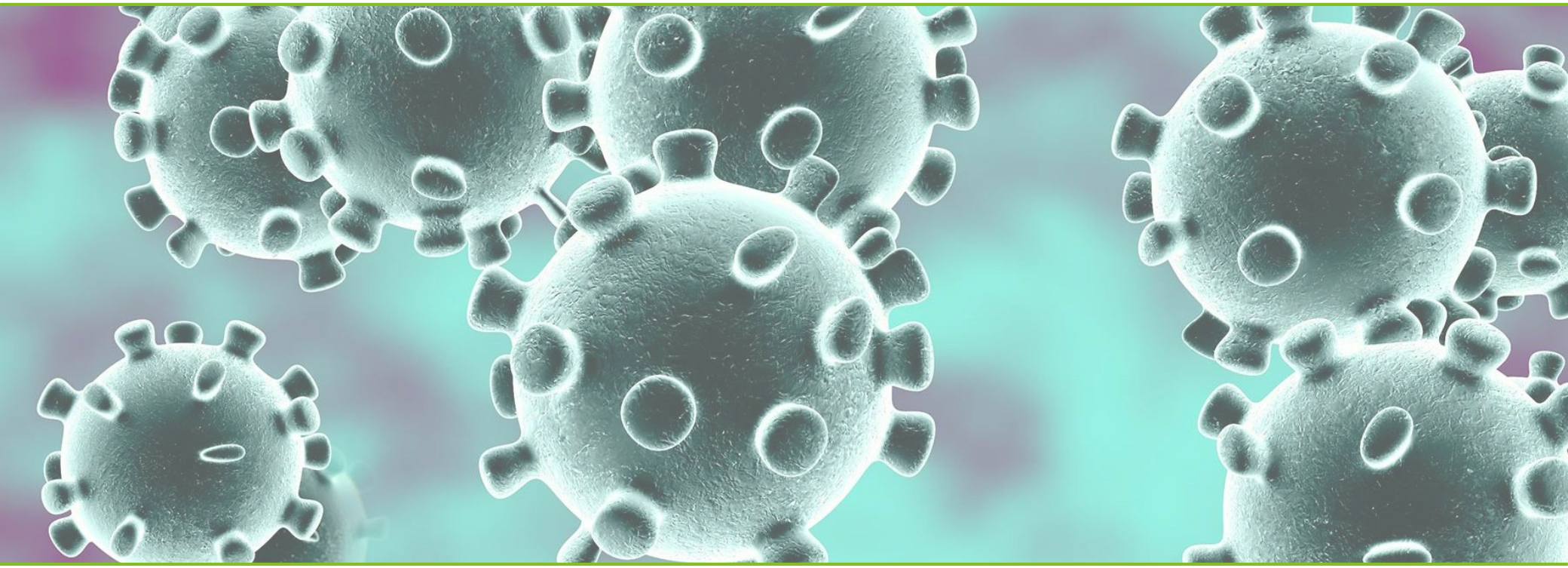
Deloitte.

Financial Advisory



Deloitte Economics' Coronavirus Impact Monitor

Is C25 heading for a recovery by the end of 2020?

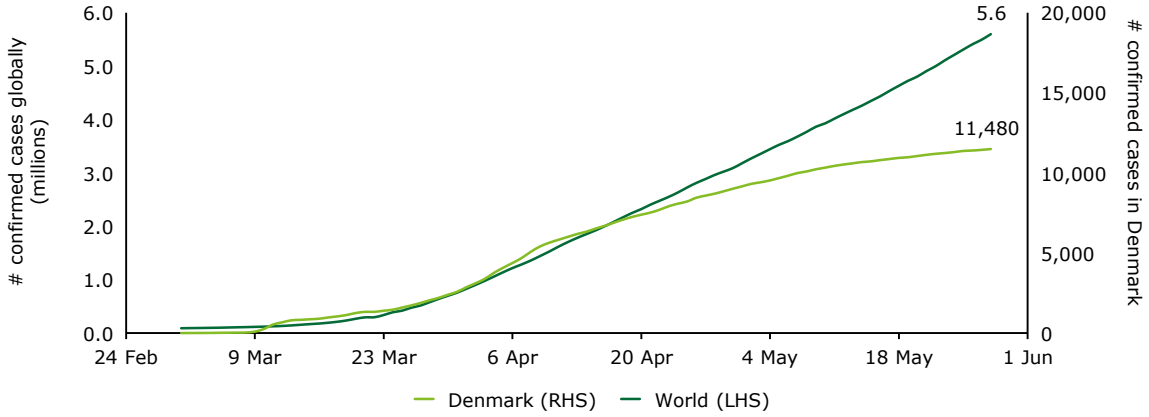
9th edition, 29 May 2020

New daily confirmed cases continue to slow in Denmark, while the number of daily deaths are falling across the globe

- Between 1 February 2020 and 28 May 2020, the number of global confirmed COVID-19 cases rose from 9,800 to about 5.6 million.
- As the number of new cases in Europe show signs of falling, countries are beginning to take steps to reopen their societies and economies. The Danish government has activated Phase II of the reopening to take effect from 18 May 2020.
- In Denmark, the increase in the number of confirmed cases has remained relatively low. As of 28 May 2020, there were 11,480 confirmed cases.

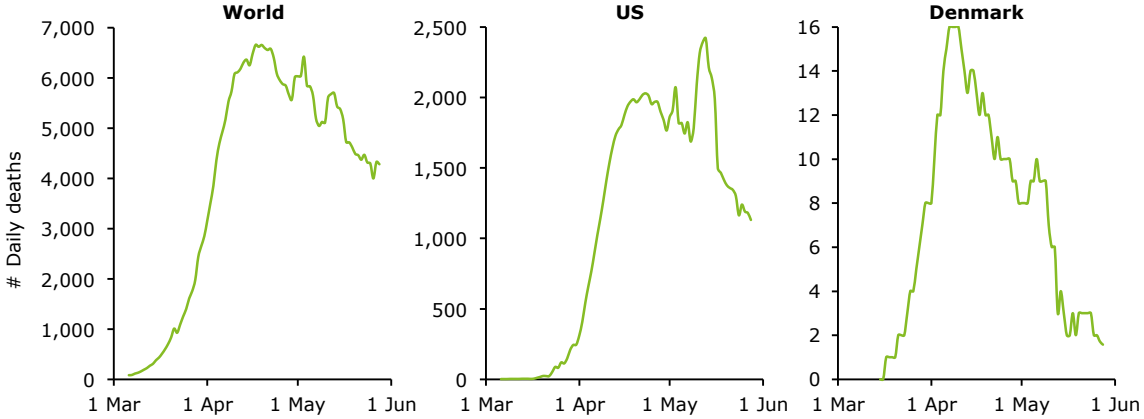
Confirmed COVID-19 cases: World and Denmark

As of 28 May 2020



- The chart shows the daily number of deaths in the world, the United States and Denmark. There are currently around 4,000-5,000 daily deaths in the world, lower than the 6,000-7,000 peak in mid-April.
- In Denmark, the 7-day average daily death rate has fallen significantly to around 2 per day, from a peak of around 16 at the beginning of April 2020.
- In Denmark, there were 20 patients in intensive care as of 28 May 2020, of which 11 patients were in respirators. This number has fallen steadily since the peak at around 100-150 at the beginning of April 2020. The Danish Health Authority has ~925 respirators available for COVID-19 patients.

7-day rolling average confirmed daily COVID-19 deaths: World, US and Denmark

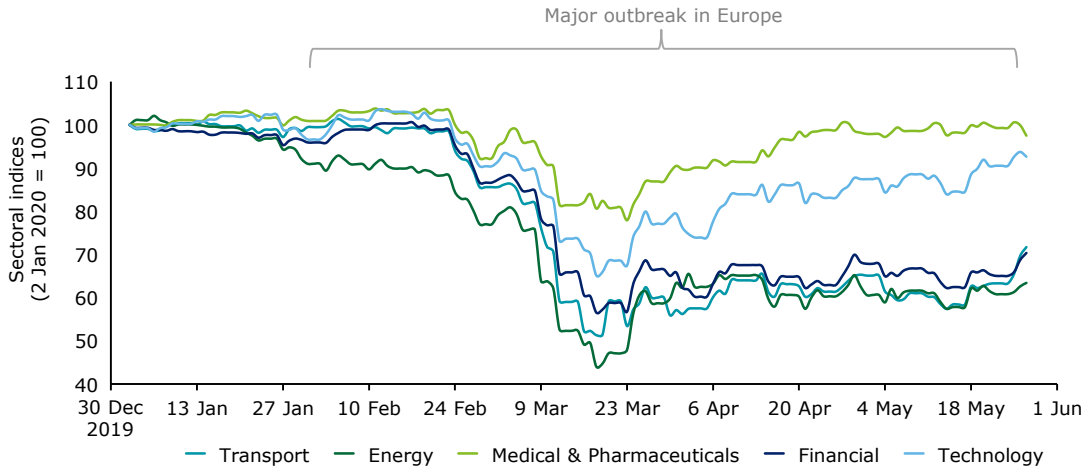


Sources: World Health Organisation (WHO), The Danish Health Authority (Sundhedsstyrelsen)

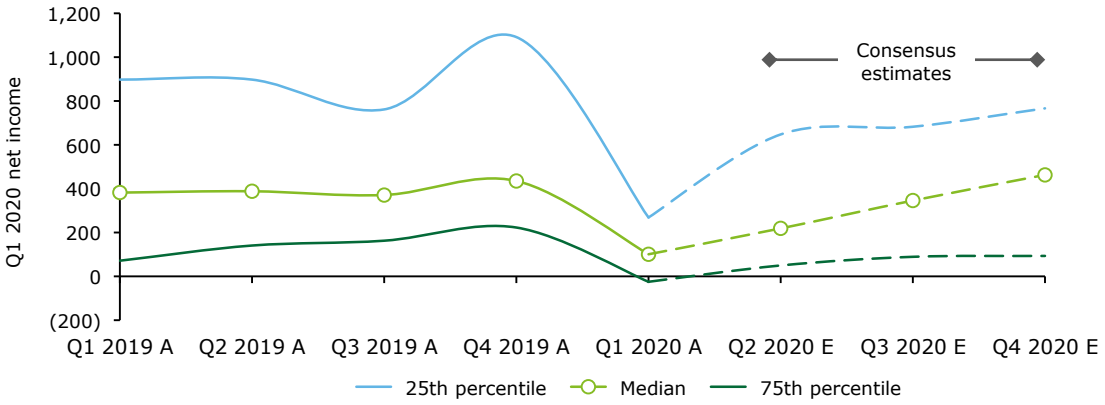
COVID-19 impact on equity markets has been most severe on the transport and energy sectors, while medical and pharmaceutical stocks have largely recovered

- The outlook for increased public expenditure and gradual opening of economies have supported markets.
- European equity indices suffered material losses following the COVID-19 outbreak in Europe, but have, to some extent, recovered from the bottom reached in mid-March 2020.
- The Transport industry, including airlines, continues to be severely affected by the virus and the related travel restrictions. The Refinitiv Europe Transport Price Index is down by some 28% since the end of January 2020, driven by a material decline in volumes.
- The European energy sector, including oil and gas companies, has lost more than 30% since the end of January 2020. 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 squeezes are likely drivers.
- The lower right-hand chart shows the development in quarterly net income results for OMX C25 Index constituents.
- Q1 2020 results were unsurprisingly down compared to Q1 2019 results a year earlier, but consensus estimates (dashed lines) point to a relatively quick recovery, reaching about 2019 levels by the end of the year.

Equity markets: Sectoral indices in Europe[1]



OMX C25 Index, median quarterly net income, DKKm



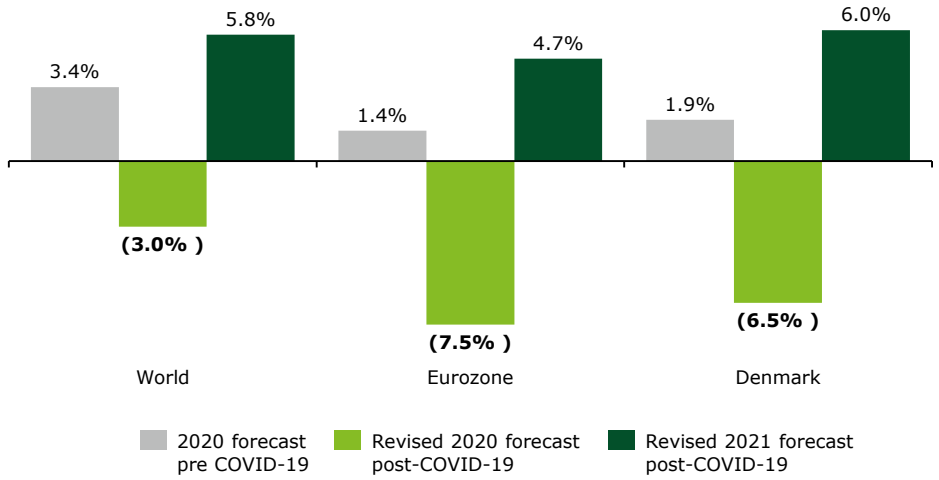
Note: 1) Refinitiv European sectoral price indices measured by Refinitiv (Thomson Reuters)

Source: Thomson Reuters Eikon

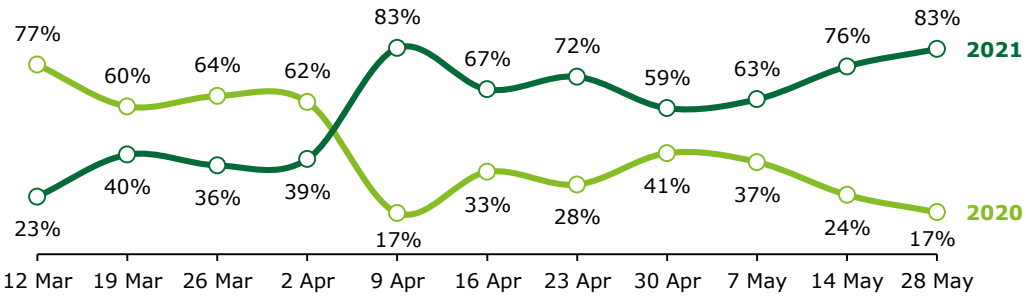
Q1 GDP contracted sharply across Europe and US

- The "sudden stop" in the global economy, caused by the COVID-19 pandemic, has translated into significant downward revisions of economic growth projections worldwide. According to IMF's April predictions:
  - The global economy is expected to contract by 3.0% in 2020 instead of the initially estimated 3.4% growth. This 3.0% contraction in global GDP is much worse than the 0.1% contraction experienced during the 2009 financial crisis, ref. page 23 in the appendix.
  - Danish GDP is projected to contract by 6.5% in 2020 compared to the pre-COVID-19 growth estimate of 1.9%. GDP in Denmark shrank by 4.9% in 2009. The median forecast of Danish 2020 GDP growth is -5.1% according to our survey of professional forecasters, ref. page 24 in the appendix.
- Consistent with this, the eurozone economy contracted by 3.8% in Q1 according to preliminary estimates from Eurostat. The French and Spanish economies shrank by 5.8% and 5.2%, respectively, in Q1, a sign of the extensive havoc caused by measures imposed to curb the coronavirus' spread. In the United States, GDP shrank at an annualised rate of 4.8% in Q1.
- Deloitte's latest survey among ~ 2,000 colleagues and clients from all over the world on 7 May 2020 reveals that the majority of participants continues to expect an economic rebound first in 2021. This appears to be aligned with IMF's expectations of a 2021 rebound.

Economic growth projections



Deloitte survey[1]: When do you think activity will rebound in your economy?



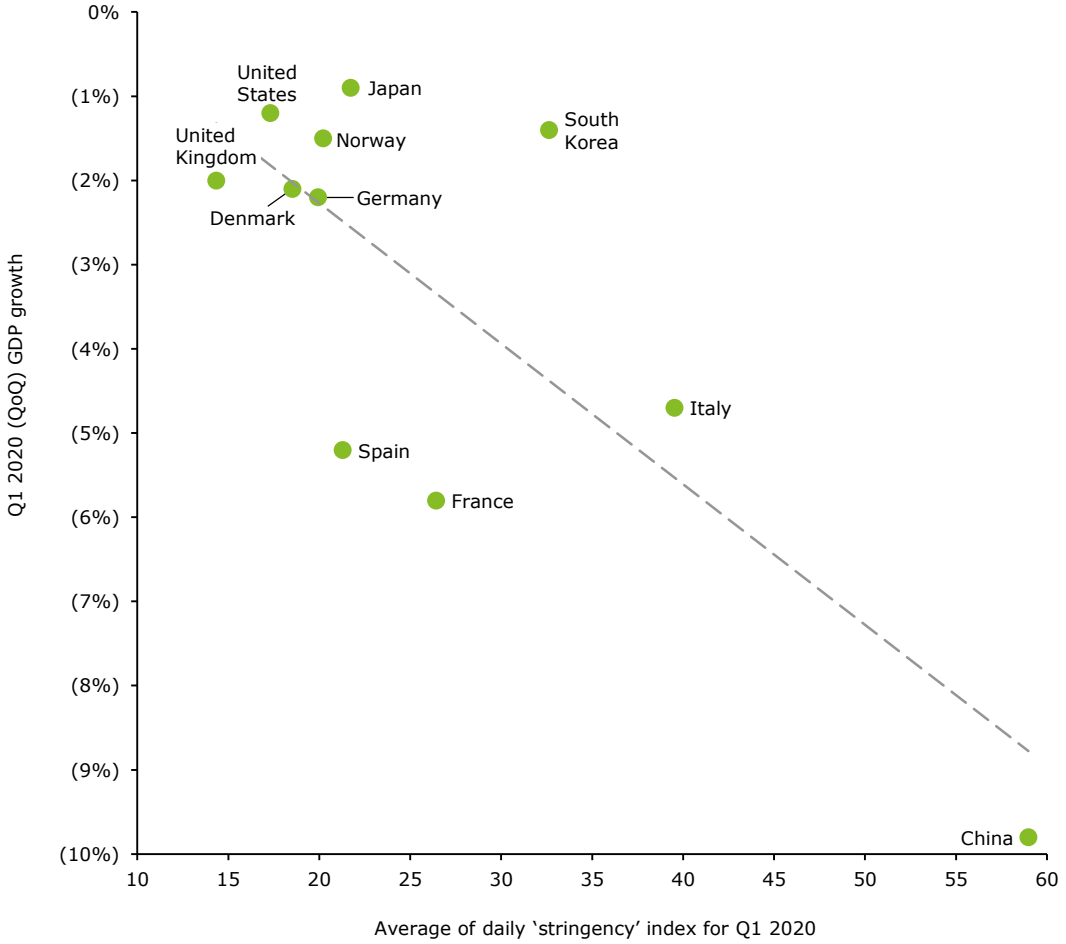
Note: 1) Deloitte surveys conducted on 12, 19, 26 March, 2, 9, 16, 23, 30 April and 7 May 2020, involving about 2,000 colleagues and clients.

Source: Deloitte surveys, IMF World Economic outlook (October 2019) for pre-COVID-19 figures; IMF World Economic Outlook (April 2020) for revised forecasts

Q1 economic contraction broadly in line with the stringency of the lockdown in Denmark

- Several countries have published first estimates of GDP growth for Q1 2020. These initial GDP estimates highlight how the coronavirus pandemic, and the response to it, has affected the global economy. It is expected that the duration of the outbreak, the public health restrictions imposed to contain the virus spread, and other voluntary social distancing measures, all affect on the size of the economic slowdown.
- The Government Response Stringency Index captures this information by collecting information on government policy responses to measure the stringency of the lockdown country by country.
- The Government Response Stringency Index is a composite measure based on nine response indicators, including school closures, workplace closures, and travel bans, given the policies that have been put in place in Denmark.

Q1 2020 GDP growth vs the Oxford COVID-19 Government Response Stringency Index[1]



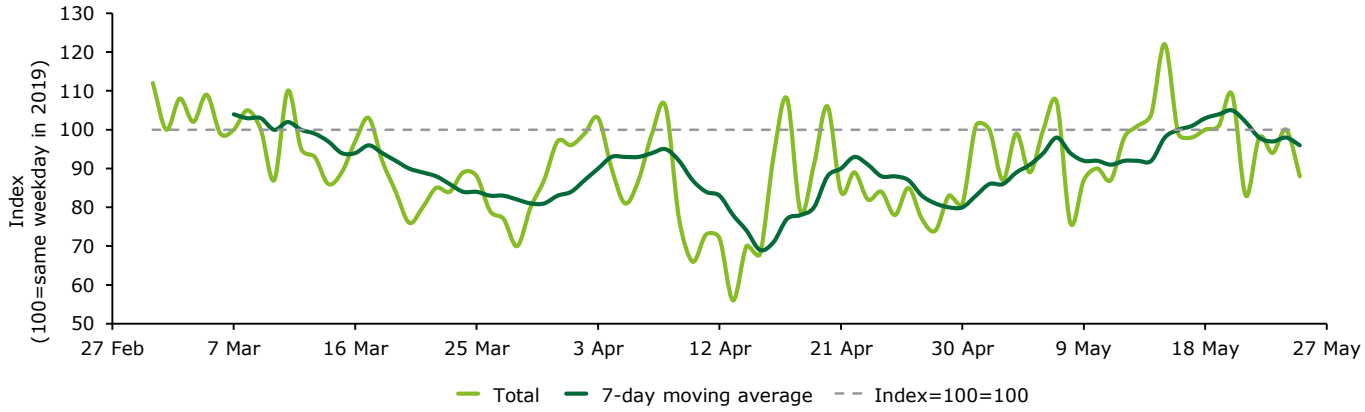
Note: 1) Index is a composite measure based on nine response indicators, including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest response).

Sources: Oxford COVID-19 Government Response Tracker, Thomson Reuters Eikon

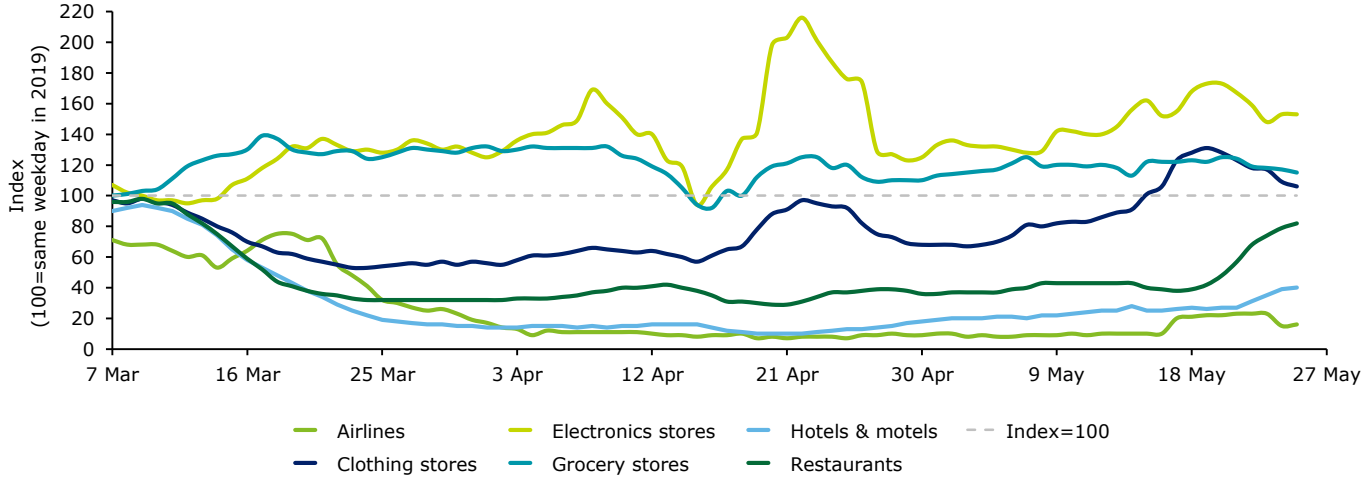
Danish spending appears to be returning to more normal levels

- Danish spending data shows signs that spending is slowly starting to recover as the economy sluggishly begins to open following the lockdown since 11 March 2020. For instance, compared with late March 2020, when total spending was down by 20%, spending has been down by only some 0%-12% in the past week.
- Spending at restaurants has been picking up since mid-May in line with the Phase 2 opening of the Danish economy. We also see some positive in other parts of retail. This includes spending at gas stations where the spending gap to last year's levels has narrowed to around 17% recently.
- Spending at airlines remains at very depressed levels, consistent with the tight travel restrictions in place.

Private spending in Denmark (2020 versus 2019)[1]



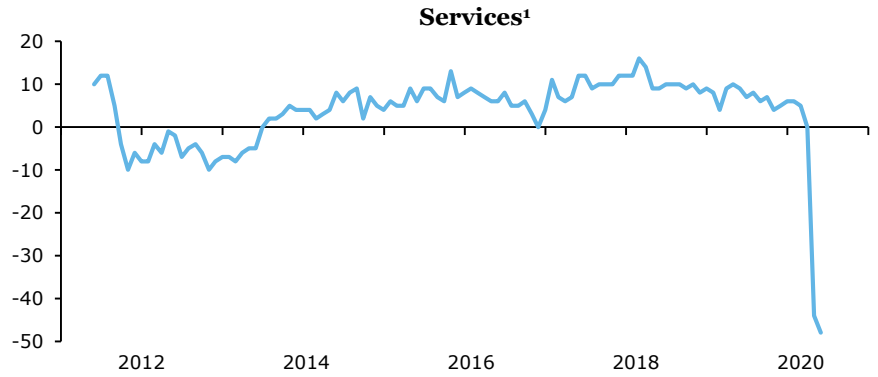
Private spending on select sectors (2020 versus 2019)[1]

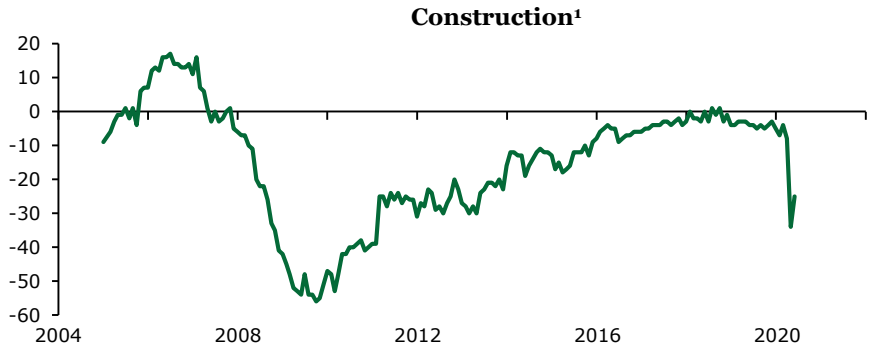


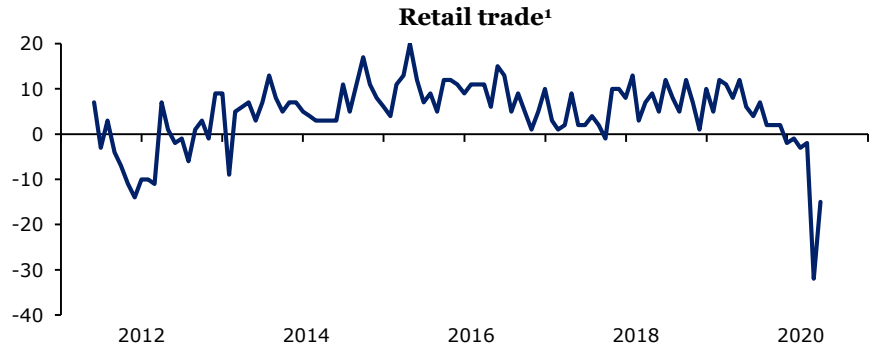
Note: 1) Spending data is based on transactions, both domestically and abroad, with cards and MobilePay in stores for around 1m Danske Bank Danish personal customers. Excludes cash payments and bank transfers. The charts show spending in 2020 compared with the same days in 2019 to correct for different spending patterns across the week. Source: Danske Bank

Sentiment across key sectors stabilised in May 2020

- Recent data suggests that sentiment across key sectors in the Danish economy stabilised in May 2020, after falling sharply in April 2020.
- Within the Services and the Industrial sectors, sentiment deteriorated slightly in May 2020.
- Sentiment has improved across the Construction and Retail trade sectors, possibly reflecting a more positive outlook on the economy as the government implemented the first two phases to reopen society.
- Interestingly, sentiment within Industrials and Construction, while falling sharply in April 2020, did not reach the same levels as during the financial crisis, suggesting that the COVID-19 related restrictions are perhaps not deemed to be as damning to the economy.







Note: 1) Net index which expresses the difference in percentage of companies, weighted by employees, which have stated positive and negative expected sector development

Source: Statistics Denmark

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

Consumer
- Consumers are less confident affecting non-essential goods sectors.

Energy & Resources
- Coronavirus affects short-term prices, but prices are expected to rebound in 2021.

Financial Services
- The anticipated recession will have a large impact on the sector.

Industrials
- Eurozone economic downturn shows signs of easing as lockdowns are lifted.

Life Science & Health Care (LSHC)
- Swift recovery of the LSHC sector with listed companies trading above pre-corona levels.

Real Estate
- Expectation-driven real estate market leads to price reductions in the short term.

Technology, Media & Telco (TMT)
- TMT sectors have shown relative resilient to COVID-19 as the world has gone digital.

Transport
- The transportation market in recovery following the opening of several markets.

Public
- The pandemic will cause a major deficit on public finances in both 2020 and 2021.

We refer to pages 12-20 for in-depth coverage of developments in the sectors above.

Sector	Denmark	
	Short-term	Outlook
Consumer	High impact	Slow recovery
Energy & Resources	High impact	Moderate recovery
Financial Services	High impact	Moderate recovery
Industrials	High impact	Moderate recovery
Life Science & Health Care	Neutral/Low impact	Growth opportunities
Real Estate	High impact	Moderate recovery
Technology, Media & Telco	Moderate impact	Moderate recovery
Transport	High impact	Slow recovery

Sources: Deloitte analysis, Dansk Erhverv

Key messages

Q1 has been tough on C25, but as restrictions are being lifted and economic activity slowly begins to rebound a limited optimism is observed

- In Denmark, the number of confirmed cases continues to slow. As of 28 May 2020, there were 11,480 confirmed cases. The reopening of the society has not been accompanied by a significant increase in confirmed cases.
- The COVID-19 crisis has caused dramatic supply and demand shocks in the world economy, and these shocks are inevitably causing major disruptions to trade.
- Governments all over the world have introduced major aid packages, which amount to two-digit percentages of GDP, including credit measures.
- Q1 GDP contracted sharply across Europe and the United States, and unemployment rates have sky-rocketed. More than 40 million Americans have claimed unemployment insurance since mid-March 2020 pushing unemployment to levels not observed since the Great Depression. Projections of GDP growth rates reveal a significant contraction of the world economy in 2020.
- The OMX C25 index for Q1 2020 was unsurprisingly down on Q1 2019, but consensus estimates point to a relatively quick recovery, reaching about 2019 levels by the end of the year.
- The COVID-19 crisis is now in the recovery phase, where lockdown restrictions are being lifted in most Western countries. This is reflected in increased spending, and economic activity is slowly beginning to rebound. Sentiment across key sectors also seems to stabilise.
- Deloitte Economics will continue monitoring the impact of the coronavirus in Denmark and globally. Find our updates here

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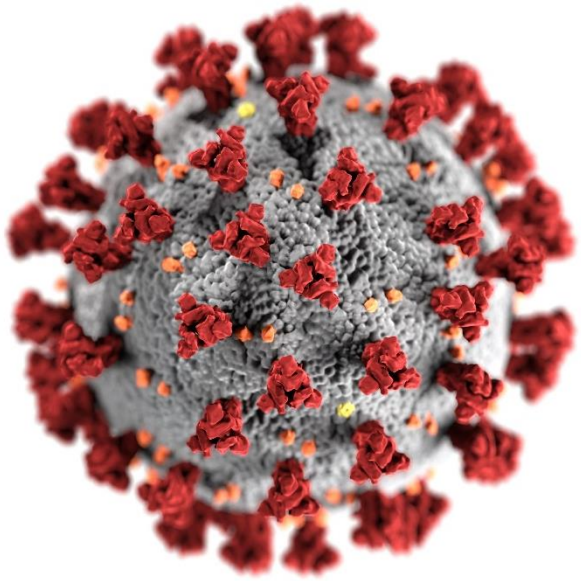
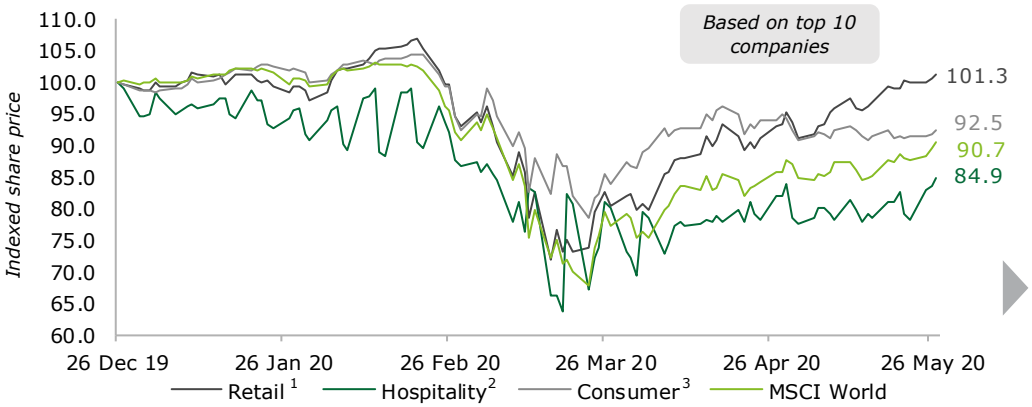
Industry outlook



Industry outlook: Consumer

Consumers are less confident affecting non-essential goods sectors

Highlights from the industry (as of 27 May 2020)

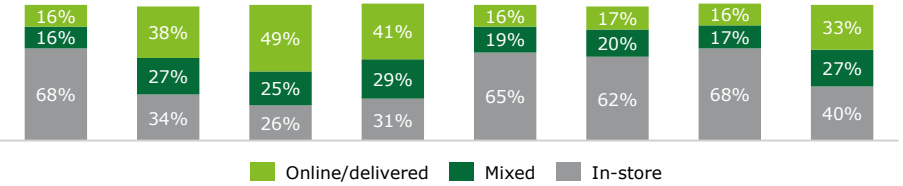


- Retail index has moved from index 93.4 to 101.3 (since last update).
- Hospitality index has moved from index 80.0 to 84.9 (since last update).
- Consumer index has moved from index 91.7 to 92.5 (since last update).

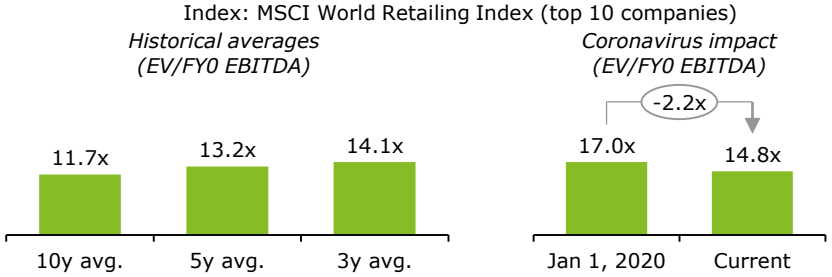
Consumers will spend less on restaurants, apparel and electronics

Consumers' intention to spend more over the next four weeks

Consumer intended purchase channel



Trading multiples and economic outlook (as of 27 May 2020)



As of April 2020, the consumer confidence index[4] was 98.02 indicating a somewhat doubtful attitude towards the economic development, possibly resulting in higher saving and less consumption among consumers.

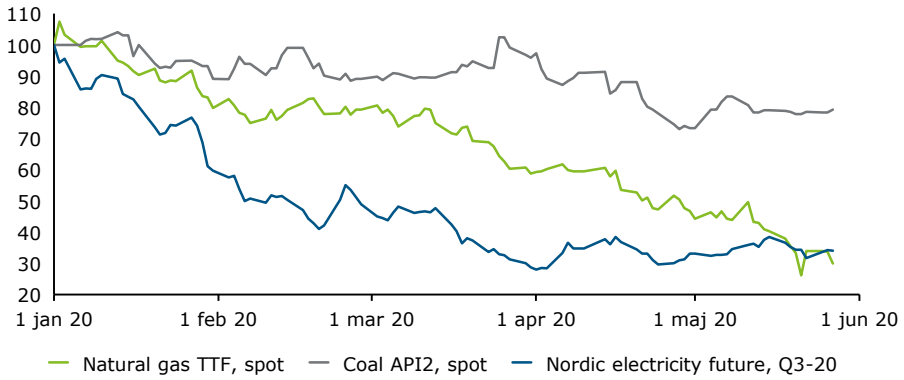
Note: 1) MSCI World Retailing Index; 2) MSCI World Consumer Services Index; 3) MSCI Consumer Staples Index; 4) Based on OECD – Europe region

Sources: Capital IQ; MSCI; European Parliament; Deloitte State of the Consumer Tracker

Industry outlook: Energy & Resources

Coronavirus affects short-term prices, but prices are expected to rebound in 2021

Highlights from the industry (as of 28 May 2020)



- The mild winter puts pressure on Nordic electricity prices prior to the Corona crisis.
- Electricity demand has decreased marginally due to the Coronavirus lockdown.
- Significant drop in carbon emissions resulting in lower prices.

Hydropower generation

- Prior to Corona, electricity prices were already pressured in the Nordics due to a warm winter, which increased the generation capacity of Norwegian hydropower plants.
- Further, the mild winter decreased demand for electricity.

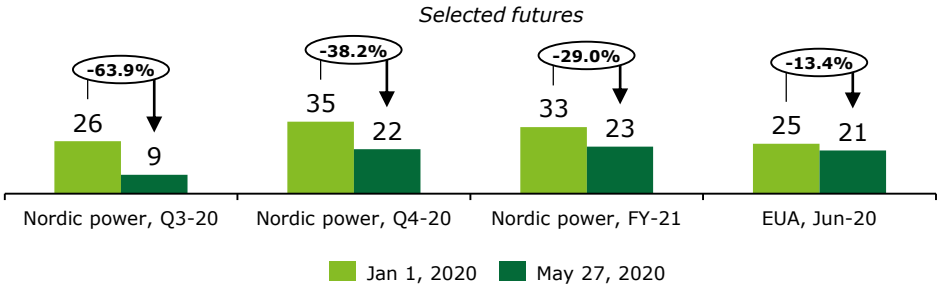
Lockdown affects demand

- The coronavirus lockdown has negatively affected the demand of both public institutions, private individuals and corporations.

Carbon market prices

- Lower emissions of CO2 and other greenhouse gasses have decreased carbon prices.
- Coal becomes cheaper, lowering overall prices, as coal is marginally price setting. This creates a self-enforcing effect, which drives down prices even further.

Economic outlook



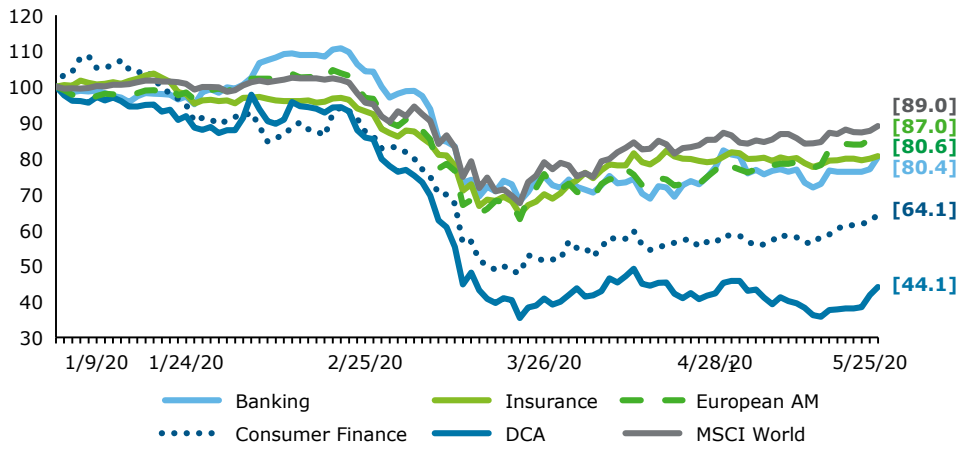
- As the effects described above are temporary and a result of the current lockdowns and restrictions on travel, we expect an increase in prices once the restrictions are lifted.
- Although the short-term impact on electricity producers is significant, we expect prices to rebound in 2021. This is supported by significantly larger price drops in electricity futures prices in the short-term compared to the long-term.

Source: Thomson Reuters Eikon

Industry outlook: Financial Services

The anticipated recession will have a large impact on the sector

Highlights from the industry (as of 27 May 2020)



D. Equity values of financial services firms have made a modest recovery from the mid-March 2020 low point. Uncertainty, particularly in consumer finance, and debt collector businesses continues to be priced into valuations.

D. Banks and consumer finance

- Credit businesses that retain a large physical branch network or have IT inefficiencies will find a drag on their cost bases. This is at a time where they must work through increased loan loss provisions amplified by the adoption of IFRS9 accounting standard in 2018. A higher cost base juxtaposed against a continued low base rate environment and an inability to generate high levels of net interest margin. Inefficient or subscale players may need to look for new capital or become part of a wider market consolidation.

D. Insurance

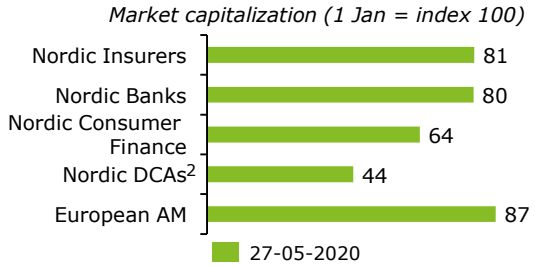
- Lloyds of London estimates a USD 203bn underwriting loss[A] for the insurance industry as a result of the global pandemic. Obviously, some asset classes will fair better than others (e.g., motor insurance will benefit from lockdown versus business interruption insurance). Dependent on products and attitudes to reinsurance, there may be stress in the insurance industry.

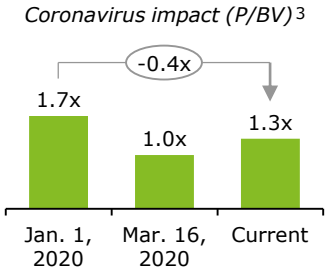
D. Asset managers

- A Deloitte study demonstrates that consumers expect to spend more on wealth management services as a response to the COVID-19 crisis (click here to read the study). Asset managers who have been successfully able to pivot from physical meetings to conduct sales and provide advice virtually may be able to capture market share. However, the shock to equity markets will negatively affect income across the sector.

Trading multiples and economic outlook

Index: S&P Capital IQ





D. The impact of the COVID-19-led recession on financial services firms will be felt, as government support schemes unwind in the next few months. Firms that have been affected by lockdown measures may trade through the summer months before losing the battle with cash flow issues and debt servicing issues during the autumn.

D. Financial Services businesses that are easily able to interact with their clients online, and offer a good user experience, are better placed to thrive during the recession. Many of the tech elements, most notably the proliferation of smart phones, were not available during the financial crisis. This provides customers with a greater number of alternative providers.

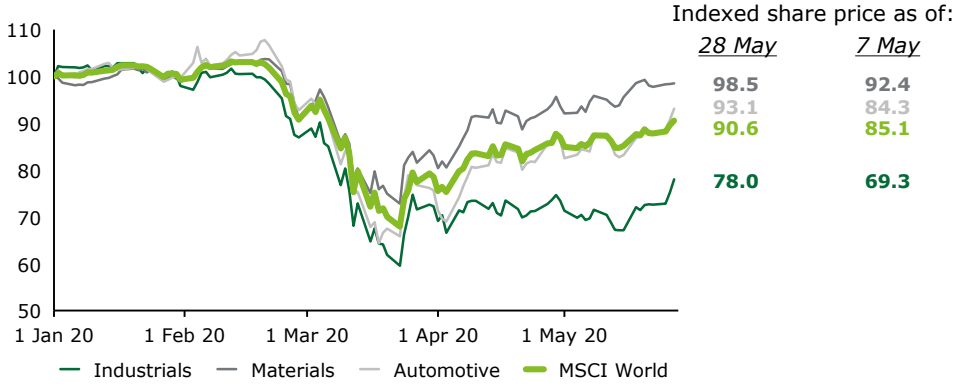
Note: 1) Indices are from Stoxx Europe 600 Financial Services and MSCI World; 2) DCA: Debt Collection Agencies; 3) P/BV is measured as average of Nordic Insurers, banks, and DCA

Source: A. https://www.theguardian.com/business/2020/may/14/lloyds-of-london-coronavirus-payouts

Industry outlook: Industrials

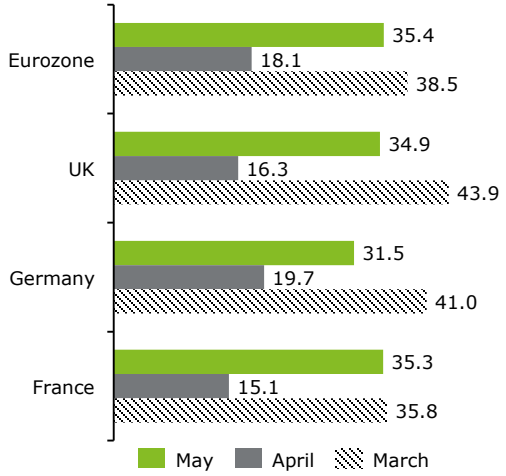
Eurozone economic downturn shows signs of easing as lockdowns are lifted

Share price development year-to-date



D. The industrial indices and the stock market in general have further rebounded in recent weeks with activity level in the economy picking up.

The "*Manufacturing PMI Output Index*[1]" is slowly picking up in May 2020

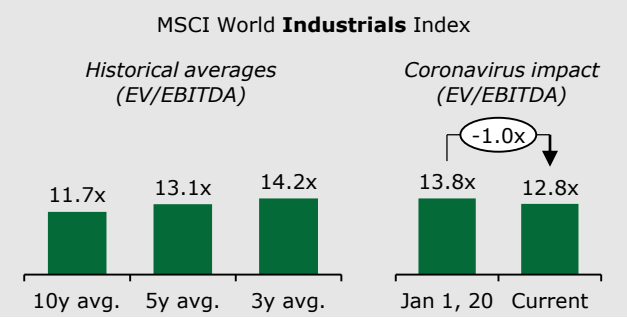


The index is based on the survey question:

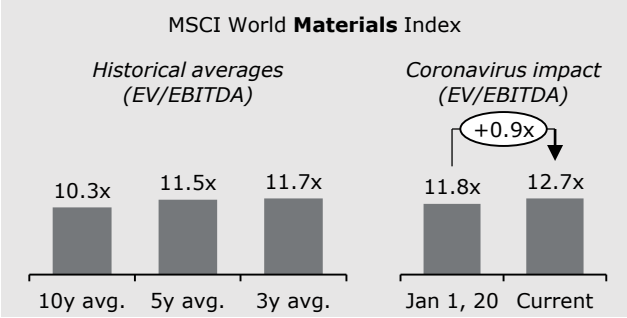
"Is the level of production/output in your company higher, the same or lower than one month ago?"

Index =50:	No change
Index <50:	Contradiction
Index >50:	Expansion

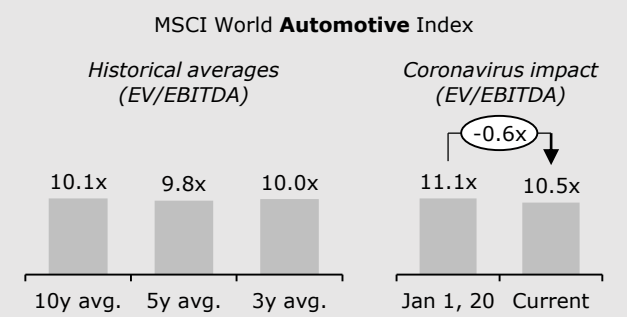
Trading multiples



D. Since the last update on 7 May 2020, the EV/EBITDA multiple has been up from 11.8x to 12.8x.



D. Since the last update on 7 May 2020, the EV/EBITDA multiple has been down from 13.1x to 12.7x.



D. Since the last update on 7 May 2020, the EV/EBITDA multiple has been up from 9.8x to 10.5x.

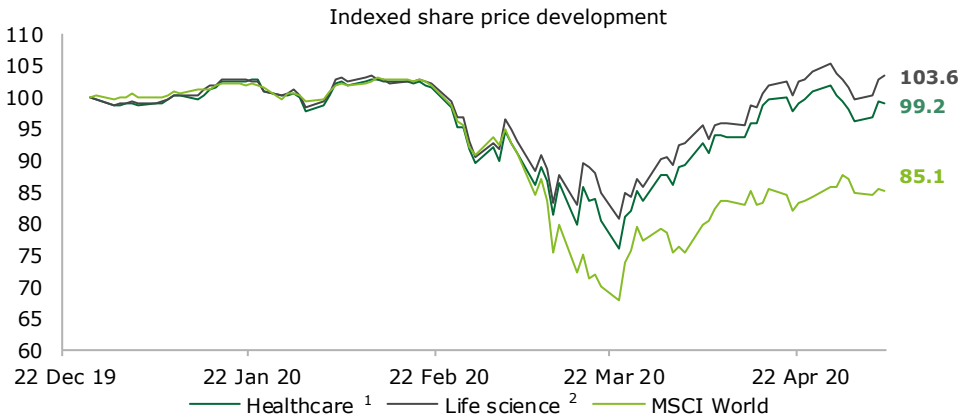
Note: 1) Data as of 28 May 2020

Sources: Capital IQ; MSCI World Indices; IHS Markit; Trading Economics

Industry outlook: Life Science and Health Care (LSHC)

Swift recovery of LSHC sector with listed companies trading above pre-corona levels

Highlights from the industry (as of 6 May 2020)



- Significant recovery in both Health Care and Life Science in recent weeks continues.
- Life Science trades above pre-corona levels.
- Significantly faster recovery and better performance among Life Science and Health Care companies compared to the general market.

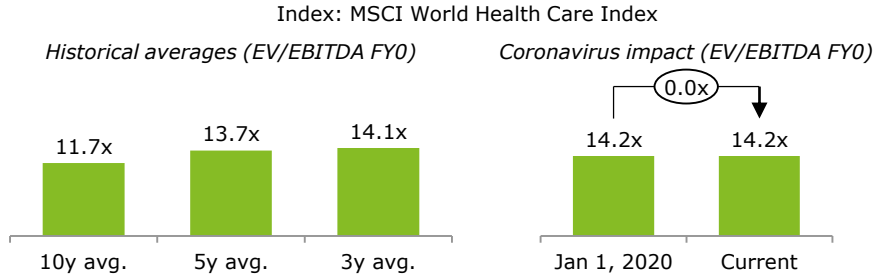
Collaboration is the new normal

- COVID-19 has further accelerated an ongoing trend of collaboration among LSHC companies, scientists, and public institutions.
- Examples of recent private collaborations are:
  - Bavarian Nordic and AdaptVac for COVID-19 vaccine
  - Consortium of 15 large life science companies, including Novartis, Johnson & Johnson, and Pfizer, to share knowledge

Race for COVID-19 vaccine or other treatment

- The antiviral, Remdesivir, has shown promising results in preliminary trials with improved recovery time and potential survival benefits.
- Race for developing a vaccine is still ongoing with a horizon of 12-18 months.
- According to Milken Institute, 123 candidate vaccines and 203 different treatment variations are being developed as of 7 May 2020.

Trading multiples and economic outlook



- LSHC companies trade above pre-corona levels.
- Countries are reopening, and many health care systems are again focusing on other illnesses and treatments than COVID-19.
- Rapid recovery expected for LSHC companies unrelated to COVID-19 treatments as demand for non-essential medications and equipment rises.
- Continued high demand for COVID-19 related therapies and equipment.

Note: 1) MSCI World Health Care Index (top 10 constituents); 2) MSCI World Pharmaceuticals, Biotechnology and Life Sciences Index (top 10 constituents)

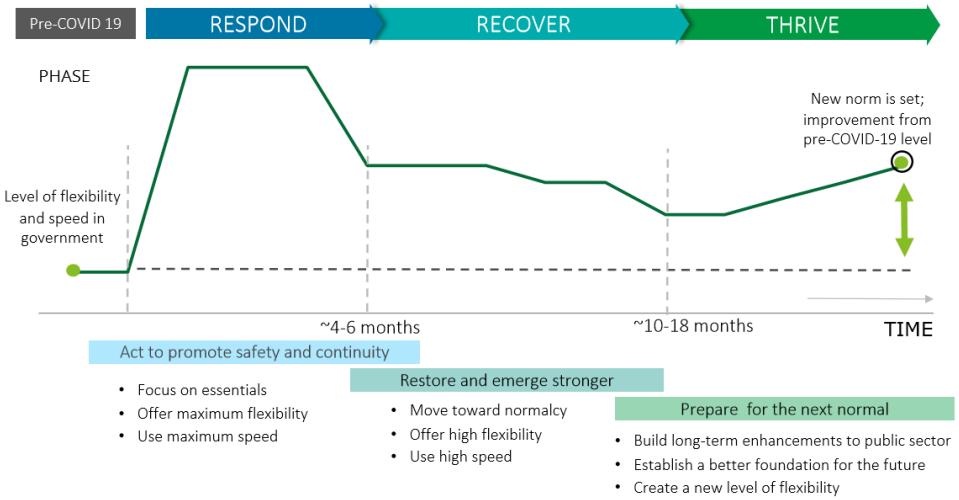
Sources: Milken Institute, Deloitte Health Forward Blog, Capital IQ, NIH

Industry outlook: Public

The pandemic will cause a major deficit on public finances in both 2020 and 2021

Highlights from the industry (as of 28 May 2020)

A timeline for COVID-19 government response



- **Towards normality**
  - Government's focus is to move society towards normality and avoid an increase in the reproduction rate.
  - As part of a controlled reopening, all citizens can book an appointment to a COVID-19 test.
- **The recovery phase has intensified**
  - Pressure on government to increase the pace, by which the economy is reopened.
  - Phase 2 of the reopening has been extended to include for instance zoos and museums.
- **Deficit on public finances**
- After a surplus in 2019, a deficit of 7.2% of GDP is expected in 2020. The deficit is expected to be 1.8% of GDP in 2021.
  - The public EMU debt is expected to increase from 33% pf GDP in 2019 to 41% in 2020.
  - European recovery fund of about DKK 5,000bn is being negotiated in EU.

Economic outlook

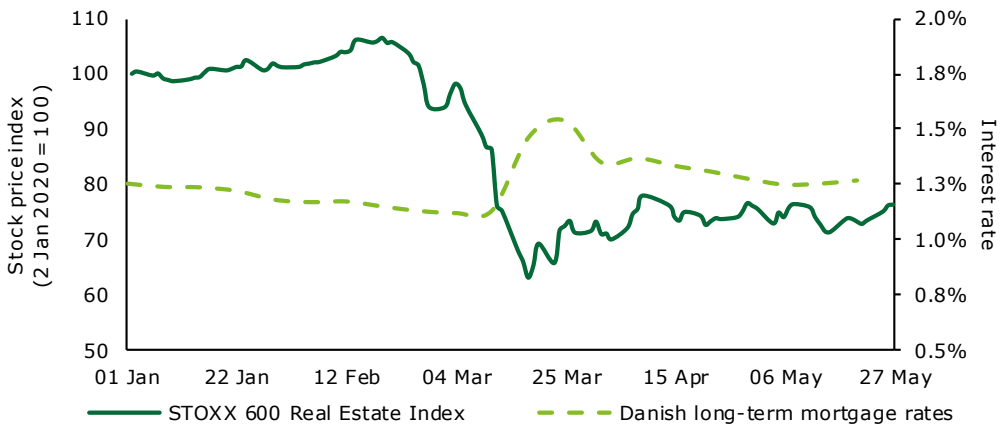
- Aid packages and focus on supporting the private sector through earlier start-up of planned investment and prepayment of suppliers are expected to ease the negative impact on the economy.
- Aid packages and the economic setback will have an immediate negative impact on public finances and may challenge government spending in the long term.
- The severe and long-lasting financial and economic impacts of the pandemic depend on the effects of the aid packages and the strategy for the reopening of society.
- Digitalisation in the public sector may be boosted as the crisis has reinforced virtual ways of working.

Sources: Deloitte Insights, Government's response to COVID-19. From pandemic crisis to a better future, April 2020, Ministry of Finance, May 2020

Industry outlook: Real Estate

Expectation-driven real estate market leads to price reductions in the short term ...

Highlights from the industry (as of 28 May 2020)

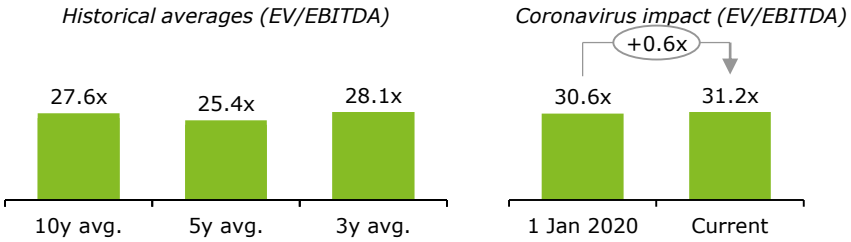


- The leading real estate index is recovering from the COVID-19 chock in March 2020. Despite the current challenges in some sectors, the industry is in general better prepared financially.
- Interest rates are now fixed at a higher level. However, in troubled times, we normally see a spread to bigger economies such as Germany, which may last throughout the COVID-19 crisis.

- **Retail**
  - Despite the reopening of the retail sector, footfall is not at pre-COVID-19 levels.
  - As the number of transactions in retail is back to pre-COVID-19 levels, we believe that a shift to online trade has already taken place. As such, new occupiers and business models need to be developed by landlords.
  - The reopening of many cafés and restaurants has not attracted customers as expected, and it will take time before "normality".
- **Residential**
  - Historically, there has been a close relationship between consumer confidence and growth in housing prices.
  - This suggests decreasing prices in 2020. However, transaction volumes have recovered since Easter – also driven by the summer housing market.

Trading multiples and economic outlook

Index: Custom weighted average index[1]



- As seen opposite, price multiples are not affected significantly by COVID-19, and in general the major listed RE companies are well-positioned to handle the crisis.
- Decreasing prices in 2020 for single-family houses and apartments in the major Danish cities are expected due to reduced volumes. Many households have significant savings, and financing costs are still very low. However, as volumes and prices are expectation-driven, we believe that the uncertainty about the financial impact of COVID-19 will put things on a hold – for now!

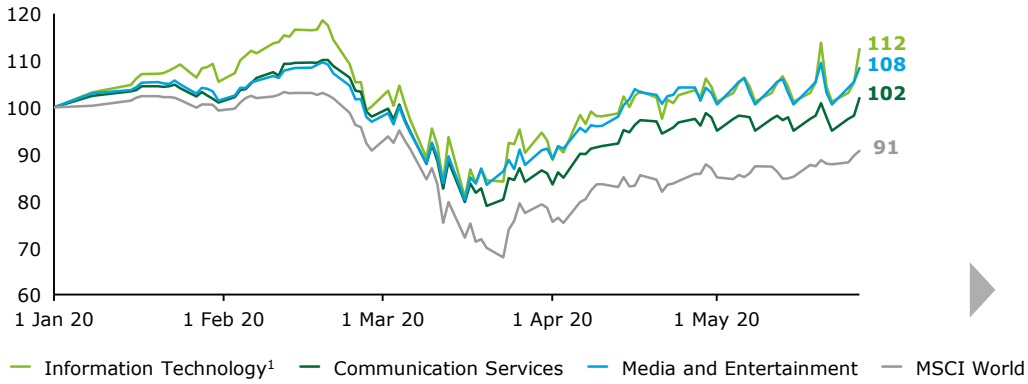
Note: 1) Based on Collier International, Patrizia AG, Agate Ejendomme, Jeudan A/S, and Park Street Nordicom

Sources: Finans Danmark, Thomson Reuters Eikon, Capital IQ

Industry outlook: TMT

TMT sectors have been relatively resilient to COVID-19 as the world has gone digital

Highlights from the industry (as of 28 May 2020)



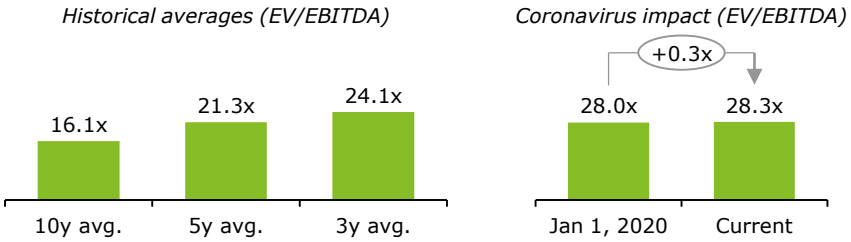
- TMT companies are trading above the overall equity market.
- Media and Entertainment quickly recovered after the shockwave on the stock market. As people stay at home, the entertainment market is making records[2].

TMT perceived as a defensive sector, which has less to lose from COVID-19

- **Telecom:** Spend among consumers is often within a contract; demand is up; need is not discretionary (new cars) or constrained (leisure).
- **Media and Entertainment:** Financial impact varies across sub-sectors. Media consumption up (e.g., Netflix, Disney+), but willingness/ability to pay may be constrained as economic outlook exacerbates. Events (consumer, business) mostly heavily restricted; cinemas, theatres, museums mostly closed. TV and movie production mostly halted. Theme parks mostly closed.
- **Technology:** Some segments (e.g., robotics, communication software) experiencing record demand; digital transformation being accelerated; companies catering to SMEs may suffer from customer liquidity.

Trading multiples and economic outlook

Index: MSCI World Information Technology



- Forrester has revised its IT spending forecast downward by a best-case scenario where the global tech market growth is slowing to ~2% in 2020.
- If a full-fledged recession hits, there is a 50% probability that the global tech market will decline by 2% or more in 2020.
- Software spending is the subsector expected to show highest growth, while computer equipment and IT consulting and systems integration services spending are expected to show weaker growth.

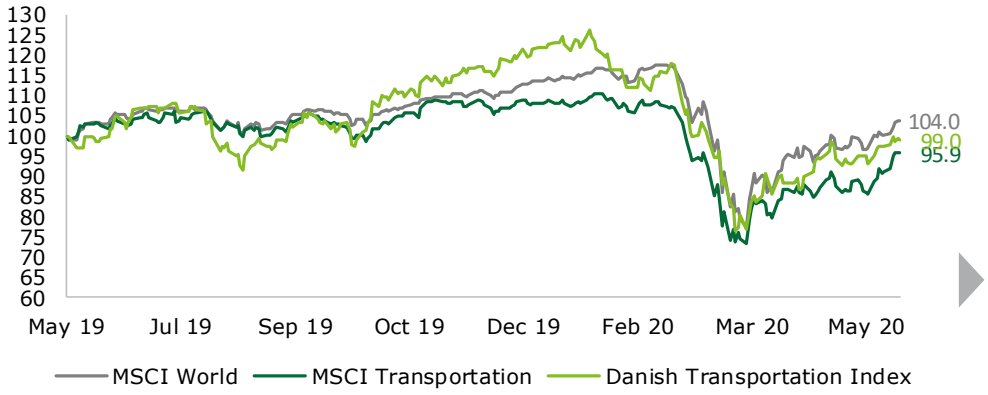
Note: 1) MSCI World industry indices used, 01-01-2020 = index 100; 2) In EMEA and selected Asian countries, physical game sales are up by 63% according to GamesIndustry.biz.

Sources: S&P Capital IQ (May 2020), Forrester Research (March 2020)

Industry outlook: Transportation

The transportation market in recovery following the opening of several markets

Highlights from the industry (as of May-29)



- Transportation indices have largely followed the total market as a recovering market implies and increased need for goods transportation

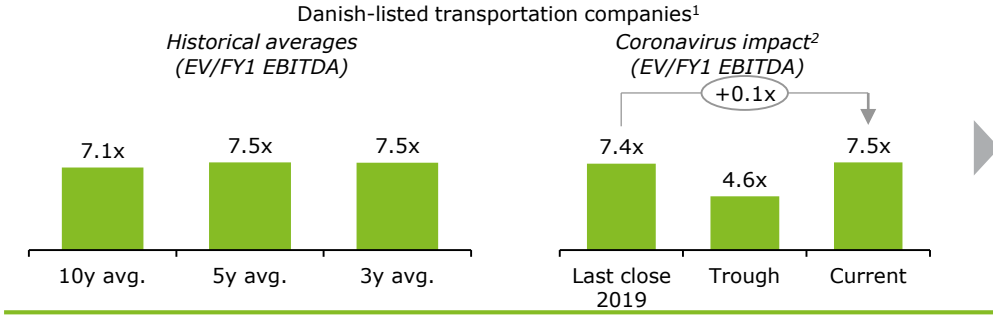
The transportation stocks indicate belief in the market's recovery

- The rapid spread of COVID-19 has had a major impact on global goods transport, with ripple effects from the shortfall in demand for goods from China
- The recent surge in stock prices since the low point in mid-March indicates an expectation to a recovering demand global trade as several countries are now opening up, driving the recovery of physical retail

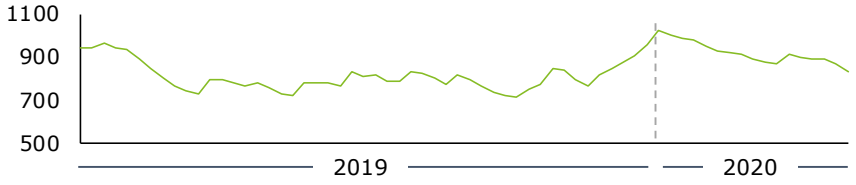
Accelerated conversion to e-commerce to aid in recovery

- As of mid-April, US retailers' online YoY revenue growth was 68%, substantiated by a 146% YoY growth in number of online retail orders
- A big rush on freight capacity and subsequent increase in freight rates is expected as demand recovers and companies try to get their products on the water

Trading multiples and economic outlook (as of May-29)



- The Shanghai Containerized Freight Index (SCFI) is down 19.0% to 829 from its high 1023 in week 1, however up 9.5% YoY



Note: 1) A.P. Møller-Mærsk, D/S Norden, DFDS, DSV Panalpina, NTG, TORM, 2) Lowest YTD is 4.6x on March 20th

Source: Capital IQ, Shanghai Shipping Exchange, Forbes, IHS Markit

How Deloitte can help you

- Please use the contact details opposite to get in touch with our Financial Advisory industry group leaders and find out how we can assist you.
- We are well-positioned to assist in a range of tasks, such as those below.

Focus areas

- State aid packages
- Liquidity scenario analysis
- Debt covenant advice and financing
- Business restructuring and M&A
- Bankable business plan development
- Stakeholder management and process control
- Impact assessment
- Economic modelling and forecasting

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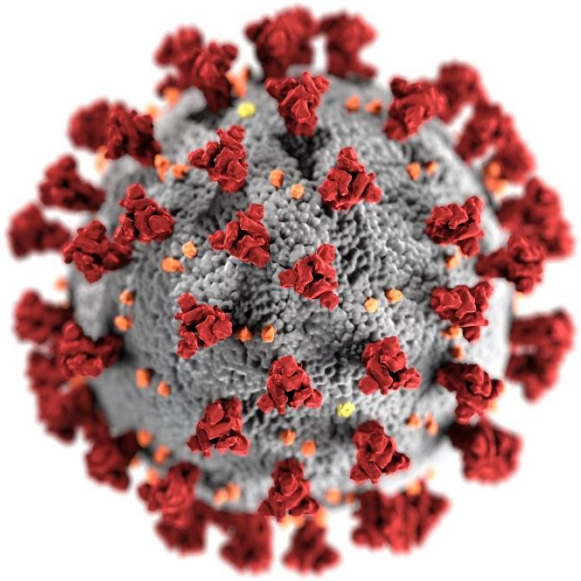
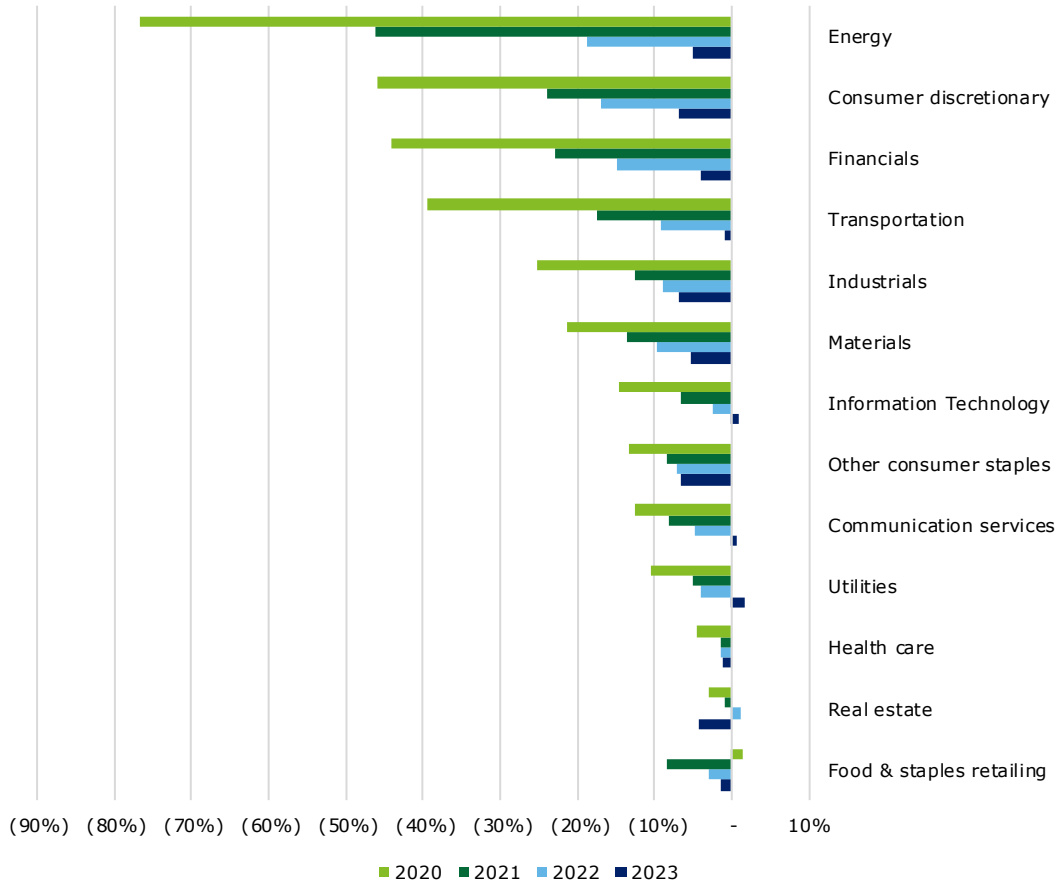
Appendices



Corporate earnings expectations have been severely curtailed since the outbreak

- The selloff in European equity markets, triggered by the COVID-19 pandemic and the associated economic slowdown, differs across sectors, ref. page 3.
- To shed light on the underlying drivers of this selloff across sectors, the chart opposite displays changes in expectations of stock analysts. In particular, the chart shows how stock analysts have downgraded consensus expectations of net income across sectors and time:
  - Energy, incl. oil and gas companies, saw its net income estimates being downgraded by 40%-80% in 2020-2021 likely due to sharp declines in oil and gas prices.
  - Consumer Discretionary, Financials, and Transportation are expected to be severely affected. Their net income estimates for 2020 are, on average, more than 40% below pre-crisis estimates.
  - Health Care and Real Estate are expected to weather the storm relatively well, both in the short (2020) and the long (2023) term.
  - Food & Staples Retailing is the only sector whose expectations for 2020 have improved, albeit the improvement is marginal.

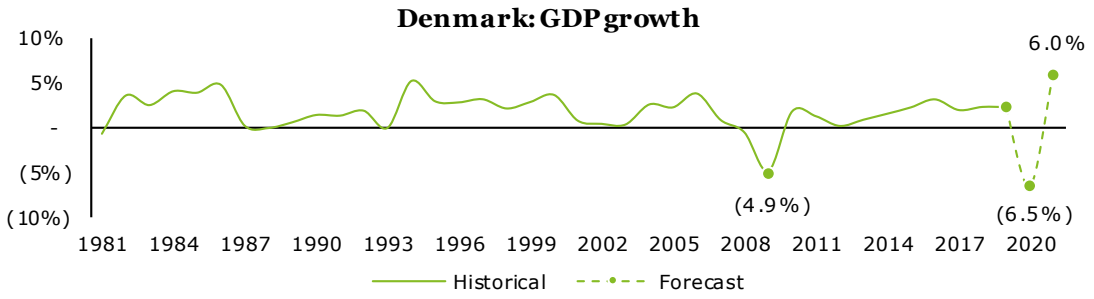
Change in net income consensus estimates between 31 January 2020 and 27 May 2020[1]

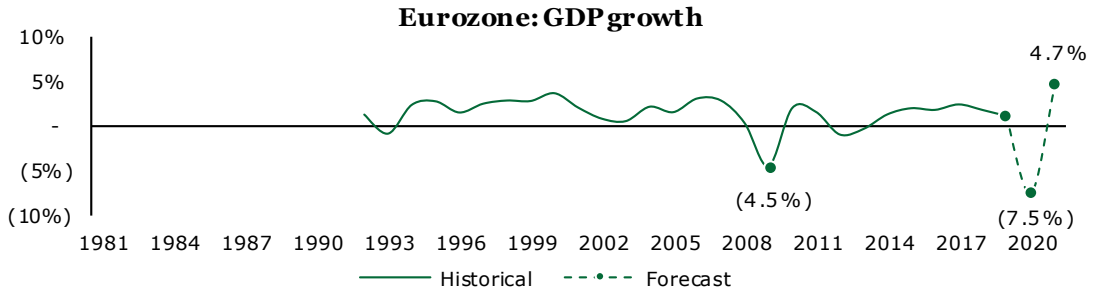


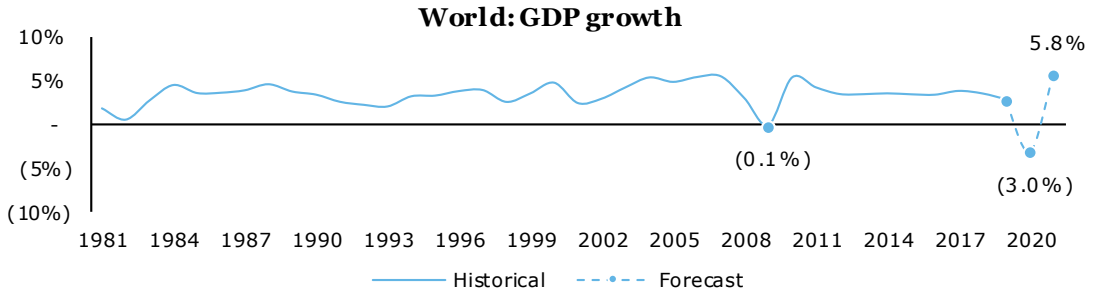
Note: 1) Based on analyst estimates for S&P Europe 350 Index constituent companies
Source: S&P Capital IQ

World Economic Outlook: GDP growth projections for Denmark, Eurozone and World

- IMF is projecting the global economy to contract by 3% in 2020, far worse than the -0.1% growth experienced during the 2009 financial crisis. The economic growth forecasts from the IMF assume that the COVID-19 pandemic fades in the second half of 2020 and that containment efforts can be unwound. The disruptions are assumed to be concentrated mostly in the second quarter of 2020 for almost all countries, with a gradual recovery thereafter, as it takes some time for production to ramp up after the shock.
- The global economy is projected to rebound in 2021, growing at 5.8% as economic activity normalises, helped by policy support. In comparison, global growth rebounded to 5.4% in 2010 from -0.1% in 2009.
- Please note that the 2021 rebound depends critically on the pandemic fading in the second half of 2020, allowing containment efforts to be gradually scaled back and restoring consumer and investor confidence.



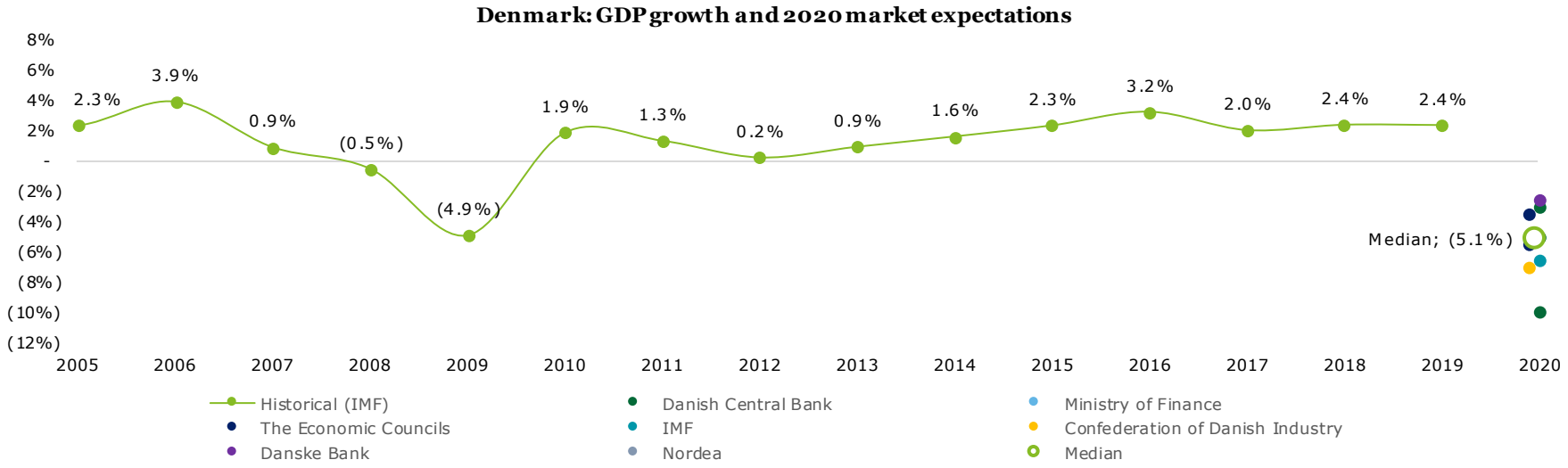




Source: IMF, World Economic Outlook (April 2020)

Latest survey of forecasters suggests a Danish GDP contraction of 5.1% for 2020

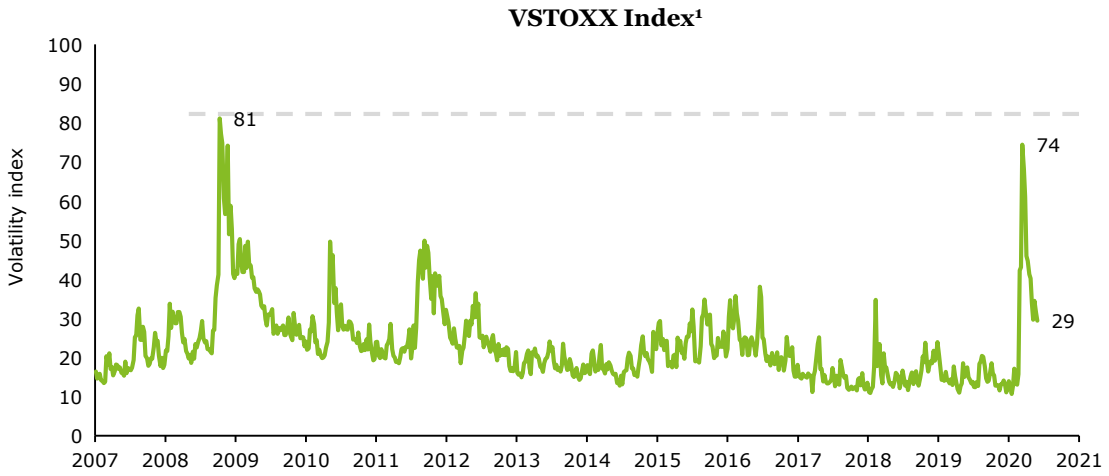
- The Danish Central Bank forecasts three scenarios for the Danish economy in 2020. The three scenarios differ by the speed with which containment efforts are unwound. In the mild scenario, where GDP is contracting by 3% in 2020, restrictions are gradually eased from Easter to a full lifting of restrictions by October 2020.
- The Confederation of Danish Industry has based its projection of a 7% decline in 2020 GDP on a survey of its member firms.
- The Economic Councils project two scenarios for the Danish economy. In the optimistic scenario, the economy rebounds relatively quickly, and GDP declines by 3.5% in 2020. In the pessimistic scenario, a second wave of COVID-19 emerges during the fall, and new containment efforts and restrictions are activated; new aid packages are introduced. In this scenario, GDP contracts by 5.5% in 2020.
- Nordea updated its economic outlook for Denmark and the Nordic countries on 27 May 2020. Nordea expects the Danish GDP to contract 5% in 2020 before rebounding 4% in 2021. Previously, Nordea expected a 3% fall in output in 2020.
- The Danish Ministry of Finance has also updated its forecast, expecting a 5.25% contraction in national output in 2020 (compared to an earlier prediction of -4.4%).



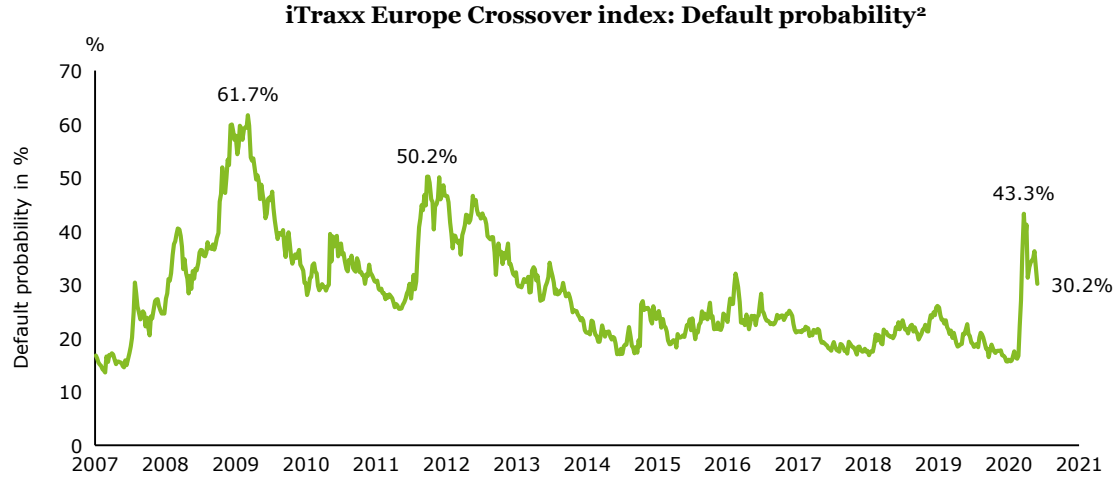
Sources: IMF, Danish Central Bank, Danish Ministry of Finance, DØRS, Confederation of Danish Industry, Danske Bank, Nordea

Equity market volatility remains elevated and comparable to the levels observed during the global financial crisis

- The VSTOXX Index measures 30-day implied volatility of the EURO STOXX 50 equity index and reflects investors' uncertainty about future equity market moves.
- As shown, the coronavirus induced an increase in volatility to a level comparable to that experienced during the global financial crisis in 2008. Since then, volatility has declined, but still remains elevated and comparable to the levels observed during the global financial crisis.



- The chart opposite shows the development in the implied default probabilities based on the 5Y iTraxx European Crossover spread of Credit Default Swaps and an assumed recovery rate of 40%. It measures default probabilities on a portfolio of sub-investment grade corporate debt in Europe.
- With a current default probability of about 30%, we are at the highest level since the European debt crisis, but still below peak financial crisis levels.
- As the index reflects cost of debt, any refinancing will be costly for leveraged companies, even though interest rates are close to being record low.



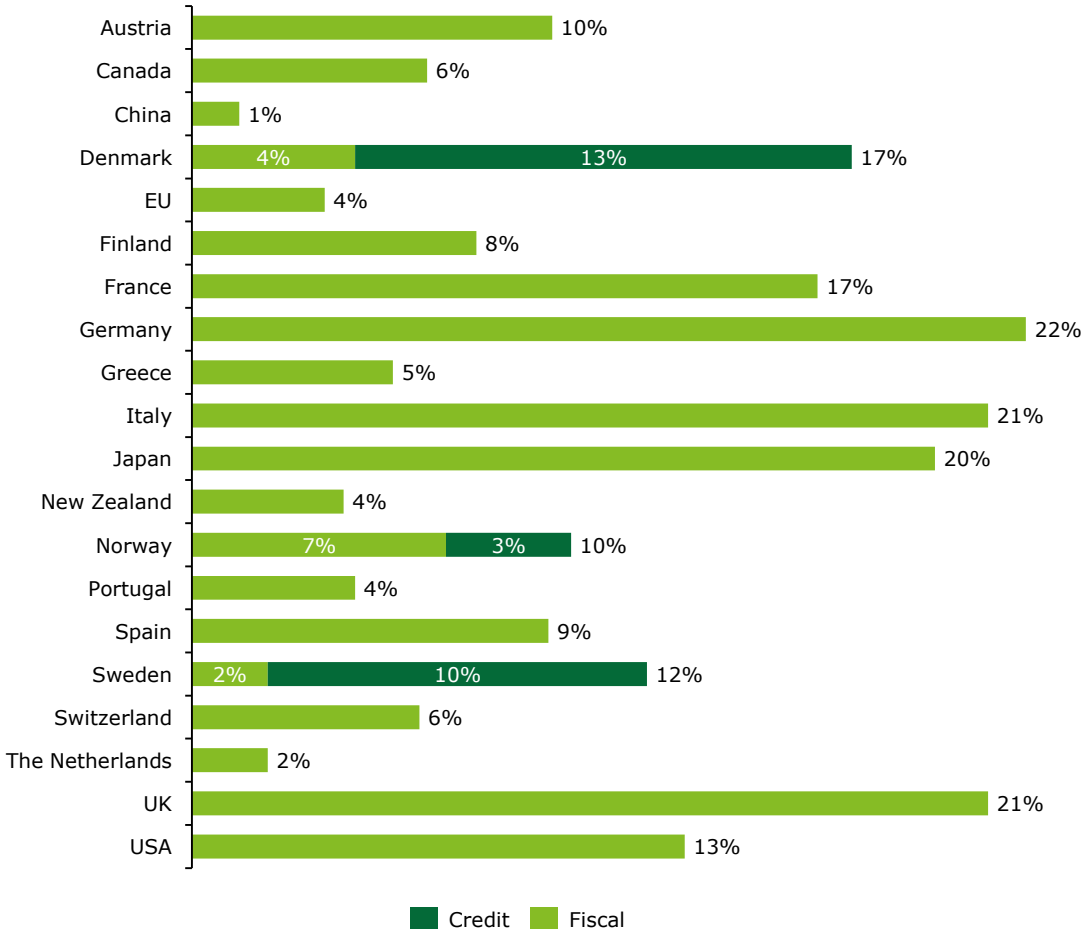
Note: 1) VSTOXX as volatility index of EURO STOXX; 2) Default probability calculated based on 5Y iTraxx European Crossover CDS and a recovery rate of 40%

Source: Thomson Reuters Eikon

Massive state aid packages are launched to counter economic fallout from COVID-19

- The various lock-down measures in response to COVID-19 have halted economic activity in certain sectors and harshly disrupted others. The resulting job losses and bankruptcies may crate major economic strains for millions in Europe and worldwide.
- Gigantic state aid packages have been launched across the world to counter the impact of the economic crisis.
- EU finance ministers agreed on a EUR 540bn (3.5% of EU GDP) emergency support package for countries hit by the coronavirus. The measures aim to provide safety nets for workers, businesses and sovereigns.
- As these state aid packages are launched, governments sharply increase debts to finance the increased spending levels. On this background, the questions about the following issues have started start to emerge:
  - The sustainability of government debt funding
  - The impact on inflation from sharp increases in government spending

State aid packages relative to GDP

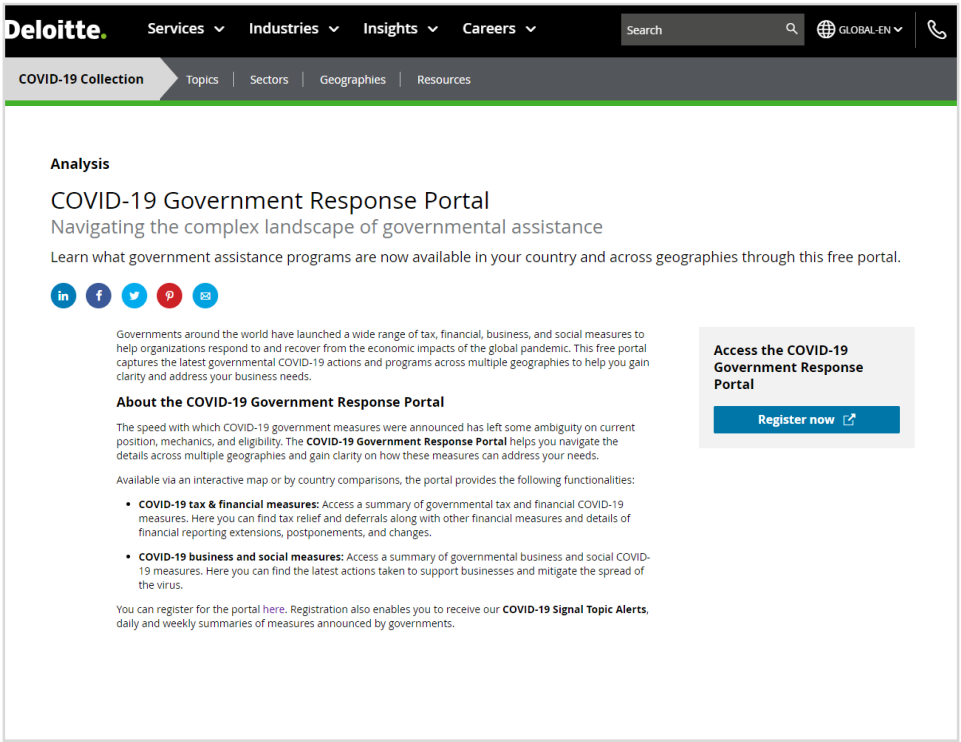


In some countries, including Denmark, aid packages also include credit measures like state-guaranteed loans.

Sources: Danske Bank, Deloitte Covid-19 portal as of 5 May 2020

Database of financial, tax, business and social measures announced by governments globally

- To aid our clients in navigating the complex landscape of COVID-19 assistance programmes, we have developed a free digital portal that captures the latest financial, tax, business and social measures enacted by country.



Access the portal!

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