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FINANCING IN THE FACE OF UNCERTAINTY: CONSIDERATIONS FOR 2023 AND BEYOND

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GLOBAL UNCERTAINTY

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GLOBAL UNCERTAINTY

Political uncertainty / geopolitics	Macroeconomics / interest rates	Legislative / regulatory change	Cybersecurity

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POLITICAL UNCERTAINTY & GEOPOLITICS

- Uncertainty in general erodes corporate confidence and political uncertainty is inversely correlated with M&A deal flows.
- Factors contributing to political uncertainty include:
  - government elections,
  - economic policy changes,
  - political tensions, and
  - humanitarian crises.
- Cross-border M&A is exposed to geopolitical risks on two fronts: in the jurisdiction of the buyer as well as that of the seller.
- Research has shown that the volume of inbound cross-border deals declines significantly in the year preceding a national election in the target's country.
- Geopolitical tensions between states also mean that countries are more inclined to intervene to block mergers and acquisitions on national security grounds.
- Buyers should always consider the geopolitical dimension on acquisitions. As well as the purchase premium rising, there is a risk of the transaction failing or being altered, for example, if subsequent divestitures or job protection guarantees are required following closing.

MACROECONOMICS / INTEREST RATES

- Global M&A activity fell by 23% in value to USD 2.2 trillion in the first half of 2022, compared with the same period last year (according to research by Dealogic).
- The decline reflects the radically changed macroeconomic environment following the pandemic, characterized by rising inflation, geopolitical instability, supply chain disruptions, and tightening financial conditions, leading to suggestions that a recession is impending.
- Rising interest rates, intended to combat inflation, have contributed to debt financing becoming more expensive which, in turn, hampers dealmaking.

LEGISLATIVE / REGULATORY CHANGE

- Governments and regulators are becoming increasingly interventionist in M&A. Competition authorities are expanding their jurisdictions to investigate deals which previously would have avoided scrutiny and public interest implications are increasingly being considered by governments in the context of inward investment.
- Buyers and sellers require advice with respect to multiple parallel merger control and public interest reviews. It is also becoming more common for regulators to coordinate their investigations.
- Having a clear understanding of the policy context in which deals are negotiated is critical for successfully completing strategic investments in a challenging regulatory landscape.

CYBERSECURITY

- Data breaches, ransomware attacks, IT systems resilience and other cybersecurity issues are an increasingly prevalent concern during due diligence and negotiations on M&A deals.
- Buyers and sellers should be advised to take a proactive approach in managing cybersecurity concerns in M&A, including:
  - identifying the status of applicable legal and regulatory compliance of the target company and being aware of potential regulatory penalties for non-compliance,
  - understanding the information security and privacy risk profile of a target company through due diligence in order to determine current controls in place and anticipate maintenance efforts required post-closing, and
  - carefully reviewing processes and procedures at the target company to ensure these are aligned with those of the buyer entity.

FINANCING DEALS

FINANCING DEALS IN THE CURRENT MARKET: FOUR TAKEAWAYS

The Market	The financial markets are expensive but not broken
Private Credit	Private credit is significant and will continue to grow
Dry Powder	There is an incredible amount of available capital to be invested
The Strong Survive	Those with healthy balance sheets will have opportunities

THE FINANCIAL MARKETS

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THE FINANCIAL MARKETS

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Summary Jones Day

	Name	Volume (B) Curr	% Chg	Top Ranked	Share	% Chg	Rank	Chg	Share
1)	All Official Bond & Note Tables (128)								
11)	US Investment Grade Corporate Bonds	1,069.39 USD	-14.25	JP Morgan	12.34%	-0.24			0.00%
12)	US High Yield Corporate Bonds	97.94 USD	-77.83	JP Morgan	9.95%	-0.73			0.00%
13)	European Bonds	1,556.40 EUR	-8.86	BNP Paribas	6.03%	-0.25			0.00%
14)	Asia ex-Japan G3 Currency Bonds	149.22 USD	-47.67	Citi	6.60%	+0.24			0.00%
2)	All Official Liability Management Tables (4)								
21)	Global Liability Management Bonds Table	784 Deals	+33.55	JP Morgan	21.73%	+0.41			0.00%
3)	All Official Schuldscheine Tables (1)								
31)	Corporate Schuldscheine	23.52 EUR	+77.22	Landesbank Baden-Wuertte...	21.27%	+3.94			0.00%
4)	All Official Loan Tables (59)								
41)	US Leveraged Loans	861.86 USD	-27.44	BofA Securities	15.72%	+4.41			0.00%
42)	EMEA Leveraged Loans	88.95 EUR	-46.21	JP Morgan	7.82%	-0.52			0.00%
43)	APAC ex-Japan Loans	448.28 USD	-6.25	Bank of China	19.28%	+3.23			0.00%
5)	All Official Municipal Tables (20)								
51)	US Municipal Long Term	297.27 USD	-16.19	BofA Securities	12.70%	-1.74			0.00%
52)	US Municipal Long Term Negotiated	232.73 USD	-15.83	JP Morgan	10.69%	+4.15			0.00%
6)	All Official Cash Structured Products Tables (12)								
61)	US ABS Structured Products	207.60 USD	-12.48	RBC Capital Markets	8.78%	+1.55			0.00%
7)	All Official Equity Tables (69)								
71)	US Equity Offerings	57.15 USD	-84.80	JP Morgan	11.89%	+2.35			0.00%
72)	EMEA Equity Offerings	63.70 USD	-64.53	Goldman Sachs	11.99%	+3.39			0.00%
73)	APAC Equity Offerings	186.37 USD	-47.74	CITIC Securities	11.55%	+3.63			0.00%

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Nearly every category of the debt markets are down for the year.

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SOURCES OF CAPITAL

IPO/Equity Markets

- Near zero activity
- Tech market hardest hit

High Yield/Institutional Loan Market

- Near zero activity
- Prohibitively expensive

Private Credit

- Capital available
- Limited deal size
- Getting expensive

Bank Market

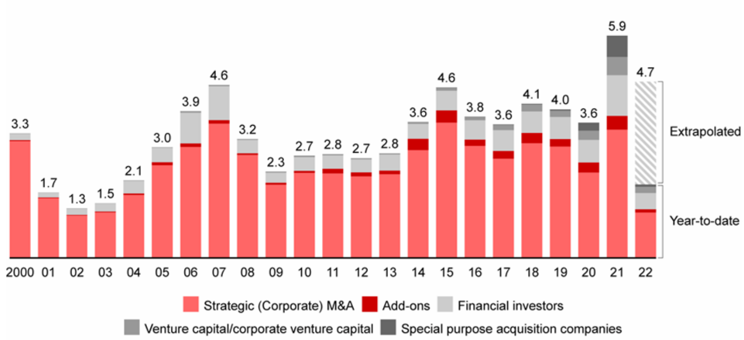
- Pro rata bank market open
- Floating interest rate risk

Structured Credit

- Capital available
- Pricing remains good
- Limited use of funds

M&A DEAL MARKET VALUE

M&A deal market value (in trillions of US dollars)



Notes: By announcement date; categorizations based on deal technique, industry, and acquirer business description
Source: Dealogic

PRIVATE CREDIT

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PRIVATE CREDIT

- Since 2006, the private credit or direct lending market has grown to a $1.5 trillion market
- Fundraising continues despite market conditions
- Deal size has increased significantly allows for $1 billion + deal size
- More expensive than bank market and untested in a downturn

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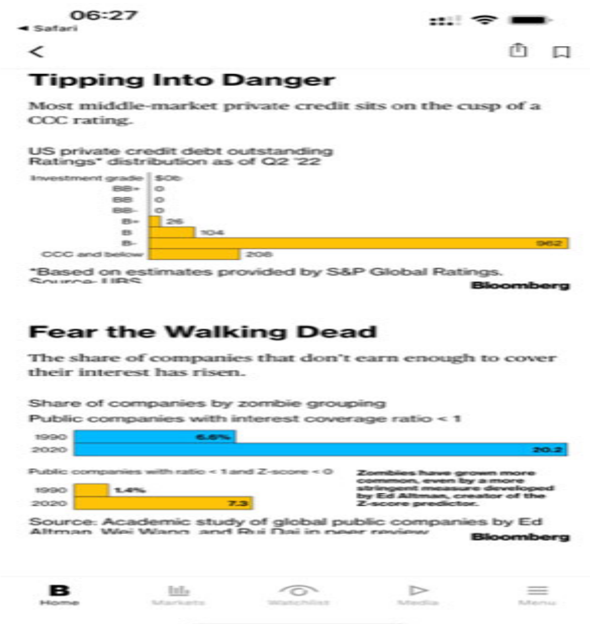
PRIVATE CREDIT

But signs of trouble are starting to appear in the private credit market…….



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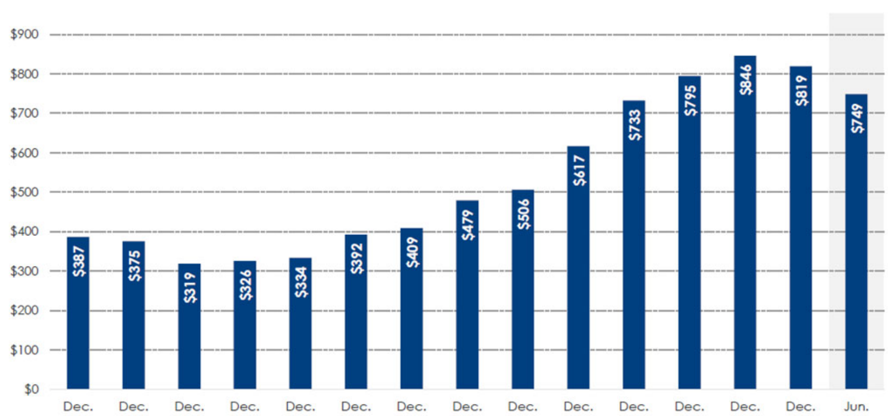
AVAILABLE CAPITAL

- Despite the market downturn, there is significant available capital to be deployed
- Both private equity funds (approximately $800 billion) and private credit (approximately $390 billion, have funds to invest
- Banks do not have to lend but directly lenders do or they have to return capital

DRY POWDER (BIL.)



Source: Pitchbook's Q2 2022 US PE Breakdown
* As of June 30, 2022

THE STRONG SURVIVE

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