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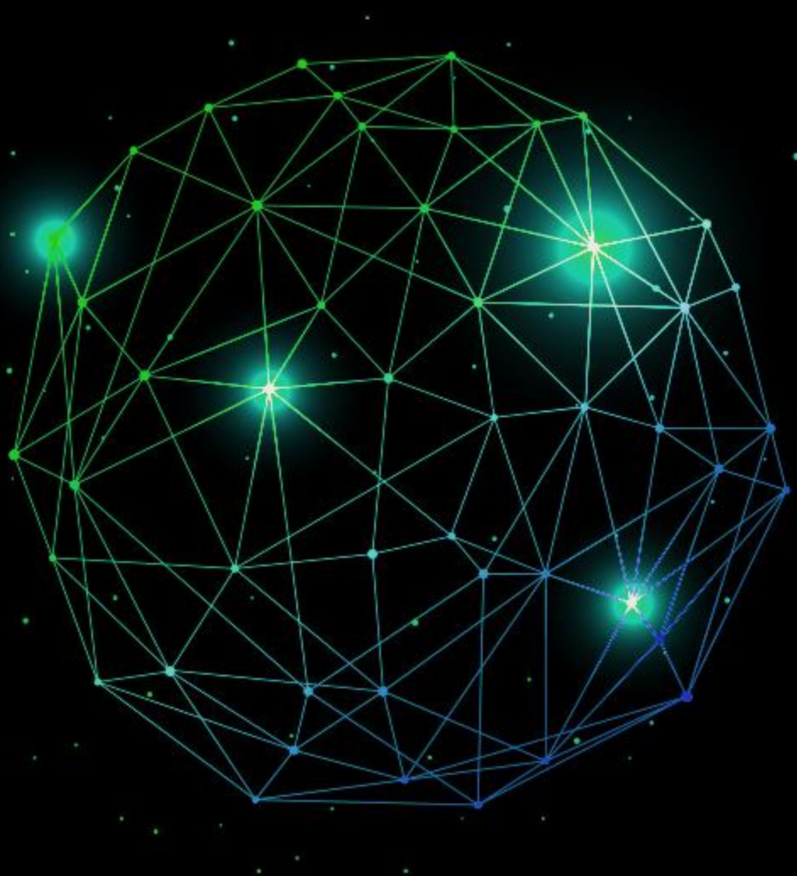

Lost in Translation

Turnaround & Restructuring Insights

Southeast Asia | Q1-2024

MAKING AN IMPACT THAT MATTERS since 1845

Lost in Translation | Southeast Asia

Accessing the rapidly growing markets of Southeast Asia ("SEA") is increasingly important for businesses and investors globally.

Successful entrants stand to benefit from the massive potential manufacturing power and consumer demand generated by a young and emerging middle class of +400 million people. Conversely, unsuccessful entrants put capital and reputation at risk and can setback their future growth prospects.

In this edition of Deloitte Turnaround & Restructuring Insights, we examine the rapid acceleration of Foreign Direct Investment ("FDI") into SEA, review a sample of foreign-owned loss-making subsidiaries operating in SEA, and explore some of the common challenges and strategic approaches to resolving underperformance.

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Scope and Methodology

Lost in Translation | Southeast Asia | Q1-2024

Scope and Methodology

Who?	The Q1-2024 Lost in Translation (SEA edition) seeks to analyse foreign-owned loss-making subsidiaries operating in SEA.
What?	The Lost in Translation dataset has been sourced from Bureau van Dijk, Orbis and comprises 1,494 companies with: a) Negative EBIT; b) A foreign parent; and c) Revenue of at least USD1 million. Holding companies have been excluded from the analysis.
When?	The dataset draws on the latest available company financial accounts, filed with the relevant regulatory authority, with financial years ranging between 2019 and 2023.
Where?	The In-scope Countries comprise Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam. For comparison purposes, all currency is expressed in USD terms.
Important Note	The information herein is based on publicly available information from third party sources. Although helpful to understanding market conditions, the dataset is incomplete, and we have not been able to verify accuracy in all cases. We assume no responsibility to any party arising from the use of this document and no reliance should be placed on it.

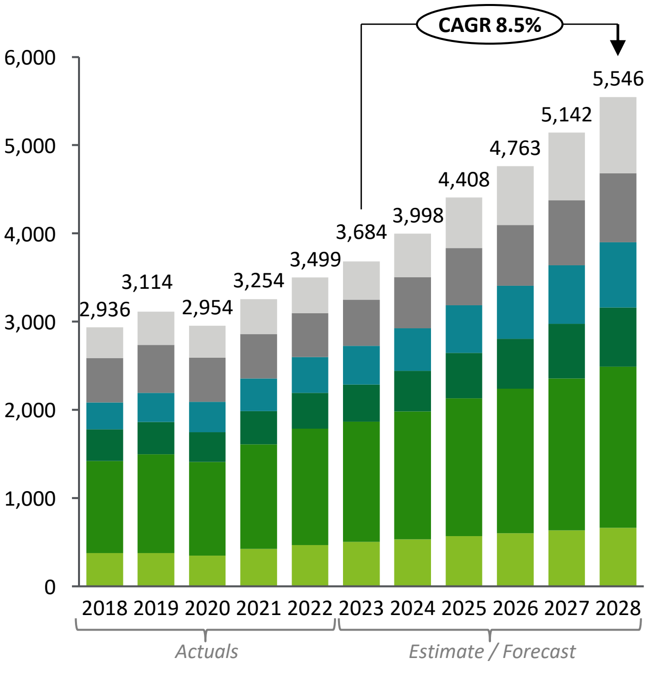
Major Inbound Foreign Direct Investment Sources for Southeast Asia

FDI Drivers and Opportunity

Southeast Asia is a highly attractive investment destination. Southeast Asia's GDP is projected to grow at a CAGR of 8.5% between 2023 and 2028. It has a young, increasingly productive and consumer focused emerging middle class

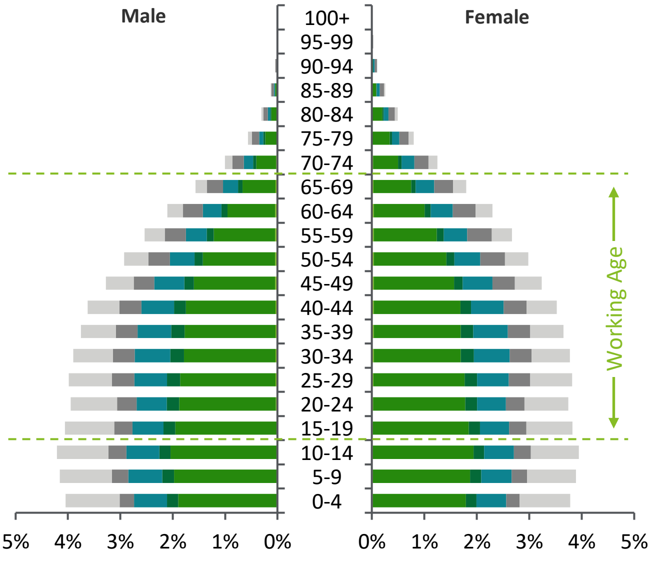
Gross Domestic Product (USD'b)

Gross domestic product (GDP) at current market prices



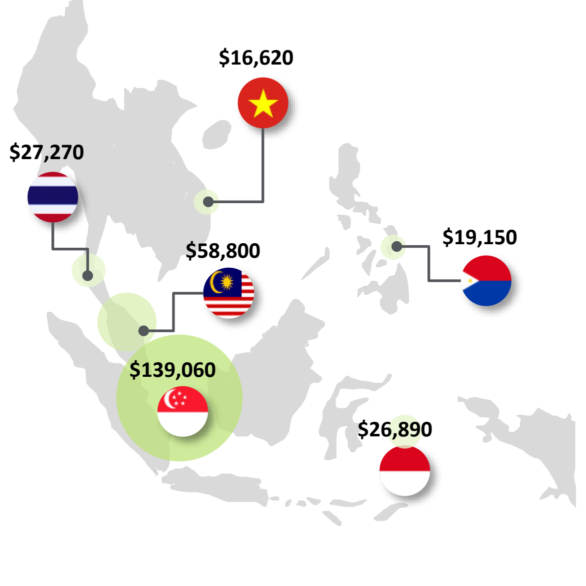
SEA Population Pyramid (by age and country)

Male and female population as a % of overall SEA population



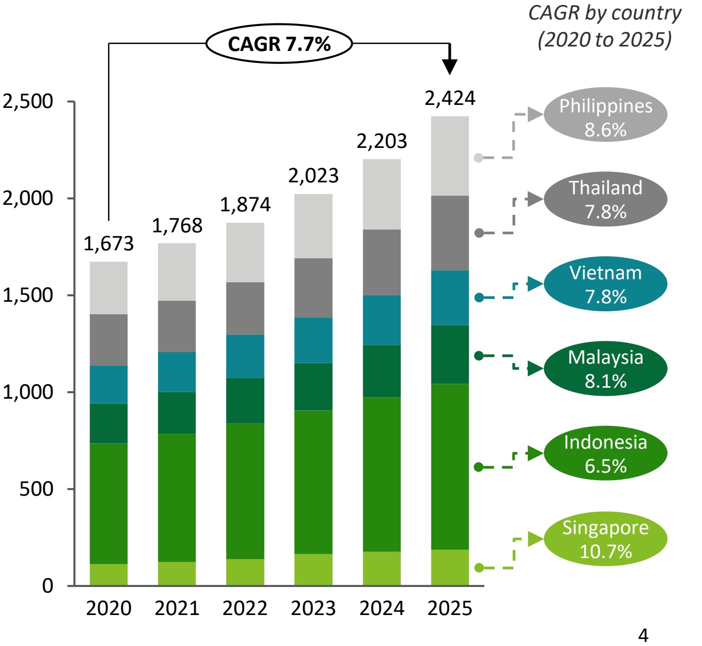
Overall Labour Productivity (USD)

GDP at purchasing power parity per person employed in 2023



Consumer Spending (USD'b)

Final consumption expenditure by households on individual consumption goods

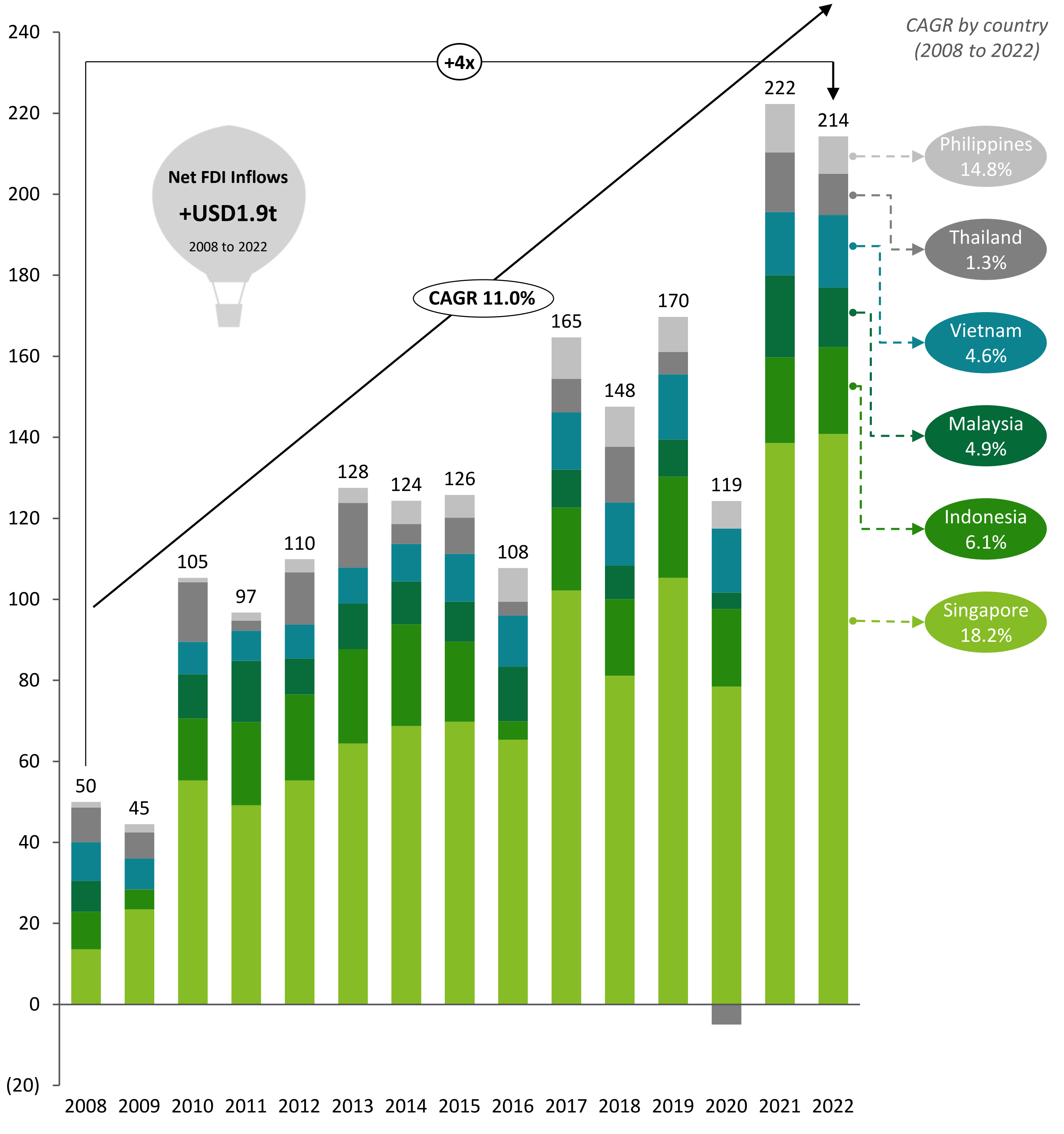


Source: EIU

SEA Inbound FDI

The In-scope Countries saw net FDI of USD214 billion in 2022, increasing 4 times over since 2008, with growth at a CAGR of 11.0% between 2008 and 2022. Between 2008 and 2022, the In-scope Countries saw net FDI exceeding USD1.9 trillion. Singapore and Indonesia were the biggest beneficiaries of FDI in 2022, with Singapore commonly acting as a wealth management and investment hub for the region

Net FDI Inflows | SEA 2008 to 2022 (USD'b)



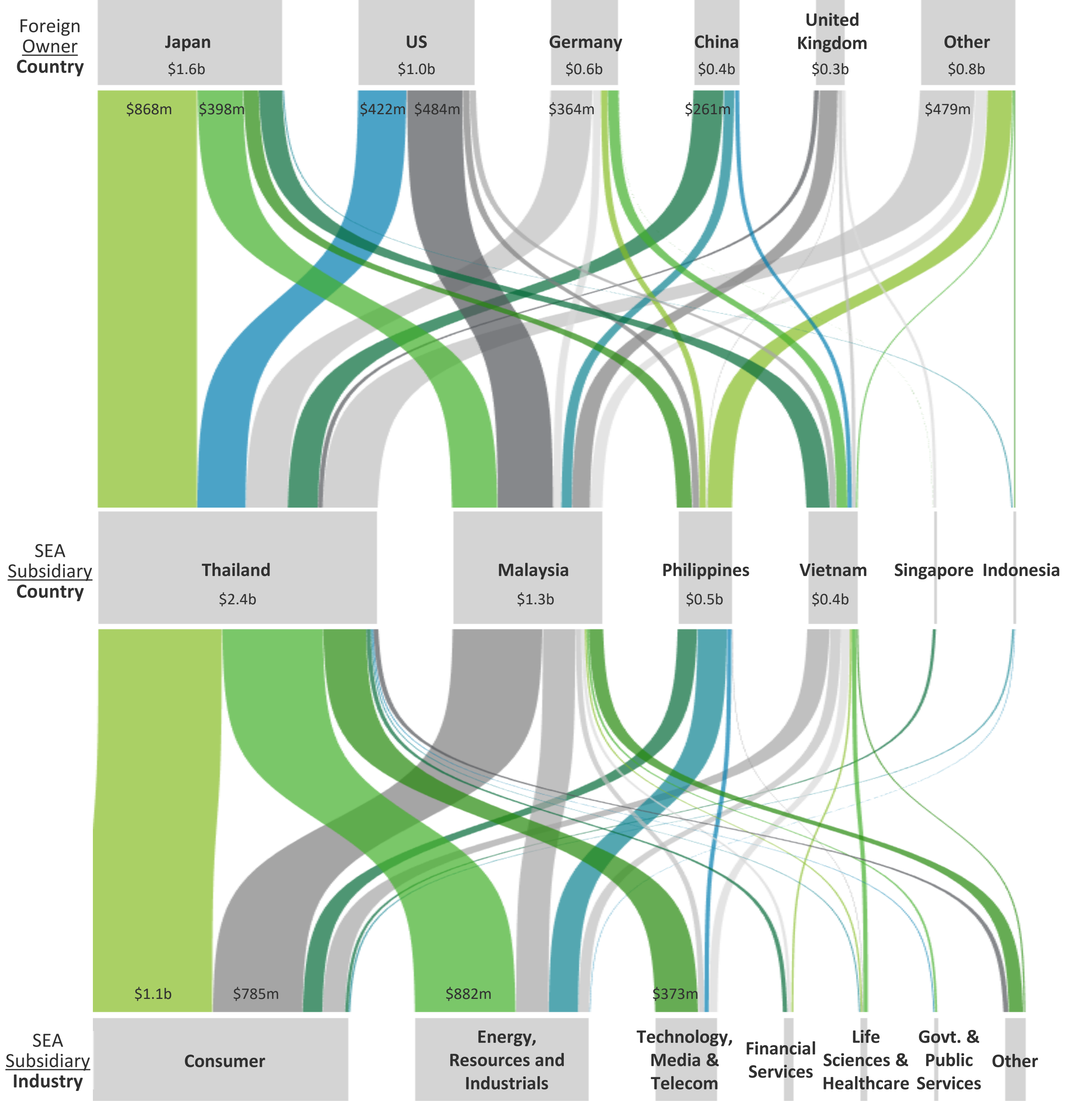
Source: World Bank

Underperforming FDI in SEA

The subsidiaries of Japanese, United States ("US") and German headquartered companies accounted for a cumulative USD3.2b or 69% of the operating losses in the dataset. The majority of losses were incurred in Thailand (USD2.4b) and Malaysia (USD1.3b) across Consumer, Energy and TMT industries

Key:
$500m in Operating Losses

Foreign-Owned Subsidiaries Operating Losses in SEA (USD)



Source: Bureau van Dijk, Orbis

Notes: Please refer to the Important Note on page 3. We note data Source access limitations in Indonesia etc.

Underperforming FDI in SEA

Dataset for Sankey Chart on page 6 | Lost in Translation | Southeast Asia | Q1-2024

Parent Country | Loss-Making Subsidiaries (#) and Operating Losses (USD'm)

	Foreign Owner Country													
	Japan		United States		Germany		China		United Kingdom		Other		Total	
	#	$	#	$	#	$	#	$	#	$	#	$	**#**	**$**
Thailand	328	868	49	422	27	364	17	261	20	42	139	479	**580**	**2,437**
Malaysia	217	398	103	484	46	67	37	90	46	158	76	107	**525**	**1,303**
Philippines	83	133	14	59	14	56	-	-	4	5	11	214	**126**	**467**
Vietnam	177	205	27	54	15	94	12	38	7	30	18	14	**256**	**436**
Singapore	-	-	-	-	1	1	-	-	1	26	-	-	**2**	**27**
Indonesia	3	11	-	-	-	-	-	-	-	-	2	9	**5**	**20**
Total	**808**	**1,615**	**193**	**1,020**	**103**	**582**	**66**	**389**	**78**	**261**	**246**	**823**	**1,494**	**4,690**

Industry | Loss-Making Subsidiaries (#) and Operating Losses (USD'm)

	SEA Subsidiary Industry															
	Consumer		Energy, Resources & Industrials		Technology, Media & Telecom		Financial Services		Life Sciences & Healthcare		Govt. & Public Services		Other		Total	
	#	$	#	$	#	$	#	$	#	$	#	$	**#**	**$**	#	$
Thailand	317	1,080	184	882	49	373	12	38	12	11	3	10	3	42	**580**	**2,437**
Malaysia	276	785	123	284	44	49	15	27	8	16	8	19	51	124	**525**	**1,303**
Philippines	66	169	35	256	22	38	1	0.3	2	4	-	-	-	-	**126**	**467**
Vietnam	138	197	69	95	13	74	13	17	7	38	-	-	16	15	**256**	**436**
Singapore	2	27	-	-	-	-	-	-	-	-	-	-	-	-	**2**	**27**
Indonesia	3	16	2	4	-	-	-	-	-	-	-	-	-	-	**5**	**20**
Total	**802**	**2,274**	**413**	**1,521**	**128**	**534**	**41**	**83**	**29**	**68**	**11**	**29**	**70**	**181**	**1,494**	**4,690**

Source: Bureau van Dijk, Orbis

Notes: Please refer to the Important Note on page 3. We note data Source access limitations in Indonesia etc.

Investing in Southeast Asia | Illustrative Challenges

Through our work helping to fix, sell or close underperforming businesses in Southeast Asia, we have identified some common challenges. Awareness, monitoring and early identification, and response speed can materially impact investment outcomes

1

Overexpansion Despite Market Fragmentation. There are 11 distinct economies in SEA with wide ranging diversity in culture, language, consumer preferences, stage of economic development, legal systems and openness to FDI. A business strategy that worked in Indonesia, for example, might not work in Thailand. This diversity requires a tailored and focused approach for each market.

2

Not Aligning Local Partners. It is common for foreign businesses to partner with local entrepreneurs to generate synergies from onshore knowledge and access, and sometimes to comply with foreign ownership restrictions. These relationships can come under strain where interests diverge and the impact can be severe without careful structuring at the outset. The first sign of problems is usually a deterioration in communication and transparency.

3

Ignoring Infrastructure and Supply Chain Limitations. Whilst countries like Malaysia have a well-developed infrastructure network, other areas in SEA do not. Where higher development capital expenditure and / or operating logistics inefficiencies cannot be offset by other local market advantages, such as lower input or labour costs, this can be a drag on performance and value. Capitalising overruns can make a small problem now a big problem in the future.

4

Compatibility of Local Business Practices. Obtaining regulatory approvals, enforcing contractual terms, and recovering debts … these are common business challenges in all markets. However, the experience in each process can vary significantly across different markets in SEA. For example, Singapore ranked 2nd globally in the 2020 "Ease of Doing Business Index" ratings (very easy), whilst Myanmar ranked 165th (challenging).

5

Local Competition. In some markets, certain local businesses have inimitable local market knowledge, access or even government support. Where this provides a strategic, margin or growth advantage, it can be difficult to compete long-term. Enforcement of intellectual property rights can also be inconsistent across Asia, posing risks for businesses whose competitive advantage relies on proprietary knowledge, technology or branding.

6

Foreign Exchange Volatility. Unlike, for example, the European Union, the countries that make up the Association of Southeast Asian Nations ("ASEAN") bloc each manage their own exchange currency. Foreign exchange rates in SEA have historically proven vulnerable to commodity price swings, movements in interest rates, regulatory changes etc. and this can impact profitability, particularly where the business involves international markets.

A Strategic Approach | Fix, Sell, Close

Though globalisation continues and markets are increasingly connected through trade, many businesses around the world face challenges managing non-core, underperforming, or loss-making business units or subsidiaries. Our team supports businesses by fixing, selling or closing underperforming and / or non-core businesses and / or assets, releasing valuable capital and freeing up management time to focus on the profitable core

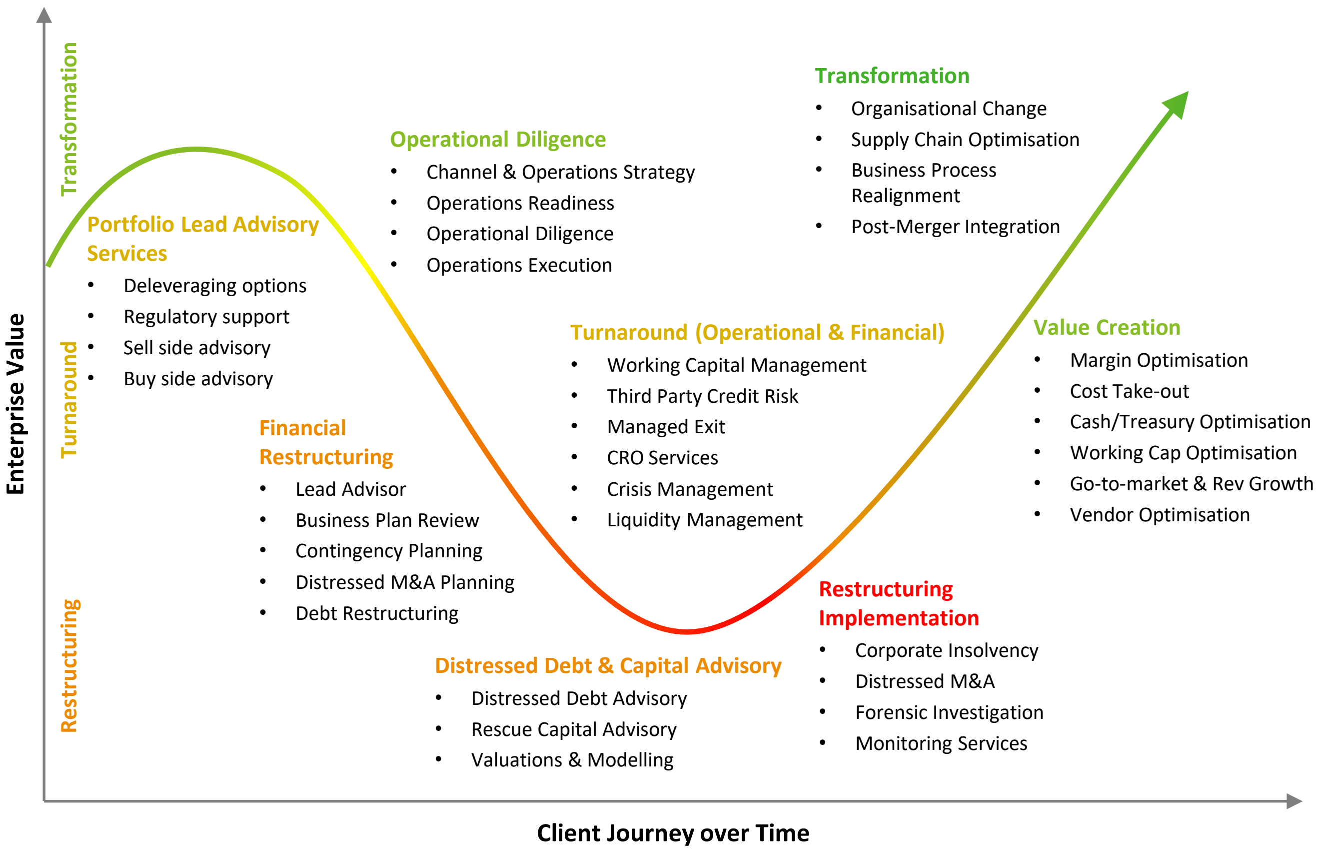
	Underperforming	Performing
Strategic	Strategic *but* underperforming: **Fix**	Strategic *and* performing: **Grow**
Not Strategic	Non-strategic *and* underperforming: **Fix, Sell or Close**	Performing *but* not strategic: **Sell**

Illustrative Approach		Illustrative Benefits
Fix	**Performance Improvement**	• Margin improvement and cost reduction to lift profits • Unlock cash tied up in working capital to improve liquidity • Build competitive advantage and enhance market positioning
Sell	**Asset Disposal**	• Accelerated value assessment and M&A divestment process • Capital release and redeployment to generate better returns on investment • Free up management time to focus on growing the profitable core business
Close	**Controlled Wind Down**	• Development and implementation of a strategic exit plan • Stop the cash and earnings burn • Minimise exit liabilities and maximise balance sheet unwind • Optimise and de-risk the portfolio

About Deloitte Turnaround & Restructuring

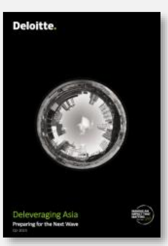
We work with clients to improve outcomes across the stress spectrum ranging from companies seeking to turnaround short-term underperformance to those in deep financial distress requiring crisis management. We are actively assisting businesses across Southeast Asia and globally to turnaround, restructure and grow

Deloitte Turnaround & Restructuring



Turnaround & Restructuring Insights

Click on the Report to learn more



Deleveraging Asia (2023)

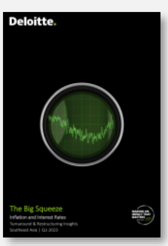
A review of the APAC Banking sector

Hot Commodities (2022)

The commodities "Super-cycle"

Electrifying Singapore (2021)

Singapore electricity generation market

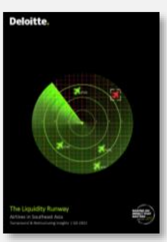


The Big Squeeze (2023)

Impact of higher inflation and interest rates

"Checking Out" Retail (2022)

SEA retail sector outlook



The Liquidity Runway (2021)

A review of the SEA Airline sector

Access here: https://www2.deloitte.com/sg/en/pages/financial-advisory/articles/turnaround-restructuring-insights.html

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Deloitte has over 80 dedicated Turnaround & Restructuring professionals operating in 5 markets across Southeast Asia. Our firm has been making an impact that matters since 1845

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