CRASNER CAPITAL

A specialist boutique investment bank built on trust

MAY, 2020

COVID-19 MARKET COMMENTARY EDITION 3

MARKET OVERVIEW

Global stocks were buoyed last week by prospects of the hardest hit countries slowly emerging from lockdowns, with a global rally slowing following dimming investor hopes as the European Commission predicted a deep recession (7.4% in 2020), and fresh worries that the United States is restarting their economy too quickly. In the last two days, global stock markets have lost momentum, with a sell off as investors mulled the prospect of a second spike in infections caused by easing lockdown restrictions. Global oil prices have also rebounded, with Saudi Arabia cutting production in an effort to support global markets.

- **In the US,** the Fed has kept interest rates close to zero, promising to keep the rate at this level until the economy starts to rebound, in addition to buying trillions of dollars or bonds and rolling out emergency lending facilities for businesses and households. The Fed is also facing pressure to fairly implement a rescue plan delivering USD4tn in financial support for corporate America, as 33 million people have now filed for employment benefits. Trump has also fuelled tensions with China, speculating its role in spreading COVID-19, threatening trade tariffs, and exploring blocking a government retirement fund from investing in Chinese equities considered a national security risk.
- **In Asia,** following a choppy market earlier in the month, stocks gained last week following global hopes of an economic recovery. Shanghai, Hong Kong and South East Asian markets followed Wall Street higher, whilst Australian stocks declined. Despite cases reaching 250,000 in Asia residents in Hong Kong, South Korea and Australia are heading back to work and school as infections slow.
- **In the UK,** a roadmap to leading the nation out of lockdown was announced on Sunday evening, with minor changes. On Tuesday Rishi Sunak also announced extensions to the furlough scheme that is currently supporting over 7 million jobs. To date, fiscal support offered has been estimated at GBP50bn.
- **In Emerging Economies,** currencies are collapsing to levels not seen since 2015, reflecting concerns about emerging nation's public finances, increasing the burden of their dollar denominated debt, and steep falls in the price of crude oil. Despite lockdowns gradually easing, civil unrest and confusion continues to impact citizens, particularly in Africa and India. Wealthy nations are being called on to support Governments and other actors in these economies to provide urgent additional funding.

IMPACT ON M&A AND DEAL ACTIVITY

Assessment of COVID-19's impact on future M&A and deal activity

Factors leading to negative impact

- Calls for halting risky acquisitions that can take advantage of lower valuations in the US
- Delaying of strategic growth initiatives by businesses globally
- Uncertainty around the timeframes that are required for recovery

Factors leading to positive impact

- Current activity is already at all-time lows; with improvements expected in 2H20
- Distressed deals are expected across multiple industries
- M&A to be one of a few options for growth in the post COVID-19 era

Overview

- According to Refinitiv, global M&A activity in April fell to its lowest level since 2002 as travel restrictions and lockdowns continue to hamper deal making. Deals with a combined value of USD69 billion were announced globally during April 2020, down 72% from last month and the lowest monthly total since September 2002.

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- In the US, there have been calls for halting risky M&A by Elizabeth Warren and Alexandria Ocasio Cortez, two Democratic critics of Wall Street, to stop large companies from exploiting the pandemic to acquire smaller businesses at low valuations. Their Pandemic Anti-Monopoly act would impose a moratorium on deals by companies with more than USD100m in revenues or financial institutions with a market capitalisation above USD100m, and also will aim to block deals by companies backed by Private Equity and Hedge Funds.

- According to the 22nd edition of the EY Confidence Barometer, business leaders across the world are looking beyond the immediate impact of COVID-19 on supply chains, revenue and profitability as they expect a significant increase in M&A activity in the second half of the year driven by weak balance sheets as companies offload businesses. Interesting findings include:

    - The majority of companies are assuming a recovery in the medium term, the intention to actively pursue M&A in the next 12 months remaining at the elevated levels (56%) seen throughout this current deal cycle.

    - As a result of Covid-19, global executives say they will focus more on a target's business resilience when evaluating a transaction (38%) and are prepared to see valuations come down (39%).

- Deloitte also anticipate many distressed deals in automotive and industrial products, travel and tourism potentially finding opportunistic investors and sectors like healthcare, medical technology and food potentially becoming more attractive to investors after the pandemic is over. In addition, the Firm expect deals to be delayed until 2021 or 2022, when the US political situation may be less complex and the global economy on the road to recovery.

Deal Activity

Deal activity in April 2020

- Taking the prize for the worst month for deals globally since 2004, there were a limited amount of global transactions announced for the month of April. Deals that were announced were at the smaller end of the ticket sizes, with no big brand names coming to the table to transact.

- In Africa, whilst transactions have continued to decline there was still activity by Private Equity players on the Continent. CIB has acquired a majority stake in Kenya's Mayfair Bank, A.P. Moller Capital made its first investment in Kenya, FMO backed DPI III, fDB approved a USD10m healthcare investment and the IFC Corporation announced its acquisition of a stake in retail chain Naivas for USD15m, alongside Amethis Finance.

SPOTLIGHT ON EMERGING MARKETS

- **In Africa,** despite a generally swift approach to public health actions by African leaders, for many countries a delayed but exponential growth of the virus seems likely, with the WHO warning a potential 10 million cases. With many countries responding with violence and confusion, as civil unrest and hunger continues to impact citizens, Rwanda has emerged as an exception, with the Government enacting effective solutions and providing palliative measures.

- The US Government and other wealthy nations are still being called on to play a positive and transformational role to support African Governments and other actors in coordination with the United Nations agencies, the World Bank, the Africa CDC, the African Development Bank and others.

- In an article published by McKinsey & Company, *'Finding Africa's Path – Shaping Bold Solutions to Save Lives and Livelihoods'*, the firm forebode the devastating effect of the virus on Africa unless Governments, development institutions and the private sector act with speed and agility. Some startling statistics include:

    - A potential cost of USD5bn+ to strengthen Africa's health system capacity over the next 100 days, as the virus spreads rapidly across the Continent. Africa only has 20,000 ICU beds for their entire population (which is three times the size of the US population).

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  - The jobs and incomes of 150 million Africans are vulnerable in the crisis across the informal and formal labour force, representing a third of the entire labour force of 440 million people (300 million of which are employed in the informal sector).

- **In Nigeria,** The IMF last week approved the request by the Central Bank of Nigeria for a Rapid Financing Instrument, but will conduct a due diligence exercise as part of a fresh safeguards assessment. The Central Bank extended the minimum capital requirements for microfinance banks, in addition to lifting the suspension of cheque clearing. Finally, the Nigeria Private Sector Coalition Against COVID-19 has so far realised USD67bn to help fight the coronavirus pandemic, with a number of large donations from Abdul Samad Rabiu (BUA Sugar Refinery), Segun Agbaje (GTB), Tony Elumelu (UBA), Oba Otudeko (First Bank), Jim Ovia (Zenith Bank), Herbert Wigwe (Access Bank), and Femi Otedola of Amperion Power Distribution.

- **In Kenya,** the central bank cut its benchmark lending rate from 7.25% to 7.0% last Wednesday, with their year end forecast sitting at 5.0%. Already, USD328m of the Central Bank's funds have been released into banking system and have already been used by the tourism, real estate, trade and agricultural sectors. This represents 43.5% of the total funds allocated. In addition, the CBK has encouraged the National Treasury to create a funding kitty of USD930m to cushion distressed micro, small and medium enterprises.

- **In Ghana,** USD1bn from the IMF was released to the country last week. The Central Bank is confident that 5 major decisions taken to date will stabilise the financial sector, including a call to lower the Monetary Policy Rate to 14.5%, reducing Primary Reserve Requirements from 10% to 8%, and reducing the Capital Adequacy Ratio from 13% to 11.5%. This week, Ghana has also postponed the implementation of the minimum capital requirement for the electronic payment service providers.

- **In India,** restrictions have been extended to May 17, marking two months of lockdown for a nation of 1.3 billion, the most extreme and largest global lockdown. The Reserve Bank of India has also continued to ease monetary policy, cutting the repo rate to 4.40% and the reserve repo rate to 3.75%. It has also provided liquidity through long term repo-operations, and eased up prudential requirements for banks to free up liquidity for lending.

- **In Indonesia,** a chaotic and delayed response to the crisis, despite promised funding of USD8bn, has resulted in a severe outbreak, with the Government projecting 95,000 infections by the end of May, with other researchers from the University of Indonesia predicting 1.7 million infections in the same period. The news comes as the President extended a ban on travel over Ramadan until May 31, with domestic road, air and sea travel now prohibited.

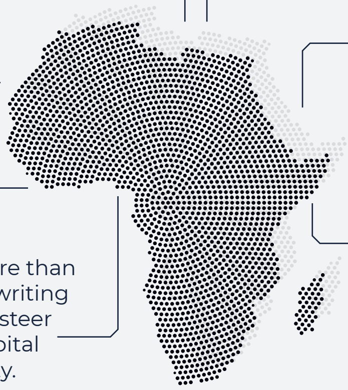
Impact of COVID-19 on Sub-Saharan Africa M&A in Q1 2020

Announced M&A transactions value with either target or acquirer in the region reached USD 4.8bn, 47% less than Q1 2019 and a four-year low.

Deals with a Sub-Saharan target declined 74% by value to a 17-year low of USD 1.7bn, as domestic M&A within the region declined 86% from last year.

The combined value of inbound M&A deals failed to pass the USD 1bn mark, a level achieved in all but four years since 2000.

Equity capital markets underwriting fees more than tripled to reach USD 36.7m, and bond underwriting fees increased 20% to USD 22.3m, showing a steer towards African corporates accessing the capital markets over participating in strategic activity.



Advisory fees earned on completed M&A transations generated USD 33.5mn, down 38% y-o-y, while syndicated fees declined 47% to USD 35.7mn.

Deals in the materials sector accounted for 39% of Sub-Saharan African target M&A activity.

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Major deals included Africatel's USD1.0bn sale of PT Ventures to Angolan Sonangol and MTN's sale of its Tower business in Uganda and Ghana to AT Sher Netherlands Cooperatief for USD523.

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EXPERT INSIGHT

Amanda Cotterman,
Founder and Managing Partner of EquaLife Capital

Our expert of the week is the Kenya based Founder and Managing Partner of EquaLife Capital, Amanda Cotterman. Through innovative financing solutions using the venture debt asset class, EquaLife Capital is raising a fund to support and save venture backed start up and growth companies in East Africa as they weather the COVID-19 storm.

A seasoned entrepreneur, Amanda founded EquaLife Capital which launched and runs Africa's first venture debt investment fund, providing traditional and adapted frontier market venture debt through extended operational runway, working capital, asset financing and bridge financing to start-ups and innovative small and growing businesses (SGB's) operating in Africa.

As a first mover in the market, venture debt provided a solution to an incredibly saturated equity market and an increasingly high amount of African companies who were unable to secure traditional debt financing. In March, the Firm announced plans for a COVID-19 recovery fund, targeting USD20m to invest into 10-20 East African businesses. This investment is directed at sector agnostic venture backed growth stage businesses whose fundamentals have not been impacted by the crisis but are looking at a 12-24-month period of recovery.

EquaLife Capital's Africa Venture Debt COVID-19 Recovery Fund

- The COVID-19 fund follows a similar model to EquaLife's existing venture debt model, which was established in response to the East African venture ecosystem calling for an efficient and innovative solution of providing debt to companies still in the venture growth stage (coupling debt with their existing equity investor), which did not exist in the way it has been executed in other global venture capital ecosystems.

- EquaLife has embraced a unique approach adapting features of the venture debt asset class. As COVID-19 continued to spread, the Firm was inundated with requests from entrepreneurs and equity investors, but pricing and risk, perceived or real, was off the charts. However, with a focus on raising a specific fund offering concessional interest rates, the venture debt instrument (with equity warrants) was not going to be priced for full risk, or priced for growth. The instrument was priced for ultimate impact with the tweaks of looking for businesses that will have instrumental impact in keeping people in jobs and positively impacting the overall economy if they were able to stay alive and thrive post crisis. These businesses specifically have seen a slowdown in cash flow, not facing business fundamental issues, and will use the investment to weather the storm instead of for pure growth today.

- With current investments in Kenya and Rwanda, the Firm hopes to expand into Tanzania, Uganda and Ethiopia, where strong demand exists for this product across sectors. Notably, a large portion of this COVID-19 related funding demand is currently being seen in the agricultural and health industries in Africa, where PPE, equipment and ensuring employee safety is putting huge strains on cash flows.

- The EquaLife model is also unique given their additional operational and financial expertise offering to these companies in the venture start up growth phase, entrepreneur to entrepreneur. This support system, coupled with the Firm's strong 8-year history in Kenya, local networks on the ground, familiarity with the business ecosystem, and strong ability to diligence allows the firm to both add value but disburse capital quickly and efficiently within a one-month time frame from identification to disbursement.

- With many deal-makers struggling to diligence opportunities in light of current restrictions, EquaLife are an outlier to this trend, and are still able to successfully and quickly diligence companies and push forward with investments. With venture debt, the focus remains on a company's ability to repay, the stage of the company, sensible numbers and the right team and strategy in place. Relying on their expertise, their knowledge of the East African venture ecosystem, and local networks and resources, the Firm have not been deterred and are still completing successful diligence processes and in the process of raising capital to disburse to those businesses, even in the middle of the pandemic.

- Despite an initial focus on the East African Region, the Fund is looking ahead with hopes to eventually adopt a more Pan-African investment approach and utilise venture debt as an asset class to support venture companies across the Continent. The fund plans to provide loans in the range of USD200k-USD2m sizes, in increments of 6 to 24 months, and at interest rates of 5-10%.

ABOUT CRASNER CAPITAL

Crasner Capital is a pre-eminent force in Emerging Markets Investment Banking. Headquartered in London, Crasner Capital brings bulge bracket Investment Banking capability to mid-market M&A and Corporate Finance deals in Nigeria, Kenya, Indonesia and India. The Firm has been at the centre of a number of high profile deals and specialises in sell side mandates from Management Teams and Private Equity Funds active in the Financial Services and Consumer Sectors.

For more information, please contact Nick Crasner on ncrasner@crasnercapital.com

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