Quarterly Investment Banking Update (Q2 2020)

EVALUESERVE

August 2020

Key Highlights

M&A Advisory Remains Slow

- Globally, the M&A activity slowed down in H1 2020, with USD1.2 trillion of deals announced during the period, which was the lowest first half value recorded since H1 2013. The number of announced deals during the period also declined to a six year-low.
  - In Q2 2020, the value of deals announced stood at USD474 bn, down 56% year-on-year; it was the slowest quarter since Q1 2012.
- In H1 2020, the value of deals announced in the US stood at ~USD355 bn, the lowest value since H1 2012. Meanwhile, the value of announced deals in APAC was USD311 bn, the lowest in seven years. However, in Europe, deals announced totaled USD420 bn in H1 2020, up 37% year-on-year.
- The value of announced cross-border M&A deals was USD440 bn in H1 2020, the lowest since H1 2013, as companies had mostly withheld their global expansion plans.

Record Levels of Debt Market Activity

- The markets raised USD6.6 trillion in YTD, led by record-breaking investment grade issuances in the US.
- Global debt capital markets experienced the strongest ever six-month performance in H1 2020, as a result of monetary stimulus programs and reduced interest rates globally.
- High-yield issuances across the globe reached a six-year peak at USD 251bn in H1 2020, as companies continued to improve their liquidity positions to address future uncertainties.

Increased Equity Capital Raising

- ECM underwriting volumes increased to record levels from May onwards, driven mainly by an increase in investor confidence following the monetary stimulus introduced in financial systems by governments.
- Convertibles issuances, led by Technology, Healthcare and Industrials sectors, gained popularity, as companies preferred equity-linked instruments amid the high-volatility environment.

Source: Refinitiv; YTD as of August 13, 2020

Technology, Financials, Energy and Industrials Sectors Witnessed Higher M&A Activity

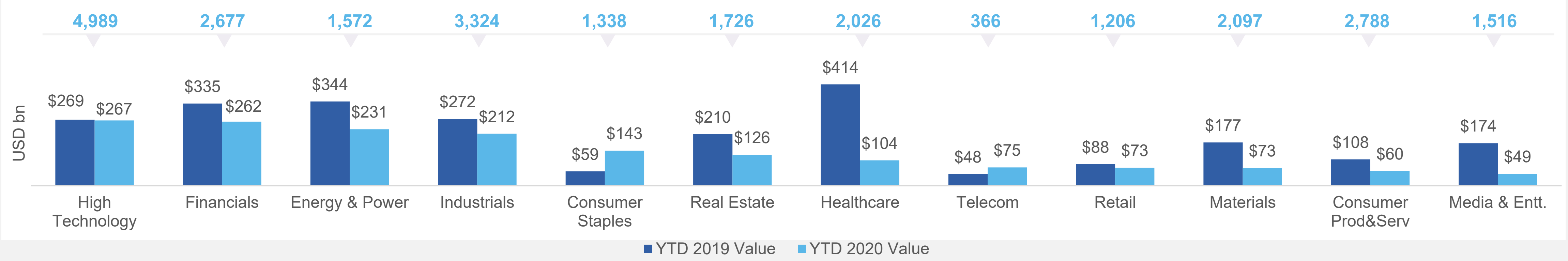
YTD Announced M&A Deals

Slowdown in M&A activity across most sectors vis-à-vis last year

YoY Change in Regional M&A Deals (YTD)

- Global -33%
- Americas -55%
- Europe +5%
- Asia (ex. Japan) +8%

YTD 2020 Deal Volume



Major M&A Deals in YTD 2020 (1)

Announced Date	Target	Acquiror	Deal Value (USD bn)	Region	Sector
Mar 09, 2020	Willis Tower Watson	Aon	$30.1	UK	Financials
Aug 02, 2020	Speedway	7-Eleven	$21.0	US	Retail
Jul 13, 2020	Maxim Integrated Products	Analog Devices	$20.7	US	Technology
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
Aug 02, 2020	Varian Medical Systems	Siemens Healthineers	$16.0	US	Health Tech
Jun 25, 2020	Samba Financial Group	National Commercial Bank	$15.6	Saudi Arabia	Financials
Feb 20, 2020	E*TRADE Financial Corp	Morgan Stanley	$13.1	US	Financials
Jul 20, 2020	Noble Energy	Chevron	$12.6	US	Energy & Power
May 07, 2020	O2 Holdings	Virgin Media Ltd	$12.6	UK	Telecom

Source: Refinitiv; YTD as of August 13, 2020
Note: 1. Excludes USD106.9bn unification of Unilever's legal structure announced in June 2020 and USD33.9bn stake sale of Sberbank to Russian Ministry of Finance in February 2020

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Debt Capital Markets Outperformed in YTD 2020 as Firms Focused on Increasing Liquidity

YTD DCM Deals

Double-digit percentage Y-o-Y growth in DCM issuances across all sectors

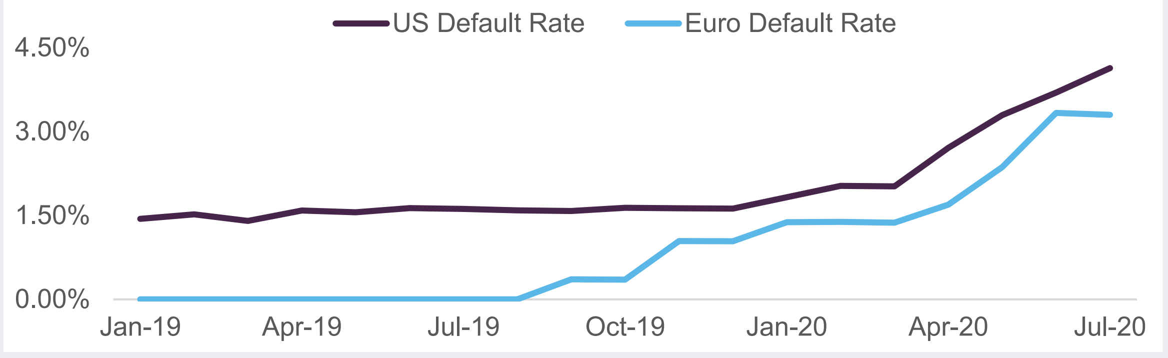
YoY Change in Regional DCM Deals (YTD)

- Global +32%
- Americas +56%
- Europe +22%
- Asia (ex. Japan) +16%

YTD 2020 Deal Volume

- The record surge in debt underwriting revenues in H1 2020 helped offset weaknesses in other business segments of investment banks, especially M&A advisory.
    - However, DCM activity H2 2020 will likely be muted as many companies have already prefunded their requirements.
- A surge in default ratios, along with an expected decrease in underwriting and advisory revenues, could adversely affect overall profits for the bulge bracket banks in H2 2020.

US vs Euro Loan Default Rate: Based on Issuer Count



Source: Refinitiv; YTD as of August 13, 2020, S&P Global Market Intelligence

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ECM: Strong Rebound in Q2 after Slow First Quarter

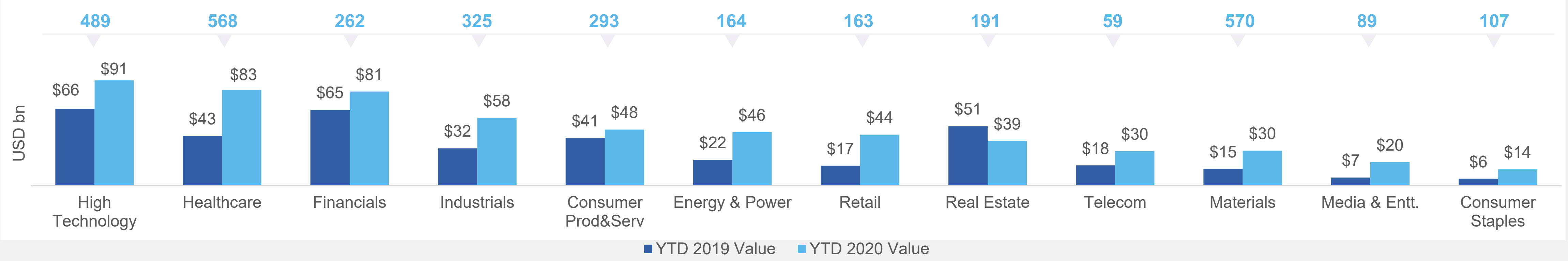
YTD ECM Deals

High growth in Retail, Consumer Staples, and Media & Entertainment sectors

YoY Change in Regional ECM Deals (YTD)

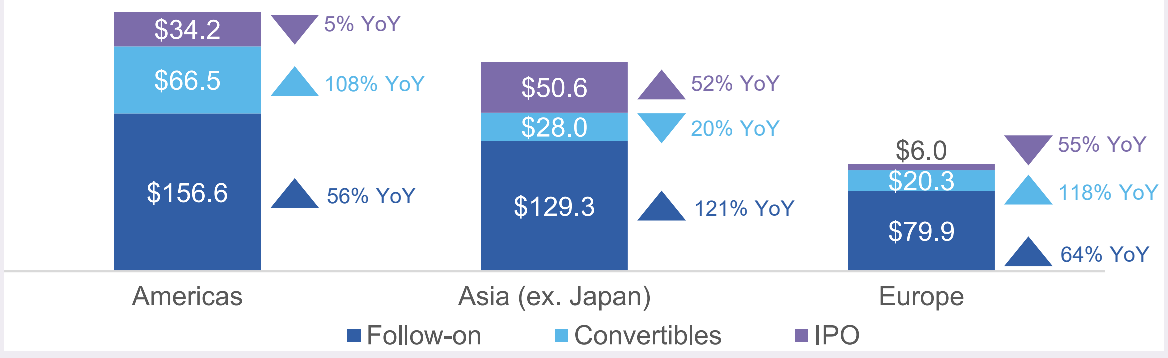
- Global +52%
- Americas +53%
- Europe +48%
- Asia (ex. Japan) +64%

YTD 2020 Deal Volume



- In Q2 2020, issuances in the global equity capital markets surged and generated proceeds of USD317.2 bn, the highest in a quarter since Q4 2010.
- Secondary offerings in H1 2020 totaled USD296 bn, the highest since H1 2016
  - June 2020 witnessed an all-time largest 512 secondary offerings in a month and the second largest monthly follow-on proceeds of USD94 bn
- Convertible offerings reached their highest levels since 2007.
- IPOs dwindled to a four-year low in H1 2020; however, they are slowly gaining momentum, led by the Technology and Biotech sectors.
  - The number of IPOs in June was 3x of that in April.
  - Europe is witnessing a strong pipeline of IPOs.

YTD 2020 Region-wise ECM Issuances By Type (USD bn)



Source: Refinitiv; YTD as of August 13, 2020

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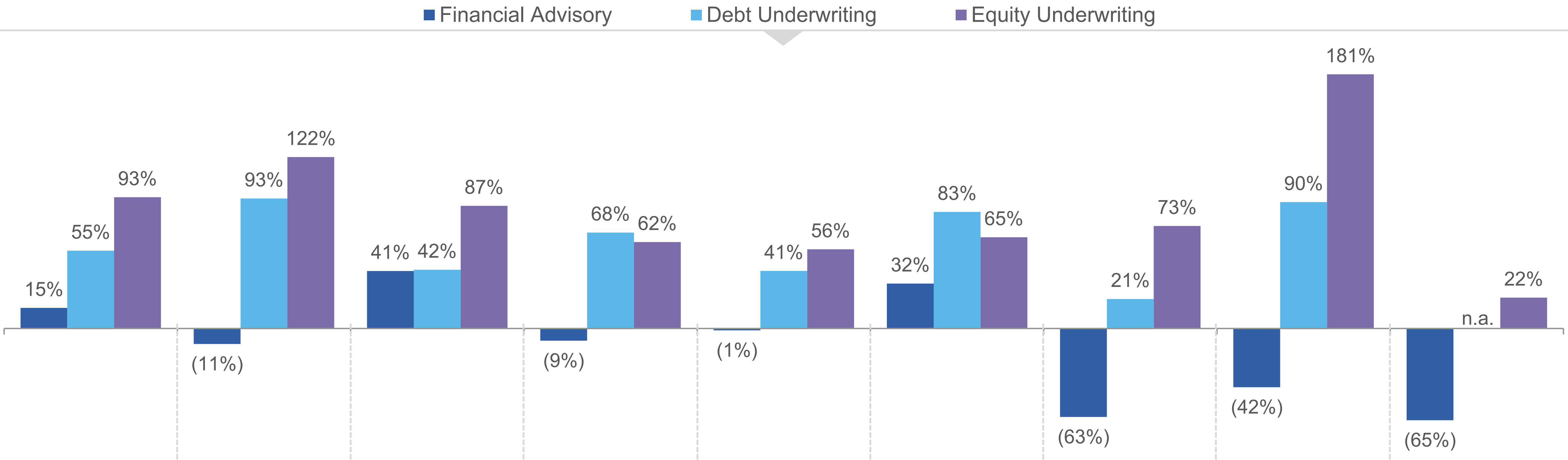
Bulge Brackets – Decline in Advisory Revenues; Equity and Debt Underwriting Revenues Up Significantly

Q2 2020 Investment Banking Revenue (Year-on-Year Change)



IB Revenue (in USD mn)	J.P.Morgan	Goldman Sachs	Bank of America	Morgan Stanley	citi	Credit Suisse	Barclays	Deutsche Bank	UBS
Q2 2020	$2,847	$2,733	$2,204	$2,051	$1,759	$1,248	$906	$719	$525
Q2 2019	$1,846	$1,761	$1,429	$1,472	$1,283	$917	$887	$420	$612

Source: Company reports

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Bulge Bracket IB Performance in Q2 2020 – Key Highlights (cont'd)

J.P.Morgan

JPM generated its highest ever quarterly revenue, driven by strong performance of its CIB division. IB fees stood at an all-time high, up 54% year-on-year. The upside can be attributed to strong growth in debt and equity underwriting activities, as well as the closure of a few notable advisory deals. The firm provisioned USD8.9 bn for COVID-19-related credit reserves.

Goldman Sachs

GS retained its leading position in the M&A and equity underwriting space. Advisory fees declined due to fewer deal closures, but were still higher than the other banks. The bank witnessed significant activity related to IPOs, follow-on, and convertible offerings. It also saw record volumes of US IG and HY offerings. The deal backlog decreased due to slower deal replenishment.

Bank of America

Advisory fees (including debt, equity, and M&A) increased significantly. Net COVID-19-related expenses, including supplemental pay, child care, and technology expenses, stood at ~USD400 mn. The firm's USD4 bn reserve reflects a weak economic outlook.

Morgan Stanley

The bank raised record levels of capital, which drove growth in its investment banking revenue. Equity issuances related to all products, including follow-ons, convertibles, and IPOs, increased in May and June. Debt issuance reached unprecedented levels as companies fortified their balance sheets by leveraging the increasingly constructive financing environment.

citi

Acceleration in debt and equity underwriting offset a slight decrease in advisory revenue in Q2 2020. The bank expects revenue to normalize in H2 2020. It set aside credit reserve provisions worth USD5.6 bn, which reflects the deterioration in its economic outlook since Q1 2020.

> *In the second half, we are watching for a potential pickup in M&A activity both from companies coming from a position of strength as well as those challenged by the environment. Dislocated asset prices will help drive those opportunities as will the significant amount of private capital available for deployment. That said, macro and political uncertainty remain relevant and will influence outcomes.*
>
> **- Stephen M. Scherr, Executive VP & CFO, Goldman Sachs (July 15, 2020)**

Source: Company reports

Bulge Bracket IB Performance in Q2 2020 – Key Highlights

Credit Suisse

The firm's M&A advisory business outperformed the market due to the conversion of announced deals. The strong performance of follow-on and convertible offerings, along with investment-grade debt ensured robust underwriting activity as well as revenues. It has announced plans to create a global investment bank by integrating the Global Markets, IBCM, and APAC businesses.

Barclays

The bank's advisory revenue was hurt due to lower fees from its global businesses. The debt and equity capital markets witnessed the best-ever quarter in Q2 2020. It underwrote USD766 bn of equity and debt issuances by undertaking deals for governments, entities dealing with governments, and supranational, including 13 European sovereigns.

Deutsche Bank

Higher volumes and share in the investment grade market drove the strong performance of debt-origination services. DB has performed well in the German, as well as other European markets. Costs also declined due to headcount reductions in 2019 and lower internal service cost allocations. The IB division is trying to reduce costs incurred on technology and infrastructure support.

UBS

The bank witnessed a decline in advisory revenue due to lower fees from its businesses; however, it was offset by an increase in equity and debt underwriting revenue in Q2 2020. The management may consider share buybacks in Q4 2020, given more than expected income in H1 2020 and a robust capital position. In Q3 2020, advisory fees will likely be adversely affected by low levels of M&A announcements.

M&A will be tough in the second half because announced M&A volumes in the first half is down over 50% globally. I'm talking about Street numbers. And there is a delay, as you know, for M&A revenues. So I think overall Street will have a tough time in the second half in terms of M&A revenues. But at the same time, we see our pipeline growing. We also saw recent announcements of M&A transactions. So from that perspective, I think momentum is building.

- Thomas P. Gottstein, CEO, Credit Suisse (July 21, 2020)

Source: Company reports

Share of Revenue Changed for Banks in Favor of Underwriting Activity in H1 2020

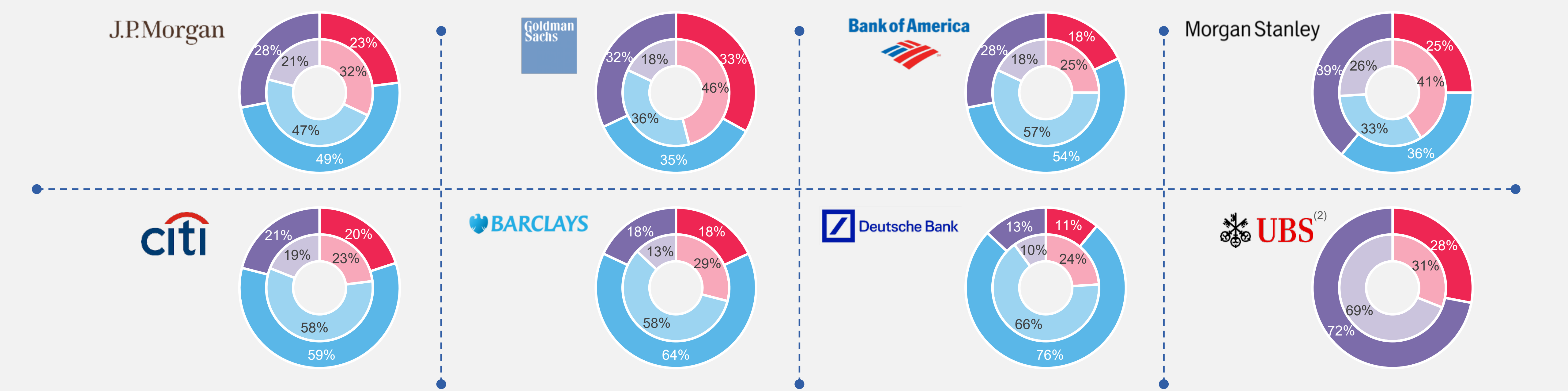
To illustrate how quickly the balance of investment banking activity changed during Q2 2020, for two consecutive weeks in both April and May, there were more global bond offerings brought to market than announced mergers, a milestone that hasn't happened in more than two decades.

Matthew Toole, Director, Deals Intelligence at Refinitiv
(July 15, 2020)

Changes in IB Fee Composition in H1 2020 [(1)]

M&A Advisory | Debt Underwriting | Equity Underwriting

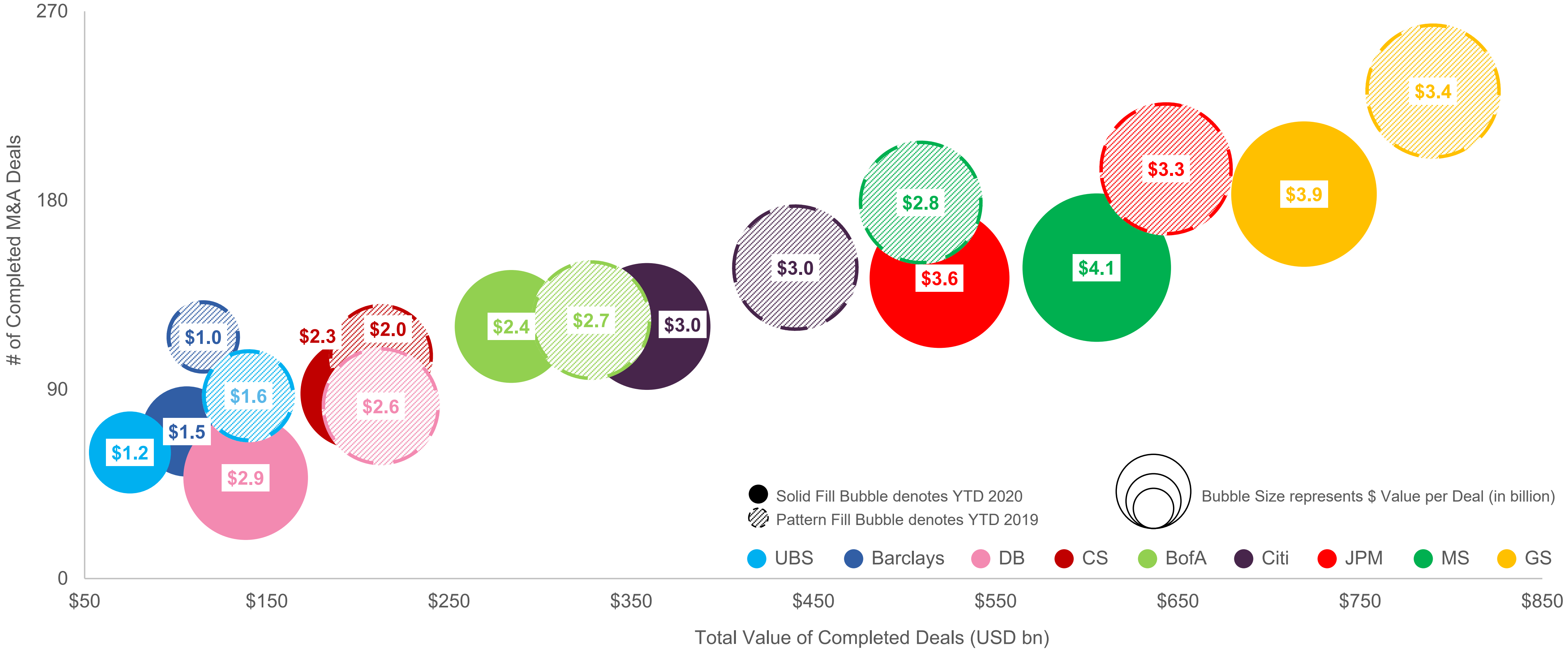
Inner Ring: Last 4 years average (2016-2019);
Outer Ring: H1 2020



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

Average Size of Deals Completed by Bulge Bracket Banks Has Increased in YTD 2020

Year-on-Year Change in M&A Deal Size



Source: Refinitiv; YTD as of August 13, 2020

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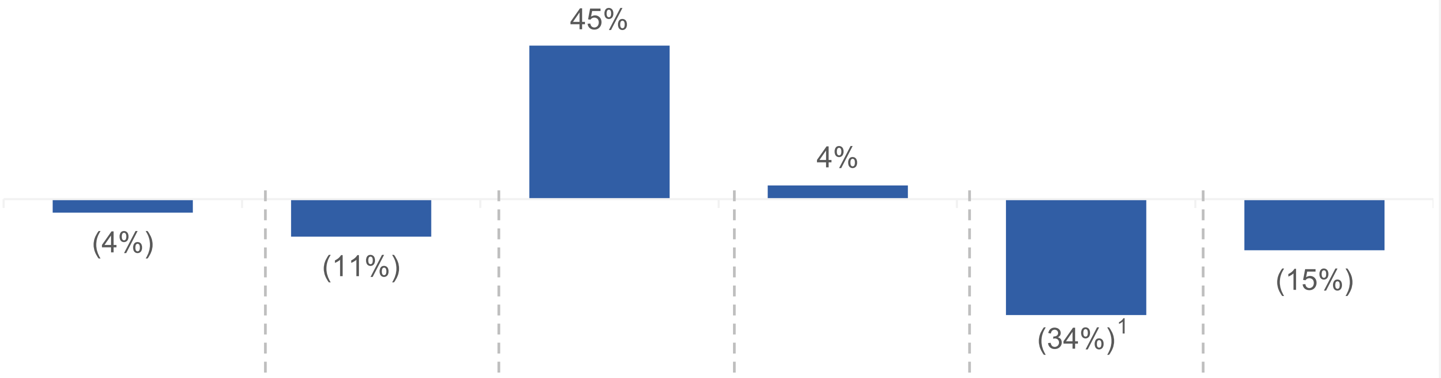
Growth in Capital Markets and Restructuring Activities Across Advisory Firms

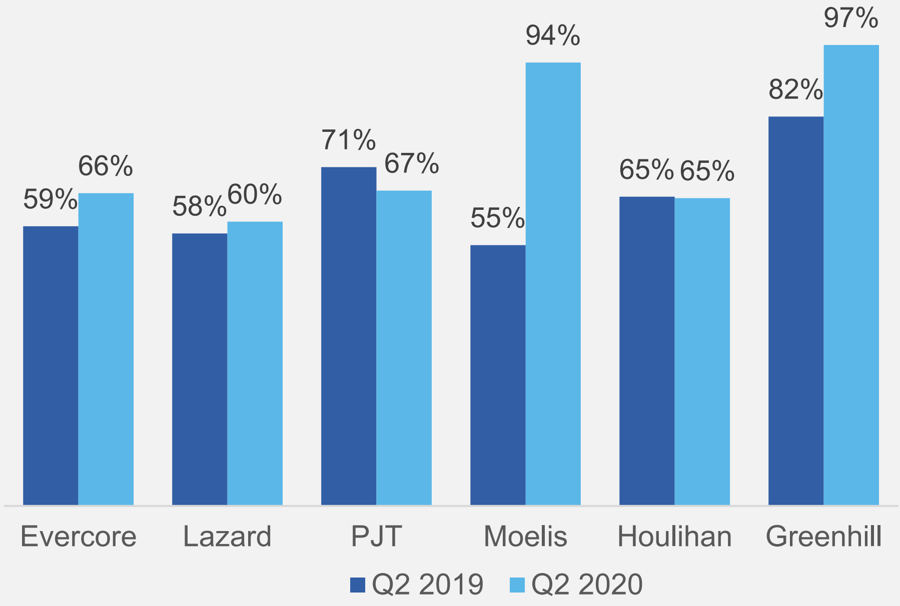
- M&A advisory, which is a major revenue source for most advisory firms, continues to be a low-performing segment. However, the weak performance was partially offset by a record increase in debt and equity advisory revenues.
- The firms focused on offering services such as restructuring, rescue financing, and recapitalization to address the evolving priorities and needs of clients, as well as explore opportunities for possible strategic transactions.
  - As COVID-19-related economic disruptions continue to affect many companies, restructuring activities are expected to increase.

Year-on-Year Change in Advisory Revenues for Q2 June 2020



Revenue (in USD mn)	Evercore	Lazard	PJT Partners	Moelis & Company	Houlihan Lokey	Greenhill
Q2 2020	$495	$293	$193	$160	$88	$48
Q2 2019	$516	$329	$133	$154	$134	$56

Compensation Expense as % of Total Revenues



Source: Company reports
Note: 1. Data for Houlihan Lokey is for its first quarter ended June 2020

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M&A Advisory Firms – Key Highlights (cont'd)

Evercore

In Q2 2020, the firm's M&A advisory revenue declined ~24% year-on-year. However, the dip was offset by record underwriting fees, which surpassed the FY 2019 levels in H1 2020. The volume of announced M&A deals was down by 41% during H1 2020; thus, restructuring and debt advisory businesses continued to be the key growth drivers for the firm.

Lazard

A significant increase in restructuring revenue due to increased new activity and the closing of several large assignments in Q2 2020 partially offset the decline in M&A revenue. The firm expects M&A to be slow in Q3 2020 but believes that strategic discussions and restructuring activities will increase, especially in Europe, as governments ease lockdowns and scale back their economic support programs.

PJT Partners

The firm's advisory revenue grew due to an increase in activities including M&A, capital markets, liability management, shareholder engagement, and strategic investor relations. It expects the next wave of M&A activity to be driven by the sale of non-core assets and restoration of balance sheets. In H1 2020, PJT inducted four new partners in its strategic advisory business.

M&A is picking up, and there is a tremendous amount of pent-up demand for high-quality assets across both corporate clients and sponsors. Corporates are re-evaluating their business models, and I think we could see waves of significant strategic consolidation activity coming. Sponsors have substantial funds to deploy as well as assets they need to monetize.

- Kenneth David Moelis, Chairman & CEO, Moelis & Co (July 29, 2020)

Source: Company reports

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M&A Advisory Firms – Key Highlights

MOELIS & COMPANY

The firm's revenue increased by 4% in Q2 2020, due to a surge in activities in the capital markets and a considerable uptick in restructuring-related retainer fees. Moelis advised on 14 capital deals, totaling ~USD14 bn across equity and debt. Its compensation ratio rose to 94% and it announced the hiring of four senior executives in the quarter. Moelis expects M&A activity to be driven by demand for high-quality assets by financial sponsors.

HOULIHAN LOKEY

The firm's corporate finance revenue decreased in Q2 2020 due to a 43% year-on-year dip in deal closures. Many M&A discussions were either cancelled or put on hold. The level of new business activities dipped by ~50%. However, the capital markets division posted a strong performance, with clients seeking flexible capital options and opportunistic balance sheet restructuring, which increased the average fee from the pre-COVID levels.

Greenhill

An increase in transaction completion fees and restructuring retainer fees was more than offset by a dip in capital advisory fees and transaction announcements. Although new assignment activity increased from last year, deal closures have slowed down. The compensation ratio increased due to growth in headcount and low revenue.

In previous recessions, we have experienced dramatic declines in M&A activity, but never one as abrupt as the one we experienced during our first quarter. Today, capital markets are strong and the stock market has held up well. However, the continued pressure to stay at home, the risk of a second shutdown and an uncertain U.S. election outcome loom over the M&A market. Mitigating these concerns is the fact that the number of deals on hold versus the number of deals that died is more favorable than in previous downturns. We believe this reflects the market's view of a temporary pause in M&A activity versus a prolonged disruption.

- Scott Lee Beiser, CEO, Houlihan Lokey (July 28, 2020)

Source: Company reports

Outlook

Uncertain Macroeconomic Environment

According to the IMF, an expected 4.9% contraction in the global economy will fuel macroeconomic uncertainties in the market in FY 2020. The ever-looming possibility of a second wave of COVID-19 cases and upcoming US elections may also add to these uncertainties. Although the near-term M&A pipeline seems contracted for banks, M&A could, however, be used both defensively and offensively by firms for survival as well as for growth.

Refinancing and Restructuring

Activities in the capital markets may slow down in H2 2020, with many companies having already pre-funded their capital requirements in the first half of the year. Restructuring activities are expected to increase, especially in Europe, as central banks and governments begin scaling back their pandemic-related economic support programs.

Sector-wise Recovery

Some companies will likely be more eager and better equipped than others to consider M&A. Sectors such as Grocery, Technology, and Health will likely emerge energized and keen to accelerate growth by pursuing M&A opportunities. However, firms in other sectors such as Aviation, Hospitality, and Leisure may face a low rate of recovery in M&A deals.

Cash-rich Players

S&P 1200 companies have a cash reserve of USD3.8 trillion and can also service debt in the current expansive monetary environment. Financial sponsor firms also have significant amount of dry powder. Such companies can consider exploring opportunities with private equity and other pools of private capital to enhance value and align their strategic priorities.

Innovative Approach to Advisory

The pandemic has compelled many companies to innovate and reinvent their strategies to stay afloat. As a result, these companies may have to explore a range of inorganic growth strategies and de-risk their M&A approach by engaging in partnerships, co-investments, and cross-sector alliances. Moreover, firms will have to increasingly shift their M&A focus to strategic fit instead of bargain pricing to excel in the current environment.

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