Federal Budget

NAVIGATING THE NEW NORMAL

2020

Growing out of the recession: Where are investors placing their bets?

Expert panel

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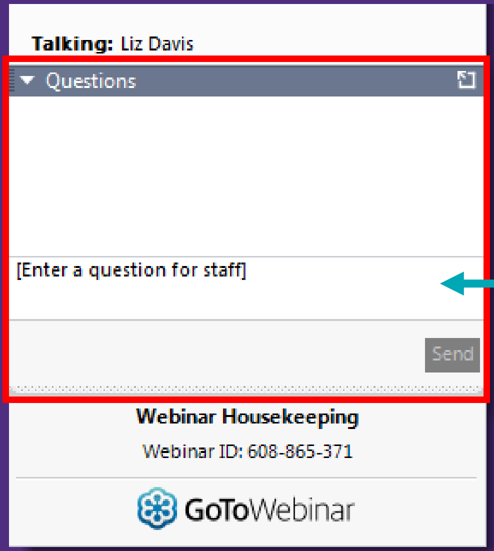
Housekeeping

This is an interactive session so we encourage your participation

This session is being recorded and will be shared with all registrants and on our GTAL website and socials.

How to ask questions?



Submit your questions via the Questions panel

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ASX activity

Introduction

2020 Market Summary

- 2020 has been truly unique, and continues to surprise - the pandemic, international borders closures, halting of the world economy, a sharp global equity sell-off on the back of COVID-19 fears followed by a quick "risk-on" recovery, leading to recent record highs for US equities
- Most global share markets finished Q3-20 markedly higher on the hopes of a viable vaccine, better-than-expected economic data from major economies, and a strong outperformance by technology stocks
- Market volatility is expected to persist for the remainder of the year until a viable vaccine is found, geo-political tensions with China ease and a new US president is elected

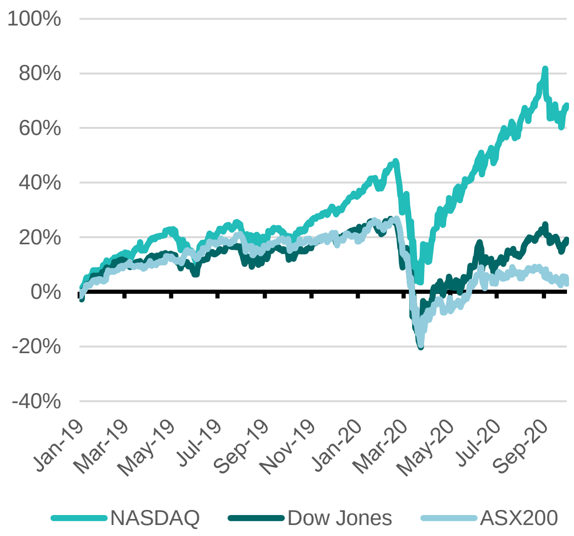
ECM Activity Response to the Pandemic

- Initially investors were repositioning their portfolios to support high quality businesses through the short term disruption caused by the coronavirus
- As market volatility has reduced and equities have recovered; a number of issuers have sought to take advantage of more accommodating market conditions to raise equity
- ASX issuers have raised capital since 25-Mar falling into three broad categories:
  - **Liquidity / solvency raisings** (i.e. Flight Centre, Webjet, oOh!Media, Auckland Airport, Southern Cross Media, Kathmandu, Dacian Gold, G8 Education)
  - **Prudent balance sheet raisings to position for recovery** (i.e. IDP Education, Cochlear, Oil Search, Reece, SCA Property, Centuria Industrial REIT, QBE, Invocare)
  - **Raising to pursue identified growth opportunities** (i.e. NEXTDC – raising capitalised on a 12 month high, Lynas)

Market Update & Key Themes

Although global equity markets have recovered strongly from earlier in the year, volatility is likely to persist until a viable vaccine is found, geo-political tensions with China ease and a new US president is elected

ASX[1] vs US Indices[2] (Performance, since 1-Jan-19)



- The ASX and Dow Jones have broadly tracked each other in the recovery, following the sharp equities sell-off in March / April
- The NASDAQ, carried by the tech heavy-weights who have ultimately been net beneficiaries of the pandemic, is up ~70% from the start of last year

Key Market Themes in Australia

- **Stimulus Unwind:** The Federal Government has delivered billions in financial stimulus like Job Keeper / Job Seeker (estimated ~$10bn per month), and there are some concerns about how the economy responds to the roll-off in Mar-21
- **Low Interest Rates:** In its Sep-20 meeting the RBA kept the cash rate steady at an historic low of 0.25% while continuing more bond purchases to support credit growth
  - Globally low interest rates (and the abundance of liquidity in the market) has potentially created asset price bubbles (i.e. equities)
  - Interest rates are unlikely to be increased for some time; e.g. the Federal Reserve recently pledged it would keep interest rates near zero until 2023 to continue to support economic recovery
- **China:** Australia's once amicable relationship with China continues to show signs of strain (i.e. the arrest of Chang Lei, Huawei, China's anti-dumping probe into Australia's wine export industry, beef & barley trade restrictions etc)
  - Australia's reliance on China as an export partner (i.e. iron ore, coal, tourism, education) remains an important determinant of market recovery
- **Iron Ore:** The price of iron ore has continued to soar through the pandemic (now ~US$120/t), on the back of rising steel demand from China and supply constraints due to lower exports from Brazil
- **Budget 2020: How will the Government look to manage the economy through the unwinding of the Covid-19 stimulus?**

(1) IRESS as at 1-Oct-20
(2) Bloomberg as at 1-Oct-20
(3) https://www.abc.net.au/news/2020-09-30/iron-ore-prices-set-to-steel-budget-against-bigger-deficit/12714134

Energy

The combination of the March 2020 Russia–Saudi Arabia oil price war and the demand destruction due to COVID-19 lockdowns has causing a material price decline in the oil & gas and coal markets

Commentary (Oil)

- On 8 March 2020, Saudi Arabia initiated a price war with Russia, facilitating a 65% quarterly fall in the price of oil.
- The price war was triggered by a break-up in dialogue between the Organization of the Petroleum Exporting Countries (OPEC+) and Russia over proposed oil-production cuts in the midst of the COVID-19 pandemic
- As COVID-19 forced countries around the world into lockdown, demand for oil fell severely, causing a historic price collapse
- The situation became so dire that in April, crude oil futures turned negative for the first time on record after oil producers ran out of space to store the oversupply
  - The price of crude oil futures crashed from US$18/bbl to –US$38/bbl as rising stockpiles overwhelmed storage facilities and forced producers to pay buyers to take the barrels they could not store
- At the end of Q3-20, Brent steadied to ~US$40/bbl as a depreciating US dollar and improving global economic outlook played off against each other

Commentary (Coal)

- Similarly, COVID-19 lockdowns in Asia (namely, India and Japan) and other emerging markets has severely dented those nations' demand for coal, pushing prices downward as supply spiked
- Coal demand has been further suppressed by low oil and gas prices i.e. Asian power generators are burning gas rather than coal, further exacerbating surplus coal in the market

Brent Oil[1] (US$/bbl, YTD)

Gold Price

Global uncertainty in the wake of COVID-19 coupled with ultra-low interest rates globally has resulted in a strengthening gold price

Commentary

- Gold is up ~25% YTD in US dollar terms, and was over US$2,000/oz in August on fears of another market correction / rebound in inflation unleashed by trillions of dollars of monetary stimulus introduced by governments around the world in response to COVID-19
- A sharp rally in gold tends to be a sign of economic unease as investors seek refuge in “safe-haven” assets
- Gold also becomes more attractive when interest rates are low, because low rates reduce the appeal of rival investments such as bonds, and draws in investors who are anticipating inflation
  - i.e. rising consumer prices mean it would take more dollars to buy the same amount of gold

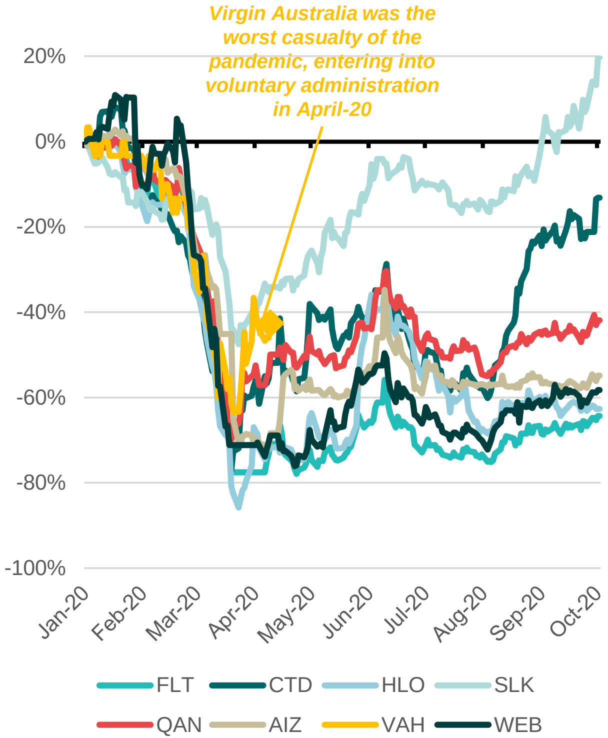
Gold Price[1] (US$/oz, YTD)

(1) IRESS as at 1-Oct-20

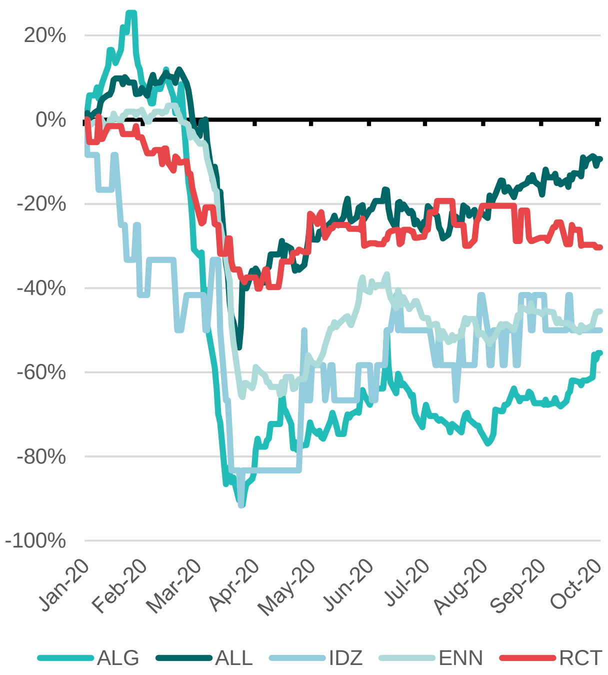
Travel & Tourism

Travel and tourism stocks were some of the hardest hit by COVID-19, with most analyst sharing the view it will take years before they will recover to pre-COVID levels

ASX-Listed Travel Stocks[1] (Performance, YTD)



ASX-Listed Tourism Stocks[1] (Performance, YTD)



(1) IRESS as at 1-Oct-20

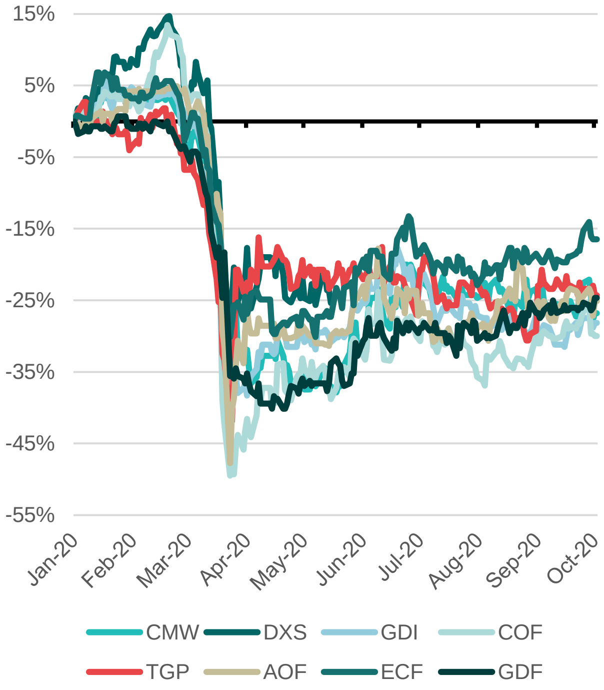
Property

Once thought of as a safe, stable investment proposition, property stocks have been especially impacted by the pandemic

Commentary

- Pre COVID-19, equities with commercial property exposure were regarded “safe” investments
  - i.e. offering reliable income streams and capital gains as population growth increased the value of scarce real estate
- COVID-19 has seen corporate office floors empty, shopping centers with significantly less foot-traffic and hotels with entire unused floors; this has had severe impacts on property stocks
  - Stocks shown on the chart to the right are down on average ~25% YTD
- Some analysts question the future of the high-rise corporate office all together, as workers adjusted to working from home for meaningful periods under lockdown

ASX-Listed Property Stocks[1] (Performance, YTD)



(1) IRESS as at 1-Oct-20

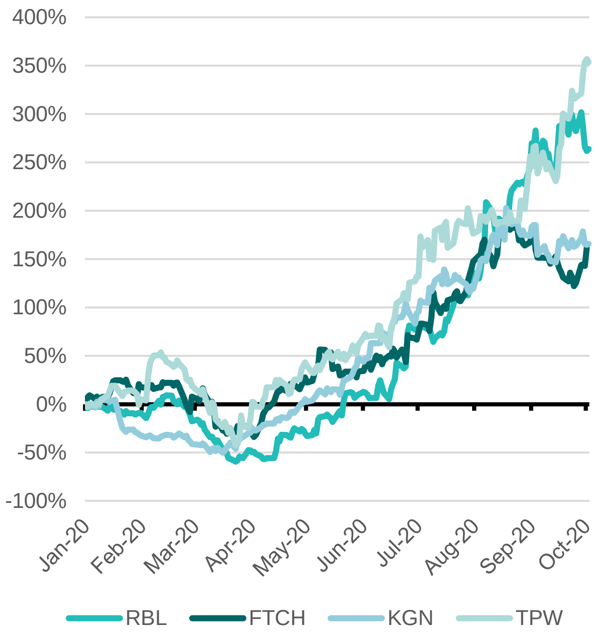
eCommerce

The growth of major eCommerce businesses globally were exponentially accelerated by COVID-19

Commentary

- The growth in global online shopping has been accelerated by COVID-19; a recent study across North America and Europe found that one-third of consumers now shop online weekly since the pandemic
- eCommerce businesses were considered one of the safest industries to be operating during the pandemic
- ASX-listed stocks Kogan (+166% YTD), Red Bubble (+264% YTD) and Temple & Webster (+354% YTD) materially benefited from the lockdown
- Nasdaq listed Farfetch (FTCH.NAS), a pure online luxury goods retailer is up 150% YTD
- Consumers who would usually spend their weekends shopping, found themselves at home, or shopping was limited by reduced operating hours; as a result, they turned online
- Equities markets continue to reward eCommerce businesses in the belief that, post-pandemic, those consumers who would have originally visited brick and mortar, would return to shop online because of the positive experience it yielded in lockdown
- In Australia there are multiple IPOs in the ecommerce space planned for H2 2020

eCommerce Stocks[1] (Performance, YTD)



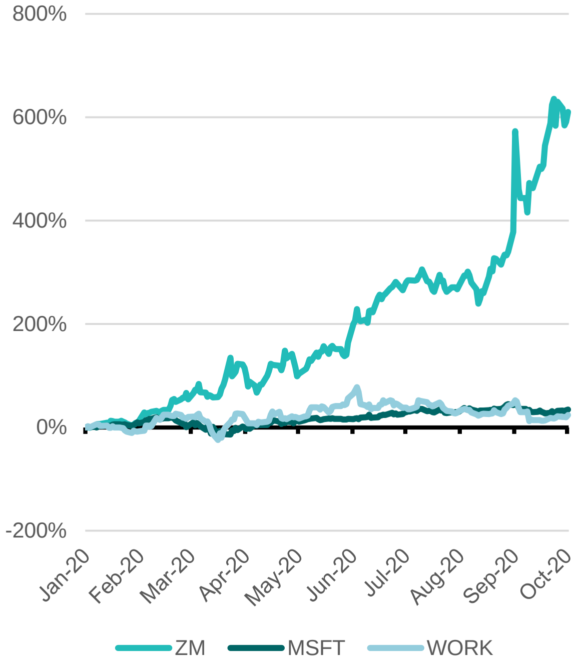
Zoom

As COVID-19 forced millions of workers home, they took to Zoom's video collaboration platform to stay connected in a virtual office

Zoom

- The COVID-19 pandemic has brought about the biggest work experiment in history, and remote working has become – through necessity – normalized for a wide range of professionals
- Zoom grew exponentially with the shift to working from home, adding millions of users to its video collaboration platform
  - Year to date, Zoom's share price is up ~610%
- Its growth attracted the attention of larger tech companies like Microsoft, aggressively promoting Teams as an alternative to Zoom
  - Zoom easily outpaced Microsoft's 35% gain this year, and remains a more appealing stock for growth-orientated investors

Zoom, Microsoft & Slack[1] (Performance, YTD)



(1) IRESS as at 1-Oct-20

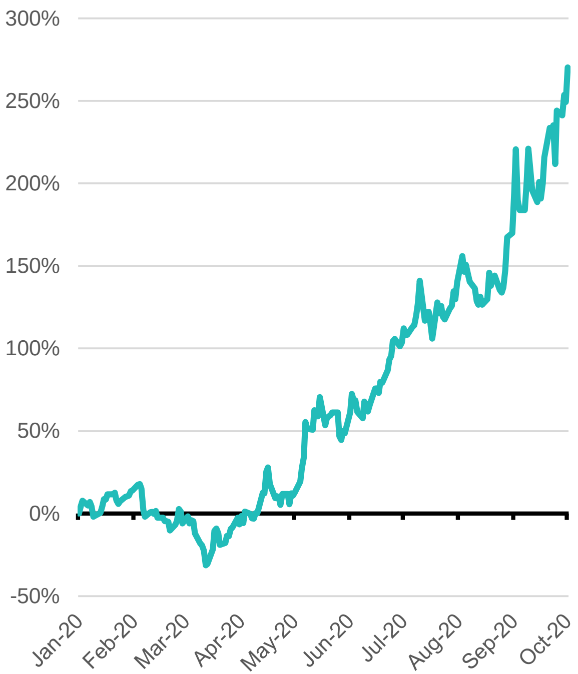
Peloton

Peloton is a US-based exercise equipment and media company which has been on a share-price tear (+~270%) since the pandemic hit

Peloton

- Covid-19 effectively closed the world's gyms down and people were forced to find alternative ways to exercise – from home bound yoga to stretch classes and the greatest beneficiary was Peloton (PTON.NAS)
- Peloton is a US-based exercise and media company which offers internet-connected exercise bikes, treadmills and subscriptions to training sessions
- Its recent full-year results saw a surge in sales as a result of increased interest in home workout equipment and remote exercise sessions
  - Since the start of the year, **its share price is up ~+270%**
- Peloton now has a market capitalization of ~US$25bn and continues to attract investor interest on the basis that in a post-pandemic world, consumers will have adopted to home vs gym workouts
- **Peloton is another example of COVID's transformative shift on peoples behavioral preferences which may endure beyond the pandemic**

Peloton[1] (Performance, YTD)



(1) IRESS as at 1-Oct-20

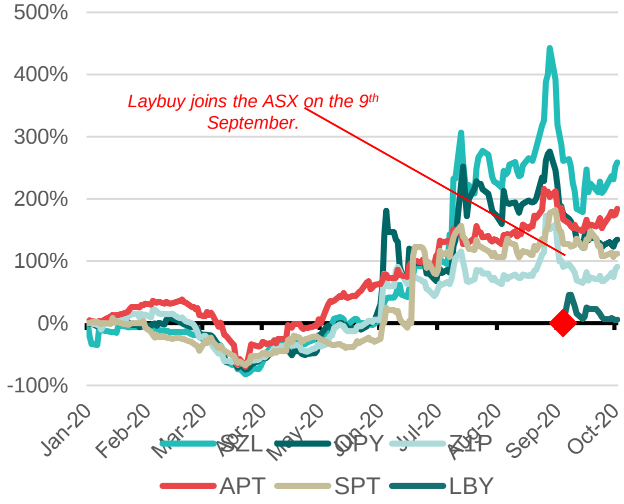
Buy Now Pay Later

The Buy Now Pay Later sector was initially sold off during March but rebounded to levels much higher than those seen pre-pandemic

Commentary

- Buy Now Pay Later (BNPL) is a form of Point-of-Sales financing
- It provides benefits to both the customer and the merchant: the customer receives the item immediately and is able to repay an amount over a period with zero interest; the merchant benefits from the BNPL's customers base, resulting in increased transaction value and revenue
- The industry has been growing rapidly due to the increasing demand for credit alternatives, the increasing number of consumers that use eCommerce and the frictionless on-boarding process
- The sector was initially sold off during March, however, the sector rebounded due to:
  - sharp increase in the number of customers who use eCommerce during lockdown;
  - government stimulus packages (i.e Jobkeeper), promoting consumer spending; and
  - company filings and announcements demonstrating less of an impact from COVID than what expectations were
- **The average return from the 21st February 2020 to the 30th of September 2020 was +121%.**

Buy Now Pay Later[1] (Performance, YTD)



	Market Cap (A$m)	1-Jan to 20-Feb	21-Feb to 30-Sep
Sezzle	724	-14%	278%
OpenPay	227	-2%	129%
ZIP	3,305	6%	69%
Afterpay	22,643	34%	105%
Splitit	465	-26%	184%
Laybuy	246	N/A	N/A

(1) IRESS as at 1-Oct-20

General Equity Market Update

Since the market lows in March, most indexes have made recoveries

- The ASX 200 reached an all time high on 20 February 2020 when it hit 7,162
- Most of the other main global indices also reached record highs at a similar time having come off a very successful year in 2019
- Covid-19 led to an enormous sell-off and most global indices decreased by approximately 38.5% in a 4 week period, hitting a bottom on 23 March 2020
- Since this low, all global indices have recovered relatively strongly
- As at 30 September 2020, the ASX 200 was down by 13.0% since the start of the calendar year
- Looking back further, since 1 January 2019, the ASX 200 and NASDAQ are up 3.0% and 68% respectively
- During this severe downturn in the share market, the VIX indicator of global volatility in the share market, increased to 82.7 which, when compared to January's average of 13.7, represented an increase of 500%

VIX vs ASX 200[1]

Global index performance[1]

	Last close	2019	YTD 2020	52 week trading Low	52 week trading High
ASX200	5,816	18.4%	(13.0%)	4,546	7,162
ASX Small Ords	2,727	17.9%	(5.9%)	1,826	3,086
NASDAQ	11,168	35.2%	24.5%	6,861	10,131
Dow Jones	27,782	22.3%	(2.7%)	18,592	29,551
Russell 2000	1,508	23.7%	(9.6%)	991	1,705
FTSE 250	17,315	25.0%	(20.9%)	12,830	22,108
DAX	12,761	25.5%	(3.7%)	8,442	13,789
Hang Seng	23,459	9.1%	(16.8%)	21,696	30,082
Nikkei	23,185	18.2%	(2.0%)	16,553	24,084

(1) Per Bloomberg as at 30 September 2020

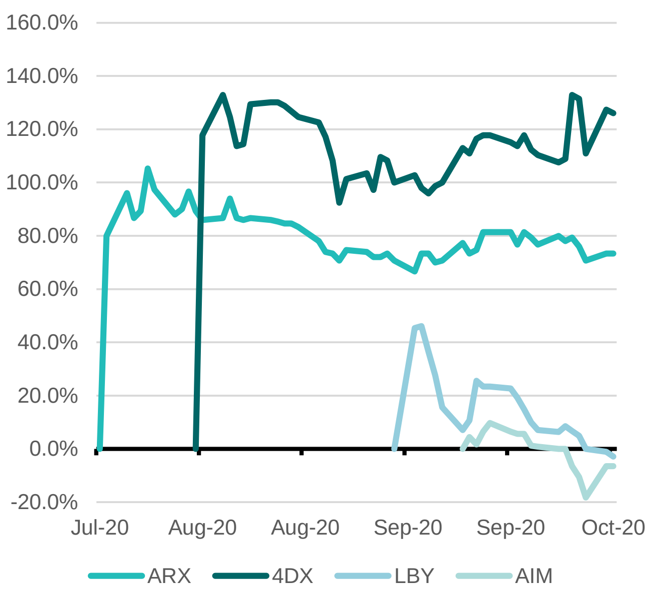
Recent Select Bell Potter-Led IPOs

Despite the market turmoil in March / April, IPO activity has recommenced in Q3-20. Below are some examples of recent IPOs led by Bell Potter

Commentary

- **Aroa Biosurgery (ARX):** Regenerative medicine company, develops and manufactures medical devices for wound and tissue repair in the United States and internationally
  - Sector: Bio-technology
  - Performance to date since listing: **+73.3%**
- **4D Medical (4DX):** Lung imaging platform that utilizes mathematic models and algorithms to convert X-ray scans into quantitative data to enhance the capacity of physicians to manage patients with respiratory diseases and diseases of the lung
  - Sector: Bio-technology
  - Performance to date since listing: **+126.0%**
- **Laybuy Group Holdings (LBY):** Buy-now-pay-later service provider to retail industry in Australia, NZ and the United Kingdom; founded in 2017 and headquartered in New Zealand
  - Sector: Fintech / BNPL
  - Performance to date since listing: **–2.8%**
- **AI Media (AIM):** Global access provider of live and recorded captioning, transcription, subtitles, translation and speech analytics using a proprietary, cloud-based technology platform powered by AI and machine learning
  - Sector: Technology / Media
  - Performance to date since listing: **–6.5%**

Recent IPOs (Performance, since listing)



Points for Discussion

Many variables to consider when looking at where to invest in a Covid-19 world

1. **Fear of unwinding government stimulus packages (i.e. Job Keeper / Job Seeker)**

2. **Current all-time low interest rates (globally) – interest rates unlikely to increase for years**
   - Asset bubbles – stock market, equities
   - Volatility

3. **Ecommerce – digital adaption has lept forward 5+ years…**

4. **Travel and tourism – what happens to the companies that rely on international travel?**
   - Will there ever be a vaccine? There wasn't for SARS or MERS…
   - Will business travel ever be the same now that video calling has become some effective?
   - 3–4 million Australian's travel (~$60bn spend) as domestic tourism flourishes

5. **Energy – Oil, Coal & Gas**
   - Demand destruction and time to rebuild?
   - ESG issues

6. **Elevated iron ore prices (~US$120/t) – higher for longer**

7. **Strained relationship with China and its impact on Australian exports (i.e. commodities, tourism, agriculture, education) and immigration**
   - New FIRB restrictions

Private equity landscape

Private Equity sector overview

M&A market

- Stalled for a period during COVID-19 pandemic .
- Sentiment has turned pretty quickly, with PE already seeking new opportunities following COVID-19 impact.

Existing portfolios

- “Triage” phase from Feb - April whereby PE firms cleaned up / shored up their BS and focused on their portfolios.

Capital available

- $13b dry powder currently available across PE and VC capital.
- Capital is waiting to be spent with firms currently successfully going through raising cycles.

Slow down in traditional sales process

- Although deals are still occurring, completions have been more challenging, resulting in slower sale processes.

$33b

Assets Under Management by PE & VC

$13b

Dry powder available in PE & VC

327k

FTE Jobs supported by PE industry FY16

12.3%

PE & VC index net annual return (10 yrs to 31 March 2020)

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Considering Private Equity

Private equity can provide the following (very helpful in current pandemic):

- Provision of capital
- Restructuring of debt
- Preservation of jobs
- Assist running the business

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Planning for exit

Three main drivers:

1. Maturity of a country's public markets;
2. Strategic buyers' appetite for mergers and acquisitions; and
3. Macroeconomic situation.

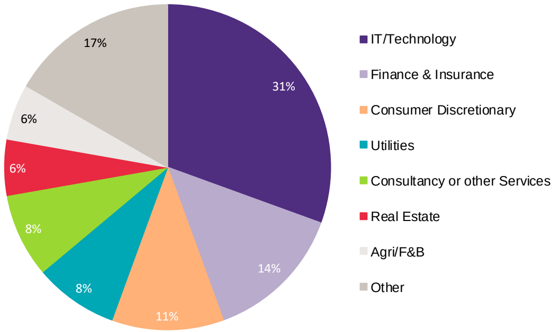
- Impact of pandemic on exit strategies. More viable exit strategies during pandemic.
- Bolt-on during COVID-19 and then exit post-COVID-19 could be beneficial option
- Proactive approaches - owners should be ready

How to maximise prospects of a successful PE transaction

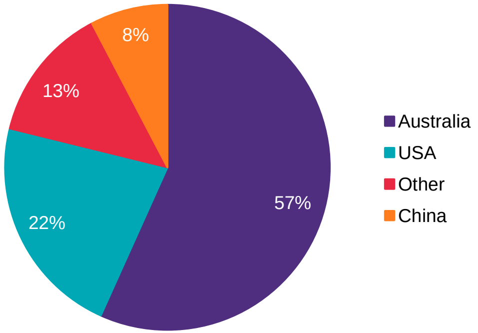
- Set realistic seller expectations
- Ensure sale process isn't dragged out
- Ensure business can thrive without owner(s) going forward
- Understand industry (specific to company) dynamics of acquisitions to aid negotiation

‘Hot sectors’
Domestic vs offshore PE investors

FY20 deals – Industry Sector



FY20 deals - Domestic vs Offshore Buyers



Key Highlights

- Activity currently continuing and thriving in areas perceived to be more durable and less affected by the pandemic.
- The following areas have been highlighted as particularly attractive by PE firms looking to capitalise on assets in the following areas. have been classified as “hot” for PE firms looking to capitalise:
  - IT/Technology (including FinTech, healthcare and education technology)
  - We note a number of IT roll-ups occurring
  - Agribusiness, Food & Beverage
  - Healthcare

Key Highlights

- Australian based PE firms have been the major buyers for PE transactions after in FY20 (c.57%), with the US and China also contributing to a number of deals.
- General M&A for off-shore investors during the pandemic has been typically challenging.

PE deal composition

Composition of PE entries vs. exits

Key Highlights

- C. 36 Private Equity deals reported to have been **completed** after March 31 2020 in Australia.
  - 26 (72%) were PE entries and 10 (28%) PE exits.
  - April and June saw the most activity in the period, with activity slowing down in the months proceeding.
- Only 4 minority stakes by PE firms took place during the period.

79%

Of PE respondents to a Mazars survey stated exit timing will be pushed back

72%

Reduction in exit transactions globally at end of May compared to January 2020

5-12

Months for average sale process

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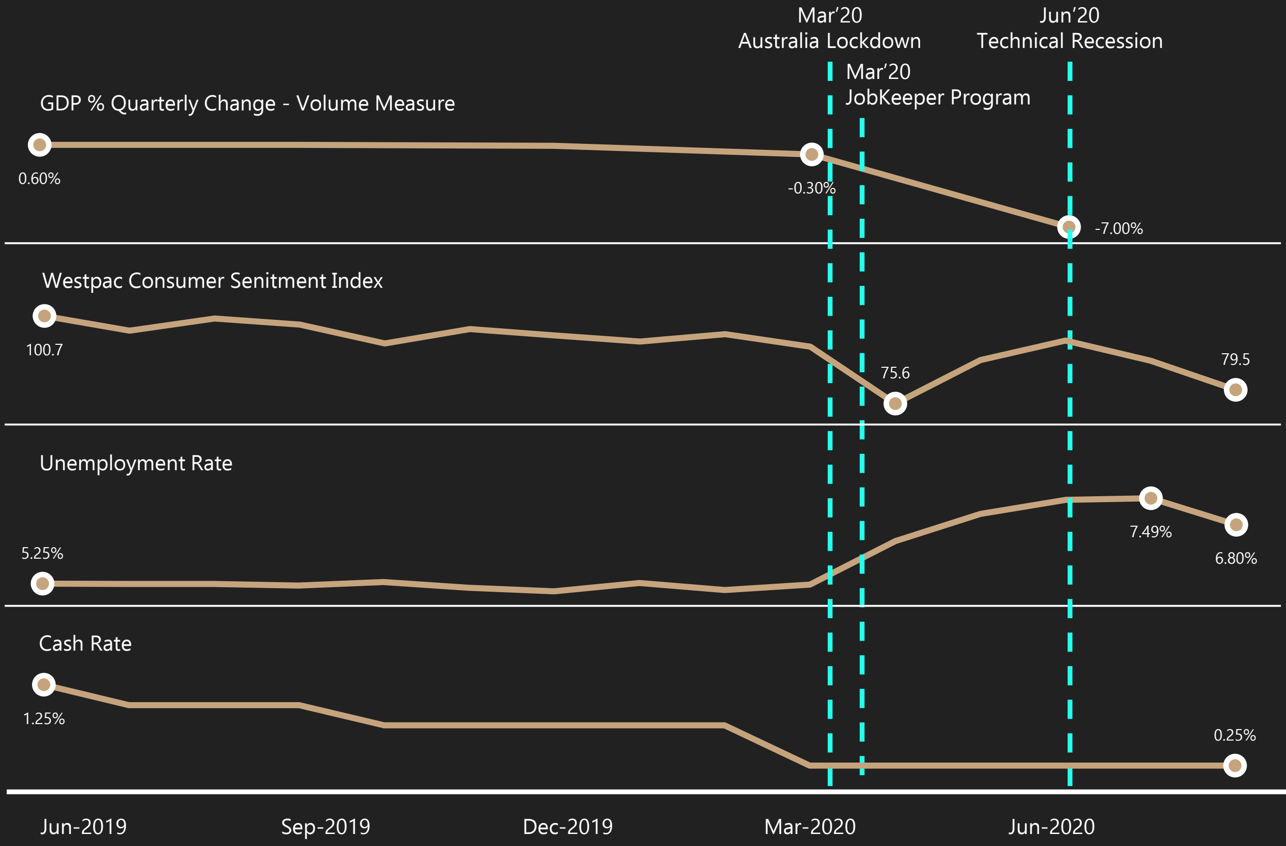
10 largest PE deals since March 31 2020

PE entry or exit?	Completion Date	Target Company	Target Sector	Target Headquarters	Bidder Company	Bidder Headquarters	Seller	Transaction Value AUD(m)
Exit/Entry	08/04/2020	AirTrunk Operating Pty Ltd. (88% Stake)	IT/Technology	Australia,Singapore	Macquarie Infrastructure and Real Assets	Australia	Goldman Sachs & Co. LLC; TPG Capital LP	2,640
Exit	02/05/2020	urbanest Ltd	Real Estate	Australia	Scape Australia Management Pty Ltd	Australia	Evergreen Investment Advisors LLC	2,000
Exit/Entry	13/05/2020	Serendipity (WA) Pty Ltd	Industrials	Australia	Madison Dearborn Partners, LLC	United States	Quadrant Private Equity Pty Limited	725
Exit	07/04/2020	100 Market STREET	Real Estate	Australia	Link Real Estate Investment Trust (SEHK:823)	Hong Kong	The Blackstone Group Inc. (NYSE:BX)	683
Entry	29/04/2020	Crown Resorts Limited (9.99% Stake)	Leisure	Australia	Blackstone Group L.P.	USA	Melco Resorts & Entertainment Limited	552
Entry	09/04/2020	Airwallex Pty. Ltd.	IT/Technology	Australia	Tencent Holdings Ltd.; DST Global; Sequoia Capital China; Horizons Ventures Limited; Hillhouse Capital Management, Ltd.; Salesforce Ventures ; ANZi Ventures	Australia;Hong Kong SAR;China;Hong Kong SAR;Hong Kong;China;China,Hong Kong SAR	na	254
Entry	02/08/2020	Murra Warra Wind Farm II	Energy	Australia	Partners Group Holding AG	Switzerland	Macquarie Group Limited; Renewable Energy Systems Ltd.	180
Entry	24/06/2020	Kalbar Operations Pty Ltd	Materials/Mining	Australia	Appian Capital Advisory, LLP	United Kingdom	na	144
Entry	14/07/2020	Terra Carbon Pty Ltd (49.9% Stake)	Consultancy or other Services	Australia	Kohlberg Kravis Roberts & Co. L.P.	USA	Murray Edward Bleach (Private investor); Norma Leigh Edwards (Private investor); Lewis Reginald De Vere Tyndall (Private investor); Shirley Anne De Vere Tyndall (Private investor); Bongalong Holdings Pty Ltd	100
Entry	22/06/2020	Canva Pty Ltd	IT/Technology	Australia	Sequoia Capital; General Catalyst Partners; Felicis Ventures LLC; Blackbird Ventures Pty Ltd; Bond Capital Fund, LP	Australia;USA;USA;USA;USA	na	87

Alternative funding options

Zombies at the Gate



Oct'20
Uncertainty Going Forward

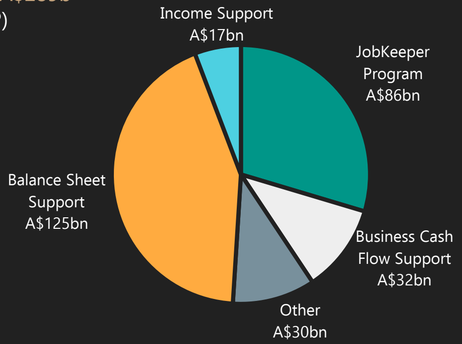
- Enforcement by Lenders / Withdrawal of Forbearance
- JobKeeper Program Rolling Off
- Economic Impact of Potential 2nd Lockdown
- Reduced Government Support Programs

Cliff Warning?

Response to COVID-19

Government Support To Date

Total Surplus: A$289b
(14.6% of GDP)

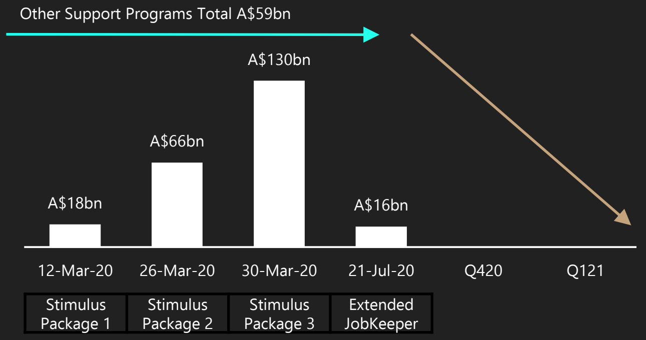


Bank Forbearance

- Payment Extensions
- Covenant Waivers
- Debt Forgiveness

2021 Risk Environment

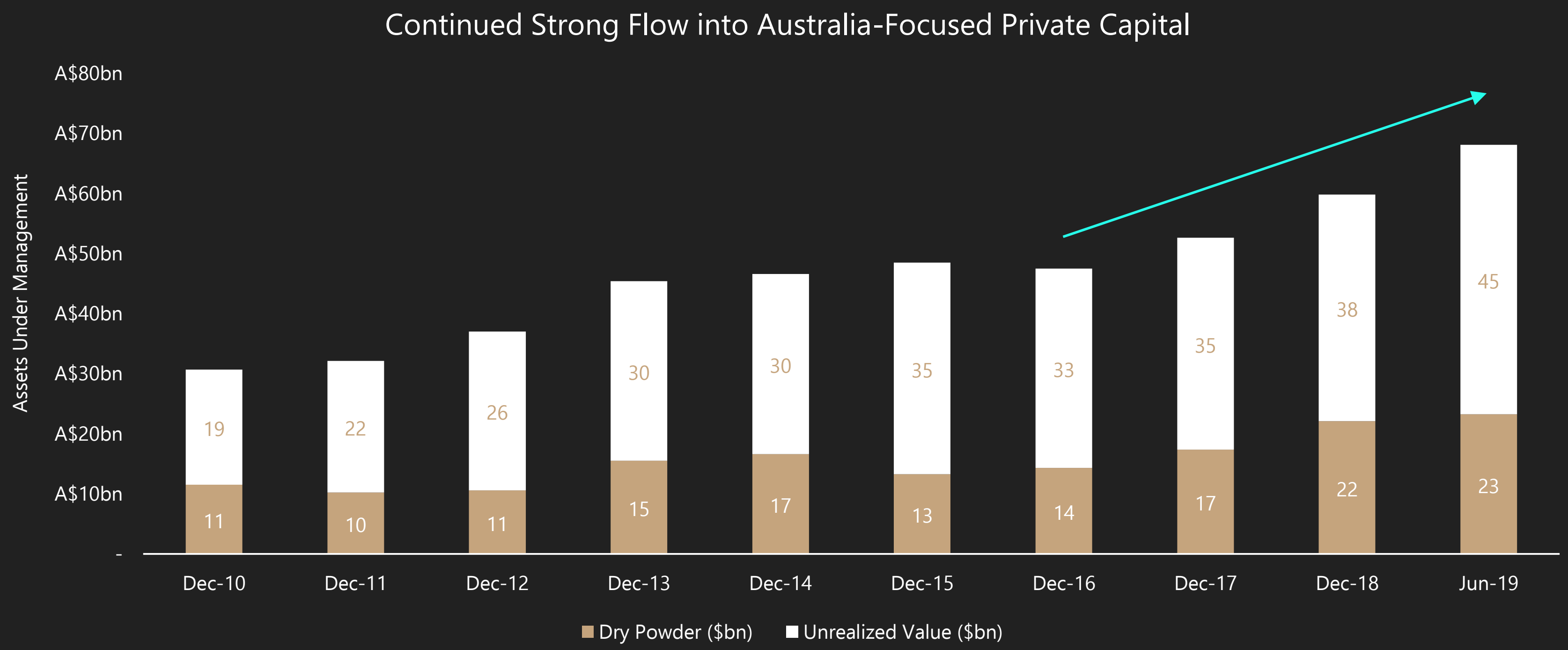
Staging of Government Support



Already Seeing

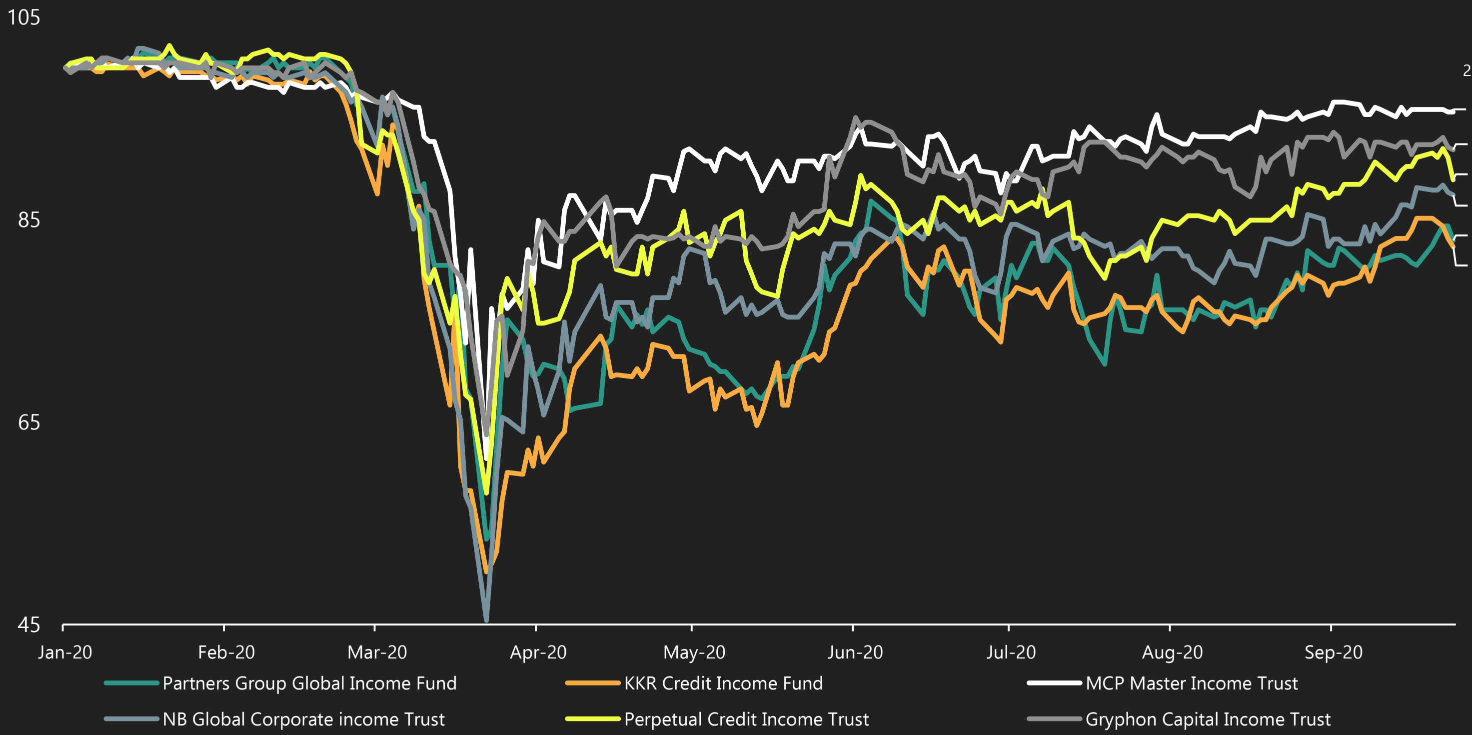
- Increased Enforcement
- Secondary Market Debt Trading

Chasing Yield in a Low-Interest Rate Environment



Source: Preqin and AIC Yearbook 2020

Listed Credit Funds are Trading at Discounts to NTA



As at 25/9/20	Discount to NTA	Total FUM (A$m)	Listed Date
95.63	-1.5%	1,280	13/10/17
91.91	-6.3%	400	25/05/18
88.94	-7.4%	400	17/05/19
87.44	-5.7%	900	28/09/19
82.93	-8.1%	500	27/09/19
82.33	-13.1%	925	22/11/19

Index base of January 2020. Rebased @ 100.

Key Takeaways

1

- Significant amount of dry powder amongst alternative asset fund managers.

2

- Banks continue to withdraw with a “risk off” mindset.

3

- Equity valuations remain uncertain. We expect to see increased levels of non-bank credit being used to fund mid-market transaction between A$20m – A$200m.

Q&A