NIC

— Nova Investment Club —

Newsletter

November 2019

NIC

Nova Investment Club

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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, Rafael Santos elaborates on Microsoft's ten billion dollar cloud contract with the Pentagon, reflecting over its impact prompting cloud adoption. Moreover, in our Regional View, Maxime Hoze examines Hong Kong's long lasting protests and the economic repercussions on Asia's financial hub.

Our Investment Banking Division will guide you through October's M&A overall activity. Read about Cellnex winning bid to acquire Arqiva's Telecom Division, and Rothschild & Co bid for Livingstone. Additionally, get a detailed overview on what happened to Bio On, as well as consider our opinion on the causes for major IPO upsets among unicorn companies in 2019.

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 October yielded a 2.00% cumulative return, majorly supported by Equities and Commodities.

Lastly, Maxime Hoze elaborates on Tesla's prospects and Marvin Breuer examines the Brexit's implications for distressed M&A activity in the UK.

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Macro Overview

Monthly

November 4th, 2019

Deeper Dive

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Market Moves

Market Moves

% change

	Last Close	-1W	-3M	YTD
S&P 500	3.038	0,91%	1,92%	21,17%
DJIA	27.046	0,90%	0,68%	15,94%
Nasdaq	8.292	1,30%	1,43%	24,97%
MSCI World	2.966	0,63%	2,54%	15,70%
MSCI EM	3.766	0,22%	-0,83%	6,08%
Russell 2000	1.562	0,79%	-0,77%	15,86%
Euro Stoxx 50	3.604	-0,47%	3,97%	20,09%
FTSE 100	7.248	-1,09%	-4,46%	7,73%
Nikkei 225	22.927	0,78%	6,53%	14,55%
Hang Seng	26.907	0,41%	-3,14%	4,11%
Dollar Index	97,35	-0,29%	-1,18%	1,23%
EUR/USD	1,115	0,43%	0,69%	-2,75%
GBP/EUR	1,161	0,27%	5,70%	4,34%
GBP/USD	1,294	0,71%	6,44%	1,47%
USD/JPY	108,030	-0,53%	-0,69%	-1,51%
USD/CHF	0,99	-0,57%	-0,76%	0,44%
Brent Crude	60,230	-2,34%	-7,58%	11,95%
Gold	1.514,8	1,06%	6,22%	18,22%

Generic Bond Yields

change in bps

	Last Close	-1W	-3M	YTD
US 10Y Yield	1,691%	-7,5	-32,3	-99,3
GER 10Y Yield	-0,407%	-0,3	3,3	-64,9
JPY 10Y Yield	-0,133%	0,6	2,0	-13,6
UK 10Y Yield	0,629%	0,4	1,8	-64,8
PT 10Y Yield	0,166%	-1,7	-17,8	-155,6

**Source: Bloomberg, as of 2019-10-31*

In Focus

October

Fed to cut rates by additional 25.0 bps. The Fed continues its dovish policy by cutting their benchmark interest rates for a third time this year in order to prevent further economic slowdown to a range of 1.50% and 1.75%. This results in an overall cut of 0.75% for 2019 so far. The S&P hiked to yet another record high in anticipation of the rate cut.

Mario Draghi steps down as chief of the ECB. Christine Lagarde is to take over the role as chief of the ECB on November 1st. During Draghi's eight-year term the ECB doubled its balance sheet through quantitative easing and introduced negative interest rates as a measure to boost the European economy following the years of the financial crisis. The dovish policies of the ECB are expected to continue under the leadership of Lagarde.

Brexit delayed to January 2020. The deadline for the Brexit has been moved by three months. Whether the newly negotiated deal will have been ratified by both the EU and the UK Parliament by then remains uncertain. Boris Johnson called for general elections to be held on December 12th in hopes of gaining more conservative members of Parliament to ease his plans for Brexit.

New York Fed continues to inject cash into the short term lending market. In order to keep overnight borrowing costs at their normal level and ease liquidity needs, the New York Fed increased the size of its repo operations to USD 120.0 bn, while it also continues its monthly purchase of USD 60.0 bn in Treasury bills.

US and China get close to a phase one interim trade agreement. A possible trade deal between the US and China gets closer as both parties seem to have reached agreements on some of the open sections after technical consultations had been made.

Bank of Japan intends to raise yields on long-term bonds. By reducing its purchase of long-term bonds, the BoJ intends to increase yields. However, it still plans to continue its purchase of short-term bonds and possibly taking yields lower than they are right now at negative 0.10%

Argentina elects Alberto Fernández as new president. Eyes are set on the new Peronist administration, which promised its voters more public spending, as it will have to reach a new agreement with the IMF to gain investor confidence to avoid a ninth sovereign debt default.

Turmoil continues in Hong Kong. There are no signs of the pro-democracy protests in Hong-Kong coming to a halt. Months of demonstrations are taking their hit on the economy, likely causing record negative growth rates by the end of the year.

Massive demonstrations in Chile. As thousands protest against the Chilean government, Chile's president, Sebastian Piñera, declared a state of emergency and installed a curfew. Due to these conflicts, the Asia Pacific Economic Cooperation summit, which was to take place in Santiago in November, had to be called off.

France's quarterly growth exceeds expectations. With a growth of 0.30%, France has shown a strong positioning in face of a slowing economy. Its low dependence on exports (31%) compared to the rest of the EU (48%) make France less vulnerable to global trade tensions.

US imposes sanctions on Turkey. After Turkey reached an agreement with Russia to push back Kurdish forces in north-eastern Syria, the US passed a bill to impose sanctions on Turkish banks and to freeze the assets of Turkish officials.

Patricio Drexhagen
Financial Markets Division

Deeper Dive

Microsoft lands a USD 10.0 bn cloud contract with Pentagon – Will it path the industry forward?

Rafael Santos
Investment Banking Division

"As we continue to execute the DOD Cloud Strategy, additional contracts are planned for both cloud services and complementary migration and integration solutions necessary to achieve effective cloud adoption".

– US Department of Defence Press Release, 25th of October 2019

By 2025, roughly half of the world's stored data shall reside on a public cloud, according to International Data Corporation (IDC) – That is 85.8 tn gigabytes of information safeguarded by third-party providers. Cloud computing entails the delivery of on-demand computing resources – typically on a subscription, pay-for-use basis – over the internet. Such services are ensured by colossal data centres located throughout the world, majorly owned by Amazon, Google and Microsoft.

On the 25th of October, the US Department of Defence announced a landmark USD 10.0 bn contract to migrate a substantial share of its information technology systems from on-premise physical servers to Microsoft's cloud, Azure. The deal adds at least USD 10.0 per share to Microsoft's stock, that saw its price surge 3.40% on the news of the Pentagon contract.

Microsoft won the contract known as JEDI – Joint Enterprise Defence Infrastructure – after a deeply scrutinized and legally contested procurement process co-participated by Oracle, IBM and Amazon, with Donald Trump prompting a last-minute review at a time the industry confidently anticipated Amazon to land the contract. Such scrutiny and political involvement do not come as a surprise once we realize Pentagon is granting an all-encompassing contract to a single entity – which will have privileged access to vast swaths of sensitive US Government data and infrastructure.

The final decision was an unexpected turndown for Amazon's cloud unit, "AWS", who is the leading and most technically sophisticated provider. The project is unusual in its scale and complexity and may result in a unique company not only monitoring US Defence communications systems for the following ten years but also positioning itself to secure similar government contracts. Oracle has previously complained about the Pentagon's decision to contract with just a company, rather than breaking it up among several providers – but with no palpable effect.

Moreover, very large businesses will account for an amount north of 50.00% of the total public cloud spending between 2019 and 2023 – according to the International Data Corporation – giving us a hint on the strategic importance for Microsoft of being bestowed such large contract. It means validation for Azure but more importantly it means validation for cloud adoption, signalling the industry that the US Government is comfortable working with cloud technology. Arguably the best business card for any cloud vendor.

Pentagon's move onto Azure aligns with the industry paradigm shift towards the cloud – technology players are being followed by less tech-savvy enterprises in partaking cloud solutions to house proprietary infrastructure and serve their applications to millions of users worldwide. Gartner estimates 80.00% of large enterprises in North America will have shut down all their own data centres and migrate to cloud by 2022, up from 10.00% in 2017. This will lead to an increase in the public cloud service market from USD 182.4 bn in 2018 to USD 331.1 bn by 2022, the research agency predicts.

All in all, cloud is an up and running business realm primed to produce companies of significant value and growth, fuelling mergers and acquisitions activity as leading cloud companies look to consolidate and enhance their range of services. Furthermore, as the industry snowballs, Amazon, the so-far-undisputed dominant player will be increasingly challenged by defying cloud businesses. It will be interesting to see if it can hold its pole position.

Rafael Santos
Investment Banking Division

Regional View

5 Months of Protests are Pushing Hong Kong Towards Recession

Maxime Hoze
Financial Markets Division

“The Hong-Kong stock exchange, second largest market for company listing after Wall Street recorded a 42.80% drop in capital raised by corporations through IPOs. For instance, Alibaba’s USD 15.0 bn IPO was postponed in August."

Following the social crisis, Hong Kong is likely to experience its first annual negative GDP growth in 10 years, said financial secretary Paul Chan.

Since the former British colony was conceded in 1997 the territory is ruled under the special agreement “one country, two systems” which also states that China will regain full control of the territory in 2047. However, Beijing does not seem to be willing to wait until then. Citizens saw their freedom constantly harmed by the Chinese regime which saw protests of Hong Kong citizens intensifying in frequency and breadth during the last decade. However, the latest turmoil, the longest and largest in history turned out to have a terrible economic impact on the financial hub’s economy. Ever since the beginning of the protests in June, after chief executive Lam’s trial to set up an extradition bill to allow Hong Kong citizen to be judged in mainland China, companies have been dramatically harmed by the unstable socio-political climate in the city.

Headlines covering tensions hitting Hong Kong have negatively impacted tourism, one of the most critical economic drivers for the territory, which is down by 40% in August YoY. As a result, retail sales also plunged to HKD 29.4 bn (USD 3.75 bn) representing a 25% decrease in comparison to last year’s level. “Retail sales will likely remain in the doldrums in the near term, as the worsened economic outlook and local protests involving violence continue to weigh on consumer sentiment and inbound tourism”, according to a government spokesman. Last quarter’s PMI of 42 printed at a historical low since 2009 revealed an increasingly uncertainty and fear among business leaders as tensions with Beijing escalated.

Ahead of trade wars, US companies such as Starbucks, Apple and the NBA have been directly impacted after their leaders publicly expressed their support to protesters in their movement for preserving freedom in their country. For instance, Houston Rocket’s general manager Daryl Morey tweeted that he stands with Hong Kong. Chinese authorities immediately responded back by refusing to broadcast pre-season games and Chinese sponsors of the club dropped out.

Markets were also heavily impacted. The Hong Kong stock exchange, second largest market for company listings after Wall Street, recorded a 42.80% drop in capital raised by corporations through IPOs. For instance, Alibaba’s USD 15.0 bn IPO of its payment system was postponed in August. More recently, the state-owned oil company Saudi Aramco originally planning to be listed on Hong-Kong Stock Exchange preferred the region’s rival Tokyo to become publicly traded. Lastly, USD 4.0 bn deposits left Hong-Kong to Singapore and other nearby locations in the last months, according to Goldman Sachs.

On the other hand, China seems to have already prepared a Plan B to substitute Hong Kong as the main financial hub in the region in case it keeps on losing attractiveness in the long run. In a report published in August, Beijing announced it will make neighboring mainland city Shenzhen the next hub for the region, developing the city as “a national model of high-quality development” by 2025. In the meantime, the world’s second largest economy is also developing Macau’s financial center. Indeed, China issued its first offshore bond in renminbi last July in order to “push forward the diversified ongoing development of Macau’s economy and a milestone in the development of Macau’s renminbi market" said China’s finance minister.

The abandonment of the extraction bill and the incoming election to replace current chief executive Lam temporally brought back the city to normality, the government is also making an effort to sustain the economy by offering companies tax breaks to counter the decreasing sales and disturbances in regular business activities. Let’s see if this will be sufficient to help Hong Kong to recover.

Maxime Hoze
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

Hong-Kong District Council Elections

Local elections are taking place in Hong-Kong on the **24th** of November. Pro-democracy activist Joshua Wong was banned from running by the authorities, causing more tension between the pro-Beijing and the pro-democracy movements.

APEC Summit

From the **15th** to the **17th** of November, the Asia-Pacific Economic Cooperation summit was to take place in Chile. Due to turmoil in the capital, it will no longer be hosting the summit. A new host for the summit is yet to be announced. The first part of a US-China trade agreement was expected to be signed during this event.

EU Finance Ministers Meeting

On the **8th** of November, the finance ministers of the EU and some key members of the European Comission will have their monthly meeting on topics including economic policy, regulation of financial services, taxes and the EU budget.

Central Bank Decisions

Bank of England Interest Rate Decision

The Bank of England has a meeting scheduled on the **7th** of November for the monetary policy committee to vote on the benchmark interest rate. According to latest forecasts, the rates will remain unchanged at 0.75%, with an unanimous vote from all nine committee members.

Bank of China Interest Rate Meeting

On the **19th** of November the People's Bank of China will meet do decide at what level to set the benchmark interest rate. Currently it finds itself at a record low at 4.20%, unchanged from the latest cut in September. It remains uncertain whether the PBoC will proceed with another cut.

Bank of Mexico Interest Rate Meeting

On the **14th** of November the Bank of Mexico will gather to evaluate whether they will change the country's benchmark interest rate, which currently lies at 7.75%. Forecasts suggest, that the interest rate will remain unchanged.

Inflation and Deflation

Update on Euro Zone's CPI

The European Central Bank will publish their YoY consumer price index the **15th** of November. It is expected to reach 0.90% compared to the previous 0.70%, thereby still missing the ECB's target of 2.00% inflation.

Update on Brazil's CPI

On the **7th** of November, Brazil's Central Bank will announce their latest YoY figures on changes to prices of consumer goods and services. The CPI is expected to rise slightly from 2.89% in the previous period to 2.97% as of October.

Update on UK's CPI

YoY figures on consumer prices in the UK will be made public the **13th** of November. CPI is expected to rise from 1.70% to 1.80%. Uncertainty about Brexit could continue to weaken the pound, thereby putting more pressure on consumers.

Labour Market

US Employment Readings

On the **1st** of November, the US payrolls number with ADP employment change data for October and the weekly jobless claims are announced. The labour market is expected to remain strong, with unemployment rates forecasted to remain close to a 49-year low of 3.60%.

UK Employment Data

On the **12th** of November, the UK will announce their unemployment rate as well as their Average Earnings Index. Unemployment rates are forecasted to be lower in October compared to September, decreasing from 3.90% to 3.80%.

Canada Employment Data

Canada will announce their latest data on unemployment rates of October the **8th** of November. Compared to previous month, October's rate is expected to be higher. It is expected to rise by 0.20% from last months rate, reaching 5.70%.

Patricio Drexhagen
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

Global M&A activity is expected to continue its decreasing trend throughout October 2019 carrying on declines in transaction volumes into Q4. Until September, 2019 has shown a significant slow down in global deal making as transaction values fell by 11.40% YTD to USD 2,490.0 bn compared to the corresponding period in 2018. Fears of economic crisis as well as regulatory and geopolitical uncertainties such as the China-US trade war and the ongoing Brexit negotiations continue to present a headwind particularly for global cross-border which is down 14.60% YTD. However, amid the decline in activity, deals seem to get larger as corporates have ample cash reserves and various debt financing options to pursue M&A (average deal size USD 424.6 m in September 2019 YTD). Drivers behind the transaction pipeline are technological disruption across all sectors, high activist fund engagement and private equity funds seizing upon opportunities created by market volatilities.

Selected Regions

North America

Favourable financing conditions, the impact of tax reform and a strong economy drove deal activity in the US to date. However, US deals decreased in October, going down 3.70% with 1026 announcements in comparison to 1064 in September. Private Equity activity also saw a significant reduction, with aggregate transaction value falling 55.80% to USD 14.0 bn from USD 31.6 bn in August.

EMEA

Deal activity is persistently being strangled by political uncertainty in the region. In particular the United Kingdom is hammered by Brexit fears, causing YTD M&A volumes to amount to USD 163.8 bn, down 19.00% compared to 2018 YTD. Despite this, the deal flow monitor for H2 suggest a renewed interest in M&A activity in the region, predicting a 5.00% rise YoY. Deals are largely driven by the Industrials and Power & Utilities sectors.

Asia

M&A appetite in Asia-Pacific remains strong. Positive M&A sentiment and growth outlook persists amidst slowing growth of the region's powerhouse, China. 49.00% of executives indicate that they will be acquiring in the next 12 months. However, despite positive outlook the region is being strangled by the US-China trade war. Causing H1 deal flow to be USD 599.6 bn, the lowest in five years.

M&A

Deals of the Month

Announced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
08 Oct 19	Uniper SE (20.50% stake)	Fortum Oyj	DE	Energy	14,049.00	-
02 Oct 19	Stars Group	Flutter Entertainment	CA	Leisure	10,565. 00	-
22 Oct 19	WeWork	SoftBank	US	Business services	-	-
22 Oct 19	Just Eat	Prosus	UK	E-Commerce	6,361. 00	-
11 Oct 19	Red de Carreteras de Occidente	Abertis, GIC	MX	Construction	5,515. 00	-
14 Oct 19	Sophos Group	Thoma Bravo	UK	IT	3,951. 00	-
03 Oct 19	Privilege Underwriters	HCC Insurance	US	Financial services	3,100. 00	-
17 Oct 19	Tianjin Airlines (48.00% stake)	HNA Aviation	CH	Transportation	3,022. 00	-
02 Oct 19	Great Wolf Resorts (65.00% stake)	Blackstone Group	US	Leisure	2,900. 00	-
22 Oct 19	Cision	Platinum Equity	US	Media	2,699. 00	-

Benedict P. Minkner & Tobias Berberich
Investment Banking Division

M&A: Top Deals

Cellnex to Acquire Arqiva's Telecom Division

Cellnex Telecom, a Spanish telecommunications service provider, is to acquire the telecom division of the British telecommunications company Arqiva for GBP 2.0 bn, thus making it the largest independent tower company in the UK.

Buyer vs Seller

Cellnex is Europe's leading independent wireless telecommunications infrastructure operator with 53,000 sites (post-deal, pre-deal: 46,000) in Spain, France, Netherlands, Britain, Italy, Switzerland and Ireland. Cellnex will be financing the deal with equity by offering shareholders 9 new shares for every 31 shares held at EUR 28.9. Arqiva is a communications infrastructure company which only operates in the UK and the Republic of Ireland.

Industry Overview

The telecommunications industry is consolidating more and more. The Cellnex deal is the latest one in a series of global tower deals. The rationale behind it is that these companies are offloading their masts to specialist companies and infrastructure funds as it can be seen in the acquisition history of Cellnex, which has bought mobile towers of the French company Iliad SA earlier this year.

Peers	Currency	Market Cap (CUR m)
Travis Perkins PLC	GBp	3,744.34
Diploma PLC	GBp	1,806.17
Ashtead Group PLC	GBp	10,604.74
Ferguson PLC	GBp	14,851.74
Rexel SA	EUR	3,469.80

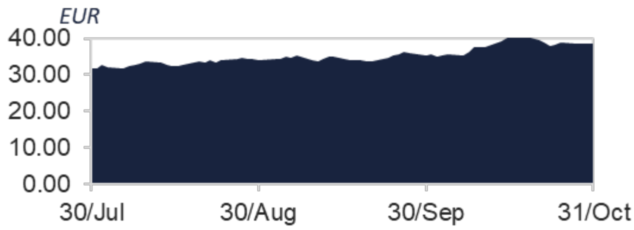
Deal Rationale

After the deal Cellnex becomes one of the biggest players in the European market and the leading one in the UK market. However, concerns did arise that Cellnex could get in a monopoly position in the UK by owning more than 80.00% of independent mobile sites. Together, the combined group would have expected earnings before interest, tax, depreciation and amortisation of GBP 170.0 m in 2020. The CEO of Cellnex, Matinez, said that "the strategic thing is not to own the towers, but to have access to the market", hence, further growth can be expected for the company.

Market Reaction

Cellnex Telecom SA

Since the announcement (08/10/2019) the stock price increased by approximately 10.00% (max. EUR 41.9). However, the price reversed to previous levels after a couple of days (around EUR 38.0).



Arqiva

Arqiva will use the proceed of its tower sales for paying back debt in order to decrease the relatively high leverage (D/E ratio of 2.13) which has been built up by the investment firms owning Arqiva. Total liabilities of the company are amounting to GBP 8.0 bn (30/06/2019) which are planned to halve now. Beresford-Wylie, the CEO, stated that "the majority of proceeds from the sale will be used to reduce debt, thereby providing a solid financial base for Arqiva and its shareholders to invest in the future of the UK's terrestrial TV and radio platforms as well as its data networks and capability".

Future Challenges

Mobile operator and competitor "Three" raised concerns regarding the deal, as it could hinder a fast 5G rollout in the UK. The main argument is that Cellnex could face high costs in the future as the company could be planning to expand its position as it has not only bought 7,400 sites in the UK but the additional right to built 900 sites in the UK. The associated expenses could slow down the UK's 5G rollout and therefore, negatively impact customers.

Paulina Michel
Investment Banking Division

M&A: Top Deals

Rothschild & Co to Acquire Livingstone

On the 24th of October 2019, Rothschild & Co and Livingstone announced that Rothschild & Co's Global Advisory business will acquire Livingstone in the UK.

Buyer vs Seller

Rothschild & Co, formerly Paris Orleans SA is one of the world's largest independent financial advisory groups with a revenue of USD 1.97 bn in 2018. The French based group provides M&A, strategy and financing advice, as well as investment and wealth management solutions. Livingstone is a M&A boutique, created in 2007, that advises mid-cap companies typically valued between GBP 50.0 m and GBP 150.0 m.

Industry Overview

According to the data compiled by Mergermarket, European M&A deal volume dropped 14.00% to 3,488 deals, with value down by 32.00% to EUR 358.0 bn when compared to the same period last year. Global deal-making will keep this trend in 2020 thanks to ongoing worldwide economic uncertainty. Nevertheless, niche sectors such as blockchain or renewable energies seem to be sectors where deal-flows are constantly growing.

Peers	Currency	Market Cap (CUR m)
Lazard Ltd	USD	5,027.14
Evercore Inc.	USD	3,007.94
Jefferies Financial Group	USD	5,787.05
Greenhill & Co. Inc.	USD	328.45
Houlihan Lokey Inc.	USD	1,928.16

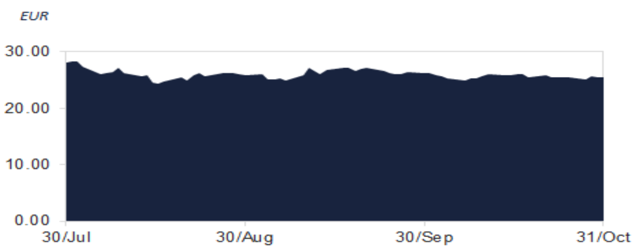
Deal Rationale

The announcement of Rothschild & Co's takeover of Livingstone seemed unusual to analysts. On the one hand, because the customer base difference between the two boutiques is significant (FTSE 250 Index companies vs mid-cap), and on the other hand, because the Anglo-Saxon political context is uncertain because of the Brexit. Nevertheless, this deal will allow Rothschild & Co to strengthen its position on the mid-market and thus be able to support companies throughout their entire development process. And establish a gateway to the American M&A market, on which Rothschild & Co has only 0.50% of the market share.

Market Reaction

Rothschild & Co (ROTH)

The announcement, 24th of October, has not affected the stock price. Indeed, the acquisition being insignificant in terms of size, the markets did not react to it.



Livingstone Partners LLC

Livingstone is an unlisted M&A boutique, so it is very difficult to find financial information about it. Nevertheless, with a deal flow of 75 deals per year before the acquisition and with the resources and reputation of Rothschild & Co, the market value of Livingstone will increase. Patrick Groarke, Partner at Livingstone emphasizes, "Rothschild & Co's acquisition of Livingstone's UK business is a powerful validation of the quality of the team that we have built and the strength of our franchise in this vibrant market. We are looking forward to building upon this firm foundation together with our new colleagues."

Future Challenges

To some extent, USD 2.2 bn Rothschild is a victim of its own success. Its 7.60% of Europe's M&A fee pool was the highest last year, according to Refinitiv data, bolstered by dominant positions in the continent's deepest capital markets based in the UK and France. Ergo, there's not a lot of room to grow. The challenge of this acquisition will therefore be for Rothschild to create the necessary synergies to leverage Livingstone's real growth drivers on the mid-market.

Raphael Salimi
Investment Banking Division

What Happened To

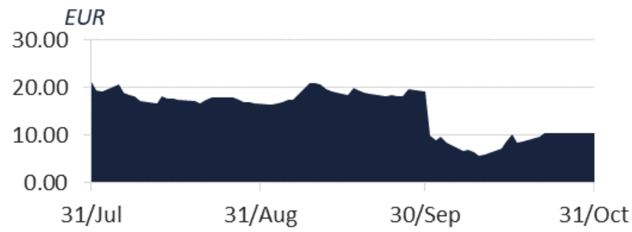
Bio On

Bio On is an Italian issuer of licences for the production of MINERV-PHA™, a biopolymer that in 10 days in an active environment turns into pure water. This polymer has several implementations: pharma, automotive, food packaging and cosmetics.
Based, in Bologna – Italy, the heart of the *Packaging Valley* – Bio On was one of the few Italian Unicorns.

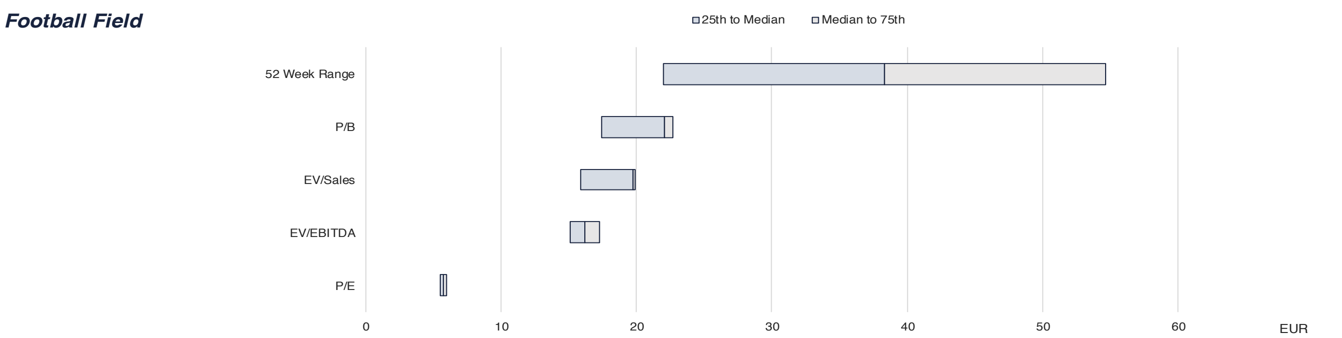
Corporate News

Bio On went public on 22nd of October 2014 with an offering price of EUR 5.0. The stock price has seen an incredible +1106.00% from the IPO day with a peak price of EUR 55.3. The market capitalization was 20 times bigger than its revenues (EUR 51.0 m – FY 2018), a value considerably abnormal even if compared with other tech Unicorns. The involvement of investors such as Blackrock (which increased its share in 2018, from 17k to 70k shares), boosted the hype around the company.
On 24th of July, Quintessential Capital, a US-based hedge fund, released an opinion note in which reported several doubts regarding the origin of revenues and the sustainability of the business model. Apparently, more than 75.00% of the revenues were coming from contracts with subsidiaries, controlled and financed by Bio On. That day the price dropped to EUR 15.0. Following the opinion note the Italian Finance Police started an investigation against the board.

Price (31 Oct 19, EUR)	**10.42**
Target Price (EUR)	-
3M Performance	-50.73%
Market Cap (EUR m)	196.16
Enterprise Value (EUR m)	236.44
**Target Price is for 12 months*	



Valuation Analysis



The investigation ended up in the detention of the CEO, Marco Astorri and the interruption of exchanges at EUR 10.4, on 26th of October.
If we analyze the chart above we can notice that the valuation is more concentrated on the lower values of the football field. For this reason we can assume that the present valuation of Bio On is more coherent with the market than the previous one.

The Peer Analysis shows that the present market capitalization of Bio On is similar to its peers. In this case, it was decided to use companies involved in the energy market even tough if Bio On is involved in the manufacturing of biopolymers.
Since now the market cap is aligned to the market standards the question is: is Bio On now undervalued or was it before overvalued?

Peers	**Currency**	**Market Cap** (Cur m)
Leclanche SA	CHF	213.04
7C Solarparken AG	EUR	204.98
Proton Power Systems PLC	GBp	155.51
Grenergy Renovables	EUR	281.95
Climeon AB	SEK	3,376.72

Michele Marcaccio
Investment Banking Division

NIC's View On

The 2019 IPO Slump – Causes for major IPO upsets of unicorn companies

Alexander Keil
Investment Banking Division

"You're seeing a lot of companies come out with valuations at USD 8.0 bn when they really should be USD 4.0 bn companies, and the public market is where a lot of the rationality around valuations happens, and it takes the air out of these really well-known unicorns."

– Jim Callinan, Portfolio Manager at Osterwies Emerging Opportunities Fund

Lyft, Uber, Smile, Peloton and WeWork
In 2019, several unicorns - startups valued at more than USD 1.0 bn - have seen their stocks falling significantly below IPO price after going public. Other unicorns such as WeWork or the talent agency Endeavor have even abandoned their highly anticipated public offerings in the light of previous disappointing IPOs and weakening investor demand.

The IPO of ride-hailing giant Lyft marks one of the first major upsets in a row of flopping IPOs in 2019. Lyft's shares were initially priced at USD 72.0 on IPO date which corresponds to a company valuation of around USD 22.4 bn. As of today, Lyft shares are only trading at USD 44.1 causing an IPO YTD performance of approximately -40%. Lyft is joined by a few popular unicorns who have seen their shares struggling to stay above their offer prices. The exercise equipment company Peloton saw its share price drop by roughly 11% on the opening day, today offering an IPO YTD performance of -21%. Uber, another ride-hailing giant, ended its first day of trading with a minus of roughly 7%. The company provides an IPO YTD performance of -27%. Moreover, the online dentistry company SmileDirectClub (Smile) shows an even worse performance of -53% since its IPO. However, 2019 has seen some extremely successful IPOs of unicorns like Cloudflare, Zoom Video Communications (Zoom) and Datadog.

In order to explain the reasons for the success of an IPO, a very interesting observation was made by the venture capitalist Fred Wilson who states that differences across unicorns' gross margins have a crucial impact on the success of IPOs. In fact, companies who have performed well are software companies with "software margins" such as Zoom with a gross profit margin of 81%, Cloudflare of 77% and Datadog of 75%. In contrast, unicorns whose IPOs did not meet the expectations are offering significantly lower gross profit margins as for example Lyft 39%, Uber 46%, Peloton 42% or WeWork 20%. "If the product is something else and cannot produce software gross margins then it needs to be valued like other similar businesses with similar margins", Wilson alludes to potentially overpriced IPOs of non-software unicorns. Furthermore, since some unicorns still need to prove their profitability, investors might be hesitant to invest in loss-making companies with profits still years down the road.

Beyond that, there seems to be a discrepancy between private market valuations and public valuations. While venture capitalist are focused on growth opportunities, fund managers and analysts are asking for sustainable profits and cashflows which results in divergent valuations. As the investor Paul Hudson states, "some companies became convinced that the public market would welcome them with high cash burn and long runways to profitability […]. The reality is the public market rewards profitable companies that generate cash flows in addition to growth." After all, with WeWork's IPO being canceled and Airbnb reportedly choosing a direct listing over a traditional IPO for its 2020 public market debut, it will be interesting to observe future IPO development.

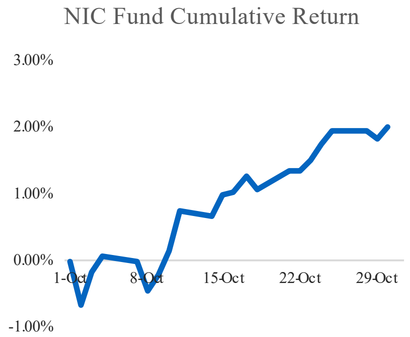
Date	Recent News
01 Oct 19	Airbnb leans toward Direct Listing over traditional IPO ***Source:*** *bloomberg.com*
30 Sep 19	WeWork's parent The We Company filed to withdraw its IPO ***Source:*** *reuters.com*
25 Sep 19	Peloton deepens IPO Slump with 11.00% tumble in trading debut ***Source:*** *bloomberg.com*

Alexander Keil
Investment Banking Division

NIC Fund

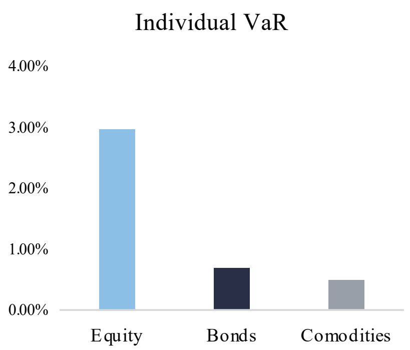
NIC Fund

Portfolio Overview



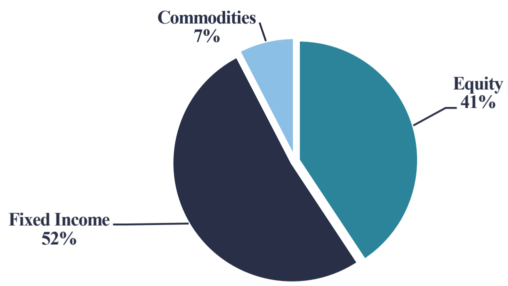
Portfolio Statistics	
Cumulative Return	2.00%
Annualized Return	21.36%
Daily St. Dev	0.30%
Period St. Dev	1.39%
Annualized St. Dev	4.82%
Info Sharpe	4.43
Skew (Daily)	-0.64
Kurtosis (Daily)	0.11

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



Portfolio Snapshot

During the month of October, the NIC Fund remained invested in Equities, Fixed Income and Commodities with very similar allocations to our benchmark fund. Overall, 40% of our fund remained devoted to Equities, 52% to Fixed Income and 8% Commodities. In terms of return, strong consumers, financials, and technology led the way, along with a strong performance of global equities in developed markets, where MSCI World contributed with a 0.60% upward move. On the fixed income side, the allocation remains close to the benchmark and played a smaller role on October's performance. Commodities also had a good month contributing to 0.20% of the portfolio's return.



Return Metrics

The overall performance of the portfolio was positive, with a cumulative return of 2.00%. The best performers were Equities and Commodities, contributing with a positive return of 1.04% and 0.20%, respectively. On the contrary, Fixed Income contributed negatively to the portfolio, with a loss of -0.18%. In terms of equities, besides being invested in the S&P 500, the portfolio was also invested in individual stocks within Communication Services (1.96%), Consumer Discretionary (5.54%), Energy (0.72%), Financials (5.42%), Information Technology (4.05%), and Materials (0.92%). The best performers were Consumer Discretionary and Financials with an upward move of 7.71% and 5.27% respectively, which translated in a contribution to the portfolio of 0.41% and 0.28%. Information Technology also had an important contribution of 0.23% for the period. On the other hand, the Energy sector had a negative performance in October, returning -2.33%. Finally, the S&P 500 yielded a return of 4.20%, boosting the Fund's returns by 0.11%.

Risk Metrics

In terms of risk, our portfolio registered a relatively high daily VaR of 2.61%, taking into consideration the benefits of diversification. On the other hand, also during the same period under analysis, the non-diversified VaR was at 4.14%, above the maximum established threshold of 2.50%.

Equities were the asset class with the highest individual VaR, which was around 2.96%. On the other hand, Bonds and Commodities displayed considerably lower VaRs of 0.69% and 0.49% respectively.

Henrique Oliveira
Financial Markets Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
US Equity	**SPY**	In the US, the market was already counting on a third Fed rate cut for end of October, so investors were more concerned with Jerome Powell's speech regarding future cuts. The Fed Chair suggested that he does not expect to change rates again unless economic conditions worsen unexpectedly. Despite of the positive earnings release from tech giants Apple and Facebook, the S&P 500 fell on the last trading day of the month as investors shifted their attention to ongoing US-China trade negotiations. iShares S&P 500 Value ETF had a 4.20% return for the month.
UK Equity	**FTSE**	Amid turbulent times in the UK, Prime Minister Boris Johnson was able to pass his Brexit bill through parliament, leading markets to react to it with an upwards move in the FTSE 100, but lawmakers rejected the timetable. It was good news for the pound, however, which had its best month since the financial crash. The FTSE 100 Index had a total return of 5.15% for the month of October.
US Equity	**BAC**	Bank of America's shares surged 11.20% during the month of October as the bank's earnings release beat analysts' expectations for the third-quarter. Three of the bank's four main divisions reported an increase in revenue, mainly driven by its global banking business.
EU Equity	**VOW3**	Volkswagen had a strong month as the shares rose by 15.65% in the period. In the first nine months of the current financial year, the company continued to perform well in a difficult market environment, increasing sales revenue by 6.90%. The German automaker is also considering a stock-market listing of its Lamborghini supercar division, a move that is similar to that of Italian competitors, Fiat, in an attempt to increase shareholder value.
US Equity	**NFLX**	On October 16th, Netflix shares surged as much as 11.00% after the company reported new international subscriber additions, beating analysts' forecasts. The company will have strong competition ins the upcoming months and later in 2020 as Apple TV+ and Disney+ prepare to launch in November of this year. Peacock, HBO Max, Discovery/BBC, and Quibi should be arriving at the market in the spring of 2020. Netflix shares were up by 8.11% for the month of October.
US Treasury Bonds	**SHY**	When the European Central Bank announced an interest rate cut to negative 0.50% in September, it was expected that investors would move into US treasury bonds, driving yields down. However, these expectations did not materialise, and yields were only lowered when the Fed announced its own cut later in the same month. Bonds are still likely to deliver on their crucial role as portfolio stabilizers when stocks fall, rather than return drivers. iShares 1-3 Year Treasury Bond ETF had a 0.02% return during October.
Commodities	**DBC**	A weak outlook for global growth and slowing demand for commodities presents a challenge for exporters, therefore, energy and metal commodity prices are expected to continue to fall in the upcoming months as well. Oil prices rose above USD 60.0 a barrel, up 4.40% for the month. Gold also had a contribution as prices hiked 2.30% to USD 1,512.46. Overall, our Invesco DB Commodity Index Tracking Fund had a relatively low performance for the period, with a 2.59% return.

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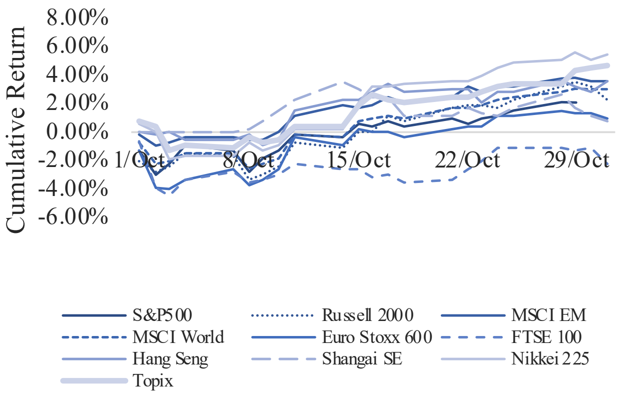
Equities

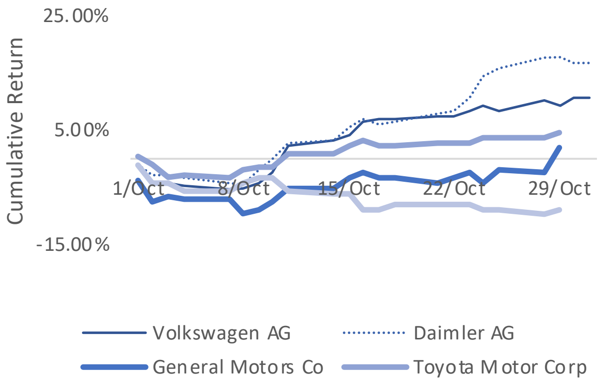
World Equities

Global equities continued to gain value in October, with a positive monthly return of 2.94% for MSCI World. Positive signals for the resolution of the trade war between the US-China fueled the S&P 500 (2.35%) as well as the Hang Seng (3.58%). President Trump announced that he would sign a partial agreement with China. Quarterly reports of US and Asian companies generally exceeded the expectations of analysts. Furthermore, the markets anticipated the decision of the Fed to lower the interest rate to a range between 1.50% and 1.75%. Another driving force for the markets was the publication of the US unemployment rate which remains close to its 50-year-low. Global equities could have started their year-end rally against the backdrop of solid results and an improving political environment.



In Depth: Comeback of German Car Manufacturers?

The share prices of the two largest German car manufacturers (by vehicles sold) Daimler and Volkswagen, increased 8.12% and 15.12% respectively in October. Although Volkswagen had to lower its sales target for 2019, they now expect to sell approximately 11 million cars, just as last year. Revenue is still expected to increase by five percent in 2019. Volkswagen expects a return on sales, Diesel Gate related expenses excluded, between 6.50% and 7.50%. The reason Volkswagen expects more revenue, despite not selling more cars, is, that it sells more SUVs. This type of car is very profitable for the company. Furthermore, Volkswagen fully commits to electric cars and announced that it will spend 30bn EUR on research and development until 2023 in order to electrify its vehicles. Daimler increased its EBIT by 8 percent in the third quarter of 2019 as compared to last year's third quarter. In the first 3 quarters of 2019, Daimler sold 1.72 m vehicles. This is an increase of 0.60% as compared to 2018. In summary, Volkswagen and Daimler managed to sell the same amount or even more vehicles as last year, although worldwide vehicle sales are expected to decline in 2019. Other news from the automotive industry: The French car manufacturer PSA and the US-Italian automotive company Fiat-Chrysler announced their intention to merged. The combined company would be the fourth largest automotive company in the world by vehicles sold.



Our Performance

Our portfolio achieved a monthly return of 2.00% in October and, therefore, outperformed our benchmark which increased by 1.32%. The positive return was majorly driven by the equities in our portfolio which increased by 4.50% in value. Especially our shares in "Financials" as well as in "Consumer Discretionary" performed well with a monthly return of 5.42% and 5.54% respectively. Our best performer in equities was NVIDIA with a monthly return of 15.48% which performed better than analysts expected in the third quarter. Despite the ongoing trade war, the revenue increased by 16.00% as compared to the first quarter of 2019. The chipmaker is highly negatively impacted by the tariffs which were set in place as a result of the trade war and would therefore benefit greatly from an agreement.

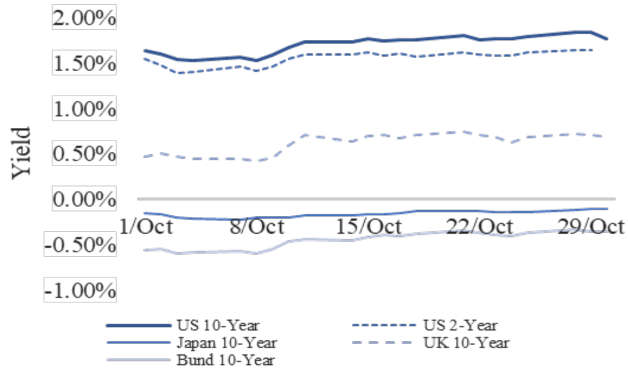
Oliver Schoch
Financial Markets Division

NIC Fund

Fixed Income

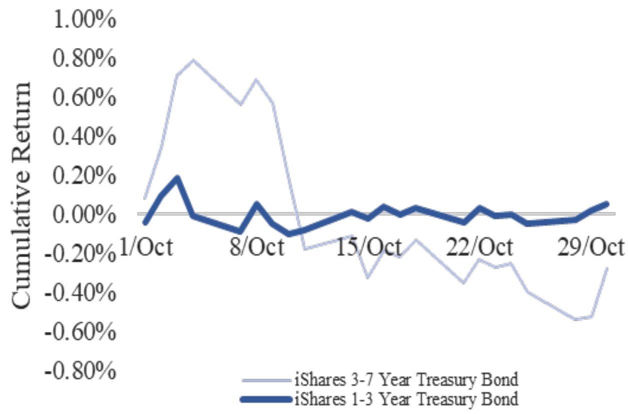
World Yields

Looking at the last few months we should expect monetary policy divergence to resume as the Federal Reserve expects to keep rates flat from now while the European Central Bank (ECB) and Bank of Japan (BoJ) keep policy accommodative in order to bring inflation up and support economic growth. Economic confidence in the euro area extended its slide this month, lending credence to warnings by the European Central Bank that the region might not have seen the worst of its downturn. However, France's economy grew more than expected in the third quarter, a sign it is avoiding some of the global manufacturing malaise that has probably pushed Germany into a recession. The yield on Germany's 10-year bond — which serves as a benchmark safe asset for the entire currency bloc — climbed since the beginning of October by almost 0.20 percentage points to minus 0.41%, reflecting a falling price. The German 30-year yield rose to 0.10%, the first time since mid-September that any German debt has offered a positive yield. China is poised to raise up to EUR 4.0 bn from the country's first euro-denominated sovereign bond issuance in 15 years, as Beijing seeks to take advantage of record-low interest rates to diversify away from dollar debt amid trade tensions with the US. "The Chinese government wants to encourage the global system to shift away from reliance on the dollar," said Julian Evans-Pritchard, senior China economist at Capital Economics.



In Depth: Treasury Yields

The Federal Reserve has cut interest rates for the third time this year, most recently last week, when officials cited "the implications of global developments for the economic outlook as well as muted inflation pressures" as the primary reason for the cut. Fixed income investors were all but certain that the Fed would cut its overnight lending rate at the conclusion of its two-day meeting in Washington as a combination of slowing economic data warrant insurance in the form of lower borrowing costs. Treasury bonds rallied slightly after the Fed news. The yield on the benchmark 10-year Treasury, which moves inversely to price, fell 3.0 bps to 1.70%, while the yield on the 30-year Treasury bond was also lower at around 2.30%. The more policy-sensitive two-year note hovered around 1.60%. Treasury Secretary Steven Mnuchin has repeatedly talked up the prospects of a 50-year bond, or even one that matures in 100 years, given the backdrop of cheaper borrowing costs. The decision to consider much longer-dated debt instruments came after a record-setting bond rally earlier in the year, which caused benchmark 10-year Treasury yields to plummet below 1.50%, the lowest level in three years.



Our Performance

Notice that the IEI ETF, tracking 3-7 year US Treasury Bonds, our benchmark fund for fixed income, did not perform well during October, with cumulative return of -0.28%, which contributed with a return of -0.09% in our portfolio.

Francisca Fernandes
Financial Markets Division

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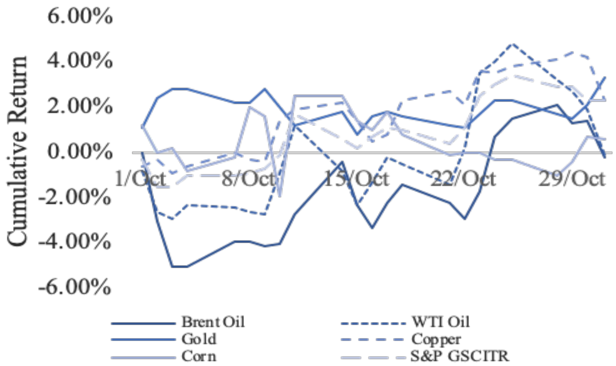
Commodities

October Round-Up

The beginning of the month was marked by two attacks on Saudi Arabian oil facilities, which resulted in the loss of circa 5% of the global oil supply. Nevertheless, the oil price has been falling throughout the month as the market faces no fear of shortage of oil despite the turbulent situation faced by Venezuela, reduced exports from Iran and Libya, and a production quota system constraining output from OPEC as well as other countries including Russia. Both Brent Oil and WTI Oil ended the month in the red, with cumulative returns of -0.90% and -0.15%, respectively. Gold showed a relatively bullish performance with a monthly cumulative return of 3.23%, as Central Banks across the world, notably the People's Bank of China, are trying to reduce their exposure to the USD. Moreover, the increasing uncertainty regarding global growth, Central Banks' monetary stance and US-China negotiations regarding a potential trade deal increased investors' appetite for the high value metal as their desire to take on risk fades further. Copper, a metal highly used in manufacturing, was up 2.23% at the end of the month, despite a fall towards the end of October following weaker than expected data regarding manufacturing in China, which represents roughly half of the global demand for the metal. China's PMI fell by 0.5 compared to September, to 49.3. Corn prices suffered a fall during mid-October due to the accelerated spread of African swine fever, which heavily affected the hog industry and consequently the crop, as its main usage is in hog feed. The crop recovered towards the end of the month, ending up at a 0.52% high following reports of the US corn harvest being 41% completed. Palladium became the most valuable precious metal, following the rise in demand as it is a key component of automotive devices that limit harmful emissions. Moreover, there has been a growing shortage of the metal since 2012. As a result, the price reached a high of USD 1808.00 an ounce. Overall, the S&P GSCI Total Return Index surged 2.29% during the month of October.



Outlook for November

Meat prices are expected to continue to increase as a consequence of the expansion of the African swine fever to Asia leading to a global shortage in supply. The price of pork has already surged 170% YoY, which specially impacted China's economy as the top producer and consumer of pork, contributing to a 6 year high inflation. This has added another concern to the country's administration which already struggles with falling exports, slower economic growth and accelerating tensions in Hong Kong.

Our Performance

In October, we maintained an allocation of 7.59% in the Invesco DB Commodities Benchmark ETF, which is 2.41% below our benchmark weight of 10.00%. The aforementioned Index gained 2.59% during the last month.

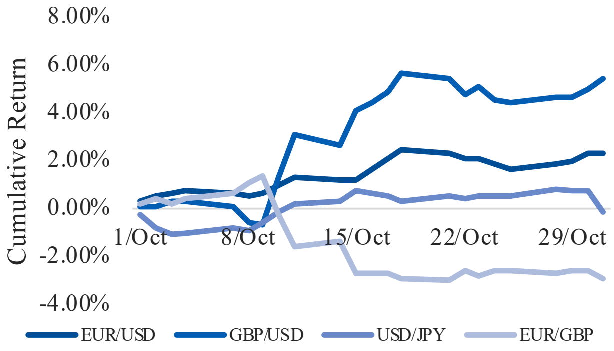
Corina Popa
Financial Markets Division

NIC Fund

Currencies

World Currencies

The GBP weakened against the EUR over the past month as Brexit uncertainty continues to haunt UK markets. Prime Minister Boris Johnson is now split between forcing through his UK-EU Brexit agreement or force through a general election, which could potentially jeopardise his premiership. The Pound strengthened a little bit on Monday, as the EU finally confirmed the length of the latest Brexit extension. The Brexit date will be pushed back to the 31st of January, but the date is flexible and Britain could leave the EU earlier than that if a deal is passed through UK Parliament. Still, the Pound has been able to sustain most of the strong gains it has seen over the past month, as for now the risk of an imminent no-deal Brexit has receded. Germany's October unemployment unexpectedly rose more than expected. The data only fuelled the belief that Germany's economy has fallen into recession. Additionally, corporate lending in the Eurozone has begun to slow after a period of resilience which yielded a flat Euro over the past month compared to the Pound. On Wednesday 30th of October, the FED, led by Chairman Jerome Powell, has cut interest rates the third time this year down to a range of 1.50% to 1.75%, which weakened the dollar exchange rate against other major currencies. After a short rally in the USD, the USD/JPY stayed sideways. On Thursday, the Bank of Japan (BOJ) monetary policy board concluded its 2-day July policy review meeting and decided to leave its monetary policy settings unadjusted, holding rates at -10bps while maintaining 10yr JGB yield target.



In Depth

The Euro is likely to strengthen against the Dollar, which is weak due to the Trade War and the rate cut. Moreover, banks seem not be able to pass liquidity induced by the ECB to clients, therefore there is little impact on the main markets liquidity, concluding the Euro will strengthen - although market outlooks and fundamentals probably suggest the opposite in the long-term. Getting Brexit over the line would have FX implications beyond GBP. Next to trade uncertainty and China's efforts to address internal financial imbalances, Brexit uncertainty has held back growth and investment in various ways. Brexit has contributed to the flattening of the Euro area yield curves and European capital exports towards the US. Now as EGB curves have started to steepen, USD should weaken across the board. The Euro Area's main investment destination has been the US. With less capital flowing to the US, the USD could depreciate. Future events one should focus on that could have a major impact on currencies could include the general election on December 12th to break Brexit deadlock as well as the US-China signing at APEC summit. The risk parity trade so far has been USD-supportive, but now we see rising EGB yields as a major risk.

Our Performance

Currently no currency related assets are hold in our portfolio.

Valentina Heimann
Financial Markets Division

Extras

Hot Topic

Reasons to Be Bullish on Tesla Despite the Bearish Consensus

Maxime Hoze
Financial Markets Division

"Given its lead in battery costs relative to any other electric car manufacturers, if they (competitors) want to keep up with Tesla, they will have to sell their electric vehicles at a loss."

– Kathie Wood, CEO of Ark Invest

In the wake of an unexpected profitable Q3 performance, Tesla's share price went up by a skyrocketing 20.00% on October 24th. The Californian electric car manufacturer outperformed analysts' estimates by reporting an adjusted USD 1.86 EPS when the industry forecasted on average a USD 0.44 loss. Unit sales grew 65.00% YoY and the firm generated positive free cash flows after significant Model 3 production cost reductions. Still, a quarter of the company's shares are on loan to be sold short. In fact, no other US listed company has a larger proportion of short positions on its stock than Tesla. Why do investors remain pessimistic on Elon Musk's electric vehicles company?

Sceptical investors use Tesla's historical failures to meet unit production targets, alongside their consistent record of reported losses, to justify the bearish position. Nevertheless, the main argument used against Tesla today is that "traditional" automakers such as Volkswagen or Porsche will end Tesla's leadership over the premium electric vehicles market.

This argument is not as relevant as the market wants you to think it is. First, Tesla is years ahead of competitors in terms of technology and experience in the market. Tesla's first mass production model, the Model S, was launched in 2012, thus it has 7 years of experience in a segment joined by German rivals only months ago. As a result, the Californian company has accumulated 10 to 12 bn miles of real-world driving data, more than all other constructors combined. Furthermore, it is the only manufacturer able to upgrade its cars using software. This enables Tesla to have the most advanced autonomous driving system.

Secondly, people sustaining that the recent launch of Porsche's first electric vehicle, the Taycan, will cannibalize Tesla's market share are ignoring the fact that Tesla targets dramatically different customers than Porsche. Tesla has a unique brand image spread by his emblematic CEO. It is considered the pioneer in electric vehicles and has an unmatched on-board technology. Whereas Porsche customers care about driving emotions and performance figures. Yet, for an equal level of speed performance the Taycan comes at a EUR 70.0 k premium and offers less autonomy than a Model S.

Lastly, "given its lead in battery costs relative to any other electric car manufacturers, if they (competitors) want to keep up with Tesla, they will have to sell their electric vehicles at a loss", according to Kathie Wood from Ark Invest.

Furthermore, Tesla is well-positioned to succeed in the forecasted 2 million electric vehicles by 2020 in the Chinese market. Tesla will overcome Chinese taxes on imported goods and transportation costs by producing domestically in its Shanghai factory from 2020. Unlike foreigners, Tesla was not required a joint-venture partner for its factory. Being "on its own" makes it eligible for tax credits. A critical advantage that will make Tesla Model 3 affordable and allow the firm to compete with Chinese brands such as BYD, the company backed by Warren Buffet, SAIC, the Chinese state-backed car maker or even NIO which recently launched a premium SUV for half the current price of Model X.

Yet the biggest challenge for Tesla will be to match its output level estimations and to stay profitable if state tax credits were to disappear in the future. Otherwise, bearing in mind its current unique battery cost and technological leadership, combined to future revenues in China, Tesla is well positioned to sustainably generate profitable quarters.

Maxime Hoze
Financial Markets Division

Extras

Hot Topic

Brexit: Implications for Distressed M&A Activity in the UK

Marvin Breuer
Investment Banking Division

"Domestic [M&A] markets remain strong but the political uncertainty created by Brexit and US trade policy is impacting investor confidence materially. Post-Brexit, however, expect an uptick in EU bound deals as businesses scramble to secure single market access. "

– John Hammond, Partner, CMS Germany

Where do we stand? With EU approval of the UK's extension agreement, the Brexit date is likely to be postponed to 31st of January 2020. Whereas Prime Minister Boris Johnson had previously stressed that the UK would leave the EU on 31st of October 2019, with or without a deal, the UK has now come to an agreement with the EU. However, the bill for implementation still has to be brought through Parliament. If the MPs agree, the UK will leave the EU by 31st of January 2020. But a No-Deal is not off the table yet and thus uncertainty about the economic consequences of a Brexit still exists. Without an agreement the United Kingdom would leave the Customs Union and the Single Market immediately - arrangements to facilitate trade would vanish from one moment to the next. Either way, uncertainty remains and makes companies less likely to make deals until more clarity is achieved

The situation is multi-layered as it has to be divided into the pre- and post-phase of a final withdrawal from the EU and the type of M&A, traditional and distressed. As mentioned above, the continuing uncertainty does not leave the M&A market unscathed; in particular, cross-border M&A flows in the United Kingdom are heavily burdened in 2019: UK M&A activity dropped by -43.80% (from USD 203.8bn to USD 114.5bn) compared to the equivalent last year's period according to Mergermarket.

Although uncertainty about the Brexit and the continued low sterling exchange rate against the major currencies are turning British companies into cheaper acquisition targets, British companies appear to be losing their appeal as M&A targets. According to a study by Refinitiv, 63.00% of respondents agreed that the attractiveness of British M&A targets is diminishing due to the uncertainty associated with Brexit.

But the latest developments also offer opportunities for the post-Brexit phase. While the prospects for M&A in the UK are generally negative, according to a study by London-based law firm CMS an increase in distressed M&A and restructuring is expected for the coming year due to deteriorating economic conditions. 95.00% of the respondents stated that they expect an increase in distressed M&A. In fact, 64.00% of them expect a significant increase. The consumer market has already seen an increase in distressed deal flows, which could spread to other sectors if growth continues to stagnate, no Brexit deal is reached and trade wars continue to escalate.

Companies (or parts of companies) that are underperforming or already in distress can currently be acquired at relatively favourable conditions. Some assets are simply undervalued and despite Brexit, an increased investment risk may not be assumed in comparison to other distressed M&A transactions, as international restructurings continue to be carried out with the British schemes of arrangement even post-Brexit. Nonetheless, there is a risk that in the future there will be an increase in corporate crises following the implementation of Brexit. Not every company will be able to adapt efficiently to the new framework conditions. Consequently, very good basic conditions for distressed M&A in the UK can be assumed, especially in the initial post-Brexit period.

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Investment Banking Division

Thank you!

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

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