



Coronavirus and Its Impact on Israeli Public Companies

In recent weeks we have seen global capital markets colored red, following the corona virus outbreak worldwide, which many experts have been calling an “international epidemic”.

The reaction of investors to the spread of corona virus has been characterized largely by panic in countries around the world and this has led to a sharp declines not seen since the global financial crisis in 2008 .

The State of Israel has taken extensive, some have said extreme, steps, to limit the spread of the virus, one being a directive to self-isolate for 14 days for returnees from every destination in the world. As a result, airlines and tourism businesses in Israel have begun the process of layoffs and putting other workers on unpaid leave.

In recent days the Israel Securities Authority has issued new guidelines for reporting companies in Israel, decreeing that in light of the spread of the virus, reporting entities exposed directly or indirectly must provide to the investing public detailed information, among other things, about the material consequences and effects of the corona virus on the results of their business activities in the near future as well as on how they will deal with the risks and exposures.

Many reporting entities, including El Al, OPC Energy, IBI Investment House, Kishrei Teufa and Arad have issued announcements to the investing public about the real possibility of a negative impact on their business operations.

In the field of tourism, Israel’s national airline, El Al, recently announced that in light of the new guidelines of the Ministry of Health, it is unable at this stage to assess the extent of the adverse effect on the company’s operations. Other publications indicate that El Al intends to turn to the state for assistance worth hundreds of millions of dollars to allow the continuation of its activities. Tourism company Issta also is very concerned about the possible consequences of the corona virus, and announced changes in its working practices in order to reduce its exposure, closing branches and implementing compulsory leave and home working for sales people and staff.

Also, companies holding hotel properties are being negatively affected by the new Ministry of Health guidelines, which are leading to a significant drop in hotel occupancy and tourism in Israel, given the decree that all foreign tourists arriving in the country must self-isolate.

Recently, Dan Hotels has issued a statement to investors that “according to a recent assessment by the company ... a significant decrease in the company’s operating profit is expected in the first quarter of 2020 compared with the corresponding quarter last year.”

The Corona virus crisis also did not spare the shipping industry which in recent years has not seen a crisis of this magnitude. Freight shipping companies are suffering heavy losses, and ships with containers of goods from certain countries are not allowed to anchor at various ports, and some of the containers are required to wait for 14 days before they can be unloaded in the destination country. Also companies that offer cruises are suffering heavy losses in light of the refusal of a number of countries around the world to allow cruise ships. Hundreds of tourists have been detained on board because of fears of corona virus, as in the cases of Diamond Princess and Carnival.

Companies in the fashion and clothing industries are also victims of the effects of the corona virus. Many fashion companies import their products from Chinese suppliers and subcontractors, and due to the current crisis in China and in light of the spread of the virus, many of the production facilities have shut down their operations or are operating irregularly. It is unknown on what date they may expect to return to full and regular activity. This harms the ability to fashion companies to produce and import clothing and fashion products from China to Israel, and from that is expected a negative impact on results. In this regard Fox and Castro announced to investors that they are following the reports coming from China, and at this date are turning to alternative suppliers in other territories.

Another sector exposed to the corona virus is the financial sector. Corporations in the field of investment management, which include IBI, IMS Analyst and IBI Investment House, reported fears of damage to their projected earnings. In the field of non-bank lending, the corona virus may affect the ability of borrowers to pay back loans and thereby harm the companies operating in this field.

The Tel Aviv Real Estate Index, which in recent years has been on an upward trend, has fallen 14% since the beginning of the year, partly because of the corona virus. Real estate companies and contractors in Israel rely on thousands of construction workers who are citizens of China, constituting a significant work force in this area, also construction companies import raw materials from China, and it is uncertain when this industry will be able to return to regular activities. This may harm the real estate sector in Israel, and is likely to be reflected in the financial statements of reporting companies in this sector. Private construction companies have announced to home buyers that in light of the corona virus spreading around the world, there is a shortage in the supply of building materials and equipment necessary for the completion of real estate projects and therefore delivery of dwellings to purchasers is to be delayed.

As part of the regulatory obligations of reporting corporations in Israel, public companies are required to publish by the end of March their financial reports for the financial year 2019. As part of the requirements of the Securities Authority, the reporting entities are required to disclose the board's explanations of the effect of corona virus. The extent of the impact of the corona virus on public companies will be revealed in the financial statements of the first quarter and second quarter of 2020. We expect the companies to report not only on the potential for damage, but also to elaborate on the actions and work plans they will adopt to deal with the crisis, and how the crisis is expected to affect their ability to borrow funds, to finance future projects, and also details regarding potential exposures to claims by third parties, if and when they may occur. These are weighty issues, which must be taken seriously by the management of public companies and incumbent directors. Against this backdrop, there are voices in favour of an extension for reporting corporations to issue reports related to the consequences of the crisis, for a period of up to 45 days, similar to the that granted by the US Securities and Exchange Commission (SEC).

In summary, there is no doubt that the corona virus has been and is expected to be a significant factor in economics and international capital markets in 2020. Public companies, officers and investors should study and prepare optimally to reduce the damage of the corona virus in relation to their particular activities and to the capital markets in general.