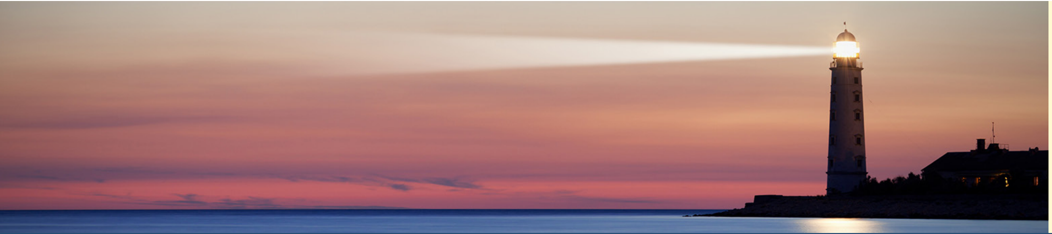


SPECIAL GLOBAL MARKET INSIGHT: THE ROAD TO RECOVERY

I. POSITIVE STIMULUS ACTION

Overview

Countries around the globe have positively pledged unprecedented stimulus plans to accelerate economic recovery, including over $5.5 trillion from members of the G7 Countries. We anticipate further stimuli to be pledged in the coming weeks and months as governments continue to focus on their economic recovery. It will take time to deploy the stimulus packages and we are hopeful that the beneficial economic impact of these packages will also correspond with the, downward slope in COVID-19 cases. This could strengthen recovery in H2 2020. Capital markets are responding to the stimulus aid by exhibiting some recovery from recent low share prices. The S&P 500 index has increased by 19% since hitting its lowest value on March 23, 2020, and the FTSE All-Share Index has increased by 12%. However, it is clear that global M&A markets have been affected by the combination of COVID 19 and uncertainty in the marketplace with Q1 2020 transaction volume decreasing -8% and value decreasing -28% over 2019.

Table I: *G7 Announced Covid-19 Stimulus Plans*

Country	$bn
Canada	$715
France	$330
Germany	$800
Italy	$55
Japan	$926
United Kingdom	$490
United States	$2,200
Total	**$5,516**

Table II: *United States Covid-19 Stimulus Package*

Sector	Amount ($bn)	Stimulus
Distressed Companies	$504	Subsidized loans to larger industries with oversight Inspector General and congressional oversight.
Small Business Loans	$377	Loans to small businesses who maintain their workers & payroll
Direct Payments to Individuals, Families	$290	Payments directly to individuals and families - Income based
Business Tax Cuts	$280	Business tax cuts and deferrals
Unemployment Benefits	$260	Expansion of unemployment benefits with $600 weekly add-on
Hospitals	$180	Additional funding for prevention, diagnosis, and treatment of coronavirus and expands health insurance coverage.
State and Local Governments	$170	Funding allocated for state and local governments who are dealing with the impacts of the crisis in their local communities
State and Local Governments	$164	Disaster assistance, food stamp assistance, education, personal tax cuts.
Total	**$2,230**	

Stimulus Summary

The Federal Reserve has cut US interest rates to zero and pledged to implement additional stimulus measures to provide financial stability in the markets. On March 27th, the House of Representatives passed the Senate's $2.2 trillion stimulus package, the largest stimulus package in American history. The $2.2 trillion represents approximately 10.1% of the GDP of the United States. This is a massive financial injection into the economy and includes provisions for small businesses, distressed companies, state and local governments, hospitals, individuals and families. Corporate funds will be supervised through an independent inspector general and a Congressionally approved panel to supervise assistance paid to companies. Canada has pledged nearly C$1 Trillion ($715bn) in stimulus and liquidity measures and has committed to providing limitless aid to revive the Canadian economy. European members of the G7 have also pledged significant aid packages to help stimulate a recovery. Germany has pledged €750bn ($800bn) in aid that includes €400bn in loan guarantees, €100bn in distressed loans and €100bn in for state guaranteed loans. The United Kingdom stimulus plan includes a £330bn loan scheme and £65.5bn in direct aid to protect businesses and workers.

II. THE ROAD TO RECOVERY

Since 1987, there have been four instances in which the S&P 500 index has fallen by more than 20% (bear market definition). These include the 1987 Stock Market Crash, 2001 Dot Com Bubble, 2008 Global Financial Crisis and the 2020 COVID-19 Crisis. On average, the days to reach a bear market from an all-time high is 121 trading days. The average time for recovery, as defined as surpassing the previous all-time high, is 1065 trading days. There is, however, reason to believe that with the COVID-19 Crisis, recovery may be faster when compared with previous bear markets. Prior bear markets were caused by the financial collapse of the USA housing and mortgage markets and mispricing of technology companies. With the COVID-19 crisis, the stock market decline has been driven by depression of the world economy through societal restrictions. If the number of positive cases is reduced through mitigation, then there is the potential for an expedited recovery. In addition, the commitment of the USA, Europe and other developed economies to provide financial assistance is greater than at any other time in history. All of these initiatives will serve to stabilize the economic shock of the pandemic and the current steep decline in the international market for oil.

Table III: *Bear Market Recovery Statistics Since 1987*

Stock Market Crisis	All-Time High	Date of Bear Market (20% Decrease)	Trading Days from All-Time High to Bear Market	Date of Recovery	Trading Days till Recovery	Maximum Loss
1987 Stock Market Crash	8/25/2007	10/19/1987	38	7/26/1989	447	-33.51%
Dot Com Bubble	3/24/2000	3/12/2001	242	5/30/2007	1561	-49.15%
Global Financial Crisis	10/9/2007	7/9/2008	188	3/28/2013	1188	-56.78%
COVID-19	2/19/2020	3/12/2020	16	TBD	TBD	-33.93%*
Average			**121**		**1065**	**-43.34%**

** Losses to date (April 3, 2020)*

Chart I: *S&P 500 Index during the 1987 Stock Market Crash*

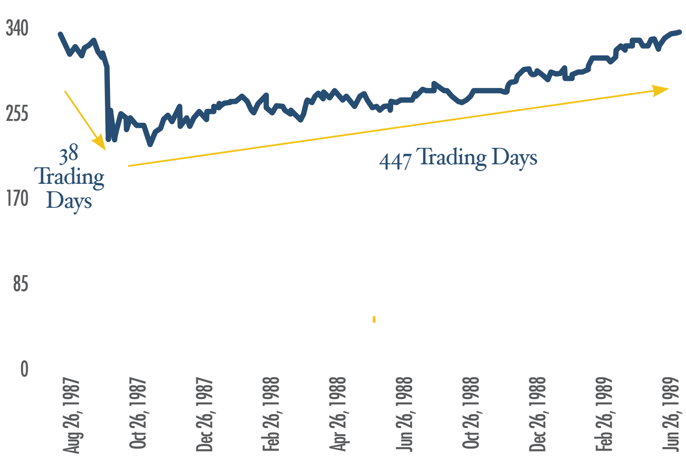


Chart II: *S&P 500 Index During the Global Financial Crisis*

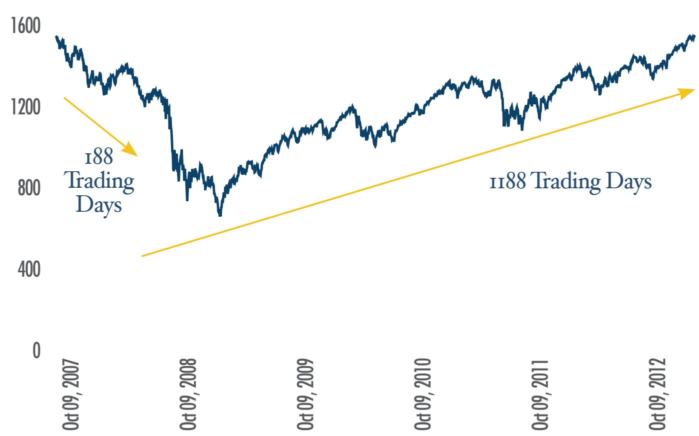
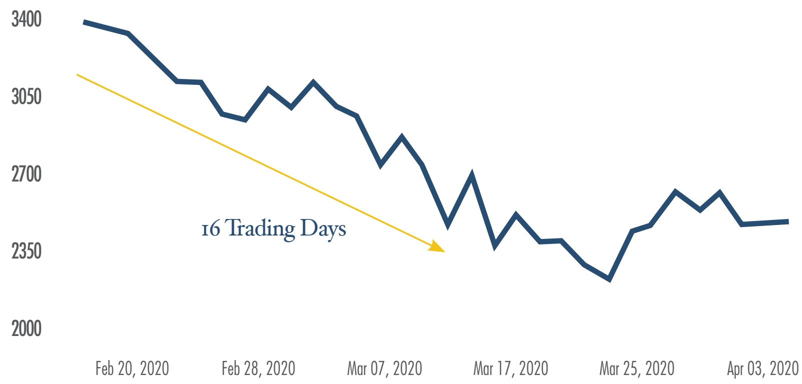


Chart III: *S&P 500 Index During the COVID-19 Crisis*



III. GLOBAL M&A ACTIVITY

The COVID-19 virus has affected global M&A activity through Q1 2020. Deal value has declined -28% from $800bn in 2019 to $577bn in 2020. This is the lowest level of first quarter global M&A activity since 2016. A number of the Q1 transactions relate to deal originations in H2 2019. Additionally, global transaction deal volume witnessed a -8% decrease during the first quarter of 2020, from 12,208 transactions to 11,254 transactions. Q2 declines may be greater due to the carry over effect of these transactions from 2019. The USA has been the most affected region where deal value decreased -57% from $506bn in 2019 to $219bn in 2020. Asia M&A decreased by 15% from $119bn to $101bn. European M&A activity increased +74% from $121bn in 2010 to $210bn in 2020; however this was sustained by a few large-scale transactions including the $30.1bn merger of insurance brokers Aon plc and Willis Towers Watson and the $18.8bn acquisition of Thyssenkrupp AG's elevator business by the consortium of Advent, Cinven and Germany's RAG foundation. European transaction volume fell 14% through the first quarter in 2020.

With many developed countries including the USA, UK, France, Germany Canada, Japan and China practicing forms of social distancing and business interruption, M&A transactions are being postponed until normal diligence and other operations resume. Transactions in the near term will be driven by restructuring, potential nationalization and bankruptcy reorganizations. Transaction deal volume and value will likely be further affected in the near term and through Q2. As businesses begin to re-open and travel restrictions are lifted, pent up transaction demand may increase as corporate and private equity groups seize opportunities to acquire at lower valuation and financing costs in this recovery window. Transaction deal volume could see a rebound in H2 of 2020 when it is forecasted that there will be a reduction in COVID-19 cases globally.

Table IV: *First Quarter Global M&A Activity 2019-2020*

	2019		2020		% Difference	
Region	Value ($bn)	Volume	Value ($bn)	Volume	Value ($bn)	Volume
Asia / Pacific	$119	2,103	$101	2,194	-15.4%	4.3%
United States and Canada	$506	5,140	$219	4,769	-56.8%	-7.2%
Europe	$121	4,202	$210	3,602	74.3%	-14.3%
Latin America and Caribbean	$14	376	$23	350	65.4%	-6.9%
Africa / Middle East	$41	387	$25	339	-38.8%	-12.4%
Total:	**$800**	**12,208**	**$577**	**11,254**	**-27.9%**	**-7.8%**

Source: Standard and Poor's

Private equity will continue to drive M&A activity especially in H2 2020. It is estimated that private equity funds have over $1.7 trillion in dry powder, committed but not yet invested capital. These sources include pension funds, sovereign wealth funds and family offices. Through the first quarter of 2020, there have been several notable private equity fund closings. The largest North American Private Equity closing through the first quarter was Platinum Equity's $10bn Capital Partners Fund V. The fund will focus on complex transactions and has the capacity to write equity checks up to $2bn. Other notable funds include $7bn Trident's Fund VIII focused on the financial services industry and KKR's $1.3bn Global Impact Fund focused on companies that provide environmental and social change. Competion from private equity firms will increase as acquisitions by major publicly traded companies may slow due to their focus on operations, debt management and restoration of shareholder value.

Table V: *Largest North American Private Equity Buyout Fund Closings Q1 2020*

Fund	Vintage	Final Close Date	Core Industries	Fund Size ($m)
Platinum Equity Capital Partners Fund V	2018	07-Jan-2020	Diversified	$10,000
Trident VIII	2019	14-Jan-2020	Financial & Insurance Services	$7,000
Blackstone Core Equity Partners	2016	09-Mar-2020	Diversified	$5000+
Odyssey Investment Partners Fund VI	2020	14-Feb-2020	Industrials	$3,250
Pamlico Capital V	2020	18-Feb-2020	Business Services, Healthcare	$1,400
Birch Hill Equity Partners VI	2020	26-Feb-2020	Diversified	$1,300
KKR Global Impact Fund	2019	12-Feb-2020	Diversified	$1,300
Reverence Capital Partners Opportunities Fund II	2018	04-Mar-2020	Financial & Insurance Services	$1,200
Incline Equity Partners V	2020	21-Jan-2020	Industrials	$1,165
EagleTree Partners V	2019	19-Feb-2020	Diversified	$1,120
Kinderhook Capital Fund VI	2019	23-Jan-2020	Diversified	$1,111
Vistria Fund III	2019	07-Jan-2020	Diversified	$1,110
Boston Ventures X	2019	02-Mar-2020	Information Technology	$1,100
JFL Equity Investors V	2019	25-Mar-2020	Defense, Aerospace, Maritime, Government Services	$1,000+
Corsair V Management	2018	26-Feb-2020	Business Services	$1,000
Total:				**$38,056+**

IV. CONCLUSIONS

The pandemic has been transformative to global M&A. As stimulus assistance takes effect and the number of cases decline, we anticipate several possible results:

- Significant buying opportunities at more attractive multiples as strategic corporations accelerate divestment of non-core assets to provide additional cash for operations.
- Middle-market transactions will be the driver of M&A activity in the global market. Private equity firms will focus on add-on transactions that are more manageable and look to add new regional geographies or adjacent sector focus to platform companies.
- Favorable low interest rates will positively impact transaction volume in H2 2020, but leverage available from banks may require greater equity commitments. The efficacy of current stimulus packages will be reviewed, and additional economic stimuli could follow; however, the cost of these stimuli may have long-term effects on personal and corporate tax rates.

- Sectors experiencing the highest volume of transactions include the healthcare, biotechnology, technology and renewable energy sectors. With oil prices at record lows, the renewable energy sector will continue to see additional investment from corporations and asset managers, especially those who are committed to green investment. This increased activity, combined with advancing energy technologies that lower costs, will increase the demand for renewable energy acquisitions.
- UBS has predicted a potential earlier recovery for European M&A, noting that companies with good balance sheets can try and take advantage of the price dislocation of assets.
- Private family owned businesses will give greater consideration to potential liquidity events, and the number of private business sales to small cap and medium cap companies will increase in H2 2020, allowing sellers to take advantage of prevailing low interest rates and avoid the risk of long-term recession.
- There is potential for M&A activity to increase significantly in Q3/Q4 2020. The prospect of vaccines and therapeutics coming on line starting at that time may also generate greater confidence and stability in the market. Private equity funds, strategic corporations and other sellers will be looking for a rising market as a sign to undertake M&A transactions to strengthen year end 2020 results.

ABOUT WINCHESTER CAPITAL

Founded in 1986 adjacent to the Campus of Yale University, Winchester Capital has provided in-depth research and strategic alternatives to its family office, multinational corporate and private equity clients through the last bear markets. Winchester Capital focuses on bespoke global strategic research and M&A advisory services. During critical periods we have assisted management and institutions with supportive research prior to the commencement of non-core divestment or sale. Our offices in central London, UK and New Haven, CT have fostered our specialization in cross border, transatlantic engagements. Winchester has received six Distinguished International Awards by our industry peer group, *M&A Advisor* including the Private Equity Deal of Year, Boutique Investment Banking Firm of the Year and Energy Deal of the Year. We offer the highest quality research and generation of direct, non- auction opportunities for private equity groups and strategic acquirers. Our firm has successfully transacted in over 40 countries. We welcome your comments to our Insight and the opportunity to assist with in-depth research to maximize value in all market conditions and circumstances.

Please visit our website at **www.winchestercapital.com** or contact David Bowen, Ph.D. Managing Director at **David.Bowen@winchestercapital.com.**

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