



Managing through challenging times: The Future of Tax and Legal

Business reorganization in the post Covid-19 world

Keeping Connected Global Tax & Legal & Mobility Virtual Meeting Series — Part 6

—

April 2020

Topics for discussion



- 1 **Introductory Market Insights**
- 2 **Business and Corporate Reorganization**
- 3 **Debt Structures and Funding**
- 4 **Avoiding Trouble**
- 5 **Q&A**

Administration

Polling questions

- Polling questions will appear as we proceed through the presentation.
- As mentioned, in order to receive the certificate of attendance, we require participants to take part in at least five of the seven polling questions.
- If you qualify for the certificate of attendance, it will be sent to you following the webcast.

Attendee questions

- You may submit questions in the *Ask a question* button on the left. We will answer as many questions as we can during Q&A. If we are unable to answer your question during the webcast, someone from KPMG may reply via phone or email following the webcast.
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- When the webcast is over, the webcast player will automatically refresh to display an exit survey. Feel free to complete the survey, as your comments are very valuable to us.

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Introductory Market Insights



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Eye of the storm: What we are seeing in the market right now

Very active M&A market

52% growth of global annual M&A volume since 2010 to \$tn 4.1

Sector disruption & convergence

2x increase «corporate VC investment» ratio between 2013-2019

Record amounts of PE dry-powder

Increase from \$tn 1.2 to 2.5 since 2010, historically unprecedented

High transactions multiples

Increase from 8.5x to 11.5x since 2010 to just below 2007 level

Low interest rates

Decline of interest rates from 3% to 1.5% for 10y bonds since 2010

Since COVID-19:

Some sectors are hit significantly harder than others

Strong growth of corporate insolvencies predicted for 2020

Global M&A market crashes in Q1

Capital markets are defined by uncertainty, but not hopeless

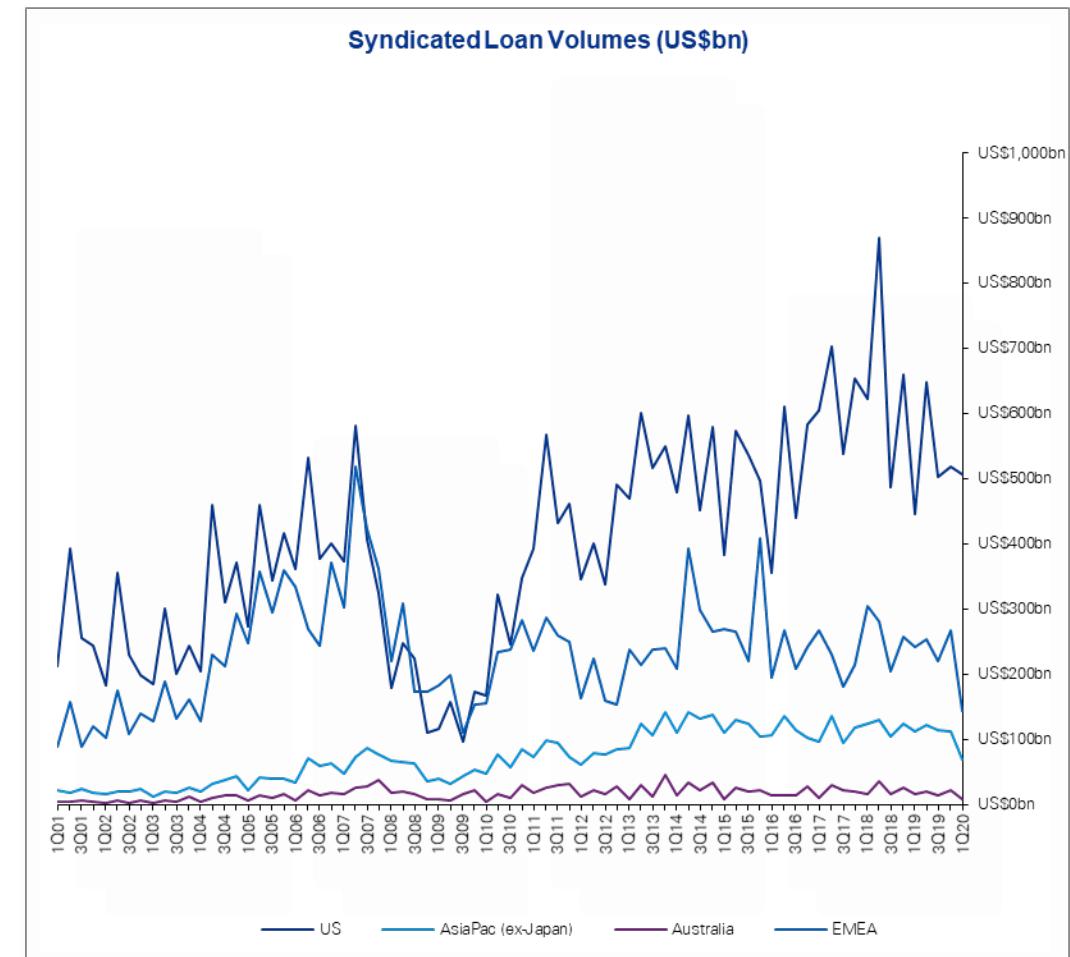
IPO window is closed

Eye of the storm: How is tax and regulatory impacting the M&A

Tax is playing an important role in support measures	Support does not come free	Governments will introduce/raise taxes to fund the support measures	Regulatory changes
			
<ul style="list-style-type: none">— Governments providing support to businesses in many countries— Tax plays an important role in supporting liquidity— Deferral for tax payments, carry back of losses, amortization and write-downs— Asset managers increasingly involved in portfolio companies	<ul style="list-style-type: none">— Governments are imposing requirements on ability to use support measures— Requirements regarding bonuses, dividends and paying fair share of tax including use of tax haven companies— Particularly relevant for private equity	<ul style="list-style-type: none">— During Global Financial Crisis taxation levels were increased and/or new taxes introduced for funding support measures— Government deficits already double/triple deficit levels during GFC, so government will aggressively look for funding— Increased taxation will impact transactions/valuations	<ul style="list-style-type: none">— Despite government support, many companies may move into a distressed financial situation— Governments announcing measures that require foreign investors (in key sectors) to request for regulatory approval— Impact on transactions/valuations

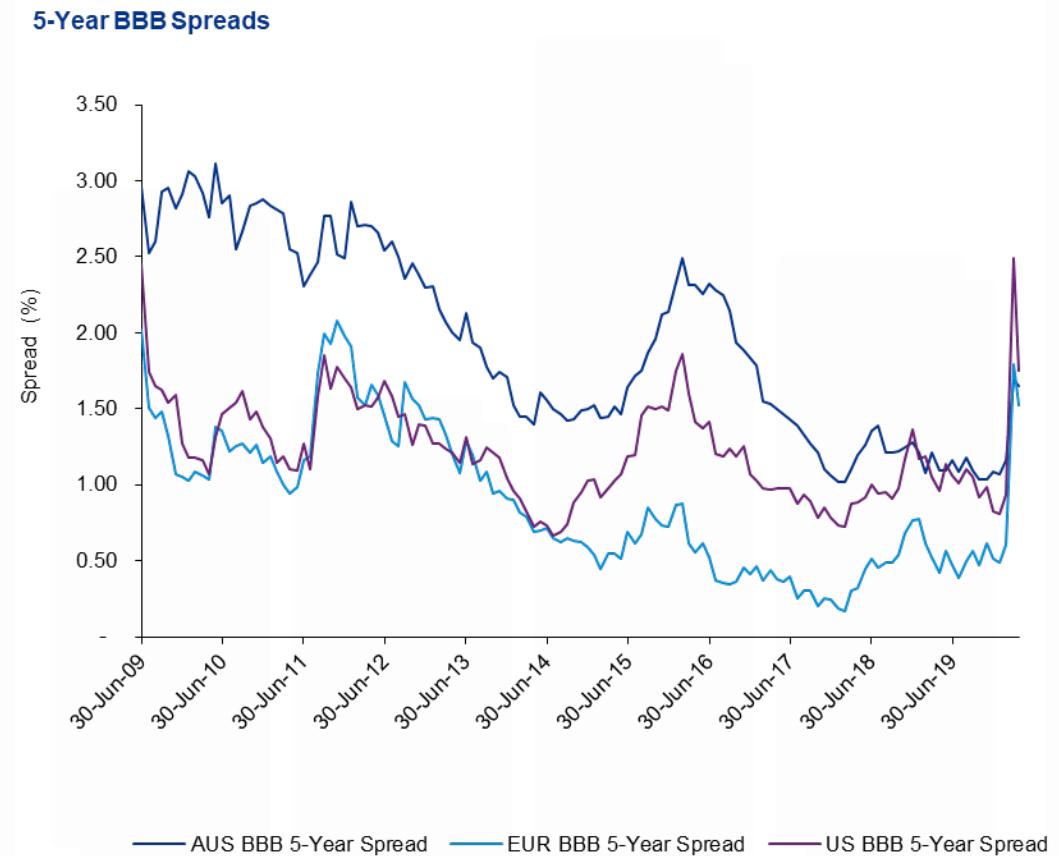
Traditional debt markets sold off but liquidity prevails

- Syndicated Loan Volumes have experienced a decline in major markets in Q1 2020
- Traditional markets sold off, but not to GFC levels
- US market volumes more resilient potentially given depth of the market and scale
- EMEA sold off to near Q1 2010 levels
- APAC (ex Japan) sold off to Q1 2012
- Australia down to Q1 2015
- Alternative credit markets have grown significantly since 2008 to partially fill the gap left from the GFC
- Alternative investors intention is to supplement traditional lenders with more appetite for risk for higher return
- Credit metrics still need to hold up



Debt market pricing factoring in liquidity and risk premium

- BBB rated credits spiked in early March as borrowers are concerned about own cost of funds and potential financial impact on borrowers
- Peak in late March with spreads reaching as high as 250bps (US) and then rebounding with a sell off of up to 75bps as government stimulus kicks in
- Mid-market borrowers also experiencing similar trends
- Businesses available to demonstrate maintenance of credit profile can preserve pre COVID pricing





Business and Corporate Reorganization



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Business and Corporate Reorganization Restructuring

M&A Market Outlook and Recovery

Role and Impact of Private Equity

Sector Convergence and Digitization



Debt Structures and Funding



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Debt Structures and Funding

Debt Market Outlook

**Impact of Liquidity and Deal
Execution**

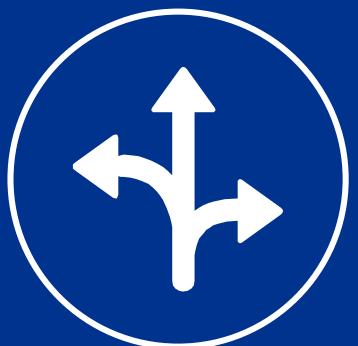
**Considerations for Debt
Restructuring**



Avoiding Trouble: Governance and Legal Risk Management



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Corporate Governance

Fulsome corporate governance is imperative in times of Covid-19

- Reporting and red flag analysis
- What if/Scenario planning
- Required approvals and timing

Mitigating Litigation Risk

- Stakeholder considerations
- Look backs and increased scrutiny
- Director personal liability

Operations: Legal Considerations

Evaluating government programs

- Future liability
- Breach of covenants-government funding is not an exception
- Approvals

Emerging from lock-down

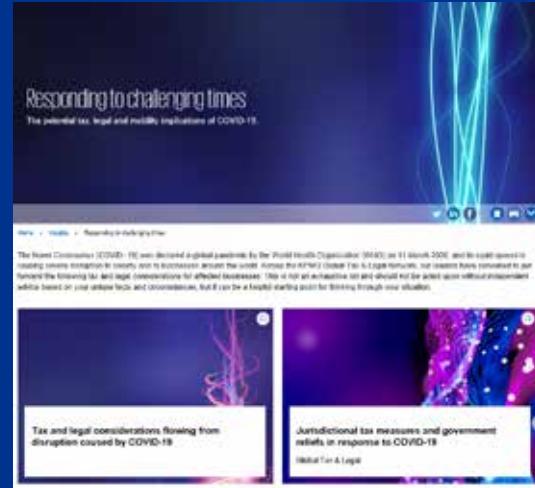
- Health and safety
- Business continuity
- Foreign investment



Questions?



Resources



Responding to challenging times

KPMG site dedicated to business implications of COVID-19 on a global scale — tax, legal and mobility focus

<https://home.kpmg/xx/en/home/insights/2020/03/responding-in-a-crisis.html>



Tax News Flash — COVID-19

KPMG's ongoing roundup of COVID-19 measures taken around the world in response to the situation

<https://home.kpmg/us/en/home/insights/2020/04/taxnewsflash-coronavirus-covid-19-developments.html>



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