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Thriving after recovery

European Equity Capital Markets update

Summer 2020

Financial Advisory

This European Equity Capital Markets update contains commentary on: recent European stockmarket performance in the wake of the COVID-19 pandemic; levels of equity market issuance and macroeconomic considerations; how to navigate volatility and distress; methods of raising secondary equity capital; and trends in public to private transactions.

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About this report: This report contains data sourced from Deloitte's Q1 2020 CFO Survey, Deloitte's Spring 2020 European CFO survey, Bloomberg, Refinitiv, FactSet, Dealogic, company admission documents and press releases. Market data is as at 8 June 2020. All commentary is provided by Deloitte ECM Partners and Directors.

Welcome to Deloitte's 8th Equity Capital Markets update

Global markets are recovering from an unprecedented shock to the economy caused by the COVID-19 pandemic and characterised by regional, national and international economies all but closing entirely. As we noted in our 7th edition of the Equity Capital Markets update, 2019 was a year marked by uncertainty around global growth, Brexit and the US-China trade war. Yet, equities performed strongly and closed the year at almost all time highs. By June 2020, equities have recovered much of the lost ground from some of the sharpest falls in equity markets in living memory. As economies reopen, a new landscape provides opportunities to thrive.

This ECM update includes commentary on equity market performance in the wake of the COVID-19 crisis, a summary of European equity issuance so far in 2020, as well as thoughts on how to navigate volatility and distress, and raise equity capital through secondary offerings.

Global equity markets are very much in 'recovery' mode as the dawn of a new global economy emerges. The most costly pandemic since the start of the twentieth century, both in terms of human lives lost and financial impact, has birthed a new normal for businesses and society alike. The long-term impact of the Great Lockdown remains uncertain, but it is clear that businesses will be forced to adapt and change as economies recover.

Central banks and governments were quick and relatively coordinated in their response to the COVID-19 pandemic, providing measures to stimulate the economy that outweigh even those put to use during the Great Financial Crisis. In terms of monetary policy, the US Federal Reserve dropped interest rates to the range of 0.25% and 0%, and its balance sheet increased by more than $1tn in March. Similarly, the ECB announced on 12 March an emergency debt-purchasing programme of initially €120bn which was 6 days later increased by another €750bn and increased again in June by additional €600bn. On the fiscal policy side, the US parliament approved a $2tn of fiscal support package for households and businesses. In Europe, most countries approved their own stimulus packages at the beginning of the crisis. In May, the European Commission proposed a common European recovery fund consisting of €750bn, made up of €500bn in grants and €250bn in loans.

A number of European listed companies have been implicitly encouraged to seek shareholder support in the first instance. Consequently, many of them have chosen to raise capital up to 20% of existing capital share. As we will discuss later, this proved a popular method of raising money.

RESPOND

Manage continuity

RECOVER

Learn and emerge stronger

THRIVE

Prepare for the next normal

As at 8 June 2020, the Stoxx 600 was 1.1% lower than at the same point 12 months before but had risen 33.8% from its 12 month low in March. IBEX 35 was 15.0% lower than 12 months before. Volatility levels remain elevated compared to long term averages with the VIX Index at 25.2, substantially higher than the 2019 average of 15.4, albeit much lower than the March 2020 peak of 82.7. Whilst current volatility has stabilised below March levels, any VIX reading above 20 represents a difficult environment to launch deals such as IPOs.

Overall ECM transactions totaled €61.4bn across 574 transactions in Europe for the year to date. The European market has been open for those seeking additional equity capital to strengthen balance sheets and improve liquidity in the wake of the severe impact on business caused by the pandemic.

We provide a summary of our most recent CFO Survey, which shows CFOs prioritising cost reduction and reducing leverage.

Our perspectives on navigating volatility distress and raising equity capital through secondary offerings are presented in our hot topics sections.

Finally, we are pleased to include our thoughts on current trends in public to private transactions.

We hope you find this document of interest and useful. We and the wider ECM team would be delighted to discuss any matters arising with you.

With kind regards

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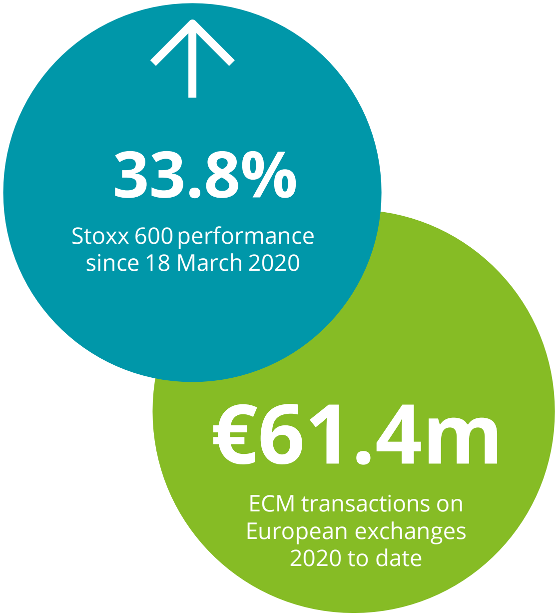
Whilst the Stoxx 600 is trading 10.0% lower than at the start of the year, 574 ECM transactions totaling €61.4bn have been completed on European exchanges as at 1 June compared with 547 and €49.3bn for the same period in 2019.



Source: Bloomberg, Refinitiv, Dealogic as at 8 June 2020

Market performance

25.2
VIX as at 8 June 2020

29.6%
FTSE 100 performance since 23 March 2020

29.3%
IBEX 35 performance since 16 March 2020

43.4%
S&P 500 performance since 23 March 2020

33.8%
Stoxx Europe 600 performance since 18 March 2020

Source: Bloomberg as at 8 June 2020. The different dates refer to indices' lowest closing price in 2020

European equity indices suffered significant drops in Q1 2020 and are gradually recovering as the COVID-19 pandemic eases

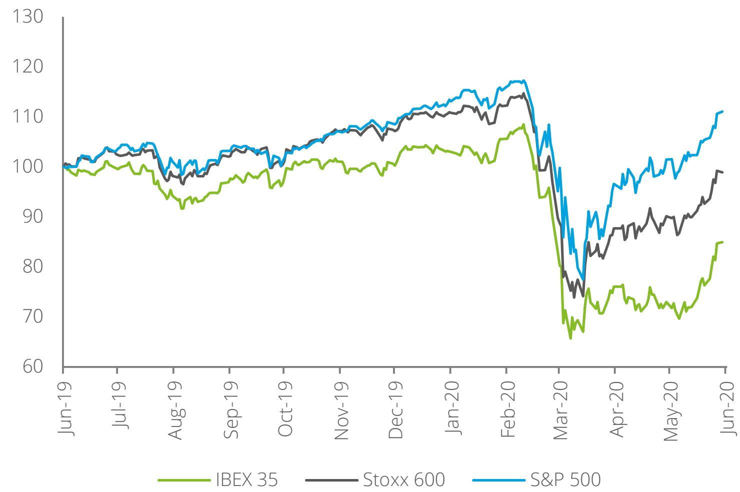
The driving factor behind equity markets performance so far this year has unsurprisingly been the COVID-19 pandemic. The impact on equities was severe and was felt across all sectors. The sharpest decline in equity prices occurred in mid-March, when it became clear to investors that major world economies would have to shut down to facilitate the attempts to slow the spread of the virus. This was coupled with the emergence of an oil price war between Saudi Arabia and Russia as the OPEC+ nations at the time failed to agree a deal on levels of oil output. Amongst this, the Stoxx 600 and the IBEX 35 experienced a one-day fall of almost 11.5% and 14.1% respectively, the largest daily drops on record.

The wider impact on the health of global economies has been apparent through revisions to global growth forecasts, drops in measures of economic activity such as manufacturing and services Purchasing Managers Indices and increasing rates of unemployment. The European Union's economy contracted by 3.5% in Q1 2020, with expectations of a 12.25% contraction in Q2 2020, before returning to GDP growth in Q3 2020. Overall, EU's GDP growth for 2020 was forecast to be around 1.4% at the beginning of the year, but is estimated to now be a contraction of 8.7%.

The resulting global economic outlook contributed to elevated levels of volatility in March 2020 with the CBOE Volatility Index ("VIX Index") hitting a high of 82.7. The VIX Index did not reach that level even at the height of the Great Financial Crisis in late 2008. As at 8 June 2020 the VIX Index was at 25.2, which still represents an elevated level compared to the 2019 average of 15.4.

However, since their lowest closing prices in March, the IBEX 35, Stoxx 600 and S&P 500 have risen by 29.3%, 33.8% and 43.4% respectively, helped by the gradual reopening of world economies and by the bold and coordinated government and central bank stimulus measures. In Europe, non-essential stores are slowly allowed to open again as long as they enforce social distancing measures, and tourism is to be resumed before the high season starts in July.

Global equity market performance (rebased) – last twelve months



VIX Index – last twelve months

Source: Bloomberg as at 8 June 2020

The Tech and Healthcare sectors have led European market performance in 2020

The Stoxx 600, down 10.0% since the start of the year, saw broad-based losses (on an absolute basis) across all sectors except for Tech and Healthcare.

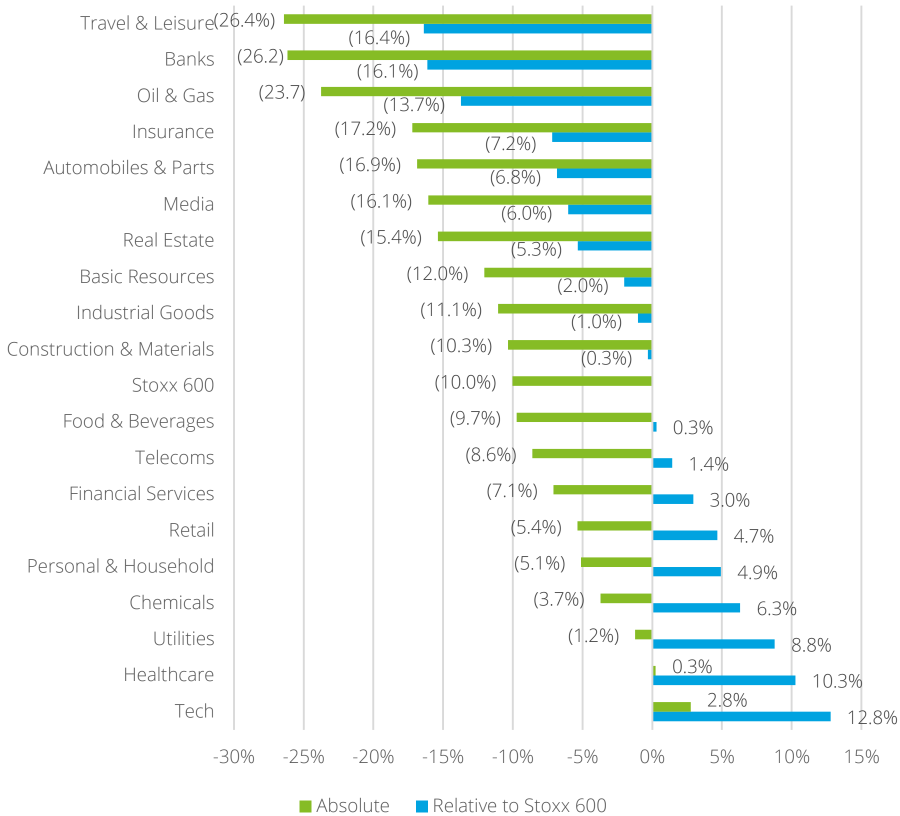
The Healthcare sector outperformed the market and most other sectors due to the nature of the crisis as investors place hope on pharmaceutical companies contributing to the development of an effective vaccine to COVID-19. Whilst the Healthcare sector may hold the key to an eventual exit from lockdown and enforced social distancing measures, Technology companies have been able to adapt quickly to the large-scale shift to home-working.

Whilst all other sectors have seen falls in share prices, the relative performance of Personal & Household and Food & Beverages stocks is of note. The Consumer Goods sector has been somewhat sheltered in the short term as people continue to order items for their home and gardens whilst confined to lockdown.

Conversely, Consumer services stocks, including those in the Transport, Hospitality and Leisure sectors, are underperforming relative to the market, and on an absolute basis. Unsurprisingly, airlines were amongst the biggest losers after they closed their doors in March, as well as restaurant and hotel chains.

Oil & Gas companies have also seen a significant fall in share prices as a result of two factors. Firstly, the drawn out process of agreeing a deal to reduce production between Saudi Arabia and Russia. Subsequently, the historic drop in the price of West Texas Intermediate, with futures down to negative prices in March, as demand slumped and traders looked to avoid actually having to take delivery of physical barrels.

European equity market price performance by sector – since 1 January 2020



Source: Bloomberg as at 8 June 2020

Equity issuance and macroeconomic considerations

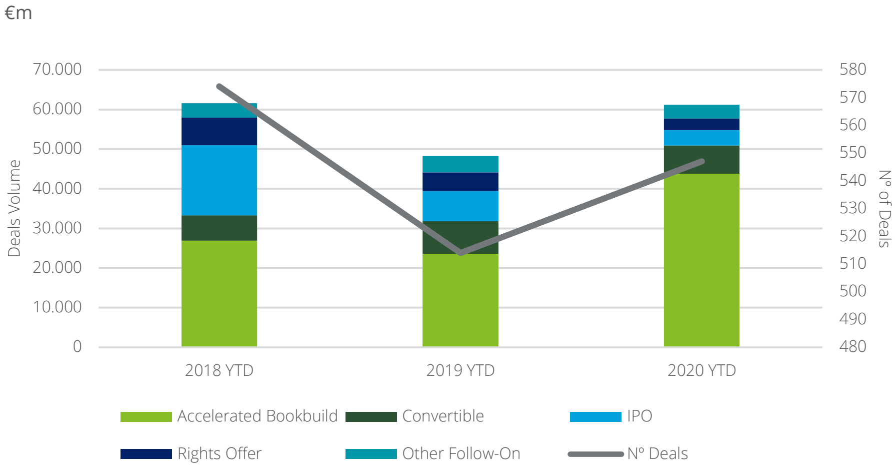
Secondary fundraising has spiked in 2020 as companies look to recapitalise

The European economy largely ground to a halt at the end of Q1 2020. Listed companies with staff to pay, costs to cover and, importantly, debt covenants to meet, in some cases faced complete loss of revenue overnight. In order to meet these demands, companies have been increasingly raising equity capital through secondary offerings.

Until April 2020, the amount raised through accelerated bookbuild offerings (ABB) was of €26.1bn. Since May, there has been a marked shift in use of proceeds towards repaying debt and improving working capital positions. By the end of May, this amount had risen up to €43.9bn. The amount of money raised through ABBs as of 1 June 2020 is almost twice that of the same period in 2019 (€43.9bn vs €23.6bn) and the number of deals has also increased (247 vs 156). The largest ABB to date has been by Swiss chemical company Sika (€2.4bn). The amount of money raised through right offers decreased in 2020 with respect to the same period of 2019 (€2.9bn vs €4.7bn).

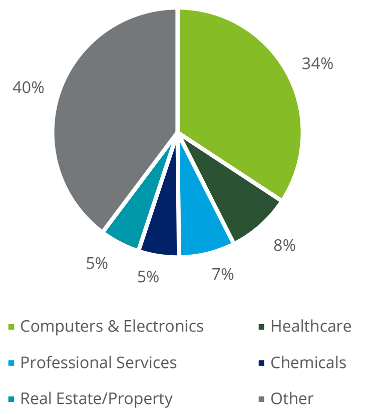
We have seen a decrease in 2020 in the volume of IPOs with respect to the same period of 2019 (€3.8bn vs €8.1bn), as well as in the number of deals (32 vs 62), with 15 of the deals happening in February. However, there have only been 8 IPOs of over €100m so far this year. The reopening of the markets has been marked by the tech IPOs of the Norwegian Pexip and the German Exasol and, especially, by Dutch JDE Peet's megadeal of over €2.2bn, which has been the largest European IPO so far this year. The three of them have experienced a very positive aftermarket. Spain has not seen any IPOs to this date, but it is worth mentioning the €1.5bn offer by Amadeus IT Group, of which €800m were raised through an ABB and the rest through the issue of convertible bonds.

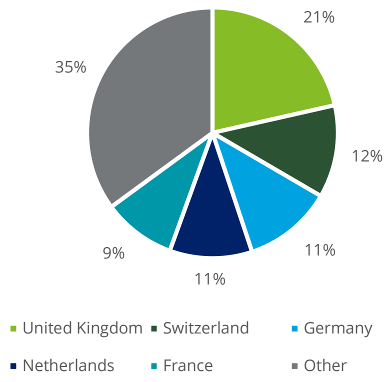
Equity issuances since 2018



Source: Dealogic as at 01 June 2020

2020 YTD equity issuances by sector and equity issuances by country





Source: Dealogic as at 01 June 2020

Deloitte European CFO Spring Survey

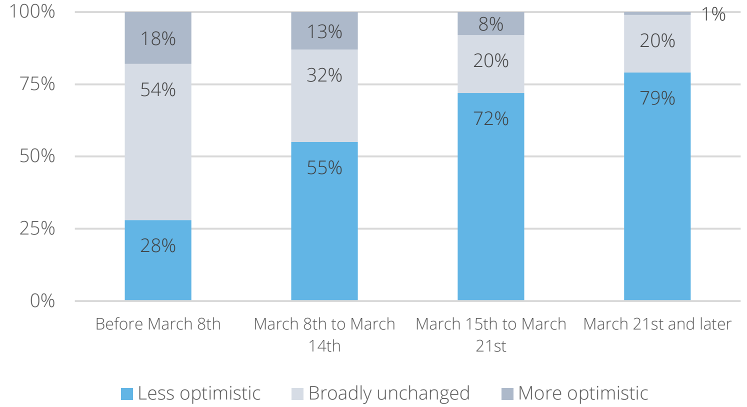
The European CFO Survey is part of a global cohort of surveys benchmarking the current and future intentions, sentiment and opinions of European Chief Financial Officers. The survey represents the views of around 1,000 CFOs based in 19 European countries[1].

Heading into 2020, there was no shortage of concerns about the European economy. In the last three months of 2019 quarterly economic growth in the Eurozone disappointed with a meagre 0.1 per cent gain – the weakest since a contraction in early 2013. Business sentiment, as captured by Deloitte's twice yearly survey of Europe's CFOs, was already on a declining path. But the COVID-19 pandemic has changed the environment radically - for the worse. CFOs foresee by far the worst outlook for their businesses since the survey began in 2015.

The spread of COVID-19 has compounded Europe's weak growth and brought some economic activity to a halt. On average, 63 per cent of CFOs report in March 2020 that they are less optimistic about the financial prospects for their company, an increase of almost 30 percentage points in six months. If we look at the data based on when CFOs responded throughout March it is apparent that optimism was dwindling fast as the month progressed. By the end of the month, 79 per cent of CFOs were less optimistic about their company's prospects.

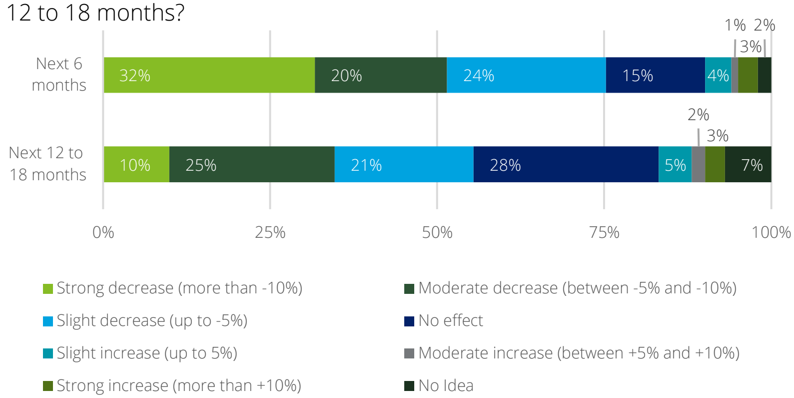
Weekly development of CFOs' sentiment about their company's financial prospects

Compared to three months ago, how do you feel about the financial prospects for your company?



Expected effect of the COVID-19 pandemic on companies' revenues compared to their own previous forecasts[2]

Based on the information you have so far and compared to previous forecasts, how do you expect the spread of the coronavirus epidemic to affect the revenues of your company in the next 6 months? And in the next 12 to 18 months?



(1) Countries included in the survey are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden and Switzerland,
(2) This question was not asked in Denmark, Poland and Switzerland

Hot topic #1: navigating volatility and distress

Navigating volatility and distress

The duration of the period of uncertainty caused by Covid-19 is still unknown. It is important that businesses are proactive in assessing their capability to withstand disruption from both an operational and a financial standpoint, and that they act decisively to mitigate actual or potential issues.

Liquidity forecasting and headroom

- Reforecast trading and cash flows. Test and challenge all assumptions. Ensure trading and cash flow forecasts are integrated. Model a downside scenario to understand actual/potential needs.

- Review cash flow forecasts. Some businesses' cash flows are already being devastated as revenue evaporates. Review in detail cash flows for the next 3 months, and identify what mitigating actions can be taken to preserve cash in the short/medium term.

- Review your lending documents. Understand the key terms, covenants, baskets of headroom and flexibility in your banking and finance documents.

- Remain in contact with key stakeholders. Businesses should communicate regularly with key stakeholders including their lenders and investors in order to retain their confidence and support.

In the event Covid-19 extends into medium term

- Seek out additional sources of capital early. Should cash flow forecasts suggest that liquidity is or will become an issue, assess options for raising funds including asset based financing, RCF, distressed M&A and alternative financing options (through our funds network) and also tapping the equity markets.

- Keep plans and options actively under review. Sustainable financing is an iterative process.

Working capital and supply chain

- Working capital: Working capital management is likely to be challenging:

  - Businesses impacted by lower Chinese demand may experience overstocking that could persist until production reduced or demand picks up.
  - Chinese customers likely to delay payments to preserve cash, whilst Chinese suppliers may be desperate to be paid for shipped/ordered goods.
  - Non-impacted counterparties may offer early payment discounts or factoring opportunities.

- Affected operations: Assess the ability of own affected operations in China to continue production and supply. Make contingency plans for alternative supply in short and medium-term as required.

- Engage with critical suppliers: Assess key trading terms and communicate regularly with critical suppliers to understand their ability to maintain and/or negotiate for continuity of supply.

- Alternative suppliers: Identify which of your key suppliers may be exposed and consider scenarios for supply being partly/fully restored. Make contingency plans for alternative suppliers as appropriate.

- Customers: Frequent engagement with customers at an executive level is key to manage expectations.

Hot topic #2: secondary offerings

Secondary offering structures

		KEY CHARACTERISTIC	TIMING
PRE-EMPTIVE	Rights Issue	• Offering of shares to existing shareholders pro rata to holding • Shareholders who choose not to take up their entitlement are compensated as rights can be sold in the market • No limit on size. Depending on the available delegation granted to the Board, approval from shareholders at a general meeting may be required • Usually underwritten at fixed price from date of announcement • Prospectus required	• c. 10-12 weeks (can be shorter if no need for a general meeting)
NON PRE-EMPTIVE	Private Placement (Accelerated)	• Issuers of new shares to selected subscribers only • The Board needs to justify that the transaction is consistent with the corporate interest of the company and the value of the issue price. A third-party expert report is also required • Max 20% of issued share cap subject to the availability of a listing prospectus exemption • Can be underwritten or not	• c. 1-2 weeks preparation followed by 1-2 days execution

Listed companies have a number of methods of raising secondary equity capital on the Stock Exchange. Summarised on the left, methods vary in timing, complexity and investors targeted.

Rights issues are generally favoured by institutions as they are often a large offer made on a truly pre-emptive basis, allowing institutions to maintain their proportional holding, if they so wish. There is no regulatory limit to the size of a rights issue or the discount of the offer price, which can make it more attractive to the issuer. However, it is the most costly and time consuming option.

Private placements are non pre-emptive, meaning that not all shareholders are invited to invest, leading to dilution for existing shareholders. Placings are a much faster method of raising money, but companies are limited in the size of the equity raise.

Given the current volatility of the market and the uncertainty in some Company's operating environment, several companies deem that the accelerated bookbuilding procedure among qualified investors is more appropriate in order to achieve its objectives, allowing the Company to capture a significant volume of equity in a short period of time, thereby substantially reducing the time of exposure to the risks associated with market volatility.

Rights issues and Private placements can sometimes be combined to allow issuers to attract new investors, whilst offering existing shareholders the opportunity to invest and reduce the dilutive impact of the placing.

The Equity Advisory team can provide an independent view on the suitability of each of these structures to meet the needs of the issuer

Hot topic #3: public to private transactions

Public to private transactions

Market turmoil creating opportunities

- Significant movements in global stock markets have resulted in attractive valuations for certain companies and sectors.
- The IBEX 35 is now trading on a blended price/current year earnings multiple of 16.6x, having fallen as low as 12.1x in April.
- Multiples were generally on the rise following last year's impressive stock market performance.
- The boards of public companies facing financing needs at this time will be considering all options depending on their circumstances.
- Some are likely to be amenable to the prospect of an acquisition at a fair level.

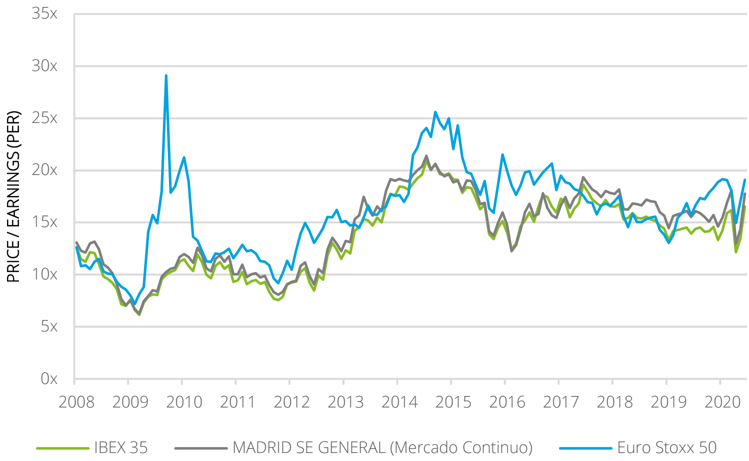
What is a P2P?

- A Public to Private transaction ("P2P") involves a private equity-backed bid vehicle making an acquisition of a public company and de-listing it.
- Whilst there are undoubtedly buying opportunities for private equity, corporates (both public and private) should also be considering strategic M&A, if they have adequate resources.
- Since 2017 there have been 20 takeovers of Spanish public companies listed in the Main Market either completed or announced pending completion – 6 by private equity and 14 by corporates.

What is the process?

- The Spanish market is governed, among others, by the Stock Market Law and Royal Decree 4/2015.
- Whilst acquirers will need to take specialist advice, the process is a "tried and tested" route and is well understood by public company institutional investors.
- Most acquisitions are structured so that the acquirer is able to "squeeze out" any tail of shareholders, such that 100% control is achieved.
- These regulations governs the different requirements and timetable.

Current year PER multiples (since 2008)



Public takeover offers (since 2017)

2017	2018	2019	2020 YTD
Tecnocom	Abertis	Barón de Ley	MásMóvil
Clínica Baviera	Saeta Yield	Bodegas Bilbaínas	
Abertis	Hispania	Telepizza	
Sotogrande	NH Hoteles	DIA	
Axiare	Funespaña	Natra	
	Europac	GAM	
		Parques Reunidos	
		BME	

Source: CNMV, Refinitiv as at 8 June 2020

Deloitte Equity Capital Markets

Our service offerings

Independent IPO Adviser

- Truly independent advice throughout the IPO process
- Offer and transaction structuring advice
- Assistance with adviser selection and monitoring their performance throughout the IPO execution phase
- Input into equity story
- Project and syndicate management
- Advice on pricing and allocation

IPO Assist

- Support and advice where and when needed including:
    - Acting as Project management office of the IPO, which includes coordinating all parties, ensuring resources are in place to execute all tasks in a timely manner, avoid distraction of management on their day-to-day activities, anticipating risk and tracking of IPO costs
    - Offering a seconding staff when needed
    - Building models for IPO
    - Working as an integrated part of the company's team

Post-IPO Support

- Help management handle the transition and ensuring compliance with post-IPO regulations
- Assist with preparation of first set of public financials, audit of financial statements, ongoing analyst liaison and results announcements
- Ongoing corporate governance advice and support

IPO Readiness

- Help companies prepare for an IPO
- Readiness assessment with a key findings report identifying deficiencies that may delay or prohibit an IPO
- Scope covers financial, commercial and organizational areas
- Design remediation plan to address shortcomings prior to IPO kick-off
- Categorization of findings into necessary for listing, best practices, effort required to implement the finding as well as IPO timing to be executed (pre/post or during the IPO execution)

Tax and Remuneration Advice

- Tax structuring, including domicile of Topco
- Advice on arranging executive and employee remuneration plans
- Implementation and documentation of remuneration plans
- Benchmarking remuneration structures against S.A norms

Public Company M&A

- P2Ps, public offers, hostile takeovers
- Act as lead adviser on either the buy-side (Offeror Adviser) or sell-side of the transaction
- Advice on corporate restructurings and demergers
- Support and advice on preparing bid defence procedures

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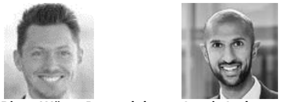

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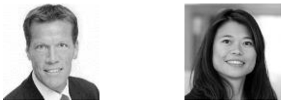

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Selected IPO Credentials

SATS Fitness **October 2019** €133m	**Helios Towers** Telecommunications **October 2019** €331m	**Addiko Bank** Financial Services **July 2019** €172m	**Airtel Africa** Telecommunications **June 2019** €604m	**Traton Group** Automotive **June 2019** €1,387m
US Solar Fund Renewable Energy **April 2019** €177m	**DWF Group** Professional Services **March 2019** €111m	**AJ Bell** Financial Services **December 2018** €194m	**Credit Income** Investment Trust **November 2018** €115m	**Smaller Companies** Investment Trust **October 2018** €934m
Piovan Industrial Products **October 2018** €156m	**Funding Circle** Financial Services **September 2018** €494m	**Carel** Industrial Products **June 2018** €252m	**Energean** Non-Renewables **March 2018** €373m	**Sabre Insurance** Insurance **December 2017** €359m
Bakkavor Group Food Services **November 2017** €295m	**Charter Court** Financial Services **September 2017** €288m	**AEDAS Homes** Real Estate **October 2017** €667m	**Allied Irish Bank** Financial Services **June 2017** €3,434m	**Global Ports** Transportation **May 2017** €190m

Notes

Notes

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