

## **Компании, сумевшие улучшить свои финансовые позиции в период пандемии COVID-19 в 2020**

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### **Аннотация**

В статье производится анализ влияния коронавирусной инфекции (COVID-19) и сопутствующего карантина на экономическое состояние компаний и индустрий, в целом. Ограничения, которые являлись составной частью карантина, повлекли за собой большие потери для экономики большинства стран, крупных компаний, а также, для частного бизнеса, состояние которого ухудшилось в наибольшей степени. Однако в статье рассматриваются сферы деятельности, которые оказались в наиболее выигрышном положении. Показаны компании, которые смогли не только устоять в данной обстановке, но и значительно повысить свои доходы, и то, как им это удалось.

**Ключевые слова:** коронавирус, COVID-19, пандемия, экономические последствия.

## **Companies that managed to improve their financial positions during the COVID-19 pandemic in 2020**

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### **Abstract**

The article analyzes the impact of coronavirus infection (COVID-19) and the accompanying quarantine on the economic condition of companies and industries in general. The restrictions that were imposed during the lockdown caused great losses for the economy of most countries, large companies, as well as for private businesses, whose condition has deteriorated to the greatest extent. However, the article discusses the areas of activity that were in the most advantageous position. It shows companies that were able to not only survive in this environment, but also significantly increase their revenues, and how they managed to do it.

**Keywords:** coronavirus, COVID-19, pandemic, economic consequences.

At the end of 2019, the world was faced with the new coronavirus infection, which was officially called COVID-19. As a result of the rapid spread of the coronavirus pandemic around the world, the global economy is experiencing a number of significant financial and economic problems. The total damage to the global economy is estimated to amount to \$ 7 trillion by the end of 2021 due to the coronavirus pandemic. This forecast was given by the chief economist of the Organization for Economic Cooperation and Development (OECD) Laurence Boone. Countries with major economies have increased spending to fight the coronavirus disease. As a result, their national debt reached a record level since the Second world war. In countries with developed economies in July 2020, it was equal to 128% of world GDP [2, p 11].

Russian economy also suffers from the negative impact of a number of restrictive measures. Of course, the government of the Russian Federation has taken a number of measures to support businesses, but unfortunately these measures were not enough for companies to survive in such a difficult economic environment, and not all companies were able to take advantage of these measures, as there were a number of conditions for their use. The introduction of a self-isolation regime could bring losses of up to 19.3% of GDP or 17.9 trillion rubles in annual terms. Up to 15.5 million people can be potentially unclaimed in the labor market [5, p. 11].

This regime implies a complex of restrictive measures, which are imposed on going out and visiting public places, as well as restrictions on contacts with other people. Therefore, the most affected industries during the pandemic were activities in the field of air transportation, culture,

tourism, hotel business and public catering, additional education, the organization of conferences and exhibitions, and the provision of consumer services.

However, the positive effect of the pandemic on other industries cannot be overlooked. And also, for companies that have been able to reorient production, setting up the production of antiseptics and personal protective equipment such as masks and gloves. The quarantine also did not bring harm to such companies, since they were able not only to save jobs, but even to increase production volumes. The change in lifestyle, expressed in the need to ensure a full life without leaving home, also gave a new impetus to the development of companies. There was a need to improve their activities in order to adapt to the new reality.

So, in this article we explore several industries and companies operating in them that greatly benefited from the COVID-19 pandemic. The industries include pharmaceuticals, videoconferencing, multimedia and delivery. Following this idea, we observed the positive effects on these industries, each of them will be represented by known companies such as American Netflix or Russian SberMarket (subsidiary of SBER).

The first and most obvious industry on the list is pharmaceuticals. The S&P 500 pharmaceuticals, biotech and life sciences index has outperformed the broader S&P 500 index this year, while Nasdaq biotech index has done the same [11, p. 11]. Companies that are still trying to develop a vaccine are benefiting from increased investment. For example, in April 2020, Gilead Sciences, Inc. rose 16% after reports of clinical trials for Covid-19 treatment.

One of the main preventive measures during COVID-19 is the wearing of protective masks. Alpha Pro Tech Ltd., due to its quick response to the growing demand, increased the production of face masks. Therefore, at the end of January, their shares rose by 62.8% and then by March grew by over 3 times of that value.



**Fig. 1. Alpha Pro Tech Ltd.'s stock price fluctuations from the end of 2019 to the end of 2020**

It should also be noted that health workers need protective equipment. Lakeland Industries Inc., an international supplier of protective equipment, rose in value in the stock market.

Additionally, companies that were able to quickly adapt to the changing environment were able to win during the pandemic. For example, Johnson & Johnson is “repurposing” products designed to treat HIV, Ebola and other epidemics. Despite the rapid and unpredictable fluctuations inherent in the stock market today, the pharmaceutical industry is expected to experience economic growth due to the coronavirus.

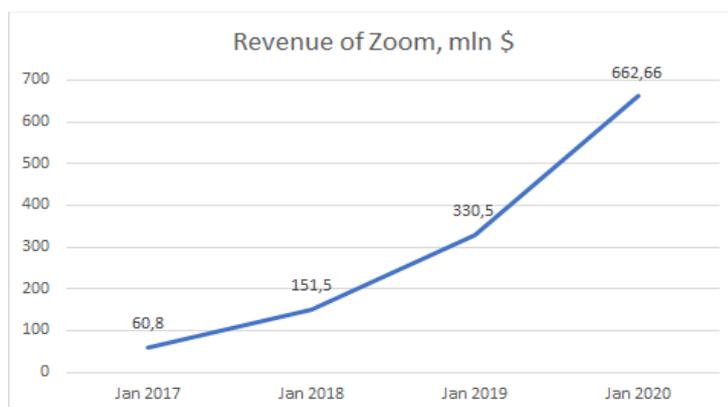
It should be noted that as hundreds of millions of people around the world are forced to work and study from home, the need for applications that provide connectivity on the Internet has increased markedly. So, videoconferencing is the next field we look into on the example of software company “Zoom Video Communications”. The company benefited the most among its competitors.

Zoom Video Communications is an American company that provides communication technologies, the software can be used for videoconferencing, online meeting, chat, and mobile collaboration. The company has been growing ever since its foundation in 2011 through cooperation and M&A transactions. On April 18, 2019 Zoom started trading on the Nasdaq exchange [8, p. 11]. Immediately after the start of trading, the share price rose by 73% to \$62 [6, p. 11]. Zoom raised \$356.8 million after selling 9.91 million shares in the IPO. The most powerful jump was on March 23, adding 22.22% per day to \$159.07 - this was the most serious one-day increase for Zoom since June 2019. In total, after the IPO, the company's shares rose by more than 1200%.



**Fig. 2. Zoom Video Communications Inc.’s stock price fluctuations from the end of 2019 to the end of 2020**

Such prices are supported by the company's strong report for 2020, published in early March. Revenues for the year increased by 88%, to \$622.66 million. As we can see, over the past 3 financial years, the company's revenue grew by more than 100%: \$60.8 million in January 2017, \$151.5 million for January 2018 and \$330.5 million for the fiscal year ending in January 2019 [7, p. 11].



**Fig. 3. Revenue of Zoom Video Communications Inc. from Jan 2017 to Jan 2020, in million USD**

In the first half of 2020, the company's revenue grew 270% year on year. For the full year, Zoom expects its revenue to grow 281-284%.

Stock price growth is undeniably driven by the demand for Zoom services during the pandemic: many employers have moved employees to work remotely to minimize personal contacts. As a result, Zoom gained 2.22 million users by February 2020. This figure is greater than the whole accumulated client base in 2019. By March same year, the company's app was downloaded 2.13 million times daily and the average number of users per day also rapidly increased, that is, from 10 million users in the end of 2019 to almost 200 million in March 2020. Additionally, by the end of April there were 300 million meeting participants a day.

These accelerated growth rates have meant the company has had to increase the service throughput to cope with a sharp influx of users. To ensure the highest levels of privacy for customers, Zoom made its first takeover in 9 years, and on May 7, 2020 announced the acquisition of Keybase (a company specializing in end-to-end encryption). It is assumed that full end-to-end encryption using Keybase technology will be organized only for holders of a paid subscription. Thus, Zoom wants to achieve the highest level of confidentiality, but only for those customers who can afford it. As a result, attracting a greater number of paid users, which will increase the company's revenue.

Despite this meteoric rise, analysts expect Zoom's growth to decline over the next year, with a 30% rise in revenue and a 15% rise in profit. However, the company could be supported by a second wave of COVID-19 infections, which has already begun across Europe, and will grow until fiscal 2020.

When it comes to multimedia, the situation is dual. Some companies were negatively impacted since people could not go to the cinema and new movies could not be filmed. However, in conditions of the pandemic everyone stayed at home and still wanted to watch something.

This situation happened with The Walt Disney Company. Due to the fact that the company had to close amusement parks for an indefinite period, as well as the forced closure of cinemas, all

this negatively affected the company's profit. However, the company was able to quickly restructure in such tough conditions for the development of the film industry. The company announced that online streaming instead of offline business will now be the top priority. This was due to the fact that during the coronavirus, people working remotely and unable to travel began to consume more content. So, streaming services have become one of the most successful areas of business for Disney and other media companies. Thus, the Disney + service, in August 2020, already had more than 60 million people.

However, for the already established streaming service providers, the pandemic is a blessing in disguise. One example of such companies is “Netflix, Inc.”.

Netflix is an American entertainment company that provides streaming media based films and series. The company was founded on August 29, 1997. The history of the company began with the rental of DVDs by mail. Netflix currently produces over 100 of its own films, series and TV programs a year. The company's library is available for viewing from most modern Internet browsers, as well as from smartphones, set-top boxes and game consoles. The company has over 100 million paying subscribers. During the pandemic, demand increased and on April 22, Netflix announced that in the first quarter of 2020, the company had almost 16 million new subscribers, which led to the fact that the service was used by 182.9 million people worldwide - this is 22.8 % more than a year earlier.

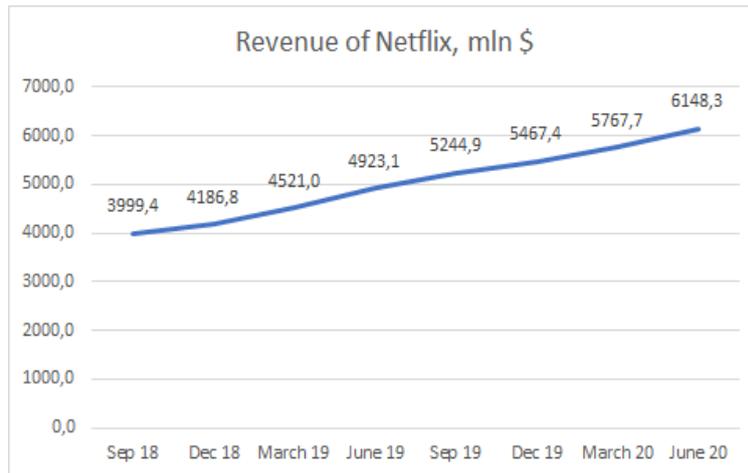
These record numbers led to a sharp rise in the company's stock. They hit a record high of 4.8% (\$ 454.80 per share).



**Fig. 4. Netflix Inc. 's stock price fluctuations from the end of 2019 to the end of 2020**

And despite the fact that Netflix admits that after the quarantine is lifted, the figures may decline, however the company's shares continue to rise to this day. It should be noted that due to the fact that the currencies of many countries have fallen due to the pandemic, companies such as Netflix, based in the United States, receive less profit from new subscribers. Despite this, Netflix's revenue in

the first quarter rose to a record \$ 4.52 billion to \$ 5.77 billion, and net income doubled from \$ 344 million to \$ 709 million.



**Fig. 5. Revenue of Netflix Inc. from Sep 2018 to June 2020, in million USD**

Next point we would like to make is that in conditions of complete lockdown all public spaces were closed, and people could not leave their homes for several months. As a result, demand for certain services has increased. Moreover, people started caring more about their health and, therefore, wished to keep fit. Due to the fact that all of the gyms were closed, various fitness apps, and providers of exercise equipment were in a winning position since people wanted to work out at home.

So, a great example of a company that benefited from the pandemic is Peloton Interactive Inc. It is an American exercise equipment and media company based in New York City which was founded in 2012. The main products of this company are stationary bicycles, treadmills and a digital platform that allows subscribers to stream and participate in classes that are recorded in the fitness studio.

Clearly, in conditions of pandemic Peloton managed to operate: they could still deliver equipment that was in higher demand than ever and instructors could record "Live from Home" classes.

It is noticeable that Peloton went public through an IPO in the second half of 2019 and is now traded on NASDAQ stock exchange [8, p. 11]. In relation to COVID-19, this took place right before the virus appeared in China.

First of all, it is important to state that the company has enjoyed a rise in stock market value, as it can be seen from the chart below. Overall, after the IPO stock price grew from \$25.76 on 26.09.2019 to \$131.33 on 16.10.2020, which means that the growth rate is 509.82% [6, p. 11]. Actual growth, however, started only in April 2020. Market capitalization of Peloton on 16.10.2020 was 37.9 billion USD.



**Fig. 6. Peloton Interactive Inc.’s stock price fluctuations from the end of 2019 to the end of 2020**

It is essential to analyze whether this trend is supported by the Peloton’s fundamentals. According to the statement of profit or loss and other comprehensive income, the company has been experiencing losses over the disclosed periods, but the value of net income has increased by 124 million USD from negative 195.6 million to negative 71.6 million US dollars. As a result, the PE ratio for the company is also negative (-410.41), the estimated values for next periods (provided by NASDAQ) are positive: for 2021 - 525.32, 2022 - 238.78 and 2023 - 230.4. The numbers reflect that the company’s stock is overvalued but the forecasted decline assumes that the situation is expected to improve.

Revenues of the company have been doubling for the past 3 years and this time during the pandemic the increase in absolute terms was 910.9 million US dollars.



**Fig. 7. Revenue of Peloton Interactive Inc. from Sep 2018 to June 2020, in million USD**

Finally, the first quarter for Peloton ended with over 866 100 fitness subscribers that have purchased either a bike or a treadmill. This signifies a 94% increase in customer base as compared to the same time in 2019 [9, p. 11].

Overall, this example shows that some companies did not have to adapt their operational activity to survive. Peloton vice versa received an opportunity to decrease advertising expense.

Nevertheless, despite the fact that Peloton had an advantage over other industries' representatives, the management team did an excellent job and not only maintained the position of the company, but also achieved an increase in market capitalization and the operation level. This fits perfectly in the mission of Peloton which is "to bring immersive and challenging workouts into people's lives in a more accessible, affordable and efficient way" [1, p. 11]. Experts believe that the positive trend for the company will continue in 2020 and that they are a good investment opportunity [10, p. 11].

As for the situation in Russia, the COVID-19 Pandemic affected about 4.17 million companies and individual entrepreneurs out of a total of 6.05 million, that is, up to 67% of small, medium and large enterprises and individual entrepreneurs, according to the annual report of the business ombudsman Boris Titov, which he sent to President Vladimir Putin [3, p. 11].

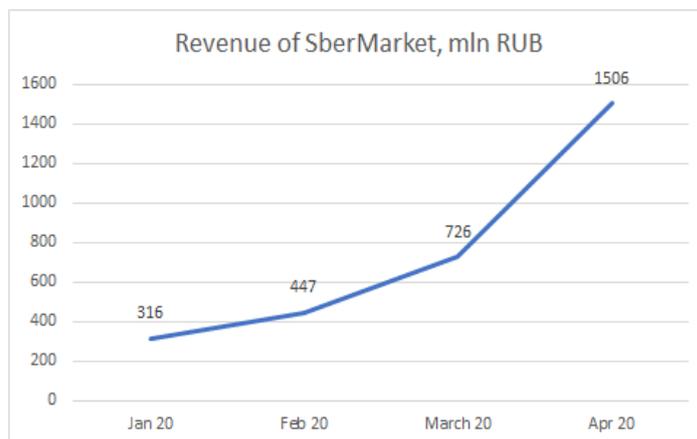
However, the pandemic has given a huge boost to companies providing delivery services. This happened due to the fact that in COVID-19, more and more people are forced to shop from home, due to restrictions on movement on the street, the closure of shopping centers and other public places. So, the Russian project "SberMarket", in the midst of a pandemic, namely in the second quarter of 2020, became the leader in food delivery in Russia. "SberMarket" is an online service for the delivery of groceries and essential goods from store shelves. This is a joint project of the Instamart delivery service and Sberbank, implemented on the Instamart technological platform. Initially, the Instamart project was founded in 2013, and only in September 2019, Instamart, as part of a pilot project, was implemented in 2 cities under the new name "SberMarket", which helped the service to attract new customers faster. Nowadays the company is represented in 133 cities of Russia and carries out 18 thousand orders daily.

The main factor of the company's growth was the manifold increase in demand. Before the pandemic the average number of orders per day was 5 000, then during the development of the pandemic, this number increased to 20 000 people per day, therefore, even queues appeared 3-4 days in advance. Therefore, during the period of self-isolation, the company decided to invest 15 mln rubles in increasing the staff of couriers and assemblers [4, p. 11]. Thus, the number of orders delivered by SberMarket in the second quarter amounted to 1.29 million, which is 17 times more than in the second quarter of 2019.

As for the revenue of the company for the delivery of SberMarket products, in April 2020 it increased by 13.2 times - to 1.506 billion rubles from 114 million rubles in April 2019. In May, turnover amounted to more than 2 billion rubles, which is 18.8 times more than in May 2019.

According to the results of the second quarter, the turnover of the "SberMarket" amounted to 5.2 billion rubles. This is 15.6 times more than in the second quarter of 2019, and 3.5 times more than in the first quarter of 2020. These impressive results have made the company a leader in the food

delivery market. “SberMarket” was able to overtake even X5 Retail Group (Perekrestok.ru, Perekrestok.Bystro, Delivery.Pyaterochka).



**Fig. 8. Revenue of SberMarket from Sep 2018 to June 2020, in million RUB**

Such a business model, associated with the development of the company in the regions, a quick response to the growth in demand in a changed environment, as well as a response to the prevailing online shopping trend, which is developing more and more every year, allowed the company to achieve high results during the pandemic.

At the moment, the demand for online delivery has stabilized, it has not decreased after some weakening of self-isolation measures. For the future, the company has great potential to enter new segments, for example, to provide services for the delivery of medicines or children's goods.

In conclusion we can say that the coronavirus has had a devastating impact on the whole world. Its consequences include the death of millions of people and, in economic terms, the shut down of many businesses. People lost their jobs and any sources of income, enterprises lost clients. 2020 will forever be associated with tragic events and another crisis that has unexpectedly hit the global economy.

However, even such a horrible phenomenon as a COVID-19 pandemic could not destroy everything. A number of industries have even benefited from this development of events, and many have also been able to quickly adapt their work to radically changed conditions. Of course, this was supported by the fact that digitalization is one of the most important trends of modern time.

It should be noted that the industries and their representatives discussed in this article are directly related to the online environment. So, companies such as Netflix, Peloton, SberMarket and, of course, one of the most recognized companies in 2020, Zoom, were analyzed.

It can be seen that all companies benefited from the increase in the number of buyers, but often the growth in market capitalization was accompanied by insufficient growth in income and profits, consequently, the shares of these companies became significantly overvalued. However, it is

possible that growth will remain for some time and companies will be able to enjoy the benefits not only in the short term, but also in the long run.

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