



# Kroll Capital Markets Update

WLG International Corporate Transactions Meeting

- March 10, 2022

*A look back,  
two years ago...*



### **MARKET CRASH**

Dow Jones lost nearly 37% of its value between February and March 2020



### **STAY AT HOME**

Global unemployment skyrocketed; U.S. alone lost over 20M jobs



### **RUSSIAN ANTAGONISM**

Russia and Saudi Arabia engage in oil price war due to demand reductions



...and still the Global Capital Markets recovered and delivered a record 2<sup>nd</sup> half with over \$2 trillion in dealmaking

*Today we are seeing similar uncertainties in global markets*



### **MARKET DOWN, AGAIN**

DJIA on 4-week losing streak, Europe Stoxx 600 down 7% last week



### **UNDER PRESSURE, AGAIN**

Global inflation caused by surging energy and food costs, and broad supply chain disruptions



### **RUSSIA, AGAIN**

Crisis in Ukraine led to Russia being effectively detached from global markets



*Key question:* How will the Global Capital Markets respond this time? Today we dig into fundamentals to forecast the coming year

# COVID-19 | Is the end in sight?

## THREE SCENARIOS

### 1 Omicron is the end game

*Large swaths of population infected, but severity goes down. COVID operates like common childhood respiratory viruses*

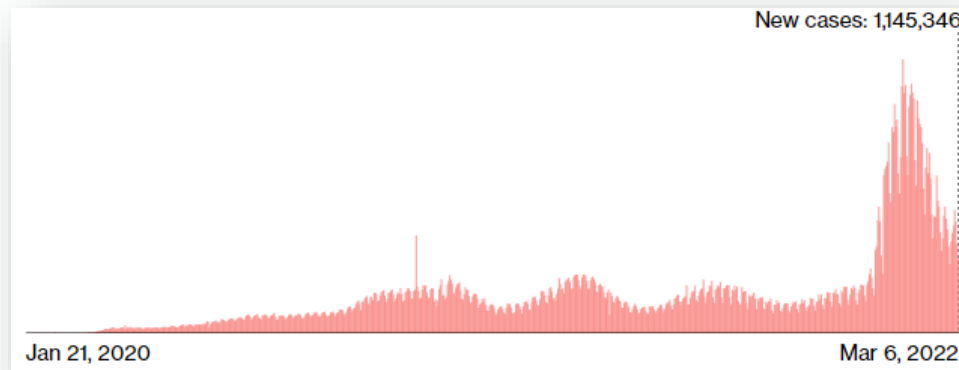
### 2 Omicron continues to mutate

*Evolves in a way that could invade the lungs and get more severe. That essentially creates a new virus that works beyond our vaccines*

### 3 The “Double Whammy”

*Another pandemic evolves on top of COVID 19. This is clearly a worst-case scenario, but critical to be prepared for all of the above*

## Global COVID Cases Added Per Day



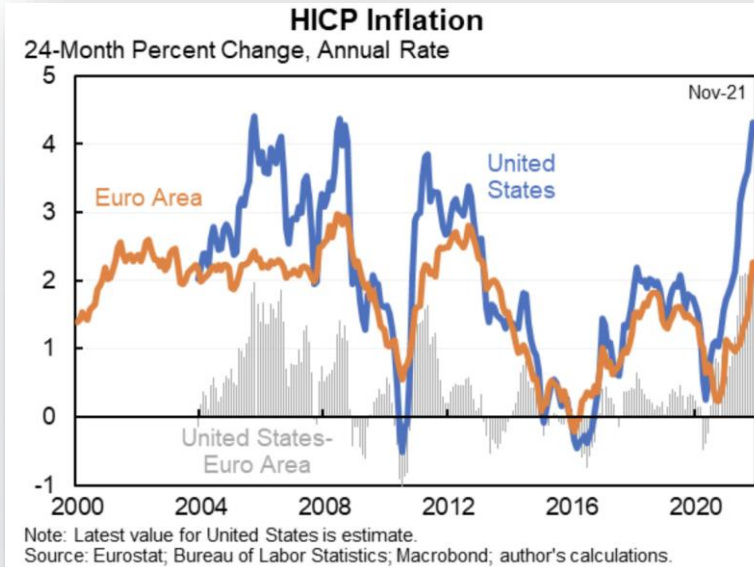
- Omicron raised uncertainty and saw a big rise in global cases...
- ...but fortunately, we see receding trends around the world
- Experts see COVID evolving from *pandemic* to *endemic*

Source: Bloomberg, Kroll Chief Medical Advisor



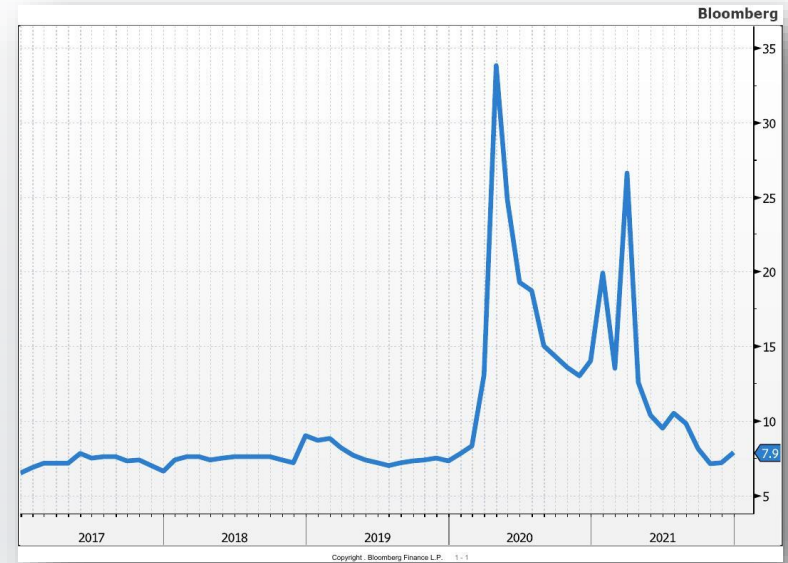
# Inflation | Rising everywhere, rates to follow

## Global Inflation continues to rise



Source: Eurostat, Fred

## Personal savings rate back at pre-pandemic trend



Source: Bloomberg

# Commodity Prices | Are we near the top?

## INSIGHTS

### 1 Inflation impact clear

All commodity prices are up over the last 12-month period

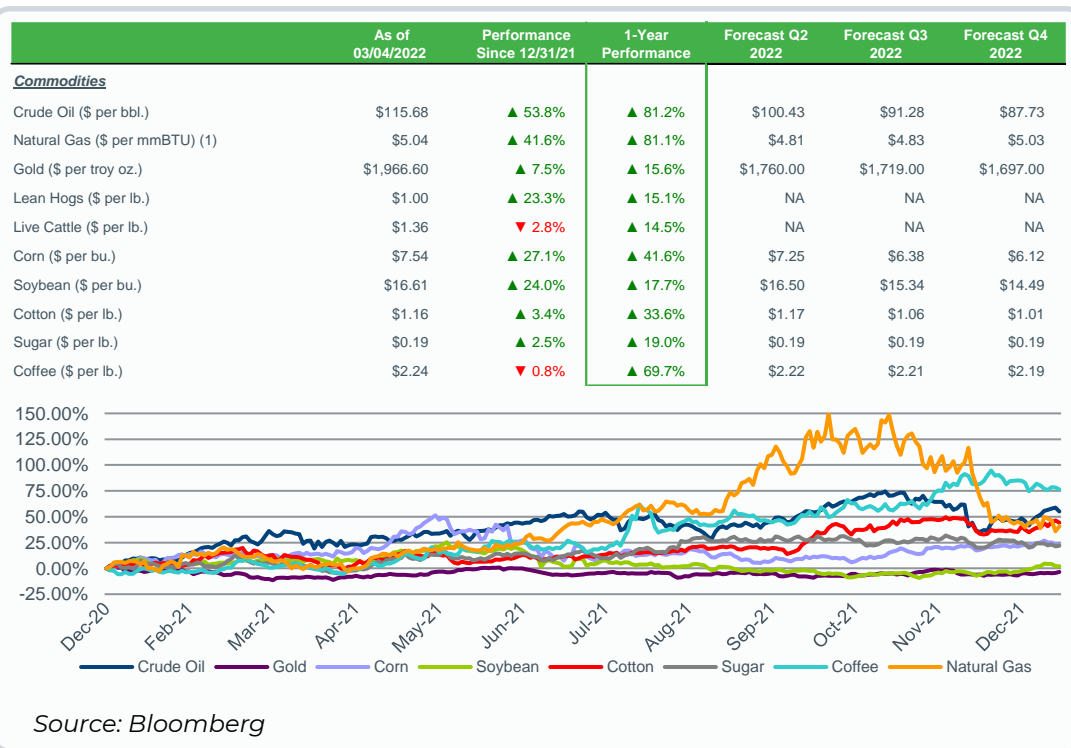
### 2 Oil and Natural Gas biggest risers

Russia-Ukraine crisis impacting global energy prices substantially

**Beware further escalation in energy sanctions on Russia and supply constrictions in response**

### 3 Forecasts expect a leveling off

Collection of forecasts show commodity prices receding back toward long-term equilibrium in the second half of 2022





# Foreign Exchange | Where is the money flowing?

## INSIGHTS

### 1 Euro getting hit hard; USD remains attractive in times of uncertainty

Reliance on Russian gas makes Euro vulnerable to surging energy prices

2022 YTD

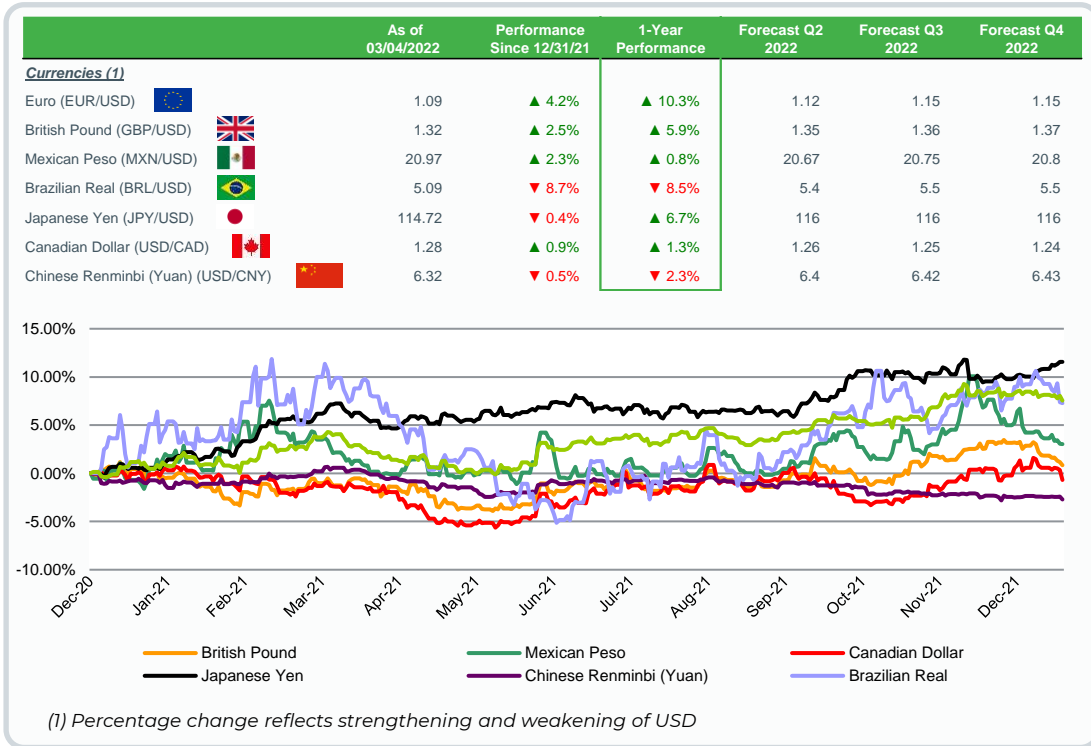
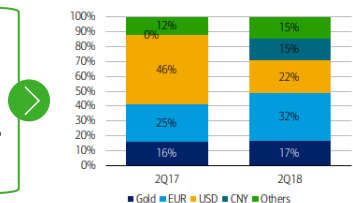


### 2 Ruble taking a hit

Russian ruble down 5.8% last week, worst decline since 1998

#### Russian Central Bank Portfolio

Russia has been reducing exposure to USD for years



# Global Exchanges | Where are markets headed?

## INSIGHTS

### 1 Despite turbulent start to 2022, 1-year performance strong across markets

*VIX volatility index over 30 and traders betting on reaching 40 this year*

### 2 Keep an eye on bankruptcies

*Rising yields – especially in BB, B, B-Bonds – present heightened credit and default risk*

*Expect greater risk in industries impacted by energy prices*



Airlines



Mining



Agribusiness



Energy-intensive  
manufacturers



Iron & Steel

Source: Capital IQ

## GLOBAL EQUITY MARKETS YTD / MULTIYEAR

Indices	As of 03/04/2022	Performance			
		Since 12/31/21	1-Year Performance	3-Year Performance	5-Year Performance
S&P 500	4,328.87	▼ 9.2%	▲ 14.9%	▲ 55.0%	▲ 81.6%
Dow Jones Industrial Average	33,614.80	▼ 7.5%	▲ 8.7%	▲ 30.2%	▲ 60.0%
NASDAQ Composite Index	13,313.44	▼ 14.9%	▲ 4.6%	▲ 75.7%	▲ 126.8%
FTSE 100 Index	6,987.14	▼ 5.4%	▲ 5.1%	▼ 2.1%	▼ 5.2%
S&P/TSX Composite Index	21,402.43	▲ 0.8%	▲ 18.1%	▲ 33.4%	▲ 37.1%
Hang Seng Index	21,905.29	▼ 6.4%	▼ 25.1%	▼ 24.4%	▼ 7.0%
Germany DAX Index	13,094.54	▼ 17.6%	▼ 6.8%	▲ 13.0%	▲ 8.9%
Paris CAC 40 Index	6,061.66	▼ 15.3%	▲ 4.0%	▲ 14.7%	▲ 21.4%
Singapore FTSE Straits Times Index	3,226.78	▲ 3.3%	▲ 7.0%	▼ 0.7%	▲ 3.3%
Brazil Bovespa Index	114,473.78	▲ 9.2%	▲ 1.6%	▲ 21.0%	▲ 71.4%
Madrid Ibex 35 Index	7,720.90	▼ 11.4%	▼ 7.6%	▼ 16.6%	▼ 21.2%
Volatility Index "VIX"	31.98	▲ 85.7%	▲ 11.9%	▲ 118.6%	▲ 191.8%

## KEY INTEREST RATES / BOND SPREADS

	Current						1-Yr Change					
	3-Month	1-Year	3-Year	5-Year	10-Year	20-Year	3-Month	1-Year	3-Year	5-Year	10-Year	20-Year
U.S. Treasury Rate	0.48%	1.05%	1.65%	1.67%	1.74%	2.23%	▲ 0.39%	▲ 0.94%	▲ 1.34%	▲ 0.89%	▲ 0.20%	▲ 0.11%
20 Year Average	0.53%	0.68%	1.06%	1.46%	2.12%	2.61%						
<b>Spread Over Treasury:</b>												
A Rated Bonds	0.58%	0.32%	0.48%	0.72%	1.18%	1.33%	▲ 0.47%	▲ 0.17%	▲ 0.20%	▲ 0.33%	▲ 0.43%	▲ 0.27%
BBB Rated Bonds	0.69%	0.62%	0.82%	1.11%	1.63%	1.78%	▲ 0.37%	▲ 0.23%	▲ 0.28%	▲ 0.44%	▲ 0.51%	▲ 0.28%
BB Rated Bonds	2.36%	2.11%	2.34%	2.89%	3.46%	3.45%	▲ 1.42%	▲ 0.69%	▲ 0.32%	▲ 0.54%	▲ 0.67%	▲ 0.18%
B Rated Bonds	3.05%	2.92%	3.40%	3.99%	4.60%	4.87%	▲ 1.53%	▲ 0.86%	▲ 0.26%	▲ 0.47%	▲ 0.83%	▲ 0.63%
B- Rated Bonds	3.53%	3.37%	4.19%	4.79%	5.31%	5.41%	▲ 2.03%	▲ 1.27%	▲ 0.72%	▲ 0.86%	▲ 1.19%	▲ 0.49%





# Cryptocurrencies | When in doubt... Bitcoin?

## INSIGHTS

### 1 Cryptocurrencies maintain a high correlation with risk assets

*Huge move into cryptocurrencies in Ukraine, highlighting concerns about physical access to funds*

### 2 Keep on eye on the regulators

*The White House expected to sign an executive order digging into the legal and economic impacts of crypto*

*Added oversight of the cryptocurrency market would be designed to deal with growing threat of ransomware and other cyber crime*

## KEY CRYPTO STATS

17.4  
million

Number of Russians who own cryptocurrency. Value of Russian crypto is ~\$214B, accounting for ~12% of the total Digital Asset market value

#18

Russia is ranked #18 for crypto adoption (Chainalysis, 2021 Global Crypto Adoption Index)

5.6  
million

Number of Ukrainians (~13% of the population) who own cryptocurrencies

#4

Ukraine is ranked #4 for crypto adoption (Chainalysis, 2021 Global Crypto Adoption Index)

\$150m  
/ day

Volume of crypto transactions processed per day in Ukraine, now higher than the volume of interbank exchanges in its domestic currency





# Capital Markets | What Kroll is seeing in the market



● **Market Multiples** are gradually coming down, and we expect to see continued dealmaking momentum in 2022, but below 2021 record levels



● **Credit Markets** maintain high levels of fundraising and relatively low default levels, but we do expect an increase in restructurings and distressed refinancing activity



● **Special Purpose Acquisition Companies** will continue to target de-mergers on Singapore and other non-US exchanges



● **Related-party** activities are exploding in the form of Continuation Funds and Secondary investments. Expect continued growth at all levels of the market



● **Going-Private Transaction** trend will continue and grow in China and other markets as global companies look to de-risk and de-list from potentially volatile exchanges



# Market Valuation | P/E and EBITDA multiples

## INSIGHTS

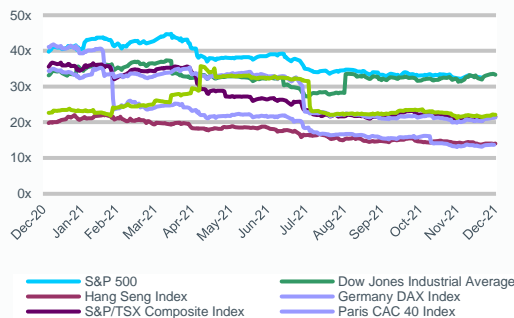
### “ What we’ve been hearing

*The market is so overvalued, and multiples are higher than they’ve ever been*

### ✓ Fact Check

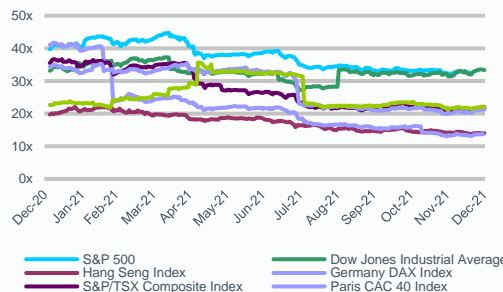
*Multiples have come down consistently around the world, and a friendlier buyer’s market could help maintain deal momentum in 2022*

### P/E MULTIPLES ON GLOBAL EXCHANGES



Index	3/4/2022	1 Year Change	FYE 2021	FYE 2020	FYE 2019
S&P 500	22.2x	▼ 8.5x	26.2x	30.7x	23.2x
Dow Jones Industrial Average	17.8x	▼ 7.7x	20.3x	25.2x	22.1x
NASDAQ Composite Index	71.7x	▼ 20.2x	130.2x	59.0x	40.6x
FTSE 100 Index	14.3x	▼ 73.6x	17.7x	85.1x	21.5x
S&P/TSX Composite Index	18.2x	▼ 8.6x	19.2x	27.0x	17.1x
Hang Seng Index	8.5x	▼ 6.5x	9.3x	14.1x	11.5x
Germany DAX Index	11.7x	▼ 32.2x	15.3x	67.6x	25.3x
Paris CAC 40 Index	15.6x	▼ 39.5x	21.7x	51.9x	22.6x
Singapore FTSE Straits Times Index	14.1x	▼ 25.9x	19.7x	37.7x	12.5x
Brazil Bovespa Index	7.0x	▼ 21.8x	6.8x	112.4x	18.6x

### EBITDA MULTIPLES ON GLOBAL EXCHANGES



Index	3/4/2022	1 Year Change	FYE 2021	FYE 2020	FYE 2019
S&P 500	14.8x	▼ 15.9x	26.2x	30.7x	23.2x
Dow Jones Industrial Average	13.1x	▼ 12.4x	20.3x	25.2x	22.1x
NASDAQ Composite Index	25.0x	▼ 66.9x	130.2x	59.0x	40.6x
FTSE 100 Index	8.5x	▼ 79.4x	17.7x	85.1x	21.5x
S&P/TSX Composite Index	11.9x	▼ 14.9x	19.2x	27.0x	17.1x
Hang Seng Index	10.5x	▼ 4.6x	9.3x	14.1x	11.5x
Germany DAX Index	7.8x	▼ 36.1x	15.3x	67.6x	25.3x
Paris CAC 40 Index	9.8x	▼ 45.3x	21.7x	51.9x	22.6x
Singapore FTSE Straits Times Index	20.5x	▼ 19.4x	19.7x	37.7x	12.5x
Brazil Bovespa Index	4.8x	▼ 24.0x	6.8x	112.4x	18.6x

# Credit Markets | What's driving the Middle Market?

## M & A DRIVERS

**Bullish market conditions as a result of pent-up M&A demand**

## IMPACT

*Expect trend to be flat to down in 2022*



**Strong supply of credit and debt fund dry powder**

*High fundraising in 2021 portends more activity in the year to come*



**Geopolitical pressure, high leverage likely to increase restructuring, distressed refinancing activities**

*Expect more special situations and competition for top assets*



## M & A DRIVERS

**Leveraged loan market seeing dampened activity, especially compared to frenetic pace of in 2021**

*Only one deal launched last week with three pulled from the market*



**Pricing has widened across the board. In the middle-market, we have seen ~50 bps widening on average**

*Hoping to entice investors to participate in deals in uncertain market*

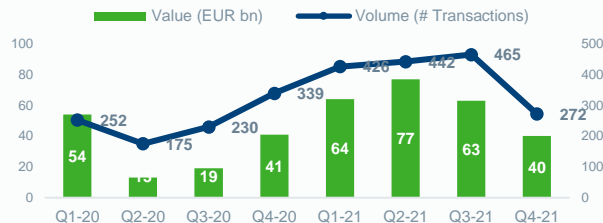


**M&A financings in middle market will continue to print at historically high leverage multiples given abundant cash on the sidelines**

*Opportunistic activity is expected to remain low until the crisis abates*

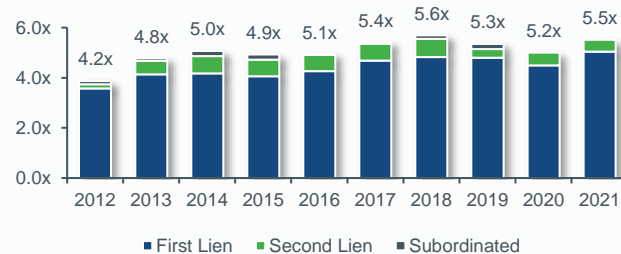


## M & A VALUE AND VOLUME (EUROPEAN TRANSACTIONS)



Source: Acuris Western Europe 2021 Review – Buyouts Market Overview

## MIDDLE-MARKET DEBT MULTIPLES (US TRANSACTIONS)



Source: LCD and SPP Middle Market

# SPACs | Will SPAC activity continue worldwide?

## INSIGHTS

### 1 Special Purpose Acquisition Company (“SPAC”) market experienced continued momentum in 2021

- Record number of IPOs during the year and an additional 272 SPACs currently filed to IPO in 2022
- Average IPO proceeds declined from \$336.5M in 2020 to \$266.0M in 2021

### 2 Expect the trend to continue in 2022

- With under 200 de-SPAC transactions completed in 2021 and another 267 announced, the SPAC market is primed to continue its upward trajectory in 2022
- Additionally, SPACs actively searching for targets represent over \$156B of IPO proceeds available for potential de-SPAC transactions

## 2021 SPAC ACTIVITY



IPOs, totaling over \$163 billion in gross proceeds



de-SPAC transactions announced, totaling over \$598 billion of total enterprise value

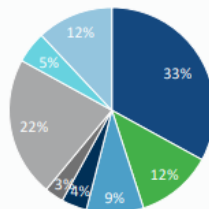


Over \$464 billion of total enterprise value in 199 completed de-SPAC transactions

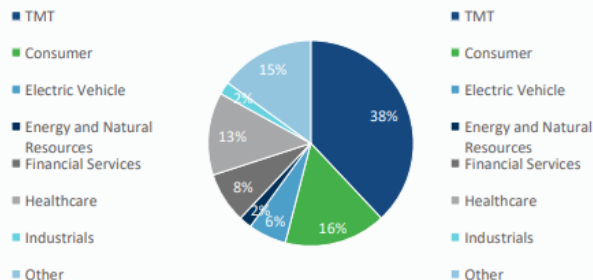


SPACs active and seeking targets as of December 31, 2021

### Completed Transactions



### Pending Transactions



Source: Kroll Corporate Finance



# Related-party | Continuation Funds / Secondaries

## INSIGHTS

### “ What we’ve been hearing

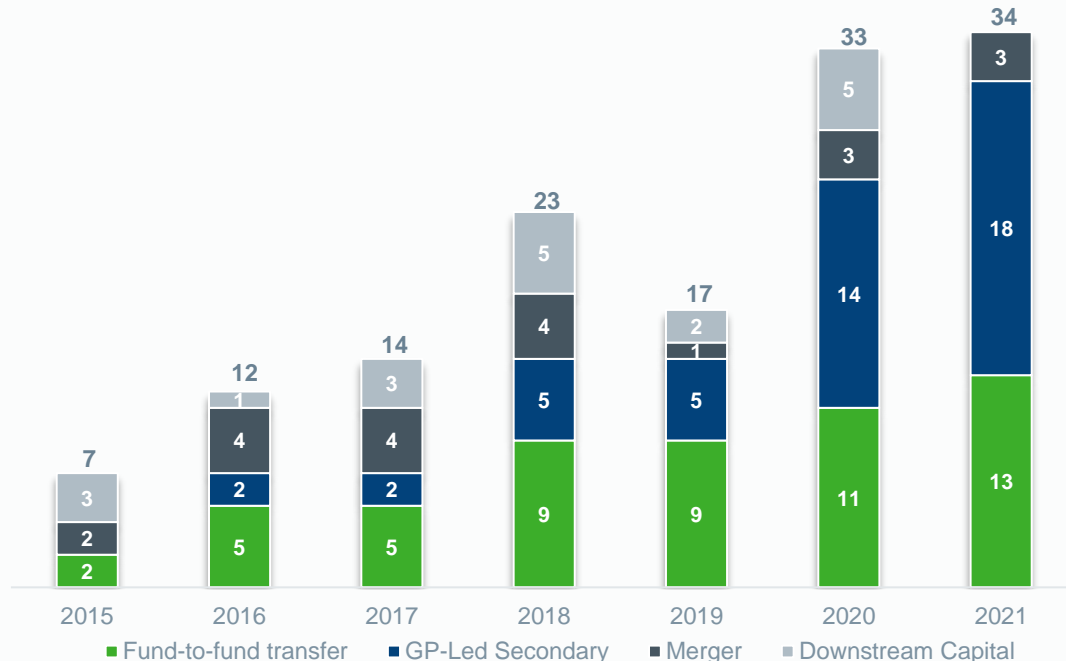
*Sponsors continue to pursue creative paths to provide liquidity and unlock additional value creation*

### ✓ Get with the trends

*Related party transaction activity has been surging since the second half of 2020, driven in part by GP-led secondary transactions*

*Expect this trend to be a serious market driver for years to come*

RELATED PARTY TRANSACTIONS ENGAGEMENT ACTIVITY (2015 - AUGUST 2021)



Source: Kroll proprietary database; includes data points from 2015 through August 2021

# China | Expect more Going-Private Transactions

## INSIGHTS

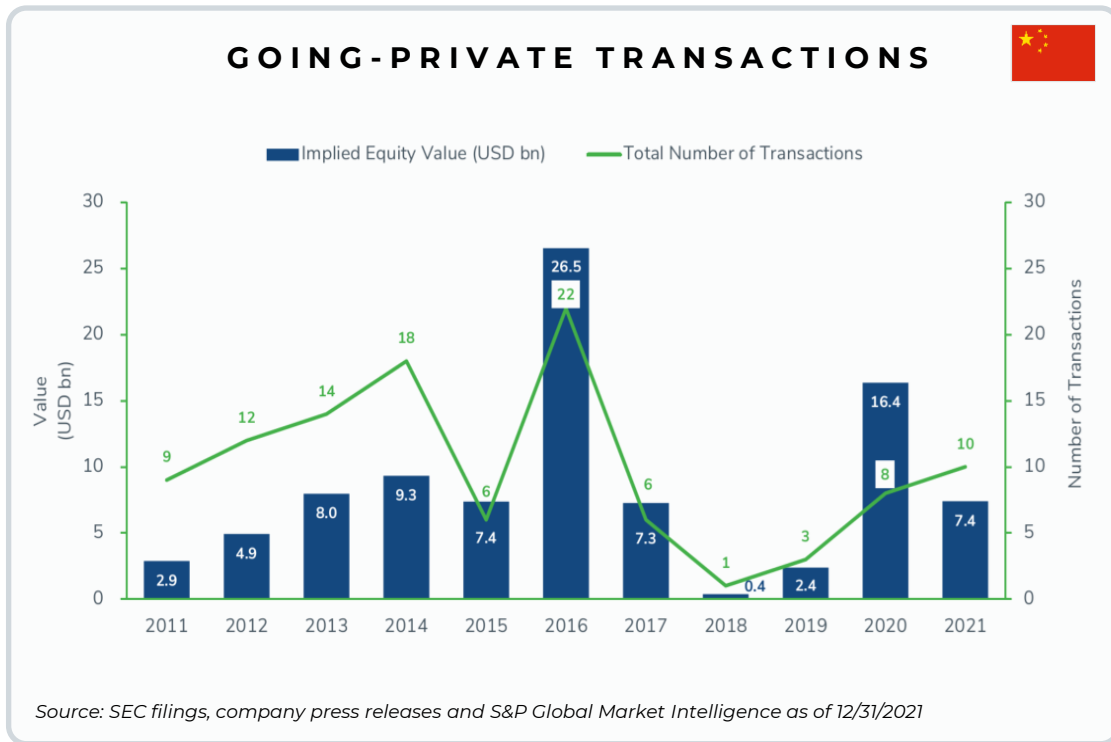
### ✓ Companies limiting exposure to Chinese public markets

Recent uptick in going-private transaction activity for U.S.-listed companies in China

Expect trend to increase given geopolitical tension

### ✓ Backlog of go-private transaction remains strong

Nine potential transactions have been announced but yet to be closed represented USD 8.6 billion in market capitalization





# Closing Thoughts | Impact of the conflict in Ukraine

“ ***When goods don't cross borders, soldiers do.***

- Frederic Bastiat

? **Key questions:**

- *Is the opposite true too?*
- *Are we headed for stagflation?*
- *Will this conflict see quick resolution?*

## WHAT WE'RE MONITORING AT KROLL



- 1 ***Keep your eyes on Commodity Prices***
- 2 ***Look for slower tightening of monetary policy***
- 3 ***Expect tailwinds in select industries such as Aerospace & Defense, Cybersecurity, and Clean Energy, but headwinds in industries impacted by energy prices***
- 4 ***Ripple effects in China / Taiwan. Rise in conflict would have huge impact on global semiconductor industry***
- 5 ***Middle Market could see advantage as Small Caps outperform Large Caps with Global-to-Local trend***



# Thank you!

Reach out to Kroll with any follow up questions or to support future capital markets advisory needs