



# Quarterly Investment Banking Update (Q3 2020)

**EVALUESERVE**

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November 2020

# Key Highlights

## Strong Rebound in M&A in Q3 2020 with Value of Announced Deals up 41% Y-o-Y



- During Q3 2020, M&A activity increased globally, led by larger deals, partially offsetting the decline in the previous two quarters. On a Q-o-Q basis,
  - Deal activity increased 94% in Q3 2020, which was the strongest quarter for deal making since Q2 2018.
  - M&As for US targets increased threefold in terms of deal value.
- Global announced deal value for 9M 2020<sup>(1)</sup> was USD2.3 trillion, down 18% Y-o-Y.
  - Announced deals in the US stood at ~USD815 billion (the lowest since 2013), in APAC stood at USD608 billion (the highest in two years), and in Europe totaled USD651 billion (up 19% Y-o-Y).
- Cross-border M&A totaled USD794 billion in 9M 2020 (down 1% Y-o-Y). This was the slowest first nine months for cross-border M&A since 2013.
- PE-backed M&A accounted for 15% of overall M&A in 9M 2020 (the highest since 2007).

## Debt Market Remains Active



- Companies raised USD8.1 trillion in 9M 2020 (the highest ever), led by those in the Retail, Technology, and Industrial sectors.
  - However, debt issuances in Q3 2020 declined by 21% compared with the significantly high Q2 2020 numbers.
- High-yield issuances exceeded USD150 billion consecutively in the last two quarters, with total issuances reaching to USD415 billion in 9M 2020, as firms continued to raise debt for M&A, recapitalization, and refinancing.
- US investment-grade market continued to break records with issuances of USD164 billion in September, ranking among the top 10 monthly issuances ever.

## Strong ECM Activity across IPOs, Follow-ons, and Convertibles

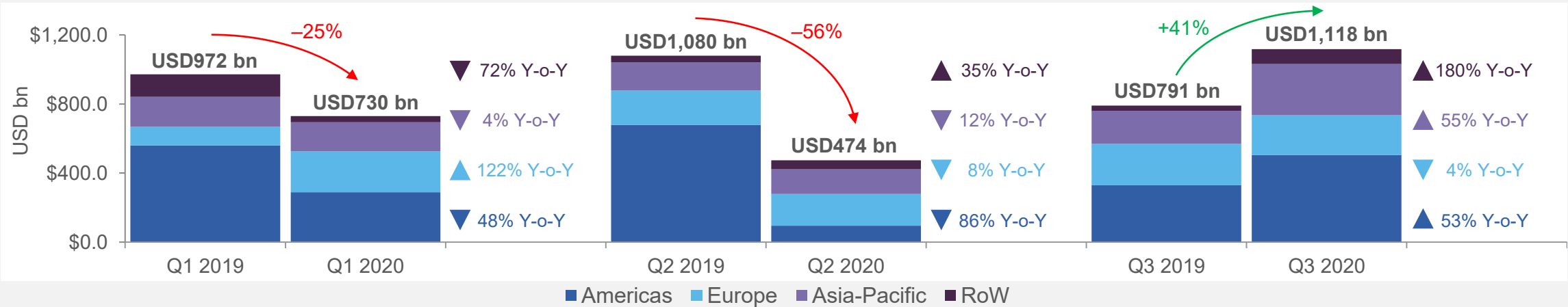


- ECM underwriting volumes increased in 9M 2020, as companies continued to tap capital markets for fresh liquidity. The uptick in underwriting fees was led by a surge in IPOs as well as record issuances of follow-on and convertible bond offerings.
- More than 40 IPOs were launched each month from July to September, driven by a surge in offerings from Special Purpose Acquisition Companies.
- Convertible issuances were driven by the issuances in the Technology, Healthcare, and Industrials sectors. The follow-on markets remained healthy after a strong Q2, as companies continued to take advantage of strong equity markets and valuations.

# Strong M&A Recovery in Q3 2020 has Partially Made Up for Low Activity in H1 2020



## Quarterly M&A Trend in 9M 2020<sup>(1)</sup>

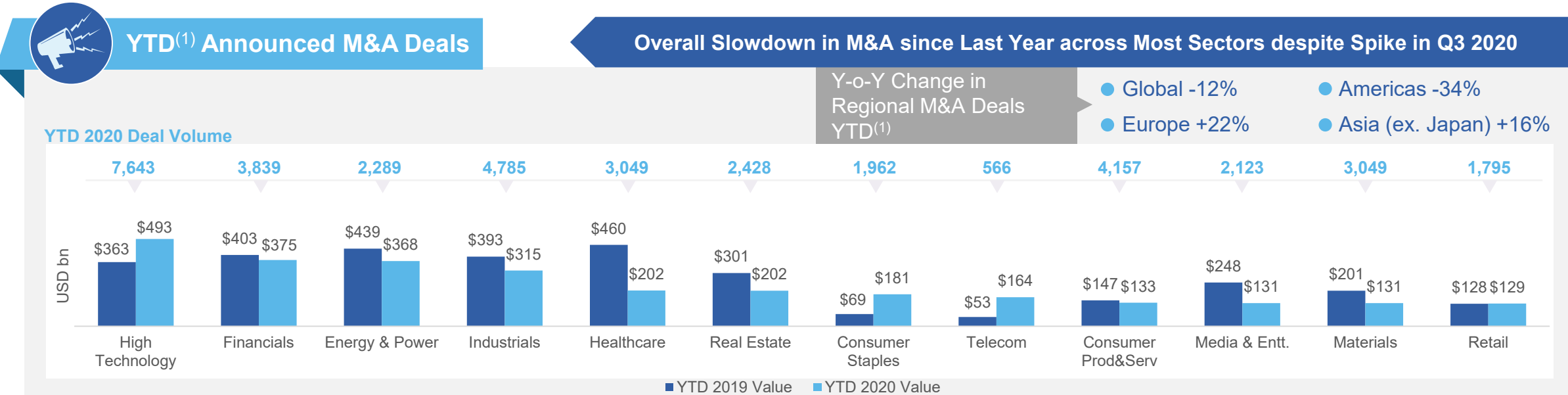


- M&A activity rebounded in Q3 2020, with USD1 trillion worth of deals worldwide (up 41% Y-o-Y). During the quarter,
  - Markets regained confidence and executives reconsidered deals that were put on hold due to the COVID-19 pandemic.
  - Recovery was mostly led by resilient sectors such as Technology and Healthcare.
  - The total value of mega deals (>USD5 billion in value) across the globe surged to USD456 billion (the highest since Q2 2008).
- However, growth in Q3 2020 could not make up for the decline in the previous two quarters and overall M&A activity was down 18% Y-o-Y for 9M 2020.

*The way out of this crisis is through M&A and we have started to have really engaging conversations with CEOs and boards around strategic positioning post-COVID. People have realized they need to consolidate to create stronger and better-equipped businesses to deal with what the world looks like going forward*

**- Alison Harding-Jones, Citigroup's Vice Chairman of EMEA Banking, Capital Markets and Advisory (September 30, 2020)**

# M&A Activity Continues To Be Led by Technology, Financials, and Energy & Power Sectors



### Major M&A Deals in YTD 2020<sup>(1), (2)</sup>

Announced Date	Target	Acquirer	Deal Value (USD bn)	Region	Sector
Sep 11, 2020	Altice Europe	Next Pvt	\$42.7	France	Media & Entt.
Sep 13, 2020	Arm Ltd	Nvidia Corp	\$40.0	UK	Technology
Oct 27, 2020	Xilinx	Advanced Micro Devices	\$34.6	US	Technology
Mar 09, 2020	Willis Tower Watson	Aon	\$30.1	UK	Financials
Oct 05, 2020	Suez SA	Veolia Environnement	\$23.0	France	Water
Aug 02, 2020	Speedway	7-Eleven	\$21.0	US	Retail
Jul 13, 2020	Maxim Integrated Products	Analog Devices	\$20.7	US	Technology
Sep 13, 2020	Immunomedics	Gilead Sciences	\$19.8	US	Healthcare
Feb 27, 2020	Thyssenkrupp - Elevator Business	Advent, Cinven, RAG Foundation	\$18.7	Germany	Industrials
Aug 05, 2020	Livongo Health	Teladoc Health	\$17.3	US	Health Tech

Source: Refinitiv  
Note: 1. YTD as of November 5, 2020  
2. Excludes USD106.9 bn unification of Unilever's legal structure announced in June 2020 and USD33.9 bn stake sale of Sberbank to Russian Ministry of Finance in February 2020

# Many Factors Will Impact the Continuation of the Rebound in M&A Activity in the Near Term



## The Future of M&A

### Financing



With pricing eased since April, liquidity is available for eligible borrowers. Lenders will be cautious for risky deals and would demand a sponsor backing such a deal. Investment banks could play a crucial role thereby offering a stapled structure – providing debt and equity financing support while advising buyers.

### Valuation



Businesses less affected or improved by the COVID crisis will attract high valuations. High levels of PE dry powder and corporate cash (USD1.5 trillion each) will likely boost the valuation for such businesses in an all-time low-yield environment.

### Deal Volumes



Volumes will depend on whether sellers in COVID-resistant sectors would hold deals in anticipation of a price improvement in future. COVID-impacted businesses might also wait, depending on stress levels. Further, new tax policy post the US elections, Brexit and trade agreements will also have an impact.

### Deal Processes



Deal due diligence, site inspections, travel and in-person meeting logistics, will depend on the course of the pandemic, related quarantines, and the availability of a vaccine. Processes are expected to improve going forward but not reach pre-COVID levels.

### Sector Resilience

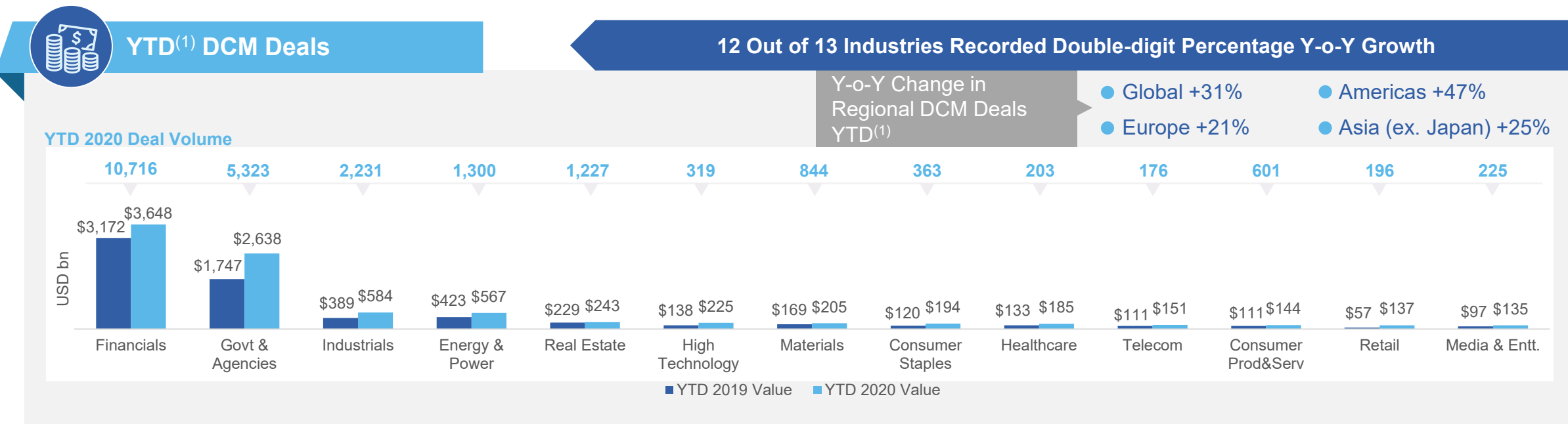


Consumer-focused sectors such as Retail, F&B, and Travel / Leisure will continue to struggle. Cyclical sectors such as Auto, Chemicals, and Energy are likely to underperform, while Healthcare, Tech, Software, and B2B sectors will outperform expectations.

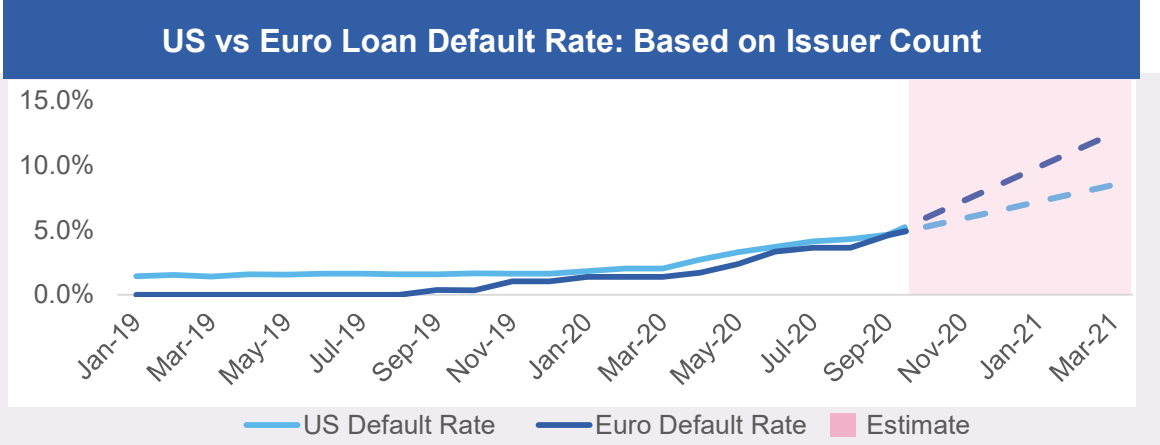
*We expect the pandemic to continue to dominate domestic and cross-border commerce deep into calendar year 2021 and is likely to materially affect industries such as tourism, hospitality, transportation and real estate for several years to come. The pandemic has created 'haves' and 'have-nots' by industry, geography and socioeconomic status. Supported by the injection of trillions of dollars by central banks globally, current capital market activities are masking the severity of the economic destruction that has occurred and will continue to occur at least over the short term*

**- Jack Butler, CEO, Birch Lake Partners  
(November 2020)**

# High Level of YTD Debt Issuance, Default Rates Expected to Rise

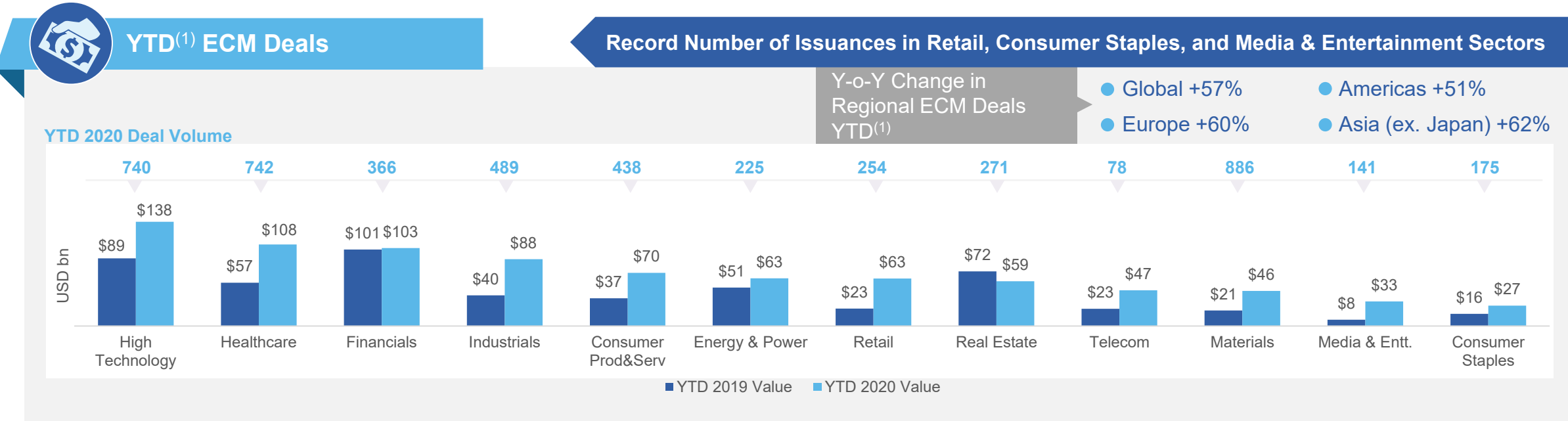


- In an extraordinarily low yield environment, the global DCM saw high levels of issuances worth USD8.1 trillion in 9M 2020. However, the bond market slowed down in Q3 2020, as debt issuances decreased by 21% compared with Q2 2020.
  - This year witnessed an increased number of US investment-grade deals, with 5 out of the top-10 highest issuance months ever falling in 2020.
- Over the next 9 months, S&P expects US and European corporate default rates to rise to 12.5% from 6.2%, and to 8.5% from 3.8%, respectively, due to declining credit quality and downgrade warnings for an increasing number of firms.
  - Loan losses are expected to increase in the coming quarters, which could affect the profitability of banks.

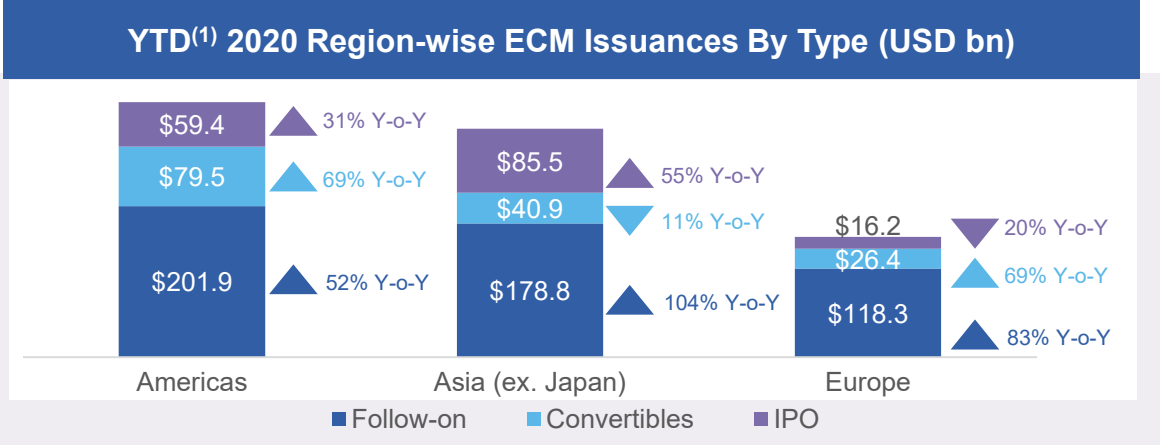




# ECM Activity Was High in Q3 2020 on Y-o-Y Basis



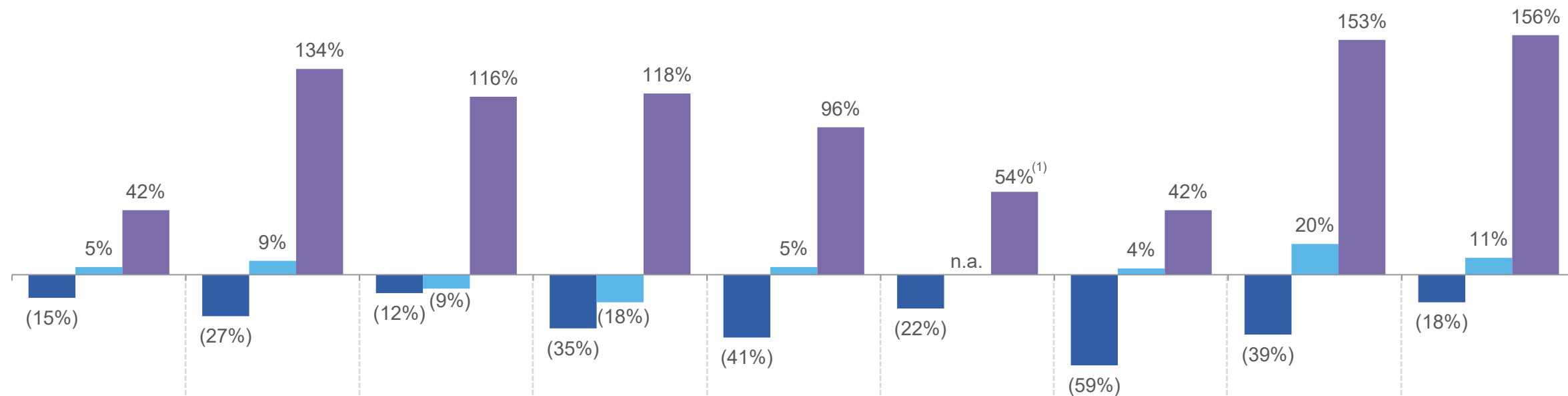
- In terms of number of ECM deals priced, Q3 2020 was at an all-time high with nearly 1,800 deals priced during the quarter.
  - For 9M 2020, ECM deal value stood at USD750.7 billion, marking the strongest ever opening period recorded.
- The global IPO market generated total proceeds of USD76.7 billion and witnessed more than double growth in Q3 vis-à-vis the previous quarter, led by the Technology and Healthcare sectors.
- A total of 1,223 secondary offerings worth USD176.7 billion were announced in Q3 2020 (the largest ever secondary offerings in a quarter).
- Q3 2020 witnessed an unprecedented surge in Special Purpose Acquisition Company (SPAC) listings with 80 deals worth USD32 billion and the momentum continued in Q4 with 22 SPAC IPOs recorded till mid-October.



# For Bulge Bracket Banks, Equity Underwriting Revenues Surged in Q3 2020; Advisory, Although Down Y-o-Y, Exhibited Signs of Recovery vis-à-vis Q1 and Q2 2020

## Q3 2020 Investment Banking Revenue (Y-o-Y Change)

■ Financial Advisory ■ Debt Underwriting ■ Equity Underwriting



IB Revenue (in USD mn)	J.P.Morgan	Goldman Sachs	BANK OF AMERICA	Morgan Stanley	citi	CREDIT SUISSE	BARCLAYS	Deutsche Bank	UBS
Q3 2020	\$2,165	\$1,934	\$1,801	\$1,707	\$1,387	\$942	\$785	\$666	\$652 <sup>(2)</sup>
Q3 2019	\$1,981	\$1,587	\$1,576	\$1,535	\$1,228	\$708	\$846	\$539	\$453

Source: Company reports

Note: 1. Denotes change in total revenue from capital markets including DCM and ECM

2. IB Revenue for UBS also includes leverage capital markets (LCM) revenue

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# Performance of Bulge Bracket Investment Banks in Q3 2020 – Key Highlights (cont'd)

## J.P.Morgan



YTD, JP Morgan has generated the highest global investment banking fees, as per Refinitiv. Global IB fees were up 9%, largely driven by the ECM, which saw an uptick in IPOs. Debt activity normalized after huge volumes in Q2 2020. The volume of announced M&A deals returned to the pre-COVID levels as corporates are shifting focus from day-to-day operations to strategic and opportunistic thinking.



Q3 2020 was the firm's second best quarter ever in terms of ECM issuances. Revenue from IPOs and convertible offerings increased significantly. DCM improved due to increased asset-backed and investment grade debt activity. Deal backlog increased across advisory and underwriting, driven by improvement in deal activity and potential strategic dialogues. The firm has agreed to pay a fine of USD3 billion to settle the 1MDB bribery scandal.



Revenues from capital markets in both market-making and investment banking surged on a Y-o-Y basis, despite a sequential decline from Q2 2020. It recorded its second-highest quarterly IB fees (USD1.8 billion) due to strong performance of equity underwriting. Q4 is usually slower than other quarters, but the pipeline will likely improve and the bank is expected to see an increase in M&A discussions.

## Morgan Stanley



IPO-related activity doubled in Q3. Debt underwriting revenue subsided and advisory revenue remained muted. The pipeline for ECM is strong and that for M&A looks improving. As part of its strategic transformation plan, MS recently acquired E\*TRADE for USD13 billion, and Eaton Vance for USD7 billion. The acquisitions will be integrated in its WM and AM divisions, respectively. Also, it is the only GSIB<sup>1</sup> to receive a rating upgrade during the pandemic.



IB revenues increased due to robust growth in capital markets, especially equity underwriting including IPOs, convertibles and follow-on offerings. Citi plans to resume job cuts to save costs which will impact ~1% of its global workforce. Jane Fraser will replace Michael Corbat as CEO in February 2021, making her the first woman CEO of a major Wall Street bank. Ray McGuire, Chairman of banking, capital markets & advisory, plans to leave Citi to run for NYC mayor.

*Investment Banking backlog increased significantly versus the second quarter. Growth was supported by a ramp in M&A activity, as well as replenishment from equity and debt underwriting transactions. In particular, new M&A announcements are creating a pipeline for acquisition financing in the coming quarters. Optimistic on activity across a broad set of sectors, including TMT, FIG, consumer, health care and industrials.*

**- Stephen M. Scherr, VP and CFO, Goldman Sachs  
(October 14, 2020)**

# Performance of Bulge Bracket Investment Banks in Q3 2020 – Key Highlights

CREDIT SUISSE



CS performed well in equity markets, especially with regard to IPOs. Its investment-grade DCM business outperformed its leverage finance business. The bank has made some strategic talent acquisitions to broaden its mid-market M&A advisory and IB origination capabilities, especially in EMEA. In October, the bank appointed Christian Meissner, ex-Head of CIB at BofA, to lead a new unit. The unit offers investment banking advisory services to large ultra HNIs.

BARCLAYS



The banking side witnessed strong debt and equity capital issuances, with ECM witnessing the best-ever quarter since Q1 2014. Since April, the bank has underwritten over GBP1.0 trillion of equity and debt issuances. Many senior bankers were hired in Q3 across sector and product groups. In a major reshuffle in October, the bank promoted C.S Venkatakrishnan and Paul Compton to co-head the CIB division while also leading the Markets and Banking sub-divisions, respectively.

Deutsche Bank



The IB division continues to benefit from DB's strategic repositioning and cost-control measures. Significant growth in equity and debt origination offset the decline in advisory revenues due to lower M&A activity than last year. In Q3 2020, the bank saw high issuance levels for equity origination and its debt origination revenue was driven by market share gains across investment-grade debt and leveraged finance, as well as strong position in green bond issuances.

UBS



The bank's Global Banking division posted its best quarterly performance since Q1 2018, and significantly outperformed its peers in the ECM and leveraged finance markets. Advisory revenue was down by 18% but still performed better than the decline of 34% in the total fee pool. Ralph Hamers, ex-Head of ING, took over as CEO starting November 2020. UBS has been hiring many senior and experienced staff since the beginning of 2020 to build its American IB business.

*A lot of companies have to manage to live with reduced sales for quite a long time. We have to deal with an economic situation where we will have a recovery, yes, but only step by step and not in all industries....The pre-crisis level will be difficult to reach and it will take a long time. This is not going to happen this year and not next year either.*

**- Christian Sewing, CEO, Deutsche Bank  
(September 2, 2020)**

# Share of Revenue Changed for Banks in Favor of Underwriting Activity in YTD 2020

In the face of the global COVID-19 pandemic and economic lockdown, for just the eleventh time over the past 40 years, quarterly merger activity has surpassed \$1 trillion during the third quarter of 2020. The pace of deals, coupled with record levels of equity and debt capital raising, the resurgence of SPAC IPOs and the re-emergence of direct listings, illustrates that investment bankers have likely never been more in demand.

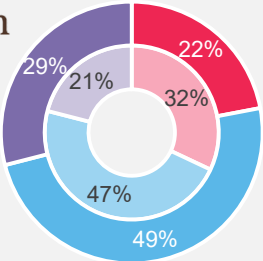
Matthew Toole, Director, Deals Intelligence at Refinitiv  
(September 30, 2020)

Changes in IB Fee Composition in YTD 2020<sup>(1)</sup>

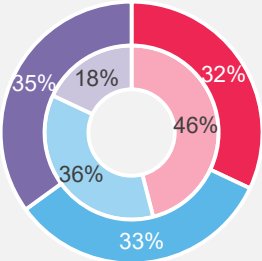
M&A Advisory      Debt Underwriting      Equity Underwriting

Inner Ring: Last 4 years average (2016-2019);  
Outer Ring: YTD 2020

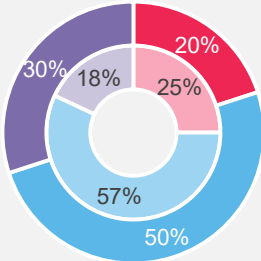
J.P.Morgan



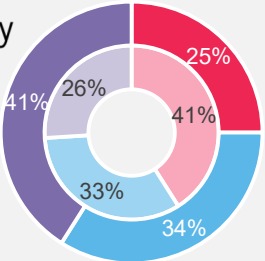
Goldman Sachs



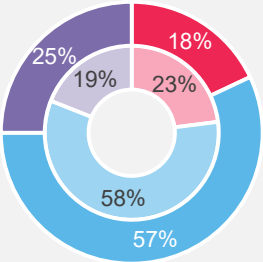
BANK OF AMERICA



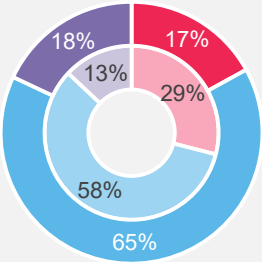
Morgan Stanley



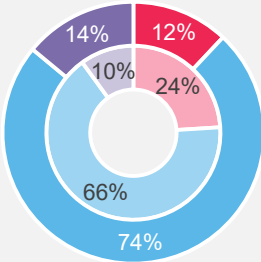
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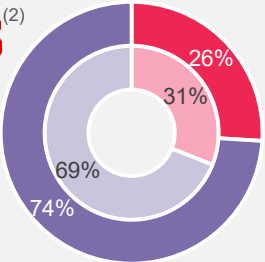
BARCLAYS



Deutsche Bank



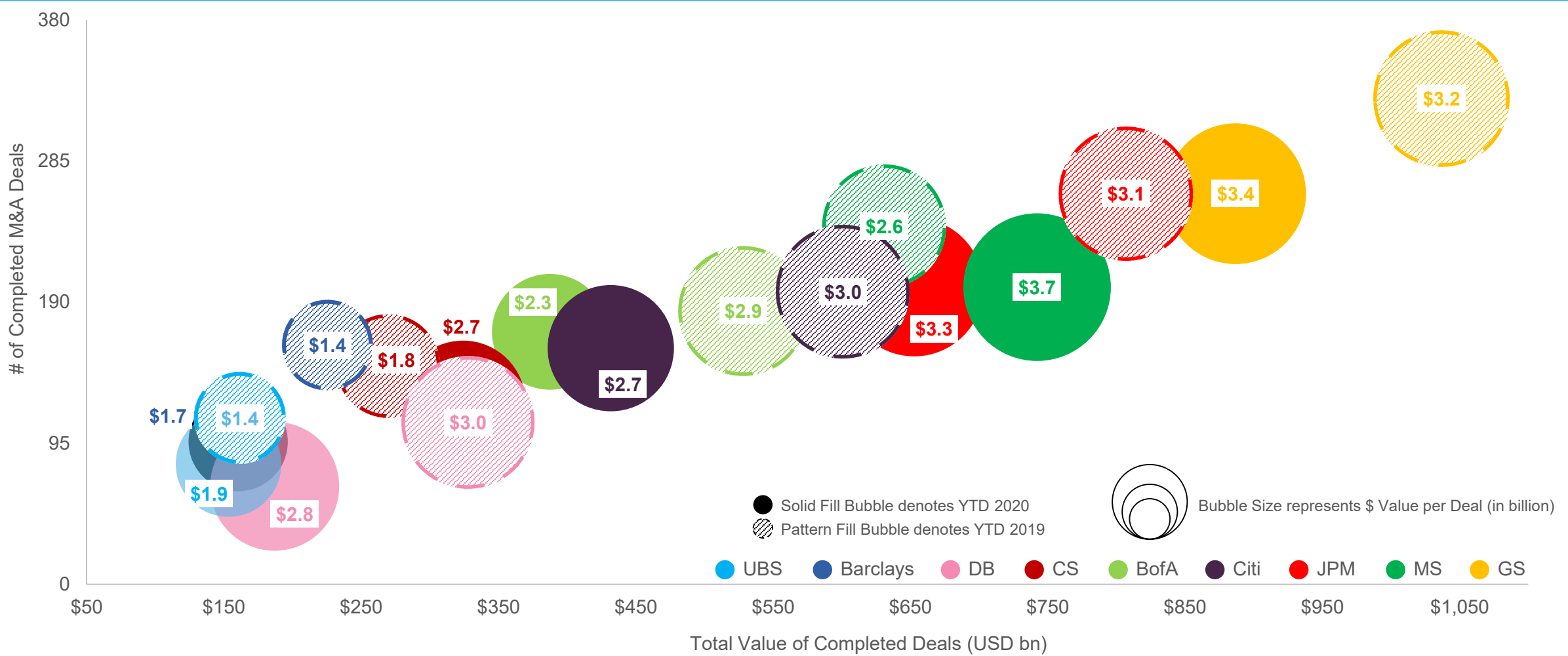
UBS<sup>(2)</sup>



Source: Company reports  
Note: 1. Revenue breakdown not available for Credit Suisse  
2. For UBS, combined underwriting revenue used as split between equity and debt underwriting not available

# Average Size of Completed Deals by Bulge Bracket Banks Remained High in YTD 2020

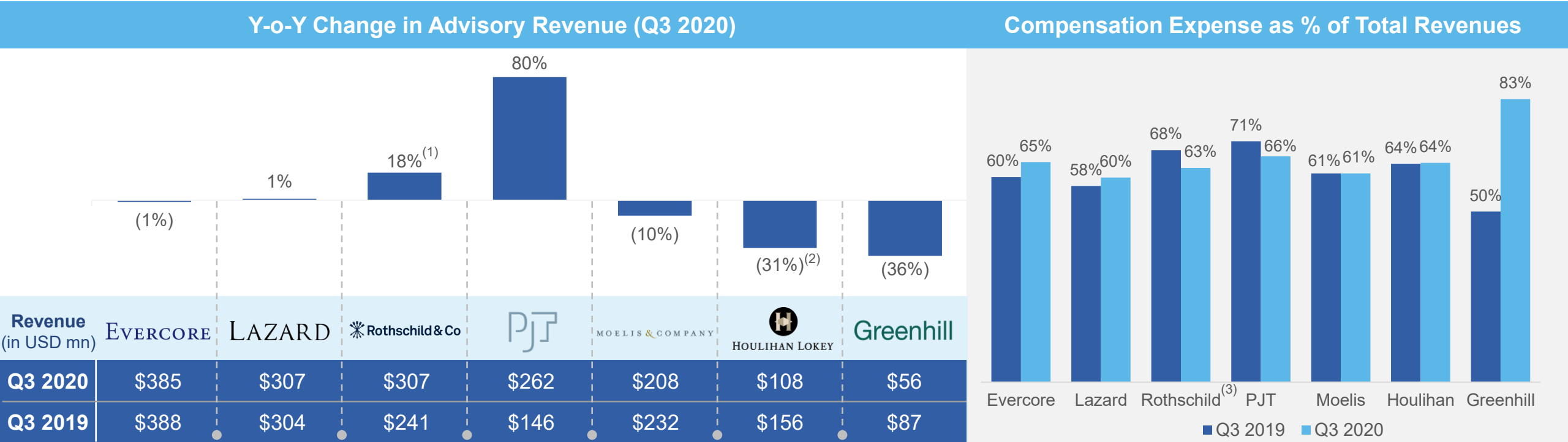
Y-o-Y Change in M&A Deal Size



# Advisory Firms Witnessed Growth in M&A Discussions and Restructuring Activities



- During Q3 2020, advisory firms witnessed an increase in M&A activity – both in terms of resurgence of deals on hold as well as significant increase in new discussions. This trend is expected to continue in the near term.
- The restructuring business is expected to be strong over the next few quarters as businesses are still battling the impact of COVID-19.
- Although capital market activity for advisory firms remained strong, it was lower than that in Q2 2020. Firms with more diversified offerings will likely have an advantage, as clients are likely to look for diversified advisory service providers.



# Performance of M&A Advisory Firms in Q3 2020 – Key Highlights (cont'd)

## EVERCORE



In Q3 2020, the underwriting revenue almost tripled, with significant growth in ECM as the firm diversified the underwriting business beyond the healthcare and biotech sectors. The firm launched its CAPS (capital which aligns and partners with a sponsor) product to execute blank-check IPOs as an alternative to SPAC IPOs to better align the interests of investors and sponsors. In October, it formed a strategic alliance with TACTIV, an advisory firm created by former partners at Evercore's Mexico division.

## LAZARD



Lazard's M&A volumes increased by 64% Y-o-Y due to an increase in European M&A announcements. In Q3 2020, the firm witnessed high activity in sovereign advisory as well as restructuring business. It expects restructuring activity in the US to increase due to slower market recovery and the end of fiscal stimulus. In Europe, restructuring activity is expected to be higher among distressed companies with high leverage. YTD 2020, the firm has hired 12 MDs in its Advisory division.

## Rothschild & Co



In Q3, the firm was very active in M&A, especially in Europe. Revenue from financing activities increased, including advice on financing and balance sheet repair matters. Restructuring activities surged in Europe. YTD, the firm has promoted 20 new MDs across businesses, hired two new MDs into its Swiss and Middle Eastern businesses as well as a new Vice Chairman and an MD in North America.

## PJT



PJT Partners' strong restructuring business augmented its performance this quarter. The pandemic-induced restructuring undertaken by companies is expected to keep its pipeline active. Strategic dialogue is also gaining pace. The firm's current cash balance, its highest ever, has encouraged it commit to repurchase 1.1 million partnership units.

*There was a significant increase in M&A announcements in the third quarter, and that momentum seems to be continuing in the fourth quarter. As we look forward to the remainder of 2020 and into 2021, our backlogs are strong, and we look forward to continuing our momentum in 2021 and in finishing this year strongly. And of course, we remain committed to maintaining our strong and very liquid balance sheet.*

**- Ralph Schlosstein, Co-Chairman & Co-CEO, Evercore**  
(October 21, 2020)

# Performance of M&A Advisory Firms in Q3 2020 – Key Highlights

## MOELIS & COMPANY



Despite a 10% Y-o-Y dip in Q3 2020, the firm's revenue was up sequentially. During the quarter, Moelis witnessed its highest-ever restructuring activities, especially out-of-court restructuring activity. The firm recruited two seasoned bankers for the capital market business, which was active in Q3 in continuation to a remarkably strong Q2 2020. M&A completions, although fewer than last year, gained pace across geographies both in strategic as well as sponsor sides. Moelis appointed an MD specializing in the Technology sector in its MENA M&A team.



## HOULIHAN LOKEY



The firm's corporate finance revenue was down on a Y-o-Y basis due to a decline in deal closures and lower average transaction fee. However, the business has significantly improved since Q2 2020, as dormant deals became active and new enquiries accelerated since mid-summer. The restructuring business is still strong; however, the pace of new discussions, though still at elevated levels, has slowed down from that seen at the beginning of the pandemic.

## Greenhill



Greenhill's revenue declined due to a significant dip in M&A and capital advisory businesses despite strong restructuring activity. The firm expects M&A activity to increase next year and restructuring to maintain pace even beyond 2021. Greenhill aims to have a more efficient and less top-heavy team structure and plans to pull back from lower fee avenues. It also aims to recruit in sectors favorably impacted by the pandemic such as Consumer, Technology, and Healthcare.

*I do believe COVID-19 will continue to reshape the global economy for years to come. The ramifications of the pandemic will force companies to make large-scale decisions about their marketing position, growth strategy and capitalization and they need an adviser who can quickly pivot their resources and strive with the changing environment.*

**- Kenneth David Moelis, CEO, Moelis & Co.**  
(October 26, 2020)



# Outlook



## COVID-19-induced Macroeconomic Uncertainty

The onset of winter in many countries across the globe has fueled a second wave of COVID-19 cases. Thus, the macroeconomic uncertainty is expected to persist until the contagion is brought under control. Governments are reinstating restrictions and lockdowns, which will hurt businesses. However, effective vaccine developments, dovish central banks, and the gradual economic recovery should allow equity markets to perform better.



## Geo-political Implications

The divided projected outcome of the US elections could provide stability to markets thereby putting a restrain on broad legislative shifts impacting deal making landscape in the US. In the UK and Europe, firms would wait for the outcome of Brexit negotiations before finalizing deals. US-China trade tensions, the proliferation of bilateral and regional trade agreements and the declining influence of the World Trade Organization continue to impact macroeconomic recovery.



## Restructuring and Related Activity to Remain High

Despite the fiscal stimulus and rapid recovery in credit markets, many companies are still struggling to improve their business models. Leverage is high across sectors, especially in sectors which are distressed. Bankruptcies in the US and Europe are expected to rise due to the fast pace of debt issuances to distressed companies. This will likely boost restructuring activity and distressed M&A and related financing.



## Excess Liquidity and Increased CEO Confidence to fuel M&A Activity

In Q3 2020, many CEOs resumed dormant discussions and initiated new deals too. This reflects an uptick in CEO confidence. This was further fueled by increasing comfort with remote communication; however, face-to-face communication remains critical in creative and complex negotiations. The significant amount of PE dry powder will likely drive M&A activity, which in turn will drive the demand for acquisition financing.



## Alternative Dealmaking on the Rise

Alternative avenues of deal making, such as minority stake acquisition, joint ventures, strategic alliances, and investments by corporate venture capitalists are gaining popularity. Private clients are considering capitalization alternatives such as regular-way IPOs, direct listing, mergers with SPACs, or sale of the company. In Q3 2020, 47% of all IPOs materialized through the creation of SPACs, with over 22 SPAC IPOs taking place in October.

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