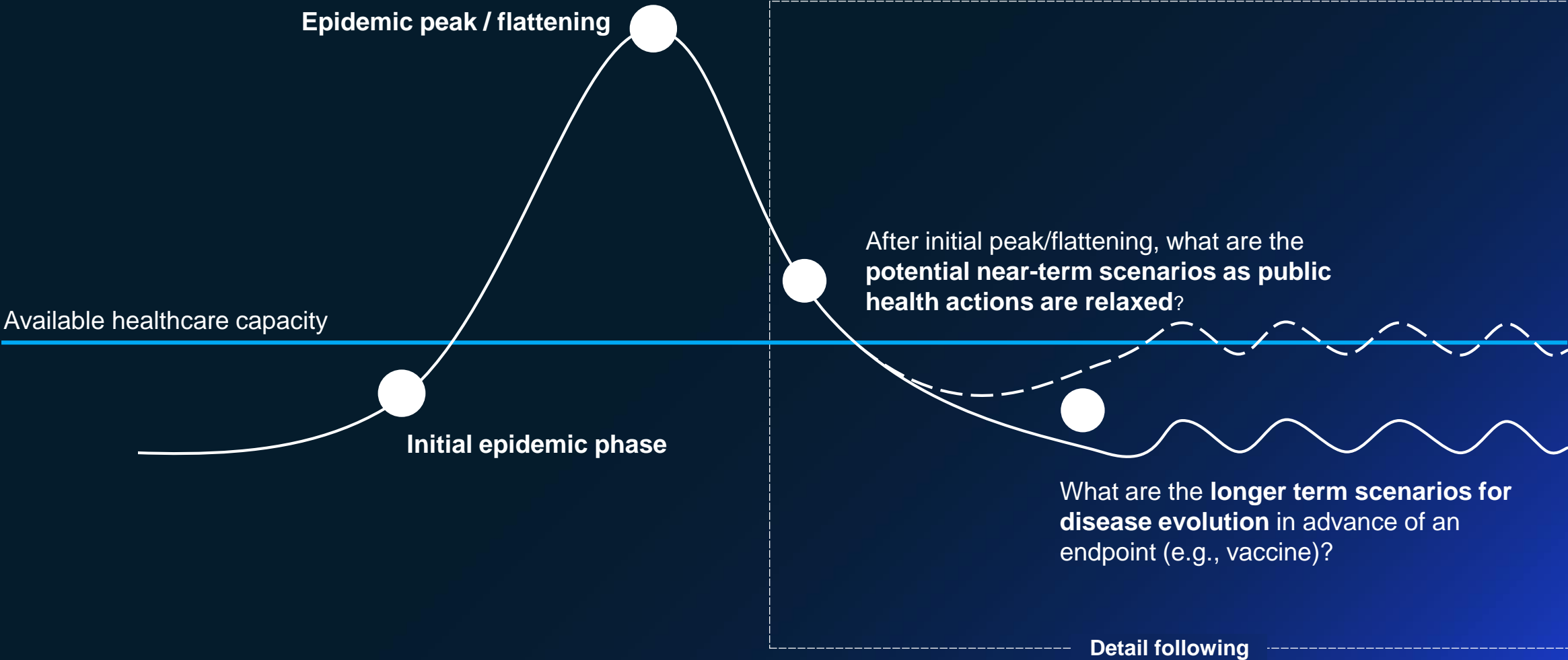
Further loss of life

Silent victims – people suffering negative effects from other diseases because they are unable to access urgent care, individuals with mental-health issues, victims of domestic violence, people suffering from intensifying poverty, and the millions of newly unemployed

Livelihoods, job insecurity, deferred discretionary planning, financial instability and broad economic impacts

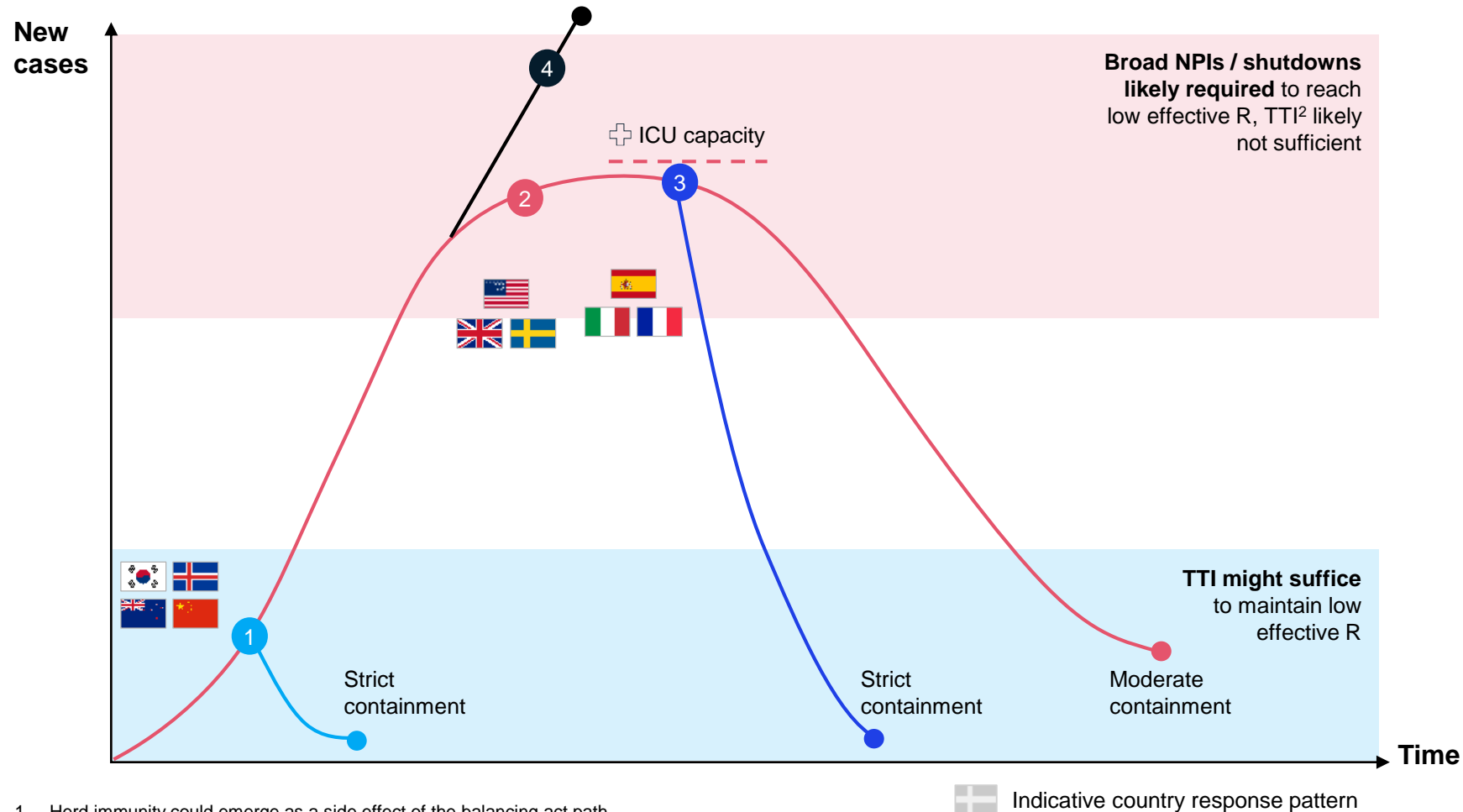
Significant uncertainty remains around medium- and long-term epidemiology trajectory of the virus spread

Illustrative



Countries are at different parts of the epidemic curve and have chosen different response patterns

Illustrative disease trajectories and potential end-state strategies



1. Herd immunity could emerge as a side effect of the balancing act path
2. Test, Track and Isolate strategy

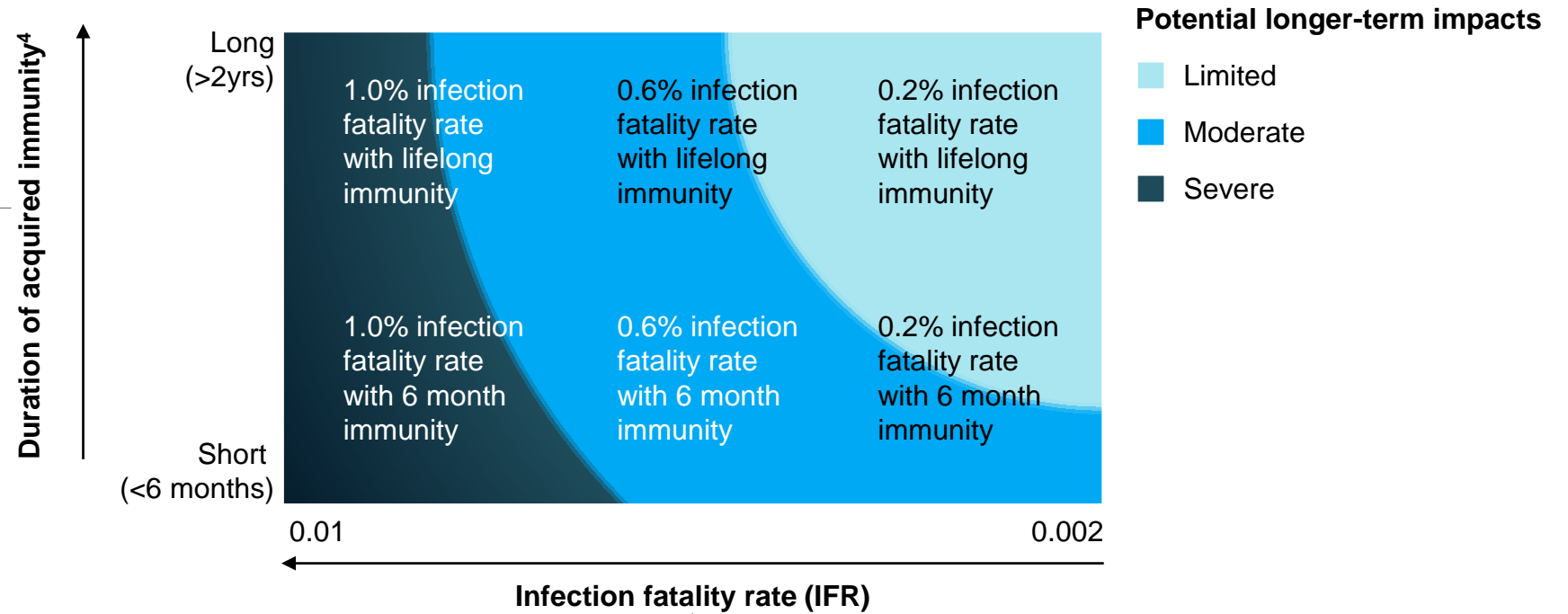
- 1 Near-zero virus**
Opening the economy while imposing virus-control measures that stop short of a lockdown
- 2 Balancing act: Gradual¹**
- 2 Balancing act: Cycles¹**
Staged reopening of the economy, controlling the virus spread within the capacity of the healthcare system
- 3 Transition Act**
Switching from a balancing-act path to a near-zero-virus path by implementing elements of near-zero-virus packages as soon as they are ready
- 4 Rapid growth**
Control responses severely hampered by severe economic, political, societal, or security disruption

Two major pathogen uncertainties are the drivers of the long-term scenarios: infection fatality rate and duration of immunity

Herd immunity is only viable if recovered individuals maintain a sufficient immune response for a long enough period

As of May 2020, there is no evidence yet that infection with SARS-CoV-2 infers long-lasting immunity to re-infection³

Less durable immune response would make it more likely that COVID-19 becomes a circulating endemic disease



Uncertainty remains about true levels of SARS-CoV2 infection, due to high rates of asymptomatic cases and limited testing in many locations¹

Early seroprevalence studies suggest a potential >10x difference between reported cases and true infections, however concerns have been raised about the quality of some of these studies²

Higher numbers of recovered individuals at the end of wave 1 may slow subsequent transmission, if such individuals are immune to re-infection.

- <https://www.cebm.net/covid-19/covid-19-what-proportion-are-asymptomatic/>
- <https://www.nature.com/articles/d41586-020-01095-0>
- <https://www.who.int/news-room/commentaries/detail/immunity-passports-in-the-context-of-covid-19>
- Estimated from the known, detected case rate, plus an estimate of potentially nondetected case rate, based on literature that suggests anywhere from 20-70% of cases are undetected or asymptomatic

Estimates of seroprevalence based on testing suggest much higher infection rates than currently identified

United States example: 330M population, 2.2M confirmed cases, 119k fatalities

Empirical observation vs. actual cases

Testing is not capturing all cases, leaving a gap between confirmed case counts and the actual infected

Actual cases = *confirmed cases* + *undetected cases*

Although true fatality rates are unknown, a range of IFRs (infection fatality ratios) can be used to estimate the total number of cases

Actual cases [estimated] = $\frac{\text{Fatalities}}{\text{IFR}}$



The estimated range of actual cases inferred from fatalities imply a case detection rate

*Case detection rate*² = $\frac{\text{Actual cases [estimated]}}{\text{Confirmed cases}}$

Example: United States

Amount of fatalities and IFR values (0.2% - 1.0%)³ imply a range of 12M to 60M cases, calculated as:

$119K / 1.0\% \text{ IFR} = 12M \text{ estimated cases}$
 $119K / 0.2\% \text{ IFR} = 60M \text{ estimated cases}$

2.2M confirmed cases and amounts of estimated cases imply a CDR of 1:4 to 1:26, calculated as:

$12M / 2.2M = 5$ or $1:4$ case detection ratio
 $60M / 2.2M = 27$ or $1:26$ case detection ratio

Note

Amount of reported cases will depend on testing strategy, complicating efforts to show trends in epidemic growth based on case rates alone

1. Undetected cases are necessarily estimated based on assumptions of either detection rates or IFRs.; 2. Can also be shown as the ratio: [1] Confirmed case : [case detection rate - 1] undetected cases; 3. Several studies have been conducted to assess the infection fatality rate, yielding a wide range IFR values (0.05% - 4.25%, see appendix for details). A survey of the most widely accepted studies suggest a range of IFR values from 0.2% to 1.0% range.

Paths diverge materially in shape and infection rates (based on current parameter settings)

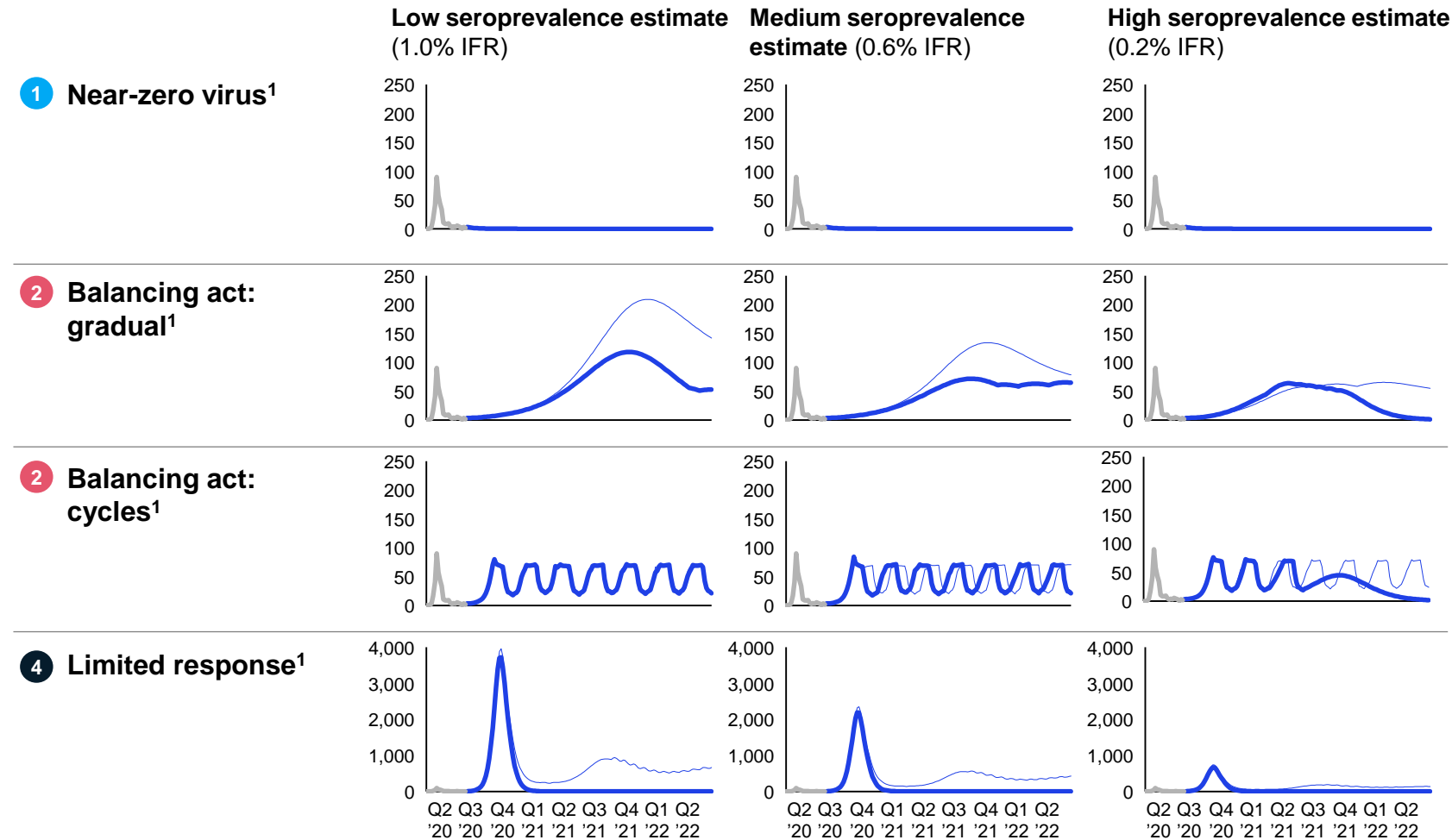
Example geography: Austria, pop. 9M, starting confirmed infection rate 0.2%

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Potential Scenarios

— Actuals — Lifetime immunity example — 6-month immunity example

Estimation of new detected infections for Austria, # new cases per day per 1M population



Using example jurisdiction on the downswing of its epidemic's first wave, which has:

Implemented mandatory stay-at-home policy, travel restriction, ban of public gatherings, and closure of no-essential workplaces and of all schools

Accrued cumulative 8-38 infected cases per 1,000 population (depending on the IFR)

Observing $R_{NPI} = 0.7-1.2$

Example interpretations, under different assumptions about duration of immunity and case detection ratios:

Near-zero virus: Potential to eliminate most infections quickly, with lower impact of immunity loss when more of the population is already recovered and immune

Balancing act: Gradual: Scenarios of shortened immunity could lead to persistent, steady-state levels of infection without achieving herd immunity

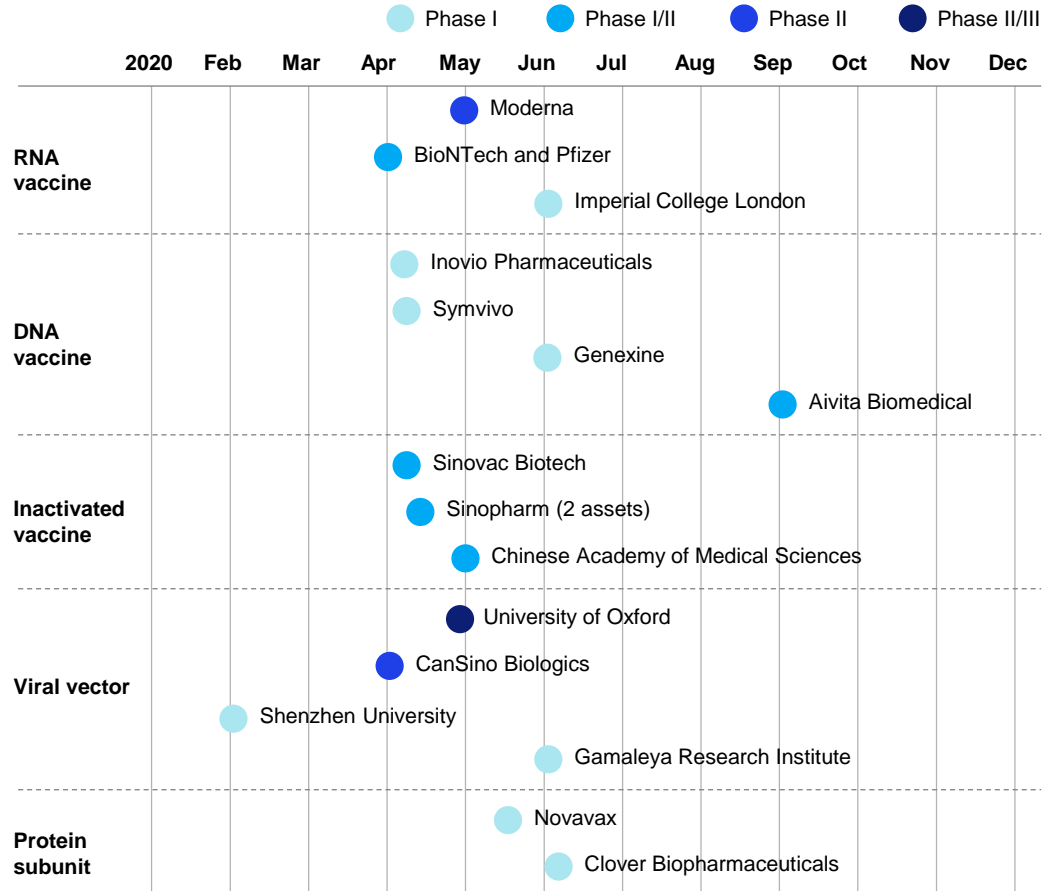
Balancing act: Cycles: Likely oscillations of relaxation and mitigation, more persistent if immunity is short

Limited response: Large resurgence, but with continued resurgence if immunity is short

1. Near-zero virus assumes target R_{NPI} of 0.7; Balancing act, gradual / cycles assume target R_{NPI} of 1.7; Limited response assume target R_{NPI} of 2.0
Source: McKinsey analysis, Imperial 2013 EpiEstim

Multiple vaccine candidates in development; several candidates could be available in the next 12 – 18 months

There are 17 COVID-19 vaccine candidates in clinical trials...



...And many considerations for and against the availability of a vaccine in the next 12 – 18 months

	Reasons to believe a vaccine could be available by mid-2021	Potential roadblocks that could prevent a vaccine by mid-2021
Virus characteristics	Limited evidence that SARS-CoV-2 is mutating at a rapid rate, with similar patterns of low mutation rates observed in other COVID ¹	The longer the virus is in circulation in the population, the greater the chance of a potential mutation which could affect vaccine efficacy ¹
Unprecedented pipeline	220+ vaccine candidates in development with ~16 vaccines in human clinical trials ² First candidate was created 42 days after the virus was sequenced ³	No COVID-19 vaccines have been approved by any regulatory agency Limited data available on safety and efficacy profiles of vaccine candidates
Technology platforms	Vaccine candidates span 8+ technologies with broad range of attributes, including novel platforms (e.g., mRNA, DNA) with potential for faster development timelines ^{1,4}	Several of the platforms most advanced in development for COVID-19 vaccines (e.g., mRNA, DNA) have 0 approved products for human use ⁶
Regulatory	Potential for expedited regulatory approval timelines ⁵ Emergency Use Authorization being considered by FDA regulators ⁵	Multiple unknowns remain regarding the disease ⁷ and some novel vaccine technology platforms



1. [WHO](#)

2. [Milken Institute COVID-19 tracker](#)

3. [Time.com](#)

4. [NCBI](#)

5. [Natalawreview.com](#)

6. [Cen.acs.org](#)

7. [Mosphere.asm.org](#)

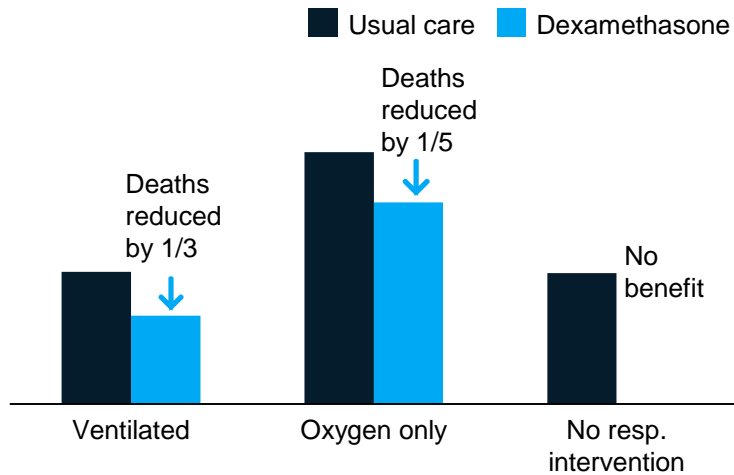
More deaths from the virus are being prevented – early studies show that certain drugs and physical maneuvers could improve patient outcomes

1

A new study shows that, Dexamethasone, an inexpensive drug, can reduce deaths in serious respiratory cases

Mortality rate in a randomized clinical trial

A total of 2104 patients were randomized to receive dexamethasone 6 mg once per day for ten days and were compared with 4321 patients randomized to usual care alone



However, the study and its data have yet to be published and peer reviewed to confirm its findings

2

An NIH clinical trial shows that Remdesivir accelerates recovery from COVID-19

A total of 68 study sites joined the study— 47 in the United States and 21 in countries in Europe and Asia

Remdesivir improves recovery time (in days) by 27%



Remdesivir improves mortality outcomes by 33%



However, the study data needs to be reviewed more broadly including an understanding of how the drug performs in different patient populations or at different stages of the disease

3

Clinical practice is strongly favoring proning and ventilator sparing strategies but high quality data is so far limited



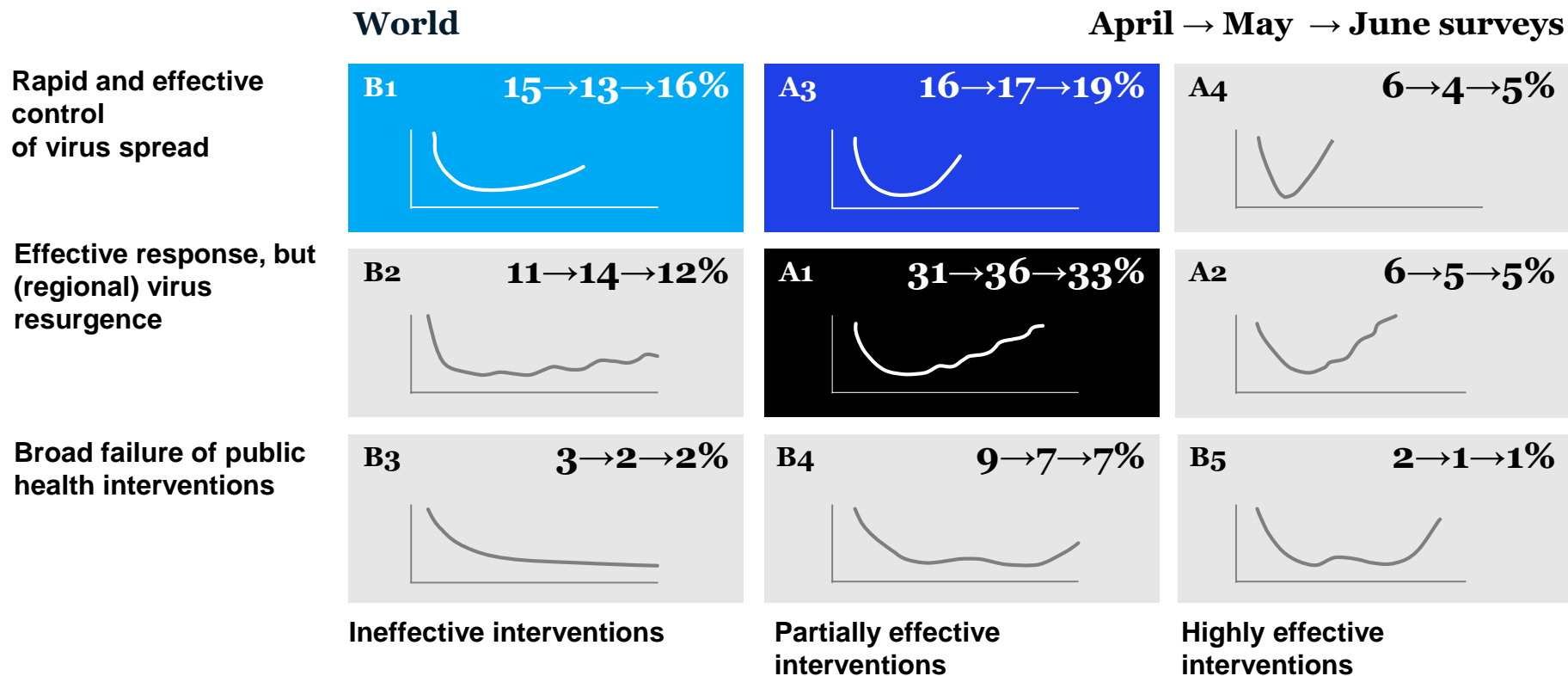
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Executives have wide-ranging expectations of global outcomes

“Thinking globally, please rank the following scenarios in order of how likely you think they are to occur over the course of the next year”; % of total global respondents¹

Virus spread and public health response



Knock-on effects and economic policy response

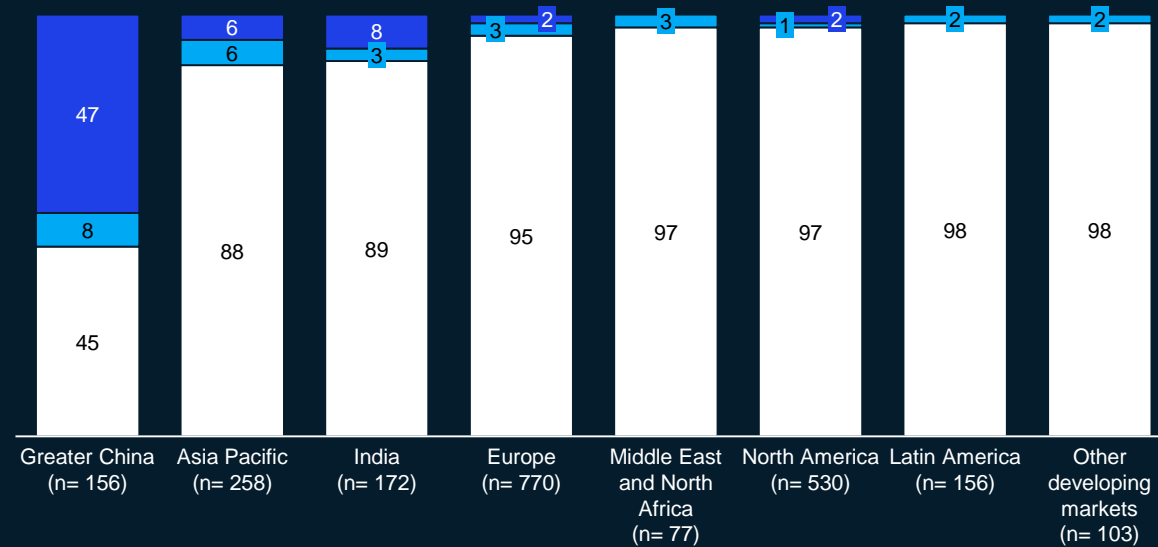
1. Monthly surveys: April 2–April 10, 2020, N=2,079; May 4–May 8, 2020, N=2,452; June 1–5, N=2,174

General perception about the current economic situation is worsening around the world

Outside of Greater China, clear majorities of respondents report declining conditions in their home economies

■ Better ■ No change ■ Worse

Current economic conditions in respondents' countries, compared with 6 months ago, % of respondents

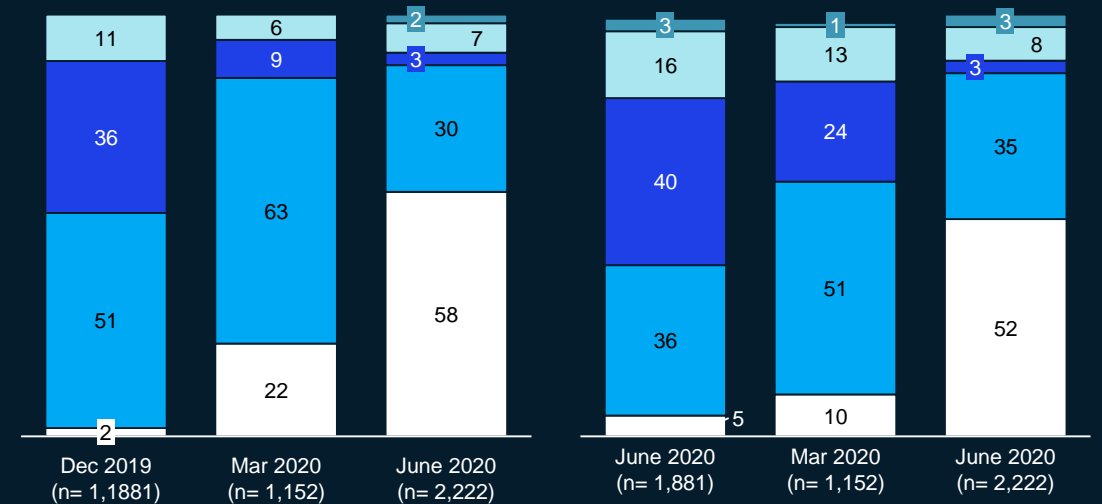


■ Substantially better ■ Moderately better ■ No change ■ Moderately worse ■ Substantially worse

Current economic conditions, compared with 6 months ago, % of respondents

Global economy

Respondents' countries



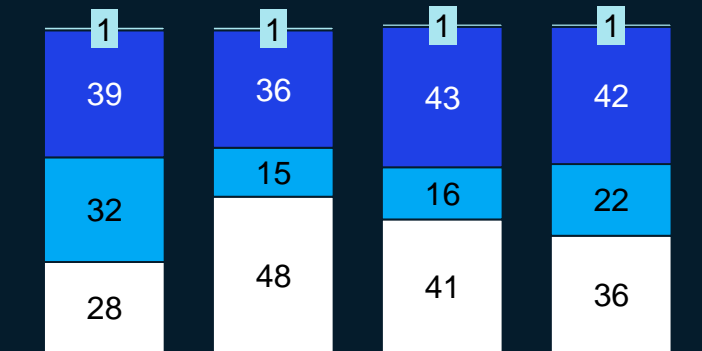
Yet, positive sentiments about the future are on the rise

Expected changes at respondents' companies, next 6 month, % of respondents

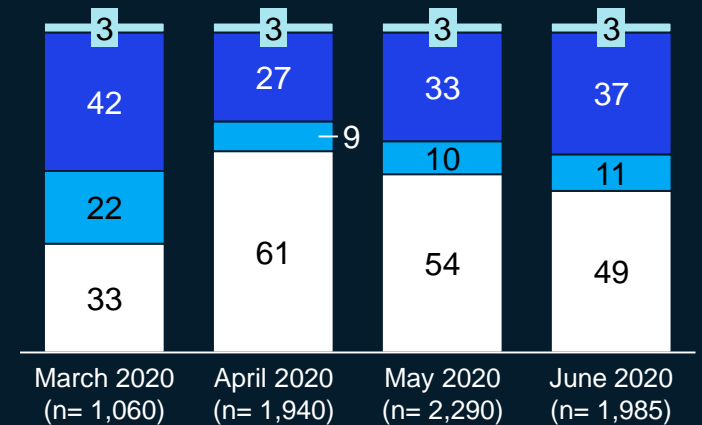


■ Don't know
 ■ Increase
 ■ No change
 ■ Decrease

Customer demand



Company profits





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Consider the forces that are shaping the Next Normal



Metamorphosis of demand

B2B purchasers and consumers are accelerating the adoption of digital

Non-discretionary spending is recovering - discretionary spending remains depressed

Jurisdictions that have reopened their economy before overcoming the peak of the infection curve are seeing an uptake in mobility but greater variability in spending than those jurisdictions who reopened later



An altered workforce

Demand for labor is shifting: strong need for reskilling (e.g., scarcity of digital marketeers)

Most companies achieved a successful transition to remote work

Companies are now realizing remote work is not a long-term panacea (e.g., difficulty to collaborate between silos, culture erosion)

Social divide across organization is leading to push back by front line workers (e.g., employees refusing to enforce mask wearing)



Changes in resiliency expectations

Because of historical supply chain disruption highlighted by COVID (e.g., a 2-4 week disruption occurs on average every ~3 years, average cost of a disruption is ~45% of one year's EBITDA) companies are choosing to increase supply chain resilience

Increasing desire by organizations to ensure business partners are resilient (financially, supply chain)

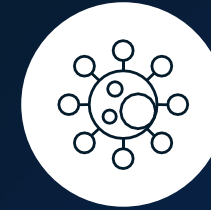
Companies are leveraging several tools to increase resiliency (e.g., assets divestments, SKU rationalization)



Regulatory uncertainty

The distribution of COVID-19 stimulus packages (~3x vs. 2008 financial crisis within G20) have created unprecedented uncertainty

Growing political pressure for new regulations and legislation to favor and 'protect' domestic economic activity – with ripple effects on government policy, supply chains, investment decisions, consumer behavior



Evolution of the virus

Economies are reopening despite different public health realities

The understanding of the virus continues to grow, with new studies on testing, transmission and treatment arising each day

Constantly changing set of safety interventions to protect customers, employees, and citizens at large.

Clear signs of exhaustion as people refuse to follow interventions (e.g., wear masks)

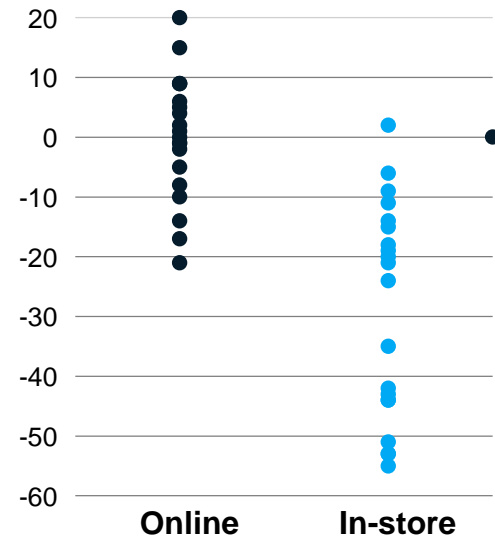


Metamorphosis of demand – B2B and B2C

Lockdowns have accelerated digital adoption, which is driving entirely new patterns of consumption

The new consumer shops online far more...

Net intent¹
By category, channel



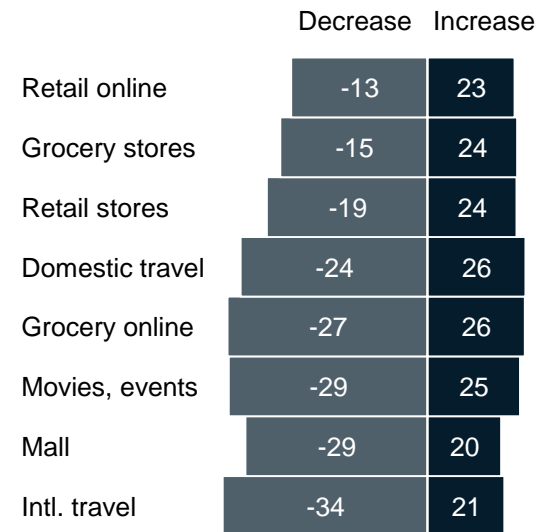
...is more willing to switch across brands...

% consumers who switched and intent to continue



...and is refocusing towards domestic & local activities

Post-COVID consumer expectations
Intent to increase or decrease time spent



This change is not just restricted to B2C; B2B customers are also similarly changing their patterns

(e.g., X% of physicians now prefer remote sales from pharmaceutical reps)

1. Categories: Accessories, Appliances, Jewelry, Footwear, Alcohol, Apparel, OTC medicines, Fitness, Tobacco, Snacks, Electronics, Skincare, Personal care, Print, Delivery, Groceries, Supplies, Vitamins, Child products, Home Entertainment

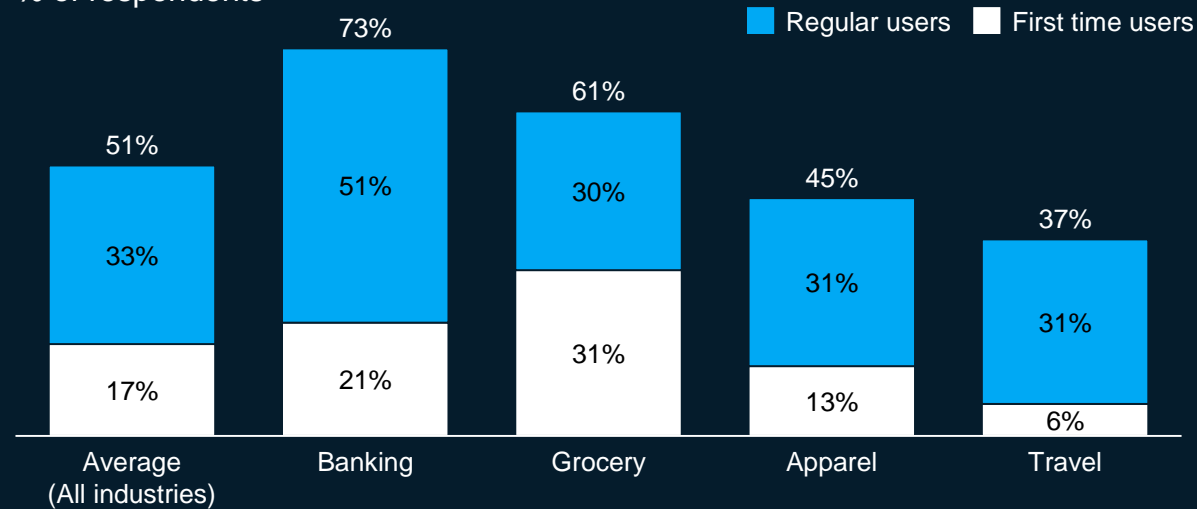


Adoption of digital sales channels is 'on the rise'

Consumers are accelerating adoption of digital channels¹

Most first-time customers (~86%) are satisfied/ very satisfied with digital adoption and majority (~75%) plan to continue using digital post-COVID

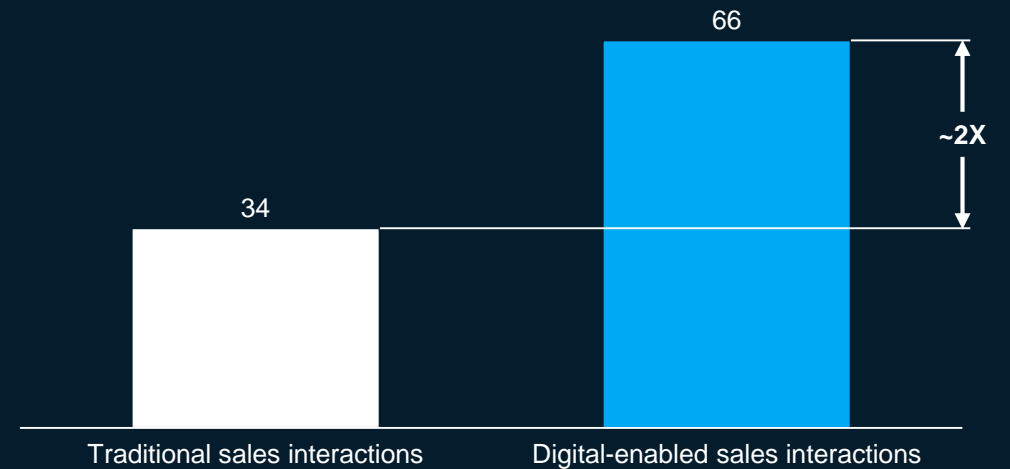
% of respondents



...and so are B2B decision makers²

B2B decision makers believe digital sales interactions will be ~2X more important than traditional interactions in the next few weeks (vs equally important pre-COVID)

% of respondents



Source:

1 - Q: Which of the following industries have you used/visited digitally (mobile app/ website) over the past 6 months? Which of this services have you started to use digitally during COVID-19?

McKinsey & Company COVID-19 Digital sentiment insights: survey results for the U.S. market; April 25-28, 2020

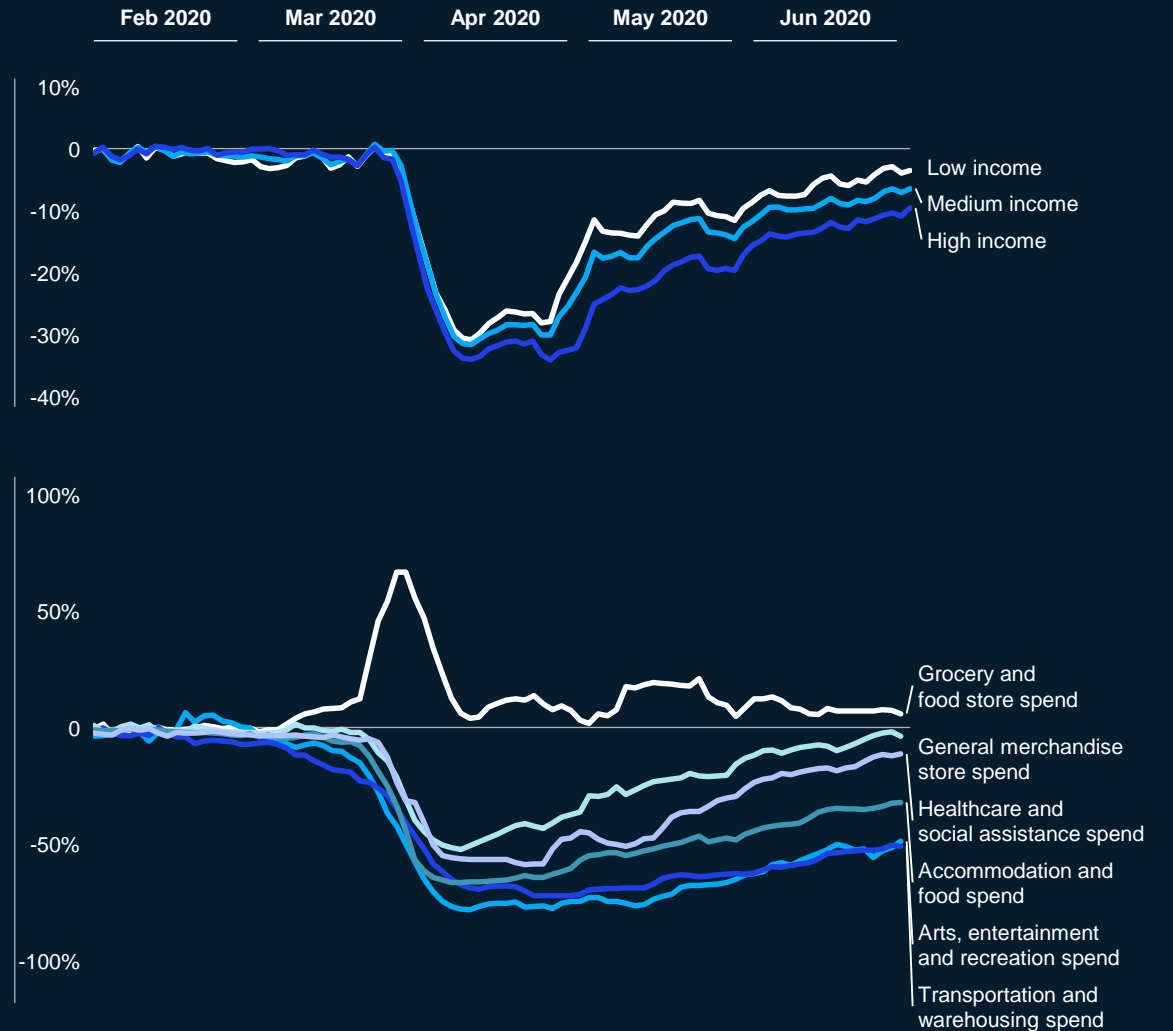
2 - McKinsey B2B Decision Maker Pulse Survey, April 2020 (N=3,619 for Global. Respondents from France, Spain, Italy, UK, Germany, South Korea, Japan, China, India, US, and Brazil)



Spending across the U.S. has partially recovered, although high income individuals, with the highest discretionary share of wallet, are still spending less

High income spending has recovered less than other income levels...

... translating into a slower recovery for discretionary categories

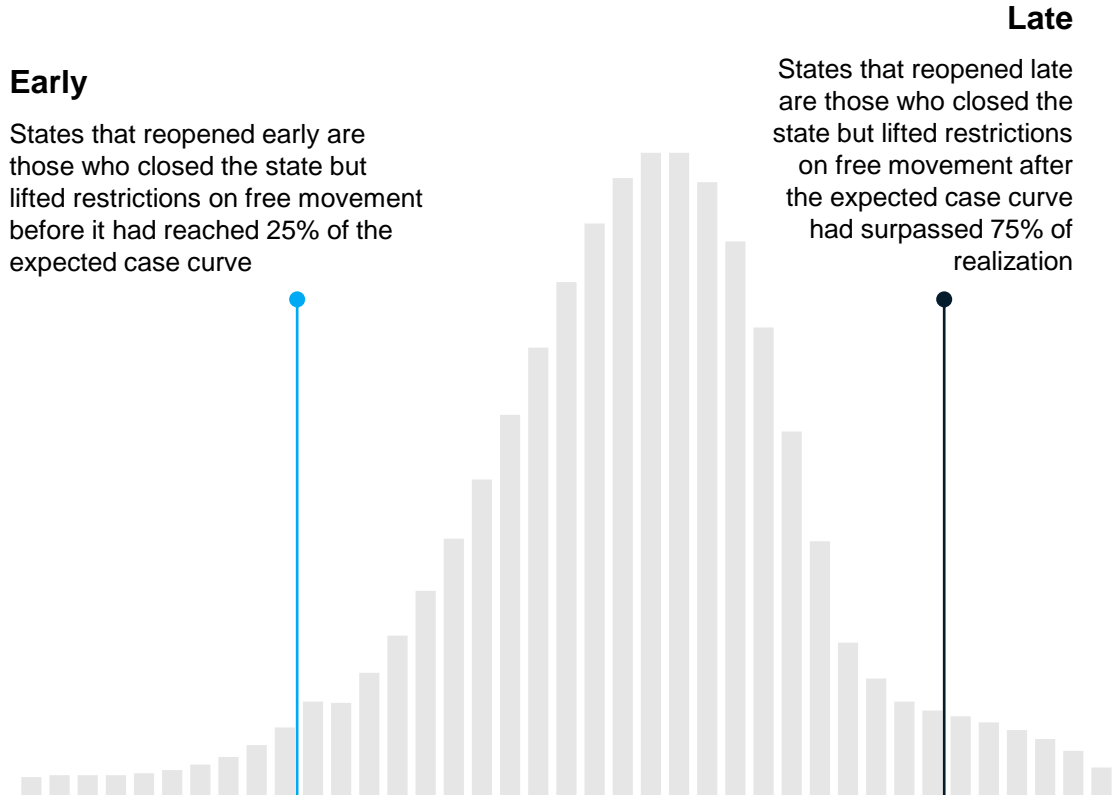


Early reopen states saw rise in mobility, but greater variability in spending

Illustrative

■ Number of cases

Different states reopened at different points along the “curve”, Number of cases per day



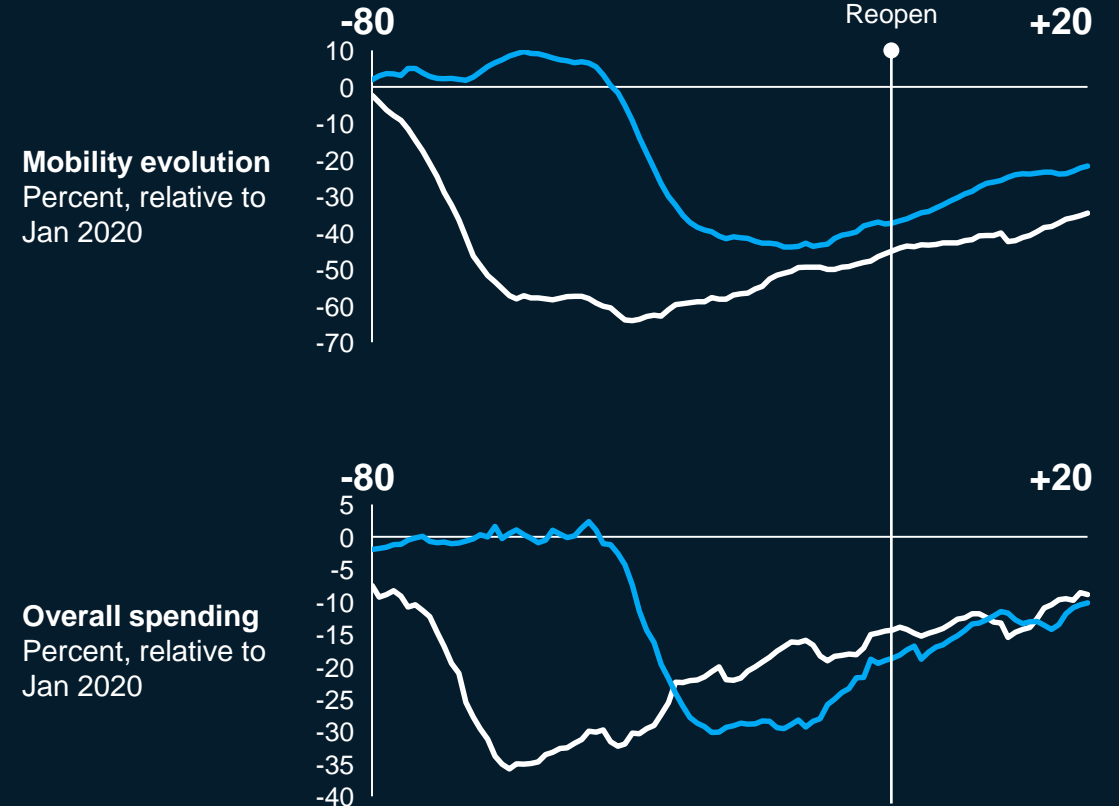
1. Analysis conducted selecting 2 representative states within each category

Source: FIBRE by McKinsey



— Late — Early

States that reopened earlier in the “curve” tended to see stronger mobility, but more volatile spending¹



Most companies transitioned to remote work successfully

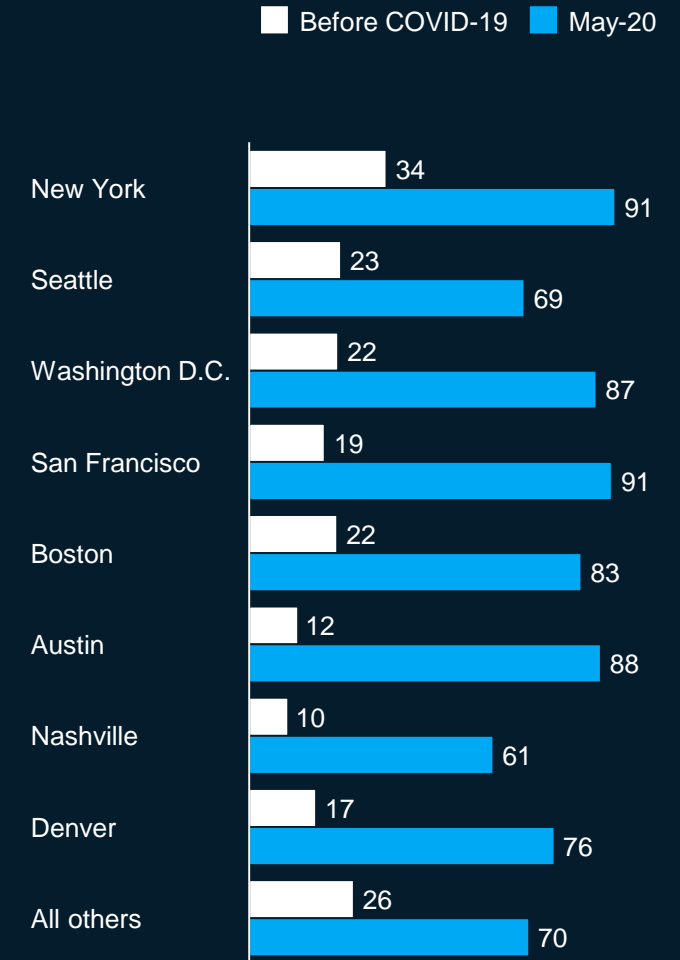
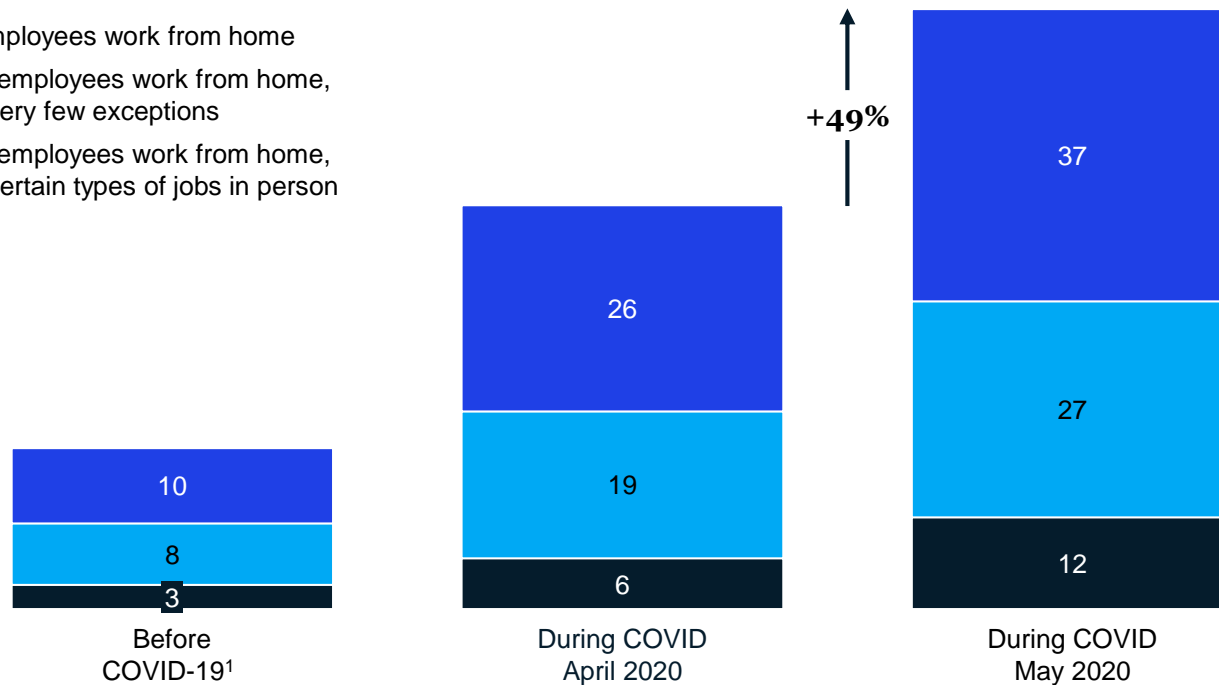
Work from home increased ~50% from April to May



Working environment

Question: Which of the following best describes your company's typical work from home policy BEFORE and DURING the coronavirus COVID-19 pandemic?, %

- All employees work from home
- Most employees work from home, with very few exceptions
- Most employees work from home, with certain types of jobs in person



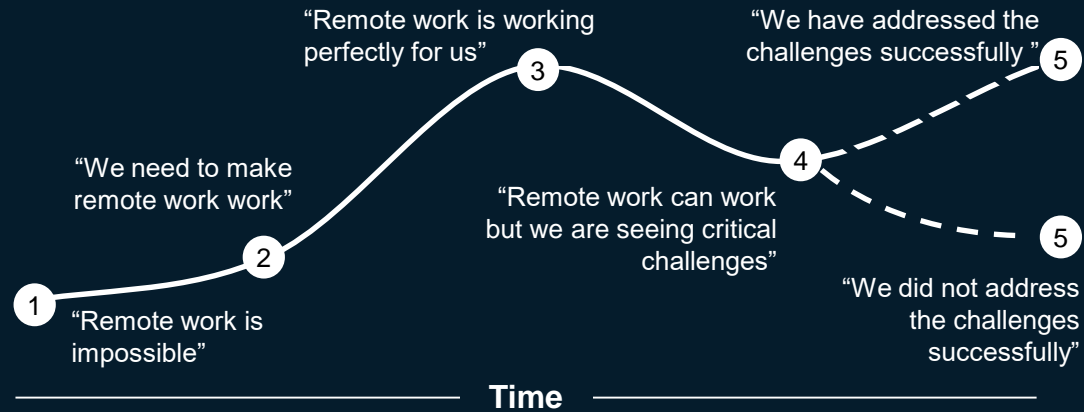
1. Weighted average of responses from April and May surveys

Source: US consumer survey, April 15-17 (n=1,026); May 15-18, (n=703)



However, important challenges have arisen from remote work

Level of satisfaction with remote working varies over time



Examples of challenges to anticipate and pro-actively address derived from working remotely

Informal and organic serendipitous interactions no longer occur

Managers who successfully led in person teams don't know what they should do differently when leading virtual teams

Non verbal and social emotional cues are significantly harder to read when virtual, so communication often suffers

Many processes were designed to be in person and aren't effective when virtual (e.g., recruiting, onboarding)

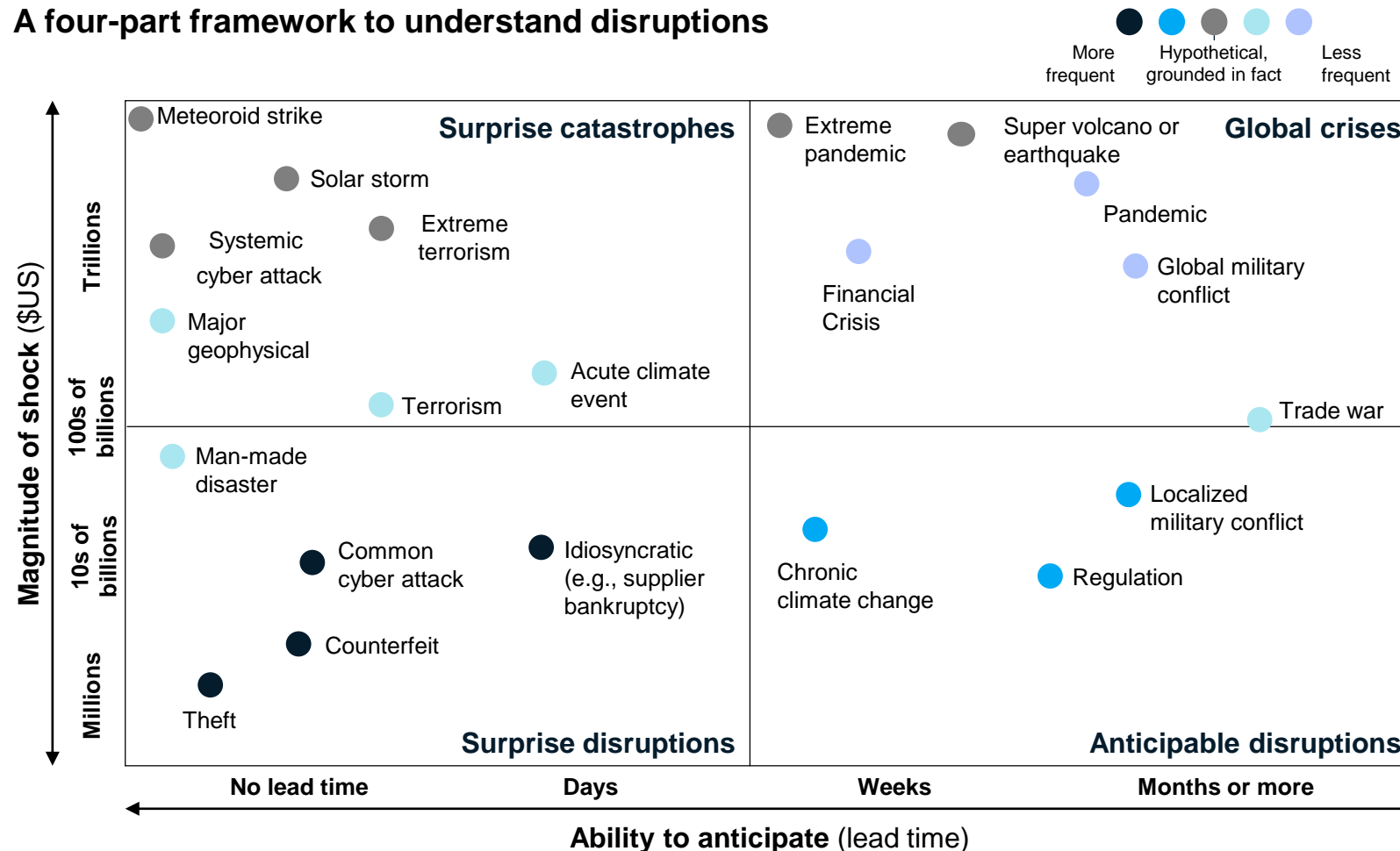
Potential for 2 cultures to form - one for those onsite, another for those virtual



Disruptions of operations are often impossible to predict, but happen with regularity

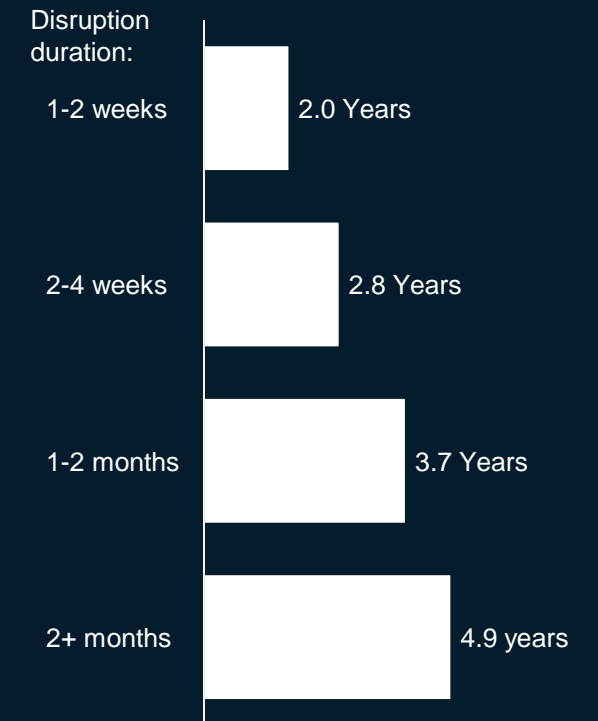


A four-part framework to understand disruptions



Expected frequency of a disruption (in years) by duration

Based on expert interviews, n=35



Large companies rely on hundreds of suppliers

Number of publicly disclosed Tier 1 suppliers of MSCI companies¹

Industries with the largest number of Tier 1 suppliers



Aerospace
3.9x
median industry²

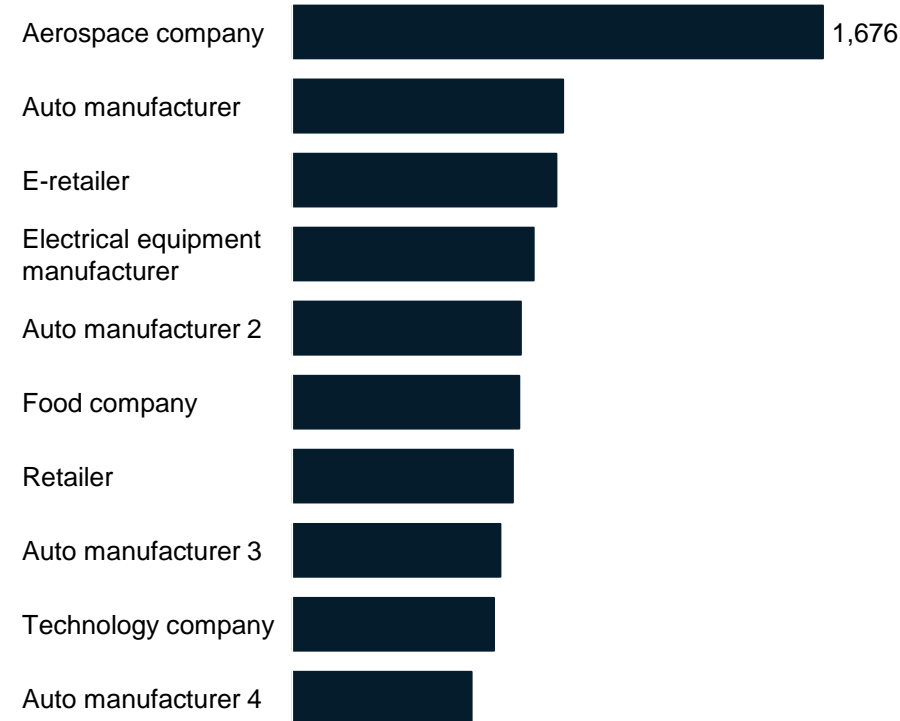


Communication equipment
2.2x
median industry



Food and beverage
1.8x
median industry

MSCI companies with the largest number of publicly disclosed Tier 1 suppliers

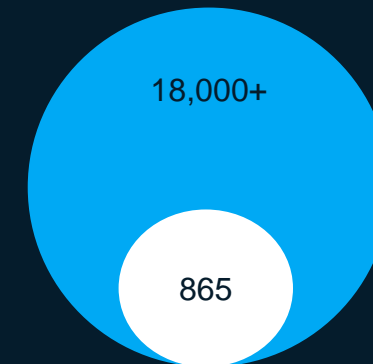


Publicly disclosed tier 1 Suppliers

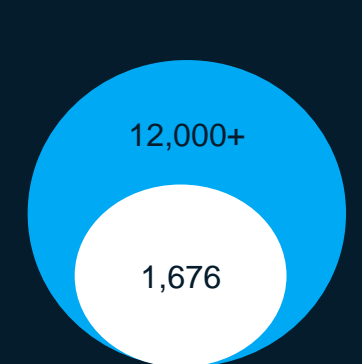
Tier 2 and below Suppliers

Beyond the first tier, companies rely on a network of thousands of suppliers

Auto manufacturer



Aerospace company



Technology company



Food company



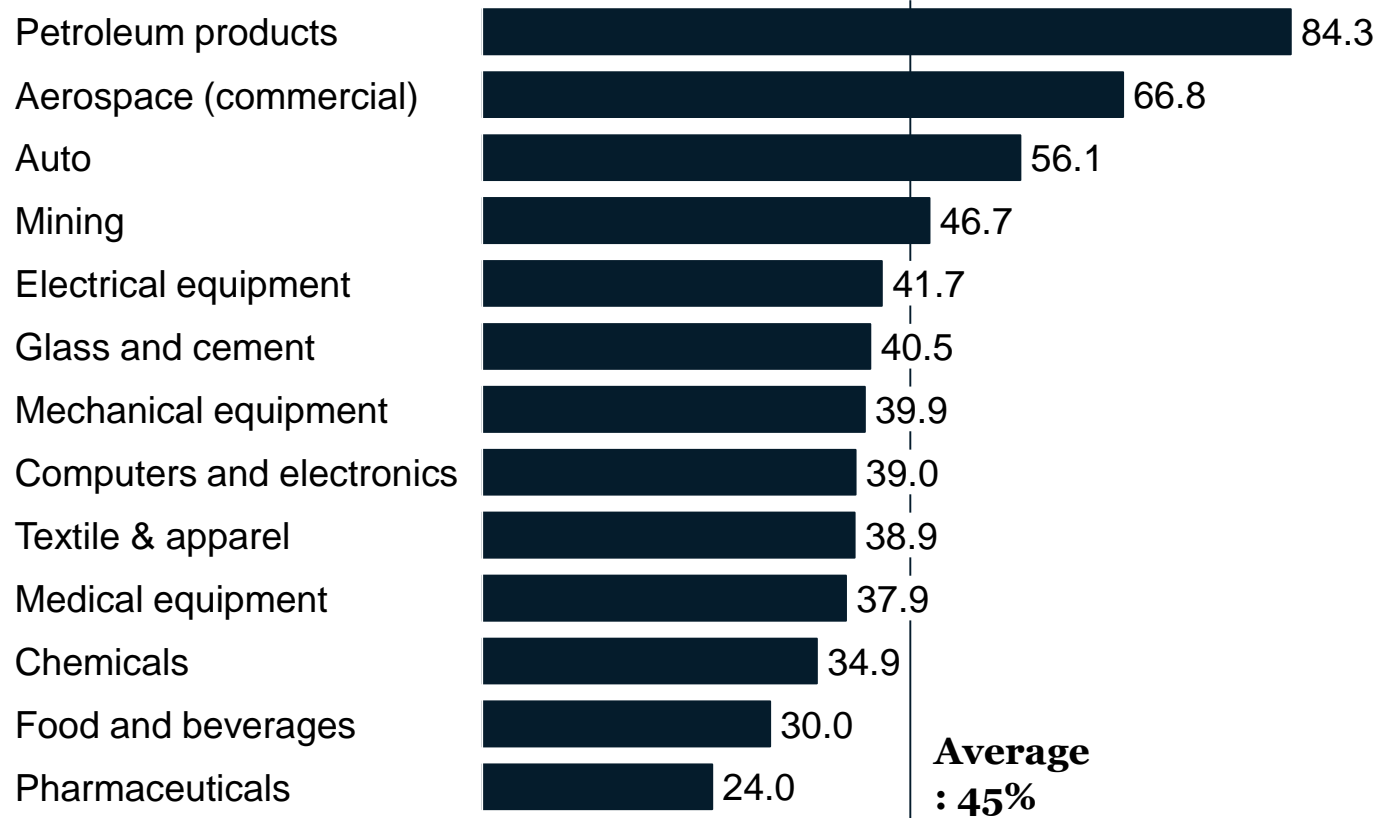
1. Analysis based on 668 out of 1,371 MSCI companies, excluded 57 companies that did not have public information available on Tier 1 suppliers and 645 companies that provide services. This constitutes an incomplete estimate of customer-supplier relationships based on public disclosures. Suppliers include providers of intermediate inputs, services, utilities, and software, et al.

2. Median of the simple average of tier one suppliers for each manufacturing industry considered

Expected losses from operation disruptions equal on average 45% of one year's EBITDA

Net present value of expected losses over a 10 year period

NPV of expected losses¹ over 10 years
(% annual EBITDA)



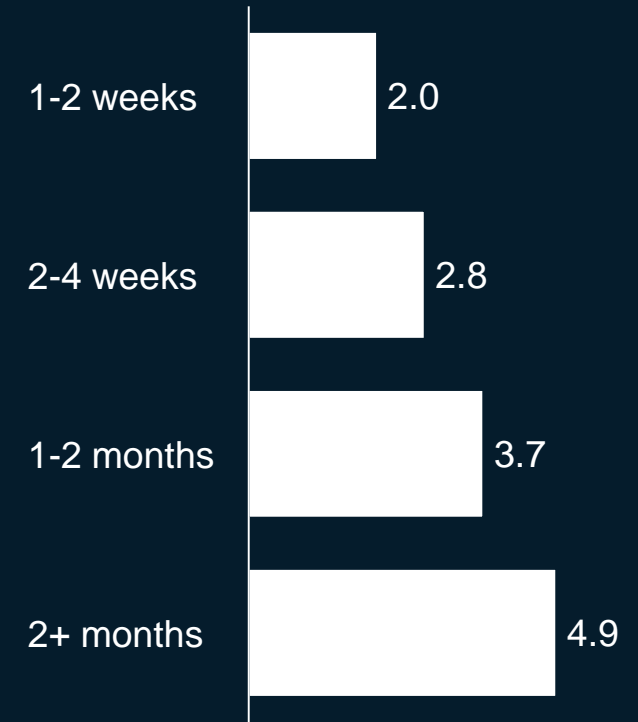
1. Based on estimated probability of severe disruption (constant across industries) and proportion of revenue at risk due to a shock (varies across industries). Amount is equivalent to one-year's revenue, i.e., is not recurring over the modelled ten-year period. Calculated by aggregating the cash value of expected shocks over a ten year period based on averages of production-only and production-and-distribution scenarios multiplied by the probability of the event occurring for a given year based on expert input on disruption frequency. The expected cash impact is discounted based on each industry's weighted average cost of capital

2. Based on outcome of an expert panel survey (n=35) for select industries, where experts were asked the frequency of major value chain disruptions in their industry over the last 5 years

Companies experienced a major disruption of at least one month every 3-4 years



Frequency of an operational disruption (in years) by disruption duration²





Not Exhaustive

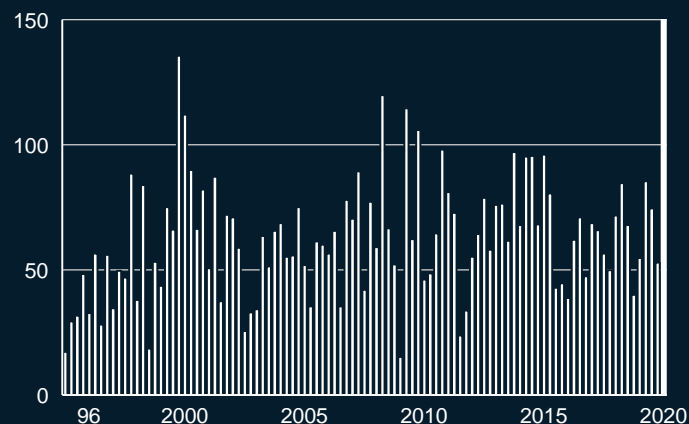
Companies are implementing a range of measures to increase resiliency

Asset divestitures

Companies are divesting assets in order to increase cash at hand. During Q2 2020, \$28 billion of U.S. traded stock was sold in eight secondary transactions of at least \$1 billion, including:

- PNC Financial Services sold its \$13 billion stake in BlackRock
- Sanofi sold its stake in Regeneron for \$11.7 billions
- SoftBank Group plans to sell its \$30 billion stake in T-Mobile US

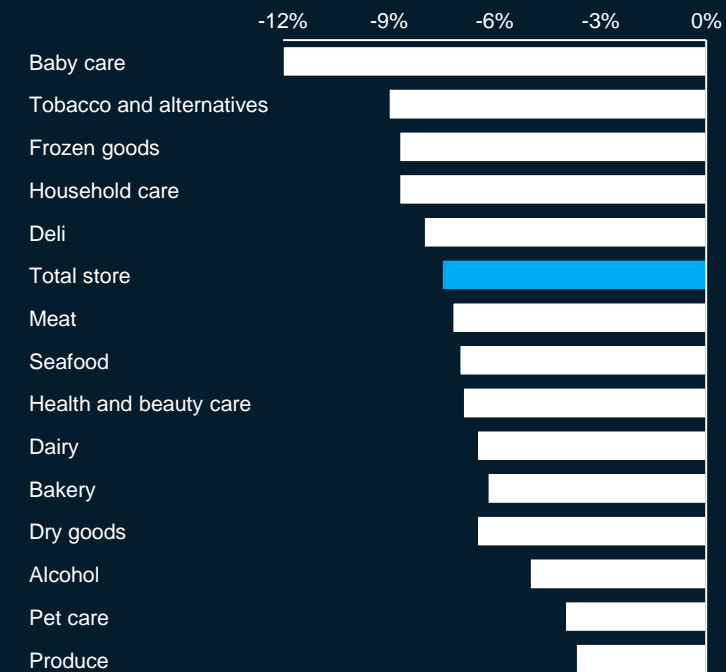
Capital raised per quarter (USD billion)



SKU rationalization

Companies are decreasing the number of items they are selling in order to reduce costs

Percentage change in the number of different items sold at U.S. supermarkets



Government stimulus packages on top of growing statist sentiments and free-market backlash may lead to regulatory shifts



Regulatory uncertainty may require corporate adaptability to manage this complexity

Declining confidence in free market mechanisms & rising statism¹



Moves favoring onshoring are likely to accelerate in the post-pandemic world:

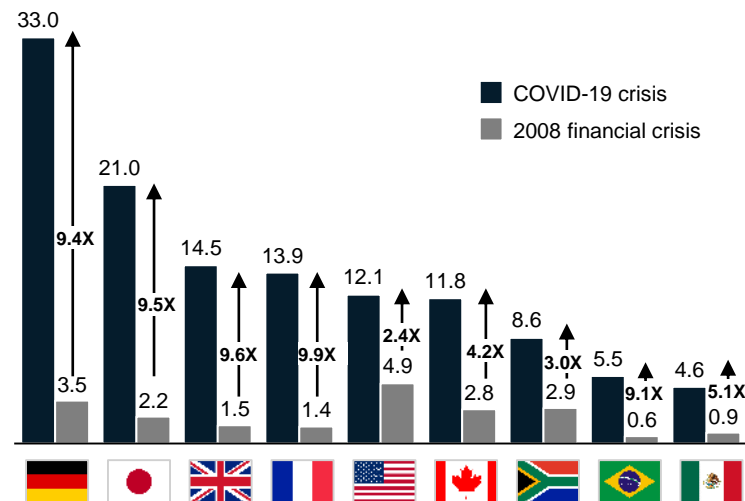
- Japan sanctioned incentives worth \$2.2B (Apr 2020) to push local firms to **move back manufacturing** of high value-added products from China
- With output constant, US imports of manufacturing goods from **14 Asian LCCs decreased by 7%** from 2018 to 2019² (first decrease in 5 years)



Governments worldwide are providing stimulus packages^{1,3} to alleviate COVID-19 impacts

3X greater response from G20 governments compare to 2008 financial crisis (11.4% vs 3.5%)

Comparison of fiscal stimulus crisis response, % of GDP¹



Resulting potential complexity for organizations

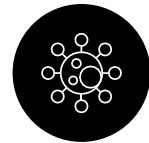
- New relationship with government – with depth of change unclear
- No global playbook given highly varied approaches and competencies by country
- Likely new regulations affecting manufacturing locations and supplier economics
- Disruption to global supply chains (for e.g., move to near-shore, heavily controlled vs global, decentralized partners)
- 2nd order implications on pricing, competition and consumer behavior

¹ Source: Bloomberg, Forbes;

² Kearney 'US Reshoring Index 2019' report, LCC – low cost countries;

³ 2019 GDP taken into account for values related to COVID-19 crisis; 2008 financial crisis data based on data published by IMF in March 2009, includes discretionary measures announced for 2008-2010; 4 - Excludes Turkey and EU (no data available);

The evolving understanding of the virus and the shifting impacts of the crisis may require a changing set of responses

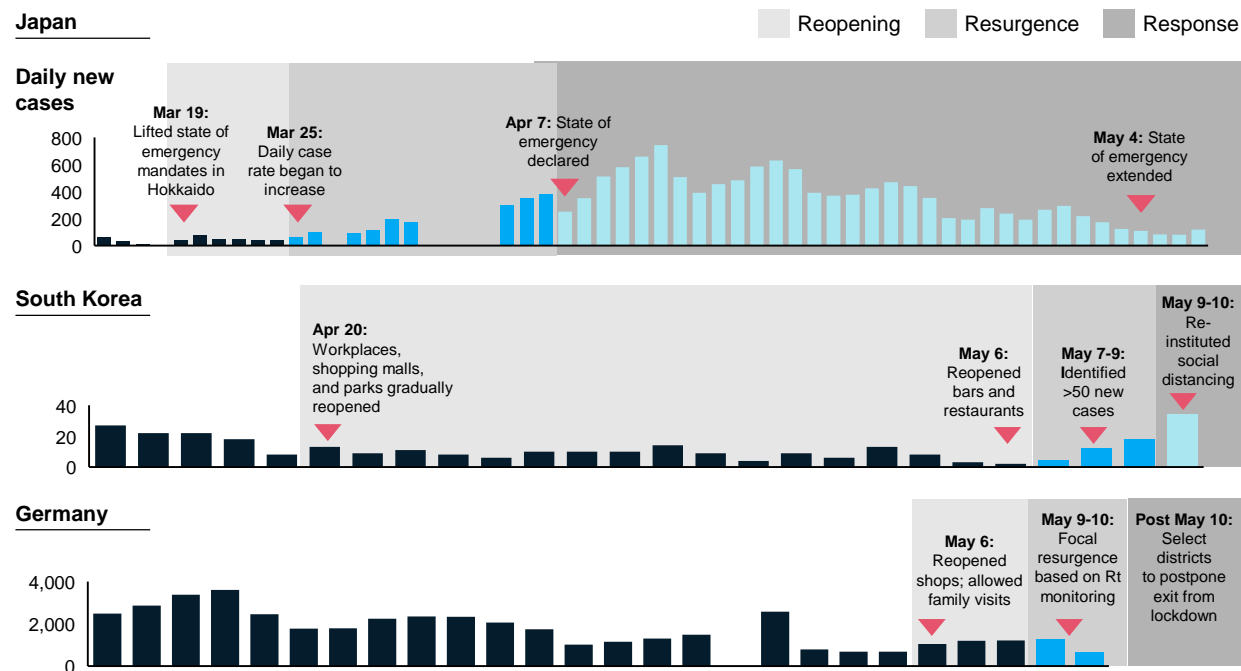


Shifting perspectives and uncertainty on 3 key topics requires adaptability on implementing safety measures

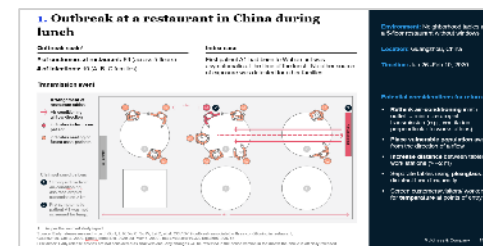
1 Shifting public health reality across different geographies globally

Public health situation such as **hospital capacity, reopening guidelines/timing, testing and tracing** vary widely across regions

For instance, many countries had to re-institute lockdown measures after resurgence events post re-opening



2 New information on virus testing efficacy and transmission patterns



New transmission incidents indicate emerging ways of virus transmission (for e.g., droplet transmission due to air-conditioning)

3 Emerging solutions on how the virus will be treated



Nearly 171 vaccine candidates (13 in clinical trials, 28 entering trials in 2020, others unknown) and over 210 therapeutics¹ candidates are currently in consideration

1. As of May 20, 2020 - Source: Milken Institute, BioCentury, WHO, Nature, CT.gov, ChiCTR, clinicaltrials.gov, press search



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 - ▶ 04 The right organization for the next normal**
 - 05 Appendix: updated economic scenarios
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COVID has seen organizations achieve great success in record time

Redeploying talent

A global telco redeployed 1,000 store employees to inside sales and retrained them in **3 weeks**

Pivoting production

An outdoor gear manufacturer took only **8 days to pivot** to making protective face shields for medical workers

Shifting operations

A major shipbuilder switched from a **3 to 2 shift model** for thousands of employees, coordinating directly with local officials

Launching new business models

US-based retailer launched curbside delivery in **2 days** vs. a previously planned **18 months**

Multiplying productivity

A major industrials factory ran at **90+% capacity with only ~40%** of the typical workforce



Underpinning this is acceleration in speed through new ways of working



We have removed **boundaries and silos** in ways no one thought was possible

Decision-making accelerated when we cut the 'BS' – we make decisions in one meeting, limit groups to no more than 9, have banned PowerPoint

We have **increased time in direct connection** with teams – resetting the role and energizing our managers

We adopted new **technology** overnight not the usual years

We're putting teams of our **best people on the hardest problems** – if they can't solve it no one can

Change will never be this slow again...

...**CEOs are telling us that there is no turning back...**

...they have seen the art of the possible and want to lock it in

Tomorrow's organization may be different from the past

Hallmarks of an organization designed for speed

Fit for purpose operating model...



Flatter organizations with much less hierarchy and streamlined decision rights



Faster information flows and decision-making, powered by embedded data and analytics



Cross-functional teams collaborating to tackle common missions through test-and-learn approach



Flexible ways of working, including affinity for hybrid remote/in-person teams



Dynamic allocation of talent deployed against mission-critical priorities



Agile, resilient talent able to move fast, adapt to change and continuously learn

...with improved outcomes



Faster speed to market: first to act on market trends, customer needs, talent acquisition



Increased customer responsiveness: 6-10x increase in testing throughput, 50-200% reduction in time to launch new customer experiences



Greater efficiency and return on invested capital



Stronger performance orientation & employee satisfaction

**Organization
could act now
to redesign
their operating
models for
speed – in this
unique
moment in
time**

Uncertainty is the next normal: what is working now (speed, information, collaboration) will continue to drive performance in the future

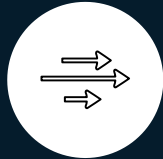
Growth is a speed game: as past recessions show, the winners are those who innovate fast, make bold moves and rapidly reallocate resources

Talent market is flattening and democratizing: remote working means geography is no longer a constraint and top talent is already leaving orgs with bad cultures and slow responses

It may not be affordable to wait: cost pressures have intensified making it critical to drive efficiency and operate with a lean core

Momentum is here (for now): leaders see the art of the possible and employees have their eyes open to sustainable ways of working. Slipping back to old behaviors will be difficult to recover from

Unleashing speed: what it could look like



Rewire ways of working

- 1 Juice decision clock-speed**
Reset how you make your 5 most important decisions at 5x speed
Eliminate 50% of your meetings and reports
- 2 Install new-normal working model**
Take 70% of your workforce to remote or hybrid-remote working
Double-down on killer management practices (e.g., role clarity, personal ownership)



Reimagine structure

- 3 Radically flatten the organization**
Clean sheet the organization to radically simplify the structure
Dramatically broaden spans and remove 2-4 entire layers
- 4 Inject agile teams broadly**
Institute 5-7 “agile pods” to address customer needs
Launch temporary cross-functional teams to tackle most complex issues



Readapt talent

- 5 Dynamically allocate talent**
Align 50 critical roles to your most important priorities
Establish talent marketplace to swiftly redeploy employees
- 6 Build capabilities for the future**
Equip leaders to lead change, make better decisions, learn how to learn
Develop your workforce’s ability to execute at speed



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Shape of the COVID-19 impact: the view from global executives

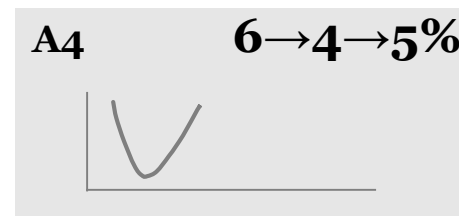
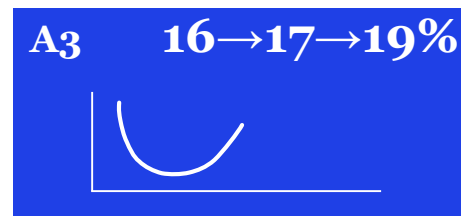
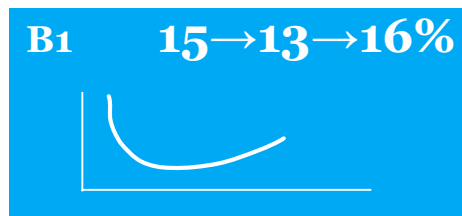
“Thinking globally, please rank the following scenarios in order of how likely you think they are to occur over the course of the next year”; % of total global respondents¹

World

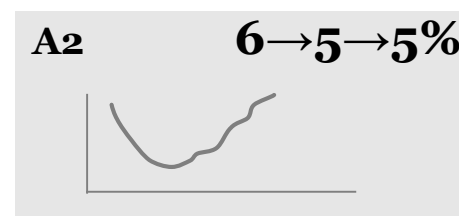
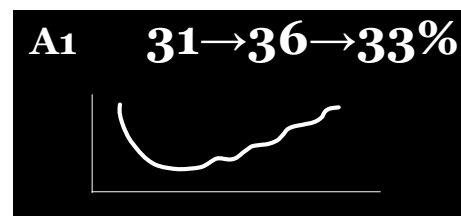
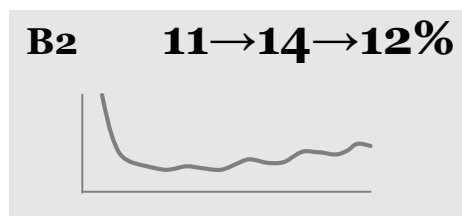
April → May → June surveys

Virus spread and public health response

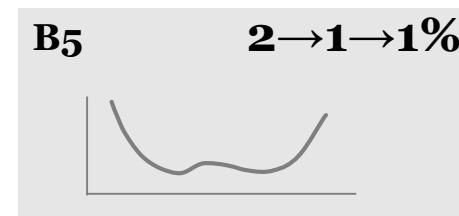
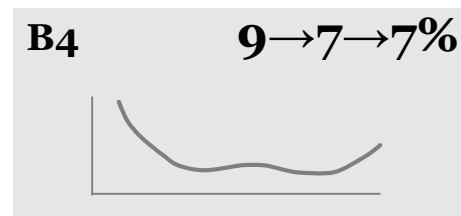
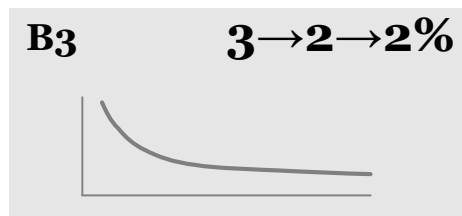
Rapid and effective control of virus spread



Effective response, but (regional) virus resurgence



Broad failure of public health interventions



Ineffective interventions

Partially effective interventions

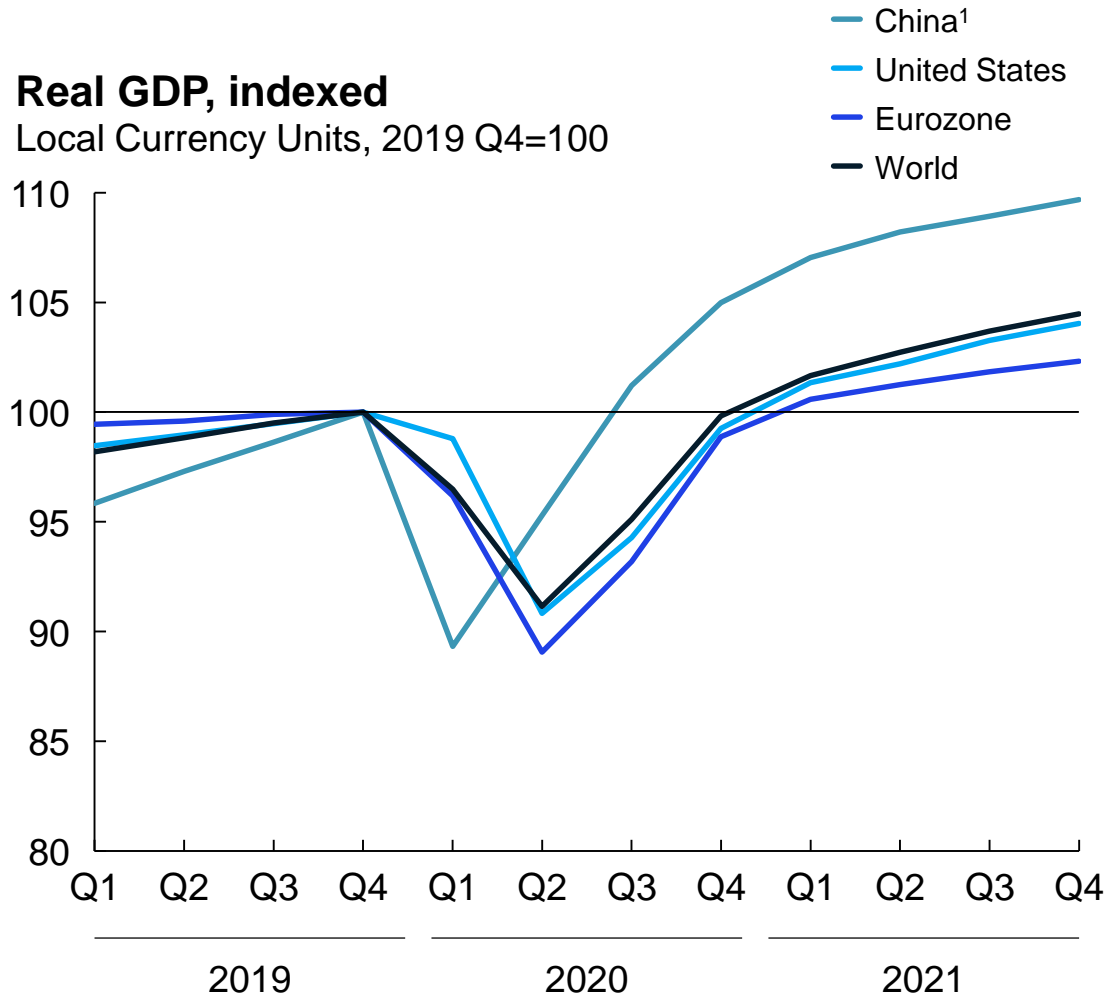
Highly effective interventions

Knock-on effects and economic policy response

1. Monthly surveys: April 2–April 10, 2020, N=2,079; May 4–May 8, 2020, N=2,452; June 1–5, N=2,174

Scenario A3: virus contained, growth returns

Large economies



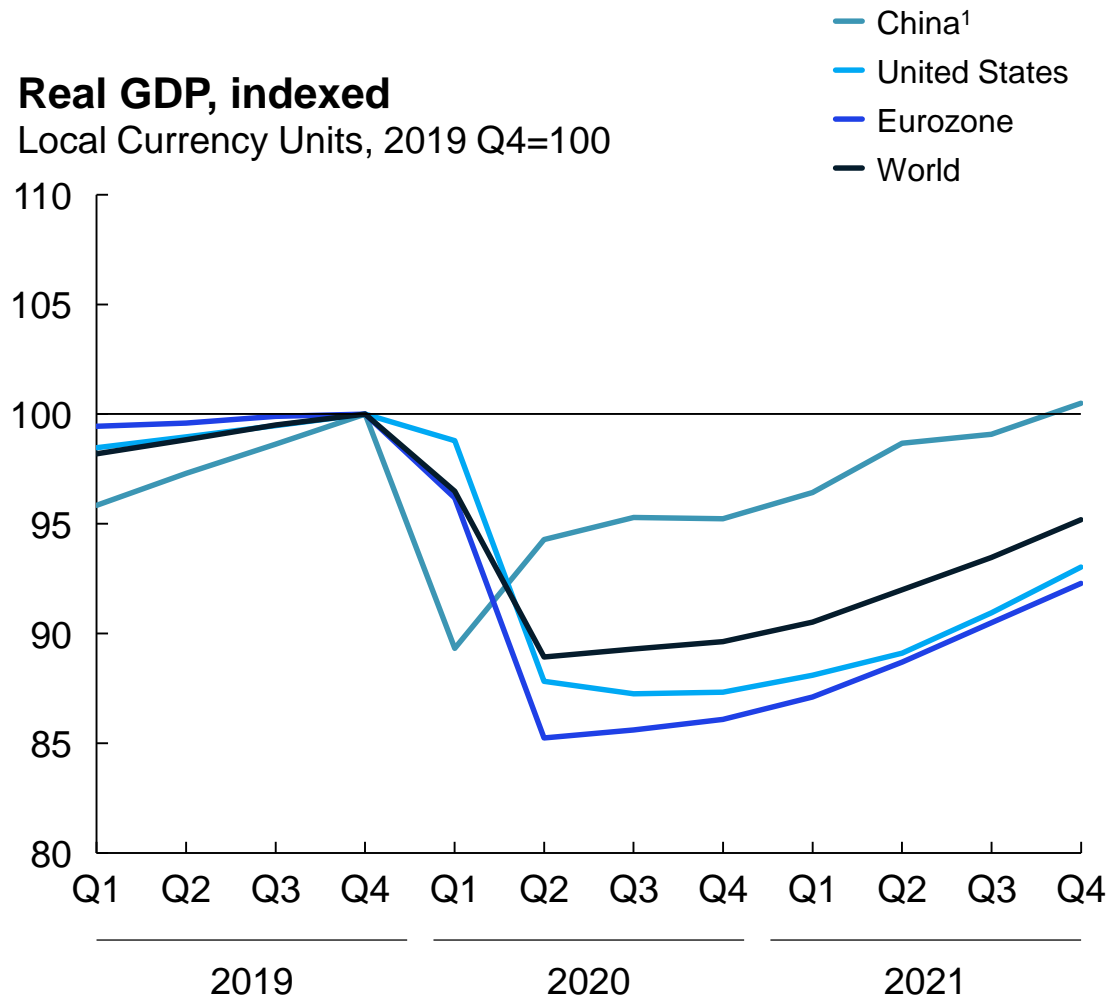
1. Seasonally adjusted by Oxford Economics

Source: McKinsey analysis, in partnership with Oxford Economics

	Real GDP Drop 2019Q4-2020Q2 % Change	2020 GDP Growth % Change	Return to Pre- Crisis Level Quarter (+/- 1Q)
China	-4.7%	0.1%	2020 Q3
United States	-9.2%	-3.5%	2021 Q1
Eurozone	-10.9%	-5.4%	2021 Q1
World	-8.9%	-3.5%	2021 Q1

Scenario A1: virus recurrence, with muted recovery

Large economies



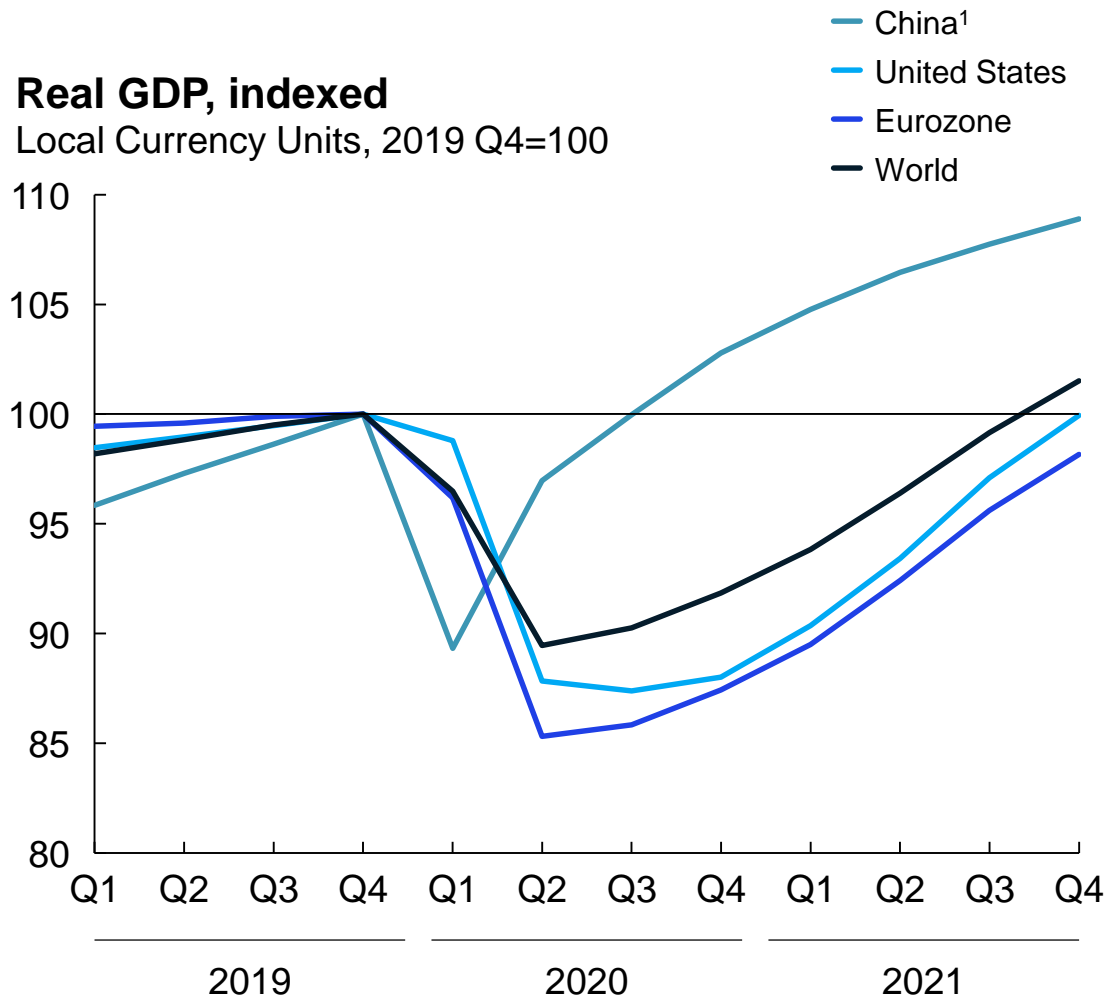
1. Seasonally adjusted by Oxford Economics

Source: McKinsey analysis, in partnership with Oxford Economics

	Real GDP Drop 2019Q4-2020Q2 % Change	2020 GDP Growth % Change	Return to Pre- Crisis Level Quarter (+/- 1Q)
China	-5.7%	-4.4%	2021 Q4
United States	-12.2%	-9.0%	2023 Q2
Eurozone	-14.8%	-11.5%	2023 Q3
World	-11.1%	-8.1%	2022 Q3

Scenario A2: virus recurrence, with strong world rebound

Large economies



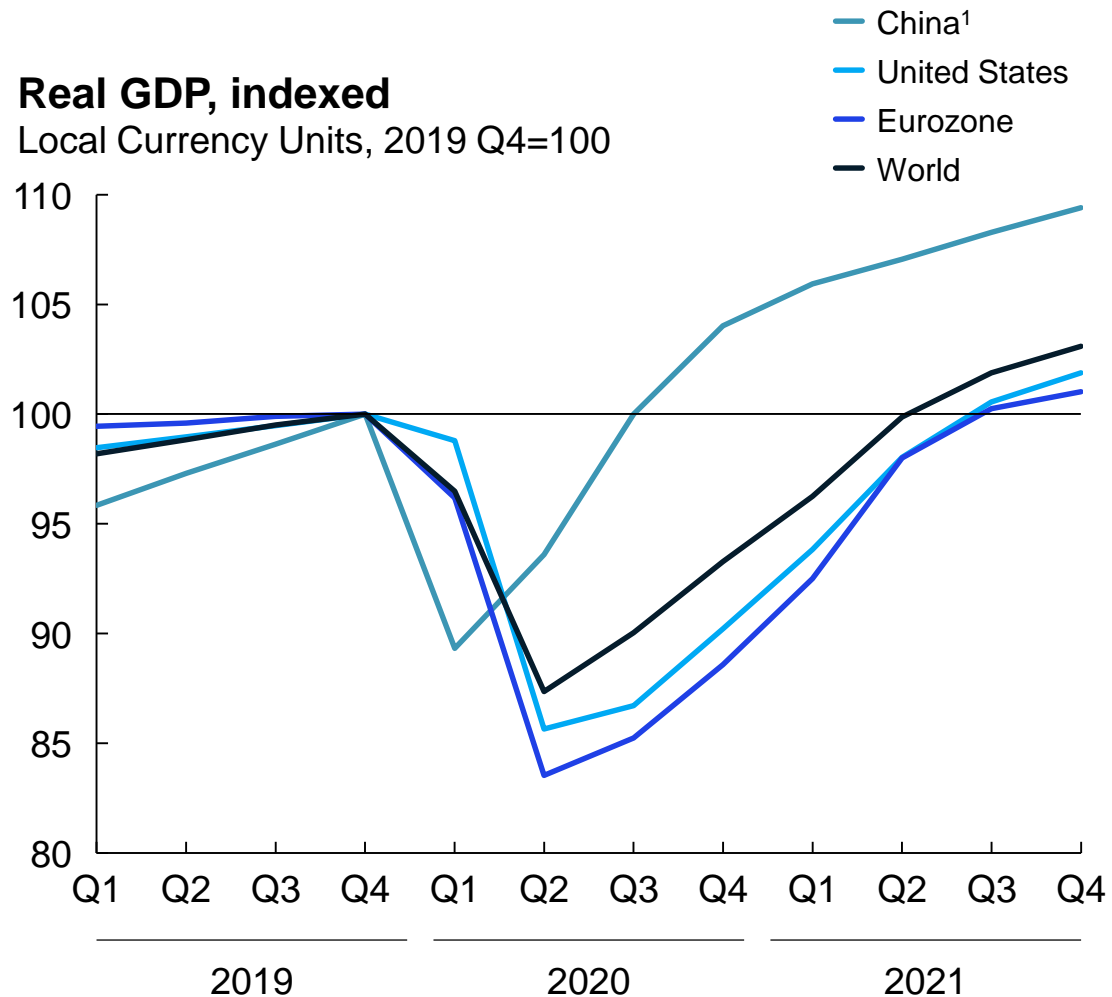
1. Seasonally adjusted by Oxford Economics

Source: McKinsey analysis, in partnership with Oxford Economics

	Real GDP Drop 2019Q4-2020Q2 % Change	2020 GDP Growth % Change	Return to Pre- Crisis Level Quarter (+/- 1Q)
China	-3.0%	-0.4%	2020 Q4
United States	-12.2%	-8.8%	2022 Q1
Eurozone	-14.7%	-11.1%	2022 Q1
World	-10.5%	-7.2%	2021 Q4

Scenario B1: virus contained, with lower long-term growth

Large economies



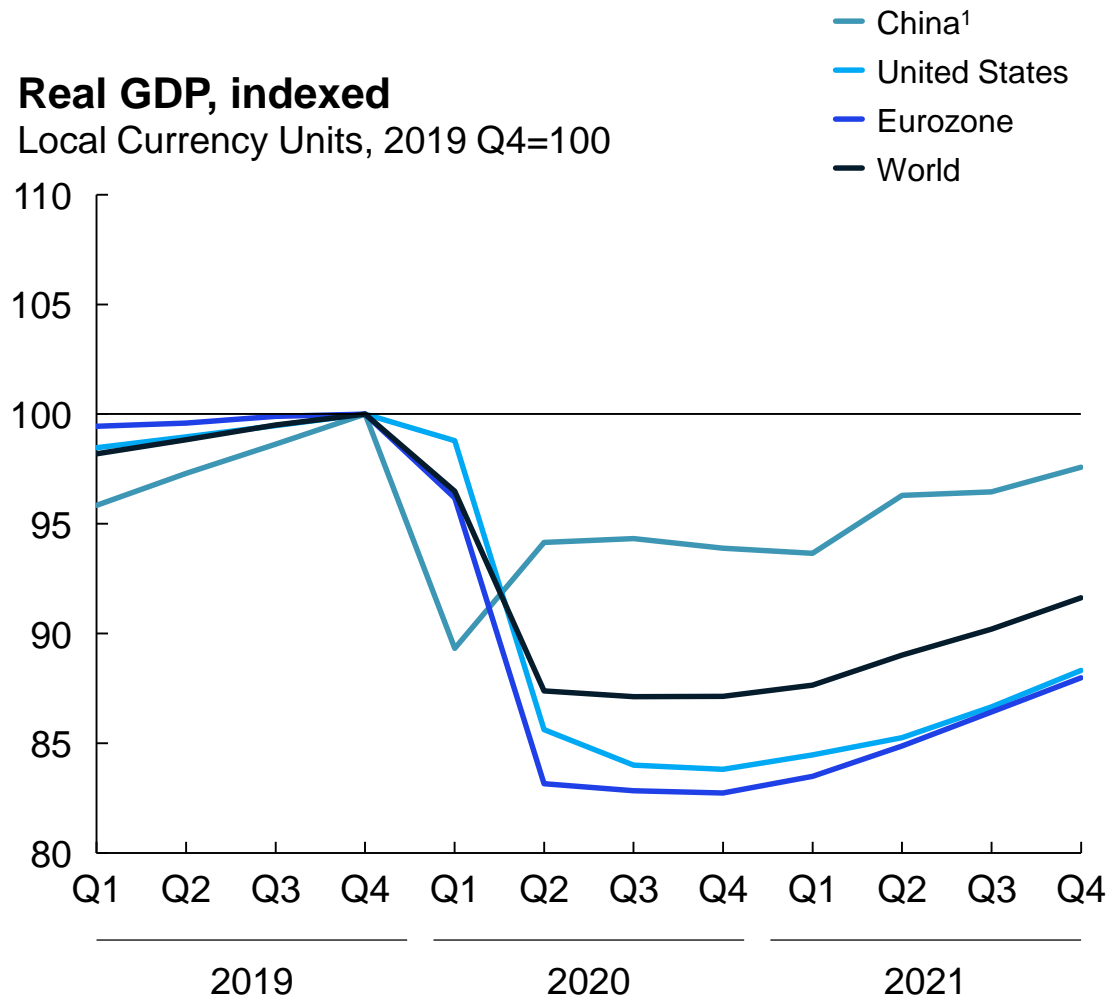
1. Seasonally adjusted by Oxford Economics

Source: McKinsey analysis, in partnership with Oxford Economics

	Real GDP Drop 2019Q4-2020Q2 % Change	2020 GDP Growth % Change	Return to Pre- Crisis Level Quarter (+/- 1Q)
China	-6.4%	-0.9%	2020 Q4
United States	-14.4%	-9.0%	2021 Q3
Eurozone	-16.5%	-11.4%	2021 Q3
World	-12.6%	-7.4%	2021 Q3

Scenario B2: virus recurrence, with slow long-term growth

Large economies



1. Seasonally adjusted by Oxford Economics

Source: McKinsey analysis, in partnership with Oxford Economics

	Real GDP Drop 2019Q4-2020Q2 % Change	2020 GDP Growth % Change	Return to Pre- Crisis Level Quarter (+/- 1Q)
China	-5.8%	-5.1%	2022 Q2
United States	-14.4%	-11.3%	2025+
Eurozone	-16.8%	-13.5%	2025+
World	-12.6%	-9.7%	2023 Q3

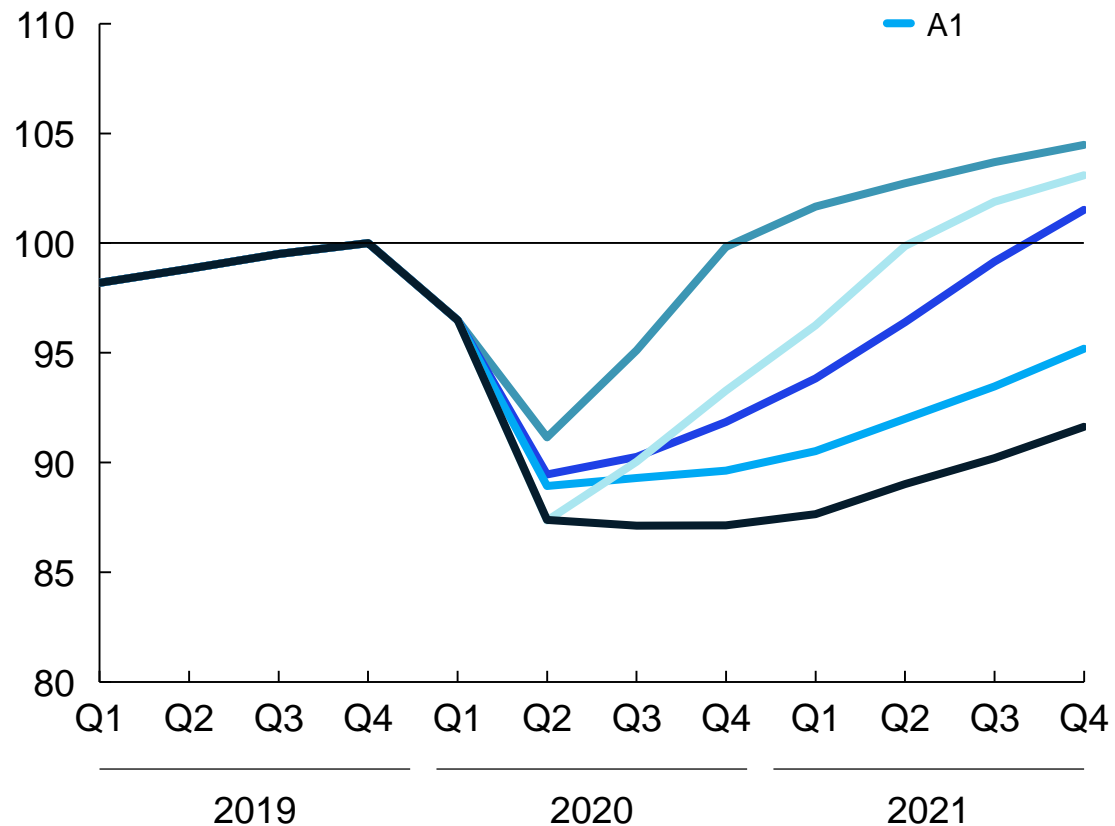
World

Scenarios A3, A2, A1, B1, B2

Real GDP, indexed

Local Currency Units, 2019 Q4=100

— A3 — B1
— A2 — B2
— A1



1. Seasonally adjusted by Oxford Economics

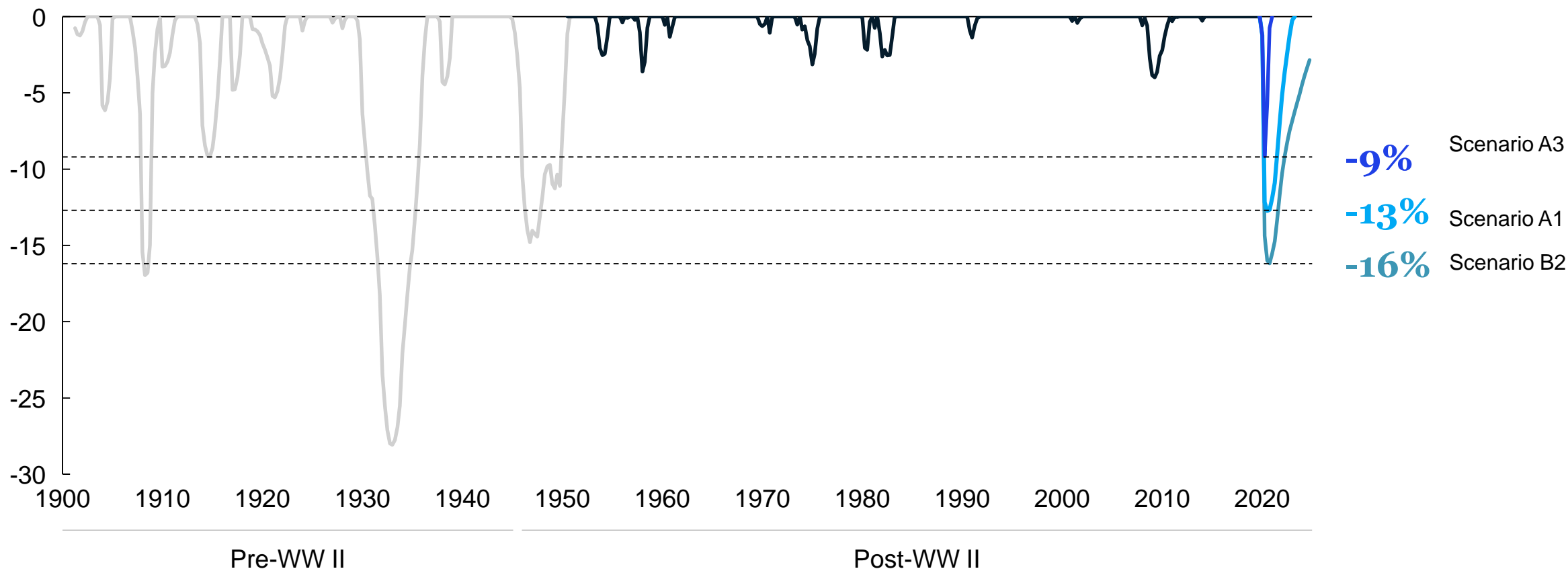
Source: McKinsey analysis, in partnership with Oxford Economics

	Real GDP Drop 2019Q4-2020Q2 % Change	2020 GDP Growth % Change	Return to Pre- Crisis Level Quarter (+/- 1Q)
A3	-8.9%	-3.5%	2021 Q1
A2	-10.5%	-7.2%	2021 Q4
A1	-11.1%	-8.1%	2022 Q3
B1	-12.6%	-7.4%	2021 Q3
B2	-12.6%	-9.7%	2023 Q3

COVID-19 US impact could exceed anything since the end of WWII

United States Real GDP

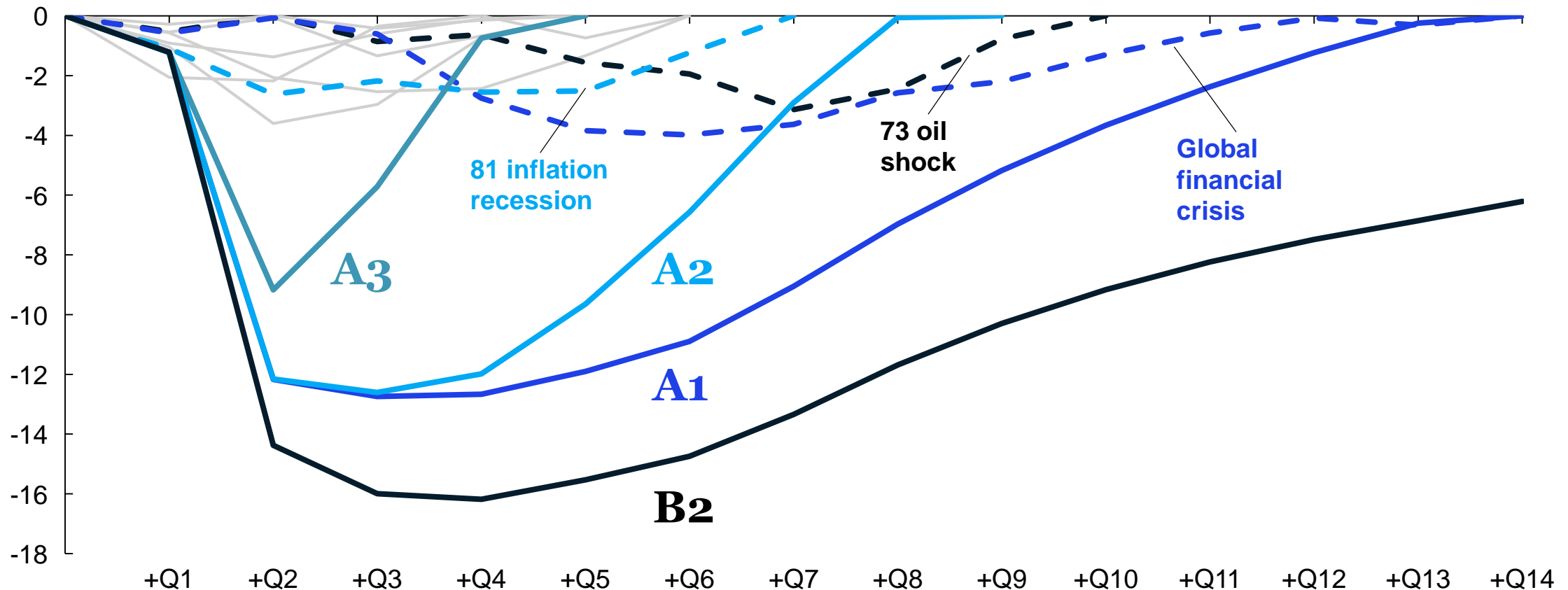
%, total draw-down from previous peak



Pace of decline of economic activity in Q2 2020 is likely to be the steepest since decline since WWII

United States, comparison of post-WWII recessions

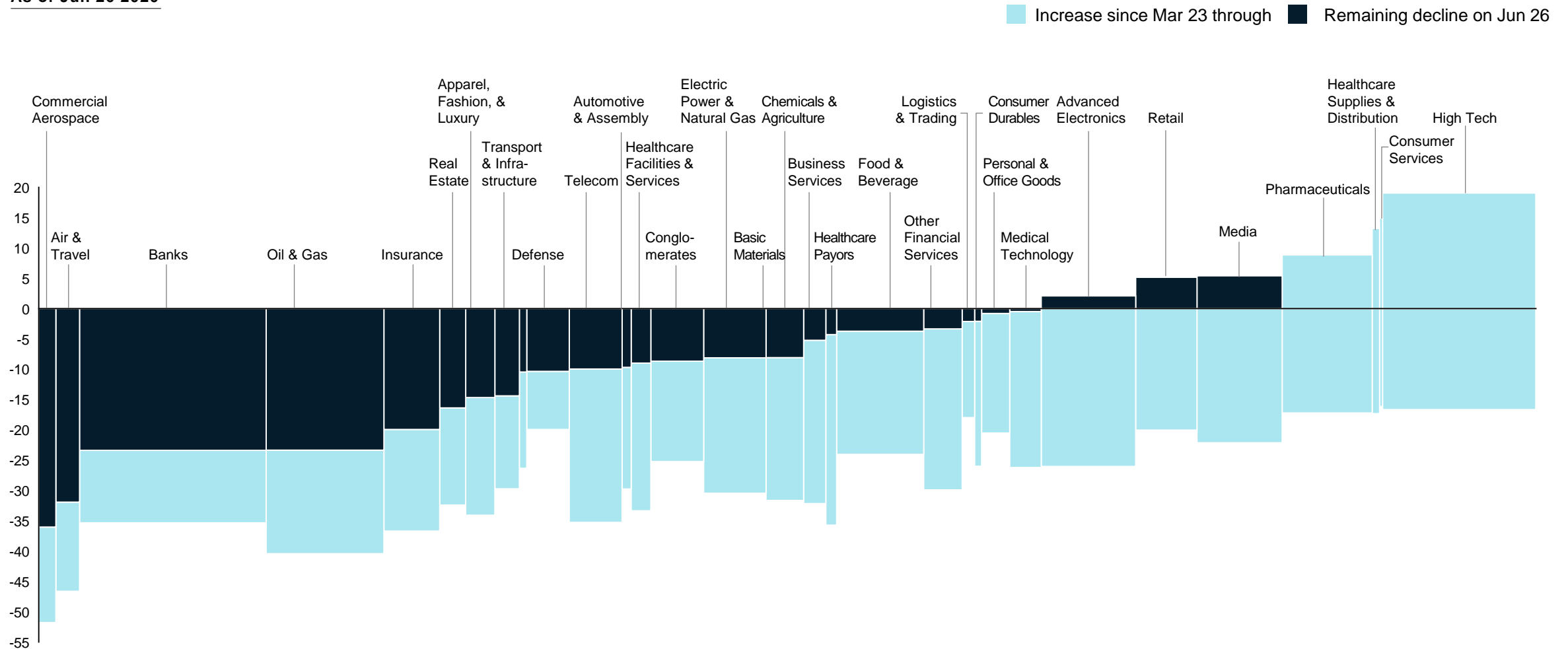
% real GDP draw-down from previous peak



Many industries have recovered most of their share price drop from recent months, some are up YTD

Weighted average year-to-date local currency shareholder returns by industry in percent¹. Width of bars is starting market cap in \$

As of Jun 26 2020



1. Data set includes global top 5000 companies by market cap in 2019, excluding some subsidiaries, holding companies and companies who have delisted since

McKinsey
& Company

