

How the lockdown will affect the profitability of companies

More than 70% of the companies are estimated to have losses

The coronavirus outbreak is affecting hundreds of thousands of people. It is not only a life-threatening disease but it is also having a growing impact on the global economy. It is an evolving unpredictable situation having a major impact on companies.

Although our primary duty is to control the epidemic safeguarding our lives and add capacity to the healthcare system rapidly, we must ensure that the right measures are taken leading from the crisis of today to the next normal both in society and economy that will emerge after the battle against coronavirus has been won.

The lockdown that almost all countries are currently experiencing, the several travel restrictions and the limitation in people's movement will severely impact some industries more than others. Cyprus businesses are struggling to find ways of surviving the COVID-19 crisis as the outbreak takes its toll on the workplace and commercial activity. We have already seen the HORECA sector taking the greatest hit of the last decades with mandatory closure of all Tourist Establishments including restaurants, coffee shops, hotels, airlines and their support services.

The construction industry is not far behind, since all construction work has been suspended. This triggers a chain reaction in all the industries that offer support services to construction for example wholesalers and retailers of building materials, Electrical installations and other.

Even though the retail industry of FMCG (Fast-moving consumer goods) is currently the only one that still has activities, people spending has significantly dropped since they are spending mostly on essentials.

From a study taken from figures from our database you can see just simply how a drop in the revenue of a company with other things being equal will impact the operating and net profitability of a company. The below graph shows how more than 10,000 companies will react in case you take 10% or 25% out of their Revenue but keep all other things equal.



If companies lose 10% of their revenue, the 31% of these companies will turn their operating profit into a loss and 30% of the profitable ones will end up sustaining net losses. In the end, more than 70% of our population will experience net losses.

If revenues drop by 25%, 78% of the companies will experience operating losses and 81% will eventually end up experiencing net losses.

The more months we are in lockdown, the worse the recession is expected to be. The numbers are devastating for the local economy and will inevitably have an impact on all aspects of society, starting from unemployment, economic growth, local and international trade, investment in new technologies and R&D.

As the numbers are saying, 2020 will leave its mark in Global History.