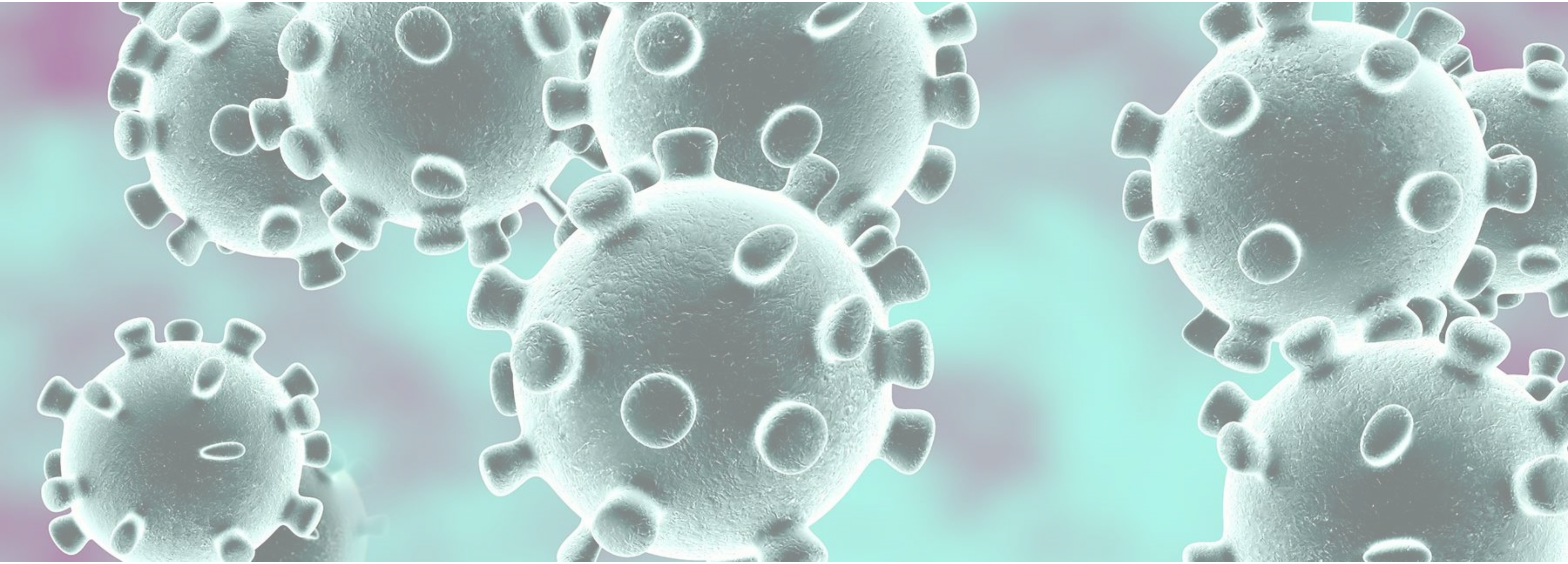
Financial Advisory



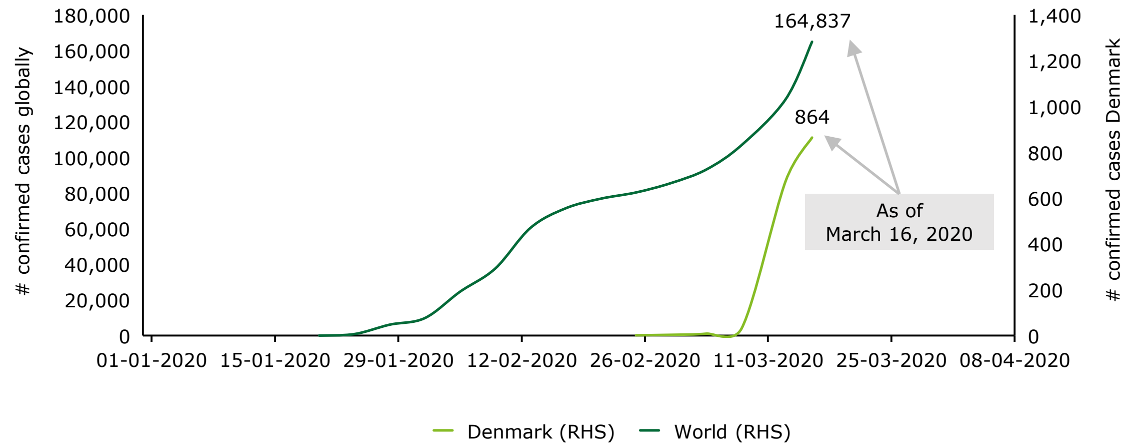
Coronavirus impact monitor – 16 March 2020

Deloitte Economics

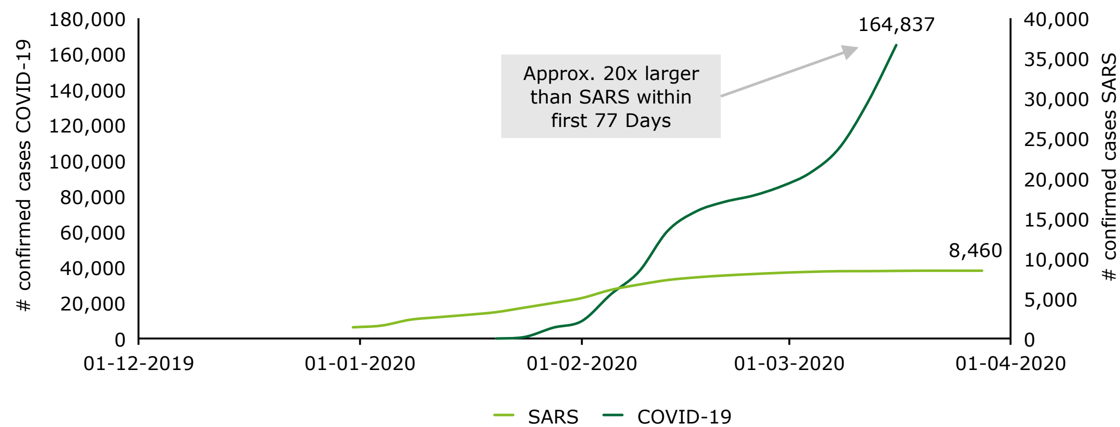
More rapid transmission development compared with the SARS outbreak in 2003

- Between January 20, 2020 and today, March 16, 2020, the number of global confirmed COVID-19 cases rose from 7 to approx. 165k.
- Within Denmark the number of confirmed cases rose rapidly within the past two weeks from only 8 on March 4, 2020 to 864 on March 16, 2020.
- This development of global cases is approx. 20 times as large as the amount of confirmed cases in the SARS epidemic of 2003 within the first 77 days.
- According to Danish Health Authorities, the COVID-19 spreads more rapidly than the seasonal flu (2.3 vs 1.3 cases per infected person) and has a longer incubation period compared to the seasonal flu (approx. 14 days vs. 4 days).
- Based on current numbers of fatalities to confirmed cases, COVID-19 spreads more rapidly but is not as fatal as SARS (4% vs. 10% fatality rate of confirmed cases).

Confirmed COVID-19 cases: World and Denmark



Coronavirus and SARS outbreak: World

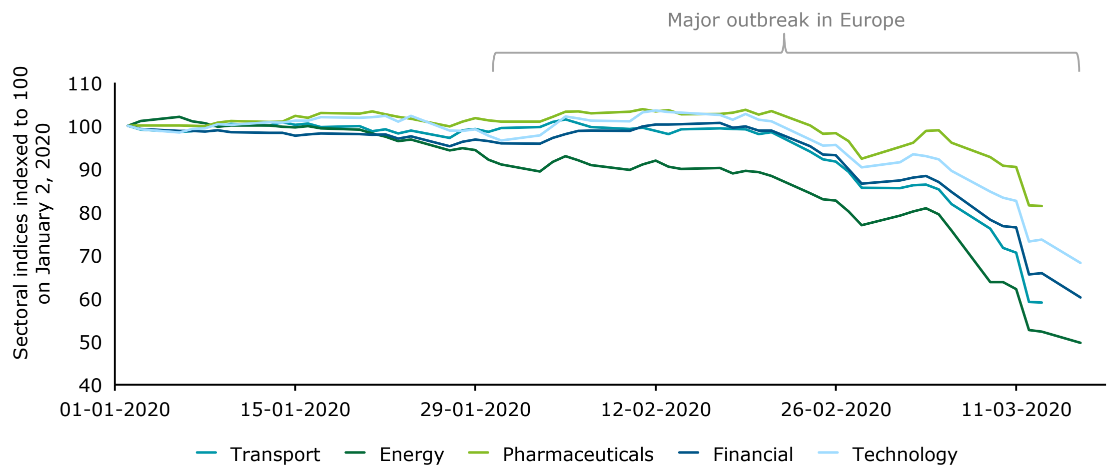


Notes: 1) Day 1 for SARS is March 27, 2003; Day 1 for Coronavirus December 31, 2019; Day 73 for Coronavirus is March 12, 2020
Sources: Number of infected people taken from WHO

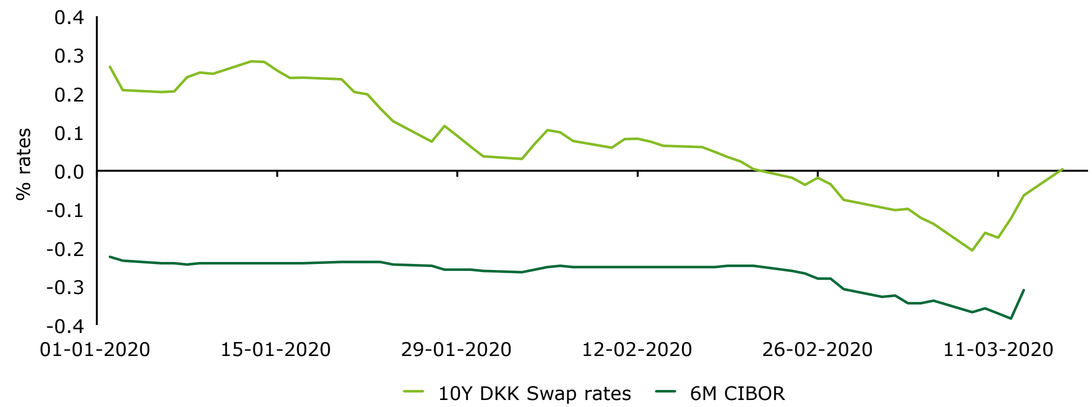
European equity markets suffering major losses from the outbreak of COVID-19

- European equity indices have suffered material losses following the COVID-19 outbreak in Europe.
- Especially the transport industry, including airlines, was severely impacted by the spread of the virus and related travel bans. The Eurostoxx Transport index is down some 40% since end of January, driven by a material decline in volumes.
- The European energy sector, including oil and gas companies, has lost some 45% since end of January. Declining energy prices have applied downward pressure on energy equities.
- Financials, including banks, have also experienced value destruction. Market concerns about increased credit losses and funding squeeze are likely drivers.
- Other industries such as Pharmaceuticals and Technology have held up relatively well as the sectors are less exposed to a near-term contraction in consumer spending.
- The outlook of slower economic growth translates into lower interest rates. Central banks across the world have eased monetary policies, applying downward pressure on interest rates.
- Equity market volatility has spiked to levels not experienced since the global financial crisis (see Appendix).

Equity markets: Sectoral indices in Europe



Interest rates: 10Y Interest rate (swap) and 6M interest rates (CIBOR)

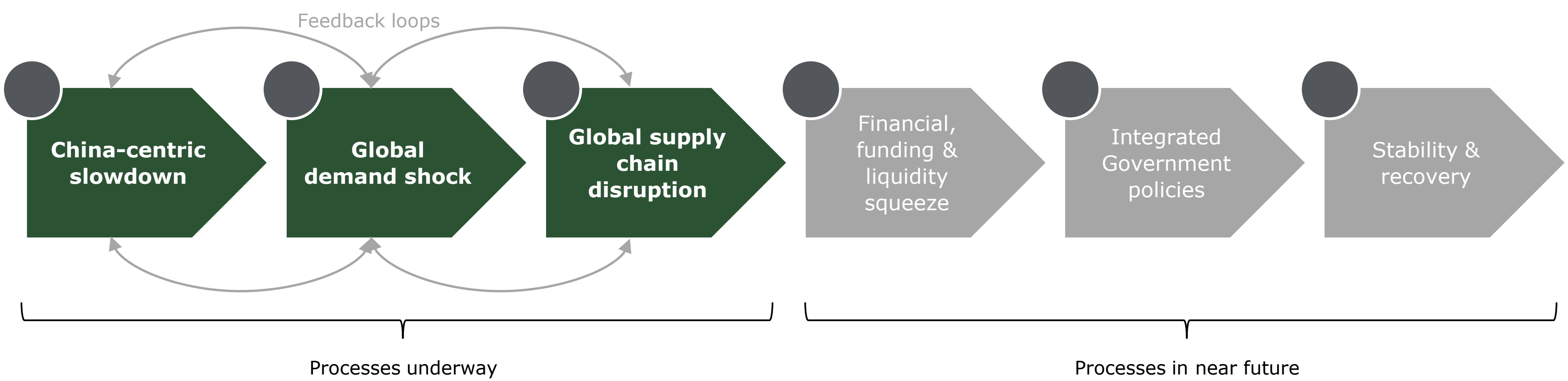


Notes: 1) All indices are on a European basis: Eurostoxx Transport, Energy, Pharmaceutical, Financials and Technology index
Sources: Thomson Reuters Eikon, European Union

Global supply chain disruption and negative demand shock to impact the economy

- In a short period of time, the COVID-19 crisis has progressed from a China event into a global supply chain disruption (negative exogenous supply chain shock) and a negative demand shock with complex feedback loops. Companies and factories are reducing activity levels or closing down, feeding a disruption to global supply chains. People are asked to stay at home or work from home, sharply reducing personal consumption (for instance, limited travel and limited activity at restaurants).
- The policy response in Denmark has been material, with a countrywide lockdown for two weeks, and closure of all human traffic across borders.
- Central banks across the world have eased monetary policies and introduced various measures to ease market strains and prevent funding and liquidity squeezes.
- The scale and magnitude of the pending economic slowdown remains unclear.

Chain of real economic impact

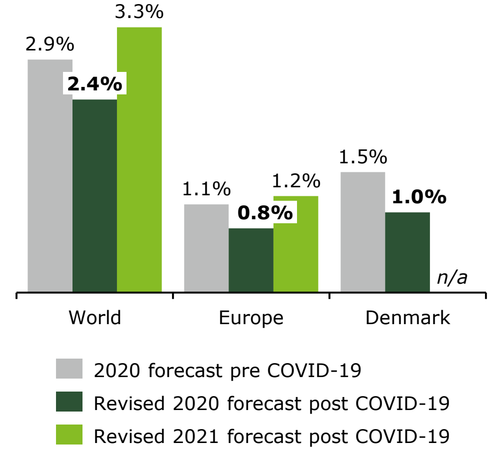


Notes: 1)
Sources: Deloitte analysis

Severe and short-lived slowdown, with expected recovery in second half of 2020

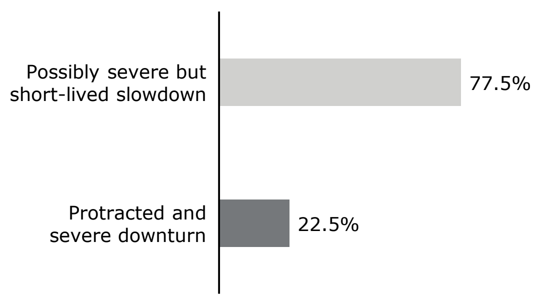
- The disruption of the global supply and demand chain as well as financial markets translates into an adjustment of economic growth projections worldwide:
    - According to the OECD global economy in 2020 is expected to grow by 2.4% instead of the initially estimated to 2.9%, while European growth slows down from 1.1% to 0.8%
    - In Denmark bank estimates from Nordea Markets project a decrease of economic growth rates from 1.5% to 1.0% or even 0.5% in the worst-case scenario
- Nevertheless, projections for 2021 for global and European economic growth by the OECD remain optimistic and are subject to an upward adjustment to 3.3% and 1.2% respectively in response to the slowdown in 2020
- Response from almost 3,000 participants on a Global Deloitte Economics call with colleagues and clients on March 12 shows that almost 80% believe the Coronavirus will have a severe, but only short-term impact. Accordingly, approx. 70% of respondents expect the economy to rebound in Q2 or Q3 of 2020 - even though more than half of the respondents is not convinced that policymakers have enough tools to attenuate the shock induced by Coronavirus.

Economic growth projections

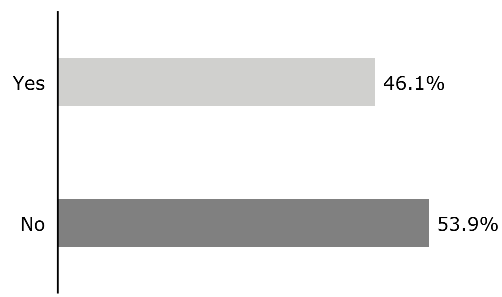


Results of Deloitte surveys

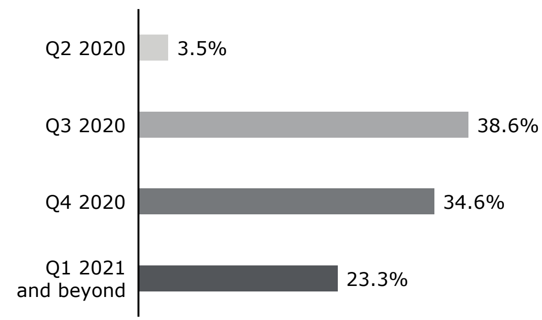
What will be the ultimate impact on economic growth of COVID-19?



Do policymakers have sufficient policy tools to cushion the economy from the COVID-19 shock?



When do you think activity will rebound in your economy?



1) Deloitte surveys conducted on March 12, 2020 involving 3000 colleagues and clients

Deloitte surveys, OECD Economic outlook (November 2019) and Coronavirus update (March 2020) for global and EU figures; Nordea markets estimates for Denmark

Deloitte Economic's view on the short-term outlook across selected sectors in Denmark

Transport

- High short-term impact of COVID-19 on transportation due to limitations on travel and supply chain disruptions. Lower volumes are reported in bus transportation, shipping and air transport. Passenger volume through Copenhagen Airport are down some 30%.

Hotels and restaurants

- It is estimated that turnover among hotels is down some 50-60%. Restaurants and bars are also reporting major declines in activity.

Financials

- Equity prices of Danish banks have fallen sharply, partly due to concerns about credit losses: The corporate sector in Denmark is relatively skewed towards small and medium-sized companies, that appear more vulnerable to supply chain disruptions and negative demand shocks.

Pharmaceuticals

- Limited impact so far. Potential upside in scenario with increased spending on vaccinations.

Leisure

- The advice by Danish authorities to refrain from gathering more than 100 people under one roof is a major issue for the leisure sector (conference centers, concert places etc.)

Sector	Denmark	
	Short-term	Outlook
Transport	High impact	Slow recovery
Hotels and restaurants	High impact	Moderate recovery
Financials	High impact	Moderate recovery
Pharmaceuticals	Neutral / Low impact	Growth opportunity
Leisure	High impact	Moderate recovery

Notes: 1)
Sources: Deloitte analysis, Dansk Erhverv

Key messages

The global economic slowdown is set to hit the Danish economy

- COVID-19 spreads more rapidly, but is less fatal than for instance SARS (3.6% vs. 10% fatality rate of confirmed cases). COVID-19 also spreads more rapidly than the seasonal flu (2.3 vs 1.3 cases per infected person). From March 4 to March 13 the number of confirmed cases increased by almost 800% (from 8 to 801).
- COVID-19 has caused severe damages on the World Economy. The equity markets have suffered major losses and equity market volatility has spiked to levels not experienced since the global financial crisis.
- In Denmark, especially the transport sector and hotels and restaurants have experienced a major decrease in turnover. As the Danish government enforces extraordinaire measures to prevent COVID-19 to spread in the population, the severe economic consequences of COVID-19 is expected to characterise the economic situation across sectors.
- According to a Global Deloitte Economics survey among 3,000 colleagues and clients from all over the world the expectations are that the economic slow-down will be deep, but short. By the end of 2020 the economy is back on track.
- Deloitte Economics will continue monitoring the impact of the Coronavirus in Denmark and globally.

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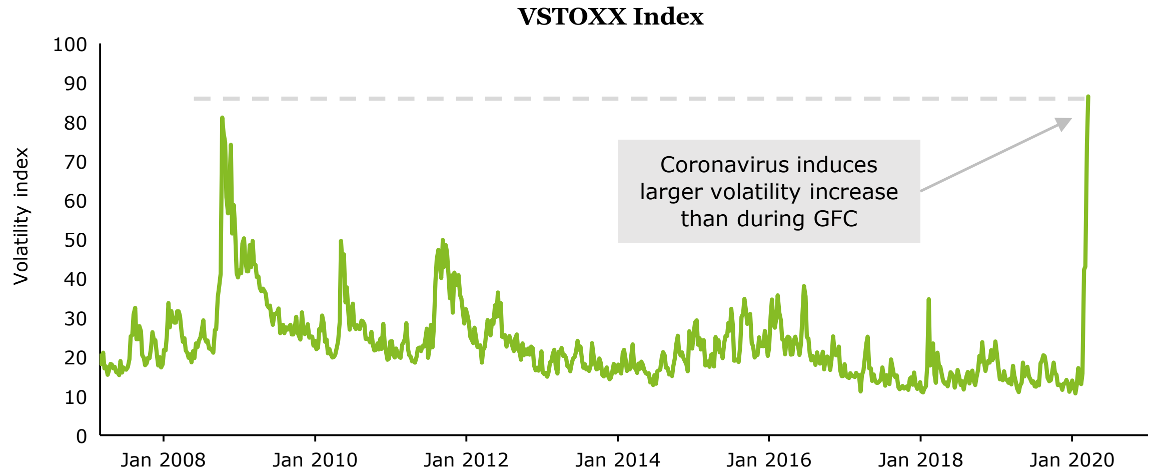
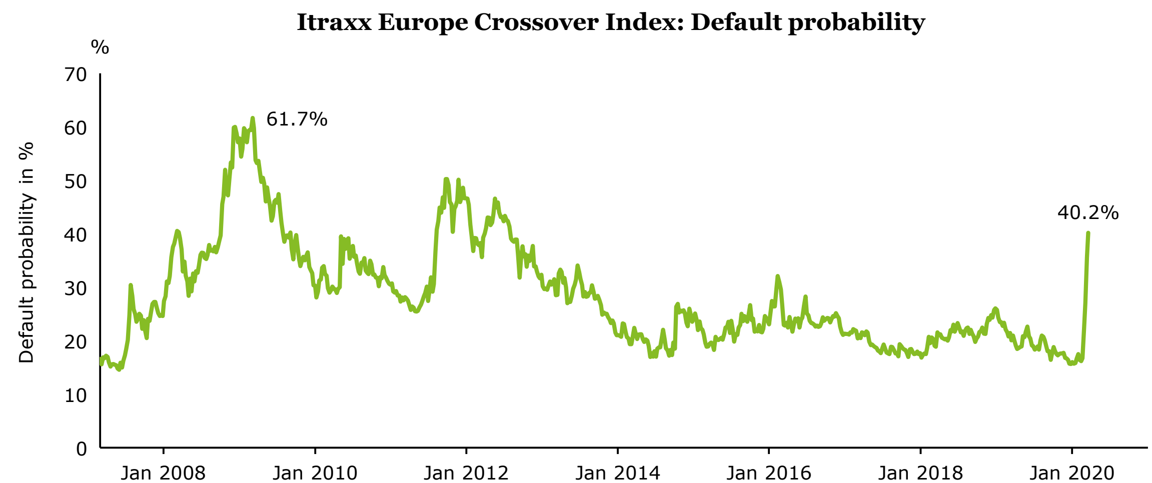
Appendix

Equity market volatility at highest level since financial crisis

- VSTOXX describing the European volatility benchmark reflecting investors sentiment and overall economic uncertainty by measuring 30-day implied volatility of Euro Stoxx 50.
- As shown in the graph above the Coronavirus induced an increase in volatility to the highest level since the Great Financial Crisis in 2008 underlining investors' fear of a recession.
- Up to today the volatility index rose by approx. 520% this year, largely exceeding growth rates during the GFC.



- The adjacent chart shows the development of the implied default probabilities calculated based on the 5Y Itraxx European Crossover spread of Credit Default Swaps and an assumed recovery rate of 40%.
- With a current default probability of approx. 40% we are on the highest level since the European debt crisis, but still below peak financial crisis levels.
- As the index reflects cost of debt and because refinancing will be costly for levered companies, even though interest rates are at an all-time low, returning to long-term levels of default probabilities is expected to be a protracted process.



Notes: 1) VSTOXX as volatility index of Eurostoxx 2) Default probability calculated based on 5Y Itraxx European Crossover CDS and a recovery rate of 40%
Sources: Thomson Reuters Eikon