NIC

— Nova Investment Club —

# Newsletter

May 2019

NIC

Nova Investment Club

# Table of Contents

# Foreword

**This Month:**

In our Macro Overview section, Analysts from both divisions will cover broad macro themes while reviewing major economic news from the past month. In our Deeper Dive section, our Vice-President João Sousa Mendes elaborates on the implications of Visa and Mastercard commitment of cutting foreign card fees. Moreover, in our Regional View, Nina Kusnirova examines the German banking sector in light of Deutsche Bank and Commerzbank merger collapse.

Our Investment Banking Division will guide you through April's M&A overall activity. Read about Health Equity Inc. bid for WageWorks, and both Occidental Petroleum and Chevron offers to acquire Anadarko. Additionally, get a detailed overview on what happened to Danske Bank and Under Armour, as well as consider our opinion on Société Générale gloomy profits as restructuring plans take place.

Our Financial Markets Division will present the monthly results of the NIC Fund, an active relative return fund investing across four different asset classes: Equities, Fixed Income, Commodities and Currencies. The analysts will also provide commentary on each of the four major asset classes through analysis of the past month's major market moves. The active positioning of the NIC Fund in April was 34.0 bps superior to the benchmark, mostly given individually stock picking outperformance.

Lastly, Lisa Preußler elaborates on Uber's upcoming IPO and Philip Hunold examines private equity's new perspectives for institutional investors as an alternative. Furthermore, Cong Phuoc analyses the global corporate divestments trend.

*The following content is original and created by the Nova Investment Club, which is run by students from Nova SBE's Master's in Finance. The reports may contain inaccurate or outdated information and should not be used as an exclusive mean for investment decisions.*

NIC

Nova Investment Club

# Macro Overview

## Monthly

May 6th, 2019

Deeper Dive

### EU Financial Regulation – Visa and Mastercard Cut Foreign Card Fees

— p.2

Regional View

### The Break-Up or Future of the German Banking Sector

— p.3

## Market Moves

**Market Moves**

*% change*

| | Last Close | -1W | -3M | YTD |
|---|---|---|---|---|
| S&P 500 | 2,918 | -0.55% | 7.89% | 16.38% |
| DJIA | 26,308 | -1.31% | 5.23% | 12.78% |
| Nasdaq | 8,037 | -1.03% | 10.37% | 21.12% |
| MSCI World | 2,902 | -0.84% | 4.44% | 13.22% |
| MSCI EM | 3,976 | -1.79% | 4.56% | 12.00% |
| Russell 2000 | 1,583 | -0.15% | 5.55% | 17.36% |
| Euro Stoxx 50 | 3,504 | 0.00% | 10.90% | 16.73% |
| FTSE 100 | 7,391 | -1.75% | 6.06% | 9.86% |
| Nikkei 225 | 22,259 | 0.00% | 7.15% | 11.21% |
| Hang Seng | 30,082 | 0.39% | 7.66% | 16.39% |
| Dollar Index | 97.90 | 0.27% | 2.43% | 1.79% |
| EUR/USD | 1.116 | -0.56% | -2.48% | -2.64% |
| GBP/`EUR | 1.166 | 1.17% | 1.81% | 4.83% |
| GBP/USD | 1.302 | 0.61% | -0.70% | 2.06% |
| USD/JPY | 111.5 | -0.32% | 2.40% | 1.65% |
| USD/CHF | 1.020 | -0.03% | 2.60% | 3.86% |
| Brent Crude | 70.09 | -5.93% | 13.25% | 30.28% |
| Gold | 1,271 | 0.10% | -3.72% | -0.84% |

**Generic Bond Yields**

*change in bps*

| | Last Close | -1W | -3M | YTD |
|---|---|---|---|---|
| US 10Y Yield | 2.558% | -0.7 | -7.2 | -16.1 |
| GER 10Y Yield | 0.042% | 0.1 | -10.7 | -20.0 |
| JPY 10Y Yield | -0.040% | -1.2 | -4.5 | -4.3 |
| UK 10Y Yield | 1.212% | -1.5 | -0.7 | -5.7 |
| PT 10Y Yield | 1.118% | -8.4 | -50.2 | -60.4 |

**Source: Bloomberg, as of 2019-04-30*

In Focus

## April

**US economy remains strong but inflation muted.** First quarter GDP rose 3.20% YoY, easily topping expectations of 2.30%. This comes despite the government shutdown earlier and trade tensions with China. However, inflation stayed at 1.60%, below the Fed's target.

**Elections in Spain.** Socialists took the most seats in parliament but coalition building will be hard for the left wing since the natural partner Podemos lost heavily. Spain could remain without a government for several months as all major parties want to prevent a second election. Biggest loser of the day was the conservative PP which saw its votes nearly halve to 16.80%. For the first time since 1982 a far right party was able to enter the Spanish parliament.

**Germany's economy weakens.** Tough times for Europe's biggest economy and former draft horse. The government cut its growth projection for this year from 1.00% to 0.50% after just having avoided recession in Q4 of 2018. Additionally, one of Germany's most regarded business indicators, the Ifo Index, fell for the seventh month out of the last eight. These numbers are especially worrying as economic data for China and USA, two main export targets, was strong.

**Eurozone economy back on track (?)** Growth picked up surprisingly in the Eurozone for Q1. GDP came in 0.40% higher than the previous quarter. Spain grew 0.70% while Italy emerged from recession with a small but positive growth rate of 0.20%. These numbers will come as great relief to the ECB which does not need to reconsider additional monetary stimulus for now.

**Third time's a charm – Biden does it again.** After months of speculation, Joe Biden announced his third run for presidency. He will be part of the most crowded democratic field with 21 candidates so far. However, Biden was immediate front-runner in the polls and might be one of the few candidates that can actually beat President Trump who saw his approval ratings climb in April.

**Argentina brings back price controls.** President Macri and his government scramble to get the ongoing crisis under control. Price controls are targeted at inflation which runs at roughly 50.00% YoY currently. The peso lost half of its value last year and is again one of the worst performing currencies in 2019. The dramatic situation gives rise to populist contenders in the October presidency election. Former president Cristina Fernandez de Kirchner, who is expected to run, is put ahead of Macri in recent polls.

**China grows faster than expected.** Fuelled by fiscal and monetary stimulus, the second largest economy in the world expanded by 6.40%. Economists only expected growth of 6.30% and are turning more positive after being worried about China's outlook against the backdrop of trade tensions. However, to achieve these rates officials announced tax cuts and pushed state-bank lending to all-time records.

**Venezuela's presidential crisis escalates.** Since January 2019, Juan Guaidó claims to be the rightful president of Venezuela after the National Assembly declared Nicolas Maduro's election invalid. Guaidó is backed by the US and the majority of western countries while Maduro enjoys support from Russia and China. At the 30th of April, Guaidó called for an uprising against incumbent Maduro but was only able to gain support of parts of the military which plays a crucial role. One protestor was killed while hundreds were injured. The situation remains unclear as no party is willing to back out.

Lukas Müller
Financial Markets Division

Deeper Dive

# EU Financial Regulation – Visa and Mastercard to Cut Foreign Card Fees

João Sousa Mendes
Investment Banking Division

*"The commitments, which are now binding on Visa and Mastercard, will reduce the costs borne by retailers for accepting payments with cards issued outside the EEA. This, together with our January 2019 decision on Mastercard's cross-border card payment services, will lead to lower prices for European retailers to do business, ultimately to the benefit of all consumers."*

– Margrethe Vestager, European Commissioner for Competition

On the 29th of April, Visa and Mastercard finally ended their long-running antitrust battles with Brussels, through a pact that requires them to reduce fees for foreigners shopping in the region. Known as inter-regional interchange fees or inter-regional MIFs, these fees will now be reduced by an average of 40.00%.

According to Monday's agreement, the fee on in-store purchases will fall to 0.20% of the transaction value for debit cards and 0.30% for credit cards. Furthermore, online purchases will be charged a maximum of 1.15% of the transaction value for debit cards and 1.50% for credit cards. The fee reductions must be introduced until the 19th of October and will apply for five years and six months. Visa and Mastercard can be fined up to 10.00% of their global turnover if they fail to meet their commitments.

When a consumer uses a debit or a credit card in a shop or online, the bank of the retailer (the "acquiring bank") pays a fee called "multilateral interchange fee" ("MIF") to the cardholder's bank (the "issuing bank"). The acquiring bank passes this fee to the retailer who includes it, like any other cost, in the final prices to all consumers, even to those who do not use cards. Inter-regional interchange fees are MIFs applied to payments made in the European Economic Area (EEA) with consumer debit and credit cards issued outside the EEA. This would be the case, for example, when a US tourist uses a Mastercard or Visa card to pay a restaurant bill in Portugal.

The Mastercard and Visa networks set the level of MIFs, including inter-regional MIFs, applied by their licensee banks between them. In the absence of bilateral agreements between the banks, the level of the MIFs set by Mastercard or Visa networks applies by default. Retailers and consumers have no means of influencing the level of MIFs. However, both Mastercard and Visa have now committed to reduce their respective inter-regional MIFs, which will significantly reduce the costs for retailers in the EEA. This is expected to lead to lower prices to the benefit of all European consumers.

EU officials launched their investigations into the two companies more than a decade ago, initially focusing on fees charged on European-issued cards. In fact, the European Commission ruled in 2007 that Mastercard's fees on cross-border purchases for European-issued cards broke the bloc's competition rules and inflated the cost of card acceptance by retailers. It ordered the company to cut the fees. Mastercard capped fees on those purchases in 2009, at 0.20% of transaction value for debit cards and 0.30% for credit cards. Visa soon followed suit and in 2015 the EU's Interchange Fee Regulation made those caps legally binding. Moreover, early this year, the European Commission fined Mastercard EUR 570.0 m for limiting the ability of retailers and banks to shop around between member states after a GBP 14.0 bn legal claim brought against Mastercard in the UK courts. Now, and through this new agreement, the European Commission will finally bring Visa's and Mastercard's fees in line with those charged for EU cards.

Will this cost reduction to retailers and consumers be only beneficial? It is worth considering that payment companies use interchange fees to cover costs of fraud, security and processing. By losing a big proportion of their revenues, Visa and Mastercard will need to find other sources of revenue to cover for these costs. Otherwise, they will lack funding to support security, processing and fraud-related costs, which then may compromise these companies' product offering and value proposition and ultimately it can hurt consumers. On the other hand, this event can be a good opportunity for other companies such as PayPal and Alipay to gain some market share in the payment's market. With an increasing usage of the internet, consumers are indeed more willing to give up on traditional payment companies in exchange for more user-friendly and cheaper products.

João Sousa Mendes
Investment Banking Division

Regional View

# The Break-Up or Future of the German Banking Sector

Nina Kusnirova
Financial Markets Division

*"Germany's globally active companies need competitive financial institutions that can support them around the world."*

- German Finance Minister Olaf Scholz

Hope dies last, however, the hope for German banking hero born from Deutsche Bank and Commerzbank shuffled off the mortal coil. The superhero would have commanded EUR 1.8 tn of 30 m clients and would be able to challenge global players as the third biggest European bank in terms of assets after HSBC and BNP Paribas.

After series of humiliation, weak investment performance and downgraded credit rating, Deutsche Bank sought for super power which could improve their performance. Therefore, when the merger opportunity arose Deutsche Bank jumped through hoops, although it would need to raise EUR 10.0 bn and layout 30 k people.

Commerzbank with its core of "Mittelstand" clients (private companies with big economic influence) represents an appealing takeover target despite of having a similarly famous troubled history as Deutsche.

Deutsche's old problem – costs too high, revenues too low – could have a new solution. The combination of the two banks would lower funding costs by expanding its deposit base.

The chemistry between the banks was promising, however, after six sleepless weeks of about 20 due diligence teams, any sign of affection was gone. The break-up was presented as a mutual decision. One of the top regulators commented: "They could just not afford the deal." what seems as the main reason of not pursuing it.

Deutsche announced that its lossmaking investment bank does not require fundamental strategic overhaul and that it will focus on the search for alternatives to improve long-term profitability and shareholders' return. The stand point of Deutsche Bank is non-envious, risk of further downgrading, high losses and legal actions against and by Donald Trump require a fast action.

There are two other suitors winking at Commerzbank. Italian UniCredit and Dutch ING are not ideal candidates – according to the German government, that is worried about lack of a European deposit insurance scheme.

The Commerzbank deal could be the first deck in the merger domino leading to stronger European banks. European executives and policymakers were suggesting this move long time ago due to worries of growing US giants.

After a cross-boarder merger, Germany will be left with only one globally competitive bank that is attacked from every side. This blurs the future of the Germany as one of the global leaders. German's globally active companies might lack support of national competitive financial institutions to secure their international presence and might turn to neighbouring Swiss banks.

Current German banking industry is not what it used to be. In 2017 only one in twelve banks was able to earn its cost of equity. Between 40 and 60 small banks disappear each year while in public and cooperative pillars more centralized structures are emerging. Another enemy of traditional banks are fast appearing fintech start-ups taking over future generation of customers. Re-gaining customers requires costs either in new product development or acquisition of these market solutions.

Therefore, this break-up might be more painful than expected and affect other than directly concerned parties. Germany as one of the most influencing economies might run most tears as it could lose independency from foreign financial institutions. The last hope of German representatives is in evolutionary and disruptive capabilities which needs to be acquired by traditional German banks to win against Goliath of foreign influence.

Nina Kusnirova
Financial Markets Division

Macro Overview

# Economic Calendar

## Economic and Political Events

### Biggest Election in the World

India is holding elections since the 11th of April until the **19th** of May, where 900.0 m Indian citizens are eligible to vote. The two main opponents are incumbent president Modi and his contender Rahul Gandhi, scion of the famous Nehru-Gandhi family.

### European Parliament Elections

From the **23rd** to the **26th**, the election for a new European Parliament will be held. After long discussions, the UK will vote as well. The Parliament represents 28 states and more than 500.0 m people. The election will be yet another test for the general stance towards the EU in the member states.

### South Africa on the Ballots

On the **8th** of May, South Africa will hold its 6th elections since the end of Apartheid. The African National Congress was able to gain majority in all six since Nelson Mandela lead the party. Corruption, sluggish economic growth and the unreliable energy system are main campaigning topics.

## Central Bank Decisions

### Brazil's Interest Rate

On the **9th** of May the Monetary Policy Committee of the Brazil's Central Bank has to vote on overnight rates. Forecasts see no deviation from the current 6.50% which means stable rates for more than one year now.

### Diversion in Oceania

Central Banks in Australia and New Zealand will both face interest rate decisions on the **7th** of May. New Zealand's central bankers have introduced a more dovish tone recently and are expected to lower rates while the Reserve Bank of Australia is expected to keep rates unchanged.

### Two Empty Spots in the Fed Board

President Trump has to nominate two candidates for the seven-member Fed board. His first two picks have withdrawn their bid after facing fierce backlash from both Democratic and Republican senators who must approve board members. Both candidates did not have a strong academic track-record but were loyalists to President Trump.

## Inflation and Deflation

### Update on Euro Zone Inflation

On the **17th** of May the ECB will publish inflation data for April 2019. Forecasts stand at 1.40%, well below target inflation of 2.00%. The ECB is expected to announce further plans on how to boost inflation and foster growth in June.

### US Inflation

The Fed is standing at a crossroad as GDP remains sound but inflation muted. Only a strong surprise to the upside could give the Fed reasons to change their current policy of "wait and see". On the **10th** of May consumer price indices will be published. Core CPI is expected at 2.10% YoY,

### UK Consumer Price Index

UK's consumer price index will be published on the **22nd** of May and is expected to come in at 2.00%. However, until there is no path to an orderly Brexit foreseeable, the Bank of England will probably not make any moves.

## Labour Market

### US Employment Readings

On the **3rd** of May, US employment and wage data will be published. Unemployment rate is expected to stay low at 3.80%. Average hourly earnings are forecasted to enjoy solid growth of 3.30% YoY.

### UK Labour Market

The Financial Times called the UK the sick man of Europe. On the **14th** of May the UK will publish data on unemployment and average hourly earnings that could indicate whether or not this assessment is valid.

### Canada's Labour Market

Canada is in an election year and sees populist candidates gain ground. Solid employment data could help governing Prime Minister Trudeau. Numbers for April will be announced on the **10th** of May. The unemployment rate is expected to stay flat at 5.80%.

Lukas Müller
Financial Markets Division

# Investment Banking

M&A

## Overall Activity

### Global

M&A activity has dropped significantly in Q1 2019, compared to its peak in Q1 2018. Increased market volatility, trade tensions between the US and China and a potential global economic slowdown are the key drivers of this trend. These issues are particularly visible in the underwhelming number of nine mega cross-border deals, amounting to a modest sum of USD 10.0 bn. The total volume of global M&A activity has declined 15.00% from Q1 2018, although it is expected to improve throughout the year. In contrast, US M&A activity seems to be booming as its value soared 29.00% from Q1 2018 and the country's market share of global M&A activity climbed to over 51.00% – its highest since Q1 2016. In Europe, M&A suffered a downturn, especially in the UK, where value and volume are at an historic low. This is deeply connected to the political and regulatory instability in the region, arising mostly from the looming threat of a UK-EU divorce and the new European anti-competition laws. Going forward, all eyes will be focused on the outcome of Brexit and upcoming European elections that will certainly impact the growth of M&A activity.

### Selected Regions

#### North America

Both the volume and value of mergers based in North America declined in April. Volume was down 59.00%, from 3,384 to 1,576 deals announced. Due to some high-profile mergers, the value slipped only 17.00% from USD 183.2 bn to USD 152.4 bn over the same timeframe. The highlight goes to the Anadarko acquisition dispute, worth USD 50.0 bn. All of the top 20 broke the USD 1.0 bn barrier.

#### EMEA

In the Middle East and North Africa region, 36 deals were USD 2.3 bn, well below the record high amount in March, USD 73.7 bn, which was expected since the astronomic value was mainly driven by the USD 69.1 bn acquisition of Saudi Basic Industries. In Europe 196 of the deals happened totalling EUR 3.9 bn, a 12-month low. Only 8 deals exceeded the USD 100.0 m mark.

#### Asia

The M&A predisposition in the Asia-Pacific region has risen despite political uncertainty. A recent study by EY, suggests "Half of Asia-Pacific companies plan to acquire in the next 12 months, significantly above the ten-year average of 42.00%.". The survey also suggests that the three most popular sectors are automotive and transportation, technology and financial services. The sentiment is that it is currently a healthy transaction climate.

M&A

## Deals of the Month

| Announced Date | Target | Buyer | Target Region | Target Business | Value (USD m) | Premium (%) |
|---|---|---|---|---|---|---|
| 12 April 19 | Versum Materials. | Merck | US | Electronic Materials | 64,000.00 | - |
| 24 April 19 | Anadarko | Occidental | US | Oil | 50,000.00 | 20.00% |
| 18 April 19 | Goldcorp Inc. | Newmont Mining | Canada | Gold Mining Services | 9,364.00 | - |
| 1 April 19 | Jardine Lloyd Thmopson Group plc | MMC | UK | Risk and Reinsurance Services | 6,380.00 | - |
| 2 April 19 | Gemalto NV | Thales | NL | Software Development | 6,276.00 | - |
| 5 April 19 | Standard Aero Holdings Inc. | Carlyle Group | US | Aircraft Manufacturing | 5,000.00 | - |
| 14 April 19 | Advanced Disposal Services | Waste Management | US | Waste Management | 3,000.00 | - |
| 24 April 19 | LLOG Bluewater Holdings | Murphy Oil | US | Oil and Gas Exploration | 1,625.00 | - |

Vera Teixeira Wahnon & Vasco Lupi
Investment Banking Division

M&A: Top Deals

# Health Equity Inc. Bids for WageWorks Inc.

HealthEquity Inc. made a proposal to acquire WageWorks Inc. for approximately USD 2.0 bn on the 11th of April 2019. The offer of USD 50.5 per share represents a 17.30% premium to WageWorks' Monday close.

## Buyer vs Seller

WageWorks, Inc. engages in administering consumer-directed benefits (CDBs), which empower employees to save money on taxes, as well as provides corporate tax advantages for employers in the US. HealthEquity, Inc. provides various solutions for managing healthcare accounts, reimbursement arrangements, and flexible spending accounts for health plans, insurance companies, and third-party administrators in the US via a cloud-based platform for individuals to make health saving and spending decisions.

## Industry Overview

HealthEquity Inc. is part of the Health Information Services industry. Competing firms have an established market share due to the long-term subscription-based client contracts. In that environment HealthEquity Inc. has proven its ability to generate growth in the past. Nevertheless HealthEquity, Inc. announced to seek acquisitions in order to complement their portfolio.

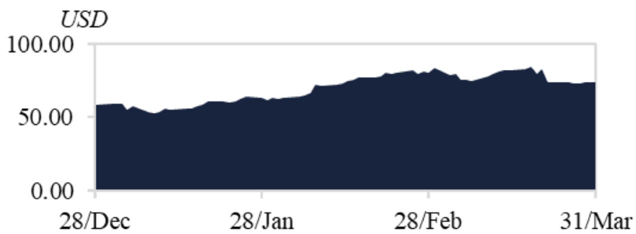
| Peers | Currency | Market Cap (CUR m) |
|---|---|---|
| Broadridge Financial Solutions | USD | 13,536.96 |
| Automatic Data Processing Inc | USD | 68,838.20 |
| Paychex Inc | USD | 29,786.47 |
| CSG Systems International Inc | USD | 1,610.80 |
| Sabre Corp | USD | 5,906.29 |

## Deal Rationale

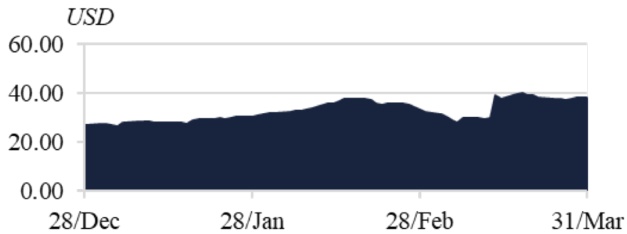
The proposed acquisition shall accelerate HealthEquity's growth by creating the premier provider of both HSAs and additional consumer-directed benefits, including flexible spending and health reimbursement arrangements, COBRA and commuter accounts. The company would have a wide distribution footprint, significant customer base, and proprietary technology driving member engagement, smart spending and health saving for life. HealthEquity's offer may be viewed as a strategy shift and could be a sign that growth will be more difficult to generate than in the past.

## Market Reaction

**WageWorks Inc.**
Shares of WageWorks were up 18.00% to USD 51.0 after the announcement of the bid.




**HealthEquity Inc.**
After the announcement, HealthEquity Inc. shares declined by approximately 4.10% to USD 69.9 in the following days, representing a negative market reaction.




## Future Challenges

There is no certainty that talks between HealthEquity and WageWorks will result in a deal, said people familiar with the matter. Furthermore, the industry is changing towards integrated platforms — however, a successful platform player has yet to emerge, even though profit pools are aggregating across the top players. In addition the entrance of big technology firms might alleviate the battle for the leading platform. HealthEquity has to make sure not to lose track in this competitive environment, but seems to be on a good path with the announced acquisition.

Tim Borneck
Investment Banking Division

M&A: Top Deals

# Occidental Petroleum to Acquire Anadarko

Occidental Petroleum has targeted twice its rival Anadarko before the latest USD 55.0 bn offer. The hostile bid took place after Anadarko had accepted a USD 50.0 bn offer by oil major Chevron.

## Buyer vs Seller

Occidental is an international oil & gas exploration and production company with operations in the US, the fifth largest in the country by market capitalization in year-end 2018. Anadarko operates in the same industry as Occidental, being the ninth largest in the US. Goldman Sachs and Evercore are acting as financial advisors to Anadarko, while Bank of America and Citigroup have been working alongside Occidental to secure the deal that would make it the third-largest US oil producer.

## Industry Overview

Occidental's hostile bid was an attempt to stop Anadarko's already agreed acquisition with Chevron and started a takeover battle for US shale oil assets. After having two offers rejected earlier this month, Occidental decided to go hostile. Chevron is not expected to raise the offer, as its board is not willing to take on further risk. Warren Buffet has supported the acquisition, pledging to invest USD 10.0 bn to finance the deal.

| Peers | Currency | Market Cap (CUR m) |
|---|---|---|
| Hess Corp | USD | 18 794.99 |
| Marathon Oil Corp | USD | 12 792.77 |
| Noble Energy Inc | USD | 12 365.25 |
| Apache Corp | USD | 11 337.35 |
| Murphy Oil Corp | USD | 4 424.88 |

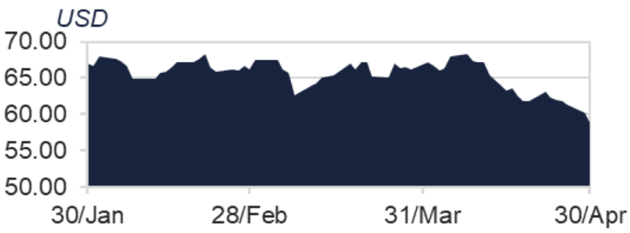
## Deal Rationale

The deal would give Occidental new assets in the Gulf of Mexico, a liquefied natural gas project in Mozambique and production in Colorado. However, the real reason for the prize being paid is Anadarko's shale acreage in the Permian Basin of Texas and New Mexico, the core of the US oil boom. In addition, Occidental claims that, with its existing infrastructure in the Permian region, the acquisition would translate into synergies of USD 3.5 bn a year in operating and capital costs. To ensure the backing of shareholders and reduce its borrowings, Occidental's CEO has stated that the company would sell assets worth up to USD 15.0 bn if the deal is concluded.

## Market Reaction

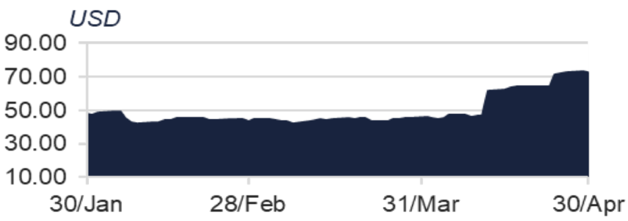
**Occidental Petroleum Corporation**

Since last offer's announcement, April 24th, the stock price decreased, mainly due to the cost of financing. Moody's is expected to downgrade if the deal happens.




**Anadarko Petroleum Corporation**

The company's shares have had two surge moments. The first one after the deal with Chevron and the latter after Occidental's last offer.




## Future Challenges

The cost of financing is still the largest concern for the combined company. Occidental's need to borrow in order to fund the acquisition added to the company taking on Anadarko's debt is concerning many analysts. Moreover, although the deal is expected to be highly accretive for Occidental's next year's cash flows, the company will become more susceptible to an oil price downturn until the improvement of its balance sheet, which may take some time.

Duarte Alves Pereira
Investment Banking Division

M&A: Top Deals

# Chevron Corporation to Acquire Anadarko

Chevron positioned itself to become the dominant oil producer in the field by agreeing to buy Anadarko in the sixth-largest oil and gas deal in history, USD 33.0 bn. The deal remains subject to shareholder and regulatory approvals and is expected to completed in Q2 2019.

## Buyer vs Seller

Chevron Corporation is one of the world's leading integrated energy companies. Petroleum explores acquiring and developing oil and natural gas resources vital to the world's health and welfare. The acquisition consideration is structured as 75.00% stock and 25.00% cash. In aggregate, upon closing of the transaction, Chevron will issue approximately 200 m shares of stock and pay approximately USD 8.0 bn in cash. Credit Suisse Securities (USA) LLC is acting as financial advisor to Chevron and Evercore and Goldman Sachs & Co. LLC are acting as financial advisors to Anadarko.

## Industry Overview

Shale drilling, or extracting oil and gas from rock formations, is fuelling a boom in US production. Small, independent drillers pioneered US shale production, but the new rule is "the shale game is a scale game", according to Chevron CEO Michael Wirth. Now that the industry has refined technologies such as hydraulic fracturing and horizontal drilling, the next frontier is industrializing the shale process. That is where companies such as Chevron come in.

| Peers | Currency | Market Cap (CUR m) |
|---|---|---|
| Hess Corp | USD | 18 794.99 |
| Marathon Oil Corp | USD | 12 792.77 |
| Noble Energy Inc | USD | 12 365.25 |
| Apache Corp | USD | 11 337.35 |
| Murphy Oil Corp | USD | 4 424.88 |

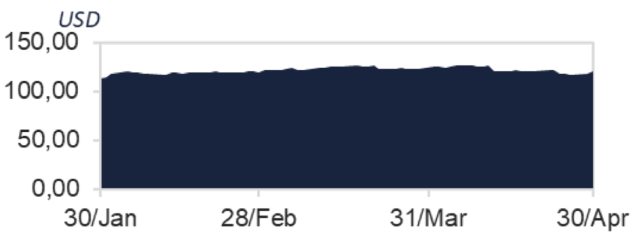
## Deal Rationale

The acquisition of Anadarko will significantly enhance Chevron's already advantaged upstream portfolio and further strengthen its leading positions in large, attractive shale, deep water and natural gas resource basins. Furthermore, Western Midstream Partners is a successful midstream company whose assets are well aligned with the combined companies' upstream positions, which should further enhance their economics and execution capabilities. "This transaction builds strength on strength for Chevron," said Chevron's Chairman and CEO.

## Market Reaction

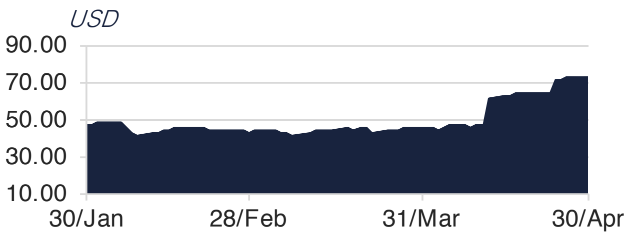
**Chevron Corporation**

Since the announcement, the stock price did not have a huge impact as it was expected. Instead it remained stable.




**Anadarko Petroleum Corporation**

The company's share performance in the last 3 months has been positive, as the price per share increased to more than USD 70.0.




## Future Challenges

The deal is expected to generate operating and capital synergies – cost synergies of USD 1.0 bn before tax and capital spending reductions of USD 1.0 bn within a year of closing. There is opportunity to high-grade portfolio as Chevron plans to divest USD 15.0 to USD 20.0 bn of assets between 2020 and 2022. As a result of higher expected free cash flow, Chevron plans to increase its share repurchase rate from USD 4.0 bn to USD 5.0 bn per year upon closing the transaction. The future challenge is to wait and see if all of this materializes.

Mariana Costa
Investment Banking Division

What Happened To

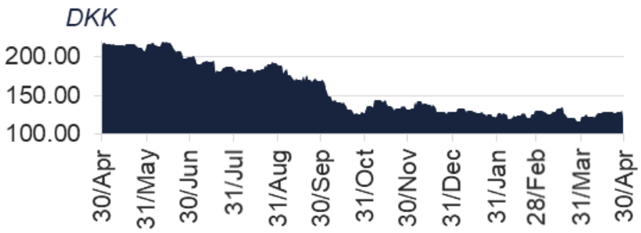
# Danske Bank

Danske Bank is a Danish bank which operates local banks in the Nordic countries and, since 2008, also owns subsidiaries in the Baltic countries. The bank has 20 k employees and reported USD 1.6 bn in revenues for the first quarter of 2019.

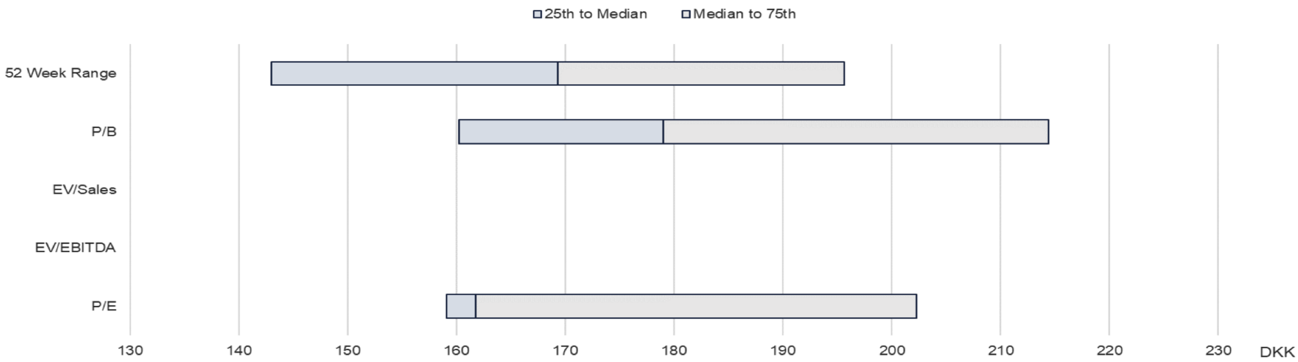
## Corporate News

Danske Bank's shares are down 45.00% and the company suffered severe reputational damage when it was discovered that had failed to report suspicious behavior related to transactions from non-residents at the Estonian branch. Since 2008, the bank transferred more than USD 225.0 bn from non-local customers to tax havens, all while the bank's management decided to ignore the obvious signs of money laundering. The instant consequences of the investigation by Danish authorities, a list later extended to American, French and Estonian regulators, were the resignation by the chief executive Thomas Borgen and Danske Bank's decision to close all operations in the Baltics and Russia. Financial consequences include the shaving of almost half the company's market capitalization and fears of billion-dollar money-laundering fines, while reputational costs have forced the bank to focus on existing customers and react to any signs of customer flight, rather than acquiring new customers.

| Price (30 Apr 19, DKK) | 118.05 |
|---|---|
| Target Price (DKK) | 150.00 |
| 3M Performance | -45.19% |
| Market Cap (DKK m) | 102,944.84 |
| Enterprise Value (DKK m) | - |
| **Target Price is for 12 months* | |




## Valuation Analysis




Danske Bank is currently trading at DKK 118.1, below any of the indicators in the football field. Considering P/E and P/B, the median among peers suggest a valuation at DKK 162.0 and DKK 179.0, respectively. Hence, a quick comparable analysis reveals that Danske Bank has considerable upside, if it can return to *business as usual.* The reason Danske Bank is lagging so far behind comparable companies must be attributed to the effect of the scandal the bank faced in 2018 and the uncertainty of future fines.

Scandinavian banks have long had a reputation of trustworthiness and ethical operations, which has added to the shock when discovering the extent of the money-laundering scandal. Not long after Danske Bank was accused of poor compliance, Swedbank followed suit. The Baltic region has such, in recent times, proven to be more of a liability than an asset for Nordic banks, which now reconsider their presence in the region.

| Peers | Currency | Market Cap (Cur m) |
|---|---|---|
| DNB ASA | NOK | 265,763.37 |
| Nordea Bank Abp | SEK | 302,733.91 |
| Deutsche Bank AG | EUR | 15,230.05 |
| Svenska Handelsbanken AB | SEK | 201,497.73 |
| HSBC Holdings PLC | GBp | 134,550.42 |

Birk Carlenius
Investment Banking Division

What Happened To

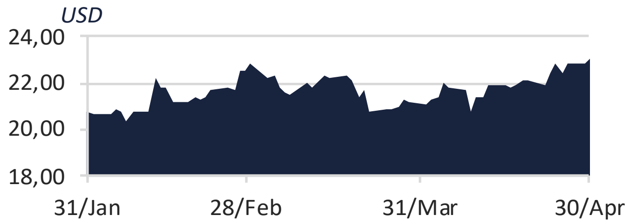
# Under Armour

The Under Armour Group is a US American sports apparel designer and manufacturer incorporated in 1996. The Company's products are sold across the world and worn by athletes as well as by consumers with active lifestyles. Generating approximately USD 5.2 bn in revenue, Under Armour is one of the biggest sportswear manufacturers and distributors worldwide.

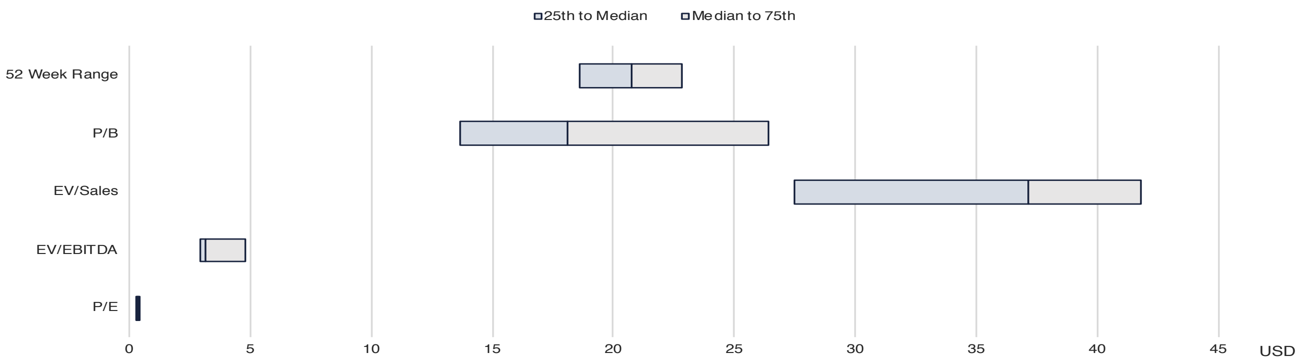
## Corporate News

Under Armour's shares are up 30.00% YTD after the company reported Q1 results of both revenue and profit exceeding analysts' expectations. While the stock of Under Armour has seen a downwards trend over the past years, management is actively addressing its issues with a new restructuring plan that was introduced last year. Among other things, the American sportswear apparel maker has been struggling with excess inventories and slowing North American sales in the hypercompetitive athletic apparel market. The turnaround efforts have been able to reduce inventories by 24.00% YoY to USD 875.0 m. Following these measures, the share price is expected to further recover over the next months. Moreover, despite a revenue drop of 3.00% in North America, Under Armour reported a 12.00% surge in international sales to USD 328.0 m.

| **Price (30 Apr 19, USD)** | **22,74** |
|---|---|
| Target Price (USD) | 22,00 |
| 3M Performance | 9,64% |
| Market Cap (USD m) | 9.597,89 |
| Enterprise Value (USD m) | 10.601,46 |
| **Target Price is for 12 months* | |




## Valuation Analysis




Under Armour has, on the day this piece was written, been trading at USD 22.7, adjusted for currency. If we make a quick comparable analysis, we can immediately see that the dispersion in valuations in the sports industry is quite big (see football field above). Looking at EV/Sales and EV/EBITDA, respectively, the median among peers suggests a value of USD 3.0 and USD 37.0, respectively.

Under Armour has trailed behind larger rivals Nike and Adidas in recent years, failing to respond fast enough to the hot athleisure trend in the US. As such, Under Armour's direct peers constitute of several similar sized companies such as PVH Corp and Columbia Sportswear. However, it is hoping to capture the growing sports business in Asia. Overseas represents about 28.00% of Under Armour's revenue, in contrast to about three-fifths for the Nike brand.

| **Peers** | **Currency** | **Market Cap** (Cur m) |
|---|---|---|
| Columbia Sportswear Co | USD | 6.830,12 |
| PVH Corp | USD | 9.557,12 |
| Carter's Inc | USD | 4.888,00 |
| Oxford Industries Inc | USD | 1.428,96 |
| Hanesbrands Inc | USD | 6.441,41 |

Viktoria Wagner
Investment Banking Division

NIC's View On

# Société Générale Profits Fall as Restructuring Plans Kicks In

Rita Silva Marques
Investment Banking Division

*"The main achievement is a very strong increase of our capital ratio,"* CEO Frederic Oudea said. *"It's an important element because it was a question mark for investors".*

Société Générale S.A. (also known as SocGen) is a French multinational investment bank and financial services company. Headquartered in Paris, it is the third largest bank in France and the sixth in Europe. SocGen is one of the Trois Vieilles, along with BNP and Crédit Lyonnais, and counts with more than 146 k employees.

French bank suffered a drop in first quarter net profits after a weak 2018 had prompted the bank to lower its financial goals and embark upon a broad restructuring plan. Net profits fell 26.00% to EUR 631.0 m, while its overall revenues shrank 1.60% to EUR 6.2 bn.

SocGen announced profits from its domestic retail bank shrunk 13.00% for the first quarter while its corporate and investment banking arm had a 16.00% profit decline. The stock has plunged 40.00% in the past 12 months, now trading at EUR 28.7.

Last month the bank unveiled a strategy to protect its profitability, in a plan that included closing down businesses, cutting 1.6 k jobs, disposing assets and freeing up to EUR 10.0 bn in capital. The investment bank will be hardest-hit, losing about 1.2 k positions, which represents about 8.00% of its workforce.

Bank's CEO announced that SocGen will retrench to its areas of strength where it has "sustainable and differentiating competitive advantages," such as equity derivatives and structured finance. Major European banks such as Société Générale or Deutsche Bank have struggled to drive up profits because low interest rates have constrained returns from retail banking, while corporate and investment banking is vulnerable to financial market volatility.

Société Générale's performance contrasted poorly with those of its cross-town rival BNP Paribas, which earlier this week reported higher profits.

Nevertheless SocGen's restructuring "is bearing fruits", said the bank's CEO Frederic Oudea. The bank has first priority on its solvency ratio, bringing the so-called common equity tier one ratio up to 11.70%, from 11.20% a quarter earlier. Analysts had forecast the ratio standing at 11.30%.

As part of its plan to boost solvency, Frederic Oudea also announced the sale of its Slovenian bank to Hungarian rival OTP Bank. "We are continuing to steadily implement our refocusing programme, with the announcement this morning of the disposal of our SKB subsidiary in Slovenia". SocGen will book a EUR 67.0 m loss on a sale that will nevertheless improve its balance sheet by reducing its risk-weighted assets by EUR 2.3 bn.

SocGen will still need to book between EUR 250.0 m and EUR 300.0 m in restructuring costs this year for the EUR 500.0 m in cost cuts, which will happen mainly next year.

| Date | Recent News |
|---|---|
| 3 May 19 | French bank SocGen's Q1 net profit falls *Source:* *reuters.com* |
| 24 Feb 19 | SocGen could cut 1,500 investment banking jobs. *Source:* *reuters.com* |
| 6 Feb 19 | SocGen sells majority stake in its Moldova unit to OTP Bank *Source:* *reuters.com* |
| 9 Nov 18 | SocGen sells 2.05 percent stake in Euroclear to Belgian state firm *Source:* *reuters.com* |

Rita Marques
Investment Banking Division

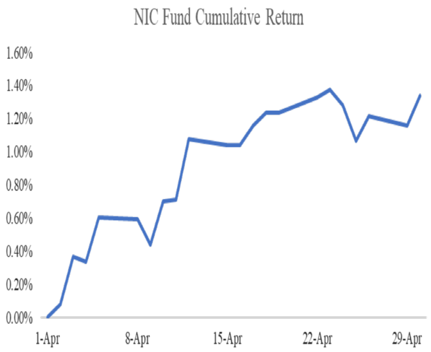
NIC

Nova Investment Club

# NIC Fund

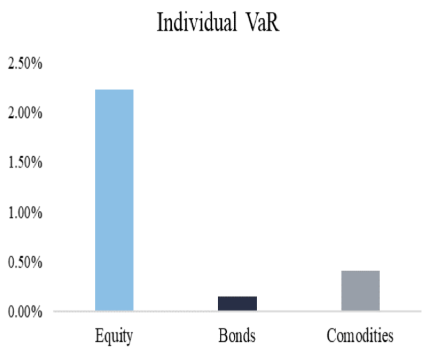
NIC Fund

## Portfolio Overview




| Portfolio Statistics | |
|---|---|
| Cumulative Return | 1.34% |
| Annualized Return | 16.08% |
| Daily St. Dev | 0.17% |
| Period St. Dev | 0.79% |
| Annualized St. Dev | 2.72% |
| Info Sharpe | 1.69 |
| Skew (Daily) | 0.48 |
| Kurtosis (Daily) | -0.49 |

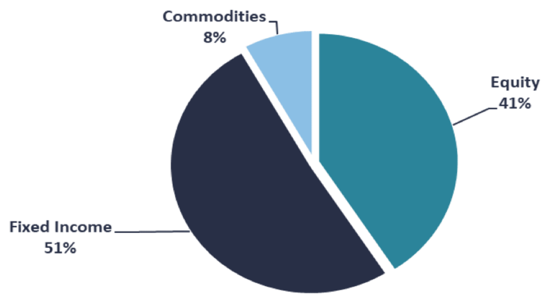
| Benchmark | |
|---|---|
| iShares 3-7 Year Treasury Bonds | 55% |
| MSCI World ETF | 30% |
| Powershares DB Commodity Index | 10% |
| MSCI Emerging Markets ETF | 5% |




### Portfolio Snapshot

In April, the NIC Fund remained invested in three asset classes: Equities, Fixed Income and Commodities with weights of 41%, 51% and 8%, respectively. Compared with the benchmark, the Fixed Income position in the Fund is underweight, while the Equity position is overweight, and Commodities are allocated very close to the benchmark.

Within Equities, 19% was allocated to individual stock picks, while the remaining 22% was invested in various ETFs, including MSCI World, MSCI Emerging Markets, S&P 500 Value ETF, and FTSE 100 Index.




### Return Metrics

The overall Fund's performance in April was positive, with a return of 1.34%, considerably above the 1.00% benchmark return. Equities were the major source of growth, providing 1.11% to the overall return, namely from individual stock picking outperformance. Fixed Income investments contributed 0.20%, while Commodities contributed 0.30%. Among funds in which the NIC Fund is invested, MSCI World ETF and S&P 500 Value ETF yielded the biggest returns, boosting the Fund's performance by 0.36% and 0.07% respectively.

Throughout the month individual stock picking were the major source of outperformance. Among individual equities, Walt Disney was the biggest winner, as the stock rose 21.74% throughout April and contributed 0.22% to the overall return. Meanwhile, in the Consumer Sector Domino's Pizza rose by 8.47%, which translated into a return of 0.08% for the fund. In Financials, BNP Paribas and Bank of America rose by 9.01% and 7.15%, contributing 0.09% and 0.08% respectively. Finally, in the Information Technology sector Solutions 30 yielded 8.48%, contributing 0.09%.

### Risk Metrics

Among the asset classes of allocations, Equities had the highest VaR of 2.23%. Commodities followed with the VaR of 0.40%, while Bonds had the lowest VaR of 0.15%.

Total Portfolio VaR was 2.47% in April, below the established threshold of 2.50%.


Vadim Nikitin
Financial Markets Division

NIC Fund

# Assets in Brief

| Asset Class | Symbol | Comments |
|---|---|---|
| **US Equity** | **DIS** | Shares of Walt Disney rallied due to the outstanding box-office performance of its blockbuster “Avengers: Endgame”. During its opening weekend, the film reportedly made an estimated USD 1.2 bn worldwide, breaking the record for an opening weekend result. |
| **EU Equity** | **ALS30** | Solutions 30, a specialist in solutions for new technologies and connected objects, reported a 61.00% YoY increase in revenues, with adjusted EBITDA up 62.00%. Among the main growth drivers is the creation of a new subsidiary in Belgium, and strong performance in core markets. The stock was up 8.48% for the month of April |
| **US Equity** | **DPZ** | On the 24th of April, the day Domino’s Pizza reported its quarterly results, shares of the company climbed more than 10.00%. The company delivered mixed results: earnings per share exceeded estimations, while revenue fell short. Nevertheless, executives of the company displayed confidence in further international expansion, citing the possibility of adding 5 k stores in key markets over time. This allowed Domino’s to close the month 8.47% in the green. |
| **EU Equity** | **VOW3** | Volkswagen had a good month, as the automaker’s shares rose by 7.20%. The company reinforced its commitment to electric vehicles when it unveiled an electric SUV that is supposed to take on Tesla’s Model X. Meanwhile, rumors emerged that Volkswagen is planning to purchase a big stake in JAC, its electric vehicle joint venture partner in China. |
| **EU Equity** | **UMI** | Umicore, a global chemicals group, issued a profit warning, citing slowing growth in Chinese demand for cathodes used in electric car batterie. The group now expected to generate EBITDA of EUR 475.0 m instead of EUR 525.0 m in 2019. Shares in Umicore fell by over 10.00% on the news, and closed the month 15.00% in the red. |
| **US Equity** | **BAC** | Bank of America reported strong first-quarter results, growing earnings per share 13.00% from 62 cents to 70 cents and beating the consensus estimate of 66 cents. Despite strong performance, shares were down 2.60% in the morning of the announcement day, largely due to a grim forecast on future quarters provided by the bank’s CFO. Nevertheless, Bank of America stock rose 7.15% in April. |
| **Commodity** | **DBC ETF** | DB Commodity index displayed muted performance in April, yielding 0.25% in what turned out to be a rare calm month for commodities. DBC tracks a basket of 14 commodities, including gasoline, gold, corn, and soybeans. |
| **US Treasury Bonds** | **IEI ETF** | Our benchmark bond index IEI invests in Treasuries with maturities of 3-7 years. In early April, US Treasuries suffered the largest sell-off since January, as investors were regaining their taste for risk. Since then, Treasuries have recovered, and closed the month up 0.33% |
| **Equity Index** | **EEM** | MSCI Emerging Markets ETF tracks the performance of stocks in developing economies. In April MSCI announced that it would include Saudi Arabia in its emerging markets index. Overall, monthly performance for this ETF was positive with a return of 2.53%. |
| **Equity Index** | **IVE** | The S&P 500 Value ETF holds over 340 large capitalization US companies that exhibit value characteristics in the US equity markets. In April the index delivered a strong performance, closing up 2.77%. |

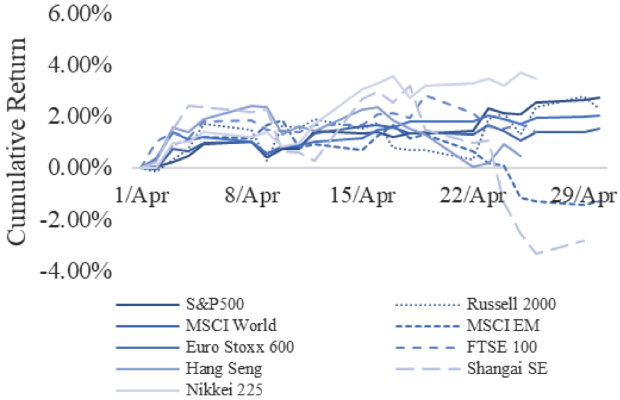
Vadim Nikitin
Financial Markets Division

NIC Fund

# Equities

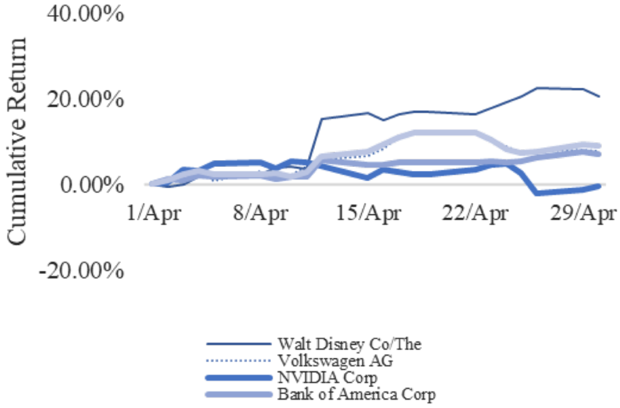
**World Equities**

April was a mixed month for equities around the world, with a good performance from developed markets and a relatively poor performance from emerging markets. The S&P 500 went up 2.65% and the Russell 2000, which tracks US small caps, went up 2.26%. The fears of an economic slowdown were eased slightly with the US labour market showing signs of strength, with the unemployment rate reaching a 49-year low of 3.60% this month, down from 3.80% in March. European stocks slightly underperformed their US counterparties, with the Euro Stoxx 600 gaining 2.00% over the month. The FTSE100 went up 1.38%, with airlines and travel stocks being some of the best performers amid the Brexit extension. Looking at global equities, the MSCI World was up 1.50% and the MSCI Emerging Markets had a poor performance of -1.36%. The Shanghai SE was the worst performer of the ETFs in our portfolio with a return of -2.90%. The Nikkei 225 had a strong performance in April of 3.49%, in a month where Emperor Naruhito has ascended as the 126th ruler of his dynasty and possibly, as some argue, Japan's first modern monarch.




**In Depth: Walt Disney**

The Walt Disney Company was the best performer in our portfolio this month, delivering a return of 23.36% with the unveiling of their plans to build a new streaming service, Disney+ (following a trend set already by its subsidiary ESPN, with its ESPN+ streaming service). The service will be provided initially at a set price of USD 6.9 per month in an attempt to extend their entertainment empire of theme parks, toys and movies, to streaming services, as a way of competing with the likes of Netflix and Amazon. A bold bet entering a very competitive market, but that may pay off given Disney's expertise and track record in producing movies and media content. It is also a good way for Disney to diversify its offering of entertainment, in case the amount of viewers of traditional television diminishes in the future, after its acquisition of 21st Century Fox. The move has been received very favourably by investors, and led the company to see an increase in their valuation of approximately USD 35.0 bn between the announcement and the end of the month.




**Our Performance**

In April, equities' contribution to the overall portfolio performance was positive, with 0.94% cumulative return, of which 0.24% can be attributed to Disney. Regarding the stock picks, banks performed really well in April with BNP Paribas, Bank of America and Goldman Sachs delivering returns of 11.17%, 10.84% and 7.26% respectively. After being our worst performer last month Volkswagen rebounded this month with a positive return of 10.30%, while Umicore took its place for worst performer with a return of -11.98% As far as the recent stocks added to our portfolio are concerned, the results in April were mostly positive: Solutions 30, LVMH and Netflix returned 10.02%, 7.49% and 3.92%, respectively, while MercadoLibre lost 4.65% of its value. Nonetheless, we believe all these positions have an interesting outlook in the long run.

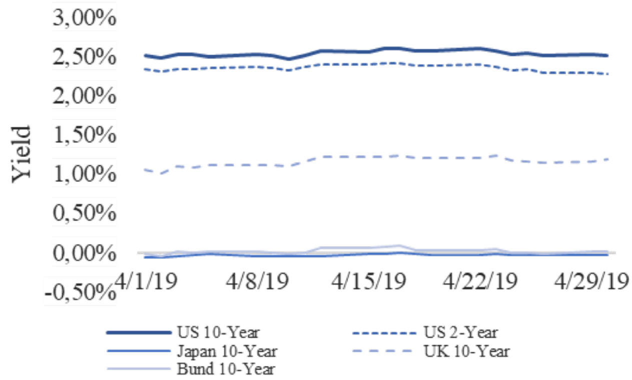
Pedro Leao
Financial Markets Division

NIC Fund

# Fixed Income

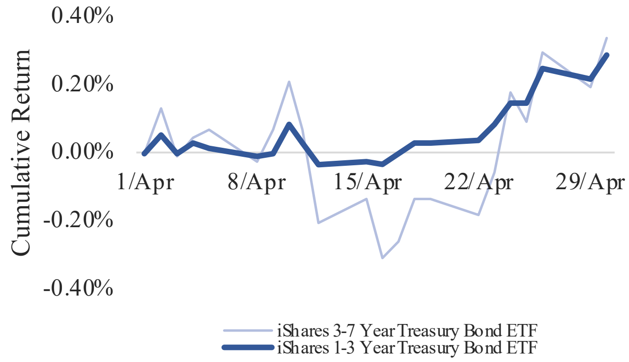
**World Yields**

Treasuries of the major economies in the world remained mostly flat through the month of April. In the US, the 2-year Treasury Note yield continued to stay below the Fed funds target rate, while the 10-year yield closed the month at 2.50%, the same value it started April. Note that despite the US economy continuing to defy market expectations, with a Q1 reported growth of 3.20% (much above the 2.20% estimate), inflation expectations did not follow the same path. Consequently, the Fed is expected to hold rates steady until more solid values justify changes. In Europe, the ECB has signalled its readiness to act in case European economy remains weak. With expected inflation at the lowest level in three years, the ECB is facing pressure to implement more aggressive stimulus measures. Nonetheless, in the meantime, rates were left unaltered. European Treasuries had a flat month. Note that the 10-year German Bund yield reversed from -0.03% to a positive value of 0.01% at the end of April. In Japan, the 10-year Treasury yield continued negative, but moved from -0.07% to -0.04%.




**In Depth: Synthetic CDOs**

Corporate debt is among the asset classes that is benefiting the most from current market conditions. With the Federal Reserve committed to hold rates steady and with the ECB committed to revive growth, global corporate bond issuance reached new maximums. Until the 15th of April, corporate bond sales (excluding bond issuance carried out by financial institutions) reached USD 747.0 bn, representing a USD 13.0 bn increase over the previous maximum, at 2017. Such expansion in corporate debt markets is providing growth opportunities for other assets, in particular to synthetic CDOs, whose demand continues to rise amid a flat treasury yield environment. Synthetic CDOs bundle together derivatives whose returns depend on the performance of bonds and loans. These instruments were blamed for the financial crisis. However, the key difference between today's synthetic CDOs and 2008 ones is the underlying asset: today's CDOs are backed by corporate debt rather than subprime loans. Hence, investors perceive greater safety in these instruments, and even more with the current conditions in corporate debt markets. Consequently, investors are flocking back to the synthetic CDOs' market, with the trading volume up 40.00% year to date, after topping the USD 200.0 bn mark in 2018.




**Our Performance**

In April 51.32% of the NIC Fund was invested in fixed income instruments. iShares 1-3 Year Treasury Bond ETF returned 0.29%, contributing 0.03% to our portfolio return, while iShares 3-7 Year Treasury Bond ETF returned 0.33%, contributing 0.14%, and the iShares Tips Bond ETF returned 0.58% with a contribution of 0.06%.

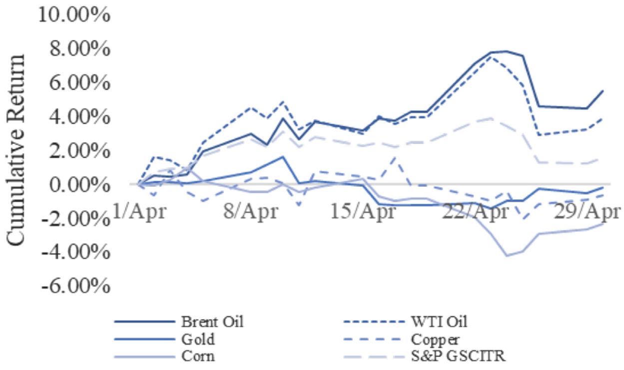
Gonçalo Marques
Financial Markets Division

NIC Fund

# Commodities

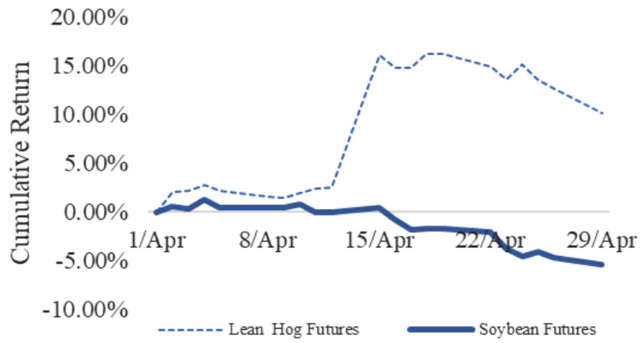
**April Round-Up**

For the month of April, the S&P GSCI Total Return Index, which tracks 24 commodities, surged by 1.53%. Similarly to March, the bulk of the gains were driven by oil prices – as Brent and WTI make up more than half of the index weight. Indeed, oil prices took the center stage throughout the month, having peaked at USD 74.6, amidst fears of a shortage of supply. Signs of a fall in OPEC production, the end of US sanction waivers to countries that import Iranian crude or condensate – namely large consumers, such as India and China –, and increased tensions in Libya and Venezuela were the main catalysts supporting Brent's 5.49% and WTI's 3.77% cumulative returns, as top gainers. On the metals side, Gold showcased a sluggish performance of -0.21% as fears of a global slowdown in growth were eased by stronger than expected Chinese and US macroeconomic data. China's GDP grew at 6.40% and US GDP at 3.20% for Q1 2019, compared to Wall Street expectations of 6.30% and 2.30%, respectively. Copper also ended the month on the red territory, with a -0.79% cumulative return, offsetting some of last months gains and possibly reflecting China's anemic factory data. In what regards agriculture, both Corn and Soybeans were damaged by the deadly swine fever undermining the Chinese hog industry. A lost of 2.35% and 6.06%, respectively, took place as both goods are majorly imported by China for the purpose of pork nutrition– particularly soybeans.




**Outlook for May**

As the African swine fever spreads throughout Chinese ground, the US-China trade war appears to cease to be the main event to conceivably reshape the global soybean market in the future. China is the world's largest soybean importer. Nonetheless, soybean imports from the globe's most populous country are forecasted to decline for the first time in 15 years, to 88.0 m tons, or even further to 71.0 m tons due to the impact of the rapidly spreading disease. As a consequence, Soybean Futures declined 6.06% whilst Lean Hog Futures boomed 8.91% throughout the second half of April. Pork production in China is likely to decline about 30.00% this year – a drop roughly the size of Europe's entire annual supply, as the structure of the Chinese pork industry makes it troublesome to stop the spread of the African swine fever. On the other hand, China's appetite for pork has been on the rise, which justifies the recent outperformance of hog futures and sustains reasons to believe the commodity to extend the gains in the upcoming months.




**Our Performance**

During the month of April, we maintained an allocation of 8.19% in the Invesco DB Commodities Benchmark ETF, which is below our benchmark weight of 10.00%. The Index yielded a cumulative return of 0.76%. Heating Oil and Brent Crude were the top gainers. Wheat and Aluminum were among the worst performers.

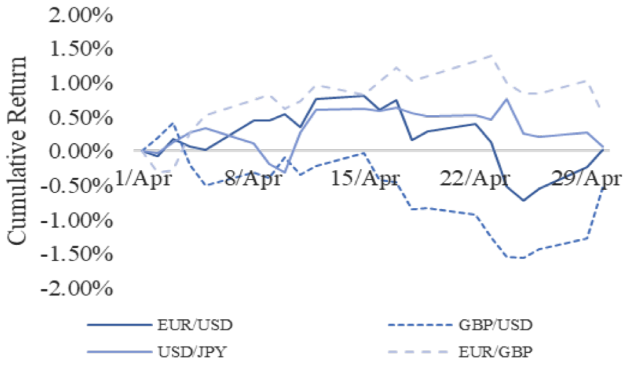
Francisca Anselmo
Financial Markets Division

NIC Fund

# Currencies

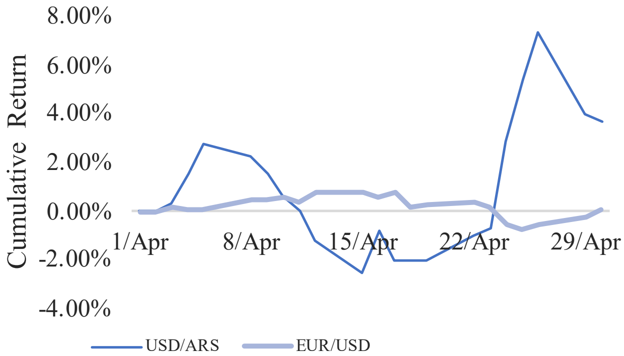
**World Currencies**

The US Dollar continues to be a strong performer on the currencies market, despite the Fed's policy U-turn following last December's market turmoil. Consistent strong economic data, such as last quarter's economic growth rate achieving a forecast-beating 3.20%, together with the highest yield on the G10 currencies keep investors' appetite for the USD afloat. The positive short-term outlook has sent the USD Index to its highest level in 23 months. On the other hand, other central banks around the world are finding it harder to pick up the slack. The ECB's deposit rate is still at minus 0.40%, compared to the Fed's 2.50% short-term rate. This puts enormous pressure on the Eurozone, since the ECB is left without any margin for fiscal stimulus in case of an expected recession. Looking at Emerging Markets, the Argentine Peso has lost 13.00% YTD, while the Turkish Lira lost 11.00% YTD. Despite the unstable political and economic situations in both countries, the US Dollar strength puts even more pressure on these currencies, since they are highly dependent on dollar funding, remaining sensitive to exchange rate changes.




**In Depth**

The extremely good performance on the US Dollar has been linked to a strong US economy and stocks performance. This trend is expected to continue in the upcoming month. The Eurozone's sluggish data is expected to keep the Euro low. Analysts' consensus is that the EUR short term target is USD 1.10. However, several banks' FX heads believe that a global economic growth bounce should send the euro to USD 1.20 by the end of 2019. Following a consumer prices rise of 4.70% in March, Argentina has seen an outflow of investors, sending its assets prices lower. According to UBS Asset Management, the market is currently pricing a 65.00% probability of default by the Argentinian government. Although outlook for elections this year are bleak, with an expected win for Cristina Fernández, experts believe there is not much the government can do at the moment. Therefore, we expect the peso to keep losing ground, at least until some positive economic data comes out. The upcoming month is also set to be marked by low volatility, capping expected investors' returns. However, investors should keep an eye for important decisions and data rolling out that could cause a huge spike in volatility. These could be either a deal on Brexit, ECB's rate changes, or worse than expected economic data in the US, which could potentially offset a rate decrease by the Fed.




**Our Performance**

We currently hold no currency related assets in our portfolio.

Sérgio Ferrás
Financial Markets Division

# Extras

Hot Topic

## Uber: A Second Lyft or the Microsoft of the 21st Century

Lisa Preußler
Financial Markets Division

*"Uber is a once-in-a-generation company, and the opportunity ahead of it is enormous."*

– Dara Khosrowshahi, CEO Uber

*"We expect certain competitors to commercialise autonomous vehicle technologies at scale before we do."*

– S-1, Uber

Since the beginning of the year, the number of tech IPOs of former Silicon Valley start-ups at multi-billion dollar valuations has risen rapidly, making 2019 a record year for tech IPOs. Although no profits have been realized for three years, Uber Technologies Inc. will follow its competitor Lyft.

After Uber has been valued at USD 76.0 bn in a private fundraising in August 2018, it will seek a valuation of up to USD 91.5 bn in the forthcoming IPO on the 10th of May. Although this is less than bankers initially predicted, Uber is very likely to become Silicon Valley's largest IPO since Facebook. Uber itself will raise up to USD 9.0 bn from the IPO, while existing investors such as SoftBank, Benchmark and co-founders Travis Kalanick and Garett Camp will sell up to USD 1.4 bn worth of shares. Goldman Sachs and Morgan Stanley are leading the offering.

In light of Lyft Inc.'s gloomy post-IPO performance (shares fell 20.00% below the offer price), it is worth taking a closer look at the 10-year-old and world's largest ride-hailing platform before flotation. Uber's IPO prospectus paints a picture of a company that is heavily reliant on its core ride-hailing business (90.00% of total revenues) and needs enormous amounts of capital to maintain its market share as growth in its core business falters.

Currently, Uber has a market share of more than 65.00% in ride-hailing business in the USA, Canada, Latin America, Europe, Australia and New Zealand. The number of monthly active platform consumers rose by about 34.00% YoY to 93.0 m. However, Uber recorded an operating loss of USD 3.0 bn last year, illustrating that it cannot afford to operate with the money it generates. This is also reflected in the growth rate of ride-hailing revenue, which slowed from 70.00% to 18.00-20.00% YoY due to tariff subsidies resulting from competitive pressure and drivers' compensation. Rising costs for insurance and the acceptance of credit cards are exerting even more pressure on the profitability of Uber's core business. Nevertheless, Uber claims that its core business is somehow profitable as long as all sorts of crucial expenses such as marketing are removed.

Other business units, such as UberEats, the freight trucking arm, and the bike and scooter rentals, are expected to increase customer loyalty and turnover per active passenger as well as giving Uber more price power over time. UberEats' revenue already exceeds GrubHub's, the largest US pure-play food-delivery vendor. Moreover, Uber is expanding into new business areas. However, after a fatal accident in Arizona a year ago, the company is lagging behind its competitors in the race to develop driverless cars. Uber noted in its filing, "[we] expect certain competitors to commercialise autonomous vehicle technologies before we do". This increases uncertainty about the prospects of success associated with the corresponding USD 1.0 bn investment in R&D and lobbying in competition with Alphabet, Apple and General Motors.

Uber pitches shares to investors at an initial price level of USD 44.0 to 50.0, as a herd of highly valued technology companies such as Zoom, Slack and Pinterest rush to the public markets. Unlike Lyft, Uber has adopted a one-share/one vote approach and strengthened its governance.

Let's see if the "famous Uber hustle", as CEO Dara Khosrowshahi called it throughout the roadshow, was successful, and investors will overlook sluggish results, a shadow of past and ongoing litigations, and focus on Uber's strong brand value. The chances that Uber will become the Microsoft of the 21st century, however, seem rather small.

Lisa Preußler
Financial Markets Division

# Extras

Hot Topic

## Private Equity – Defining New Perspectives for Institutional Investors

Philip Hunold
Investment Banking Division

*"The change will allow to double the number of people who are able to buy Blackstone´s stock."*

– Stephen Schwarzman, CEO Blackstone

Blackstone, the world's second largest private equity fund with USD 512.0 bn assets under management, recently announced to change the firm's legal structure from a limited partnership to a corporation. This new entity is called "C-Corp" structure and will obligate Blackstone to pay corporate taxes on all its revenues – for the first time.

Nevertheless, the US corporate taxes have been lowered effective from Republicans last year to 21.00% from 35.00%. Indeed, shareholders and financial market insiders may question this step, in regards of the shareholder-value principle and the role of taxes in finance literature.

But in fact, after announcing this strategic decision, Blackstone's share price appreciated more than 8.00%. Stephen Schwarzman, Blackstone's most senior executive and founder, commented, "the reason we're accepting higher taxes is that we think that the value for our shareholders of our stock appreciation should be much higher than that loss of current income".

To better understand the impact this decision will have on private equity funds, one should consider the strategic decision from top-tier fund KKR last year. KKR, the acronym stands for Kohlberg Kravis Roberts, restructured their entity equally to Blackstone.

This restructuring resulted in a large equity investment from Vanguard, one of the world's largest asset manager. The reason why mutual funds and index tracker issuers have not invested into listed private equity firms is a highly complex tax consequence for their shareholders and legal restrictions. Schwarzman estimates the investment potential from Vanguard and other funds to be worth USD 12.0 tn – only in the United States.

This development shows how important mutual funds and capital inflows from asset managers are for private equity firm's fundraising processes. But it also shows how attractive private equity already is for investors and how attractive it will now become for institutional investors.

Nevertheless the alternative investment industry, whose business is to buy a firm in a highly leveraged transaction, cannot complain about the current market environment for fresh capital. Moreover, the challenging part is to deploy the capital wisely, in order to gain the industry-specific performance return of 25.00% to 30.00% IRR.

When a portfolio firm is successfully exited, the fund usually charges a 20.00% performance fees (carried interest) on the profits from the sale. Looking into past returns from large buyout funds, these carried interest partially increased to up to 30.00%. Industry experts argue that demanding those high fees, which is only possible for a few large funds, is not necessarily reasonable because the level of reward and alignment is already healthy.

Nonetheless, if funds clearly outperform the current market environment and comparable peers, those funds can demonstrate their power by demanding a higher reward ("super-carry") for those achievements.

That "carry-evolution" makes clear how attractive private equity investments are getting for institutional investors and how much value the fund´s management team can add to their portfolio firms.

Philip Hunold
Investment Banking Division

# Extras

Hot Topic

## Global Corporate Divestments

Cong Phuoc
Investment Banking Division

*"Divestments are helping companies streamline operating models to keep pace with technological innovation, improve their agility and sharpen their focus on growth opportunities."*

– Paul Hammes, Analyst at EY

In their quest for greater value, c-suites across the globe face a myriad of forces affecting divestment plans – from shifting customer expectations, to technology-driven sector convergence, to ongoing shareholder pressure. Companies are streamlining operating models so that they can pivot more quickly in pursuit of new growth opportunities and stay competitive. In particular, they are using divestments to fund new investments in technology, products, markets and geographies.

This is keeping the appetite for divestments near record levels according to a study by EY. Companies are expected to continue to divest businesses no longer core to the portfolio or best left in the hands of another owner. As companies reshape their portfolios, they are building greater trust with stakeholders and mitigating pressure from activists. But once companies decide to divest, the complex separation process requires far more preparation than sellers often expect. From weighing the merits of different deal structures to pre-empting regulatory hurdles, addressing interdependencies across their businesses and improving the valuation of the remaining organization.

To further drive value, sellers need to prepare for a widening pool of buyers – from private equity to cross-sector. By leveraging analytics, aligning leadership around deal perimeters and building stand-alone operating models these buyers can have confidence that the business has been properly prepared for separation. All of these critical divestment steps can help companies accelerate their pace of transformation, reposition the remaining business for future growth and, ultimately, drive total shareholder value.

Geopolitical shifts are a constant variable in the divestment equation. Despite uncertainty within global markets, whether driven by tariffs or trading costs, companies must continue to diligently review their portfolios. The current US administration has raised the stakes over global trade, whereas Brexit in the UK, the rise of populist governments in Europe and the ongoing debate over immigration add to complexity when making strategic portfolio decisions.

Tax is a central consideration during the carve-out process, and work should align with the portfolio review process in order to appropriately account for tax implications. For example in the US, even with the major tax reform, tax-free spin-offs (i.e., demerge a business to existing shareholders) remain an effective strategy for creating shareholder value and deleveraging by moving debt to SpinCo while restructuring the remaining organization. This structure is effective in distributing a business to shareholders with a low tax base that may otherwise result in taxable gains and a large tax bill.

Regulatory hurdles pose another challenge in the divestment process. Widely varying country-specific requirements, along with insufficient time to capitalize and operationalize a legal entity, can delay the buyer from being able to effectively operate in a jurisdiction. In many countries, sellers may face a 60, 90 or 120-day review requirement to be met before they can put capital into a local entity. Regulatory requirement can include antitrust approvals, business licenses, capitalization of new legal entities, registration of products, labor requirements and obtaining various tax IDs. Many of these activities must occur in a specific sequence, can be lengthy and may change based on rule-making bodies in each country and even locality.

Cong Phuoc
Investment Banking Division

# Thank you!

Visit www.**novainvestmentclub.com** for more updates.

Our team:

Investment Banking Division
Birk Carlenius (birk.carlenius@novainvestmentclub.com)
Cong Tuan Huynh Phuoc (cong.tuan@novainvestmentclub.com)
Duarte Alves Pereira (duarte.alvespereira@novainvestmentclub.com)
João Sousa Mendes (joao.sousamendes@novainvestmentclub.com)
Mariana Ferreira da Costa (mariana.costa@novainvestmentclub.com)
Philip Hunold (philip.hunold@novainvestmentclub.com)
Rita Silva Marques (rita.marques@novainvestmentclub.com)
Tim Borneck (tim.borneck@novainvestmentclub.com)
Vasco Lupi (vasco.lupi@novainvestmentclub.com)
Vera Teixeira (vera.teixeira@novainvestmentclub.com)
Viktoria Wagner (viktoria.wagner@novainvestmentclub.com)

Financial Markets Division
Gonçalo Marques (goncalo.marques@novainvestmentclub.com)
Francisca Anselmo (francisca.anselmo@novainvestmentclub.com)
Pedro Leão (pedro.leao@novainvestmentclub.com)
Lisa Preussler (lisa.preussler@novainvestmentclub.com)
Jan Schroff (jan.schroff@novainvestmentclub.com)
Nina Kusnirova (nina.kusnirova@novainvestmentclub.com)
Sérgio Ferrás (sergio.ferras@novainvestmentclub.com)
Lukas Müller (lukas.mueller@novainvestmentclub.com)
Vadim Nikitin (vadim.nikitin@novainvestmentclub.com)

Corporate Partners:

Bloomberg
KPMG
Jornal de Negócios
ATRIUM
BiG Banco de Investimento Global

Academic Partners:

Nova SBE
Career Services

NOVA Nova School of Business & Economics — Finance Knowledge Center

Email us at:
nic@novainvestmentclub.com

—
Design by: Carmo Cunha e Sá