NIC

— Nova Investment Club —

Newsletter

May 2020

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, Michele Marcaccio, our Vice-President, elaborates on why the VC market is now so reluctant to provide funding to Startups. Moreover, in our Regional View, Henrique Oliveira examines the way Brazil's President, Jair Bolsonaro, is dealing with the impact of Covid-19 in the country and how Brazil is going through a huge political chaos.

Our Investment Banking Division will guide you through April's M&A overall activity. Read about NVIDIA to acquire Mellanox, Morningstar Inc. to acquire Sustainalytics, Moody's Corporation to acquire Regulatory DataCorp. Additionally, get a detailed overview on what happened to Shopify, as well as consider our opinion on the rescue of company Laura Ashley.

Due to the current situation, Nova SBE activated its Contingency Plan for Covid-19 closing the facilities of the entire campus. As a result, our Financial Markets Division will not be able to present the monthly results of the NIC Fund due to the limited access to the Bloomberg Terminal. The analysts will still provide commentary on each of the four major asset classes through analysis of the past month's major market moves.

On the Hot Topic of this month, Patricio Drexhagen, our Head of Corporate Relations, elaborates on the impact of Coronavirus on the airline industry and, Federico Farina examines M&A ban proposal during crisis by Elizabeth Warren and Ocasio-Cortez. Lastly, on our ESG review, Benedetta Laruccia writes about the new chapter called "Stakeholders' Golden Age" on the History of Capitalism.

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Macro Overview

Monthly

May 4th, 2020

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Market Moves

% change

	Last Close	-1W	-1M	YTD
S&P 500	2,912	4.04%	12.68%	-9.85%
DJIA	24,346	3.71%	11.08%	-14.69%
Nasdaq	8,890	2.60%	13.77%	1.79%
MSCI World	2,053	4.30%	10.80%	-12.96%
MSCI EM	925	4.09%	9.00%	-17.02%
Russell 2000	1,311	9.08%	13.66%	-21.45%
Euro Stoxx 50	2,928	3.28%	5.06%	-21.82%
FTSE 100	5,901	2.26%	4.04%	-21.76%
Nikkei 225	20,194	5.52%	6.75%	-14.64%
Hang Seng	24,644	3.14%	4.41%	-12.58%
Dollar Index	99.02	-1.37%	-0.03%	2.73%
EUR/USD	1.087	0.44%	-1.61%	-2.91%
GBP/EUR	1.147%	1.33%	2.07%	-2.08%
GBP/USD	1.247%	1.41%	0.44%	-4.95%
USD/JPY	107.170	-0.58%	-0.54%	-1.56%
USD/CHF	0.97	-0.63%	0.46%	-0.27%
Brent Crude	25.270	24.05%	11.13%	-61.71%
Gold	1,680.1	-1.95%	6.94%	10.75%

Generic Bond Yields

change in bps

	Last Close	-1W	-1M	YTD
US 10Y Yield	0.623%	0.4	-7.6	-128.7
GER 10Y Yield	-0.586%	-16.7	-12.9	-39.9
JPY 10Y Yield	-0.038%	-3.5	-5.5	-1.6
UK 10Y Yield	0.231%	-9.6	-12.4	-59.4
PT 10Y Yield	0.826%	-46.4	-0.9	37.9

**Source: Reuters Eikon, as of 2020-04-30*

In Focus

April

ECB remains restrained. At its monetary policy meeting held on April 30th, the Governing Council of the European Central Bank (ECB) decided to leave the interest rates on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged at 0%, 0.25% and -0.50%, respectively, as expected. Investors had hopes for an increase in the QE program by EUR 250 bn, yet the ECB only emphasized its eagerness to do so if necessary. As extensive as the ECB's economic stimulus package is, it is seeking to be the last line of defence, not the first.

US hit 30 million jobless claims. The US job market posted another 2.8 million initial jobless claims. This lifts the number of jobless Americans to around 30 million. Despite this unprecedented situation, US stocks had the best month since January 1987.

Oil markets recover from negative May future prices. In the crude oil market, the surprising decline in US gasoline inventories raised hopes that demand would pick up again. This helped the US grade WTI to increase in price to USD 16.76 per barrel. However, this rally might only be a flash in the pan. The almost exhausted storage capacities continued to fill up in the end, but at a slower pace. To ease the situation, the US government wants to make tanks of its strategic oil available to private providers. The tanks of the strategic US oil reserves are already 90% full and the remaining capacity is less than 100 m barrels.

Fed extends municipal lending to smaller US cities and counties. The Federal Reserve has expanded the eligibility criteria for a USD 500 bn lending facility set up to backstop municipal bond markets, in a move that will allow smaller US cities and counties to access liquidity from the central bank.

Bank of Japan to tighten grip on corporate bond market. Under the BoJ's plans, announced on Monday 27th, the central bank will increase its existing holdings of commercial paper and corporate bonds from around JPY 5 tn (USD 46 bn) to some JPY 20 tn. This could soon leave it owning almost half the country's outstanding commercial paper and about one-sixth of its corporate bonds.

European business and consumer confidence collapses. European businesses and consumer confidence plummeted at a record rate in April. The European Commission said its overall economic sentiment indicator fell by 28.8 points to 65.8 across the EU in April.

Germany expects worst recession since WWII. German government announced that expects its economy to shrink by 6.3% this year, although it forecasts a 5.2% rebound next year. Private household consumption will fall by 7.4% this year while exports will drop 11.6%. It is forecasted that the number of people employed will fall to 44.9m, from 45.3m in 2019, while the number of unemployed people is expecting an increase to 2.62m this year, up from 2.27m in 2019.

Forward P/Es on high levels. The S&P 500's Forward P/E is around 20. This is the highest in over 15 years. Parallel, analysts expect earnings for S&P 500 companies to drop 17.9% in 2020 from the previous year and Q2 forecasted to fall by 33.3%. Nonetheless, the S&P 500 had a 12.7% gain in April, its best month since 1987.

Eurozone Manufacturing PMI indicates a downturn. Eurozone Manufacturing PMI fell to 33.6 in April (vs. 44.5 in March) and represents the highest drop in factory activity since February 2009, with expectations at 39.2. Flash services PMI fell to record low in April.

Philipp Gall
Financial Markets Division

Deeper Dive

Venture Capital in the Era of Covid-19: How Bad is the Situation?

Michele Marcaccio
Investment Banking Division

"At least for the short term, gone are the days where it is a founder's world"

– Rachel Proffitt, Partner at Cooley, Silicon Valley-based law firm

As predictable as it was, the pandemic caused by Covid-19, lowered Startups' valuations. The VC market saw a gigantic increase in size and funding in the last 10 years. According to data provided by Pitchbook, valuations during seed and series A have seen a record all-time high in 2018, with a slightly decrease in 2019. The sentiment in the industry was that every company could become the next Uber or Spotify. Technology has been seen as the fundamental engine of a healthy economy and the winners of the market were those who were bold enough to finance that innovation which was going to shape the new world.

In 2019, the finance industry started realizing that valuations and trading multiples of stock were far from reality, and the premiums, which many funds were paying for controlling-stakes, were not justified by any of the companies' financials. The pandemic has then arrived and it is now easy to understand why the VC market is so reluctant to provide funding to Startups. Venture Capitals are sitting on USD 120.4 bn of unspent cash – Pitchbook says, but uncertainty and a lack of comparable and reliable financials projections, make the VC funds prefer to be cautious about their moves.

Hans Swildens, chief executive of Industry Ventures affirms that 80% of funds will not invest if the valuation of the company's raises from the previous round. It appears that "flat" or "down" prices will be the norm for the next 2 to 12 months. A question now arises: is it still time to raise funds? Can the founders still get fair and convenient valuations for their companies? Is the environment still "founders friendly"? In this case, different situations require different answers. Timing for fundraising is not optimal, this is true, but not for all the industries. Medicare, food and remote working platforms are seeing a huge increase in valuation, even to a bigger value then the what the market will value in the next future. For other sectors, such as the travel industry, urban mobility or fashion apparel, this is not the best moment to tap investors for more money.

The question that the founders should ask themselves is: can my company survive to the recession? If the company is not going to run out of cash in the next 12 months, maybe it is advisable to wait for new funds, given the fact that, if these funds are going to be raised, it will be done at a lower valuation then the previous ones. Vice versa, the VC funds should understand that the current pandemic, as every crisis, is for sure a challenge but also an opportunity. Investors will demand a fair return on the funds raised by partners and being too prudent may not be the best decision.

After 10 crazy years of cash-burning companies, 20x or higher multiples, now the funding environment is finally able to invest in Startups with the attitude of someone who is giving opportunity and not the other way around. Giving the possibility to company severely affected by the virus to survive to the pandemic will not generate short term results, undoubtedly, but it will allow the VCs involved to be better positioned when the world will come to the normal life.

In conclusion, the Startup ecosystem is in danger; apart from some specific sectors benefited by the pandemic, most of the Startups do not have the financial means to go throughout the crisis without closing their operations. VCs have a fundamental role, they can arrive where banks and governments are not able to, financing the most promising companies to survive. This will not be a donation, but a real investment in their and our future.

Michele Marcaccio
Investment Banking Division

Regional View

Bolsonaro's Neglect of Covid-19 Raises Concern Worldwide

Henrique Oliveira
Financial Markets Division

"So what? I am sorry. What do you want me to do? My name's Messiah, but I can't work miracles."

– Jair Bolsonaro, Brazil's President

As expected, the worldwide lockdowns have disrupted supply chains and hit the economy with a shock in both supply and demand simultaneously. US GDP fell as much as 4.8% in the first quarter of 2020, its worst economic decline since the 2008 financial crisis. However, developed countries rely on strong currencies and central banks, namely the Fed and ECB, to take necessary actions such as pouring billions into the economy in order to keep it afloat.

On the other hand, emerging markets do not have the same "whatever-it-takes" recovery power. When a relatively weak currency is printed excessively, its value plummets severely and risks of hyperinflation may arise. In other words, the coronavirus may have much longer lasting effects in emerging markets as opposed to developed countries. Since the turmoil started, in mid-April, the Brazilian Real depreciated 5.4% against the Euro. On top of the health and economic downturn, Brazil is going through a huge political chaos.

On April 16th, Jair Bolsonaro fired the popular health minister Luiz Henrique Mandetta for confronting the president's effort to minimise the risks of Covid-19. Ten days later, the minister of justice, Sergio Moro, resigned from his post and claimed political interference in federal police investigations from Bolsonaro. The recent confrontation of Bolsonaro with his ministers rose fears that Paulo Guedes, minister of the economy, was also on his way out of Brasilia. Paulo Guedes is highly regarded by the Brazilian elite and market participants, as the Chicago alumnus was the main actor behind the approval of Brazil pension reform in late 2019. The Brazilian index, Ibovespa, fell by as much as 9.5% after the news of Sergio Moro's resignation came to light.

Bolsonaro wanted to sack the federal police director, Mauricio Valeixo, and replace him with someone he knew "on a personal level". The federal police have been investigating his sons' involvement in illegal campaign financing. The allegations by Sergio Moro are enough for an impeachment trial, according to specialists, and Brazil's attorney general has opened investigations into the former minister's accusations.

Since the whole plot started, the Brazilian currency depreciated over 5% against the US dollar, which lead the national debt to rise to almost 79% of the country's GDP. These set of events helped the Brazilian 10-year yield curve to swing strongly in the two-week period, from 7.28% on the day Mandetta was fired, hitting as low as 6.84% a week later and moving back up to as much as 8.51% the day after Moro's resignation.

As described earlier, the pandemic has significant economic and health effects in any given country, but the political turmoil and potential impeachment trial puts coronavirus in second plan. For the next 60 days, Brazil's federal police can investigate the case and decide whether the allegations are founded enough to press impeachment charges. On the 28th of April, Bolsonaro appointed a new minister of justice, and a new director for the federal police, the move was heavily criticised due to the new appointee's close ties to former Captain's family.

When Brazil's death toll due to coronavirus surpassed 5,000, reporters questioned the president about such an expressive figure, Bolsonaro responded with a cold: "So what? I am sorry. What do you want me to do? My name's Messiah," referring to his middle name, Messias, "but I can't work miracles."

The president is a great advocate of reopening the economy and has been mixing with crowds and supporters to push for a faster reopening. With so many potential problems for Latin America's largest democracy, a question to be asked is: did the political turmoil come at a bad time amidst the pandemic or is the coronavirus that surged amidst Brazil's usual pollical theatre?

Henrique Oliveira
Financial Markets Division

Macro Overview

Economic Calendar

Economic and Political Events

Covid-19 Announcements

In several cities across Europe, the first reopening phase will start on the **4th** of May. However, President Emmanuel Macron extended France's lockdown for another until the **11th** of May, as he said current restrictions had slowed the virus but not beaten it yet.

Manufacturing PMI

Eurozone Manufacturing Purchasing Managers Index (PMI), which measures the activity level of purchasing managers in the manufacturing sector, will be released on May **4th** . The latest figures show a shrink in manufacturing activity and it is expected to contract further due to the coronavirus outbreak.

Eurozone's GDP

According to the IMF, the eurozone's Gross Domestic Product is expected to shrink by 7.5% this year; Germany's GDP is forecasted to fall 7%, and Italy's by 9.1%. Whole Eurozone GDP for Q1 2020 will be released on May **15th** and the forecast is currently -3.8%.

Central Bank Decisions

Brazil Interest Rate Decision

On the **6th** of May, the Brazil's Central Bank Monetary Policy Committee will vote on where to set the overnight interest rate. It is forecasted that the BCB will cut the rates by 50 bps to a record-low of 3.25%. Its next steps will depend on economic activity and inflation risks, particularly the outlook for 2021.

BoE Interest Rate Meeting

The Bank of England will meet on the **7th** of May. The market does not expect any further rates cut for now, remaining at 0.1% with a 1.5% inflation rate (with a 2% target). Despite the upbeat comments on the virus situation in Britain, the pound remains under pressure, as the easing of the lockdown measures is unlikely to happen soon.

EU Finance Ministers Meeting

The Eurogroup, which brings together the finance ministers of the 19 member states sharing the single currency, reached a deal last month in a response plan worth more than EUR 500 bn. The next meeting will take place on May **19th** to further discuss the plan to limit the impact of the coronavirus pandemic on the European economy.

Inflation and Deflation

US Consumer Price Index

The US Consumer Price Index for April will next be released on May **12th**, after a previous decline of 50 bps to -0.4%. YoY figures on CPI in the US will also be published on the same day, expected to fall further, approaching 0.8%.

Germany Producer Price Index

The German Producer Price Index (PPI) related to April will be released on May **20th**. The forecast is currently -0.7%, 10 bps higher than the previous month. German April headline inflation decelerated marginally from month ago levels mainly due to low energy prices.

Canada Consumer Price Index

The Consumer Price Index for April will be published on May **20th**. After dropping 20 bps last month to -0,6%. CPI fell sharply in March, the YoY figure dropped from 2.2% to 0.9%. This month, the Canadian CPI YoY is forecasted to be 1.2%, 30 bps higher than the previous month.

Labour Market

US Unemployment Rate

The next release for the US unemployment rate will be on the **8th** of May. The latest figures show a rate of 4.4%, 60 bps higher than previously expected. In an attempt to limit the impact of Covid-19, the Congress passed a USD 484 bn economic relief package for small businesses and hospitals.

France Labour Market

France Q1 unemployment rate will be released on May **14th** with a current forecast of 8.5%, 40 bps higher than the last quarter of 2019. To mitigate the issues, the European Union has put in place a EUR 100 bn scheme called SURE (Support to mitigate Unemployment Risks in an Emergency).

Germany Unemployment Rate

On the **28th** of May, Germany will announce its unemployment rate. Germany's unemployment seasonally adjusted harmonised rate edged up to 3.5% in March 2020 from an upwardly revised 3.4% the previous month, the highest jobless rate since March 2018.

Francisca Fernandes
Financial Markets Division

Investment Banking

M&A

Overall Activity

Global

Global M&A came to a screeching halt amidst the coronavirus pandemic. For the first time since September 2004, no merger and acquisition deal worth more than USD 1 bn was announced worldwide in the third week of the month. Globally, M&A activity is down 33% year on year, and tallying a mere USD 762.6 bn, the lowest since 2013. Furthermore, politicians including Elizabeth Warren in the United States are calling for M&A activity to be halted entirely during the pandemic. Despite, these negative sings for the industry and global deal making, many see activity picking up in H2. The Oil & Gas sector currently in deep crisis is likely to see strong industry consolidation as a multitude of firms are faced with dwindling sales and are therefore trading at a steep discount. Perhaps leading to a new wave of supermajor consolidation as previously seen from 1998-2002. Additionally, Private Equity firms have been raising distressed funds in every corner of the globe, sitting armed with ample cash to execute acquisitions at strong discounts.

Selected Regions

North America

The Covid-19 crisis is having and will continue to have a material global impact on M&A activity. Deals involving a US target totaled USD 12.6 bn during April 2020, down 79% from March 2020 and the lowest monthly total since February 2009. US deals accounted for 18% of total global activity during April 2020, the lowest monthly share in over a decade. Year to date activity in the US is at the lowest level in eight years.

EMEA

M&As in Europe were the hardest hit, with M&As involving a European target totaling USD 6.1 bn in April, dropping 91% from March to the lowest monthly total since August 1992. However, despite the monthly decline, M&A activity in Europe is up 28% from this time last year. Propped up by a number of high value deals (e.g. Sberbank, AON-Willis) earlier in the year, European M&A reached USD 238.3 bn during the first four months of 2020.

Asia

Deals with a combined value of USD 43.8 bn involved targets in the Asia-Pacific region during April 2020, down 35% from last month and a three months low. China target M&A totalled USD 28.5 bn and accounted for 41% of global activity during April 2020, a higher share than the US for the first time since records began in 1970. In total, USD 211.9 bn worth of deals were announced in Asia-Pacific during the first four month of 2020, down 10% compared to last year.

M&A

Deals of the Month

Announnced Date	Target	Buyer	Target Region	Target Business	Value (USD m)	Premium (%)
02 April 20	58.Com Inc	Ocean Link Partners Ltd	CH	IT Consulting	6,268.00	-
03 April 20	Bank of Jinzhou	Being Chenfang	CH	Diversified Financials	6,354.00	-
05 April 20	VCREDIT Holdings	Allied Concept Capital	HK	Asset Management	1,632.00	-
06 April 20	Mankato Energy Center	Southwest Generation	US	Industrials	680.00	-
06 April 20	Wayfair Inc	Investor Group	US	Technology	535.00	-
08 April 20	Big Lots Inc	Oak Street Real Estate Capital	US	Real Estate	725.00	-
10 April 20	Prudential Life Insurance	KB Financial Group	SK	Insurance	1,871.00	-
21 April 20	Jio Platforms Ltd	Facebook Inc	IN	Telecommunications	5,691.00	-
24 April 20	Lemon Billions Group	Investor Group	CH	Metals and Mining	621.00	-
29 April 20	Vivid Synergy Ltd	Fuyue Investment Management	HK	Real Estate	1,121.00	-

Alexander Keil & Tobias Berberich
Investment Banking Division

M&A: Top Deals

NVIDIA to Acquire Mellanox for USD 6.9 bn

On the 27th of April, NVIDIA announced the completion of its acquisition, initially announced on 11th of March 2019, of Mellanox Technologies Ltd. for a transaction value of USD 6.9 bn.

Buyer vs Seller

NVIDIA Corporation is a Santa Clara (US) born company that designs, develops, and markets three-dimensional (3D) graphics processors and related software and has generated a revenue of USD 10.9 bn in 2019. Mellanox Technologies Ltd. designs and develops semiconductor-based, high-performance interconnect products. The Company's products facilitate data transmission between servers and storage systems through communications infrastructure equipment and has generated a revenue of USD 1.3 bn in 2019.

Industry Overview

According to the data compiled by Allied Market research, The Graphic Processing Unit (GPU) market size is expected to reach USD 157.1 bn by 2022, growing at a CAGR of 35.60% during the period, 2016-2022. The main demand driver stands in the request of visual effects for various applications. In addition, the next-generation data storage market is estimated to grow from USD 56.8 bn in 2019 to USD 102.2 bn by 2024 at a CAGR of 12.48%

Peers	Currency	Market Cap (CUR m)
Intel Corp	USD	245,318.00
Advanced Micro Devices Inc	USD	58,671.00
Texas Instruments Inc	USD	101,157.00
Broadcom Inc	USD	104,118.00
Xilinx Inc	USD	20,680.00

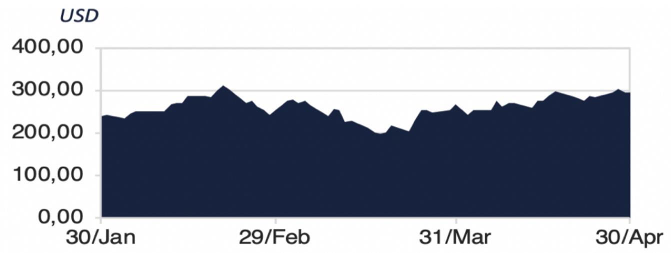
Deal Rationale

The acquisition will unite two of the world’s leading companies in high performance computing (HPC). Together, NVIDIA’s computing platform and Mellanox’s interconnects, power over 250 of the world’s TOP500 supercomputers and have as customers every major cloud service provider and computer maker. With Mellanox, NVIDIA will optimize datacentre-scale workloads across the entire computing, networking and storage stack to achieve higher performance, greater utilization and lower operating cost for customers. “We share the same vision for accelerated computing as NVIDIA,” said Eyal Waldman, founder and CEO of Mellanox.

Market reaction

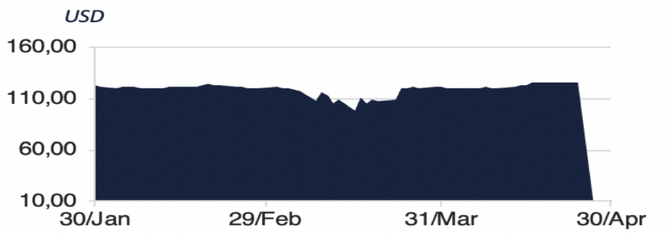
NVIDIA Corp.

The market greeted the deal with a bit of hindsight, due to the huge amount of money Nvidia put at stake. The firm was only rewarded with a 2% market share increase.



Mellanox Technologies Ltd

On the day of deal announcement, the Mellanox shares opened with a 9% increase. Since the 24th of April 2020 deal closing, the stock has been delisted.



Future Challenges

As Jensen Huang, founder and CEO of NVIDIA, explained the emergence of AI and data science, as well as billions of simultaneous computer users, is skyrocketing demand on the world’s datacenters. This acquisition challenges will be to make obvious synergies an operational achievement. The acquisition is expected to be immediately accretive to NVIDIA’s non-GAAP gross margin, non-GAAP EPS and free cash flow.

Raphael Salimi
Investment Banking Division

M&A: Top Deals

Morningstar Inc. to Acquire Sustainalytics

The US American financial services firm, Morningstar Inc., is to acquire the Dutch company Sustainalytics which provides ESG ratings. Morningstar already owns 40% of Sustainalytics since 2017 but will purchase the remaining 60% stake now.

Buyer vs Seller

The enterprise value of Sustainalytics is estimated at EUR 170 m. The transaction will be executed with a cash payment at closing of approximately EUR 55 m (which is assumed to be subject to certain potential adjustments) and two further additional cash payments in 2021 and 2022, that will be based on a multiple of the revenues of Sustainalytics' in fiscal year 2020 and 2021.

Industry Overview

Morningstar stated that they are planning to continue investing in Sustainalytics business and to integrate ESG data across their existing research. ESG investing became more and more important in the past. The term ESG was first coined in 2005 but nowadays, it is estimated that there are USD 20 tn assets under management invested in ESG. Therefore, it can be seen as crucial for Morningstar to invest in this growing business.

Peers	Currency	Market Cap (CUR m)
Morningstar Inc	USD	6,505.30
Envestnet Inc	USD	3,260.90
Factset Research Systems Inc	USD	10,203.78
SEI Investments Co	USD	7,364.05
AssetMark Financial Holdings Inc	USD	1,751.84

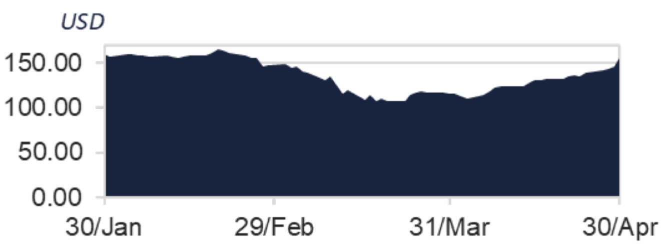
Deal Rationale

The Morningstar CEO, Kunal Kapoor, stated that "Modern investors in public and private markets are demanding ESG data, research, ratings, and solutions in order to make informed, meaningful investment decisions. From climate change to supply-chain practices, the nature of the investment process is evolving and shining a spotlight on demand for stakeholder capitalism. Whether assessing the durability of a company's economic moat or the stability of its credit rating, this is the future of long-term investing." With this transaction, Kapoor hopes to be able to provide independent ESG investing analytics at every level.

Market Reaction

Morningstar Inc.

Since the announcement, 21st of April, the stock price had an increase of 15.63% (01/05/20 USD 155.96). However, the price is still 5.89% lower than before the recession.



Sustainalytics

Sustainalytics is a private company from the Netherlands. The company has been founded in 1992 and has been since then a pioneer in the field of providing ESG solutions to investors. Because of its first mover advantage and other reasons, Sustainalytics is one of the leading independent ESG and corporate governance research, ratings and analytics firms that supports investors around the world with the development and implementation of responsible investment strategies. The company has been growing in the past years massively and offers data on 40 k companies worldwide and ratings on 20 k companies from 172 countries.

Future Challenges

Kunal Kapoor realized that "ESG data will become more and more relevant, particularly in areas like supply chain management and the environment", therefore, Morningstar needed to take this step to keep its position in the rating business in the future. Moreover, the pressure was increasing as other competitors such as Moody's were also buying stakes in ESG focused firms as for example the climate risk analytics firm "Four Twenty Seven" or the ESG research company "Vigeo Eiris".

Paulina Michel
Investment Banking Division

M&A: Top Deals

Moody's Corporation to Acquire Regulatory DataCorp

The leader in anti-money laundering services was targeted by Moody's in a USD 700 m offer. The transaction occurred in the first quarter of the year by the combination of debt financing, cash on hand and commercial paper.

Buyer vs Seller

Moody's is a major player of the global capital markets that provides deep research, credit ratings and integrated financial advisory services with a special focus on covering debt instruments, securities and financial risk management. On the other hand, Regulatory DataCorp, which is currently held by Vista Equity Partners, has an industry leading artificial intelligence platform that identifies sources of counterparty risk and avoids criminal infiltration on a company's financial services.

Industry Overview

As known, the financial services' provider sector is characterized by its intense competition over the last decade, with major players as S&P Global Inc and Verisk Analytics. Considering Moody's performance, the company had a significant increase in the fourth quarter of 2019 by, approximately, 16.29% year on year. In fact their sales growth was above the competitors average revenue growth of 9.4% over the same period of analysis.

Peers	Currency	Market Cap (USD m)
S&P Global Inc	USD	68 911,85
Factset	USD	10 203,78
Verisk Analytics	USD	24 928,23
SAS AB	USD	353,15
Wolters Kluwer NV	USD	19 924,59

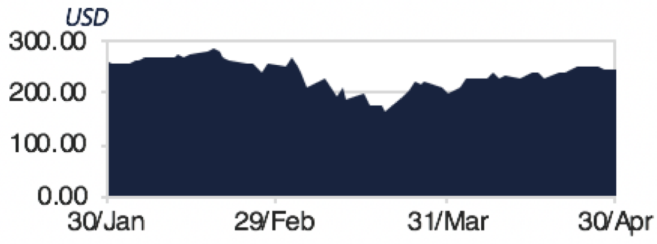
Deal Rationale

The deal is meant to complement the former acquisition of the data provider, Bureau van Dijk (BvD), creating a global premier position in compliance solutions. Indeed, Regulatory's cutting-edge technology and its risk-relevant data set is intended to complement the vast information's portfolio and analytical capacity of BvD, as an attempt to further optimize the quality and accuracy of data within Moody's financial services. This will culminate in an advantageous and highlighted position of the company in the capital markets sector.

Market Reaction

Moody's Corporation

The acquisition is expected to generate approximately USD 55 m of annualized revenue in 2020 and a share repurchase is anticipated to a total amount of USD 1.3 bn.



Regulatory DataCorp

With this ultimate acquisition, the company is expected to gain visibility within the market, followed by a subsequent increase on customer engagement, with a positive impact on the overall revenue's share of DataCorp. Due to the recent pandemic situation, there has been a major expansion on online solutions and a fast attempt for companies to optimize their technological platforms. Attached to this, relies the crucial concern regarding safety and viable data storage which may lead to an important step for DataCorp to extend their market position.

Future Challenges

As a consequence of the great impact in amortization expense due to acquiring intangible assets within the deal, the earnings per share of Moody's are only expected to have a significant incremental growth on an annual basis by 2024. Moreover, one crucial aspect of the deal relies on inserting the Regulatory DataCorp's platform on major financial institutions, corporations and even government agencies that are supported by Moody's Analytics, which may take a certain amount of time in adapting the features.

Mariana Nóbrega
Investment Banking Division

What Happened To

Shopify

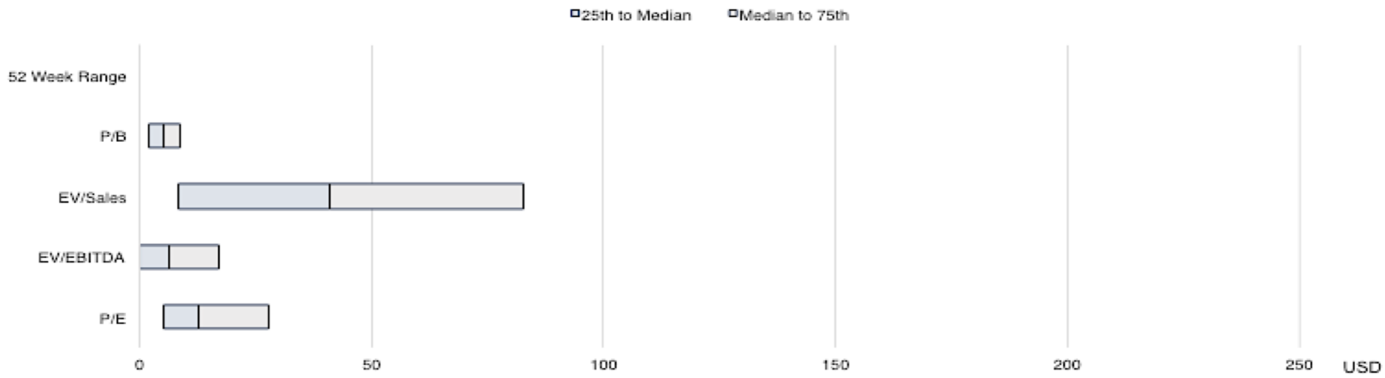
Shopify is a 360º platform for SMBs to deploy and run online shops. Shopify has been leveraging the e-commerce boom, nowadays powering more than 1 m online shops and employing over 5 k people. Headquartered in Ottawa, Canada, allegedly, businesses on its platform generated USD 183 bn in economic value from 2016-2018 throughout 175 countries.

Corporate News

Shopify made the headlines of 2019 and start of 2020 as the stock skyrocketed throughout the period. The company's last year performance was one of the best in recent memory, with the stock price nearly tripling in value over the 12 months. However, the online platform does not get away of the Covid-19 pandemic and the global recession underway. Discretionary spending is the first consumers put off table, many of the SMBs operating under Shopify umbrella provide such consumption and are expected to take a hit in business volume. One could expect investors to get cold feet on the expensive stock but growth prospects seem to be outweighing recession concerns as the share price climbed from USD 357.65 as of 03/04/2020 to USD 643.19 on 24/04/2020. To aid SMBs operating in the platform, Shopify launched its Shopify Capital Program offering cash advances to business owners.

Price (30 Apr 20, USD)	**632.29**
Target Price (USD)	500.00
3M Performance	34.70%
Market Cap (USD m)	74,580,000
Enterprise Value (USD m)	72,270,000
**Target Price is for 12 months*	

Valuation Analysis



The big picture looks upbeat for the company with a 52-week range of USD 242.23 to USD 665.74. Shopify's shareholders have seen their holdings beat the S&P 500 Index by 99.12% looking back one year. Shopify Inc. has a market cap of USD 71.94 bn and analysts are mostly assigning a buy or hold rating to the company's equity. On relative valuation methods, Shopify's share price seems fairly accurate.

The Peer Analysis shows Shopify among the best performers in terms of market capitalization. Shopify is a high growth technological company with a successful track record of innovation and business volume capture. However, scale competition posed by Amazon as well as traditional online marketplaces like eBay or Etsy is growing and poses a concern to Shopify who bets on product differentiation. With the rise of e-commerce and the increasing share of businesses moving digital, the online shops facilitators are set to profit, the fate of the Canadian company only depends on how well it is able to weather the Covid-19 storm.

Peers	Currency	Market Cap (Cur m)
HubSpot Inc	EUR	6,991.00
Zendesk Inc	EUR	8,269.00
Wix.Com Ltd	EUR	6,445.00
Coupa Software Inc	EUR	11,412.00
GoDaddy Inc	EUR	10,949.00

Rafael Santos
Investment Banking Division

NIC's View On

Restructuring Firm Gordon Brothers to the Rescue of Laura Ashley

Marina Quintero
Investment Banking Division

"Whilst we have taken an important step forward in securing the sale of the brand, we continue to explore opportunities to reshape the UK store-based retail and manufacturing businesses and are very grateful for the efforts of the entire team at Laura Ashley group companies in the UK"

– Rob Lewis, joint administrator of several of the Laura Ashley group companies in the UK

Laura Ashley is a British textile design company that manufactures and commercializes clothing, furniture and decorating items. Founded in 1953 by Laura Ashley and her husband Bernard Ashley, it became public in 1985 after going through an intense period of international expansion. Now controlled by its major shareholder MUI Asia Limited, the firm filed for administration on last March.

The news did not catch anyone off guard. The company had been experiencing ups and downs since the early 2000s, when profitability began to tumble. This led to Laura Ashley's Australian subsidiary falling twice into administration during the period 2015-2018, and the UK subsidiary closing 40 shops in 2018. The increasing fixed costs and fierce competition from online shops are the main reasons to blame for the company's downturn, - even though some experts point out its inability to "keep up with the times and update its hallmark prints". The final blow arrived with the Covid-19 outbreak, causing sales figures to plummet. Consequently, the company had to arrange emergence financing with its leading creditor Wells Fargo to meet its working capital needs. However, the GBP 20 m loan facility could not be accessed in full due to the recent stock movements and the decline on customer deposit levels. After all, the amount was not enough to maintain its operations and respond for its liabilities for a longer term, and despite the efforts for reviving the company, it eventually collapsed last month after failing to raise cash from its main investor MUI.

The firm had no other choice but to file for administration. Administration is a procedure deployed in the UK and reserved for insolvent companies that cannot pay the money they owe. During the process, an administrator is appointed – PWC in this case – to take control of the company and its assets. The purpose is to stop the firm from being liquidated and gain time – 8 weeks – to develop a restructuring plan. More specifically, the administrator has to decide between: negotiating a Company Voluntary Agreement and keep operating; selling the company to another firm; sell some of the assets to pay creditors; or shut down the company.

Laura Ashley's administrators opted for the second option, agreeing on a sale to Gordon Brothers. The restructuring and investment firm has a strong reputation for turning around distressed companies by focusing on global expansion and building brand's online presence. However, the sale only includes the brand and its intellectual property, although they are considering acquiring some of the stores within the UK and Ireland too. Thus, PWC is still looking for a buyer for the remaining shops and the distribution network.

Now, whilst the brand seems to finally see the light at the end of the tunnel, its long-term survival will depend on how successful is Gordon Brothers' strategy. Given that Laura Ashley's losses had root on an increased competition from online brands, building an online presence seems like a sound approach. However, in order to succeed other issues will need to be tackled, such as the firm's outdated designs.

Date	Recent News
Apr 20	Agreement on sale of the brand to Gordon Brothers ***Source:*** *Financial Times*
Mar 20	Laura Ashley files for administration ***Source:*** *Financial Times*
Dec 19	The firm reports £9.8M losses before tax and exceptional items ***Source:*** *Financial Times*
Jan 16	Australian subsidiary falls into administration. ***Source:*** *fashionunited.uk*

Marina Quintero Gonzalez
Investment Banking Division

NIC Fund

Assets in Brief

Asset Class	Symbol	Comments
World Equity	**MSCI**	Our benchmark equities index, MSCI tracks global equity markets with a strong focus on US companies. The measures taken by central banks around the world, that by expanding their balance sheets and lowering interest rates, drove the index back up from the market downturn of the past two months, yielding a positive return of 10.96% for April.
US Equity	**DPZ**	Domino's Pizza stock rose by 11.68% in April after exceeding earnings expectations by a wide margin. It reported earnings of USD 3.07 per share, thereby beating the market consensus estimate of USD 2.29 per share. The quarantine has driven demand for pizza up, greatly to the benefit of Domino's.
US Equity	**AMZN**	The quarantine lead to a boom in E-commerce and E-entertainment, leading Amazon to hiring more than 100,000 new employees in March and 75,000 more in April to cope with demand. This sudden boost to E-commerce activity resulted in Amazon's stock gaining 26.89% over the month of April.
US Equity	**CMG**	With online orders rising by over 80%, Chipotle is quickly adapting to the reality of the quarantine and delivering good results that are partially compensating for the downfall of revenues due to the crisis. The CMG stock rose by 41.84% in April.
US Equity	**UBS I-A1**	The UBS US Sustainable Equity Fund invests in US companies with a strong ESG profile. The fund returned 19.12% last month, highlighting the leading role that ESG will take in the recovery from the crisis .
GR Equity	**LHA**	Lufthansa continued its negative run in April with a monthly decline of 4.67%. At this stage, the market capitalization of Lufthansa nearly halved since the downfall started in mid February. It is expected that in the upcoming weeks the German government will bailout the struggling airline with EUR 10 bn, acquiring a 25.10% stake in the company.
EM Equity	**IEEM ETF**	The iShares MSCI Emerging Markets ETF invests in an index composed of emerging market companies with its main holdings being in the Alibaba Group, Tencent Holdings and Taiwan Semiconductor Manufacturing. The strong exposure on Asian markets was well reflected in its gains of 8.48% for the month of April.
Treasury Bonds	**IEI ETF**	Our benchmark index for fixed income, IEI invests in treasuries with maturities from 3-7 years. Their contribution to our portfolio was at just 0.19%, remaining vastly unchanged as US interest rates remain close to 0% for the foreseeable months.
Commodity	**AAAU ETF**	Our "Safe Haven" asset, the AAAU Gold ETF generally outperforms in times of high market volatility. It had a return of 6.11% in the month of April but uncertainty in the markets in the upcoming months could continue to drive future gains.
Commodity	**DBC ETF**	Our primary commodities index, DBC tracks a basket of 14 commodities. The ETF had negative performance over the last month, mainly driven by a slump in oil prices as futures were for the first time trading in negative territory due to the lack of demand and of enough storage facilities to cope with the oversupply of oil.

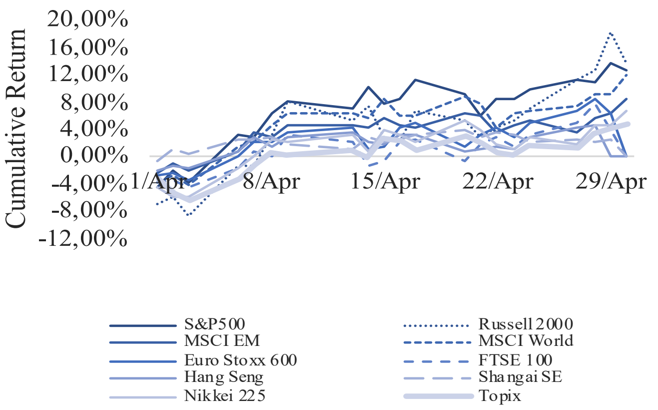
Patricio Drexhagen
Financial Markets Division

NIC Fund

Equities

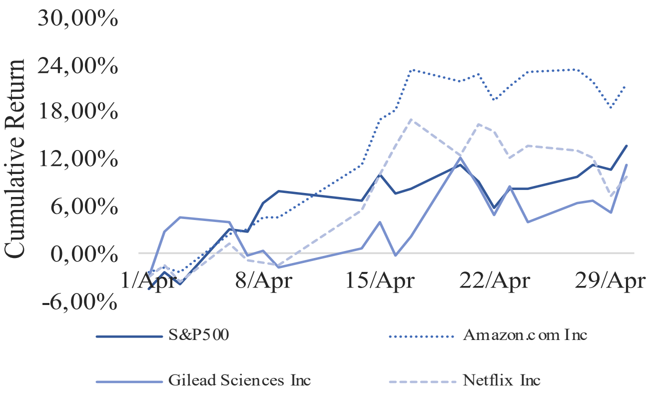
World Equities

The US market closed the best month since 1987, reducing the loss of the S&P 500 down to only 10% since the start of the pandemic. Hence, stock markets seem to be disregarding the potential coming recessions and default waves. The S&P 500 gained 12.7% in April, meanwhile the Dow Jones returned over 15% and the more tech-heavy Nasdaq Composite even more than 20%. In Europe, the FTSE All World index had its best month since 2011. This immense rally is not driven by fundamentals, as companies keep giving earnings warnings and world economies expect negative growth for the coming quarters. It is rather driven by the liquidity support from central banks worldwide, which have taken unprecedented actions to save the economy during the coronavirus, such as multiple rate cuts and injecting money into the economy. The FED, for example, has expanded their original rescue plan of USD 2.2-2.3 tn by USD 600 bn over the last month, in the believe that this will be sufficient to maintain the economy afloat. Also pushed by liquidity, for example coming from the EU rescue plan, the Euro STOXX 600 has also increased by almost 10% over the month of April, as well as the Nikkei 225. Looking at the Asian markets, we see an appreciation as well. The Nikkei 225 has gained about 10% over the last month and the HangSeng increased by almost 5%. As China started to decrease lockdown measures and is now slowly increasing production again, investors feel hope of limited impact on the economy.



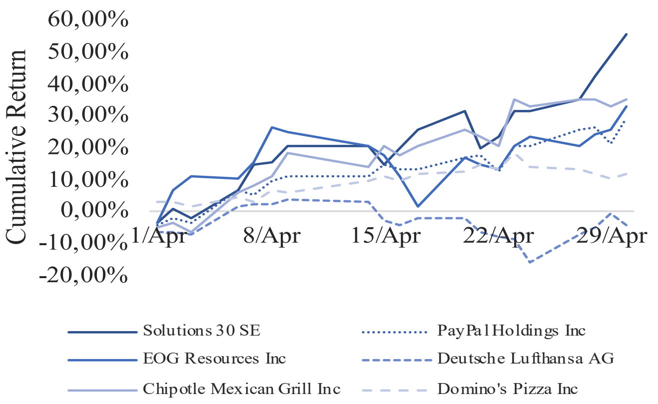
In Depth: US Markets

The April rally was mainly driven by the tech stocks. Most of the liquidity flew into this industry as stocks such as Amazon or Netflix benefit from the current lockdown situations in countries and saw a substantial increase in sales. Both stocks have gained more than 40% since their mid-March lows. Moreover, pharmaceutical stocks, such as Gilead Sciences, boosted the rally due to their potential to help with medicine against coronavirus. Nonetheless, these optimistic outlooks for a few companies are not ratifying the immense boom in equities over the past month. Neither jobless claims of unseen dimensions nor earnings warnings or starting defaults are shaking the market anymore. It is rather the liquidity of the FED as well as the fear of missing a market hike by investors that is driving stock markets up. in the lack of fundamental reasoning, a reversal of market direction is expected over the next few months.



Our Performance

In April, the top performers in the tech sector, such as Amazon, Netflix, Solutions 30, and PayPal as well as stocks in the food industry, namely Chipotle and Dominos pizza boosted our portfolio performance. Moreover, the slight recovery of the oil and banking sector has benefited performance. EOG Resources have, for example, recovered by 32.27%. The return was, however, punished by the performance of the travel sector and especially airlines. Due to the continuous lockdown, airlines are facing unprecedented lack of demand and are struggling to meet obligations, as a result Lufthansa continued its negative run in April with a monthly decline of 4.67%.



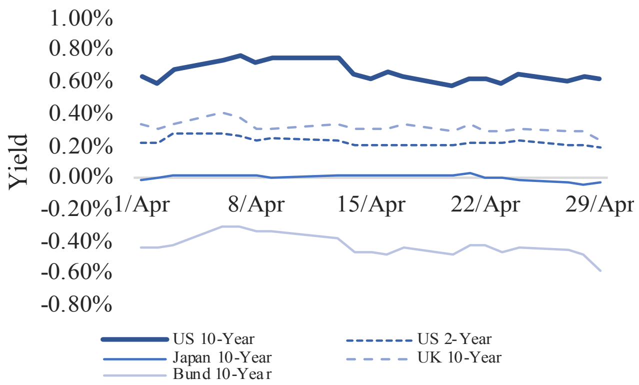
Valentina Heimann
Financial Markets Division

NIC Fund

Fixed Income

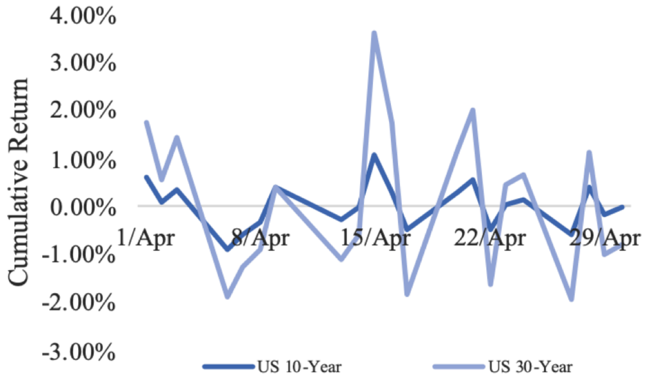
World Yields

Even though stock-market indices are the most closely monitored indicators in crisis time, the bond volatility made market participants and central banks sweat. Unlike the Great Recession that was triggered by bond defaults, the current crisis and the economic depression first resulted in the collapse of stocks before propagating to the debt market. Around USD 150 bn of US investment grade debt were downgraded to high yield this year, with most declines taking place in March. These so-called "fallen angels" owe their drop in credit status to the twin pressures of the country-wide lockdowns and the collapse in oil prices, caused by a massive oversupply and storage facilities close to maximum capacity. The Fed's balance-sheet expansion, which enable it to transfer debt from the private to the public sector through economic stimulus packages, could significantly exceed 10% of GDP this year, the highest level since the Second World War. US Treasuries have lost much of their appeal, as the yield-spread over European government bonds has narrowed by 10% on average this month. The yield on Germany's 10-year bond – which serves as a benchmark –decreased by 26% from -0,46% to -0,58%, whereas the UK's 10-year yield reached 0.22%. The yields on Italy's 10-year bonds spiked to 2.17% on April 21st, before decreasing significantly to come back to 1.78% at month end. This volatility resulted from two combined forces: the uncertainty at the EU level over the financial aids adoptable to counteract the economic pressure caused by the outbreak, and the country's rating downgraded by Fitch from BBB to BBB-.



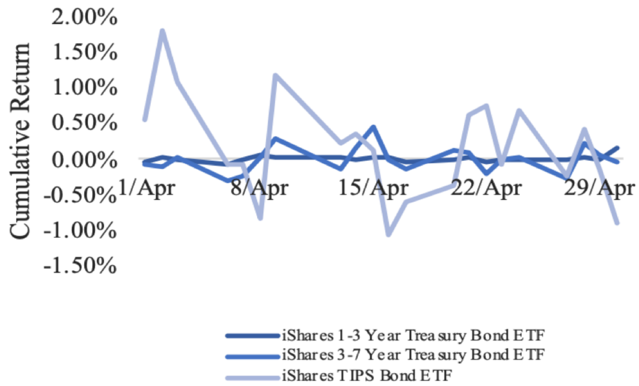
In Depth: US Treasury yields

US government debt yields rose on April 29th after reports on domestic manufacturing and consumer spending proved better than expected. The yield on the benchmark 10-year US Treasury note increased to 0.64% at the closing on the 30th of April, while the yield on the 30-year bond went up to 1.29%. Even though these up-movements may suggest the American economy being close to a nascent but fragile recovery, the Fed cautioned that the current pandemic will "weigh heavily" on the near-term outlook, posing "considerable risks" in the medium term. Nonetheless, the yield on the 1-year Treasury notes stayed flat over the past month, reaching 0.17% on the 30th of April.



Our Performance

Our benchmark index for fixed income, IEI invests in treasuries with maturities from 3-7 years. In April, their contribution to our portfolio was at just 0.19%, remaining vastly unchanged as US interest rates remain close to 0% for the foreseeable months.



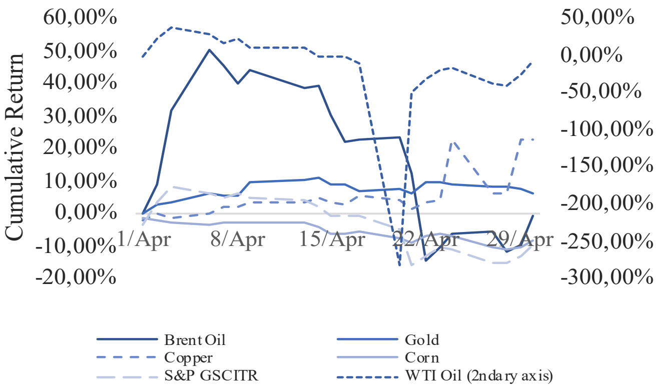
Benedetta Laruccia
Financial Markets Division

NIC Fund

Commodities

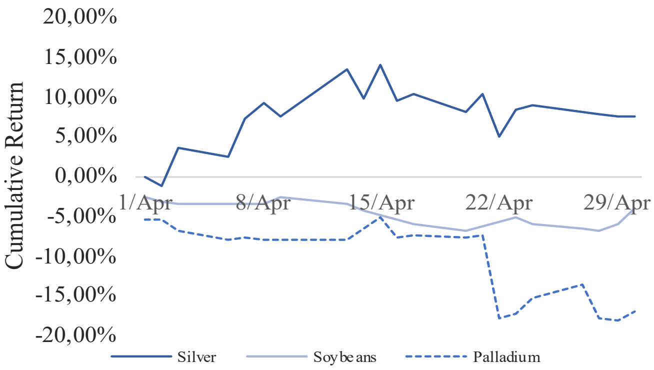
April Round-Up

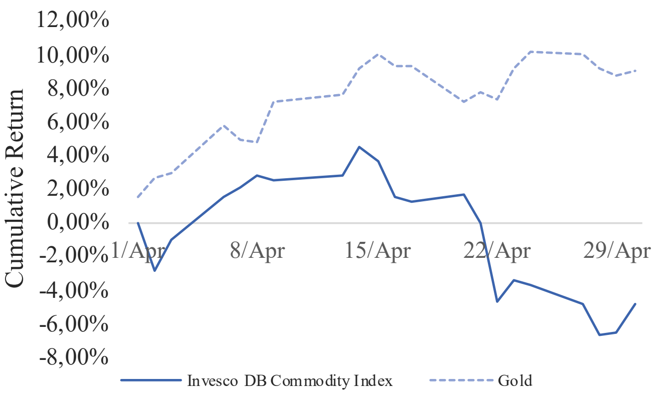
April was a wild month for commodities that experienced as energy producers got tested on their ability to rapidly adjust output levels to shocks in demand. American crude made the headlines worldwide after WTI crude prices went deep into negative territory for the very first time in history. On April 21st, commodity traders witnessed market chaos and saw WTI May future contracts exchanging for nearly minus USD 40 per barrel. An incredible situation in which oil producers were willing to pay buyers to take crude barrels out of their hands as storage facilities ran out of capacity. After an impressive appreciation in the first week of the month, Brent Crude also dropped by nearly 60% within two weeks in mid-month. Nevertheless, US and European crudes bounced back in the last days of April. However, it is unclear whether this is due to improving demand forecast post Covid-19 environment, or simply a direct consequence of government supports. Stimulus packages led to a steep increase in demand for safe-haven asset gold, which recorded its best monthly return in 4 years (+7.24%). It is perceived by investors as a protection to future inflation and currency moves implied by those immense cash injections from central banks. Silver also gained traction (+5.67%) whereas Palladium, the world's most expensive metal went through its worst month since 2015, depreciating by 16.21, down to USD 1966.5 per ounce by April 30th. In agriculture, corn fell deep partly due to cutting demand in the production of ethanol fuel and gas. Lastly, soybeans rallied in the last day of the month following consequent orders from China.



In-depth: US Producers to Pay Dividends Despite Difficulties

Begging the OPEC to rescue the American oil sector was certainly not part of Trump's plan to "American energy dominance". However, the US president was forced to face reality after the failure of his attempt to reach a deal in the Russia-Saudi Arabia price war. The current oversupply in America was certainly accelerated by the boom in US shale production in the last years that enabled the country to be the world's biggest crude producer. What was supposed to make the country independent from foreign oil producers became a burden and put numerous American energy producers in difficulties as shale producers would need prices twice as high as current levels of USD 20 a barrel to break-even. Nevertheless, despite small producers going bankrupt, revenues plunging and inventories skyrocketing, forcing states and international organizations to intervene, US' largest energy producers such as Chevron, ConocoPhillips and Exxon decided to maintain dividend payment whereas European oil producer Shell said it will not distribute revenues to shareholders for the first since WWII. Their strategy of keeping investors happy comes at the expense of deep capital spending cuts. Producers are hoping for a relatively quick market rebound in prices after the end of lockdown periods worldwide.





Our Performance

NIC's fund holds positions in gold and in Invesco DB Commodity Index. The latest majorly invests in oil and returned -3.11%.

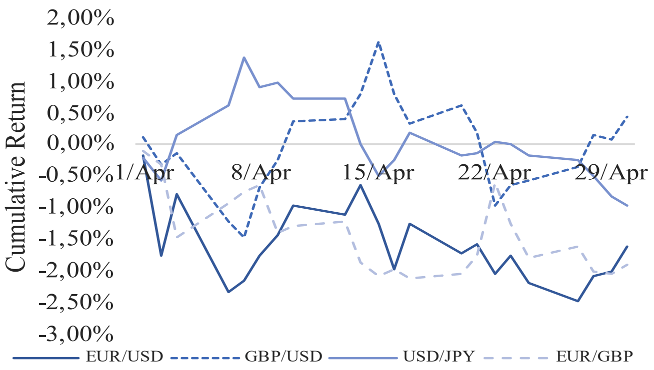
Maxime Hozé
Financial Markets Division

NIC Fund

Currencies

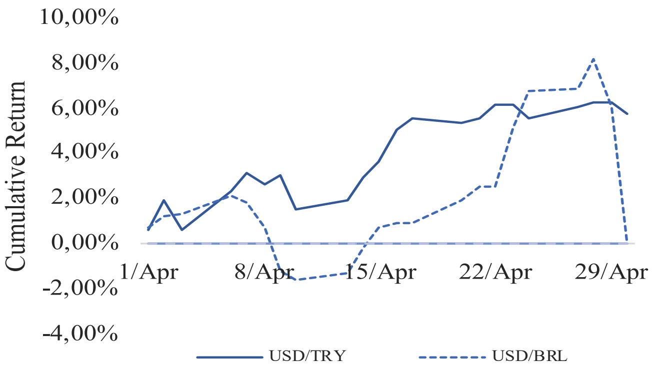
World Currencies

In April, several European economies announced the easing of lockdown policies with continuous efforts to slowly re-open businesses as the infection and death rate begin to decrease. Even so, the ECB announced an expected economic contraction between 5% and 12% in 2020, with business activity decreasing 3.8% in Q1. The pessimist outlook and inflation fears following the increased money supply have weakened the Euro both against the British pound and the US dollar, closing the month at 0.872 GBP and 1.087 USD. The dollar has suffered from a recovery in market sentiment as investors become more optimistic of future economic improvements, shifting away from safe-heaven assets. Yet, the increasing tensions between the US and China following the origin of the Covid-19 virus outbreak, resulted in a dollar gain against the Chinese renminbi. China has started to test its digital currency, the e-RMB, in four major cities, in an effort to reduce the power of the US dollar and provide investors and businesses an alternative to the dollar global system. The digital yuan is expected to start being issued in mid-2021 as the Chinese currency gained traction among investors for its stability during the Covid-19 crisis. In the UK, news of a roadmap out of lockdown and the rise of geopolitical tensions between the US and China have resulted in a pound rise by 0.44% against the dollar, trading for USD 1.247 at the end of the month.



In Depth: Emerging Markets

Following large interest-rate cuts to support the economy during the pandemic, Turkey has been struggling to keep its currency stable against the greenback. The country's foreign currency and gold reserves dropped by more than USD 17 bn in 2020. According to economists, this displays the central bank's heavy intervention in the market in an attempt to keep the USD/TRY exchange rate below 7, despite state officials arguing that the lira is a free-floating currency. A stable lira is critical for the emerging economy as Turkish companies borrow in dollars to take advantage of longer maturities and lower interest rates. At month close, the US dollar rose to 6.951 TRY. During April, the Brazilian real dropped to a record low of 0.196 USD following a 10-year low tax revenue in March as a result of the Covid-19 crisis. Brazil's economic outlook remains questionable as the announcement of a stimulus package is unlikely to happen amid concerns around the country's ability to increase its debt balance. The pandemic has heavily affected emerging markets, deteriorating the economy and rapidly increasing poverty. Moreover, April's oil market crash, the plunge in remittances and continuing tourism freeze have made the outlook unsteady with an expected rise in inequality, which could deteriorate the situation.



Our Performance

We currently hold no currency related assets in our portfolio.

Corina Popa
Financial Markets Division

Extras

Hot Topic

The Impact of Coronavirus on the Airline Industry

Patricio Drexhagen
Financial Markets Division

The impact of the crisis is being reflected on airline stock prices, as some of the industry staples have lost about two-thirds of their market capitalization over the past two months.

As the first quarter of 2020 comes to an end and earnings reports of all major companies start being published, the true consequences of the prolonged quarantine and disruption of global supply chains start to manifest themselves. Airlines have been particularly hit, as most of their activities have been put on hold for months now and any prospect of a return to normal operations seems far-off from happening.

Whilst we continue to gain a wider understanding of the true impact of the pandemic, it becomes evident that this is possibly the worst downturn the airline industry has ever seen. The only comparable incident that had a similar effect on commercial aviation was the terrorist attack of 9/11. As 20 years ago, the entire industry is absolutely helpless to take action against the demand shock, as it is not driven by economic factors, but rather by travel restrictions imposed by governments and consumer fear in the long run. It took almost three years after 9/11 for demand to rise back up to the levels before the terrorist attack. In the current scenario, a recovery could take even longer as travel bans will only lift slowly and limits on passenger capacity on aircraft might be imposed on airlines.

The impact of the crisis is being reflected on airline stock prices, as some of the major industry staples have lost about two-thirds of their market capitalization over the past two months. American Airlines stock dropped from USD 30.47 in February to USD 9.50 in April. Similarly, the stock price of Delta Airlines fell to USD 22.16 from being close to its all-time high in January at USD 62.02. Meanwhile in Europe, Lufthansa's market capitalization nearly halved. The trend is similar for airlines all around the world. Meanwhile, the two leading aircraft manufacturers, Boeing and Airbus, are getting their own share of the downturn, with aircraft deliveries drastically plummeting since the outbreak. Airbus had a great start to the year, however, the consequences of the pandemic resulted in losses of EUR 481 m in Q1.

As the entire airline industry continues to burn cash, the threat of insolvency without government intervention is rising. In the US, the airline industry is set to receive USD 25 bn as part of the USD 2.2 tn economic stimulus package. However, the bailout is coming with strings attached. Major airlines were already under public scrutiny for their aggressive stock repurchase practices over the last very profitable decade to boost their stock prices. Furthermore, in view of how the bailout of the banking and automotive industry was dealt with in 2008, this time a set of guidelines would ensure better management of the funds. As part of the deal, airlines will be forbidden from repurchasing shares for a certain period of time, a significant part of the grants will have to be repaid and stock warrants will be given to the government to become shareholders of the companies.

In Europe, we are also seeing a wave of government interventions, as Air France-KLM is set to receive a EUR 10 bn bailout consisting of state-backed and direct loans by the French and Dutch governments. In Germany Lufthansa is also set to receive Eur 10 bn in government aid as they would otherwise become insolvent in the upcoming weeks as they lose approximately EUR 1 m every hour that passes.

Over the upcoming months we will get to see which airlines manage to survive this crisis and which will go under. All we know is that the road to recovery will be long and full of hurdles.

Patricio Drexhagen
Financial Markets Division

Extras

Hot Topic

Elizabeth Warren and Ocasio-Cortez: M&A Ban Proposal During Crisis

Federico Farina
Investment Banking Division

"It feels like the world is falling apart. Most of us would love to put money to work and be opportunistic but there is no debt available right now to finance acquisitions. Plus we all have portfolio companies which are experiencing unprecedented situations and which we have to focus on"

– Raymond Svider, Chairman of BC Partners

M&A activity has strongly slowed down after the coronavirus pandemic hit our society. Financial crises bring uncertainty and few companies are willing to start the long and complicated process behind a merger or acquisition transaction. Even companies that had agreed a deal before the crisis are now trying getting out and walk away. The system has met instead a far more delicate world of liquidity need and restructuring.

Having said that, market chaos opens way to cheaper assets and some professionals are not sorry to see the back of a long boom in financial markets. There are a number of few who see the downturn as the moment to go on "opportunistic shopping", especially if they have the availability of a large amount of cash ready to target deal-making activities. These institutions tend to be private equity shops and hedge funds. Indeed, if there is money to be made amid the financial crisis brought by the pandemic, the first to try to exploit the opportunity will be the debt-focused funds that have usurped banks as lenders to a number of medium-sized businesses.

Elizabeth Warren and Alexandra Ocasio-Cortez, two of the most progressive representative of the U.S. Democrats, have proposed stopping large companies from buying up small businesses while they are vulnerable from the coronavirus pandemic. The two democrats are supporting the Pandemic Anti-Monopoly Act. Essentially it temporarily prohibits deals by businesses with more than USD 100 m in revenues or financial institutions with a market capitalization higher than USD 100 m. The Act would also block deals undertaken by companies that are backed by private equity firms and hedge funds.

However, Wall Street dealmakers are not particularly worried. Firstly there are not many deals under the spotlight and secondly the bill should pass through the Republican-controlled Senate or the White House.

Elizabeth Warren has a long record of legislation proposals against dealmakers. In November, she supported a ban on "mega mergers" while in July she pushed a plan to rein in private equity firms by making them responsible for the debts of their portfolio companies. The proposals were a response to a series of business failures that have caused the unemployment of many people after some private equity deals went wrong.

Her battle with businesses has mainly been criticized by American billionaires who don't see the reason why they should be hit for being successful. There are indeed many who are on the side of private capital itself. Blackstone's COO Jon Gray argued that PE companies provide an essential service to the business environment, allocating money where it is needed.

The probability of the bill becoming effective is very low. Neverthless, this is a sign that politicians such as Ms Warren and Ms Ocasio-Cortez are able to start a political debate even in a complex climate such as the one we are living in.

Federico Farina
Investment Banking Division

Extras

ESG Review

The History of Capitalism has a New Chapter Called "Stakeholders' Golden Age"

Benedetta Laruccia
Financial Markets Division

"The old shareholder primacy model is no longer fit for purpose. Even before the coronavirus crisis, we needed a course correction. The U.S. had reached levels of income and wealth inequality last seen in the 1930s. Productivity from 2010-2018 has been merely 0.9%, down from 2.3% from 1990-2008. The costs of continuing down this path are too high. "

- Martin Whittaker , CEO of JUST Capital

The escalating coronavirus pandemic has threatened markets, creating a new era of price volatility, liquidity contraction, demand shocks, and global growth decline. Nonetheless, it has shone a spotlight on auspicious opportunities: a new chapter in the book of capitalism called "Stakeholders' Golden Age".

Sustainable investments, which focus on companies with strong environmental, social and corporate governance principals, outperformed the conventional competitors in the first quarter of 2020, despite the virus causing the markets to bleed. Even though sustainable finance remains a minor part of the global stock market, ESG-focused equity funds have gained nearly USD 70 bn inflows over the past year, whereas traditional equity funds endured USD 200 bn outflows during the same time frame. According to Morningstar, 70% of sustainable equity funds reported returns within the top halves of their peer group, with 44% scoring in the top quartile, and only 11% in the bottom tranche.

While the numbers illustrate the relative success of sustainable investing, there is an ongoing discussion among investors and academia, as to the reasons that have led to this performance, especially during the current market downturn. One of the possible explanations relates to the global pandemic bringing to light a shift in paradigm from shareholders' to stakeholders' utility maximization. The old shareholder primacy model "is no longer fit for purpose", said the CEO of JUST Capital, Martin Whittaker, to Forbes last week. Within the shareholders model, the deterioration of value to society depends on the contribution of companies whose actions are driven by the prioritization of short-term gains through profit maximization. This principle has pushed productivity and economic growth to 128 months of economic expansion since the end of the Great Recession in 2009, by taking the extra mile to the exploitation of human and natural resources, boosting innovation and technology through tremendous investments.

The focus on increasing the wealth of stakeholders does not ignore the long term and sustainable health of the company, but instead, makes it possible. For instance, the Fast-Moving Consumer Goods (FMCG) companies, including Nestlé, Coca Cola and P&G, are in a race to adapt to rapidly changing production practises, including a rise in veganism and increasing activism on plastic packaging. In addition, 16 of the largest and publicly listed Food and Beverage, Household and Personal Care companies are on their business readiness for a low carbon transition. The sector, which faces potential disruption from physical risks due to climate change and tighter regulations on packaging and labelling, looks at the ESG transition as an opportunity to mitigate the risk, improve performances and focus on the long-term community's satisfaction.

On the other side of the story, the heads of the largest asset management companies and pension funds are embracing the stakeholder primacy and committing conspicuous capital for the cause. BlackRock CEO Larry Fink announced last years that sustainable finance is now the "new standard" and that their investments will focus on firms able to assess and report their sustainability-related risks.

Despite the presence of some scepticism on the market, sustainable investing's success reflects a shift in investors' preferences to companies truly focused on their stakeholders' well-being and therefore able to be less exposed to systematic shocks just like the situation we are currently living in.

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