“A World Emerging From Lockdown”

Global M&A Outlook Report – 2020 (2H)

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Report Overview – Meet the Team

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Executive Summary

Who Are We?

Focus Finance is a student-led international financial research organization consisting of more than 25 universities and 100 students. We bring together students from business schools all around the world who are bound with a shared vision of redefining student research. We achieve this through our dual commitment to deliver professional research reports and up-to-date financial news coverage alongside building long-lasting relationships between all of the students involved.

Our research covers the essential details of the daily happenings in not only the world of finance, but local and global economic trends as well. Our hand-selected international teams work together on every project to provide readers with original analytics on these events, as well as the larger consequences they entail.

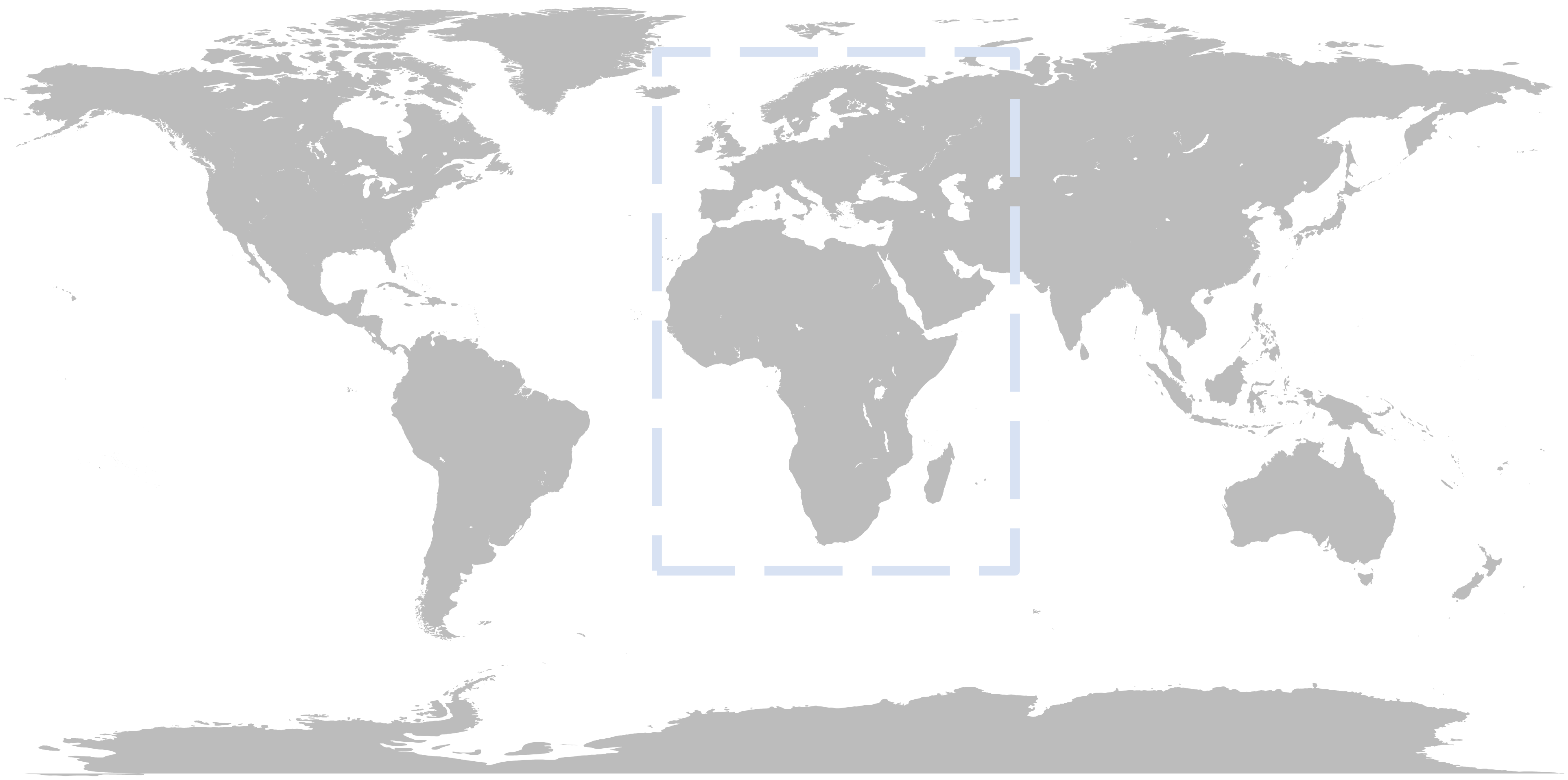
We strive to provide every Focus Finance member with the right technical toolkit to excel as a professional through a bespoke analyst training program which gives them an edge in employability. In addition, our organization offers an unrivalled mentorship opportunity with members who have gained first-hand experience at various top tier firms from around the world.

Global M&A Outlook Report

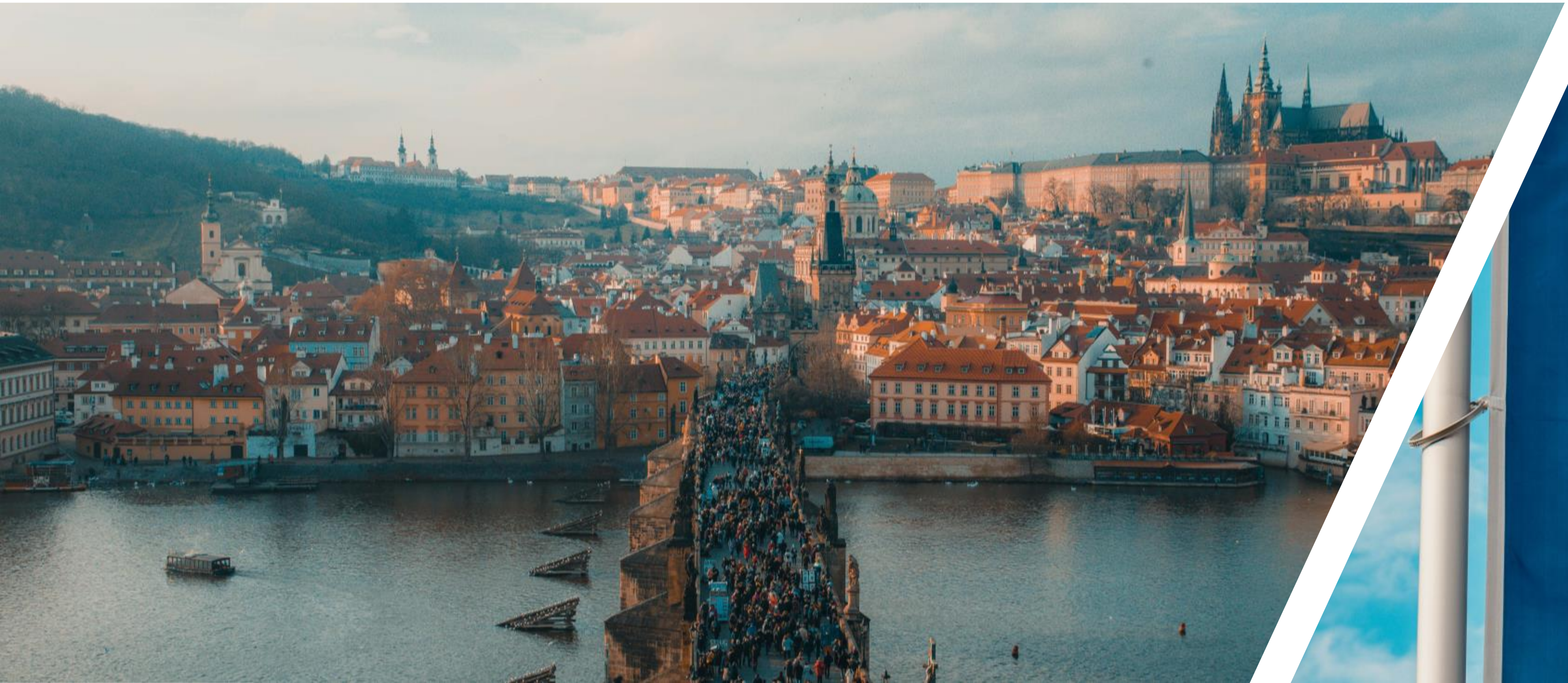
Over the past few weeks, a group of 10 analysts from around the world gathered together to produce Focus Finance's second ever Global M&A Outlook Report. Covering the latest macroeconomic, industry, and capital market trends, the report gives insight into the current conditions of the M&A market through the second half of 2020. From the Brexit trade deal to Burberry Luxury Fashion's sustainable bond issuance, our analysts put in countless hours of hard work to assess the impacts of these events in their respective regions.

We have worked diligently to improve upon our previous Global M&A Outlook report by incorporating new types of analysis as well as integrating other Focus Finance products to give readers a more holistic view on the economic events of 2020. We hope you enjoy!

Region 1 – Europe, Middle East Africa



Economic Overview – EMEA



Brexit Trade Deal

On the 23rd of June 2016, a referendum was held in the UK which gave British citizens the choice to either remain as an integral part of the European Union or deviate from that alliance. Essentially, Britain has voted to leave the European Union.

Brexit's has impacted both the EU as well as the UK, although the procedure has taken several years to come into effect, some of its consequences already appeared in the meantime. Whilst it took almost eight months of negotiations to concur on a trade agreement, the EU-UK Trade and Cooperation Agreement was signed on the 30th of December 2020, it's most essential part links both parties to a free trade agreement covering goods, services and investment opportunities amongst others. Brexit's first effect on the region was felt by a weakening British pound from 2016 up to today. The British pound fell to an all time low, plummeting to its lowest at 1.0754 in March 2020. Considering the weakening of the pound affects the UK mainly, it is fair to mention that the European counterpart will suffer some of the consequences of such move as well. Countries like Romania, Estonia and Poland, for example, have seen steady rise in immigration to the UK, which is primarily due to the opportunities and freedom of movement and work given by the European Union. Those opportunities might now be inhibited, or at least, working immigration outflow from Eastern Europe to the UK will be greatly reduced. This might result in Eastern European citizens losing their right to work in the UK, and thus will be forced to look for working opportunities elsewhere in the EU.

As of today, it is clear that investor confidence was greatly shook by the Brexit Referendum. This uncertainty can be noticeable in the M&A sector, where transactions processes tend to take *"longer"*. This is to do with investors attempting to analyse the new, post-Brexit environment that might be created, and potentially chose to either continue, or divest their current plans. However, those issues occur in the immediate-to-short term, in the long-run, far more firms and investors are considering potential M&A opportunities in the UK as a target destination than abroad, according to research conducted by Deloitte.

Impact of COVID-19

Covid-19 is the name given to a strand of infectious virus that first originated in the Chinese city of Wuhan at the end of 2019. The fast spread of the virus, and the severe health consequences that can appear as a result of it spread fear worldwide and resulted in numerous countries declaring self-isolation measures at home, travel bans, work from home routines, alongside other measures to contain the proliferation of the virus.

As the world appeared particularly unprepared to such an outbreak, the economic effects of the virus appeared particularly significant. Whilst unemployment in the EMEA region rose, due to companies' restructuring needs, governments across the region further indebted themselves to combat first-hand liquidity issues. The European Central Bank (ECB) for example, put in place the €1,850 billion "Pandemic Emergency Purchase Programme" (PEPP) to help citizens, firms, governments and other institutions access funds with lower borrowing costs to offset the financial distress created by such economic crisis. Although these so called "stimulus packages" offered by countries individually and the ECB helped absorb some part of the Covid-19 economic impact, financial markets have seen serious declines in 2020. Since the end of March 2020 those indices have steadily gained in value, it just shows how impactful the impact of Covid-19 was on European financial markets. This volatility was due to the inactivity of many sectors, resulting from almost dormant industries such as restaurants, retail businesses, commercial airlines, the oil and gas sector, and leisure facilities in particular. Eurostat announced that in the second quarter of 2020, new business registrations saw a significant drop, those were steadily increasing from 2015 onwards, but Covid put a halt to that phenomenon.

From the standpoint of M&A transactions, Covid had a mixed influence in the EMEA region. In Q1 of 2020 deal volumes appeared to have dropped by 33% from Q1 2019, although quite interestingly, whilst the remaining transactions mainly concerned large cap ones, the total value of M&A deals went up 26% from Q1 2019. Essentially, whilst Europe's M&A volume dropped, the total value went up. 2020 appeared to be the year for acquisitions of new technology and IP as 88% of dealmakers agreed this sector was the primary deal driver of that year. Although 2020 distorted the M&A scene, many companies are acquired in situations of financial distress, which was prominent in crisis times under Covid.

Israel-UAE Normalization Agreement

Various powers in the Middle-East have different goals in mind, and the Israel-Palestinian conflict does not help see through the mist. However, the Israel-UAE normalization agreement, a historical US-backed peace deal was signed at the White House in September 2020, appears as a rigorous and calculated step to create a hub collaboration and friendship, much needed in the current climate there.

This move is quite important for several reasons: 1. The UAE becomes the third country to agree to normalize its relationship with Israel after Egypt and Jordan. On its side Israel agreed to put a hold on its plans to annex parts of the West Bank. It seems that the relationship between gulf countries and Israel are slowly warming up throughout the years, as countries appear to create a hub of collaboration against a common enemy, Iran. 2. A normalization of relations means several creates more opportunities for trade and bilateral relations to be established. Not only in terms of advanced weapons such as fighter jets and electronic warfare aircrafts for national defense purposes, but also for general tourism and cultural exchange between both countries. 3. Israel can only win from such peaceful relationship, it lessens its regional isolation and creates more opportunities for the future, where a global trade hub between Israel and the Muslim world can thrive. Normalization in general also encompasses both countries building embassies in each other's regions, creating a place for dialogues and in general, a step closer to peace in the Middle East. In terms of economic benefits Israel estimates that trade with UAE could total $4 bn a year and create 15,000 jobs. However, this seemingly peaceful situation is seen negatively by the Palestinians who see the UAE's step as a "betrayal" in their fight for sovereignty and freedom from Israeli rule.

For the M&A industry this move appears powerful, mainly because a normalization of relationships effectively means a normalization in affairs and business operations. Israel's main industries operate around Computing software's, Pharmaceutical products, Electrical components and R&D. The Oil and gas sectors are particularly dominant in UAE's economy, whilst the services sector has been rapidly expanding as well, it is focused around tourism, with the building of hotels, luxury vacation opportunities, beaches, etc. Although the M&A industry has not been affected by this peace deal yet, it certainly will in the future. A more cooperative environment always promotes a healthier development in affairs, and in this case in the various M&A opportunities that can be created in such differing countries.

EU Digital Services Act & Digital Markets Act

As businesses become increasingly digitized and the majority of our daily personal lives tap into digital platforms, a rising awareness surrounding so-called "Big Tech" has emerged. Tech giants like Amazon, Apple, Facebook, Google and Microsoft have been under increasing scrutiny regarding their rapidly growing influence and power, which according to the EU results in anti-competitive practices. The European Commission has therefore proposed two legislative initiatives, the Digital Services Act (DSA) and the Digital Markets Act (DMA), to combat this development.

Generally speaking, the DSA and DMA both aim to regulate the growing influence of Big Tech. More specifically, however, the DSA will address transparency related matters while the DMA addresses anti-competitive behavior in the digital market. Transparency surrounding the algorithms used to rank user content or how content is recommended to users will be demanded by the DSA . Additionally, the act will hold technology companies liable if they do not take action against illegal content posted by users. The DSA will apply to platforms with more than 45 million users, such as Facebook, YouTube, and Instagram. Non-compliance could lead to fines of up to 6% of global annual turnover and the DSA will also provide the Commission with the ability to discontinue advertising revenue for specific content, among other actions. On the other hand, the DMA will apply to companies that are defined according to various criteria as "gatekeepers", or in other words, as having the ability to dictate the marketplace. In short, three main provisions result from the act. Firstly, "gatekeeper" companies are required to act fairly with regard to using competitor data; data from competitors may not be used to disadvantage them. In addition, the DMA will enforce interoperability, providing the ability for users to take their data elsewhere while still being able to benefit from the platform's services. Lastly, the DMA dictates that "gatekeepers" are prohibited from unfavorably treating competitors using their platforms over their own. For instance, by not ranking their own services higher than competitors' in a search algorithm. Non-compliance with the DMA will result in fines of up to 10% of the company's worldwide annual turnover. *[Continued next page]*

Economic Overview [EMEA]

In the case of systematic infringements, businesses may be required to be divested. Overall, the DSA and DMA aim at creating transparency in a market dominated by a few powerful corporations, while cracking down on anti-competitive behavior resulting from monopoly-like “gatekeepers” dictating the digital landscape.

In addition to the provisions described above, the proposed acts will require “gatekeepers” to inform the European Commission on intended mergers and acquisitions concerning other providers of digital services. This is a requirement regardless of whether the transaction needs to be reported under the current EU Merger Regulation or EU Member States’ merger rules. The DMA and DSA will thus allow the European Commission to have greater surveillance over transactions that would, in the past, fall outside its jurisdiction. Overall, one can see early developments of a more regulated and supervised M&A environment for large technology corporations. Although the DSA and DMA are not specifically proposed to regulate M&A transactions, as they cover wider aspects of the current problems surrounding Big Tech, it is inevitable that the M&A landscape will change significantly in the coming years. Overall, anti-competitive practices by Big Tech companies will surely create incentives for governments to regulate their M&A prospects in order to ensure that smaller technology companies have the chance to achieve growth and ultimately innovate in a market which until now has been dominated by only a few. The DSA and DMA are early examples of what’s to come.

FOCUS Finance

Capital Markets Overview

Europe, Middle East & Africa

Selected ECM Deal: "The Hut Group Looks to Raise $1.2 billion in IPO"

I. Overview of the deal

The Hut Group is a British e-commerce company founded in 2004, operating over 100 websites covering a large range of products. Through acquisitions like Zevvi and IdealShape, the company strategically expanded globally, and although the company is UK-based, most of its revenues come from customers outside the UK.

On September 16th, 2020, The Hut Group went public as London Stock Exchange's largest IPO since 2013. Opening at 500p per share, first day trading saw the stock's price reach highs of 658p and close at 625p, up 25% and valuing the business at £5.6bn. Matt Moulding, founder and CEO of The Hut Group, did not plan on selling his 25% stake, a sign that the company's leadership sees strong long-term potential. However, private equity group KKR sold its entire 19.2% stake after investing in the business in 2014. Additionally, the IPO included a founder's share for Matt Moulding, giving him the power to veto any hostile takeover attempt for the next three years. Moulding is not looking to sell the business, but rather to expand it into a major e-commerce player. However, the founder's share prevents the company from being included in key UK indexes, thus missing out on a potentially lucrative opportunity.

II. Macroeconomic Analysis - What Triggered this Event?

With the Covid-19 pandemic being 2020's largest source of uncertainty, some industries suffered while others gained momentum as new ways of living and working became the norm. The e-commerce industry in particular soared as consumers turned to online shopping during a time where large amounts of the world's population were confined in their homes, and physical stores were forced to shut down. According to the Office for National Statistics (ONS), online penetration in the UK soared to almost 32% by the end of June, 2020, compared to less than 19% a year earlier. These factors played beneficial for The Hut Group and allowed the company to take advantage of its strong value offering, especially as some competitors lacked online infrastructure during the midst of the pandemic. The Hut Group's IPO may be a signal for others to follow suit, as the current economic climate has raised investors' attention toward companies that embrace a new era of digital marketplaces.

III. Short- and Long-term Implications

While the traditional retail market has been stagnant and declining for some time at the hands of a growing interest in e-commerce, players like The Hut Group have seen huge investor demand. Especially in 2020, as investor focus shifted to those businesses that embrace digital and online strategies, e-commerce companies are seen as a relatively safe investment. This may explain why The Hut Group's IPO was so hotly anticipated. Since the company's expansion has been fueled by an aggressive acquisition strategy in the past, it is likely that the funds raised through the IPO will be further invested in acquisitions that allow the company to expand geographically but also diversify its offerings. The Hut Group has said that it has already identified a "pipeline of attractive acquisition opportunities", indicating their intentions for the funds.

Selected ECM Deal: “Hensoldt AG targets EUR 300 million from Capital Increase”

FOCUS Finance

I. Overview of the Deal

Headquartered in Germany, Hensoldt AG offers sensor technologies for the defense, security and aerospace sectors. The company was previously part of Airbus Group’s defense division before being acquired by US financial investor KKR in February 2017.

On September 25th, 2020, Hensoldt AG went public on the Frankfurt Stock Exchange in Germany. Hensoldt’s IPO was Germany’s largest of 2020, with a total volume of EUR 460 million, accounting for 40% of Frankfurt’s total yearly issue volume. In total, 38 million bearer shares with no par value were placed, comprising 25 million newly issued shares in the form of a capital increase, and 13 million existing shares. The existing shares were sold by Square Lux Holding II S.à r.l. (a company indirectly owned by funds advised by KKR), consisting of 8,333,333 secondary base shares and 5,000,000 over-allotment shares connected to a greenshoe option. Gross proceeds were expected to be EUR 300 million in connection with Hensoldt’s capital increase and EUR 160 million for the selling shareholder. The shares were priced at EUR 12 per share at the bottom of a EUR 12 - EUR 16 price range, and first day trading saw the stock drop to EUR 10.84.

II. Macroeconomic Analysis - What Triggered this Event?

Germany’s IPO sector was relatively quiet in 2020, with only 5 companies pursuing an IPO on the regulated market (Prime Standard) of the Frankfurt Stock Exchange, well below the 30-year median of 12 IPOs per year. Moreover, the volume of new stock issuance was EUR 0.9 billion in 2020, compared to EUR 3.6 billion in 2019, a drop of almost 75%. This development can largely be attributed to the Covid-19 pandemic, which raised uncertainty among investors and caused companies to delay their IPO plans. Nevertheless, Hensoldt AG pursued its IPO in Q3 of 2020, although the stock’s price remained lower than its issue price until mid November. Overall, a predicted increase in military spending over the next years has raised demand for companies like Hensoldt, and an IPO was a great way for the company to gain additional funds for the coming years.

III. Short- and Long-term Implications

The proceeds from Hensoldt’s capital increase will be used, amongst other uses, to support the company’s growth trajectory, strengthen its balance sheet and sustain the existing investment strategy. According to Hensoldt’s CEO Thomas Müller, the company is in a good position due to increased spending by NATO countries, which is likely to continue over the next years. The IPO thus facilitated additional funds for Hensoldt and prepared the company for the coming years, as military spending is expected to increase.

After Hensoldt’s IPO, the German government decided to acquire a 25.1% stake in the company from majority shareholder KKR. KKR now retains a lower but still significant 43% stake, and Hensoldt gained a new anchor shareholder. With the transaction, the Federal Government of Germany is now the second largest shareholder of Hensoldt AG. The purchase was likely intended to avert potential foreign buyers from taking control of Hensoldt, especially considering the importance of the company for the German military.

Selected DCM Deal: “Burberry Luxury Fashion Sustainable Bond”

FOCUS Finance

I. Overview of the Deal

The British luxury fashion retailer Burberry took the decision to issue £300million worth of new sustainable bonds in September 2020. This step was undertaken with two major goals, to boost the companies’ liquidity profile in times of Covid and to finance “greener” and more sustainable future projects.

This is the first exposure that Burberry undertakes in the bond market, which will serve as a diversification tool to its current funding sources and long-term capital structure. The move to introduce this type of bond is a first for the luxury fashion retailer, and Moody’s assigned it a Baa2 credit rating, describing this issuance as having a “stable outlook”. The bonds will be available to willing professional investors and “eligible counterparties” as it is set to be listed and traded on the main market of the UK stock exchange, in London.

II. Macroeconomic Analysis - What Triggered this Event?

In recent years, the corporate world and governments have been steadily directing more attention to the importance of sustainability. This is generally attributed to the worsening of the environment in which we live, where global events such as increased CO2 emissions, oceans filled with plastic, global warming, or inhumane outsourcing of labor seemed omnipresent and almost “normal”. But these events are clearly not “normal”, and neither should they be tolerated. After all, these conditions were created by humans themselves, through their overconsumption and constantly growing wants. Corporations such as Burberry decided to take their fight against climate change related events to another level. For them, the issuance of sustainable bonds will benefit the corporation’s future goals, as well as in investing for a brighter and “greener” future. Countries like France, Germany and the Netherlands appear to be leading governments when it comes to issuing green bonds. What this tells us is that both the public and private sectors become inherently more invested in contributing to a more sustainable society. Both understand the urgency and thus, this trend of green bond issuance is only set to increase in the future.

III. Short- and Long-term Implications

Earlier that same year, in April 2020, Burberry launched “ReBurberry Edit” positioning its brand at another level when it comes to sustainability, and taking a serious step in fighting environmental worries of the hyper-commercialized and globalized world we live in. This new collection was composed of 26 unique styles, all made from Burberry’s sustainable materials. This appeared to be a beneficial step for the environment, where serious actions are needed to tackle growing concerns like climate change and global warming, both from the side of governments as well as corporations. But this step appears empowering to Burberry’s image as well, being seen as a sustainable and eco-responsible brand is almost like a “must” today as companies aspire to be seen as leaders in their corporate social responsibility statements, to position themselves as true climate activists rather than passive bystanders. Whilst Burberry’s already took several steps in addressing the most pressing climate issues such as pollution, animal welfare and sustainable cotton farming/manufacturing, it surely doesn’t plan on stopping any soon. Its commitment is serious, and the issuance of a medium-term sustainable bond amplifies the importance that the environment’s health has to the luxury fashion brand. To highlight that importance, Burberry’s long-standing commitment to a better future was firmly grounded in its ambitious “Responsibility Agenda

Selected DCM Deal: “Finnair Sells €200 Million in Hybrid Bonds”

FOCUS Finance

I. Overview of the Deal

One of the main commercial carriers in the Nordic countries and Finland’s main airline company, Finnair sold €200 Million in Hybrid Bonds on the 27th of August.

Similarly, to many other airline companies around the world, Finnair appeared to have been particularly hit by serious liquidity stress due to Covid-19. In an attempt to combat that issue, Finnair issued hybrid bonds worth €200 Million known as “New Capital Securities” that promise to offer the debtholder 10.25% interest per annum until September 2023. After that, the percentage interest will be fixed at 15.25% yearly. These securities will be treated as equities in the company’s financial statements and thus, following the guidelines of the IFRS.

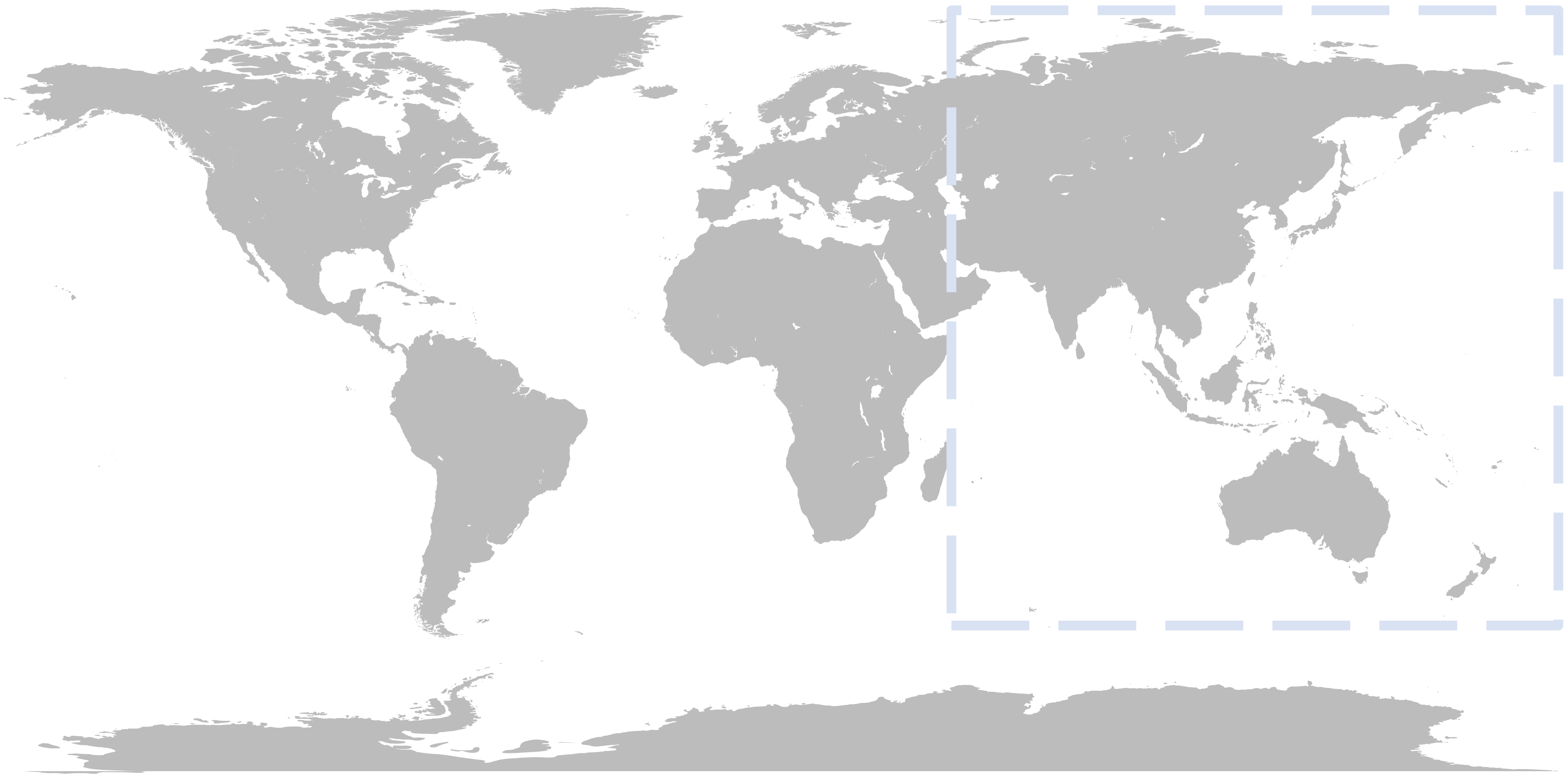
II. Macroeconomic Analysis - What Triggered this Event?

This event was directly triggered by the Covid-19 sanitary crisis. Some of the most affected industries include the airline sector, but also tourism in general and retail. Governments started to progressively put in place measures to contain the rapid spread of the virus with the closure of national borders, quarantining of the population and rigorous curfews. Although each of these measures appeared to have saved the health of citizens, it dangerously harmed the economy. Liquidity issues appeared quite quickly as corporations are expected to pay for employee salaries and furloughs schemes. Finland appeared right in the middle of that conflict between the health of Finnish nationals and the economy’s stability.
So, on one hand, in 2020, visitors from Russia, Germany and the UK were the most popular international visitors, all of which come from countries with relatively high numbers of Cvoid-19 cases. On the other hand, Finnair issues hybrid bonds to combat its financial issues. From both standpoints, it seems that the situation is barely manageable to Finland. Moreover, Finnair themselves state that for certain regions in Finland will get back to pre-covid travel levels in about “4 to 5 years”.

III. Short- and Long-term Implications

In the imminent short-term, 2020 was one of the worst years for the airline industry. Travel restrictions, restricted flight schedules, lockdown and other factors led to a financial “bleeding” of commercial airlines. Whilst many airlines defaulted like Air Italy or LATAM Argentina, others like Finnair, undertook serious restructuring to save the company from bankruptcy. Finnair’s issuance of hybrid bonds was in fact done two days after the airline announced plans to furlough 1,000 employees and to continue its previous temporary layoffs plans. An additional strain was put by destinations outside of the EU as those remained closed to visitors, for instance, in August 2020, Finnair carried 193,000 passengers, an 85.8% decrease from that same period last year. From a long-term perspective, the release of these bonds will aid Finnair break liquidity problems and manage risks more carefully. With vaccine developments becoming progressively more promising, there is hope for recovery of the airline industry in 2021. However, this will depend on many factors and will unlikely be a “fast recovery”. As this recovery will be lengthy, Finnair’s Board of Directors already announced that the firm will not pay dividends based on its balance sheet in 2019. It is fair to mention that the Finish government owns a 55.8% stake in Finnair, this means that the company will unlikely default as it is in the interest of the state (main shareholder) to keep it from bankruptcy. The state here serves as a sort of backdrop for which Finnair can rely both in terms of short-term liquidity issues and long-term solvency security. Finnair has also put plans to further cut down costs through its targeted €80 million permanent cost base reductions by 2022.

Region 2 – Asia Pacific



Economic Overview – APAC

Economic Overview [APAC]

This section will focus on the current geographical and macroeconomic events in the Asia and Pacific region. 2020 has been a challenging year for every APAC country and we have observed different reactions taken by different economies. Specifically, we will discuss three major events that reflect the underlying changes in the economic environment and analyze their implication on the M&A landscape.

Navigating the Pandemic

While the unexpected pandemic swept and heavily hit almost every APAC country in H1 2020, most of them have been picking up since July at multiple speeds. Overall, we saw a faster recovery in advanced economies than emerging and developing countries excluding China. This observation corresponds to different labor market structures of two country groups. Many developing countries in APAC rely on industries that largely involve in contact-intensive activities, and the pandemic puts them in a dilemma to balance between infection rates and economic growth. Zooming into Southeast Asia countries, Malaysia, Indonesia, and Philippines have remarkably higher cases per million than other APAC countries, though their rates are still below the world average. With higher infection rates, these countries were forced to extend lockdown, which further hurt the economic recovery.

Returning to full capacity will be a long slog. The strong rebound in IPO activities since Q3 2020 does not tell the whole story since most deals clustered in the technology sector. While mega deals may remain unaffected, small potential IPOs or M&A are vulnerable to consequences of the pandemic, including worsen credit risks, bankruptcy, and cash shortage. These issues are more serious to businesses highly engaging with in-person contact, which corresponds to the credit rating downgrading and quiet transaction environments in the APAC consumer staples sector.

Rising US-China Political Tensions and Trade Dispute

US-China political tensions since the start of this year cast a shadow over business Activities between two countries. Capital flows hit the lowest level since 2011 and US investment in China fell 31% compared to 2019. The enactment of the Holding Foreign Companies Accountable Act urged many existing and potential US-listed Chinese state-owned companies to turn to dual-listing. Therefore, we are likely to see more IPOs activities in Hong Kong and Shanghai Stock Exchange, which has been proved by Q3 APAC IPO activity data. At the same time, the US is worried about the risk of excess dependence on China and encouraging supply chains to shift back to the US. Other Asia Pacific countries with the same concern also took action to achieve supply chain resilience. Although few details were released, there is a strong sign that current trade relationships are no longer stable. Despite political tensions and unfavorable policies, China continues to encourage inbound investment from US companies, and many US companies recognize the emerging market in China.

Accelerated Inequality and Social Unrest

Besides disrupting economic growth, COVID-19 has intensified inequality, worsening the situation for countries with high income inequality. The pandemic forced businesses to introduce or speed up automation and robotization, which raised concerns of manufacturing job losses. Job losses are concentrated in industries with lower wages, which also usually require a high level of in-person activity involvement and thus put workers in a riskier environment. However, people with lower wages would have difficulty in receiving testing and proper medical care if they were infected. Governments implemented different fiscal policies to support the most vulnerable groups according to the condition of each country. However, the issue of increasing inequality remains on the table and will affect how investors value a business. We believe accelerated inequality contributes to increasing attention to ESG investing. That being said, dealmakers will possibly put more weight on ESG criteria and a candidate with positive ESG characteristics is more likely to be valued higher.

FOCUS Finance

Capital Markets Overview

Asia Pacific

Selected ECM Deal: “International Corp Goes Public within Mainland China”

I. Overview of the Deal

SMIC is a partially state-owned global chipmaker that provides integrated circuit foundry and technology services including testing, development, design, manufacturing, packaging, and sale of integrated circuits. SMIC went public on Shanghai’s Nasdaq-style STAR market on July 16, 2020. The company plans to raise 53.2 billion Yuan by issuing 1.9 billion shares at a target price of 27.46 Yuan (US$3.92) per share. Noticeably, SMIC’s listing application was approved within 18 days, which usually takes months to process. SMIC claimed that capital raised in the IPO would be primarily used to build plants and replenish operating capital. Popular views interpreted SMIC’s IPO amid US restrictions on Chinese tech firms as a big step to become more self-dependent in chip-manufacturing .

II. Macroeconomic Analysis - What Triggered this Event?

Tech companies were less affected by COVID-19 and showed a robust growth in IPO activities in 2020. A large number of Chinese tech firms shifting to domestic listing reshaped the IPO landscape in APAC markets. The Holding Foreign Companies Accountable Act, which was enacted on December 18, 2020, requires companies publicly listed on stock exchanges in the US to declare they are not owned or controlled by any foreign government. However, as China tries to become more technologically independent, Chinese government is likely to gain some control of industry leaders such as SMIC. Conflicting interests will naturally restrict Chinese semiconductors from going US-listing. Since 2019, we have seen a rising number of Chinese semiconductor firms listing in Shanghai exchange.

III. Short- and Long-term Implications

SMIC going public sent investors a signal of China’s push to greater technological independence. With government ongoing support, investors are developing optimism towards China’s resilience of turmoil from US regulations. Public attention on this mainland China’s biggest listing in a decade is a double-edge sword. If SMIC successfully develops a first-class chip fab, the market will react positively to SMIC’s stock price, bringing sustained capital and encouraging more follower firms to go public. If SMIC fails to meet the expectation, loss of confidence may spread from this industry leader to a broader range.

Selected ECM Deal: “Yum China Raised $2.2 Billion in Hong Kong Secondary Listing”

I. Overview of the Deal

As political tensions between US and China spread turmoil from the technology sector to other industries, an increasing number of existing US-listed Chinese companies are seeking dual-listing opportunities to mitigate potential regulatory risks. The timing coincidence between the enactment of the Holding Foreign Companies Accountable Act and the delisting of Luckin Coffee, a Chinese coffee chain caught in financial scandals, from Nasdaq brought more uncertainty to the future of existing US-listing Chinese companies. Yum China’s dual-listing represents a popular movement that many existing or expected US-listed Chinese companies will choose in 2021.

Headquartered in Shanghai, Yum China Holdings Inc (NYSE: YUMC) is a fast-food restaurant company operating internationally. Yum China was first listed on the New York Stock Exchange (“NYSE”) on November 1 in 2016. The company announced the issuance of 41,910,700 new shares with an offer price of HK$412.00 (US$53.16) per share on the Stock Exchange of Hong Kong Limited (“SEHK”). Yum China plans to use capital raised from this offering to expand its business network, invest in digitalization, supply chain, food innovation, and value proposition.

II. Macroeconomic Analysis - What Triggered this Event?

Prior to the COVID-19 pandemic, consumer products companies had been heavily invested in digitalization and supply chain agility. The pandemic swept the consumer discretionary sector with plummeting demands and in-store dining restrictions. Yum China suffered from a significant decline in revenues in Q1 (23.9%) and Q2 (10.5%) 2020 compared to the same period in 2019. Many small consumer products businesses didn’t survive through the pandemic because of the depletion of free cash flows. Although supply chains of most consumer products companies are expected to return to the pre-covid level at the end of 2020, industry players are worried about a second wave of the coronavirus. Another accelerating trend is digitalization. While in-store dining demands during the pandemic fell greatly, remaining demands were shifted online, which boosted pick-up and delivery services.

III. Short- and Long-term Implications

As one of the largest fast-food chain companies, Yum China realized the importance of improving its capital base to boost liquidity in case of coronavirus-like situations in the future. If Yum China properly allocates net proceeds from the offering and effectively improves its business model, it will maintain a strong moat and competitive advantages in convenient digital services. On the regulatory side, SEHK listing will help hedge the regulatory risk of NYSE listing if political tensions between US and China continue to intensify. In the long term, Yum China’s second listing on SEHK implies the transition of focus to APAC capital markets.

Selected DCM Deal: “MHI Ltd. Issues their First Corporate Green Bond of 25 Billion JPY”

FOCUS Finance

I. Overview of the Deal

MHI is a core company of the Mitsubishi Group that is headquartered in Tokyo, Japan and focuses its operations on engineering, electrical, and automation applications. The company issued unsecured corporate green bonds on November 24, 2020 worth 25 billion JPY with an interest rate of 0.14% and redemption date close to five years. The green bond structuring agent of this issuance was Mitsubishi UFJ Morgan Stanley Securities Co., Ltd and the purpose of the proceeds raised from the bonds were to assist renewable and clean energy businesses, as well as, the company’s green projects in geothermal, wind, and hydrogen power systems. The bond was given a generally strong credit rating of AA- by the Japan Credit Rating Agency, mainly attributable by the YTM, interest rate on the bond, and the company’s ability to cover financial obligations.

II. Macroeconomic Analysis - What Triggered this Event?

Many companies within the industrial industry in the APAC region are facing disruptions in their businesses led by significant developments in technology. Countries like China are expected to have 4.1 industrial IoT connections by the year of 2025 and APAC smart factories are expected to increase by 10.7% over a timeframe of 2020-2026. With technological advancements being a factor in consideration, many companies have felt the need to accommodate towards more sustainable environmental practices.

Green bonds have supplied this growing desire by offering opportunities for finances to be raised directly towards environmental objectives. While green bonds sales fell by $16 billion in the APAC region during 2020 due to significant rises in social and sustainable bond issuing's directed towards the pandemic, they still show strong promises of surging once again in 2021 and onwards. With prior evidence of continuing growth in green bond issuing's from 2016-2019 and pledges by some of the world’s largest economies including China and Japan to strive towards becoming carbon neutral, the outlook for prospects seems solid in this area.

III. Short- and Long-term Implications

MHI’s unsecured corporate green bonds comes after multiple initiatives conducted by the company to direct its operations in a more sustainable direction, such as through a partnership in October 2020 with Vestas Wind Systems, a leader in onshore wind. With growing attention directed towards sustainability, MHI’s debt issuance furthermore provides investors with an opportunity to support ESG-related processes and take on a safe investment option that comes with relatively low risk and volatility. With growing attentions on ESG investments, MHI issuing new green bonds shows its commitment to sustainability and environment protections.

Selected DCM Deal: “Tencent Raises $6 Billion in Corporate Debt”

FOCUS Finance

I. Overview of the Deal

Tencent Holdings Ltd. is a multinational internet conglomerate headquartered in Shenzhen, China that segments its main business operations into social media, online advertising, online gaming, fintech, as well as cloud and digital services. In late May of 2020, Tencent was able to successfully raise $6 billion USD from $1 million in 5 year-debt, $2.25 billion in 10 year-debt, $2 billion in 30-year debt, and $750 million in 40-year debt. The rationale behind this corporate debt issuance comes after Tencent's decision to step foot into the bond market for refinancing and to further bolster their balance sheet in response to the widespread economic downturns caused by COVID.

II. Macroeconomic Analysis - What Triggered this Event?

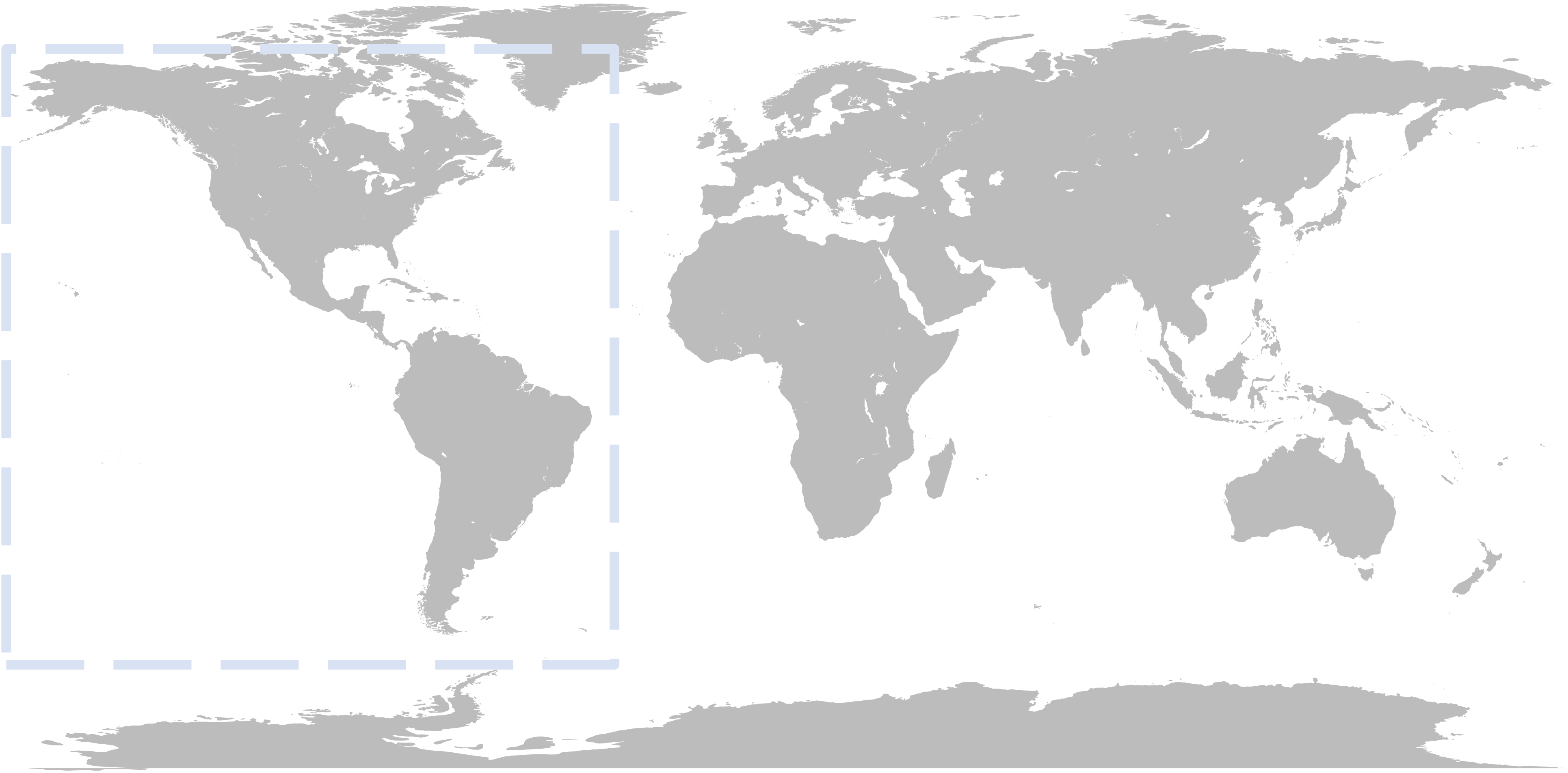
As aforementioned, many industries were adversely impacted by the pandemic, video gaming was one of the rare industries that benefited significantly during this unprecedented time. Within a country like China, stay-at-home and lockdown measures that started in January 2020 lead towards a 30% increase in average daily mobile usage in comparison to 2019 and a 300% increase in gaming sessions across the timeframe of December 2019 to March 2020. The prominence of video games has been evident in the APAC region which accounted for close to 48% of the global gaming market revenue in 2020.

The underlying trend of the increased engagement in international bond markets by investment-grade companies like Tencent has also been clearly evident, as the demand for higher-yielding securities by investors has allowed corporate borrowers to enjoy more favorable rates. To put this into a number's perspective, issuers during 2020 in Asia excluding Japan sold more than $354 billion in dollar bonds, up 13% from the previous year of 2019

III. Short- and Long-term Implications

Tencent’s deal became the largest by non-financial APAC companies and new debts will be used for general corporate purpose, specifically in expanding its product lines. Tencent turning to the bond market implies its confidence in generating sustained cash flow and relatively cheap costs of borrowing in the current situation. As a winner from COVID-19 and market leader in the video gaming industry, Tencent raising new debts indicates that the bond market is becoming attractive to technology companies and we anticipate to see more followers participate in debt financing. Regarding how long this trend will last and how other sectors will change their appetite for debt financing, it depends on how long the interest rate will stay low and impacts of the pandemic on each industry.

Region 3 – North America & Latin America



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Economic Overview – NA & LA

Federal Reserve's Monetary Policy in Response to COVID-19

The Federal Reserve of the United States used the full extent of its power to combat the negative effects of COVID-19 on the economy. The Fed lowered interest rates to near zero, engaged in security purchases, and large-scale lending. This effort is unprecedented and had a tremendous impact on Americans. The lower interest rates have lowered the costs of mortgages, auto loans, and all other loans, making money more accessible. The Fed has committed to keeping interest rates near zero until unemployment numbers have improved drastically, which could take as long as two to three years. The Fed also increased the money supply by purchasing securities -- this means that liquidity improved, markets were able to function smoothly, and people didn't begin to panic. North America has benefitted from the Fed's actions, as millions of Americans benefit from more stable financial markets and lower interest rates. By streamlining aid through forgivable debt, millions of small businesses were able to benefit, and in some cases, be saved. This influx of money and guaranteed low interest rates encourages corporations to engage heavily in debt markets. It has also promoted a degree of safety which allowed so many companies to engage in M&A. The M&A industry will continue to see growth as a result of the Fed's policies, especially in the midst of a global pandemic where the tech sector continues to thrive. However, it could be the case that in the future, companies will choose debt instruments over M&A transactions as a result of the cheap cost of debt.

The CARES Act

On March 27th, President Trump signed the CARES Act into law, a $2 trillion relief package to deliver critical assistance to businesses and Americans impacted by COVID-19. The stimulus included direct payments to taxpayers, small business forgivable loans, essential business support, aid to healthcare providers and hospitals, bonus unemployment benefits, and a myriad of tax incentives. This monumental piece of legislation was the largest economic stimulus package in history and directly helped millions of Americans survive months of financial turmoil. The CARES Act was projected to lower GDP decline by over 7% in Q2, and lowered welfare losses by over 20%. Low-income households benefited the most from this stimulus. Clearly, the influx of money from the government is beneficial to the M&A industry. By slowing the detrimental effects of COVID-19 and stimulating the struggling economy, businesses have more confidence to pursue strategic transactions. Growth in this industry will continue as the government continues to provide stimulus for its citizens and businesses.

Biden Tax Plan

After what seemed like an endlessly long election, on December 14, 2020, the Electoral College voted in favor of Joe Biden confirming his victory. With a new office in place starting January 20, 2021 there will be an overhaul of the tax system based on Biden's plan to "Save the Middle Class to Save America". This economic plan has a heavy emphasis on reversing Trump's tax cuts and taxing the wealthy. Biden plans on introducing a progressive tax code that will generate close to $4 trillion in additional revenue spanning across a decade. The highlight of his proposed tax code include:

- Reverting the top income tax bracket back to 39.6%, this will affect anyone individual with a gross income of $400,000, while also applying a Social Security payroll tax of 12.4%
- Closing loopholes in the tax code
- Increasing the top corporate tax bracket to 28%
- Profits made from foreign subsidiaries of American firms will be taxed at 21%
- Raising the tax rate on capital gains to 39.6% for investment income over $1 million
- The elimination of qualified income deduction for S corporations and partnerships

The Tax Policy Center states that "The highest-income 20 percent of households (who will make about $170,000 or more) would bear nearly 93 percent of the burden of Biden's proposed tax increase, and the top 1 percent nearly three-quarters." However, the actual execution of Biden Tax Plan and his plan to introduce for stimulus hinges on the crucial results of the Georgia runoff election. With a republican senate the prospects of the tax plan may not be as promising. The new tax plan, especially the increase in capital gains tax would have a great material impact on the U.S. M&A market. Illustrated below is an example of the impact the new tax rate will have on M&A transactions. As a result of this new tax, owners who are thinking of selling may be more inclined to do so before the new tax law takes place. It may be possible that there will be an influx in M&A transactions in the first half of 2021 before the new tax plan comes into in effect. Once the tax law is in place, we may see a decrease in the volume and size of transactions during Biden's presidential term. Another reason why businesses may be more inclined to exit, and merge is due to the increased payroll and higher corporate tax rate that will make it more expensive to hold the business for the next few years.

FOCUS Finance

Capital Markets Overview

North America & Latin America

Selected ECM Deal: "Sotera Health Goes Public"

I. Overview of the Deal

Sotera Health (SHC), a global leader of mission-critical end-to-end sterilization solutions and lab testing and advisory services for the healthcare industry, made its stock market debut in late November. The company raised approximately $1.1 billion (before deducting underwriting discounts, commissions, and offering expenses) through the sale of 46.6 million shares priced at $23 each. The IPO was priced towards the high end of the range with an initial proposal to sell shares between $20-$23. Furthermore, the company sold seven million additional shares as underwriters exercised their option to purchase additional shares bringing the total count to 53.6 million shares sold.

II. Macroeconomic Analysis - What Triggered this Event?

Despite a lag in IPO activity during the second quarter, the third and fourth quarters of 2020 saw a resurgence of IPOs, breaking multiple records for deal numbers and proceeds. In the Americas, an 18% increase in IPOs activity and a 33% percent increase in proceeds over the previous YTD levels were observed. In regard to Covid-induced healthcare growth, the rise and need for sanitization of PPE is highlighted through, as cited in a report by Allied Market Research, the high revenue growth rate of 14.0% expected in the respiratory protection segment. Additionally, growth is driven by stringent health regulations pertaining to the adequate availability, allocation, usage, and disposal of PPEs. With both public and private groups continuously investing in new hospitals, in-home healthcare services, and primary healthcare centers, the potential to further increase demand for these PPE materials remains high moving into 2021.

III. Short- and Long-term Implications

Even before COVID-19, the US Bureau of Labor Statistics stated that the healthcare industry was projected to add more jobs than any of the other occupational groups, growing about 15% from 2019 to 2029. This growth puts Sotera Health in a comfortable long-term position as they continue to solidify their place within their market. Now more than ever, Biopharmaceutical companies working to advance Covid trials and now manufacture the vaccine need to keep their labs clean and ensure a safe product reaches the market. Thus, Sotera and other key life sciences firms will continue to play an increasingly significant role in the medical supply chain and services industry.

Selected ECM Deal: “Snowflake’s Largest US Software IPO Ever vs Asana’s Direct Listing”

FOCUS Finance

I. Overview of the Deal

Snowflake

Cloud-based data-warehousing company Snowflake made its stock market debut mid-September by raising a larger than planned $3.4 billion by selling 28 million shares for $120 apiece, exceeding its targeted range of $100 to $110. Snowflake's stock jumped more than 160% above the IPO price to touch $315, sending the company’s market value to almost $90 billion, seven times the $12.4 billion valuations from its most recent round of funding in February, based on the number of shares outstanding, before easing to $253.93 at the close.

Asana

Management software company Asana acquired a market value of circa $3.4 billion after its September 2020 direct listing. The establishment of a $21 reference price per share by the New York Stock Exchange was well exceeded, originally opening at $27 per share trading over a third over the reference price within their first 10 hours on the market. A direct listing is a less popular method of publicly raising capital through transforming private to public shares rather than the distribution of new shares that occurs in an IPO. Asana was therefore able to enter the market and share its stock quicker than through an IPO with the ability to bypass the IPO underwriting stage.

II. Macroeconomic Analysis - What Triggered this Event?

Appetite has clearly returned for IPO’s after months of uncertainty, stemming from the original sell-off at the beginning of the pandemic. The tech sector recovered extremely well, with increases in remote working causing greater usage of team and project management software. Additionally, increased demand for data and its analytics, hardware, and workplace management tools have made technology one of the few sectors that have resurged in IPO activity. Rising popularity of SPACs, various preceding turbulent tech IPOs (most distinctly Uber), and the opportunity for innovation introduced by the pandemic-driven economic crises have led to the rise of direct listings. However, traditional IPO activity still saw record performance in 2020. Snowflake’s IPO and Asana’s direct listing serve to illustrate both of these correlated trends, and more importantly, signal an evolving future of how companies enter the public market.

III. Short- and Long-term Implications

Snowflake’s debut in the stock market was remarkable. The Silicon Valley company’s shares surged 160% above its initial public offering price, driving the firm’s market capitalization to approximately $90 billion. The surge in price reflects the growing demand for the firm and its technology, signaling a potential room for growth of the company. Yet, as previously mentioned, tech startups have begun to explore alternative ways to enter the market more seriously within this past year. In the case of Asana, their early success with direct listing reflects how attractive alternatives have become. The firm illustrated that despite tech startups’ rising losses and hiked negative working capital, investors will still be willing to pay a premium based on projected growth rates and the prospect of long-term profitability. Sustaining this market performance will depend on the company’s ability to keep margins high, cut costs over time, and position themselves as an emerging leader within the space. Assuming they reach these targets, the late-stage startup has the potential to even surpass the successes of Spotify and Slack’s direct listings, thus blazing a new trail for tech firms to follow.

Selected DCM Deal: “Delta Raises $1.25 Billion After Returning to Bond Market”

FOCUS Finance

I. Overview of the Deal

Having previously raised $3.5 billion in April through a sale of five-year secured bonds, Delta, once again, turned to the capital markets in June to raise $1.25 billion in unsecured, five-year bonds. This issuance, yielding 7.38%, means Delta has raised an accumulative $10+ billion since the pandemic began. Credit rating agencies remain speculative over Delta’s future, with Fitch assigning a BB+ rating to the issuance, signifying its non-investment grade classification and inline with Delta’s corporate rating. However, such classification was expected given the unsecured bond's yield is about 23 times higher than the current interest on a five-year U.S. Treasury note, portraying their risk and potential future junk-rating.

II. Macroeconomic Analysis - What Triggered this Event?

Covid-19 rocked nearly every industry to its core, but the travel industry was brought to its knees as airlines faced a near 90% reduction in use by the middle of 2020. However, central banks and governments took a proactive role in creating a low-interest-rate environment for hard-hit businesses to pool credit from. Looking to avoid a second bankruptcy, Delta was one of many firms to take full advantage of the stimulating treasury markets. Since the pandemic, airlines have been struggling for liquidity. International border closures originating in March to varying degrees remain in place today, as non-essential cross-border travel between the U.S., Canada, and Mexico has remained limited throughout 2020.

III. Short- and Long-term Implications

Delta offered voluntary redundancies, buyouts and even planned on furloughing some staff in November, much like American Airlines and United Airlines, to reduce labour costs in a bid to try and weather the effects of a depleted top line. Fortunately, they were able to cut costs by the year’s end, thus retracting the potential furlough of 1,700 pilotes. However, while other industries are ready to return to business as usual, Delta will likely see both business and leisure air travel adversely impacted for many years to come. Moving forward, Delta adopted a similar ‘recovery path’ as Southwest and several industry peers in which they planned a reduction of their aircraft numbers and gradual retirement of their older, less efficient aircraft.

Delta’s issuance of unsecured bonds rather than secured notes signifies a root towards their long recovery, and this combined with the fact the bonds were initially marketed with a yield of 8% suggest the general credit market has been improving in recent months. However, still experiencing a relatively large daily cash burn, from both COVID-induced costs and their wider economic impact, revenues are recovering, but nowhere near pre-COVID levels as Delta will likely see losses for the remainder of the year, much like other US airlines.

Selected DCM Deal: “Visa Goes Green with 500 Million Bond Issuance”

I. Overview of the Deal

Visa is the latest company to join the expanding list of firms issuing green bonds. On August 11, Visa announced its total green offering of $500 million. The bond will pay a semi-annual coupon of 0.75% with a maturity date of August 15, 2027 and is in line with Visa’s commitment to drive sustainability. The proceeds will be used to upgrade existing infrastructure projects to green buildings which are generally certified by organizations such as LEED (Leadership in Energy and Environmental Design). The funds will also be used for improved energy and water efficiency projects. This bond offering comes at a time when investors are seeking low risk investments over more risky ones such as those in industries like Oil and Gas, allowing Visa to take on a corporate socially responsible initiative at a low cost.

II. Macroeconomic Analysis - What Triggered this Event?

2020 saw dramatic shifts across debt and equity capital markets, the rapid acceleration of sustainability within the bond markets was arguably the most pronounced trend. Green bond issuance was up 31% over the previous quarter by the end of Q3 and total issuance to date surpassed $1 Trillion globally back in September. Notably, issuance extends beyond the energy industry, as numerous blue-chip stocks across various verticals are increasingly incorporating sustainability within their core activities. One of the reasons behind Visa’s issuance is many industries such as retail, oil, and gas have taken hard hits, so risk levels on commercial papers from companies in these areas increasingly pushed investors towards safer industries and companies with good credit ratings such as Visa. Consequently, blue chip companies like Google, Amazon, J&J as well as Visa have been able to source funding at low rates.

Additionally, the rise of impact investing serves as an additional catalyst for the firm’s bond issuance. Private equity firms are starting to emphasize investments in companies that contribute towards environmental sustainability. Thus, in attempts to attract investors, companies are increasing sustainability attempts. In fact, as of October, over 350 green bonds have been issued since the start of 2020. Increasing investor demand and peer pressure from proactive competitors have further incentivized businesses to increase sustainability practices.

III. Short- and Long-term Implications

At the start of the COVID-19 pandemic, Visa was hit particularly hard by a decline in transaction volume with credit transactions declining by slightly over 30%. Travel spending, which comprises a material portion of their overall revenue, saw a decline of $17.7Bn back in March. However, since the initial decline of overall spending, transaction volume is now steadily recovering at about 5% a month. In fact, Visa’s Q4 earnings are expected to demonstrate a material trend towards recovery due largely to the shift toward touchless payment methods. Consumers are increasingly using digital payment options and looking for major corporations to emphasize environmental issues. Visa addresses all of these trends with their low-cost green bond issuance, thus setting the firm up in the long run while building solid goodwill with consumers. The company is also continuing to expand partnerships (most recently with PayPal) and is building a more secure way to purchase goods and services. In a time of uncertainty, Visa’s debt issuances are one of the safer and more reliable options for investors who are looking for value-driven securities.

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Europe, Middle East & Africa – Airline Industry

A Difficult End to 2020

Amidst the complications brought by the continuing Covid-19 pandemic in the last 6 months of 2020, one can notice that some industries were clearly more affected than others. Amongst the most affected sectors lies the Airline industry, one that thrives and survives on passenger movements across the globe. When airline revenue dropped, and serious restructuring maneuvers took place, so did the overall M&A activity. In Europe, commercial airlines passenger traffic was down -70% in 2020, a number as dangerous as it is scary. Additionally, the number of M&A deals in Q3 and Q4 2020 in the EMEA region was at 14, a 60% drop in comparison to the same period last year as reported in Bloomberg Terminal. Total M&A deal values fell from a staggering high $3.2 billion in the last 6 months of 2018, to a comparatively much lower $505.2m in that same period in 2020. These visible changes in the airline industry have a wider impact on some specific countries in the EMEA region as a whole. For example, 13.3% of the UAE's total GDP is supported by air transportation and foreign tourists' arrival. In that same region, a major airline industry player, Turkey, a million jobs are supported by the airline industry, with a contribution of $44.8 billion to the country's GDP. In Western Europe, the impact is particularly felt in countries like the UK where the airline industry accounts for approximately 4.5% of the country's GDP, where 1.6 jobs million are typically supported by the air transport sector. Will the airline industry in the EMEA region survive in 2021? Nobody knows for sure. It has been very challenging so far but hopes of a better tackling of the virus and the incoming mass vaccinations undertaken in European countries appears as a glimpse of hope into the future.

Constant Restructuring and its Consequences

In the last quarters of 2020, the airline industry was still confronted with its restructuring needs that arose in the first half of 2020. This said different airlines were affected at different scales. Restructuring generally occurs at companies in 3 different situations, either the firm is going towards bankruptcy, in the middle of bankruptcy or actively attempting to exit out of a financially distressing situation. This said, the European market appeared to be in that first category. Carriers like Air France-KLM who furthered laid off 7,500+ employees in July 2020, or the German Lufthansa which cut an additional 22,000 jobs in that same period. Whilst it looks like these firms' restructuring needs look worrying, a lot of these airlines have gotten government support for short-term liquidity issues. It is however important to notice that the most struggling European carriers also tend to be those with relatively small surface areas. France, Germany and Lithuania are perfect examples of that, their small geographical areas limit the possible emergence of a domestic touristic airline market. On the other side of the spectrum, the Russian carrier Aeroflot managed to mitigate the impact that is noticeable by other European countries. Whilst the firm received state-guaranteed loans, it did not cut any jobs at all because it managed to cover its immediate liquidity issues, thanks to a reemergence of intra-domestic travel. Aeroflot's CEO, Vitaliy Saveliev stated that the airline had *"no plans to cut jobs"* in the short-term future.

But for most companies, restructuring and massively cutting down costs is not sufficient to cover up for the reduced flights to never-seen low levels. For some airlines, putting an emphasis on cargo operations helped save the missing customers and bring in some operational revenue in. The largest commercial airline of Africa, Ethiopian airlines decided to act quickly and converted more than 45 of its passenger jets to build a new fleet of cargo repurposed aircrafts. Facing a 90% drop in international passenger traffic, Ethiopian Airlines' CEO Tewolde Gebremariam stated that "those actions have saved the airline". A similar maneuver was performed by Emirates, the largest UAE based airline, with 85 aircrafts repurposed to transport goods to London, Hong Kong or Amsterdam. Emirates essentially uplifted 65% of its cargo operations from the same period last year, where "revenue was mainly supported by strong cargo business" stated by the company in November 2020.

M&A Activity Overview

Overall M&A activity in the airline industry appeared to have been falling since 2018 when combining the total volume of Q3 and Q4 of previous years. At its highest since 2015 with 42 deals, during the same period in 2020 that number was at 14 in the EMEA, a -66.6% drop from 2018. Refer to figure below.

It is particularly interesting to note that although the volume decreased significantly, some noticeable M&A transactions did occur when it comes to long established airlines like Lufthansa in Germany or TAP Airlines of Portugal. For the later airline, the Portguese government raised its ownership stake in its largest national airline to 72.5%, thus granting the Portuguese government an injection of 1.2 billion euros into TAP. Quite frankly the airline is small, it employs around 10,000 employees and has a fleet of about 100 aircrafts, but both private shareholders and the government hang on to that airplane tight as it brings "about half of the tourists that arrive by air". Travel & Tourism has always played a crucial role in Portugal's GDP growth, in 2018 this sole sector amounted to 35.2% of Portugal's total GDP. Lufthansa on its end, sold its European catering operations units to Swiss's "Gategroup". This move brings in some funds to address the liquidity issues experienced by the company, but primarily it was done as part of "Lufthansa's new strategy to focus on its airline business". These Q3 & Q4 deals highlight the fragility of the airline industry in general. Although Covid was a hard tool on the development of these firms, their sole over-reliance on passenger traffic cost them a fortune in 2020. This is one of the main disadvantages that undiversified businesses can suffer from becoming overly dependent upon one unique source of revenue.

A particularly resurfacing and significant trend in the last months of 2020 can be attributed to the massive occurrence of government bailouts to save the airline industry. Some 42.8 billion euros were sought in government bailouts in 2020, with airlines such as Lufthansa, Air France-KLM Group, Easy Jet, LOT airlines and many others.

A Promising Last Quarter

Amidst the difficult end of 2020 that complicated the business operations of the entire airline sector, a promising road still lies ahead into 2021. Business and consumer confidence has been readily raising due to a more controlled outlook on the epidemic but also, widespread testing and the vaccine announcements. Firms such as Pfizer or Moderna announced quite successful 90% effective vaccines which have started their administration in the UK, continental Europe and other European countries. These quite optimistic results reported in early November 2020, led to an increase in price shares for major airline companies. Lufthansa's stock for example rose from 7.44 to 9.55 in a matter of days. Air France-KLM's stock saw a similar trend, going from 3.08 to 4.03 in the days the vaccine was announced.

Several programs like the Re-open EU have been successfully implemented in the end of 2020, it guides passengers and countries in terms of restrictions and potential travelling guidance to better curb the spread of the virus. These governmental programs indirectly help the airline industry and its passengers, in creating a resource that directs to verified and correct sources in regards to travelling abroad.

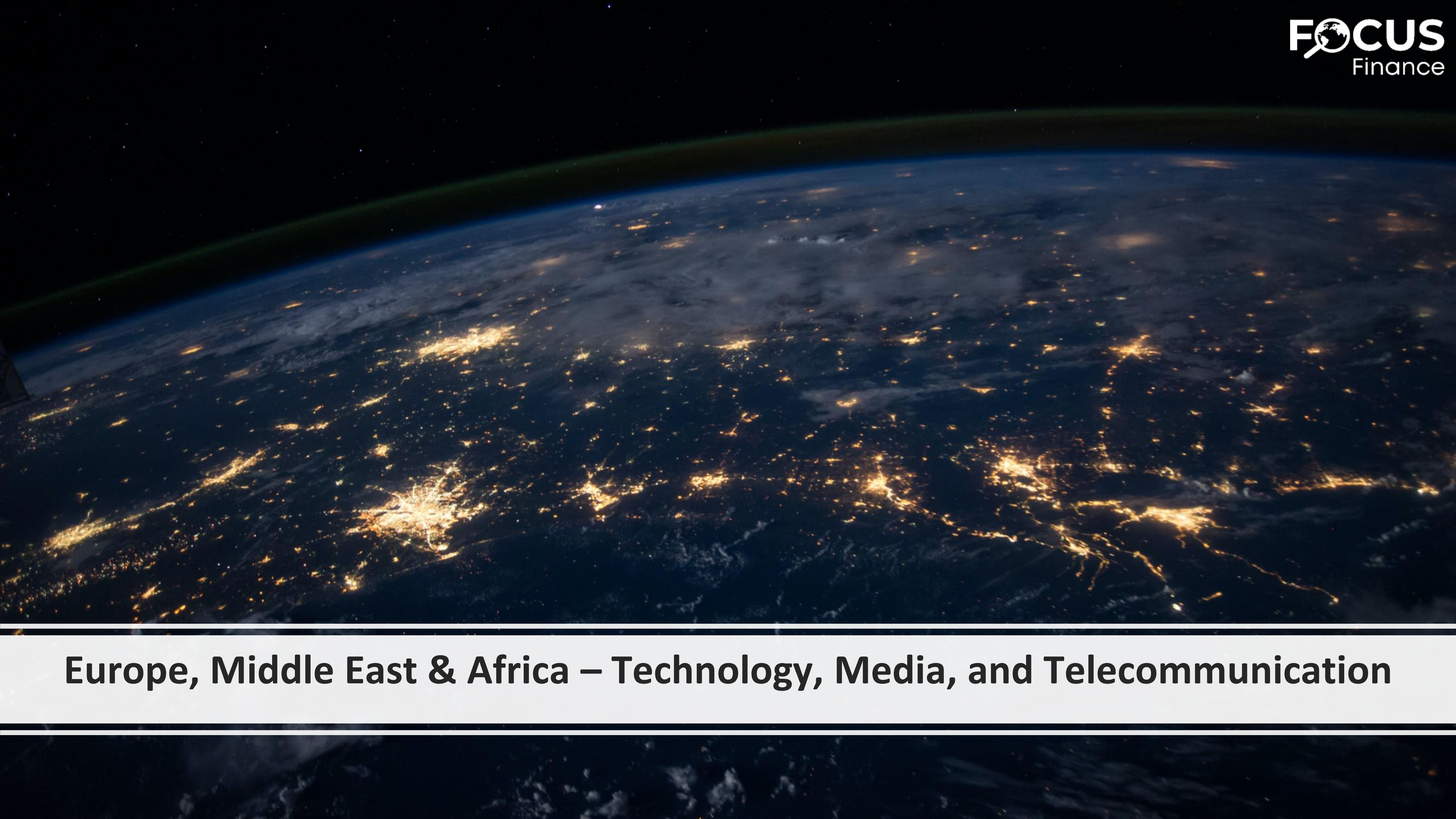
Conclusion and Forward-Looking Remarks

Major carriers that upheld a dominating stance in market share of the airline industry throughout the 21st century, could not shield themselves from 90% reductions in passenger traffic. Giants like Lufthansa or France Air-KLM had to undergo serious cost cutting maneuvers like massive layoffs and cost restructuring.

Airline Industry [EMEA]

Although the last quarter appeared to be an almost “normalized” difficult period, it appeared to be more hopeful than any since the beginning of the Covid pandemic. The sanitary crisis is still there and rigidly stationed against progress for airlines, but through longer-term lenses, travel will pick up little by little, as Covid will subside, little by little.

The future is impossible to predict, after all, if individual investors knew what would happen tomorrow, markets would look like a mere game rather than an emotional ecosystem. One thing is clear though, past historical performance can be useful in identifying those future, unknown trends. The airline industry is seeing and hoping that although 2020 was a difficult year, historical data indicates that the industry is getting closer and getting ready to actively recover to what pre-Covid travel levels looked like. Whilst many believe the airline industry’s recovery will be slow and spamming over several years with certain analysts estimating that pre-covid levels of demand will not be reached by 2024, we believe it will be quite different. People have been locked home for long enough, and although computers and phone calls help us communicate between each other, everyone knows it is not quite “the same” as meeting physically. When travel will be freer and relatively safer, we expect a travel boom to occur. People will want to travel and rest from the mental and psychological drains created by Covid, this will sharply raise air travel demand and pre-Covid levels will be achieved prior to 2024. But this all depends on how fast vaccination programs are set to be implemented and how well governments will tackle the epidemic.



Europe, Middle East & Africa – Technology, Media, and Telecommunication

Technology, Media, and Telecommunication Industry [EMEA]

TMT Accelerated by Covid-19

As with most industries, the Covid-19 pandemic slowed down growth and M&A activity in the technology, media and telecommunications (TMT) industry through the first half of 2020, albeit slightly. However, deal making accelerated as optimism and confidence returned in Q3 and Q4 of 2020. The TMT industry in particular saw a sharp rise in deal values, mostly due to an increasing trend in TMT adoption across various businesses and industries. This trend was catalyzed by the Covid-19 pandemic, which forced businesses around the world to adopt technology solutions at a rapid pace. Some technology sub-sectors that have benefitted from this accelerated trend are particularly cloud computing, SaaS, e-commerce and IT security. Additionally, growth in remote work and stay-at-home restrictions saw e-commerce, video conferencing, streaming services and gaming benefit from an increase in user engagement. Due to this strong position, the TMT sector saw increased M&A activity, high valuations, increased venture capital (VC) funding, and high levels of IPOs throughout the second half of 2020.

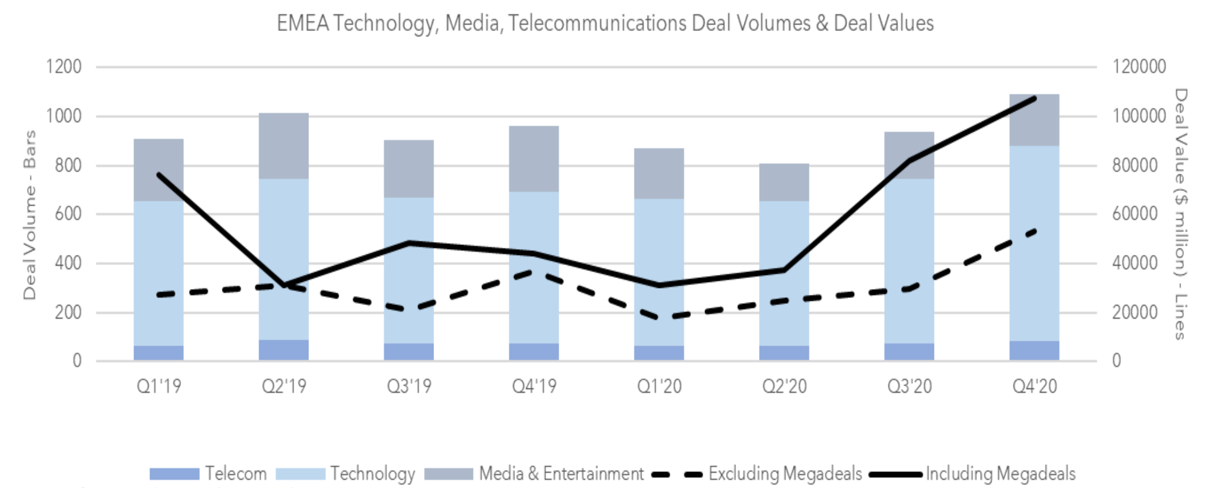
M&A Activity Overview

A total of 936 TMT deals took place throughout the EMEA region in Q3 of 2020, the majority being related to the technology sub-sector. Deal volume increased in Q4 with a total of 1,093 deals, higher than any quarterly levels in 2019. Deal values also reached highs, with a value of $107.3 billion in Q4. In total, 2029 TMT deals occurred in the second half of 2020, compared to 1863 deals in the second half of 2019. More notably, TMT deal values reached a total of $189.2 billion in H2 of 2020, constituting an increase of 105% over H2 2019 levels.

TMT Sectors Showing High Growth Potential as Covid-19 Matures

Work From Home (WFH)

Clearly, 2020 was the year of steep learning curves when it came to virtual learning and virtual work. In the span of a month, businesses, schools and universities alike had to turn 180 degrees and adapt to a new way of communication, a virtual one. Zoom, a company with virtual video-conferencing software, became a household name.



Source: Refinitiv, Dealogic and PWC analysis

Semiconductor

Due to increased demand for technology arising from the Covid-19 pandemic, producers and suppliers of hardware like semiconductors became essential players. In the Netherlands, ASML and ASMI, two of Europe's largest semiconductor companies, saw their share price increase by 33% and 32% respectively from July 2020 to December 2020. The attractiveness of the semiconductor sector mirrors companies' chase towards memory-intensive areas such as 5G, cloud computing, data centers and internet of things (IoT). This chase only accelerated as working became increasingly digitized. In terms of M&A, some megadeals surrounding the semiconductor space were announced in the second half of 2020, one of the most notable being Nvidia's plans to acquire UK-based ARM for $40 billion in a deal that would create the world's premier computing company for the age of AI.

Food delivery

As the gastronomy sector came to a halt in 2020, restaurants switched to takeaway and delivery business models to survive. Platforms like Uber Eats and Delivery.com became essential for consumers and restaurants alike, providing an effortless means for restaurants to continue to provide for consumers. The fast-paced adoption of these services required consolidation, to wipe out competition in a competitive market and reduce the costs of acquiring and retaining customers. Amsterdam-based Just Eat Takeaway therefore announced its plans to acquire GrubHub in an all-share deal for an enterprise value of $7.3 billion. The combined operation will have over 70 million active customers globally and will create the world's largest food delivery business outside of China.

Video games

In the media & entertainment space, the video game sector has seen strong figures throughout 2020. With the world's population confined in their homes, it is no wonder that demand and interest in the video game industry has soared. CD Projekt, a Polish video game developer, saw its Q3 2020 revenues increase by 47.5% over 2019 figures. Growth in mobile has also been an attractive driver for M&A in the video gaming sector, leading to various acquisitions in the space. In August, Zynga, the maker of Farmville, acquired Turkish-based mobile game developer Rollic in a deal worth $168 million. The mobile game segment is forecasted to grow at a CAGR of over 10% throughout the next 5 years and reach a market volume of $160 billion by 2025.

Telecommunications

Due to the acceleration of digital trends throughout 2020, various opportunities arose for telecommunications companies (telcos). In terms of network connectivity and technology infrastructure, trends like 5G, artificial intelligence, cloud and IoT are transforming the telecommunications industry. More specifically, telco companies are evaluating their asset portfolios to identify potential divestitures but also to identify potential opportunities in terms of M&A in order to scale network capacity and accelerate the rollout of 5G. Such an opportunity is exactly what Liberty Global identified when it acquired Swiss telco company Sunrise for $7.6 billion in November of 2020. As a result of the transaction, UPC, another Swiss telco company owned by Liberty Global, will integrate with Sunrise to create Switzerland's leading gigabit fiber optic cable network and leverage Sunrise's 5G to improve connectivity for Swiss customers.

Conclusion & Forward-Looking Remarks

As the initial impact of Covid-19 wore down, the pandemic began to differentiate between winners and losers. As we have seen, the pandemic largely benefited the TMT industry as a whole by underscoring the importance of digital connectivity and Innovation.

Technology, Media, and Telecommunication Industry [EMEA]

The technology sub-sector in particular saw a sharp rise in both deal volumes and values as 2020 came to an end. This trend is likely to continue far beyond 2020: in a survey of 230 M&A stakeholders including corporate executives and private equity firms, respondents were asked which sector they believe will witness the most M&A activity in Europe through 2021. The TMT industry took the top spot, with 68% of the respondents leaning towards high levels of M&A activity, followed by Pharma, Medical and Biotech with 38%. We believe that we are still at the start of the hill when it comes to TMT, and with the future bringing ever-more technological advancements and opportunities, the TMT industry will continue to develop strongly. We believe that with this strong development, M&A activity will continue to play a big role in the TMT industry throughout the coming decade.

FOCUS Finance

Europe, Middle East & Africa – Healthcare Industry

Healthcare as Essential Industry through 2020

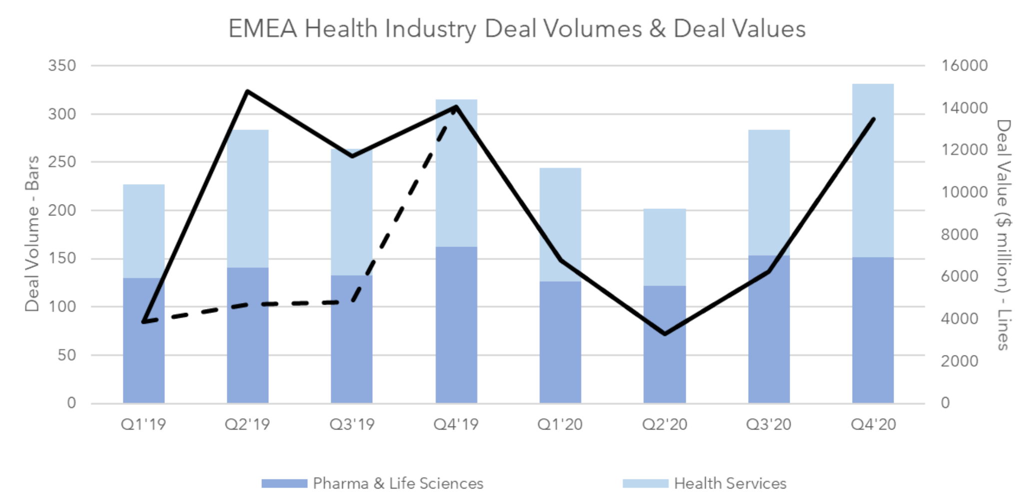
The healthcare industry has historically served as a refuge for investors during economic crises. The Covid-19 pandemic was no different, as the industry attracted new investor interest and large amounts of capital looking for safe harbor. Moreover, the economic crises throughout 2020 was caused by a pandemic, providing an additional opportunity for the healthcare industry. Globally, over 100 million people have contracted the Covid-19 virus, creating immense demand, but also strain, for the healthcare industry. Hospitals overflowed and medical equipment became scarce through the peak of the pandemic, creating incentive for consolidation. Moreover, pharmaceutical companies rushed to develop vaccines to allow the world to return to normal. BioNTech SE, a German biotechnology company, collaborated with Pfizer to develop a Covid-19 vaccine within the short timespan of a year. In the UK, AstraZeneca rolled out its version of the vaccine as well. Besides vaccine development, the healthcare industry was in high demand throughout 2020 with the increased usage of disinfectants, protective equipment like surgical masks and gloves, and high amounts of hospitalizations. Overall, the healthcare sector was not only a safe harbor for investors and in high demand due to the pandemic, but the industry itself is also a major part of EMEA GDP. Most recent data shows that healthcare expenditures account for an average of 9.9% of GDP throughout European member states. In the Middle East and North Africa, healthcare accounts for 5.9% of GDP on average.

Covid Vaccine development and the logistics of its distribution

Whilst the healthcare industry has seen more prominent commercialization over the years, the sanitary crisis experienced by Covid only highlighted the importance of the industry to citizen's health as well as to revenue opportunities. Since November, multiple companies worldwide have announced more or less successful vaccine development results. Would it be Pfizer&BioNTech in the US and Germany, or the Oxford Uni-AstraZeneca in the UK or even the "Gamaleya" Sputnik V in Russia. As these vaccines have been developed in different countries, under different local regulations, their usage and characteristics vary quite significantly. Factors such as cost per dose, storage condition needs, availability and effectiveness of vaccines create a huge disparity between each of these vaccines, where the Pfizer one must be stored under -70-degree Celsius conditions for example, Oxford Uni and Sputnik V can be stored in regular fridge conditions. These differences are quite important when it comes to the logistics of vaccine distribution, which is certainly an issue that affects countries in Africa more significantly than Europe for example. According to an Economist research, most of the African continent will have coronavirus vaccines widely available only around April 2022 - 2023, much later than for the majority of the European continent, where the expected dates are between September 2021 and March 2022. An interesting phenomenon was the positive increase of these companies' stock prices when successful vaccine trials were announced in early November, figure below shows historical stock prices for Astra Zeneca AZN and BioNTech BNTX. This can however be understood, as people are locked at home and are progressively getting tired of the situation, a vaccine seems like the only solution.

M&A Activity overview

Healthcare M&A deals activity has remained quite strong in Q3 & Q4 of 2020. In fact, the number of deals in the EMEA region in healthcare services and pharmaceuticals was at 651, an increase in numbers from the same period last year (579). This is however unsurprising as although Covid-19 put a heavy toll on certain industries, the healthcare sector certainly benefited from increased demand for antiseptics, disinfectants, and protecting equipment such as surgical masks and gloves. Close to the beginning of the year, European countries had struggles when it came to providing ventilators to Covid sick patients. With hospitals overflown by patients, Italy pressured the country's only ventilator manufacturer to *"quadruple monthly production"*, which besides highlighting the seriousness of the situation, underlines higher levels of profitability to the healthcare industry. In comparison to Q1 & Q2 of 2020, the volume of deals rose quite sharply, a 95.4% increase from $10.084b to $19.707b (excluding megadeals). Increased confidence of a vaccine development and the announcement of German Siemens Healthineers's Megadeal acquisition of Varian Medical Systems for a value of $16.4b in cash, appear as important factors in boosting overall M&A deal volumes. It's also important to scale this in relation to world M&A volume amounting to $114.7 b (excluding mega deals). The EMEA region in the last two quarters of 2020 was thus responsible for about 17.2% of total M&A volume worldwide.



Source: Refinitiv, Dealogic and PWC analysis

Healthcare Meets Tech

While the trend towards specialization has been around for a while in the healthcare sector, there has been an increase in strategic acquisitions involving new and innovative technologies. Particularly health-tech and tech-enabled service providers are driving the digitalization of the pharma ecosystem and are thus attractive acquisition opportunities for large established pharmaceutical companies looking to digitize their business. These acquisitions are especially important when considering the potential impact of large tech corporations entering the healthcare sector and can therefore be seen as a defensive move by established healthcare companies. On the other hand, the Covid-19 pandemic forced most businesses to rethink their business delivery models to cope with social distancing measures, including those active in healthcare. Matt Hancock, Secretary of State for Health and Social Care in the UK, stated that all medical consultations should be done by telemedicine, unless there are clinical or practical reasons. This is yet another reason for increased tech acquisitions or partnerships by healthcare companies, as the industry becomes increasingly digitized. Some major healthcare and technology deals that occurred throughout the EMEA region in the second half of 2020 include Germany based Siemens Healthineers' acquisition of Varian Medical for $16.4 billion.

With the acquisition, Siemens Healthineers will be able to leverage Varian's expertise in the field of artificial intelligence, machine learning and data analysis in the field of cancer care. Additionally, relating to social distancing measures as a result of Covid-19, Dutch conglomerate Philips acquired remote cardiac diagnostic and monitoring company BioTelemetry in a deal worth $2.8 billion. The acquisition fits with Philips'

Conclusion and Forward-Looking Remarks

If we were to put forward an opinion on how well the healthcare sector did in comparison to other sectors, we would say - pretty well. In fact, these last two quarters appeared for giant pharmaceutical firms as remarkable in terms of record vaccine development. In fact, one might argue that the healthcare sector is one of the few sectors that benefitted majorly from the Covid-19 pandemic. This can be seen in a solid increase in M&A volume in Q3 & Q4 of 2020, as well as increased demand for medical supplies and products, and the appreciation of medical stock prices. However, logistics appear to be a topic of debate, where will vaccines be distributed first? Why so? From overall trends it looks like First World Countries will get access to the vaccine, much earlier than African countries. Whilst this year appeared to be a strong one for the healthcare sector, it is certainly a trend that will remain in 2021 and beyond. Just like food and shelter, doctors will always be needed to treat patients, looking forward to the year 2021 appears to open many doors to these companies, as those have been truly seen as the “saviors” of the world in 2020.

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Asia Pacific – Healthcare Industry

Healthcare Industry [APAC]

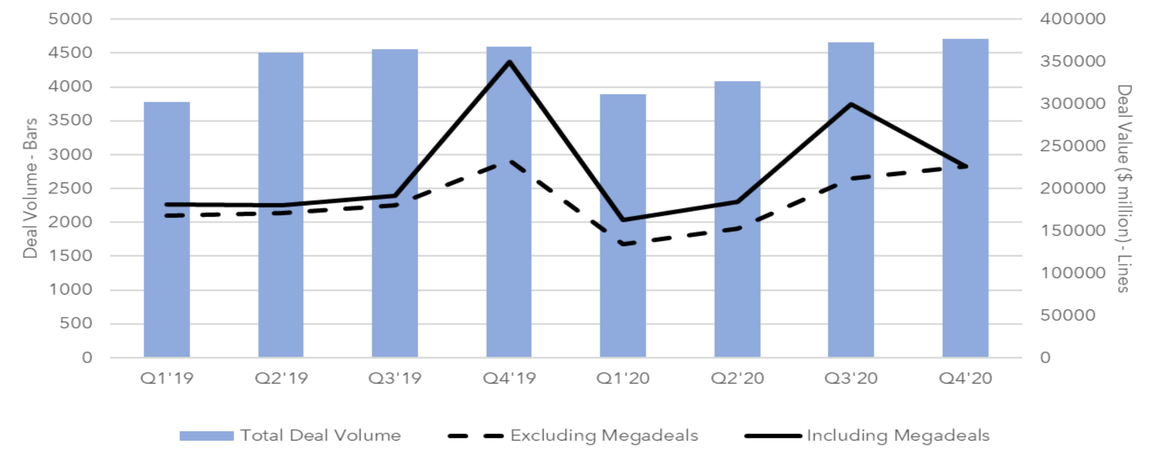
Introduction

Since the global COVID-19 outbreak, the healthcare sector has received a high level of attention from investors, especially in developing effective vaccines. While the healthcare industry deal values plummeted Q1 2020 in the Asia-Pacific region, we observed a strong rebound in M&A activities Q3 2020, with deal values reaching a level comparable to pre-COVID-19 (Q4 2019) and a 217% increase in deal values from Q1 2020. Valuations for MedTech and pharma firms have both risen, which is likely driven by the COVID-19-related demand. A noticeable trend is the rise of technological disruption, where businesses are seeking to incorporate technology with healthcare services. We will discuss how the cross-sector integration is likely to drive industry transformation and affect future deals, and how APAC countries treated and adopted the transition from in-person to online pharmacy and medical services. Zooming in, we will focus on two main players, Australia and China, and highlight post-pandemic directions of their healthcare M&A activities.

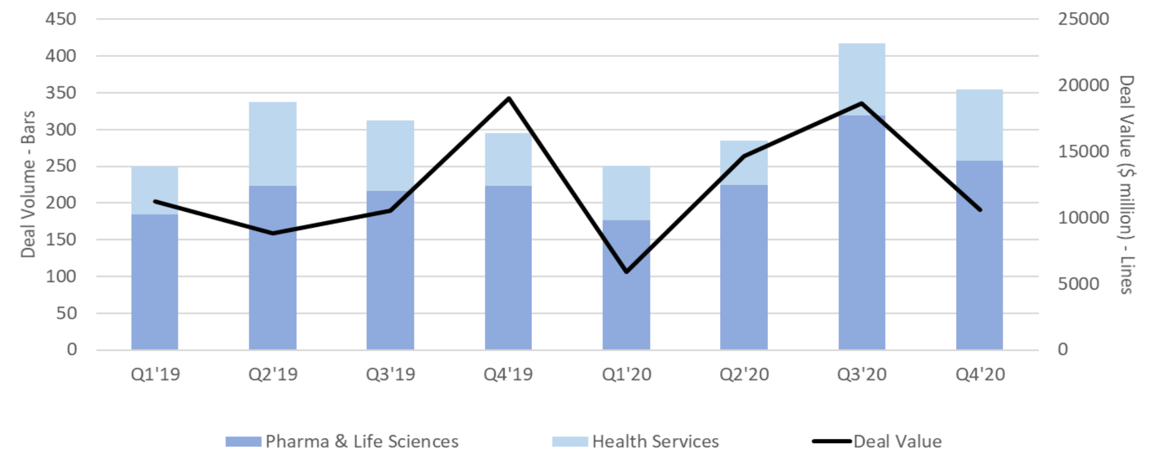
Industry Landscape

COVID-19 seriously hit the healthcare sector but also reintroduced this industry to investors. Deal volumes for pharma increased 36% in APAC yet decreased in both EMEA and the Americas by 2% and 22% respectively. Winners from COVID-19 enjoy rising valuations, including MedTech companies supplying testing, personal protective equipment (masks, hand-sanitizers, etc.) and pharma companies developing COVID-19 vaccines and treatments.

The pandemic has put many healthcare businesses under the pressure of adopting digital technologies and remote patient-care delivery. The new concept of telehealth, integrating healthcare with telecommunications to provide remote consulting and treatments outside of traditional facilities, was accelerated in 2020 and well-recognized by investors. Telehealth IPO activities grew rapidly and are expected to maintain the



Source: Refinitiv, Dealogic and PWC analysis



Source: Refinitiv, Dealogic and PWC analysis bullish trend, which implies increasing M&A deals among telehealth companies in the future. Besides COVID-19-driven demand for remote diagnosis, artificial intelligence (AI) and Internet of Things (IofT) have been introduced to daily treatments to reduce misdiagnosis and make hospital workflows more efficient.

Two main drivers of value are innovation in treatments and customer experience enhancement. Firms with strong research & development (R&D) capabilities or focusing on vaccine developments enjoyed positive expectations and revenues during the pandemic. That being said, large pharma companies with abundant capital are more inclined to invest in innovation-led value creation and seek opportunities to gain technological competitive advantages by merging or acquiring tech firms.

Inherent inequalities in healthcare systems are a long-standing debating issue. COVID-19 brought social determinants of health into attention given the unequal opportunities to access testing resources, emergency treatments, and vaccines. Disproportional medical resources allocation within a country, especially among developing countries, continues to receive attention. We believe dealmakers will put more weight on ESG criteria when evaluating a deal, which means a candidate with positive ESG characteristics is more likely to be executed or valued higher.

Australia: Recovery from COVID-19 and Achieving Scale

COVID-19 dominated the Australia healthcare system in 2020. Healthcare deal volumes decreased in 2020 but still maintained a robust activity trend over the past three years. The portion of healthcare services in total deal volumes has been steadily rising over years, reaching over 40% in 2020. Currently, Australian government contributes to 70% revenue of the Service sector. As COVID-19 puts more burden on government spending, healthcare businesses have to bear the pressure of rising costs, which implies the need of achieving scale through M&A transactions.

On the buyer side, strategic buyers continue to play a dominant role in terms of deal volumes. Unlike strategic buyers, who aim to achieve long-term synergies, PE buyers focus on achieving scale quickly and payout in three years, which usually attract higher deal values. Despite the dismal market environment caused by COVID-19, an increasing percentage of strategic acquirers and fewer mega deals possibly explain the correspondingly decreasing deal values.

China: Where to Pick Up from COVID-19?

M&A Deal values in China healthcare H1 2020 (US$5.0 billion) were only 20.2% of deal values in 2019 full year (US$24.7 billion), which can be explained by an overall downturn in Chinese capital markets due to the COVID-19 outbreak. China real GDP growth fell to -6.8% in Q1 2020, the first negative quarterly growth reported since 1994. However, the economy quickly picked up and sustained growth rates from Q2 (3.2%) to Q4 (6.5%) 2020. The economic recovery vitalized M&A activities in China as we saw the total deal value in 2020 rose 30% to US$734 billion and the deal volume also increased 11% to 10,551 transactions.

During the pandemic, contract research organizations (CROs) were brought into public attention. CROs provide research and testing services, including molecule research, preclinical and clinical trials, to healthcare companies. COVID-19 vaccine development acting as a catalyst, China is encouraging novel drug development, in which field we are likely to observe more M&A activities. On November 9, Pharmc acquirers and fewer mega deals possibly explain the correspondingly decreasing deal values. Cross-border M&A transactions will likely continue to grow as foreign direct investments gain more confidence in the Chinese market. Positive news from Sinovac and Sinopharm, two front-runners in vaccine development, proved China's ability to make significant progress against coronavirus in a timely manner. We anticipate more inbound deals.

Strong IPO pipelines and positive policies implemented by Chinese government are expected to boost M&A activities. Looking forward into 2021, the healthcare industry in China will likely enjoy the overall growing M&A deals driven by domestic and private equity activities. Whether China will manage to control the spread of COVID-19 in the future remains crucial to determine how long this trend will last.

Conclusion and Forward-Looking Remarks

Having seen a strong rebound in healthcare M&A activities in APAC markets, we believe healthcare is a go-to sector for investors during and post pandemic. Companies focusing on COVID-19 testing, vaccines, and future preparedness will continue to benefit from the prolonged pandemic and remain attractive to acquirers. COVID-19 alarms every country to rethink how they should prepare for the next global public health crisis. As living standards improve, people will put more emphasis on healthcare issues and turn to better treatments, accelerating the transformation cycle and bringing opportunities for existing and potential players.

Technological disruption remains to be the main challenge. Large players expand their value chains by heavily investing in innovation and acquiring tech companies. Small or mid-size players struggle and seek merging opportunities to achieve scales in order to reduce costs and secure a larger market share. The concern of cybersecurity comes next. The high integration rate of mobile devices in treatments urges companies to prioritize patient privacy and inappropriate access to sensitive information. Following significant costs of personnel, technology, and physical systems put more burden on healthcare companies.

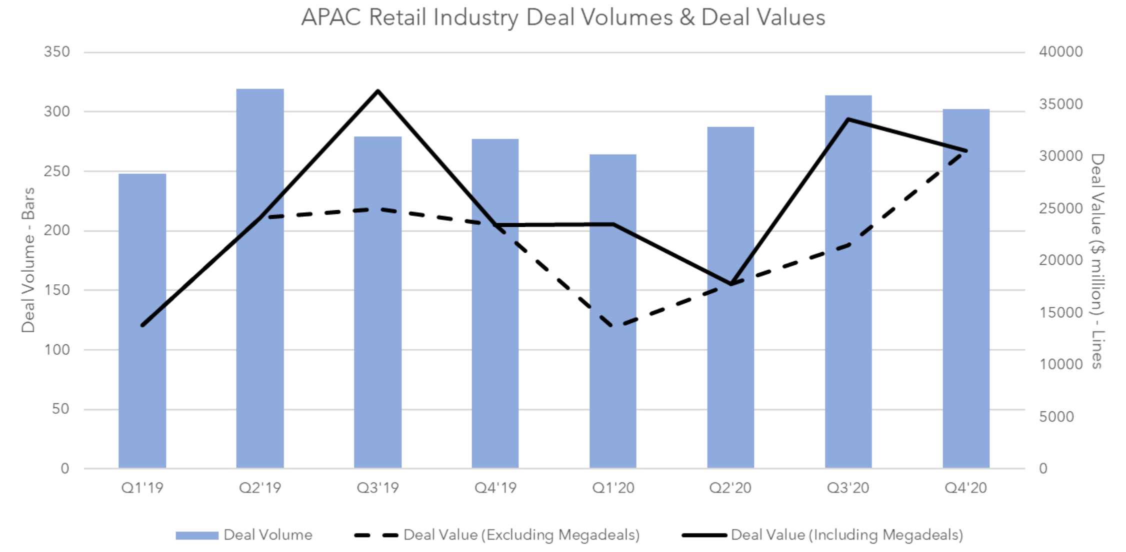
Looking forward, we are likely to see new leaders acquire weakened firms and weaker firms combine to challenge new leading firms in the APAC healthcare sector. Firms with strong R&D capabilities and technical expertise have become and will remain to be attractive targets. Large players open doors to tech partners and monopolize cutting-edge technologies, limiting opportunities for small players to achieve scale.

Asia Pacific – Retail Industry

Retail Industry [APAC]

Industry Outlook

In 2019 APAC counties accounted for $5.5 trillion in sales and though its sales declined in 2020 by 1.5% due to COVID-19, the industry is expected to pick up sales by 6 % in 2021. Looking at Non-store- online retail, sales projected to grow from $1.5 trillion in 2019 to $2.5 trillion in 2024. China is expected to remain the largest market reaching 2 trillion dollars in 2024 and accounting for 50% of global retail sales. Consumer electronics is found to be the largest retail category in Asia Pacific, accounting for US$260 billion in online retail sales last year. Following close behind is apparel and accessories (US$256.0 billion), grocery (US$96.8 billion) and hardware and furniture (US$93.5 billion).



Source: Refinitiv, Dealogic and PWC analysis

E-commerce

A rising middle class in Asia is expected to make up 64% of the global middle class and will contribute 40 % to its consumption by 2030. Moreover, with higher movie phone penetration rates, increasing logistics options for e-commerce players and changes in consumption behaviors aided by the pandemic, online retail is on the fast track.

The largest retail category in APAC is Consumer electronics, which accounted for $260 billion in online retail sales last year, followed by apparel and accessories (US$256.0 billion), grocery (US$96.8 billion) and hardware and furniture (US$93.5 billion). More than 75% of online retail sales take place via mobile devices in Asia, in contrast to the US and Europe where lower sales take place on mobiles. Online retail sales by smartphones are expected to grow at a CAGR of 13.6% to $2 trillion by 2024. The grocery segment in online retail is also on the fast track due to COVID-19 with an expected CAGR growth of 30% during the forecast period (June 2020) and has its online penetration doubling from 5.1% in 2020 to 10.6% in 2024.

Companies are also trying to reinvent themselves by building capability and adopting new solutions, retailers are also forming partnerships to enhance last-mile delivery solutions and supply chain automation aiding profitability. For example, Aeon to develop its online

grocery business in Japan has partnered with UK online grocery retailer Ocado. The retailer will build automated warehouses where robots fill customer orders ready for home delivery. Further, Aeon will also launch a new online business using the Ocado Smart Platform.

Social Commerce

Social media has an increasing role to play in today's retail landscape. It is the ability to sell seamlessly through social platforms. Digital retail channels were centered around social media platforms such as WeChat and WhatsApp, as well as live streaming. More and more brands today are investing in social commerce training, i.e. paving new channels for retail and having a one-on-one relationship between the sales associate and customer.

Asia is leading the world in terms of social commerce. The market offers numerous social platforms that have increasing levels of capability through which to sell products. New selling techniques are growing in importance and emerging all the time, while new apps and solutions are being developed.

For example, for its popular 11.11 sales last year, Alibaba ramped up social efforts and had over 17,000 brands using live streams to communicate product information. Alibaba is also testing AI-powered real-time translation for live streaming.

Constant Redefinition of Core

Large retailers, FMCGs, are focusing more and more on developing their core strategies, and continue to engage in M&A to create value by acquisitions in growing categories, channels and markets or through divestitures of non-core business components and planned exits from non-strategic markets.

For example, to focus on its core categories, Nestlé sold its Chinese bottled-water business to Tsingtao Brewery in August 2020. Similarly, Walmart exited the UK market in October with the sale of its UK grocer, Asda, to focus on its core US market and its faster-growing overseas ventures in China and India

Buying into the New 'Rule Breakers'

New entrants, or 'rule breakers', have been changing the traditional landscape of retail, consumer businesses for some time and are increasingly becoming part of the status quo. The pandemic has proved that people are more open to change and experimentation than businesses expect. For example, Nestlé invested in two direct-to-consumer businesses in 2020. In October it announced the acquisition of Freshly Inc., a US-based start-up focused on healthy prepared-meal delivery, and in November it acquired Mindful Chef, a UK meal-kit company.

Building in Resilience

Companies are constantly looking to build operational and financial resilience and are looking into M&A as conventional business models are facing uncertainty in light of speedy innovation amongst peers, by diversifying supply chains, vertically integrating and focusing on digital transformation to preserve liquidity. Alibaba, for example, with its acquisition of a further stake in Sun Art Retail, a Chinese hypermarket and supermarket retailer, is hoping to leverage its digital presence and access more customers by offering a fully integrated online and physical shopping experience. In Japan, KKR and e-commerce retailer Rakuten came together to acquire a majority stake in Seiyu, a local supermarket chain, for similar reasons.

Key Deal - Flipkart to Acquire a 7.8% Stake in Aditya Birla Fashion

Aditya Birla Fashion Retail operates brands such as Pantaloons, Allen Solly and Peter England has over 3,000 stores across the country. The CCI (Competition Commission of India) has given the green light to Flipkart's proposed acquisition of 7.8 percent equity stake in Aditya Birla Fashion and Retail. Aditya Birla Fashion had approved the issuance of equity shares on a preferential basis to Flipkart for Rs 1,500 crore.

The company has also entered into a commercial agreement about the sale and distribution of various brands of the company. Aditya Birla Fashion and Retail Limited said equity capital will be raised at Rs. 205 (US$ 2.78) per share. Aditya Birla Fashion and

Retail Industry [APAC]

Retail Limited plans to use this capital to strengthen its balance sheet and accelerate its growth trajectory. The company plans to expand its core business where it exercises strong market power. Further, it plans to penetrate emerging markets like innerwear, athleisure, casual wear etc.

ABFRL is trying to accelerate the execution of its digital transformation strategy, that will deepen the consumer connect of its brands, expand the reach of its diverse brand portfolio, build strong omnichannel functionalities and augment its backend capabilities, positioning it amongst the most comprehensive omnichannel fashion players in the country

The Flipkart-ABFRL deal was 2020's second big deal in the offline consumer space. In August this year, Reliance Industries' (RIL) unit Retail Ventures acquired the retail and wholesale business as well as the logistics and warehousing business from Kishore Biyani-led Future Group as going concerns for a gross amount of Rs 24,713 crore.

Asia Pacific – Financial Service Industry

Financial Service Industry [APAC]

2020 at a Glance

Since APAC was the first region to be hit by the effects of COVID-19 at the beginning of 2020, we have been able to witness the significant impacts that the pandemic has had on many industries - specifically the Financial Services Industry. From global interest rates reaching historical lows to withdrawn and delayed M&A deals driven by uncertainties, the effects of COVID-19 can be pronounced. Within Q3-Q4 of 2020, M&A activity in the Financials Services industry across the region started following a relatively solid recovery, showing indications of growth despite some market volatility, with the rebound characterized by deal volumes in the latter half of the year that rose by 13% to (USD) $1.3 trillion. As the overall economy has begun to slowly navigate its way towards a post-COVID era, let's take a look at some of the major activities within the financial services industry.

Resurgence of M&A Activity

Despite the many unprecedented events brought by the global outbreak, positive news can be extracted from Q3 of 2020. During this period, investment banking fees within the APAC region took (USD) $21 billion of a global fee haul of (USD) $91 billion, up nearly 14% from the same quarter in 2019 due to the rapid rise in debt and equity financing activity - fees in the region can be mainly attributed by China where they rose 35% in 2020.

Private-equity backed M&A activity also continued to remain relatively active in the latter half of 2020 as firms were able to buy many companies and assets at lower valuations due to distressed situations and uncertainties on the lasting effects of COVID-19. Instances of private equity transactions by funds can include KKR's (USD) $754 million stake in one of India's biggest retailer companies, Reliance Industries Ltd, this past September. An interesting fact to take into account is that KKR's, KKR Asian Fund IV also beat the fundraising record for private equity funds this past year with dry powder growing by 22% from the previous year and a total of (USD) $13.1 billion raised in secured commitments for capital funding. A general trend in M&A activity goes to show that private equity firms will continue to remain heavily involved in divestitures and acquisitions looking onwards, with an emphasis towards actively engaged activity in sectors adversely impacted by COVID-19 and companies with business models experiencing significant rapid evolution, taking advantage of the opportunities for distressed asset acquisitions.

Awareness and Emphasis on ESGs

As a growing number of businesses and investors are starting to place a strong emphasis towards satisfying ESG objectives, the landscape for assessing M&A deals and valuations have taken a shift towards a new direction. One of the most common tactics for companies to achieve ESG commitments are through credit issuances of bonds focused towards funding sustainable initiatives. Although 2020 was categorized by a region-wide decline in ESG bond issuances - 12% decline from previous year, the effect of this seems to be temporary as the declination in green debt sales was mainly attributed by China's shift towards social note offerings to combat the effects of COVID-19. Pledges given towards achieving zero-net emissions by several countries across the APAC region have furthermore pushed many existing companies to curb their carbon dioxide emissions at a growing pace. Last September, China's president announced goals to become a net-zero-emission country by 2060, followed by announcements from Japan and South Korea to become carbon neutral by 2060 in October. As the focus on corporate social responsibility (CSR) by companies and overall initiatives focused towards sustainable growth continues to progress, these changes will be bound to affect potential synergies and acquisitions in the M&A environment. The development and rollout of new ESG structures including green interest-rate swaps and sustainability-linked notes also goes to show the further expansion and flexibility of potential ESG financing options.

Growth in Digital Transformation

One of the emerging trends that COVID-19 has accelerated is the growing digitization of banking. Digital leaders in Asia's banking industry are forecasted to deliver higher returns of 4-5% ROE by the year of 2025 in comparison to institutions that miss out on emerging growth opportunities as they aren't on pace with adapting digitization into their business operations. As many financial institutions like banks have experienced steady growth leading up to 2020, the pandemic has gone on to distinguish the difference between APAC region's digital laggards and leaders. As low interest rate policies across the wider region are expected to remain until 2023, technological adoptions will prove to be of great significance for banks in order to combat the emerging challenges placed against their infrastructure. Traditional banks looking to pursue capitalizing in underserved markets also face troubles imposed by many fintech players such as their offerings of Super Apps - portals that combine banking and other services onto one platform. Across countries like Vietnam where more than >70% of the population is unbanked or under-banked, banking penetration is significantly low, leading to potential opportunities for individual fin-tech and digital banking players to gather significant market share. Looking towards another perspective, this general trend can also hint towards the interest in potential acquisitions/mergers surrounding the fin-tech space for companies with high-growth. In regards to other M&A opportunities, the integration of machine learning and artificial intelligence will be able to support investment banks and other financial institutions in gathering prediction models for deals to identify suitable targets to chase after.

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