Navigating New Paths To Growth

A story of resilience and agility

February 2021

PAUL HASTINGS

Contents

NB For optimal viewing of this PDF please view it in Adobe Reader

Introduction

By Arun Birla, London Office Chair, Paul Hastings

Welcome to this market report from Paul Hastings, in which we are pleased to share the insights of our London practice. We embarked on this project in the summer of 2020, as the coronavirus pandemic continued to wreak havoc on our daily lives, our working practices and many of our business plans. In the first half of last year, our perceptions of normality, predictability and risk were turned on their heads, but by the summer it was already apparent that smart organisations were navigating their way through and charting a path to growth in a new reality.

Inspired by the spirit of resilience and agility that we witnessed among our clients and communities, we engaged with our many contacts to talk to business leaders about what this path to growth might look like. Keen to explore the levers available to these executives and their use of them, we conducted a programme of interviews and a series of roundtables to take the temperature of the market and gather insights. It is these insights, and our own thoughts, that we are delighted to share with you over the following pages.

From what we have learned throughout 2020, and as we continue to grapple with coronavirus restrictions in 2021, it is clear that the successful businesses of tomorrow will be those that spend this time repositioning for what comes next. In this report, we focus on five of the key levers available to organisations as they navigate to the future: liquidity, innovation, acquisitions and disposals, cost management and reimagining the world of work. We also delve in some depth into some of the sectors of the economy that we know particularly well: funds; financial services; energy and infrastructure and technology, media and entertainment.

What emerges is a picture of positivity against a backdrop of significant macroeconomic challenge. The impact of the pandemic has been sector-specific, but no industry has escaped its power to accelerate change and drive transformation. The impetus to Build Back Better is also gathering pace–we are pleased to include in this report the perspectives of our clients and colleagues on rebuilding a purposeful and sustainable economy.

The year 2020 was unlike anything that has gone before, and now 2021 brings with it new opportunities and challenges. We will continue to discuss with our clients and share our insights on the topics highlighted here–should you have any questions or comments, please do not hesitate to get in touch with your usual Paul Hastings contact or email.

In the meantime, a huge thank you to all those who participated in interviews and roundtables for your engagement, and for sharing your insightful commentary.

Thank you to the many clients and friends who contributed to this report including:

- **Bessima Bahri**, Moneygram
- **Annette Bannister**, MetLife Investment Management
- **Josh Berman**, Cattleya
- **Ed Brogan**, Brookfield Asset Management
- **Stephan Caron**, BlackRock Alternative Investors
- **Michael Ellis**, Abercrombie & Kent
- **Daniel Geller**, Revolut
- **Jane George**, Campari Group
- **Emma Howell**, Hermes GPE LLP
- **Josh Hu**, Huayi Brothers International
- **Carolan Lennon**, Eir
- **Andrew Lewis**, ICG
- **John Mayes**, Randstad
- **Olivier Rosenfeld**, NJJ Telecom Europe
- **Rod Schwartz**, ClearlySo
- **Geoffrey Strong**, Apollo
- **Samantha Thompson**, Anglo American
- **Nicole von Westenholz**, Cheyne Capital Management
- **Walter Wang**, TSM
- **Matt Wilson**, Uber

Executive Summary

Still firmly in the grips of a global pandemic going into the spring of 2021, we can look back on last year and begin to consider some of the lessons learned. Chief amongst them has been the importance of liquidity, which has been a primary concern for many of our clients and looks likely to remain a considerable challenge for some for a while yet.

The global financial crisis, now over a decade ago, was an important learning experience for many. The banks are certainly in far better shape to support businesses than they were in 2008, but in 2020 even the most well-capitalised companies have been forced to explore funding options beyond their current lenders. Many of the corporates beset by liquidity challenges in 2020 might have struggled far more if it were not for the learnings of the previous economic crisis. Whatever the next crisis might bring, we all have much to gain by taking stock of the lessons from this one.

A significant proportion of the disruption wrought by Covid-19 was simply an acceleration of disruptive trends that we had been aware of for some time, most notably in relation to the use of technology. The pandemic has greenlighted the adoption and investment in digital transformation that many had been forecasting for some time, creating a seismic shift towards remote working, digital collaboration, online banking, cryptocurrencies, ecommerce, home entertainment and more, which had been stalling only through trepidation.

Those businesses that were not caught unawares by these megatrends, but had in fact dared to challenge their own assumptions while plotting future scenarios, were the ones best placed to respond.

The ability to move rapidly to identify and manipulate cost levers was another critical differentiator last year, as agile businesses moved quickly to facilitate recruitment freezes, supply chain reorganisations, alternative delivery models and reviews of real estate requirements.

And we must not forget that the crisis brought with it opportunity as well as challenge: the chance to reimagine operating models, to pick up distressed acquisitions, and to power ahead with investments in technology to embed efficiencies for future growth.

Resilience and agility

If there are two key attributes that board members will need to focus on instilling across their businesses going into 2021, they are resilience and agility. Leadership for growth in the next decade will undoubtedly require both in abundance, challenging executives to work to institutionalise such values across their organisations.

The banking industry was required to build in enhanced resilience in the wake of the last crisis and has largely proved robust through the pandemic, rising to the challenges of remote workforces and cashless transactions with relative ease.

For the funds market, where alternatives have seen a dramatic growth in assets under management over the past decade, fears of exposure through over-leveraging proved unfounded as the diversification baked into portfolio construction illustrated the resilience of most managers. Likewise, in the energy and infrastructure sector, the pandemic delivered proof of concept, with the asset class traditionally

considered non-cyclical or counter-cyclical and performing in line with expectations when tested.

Building resilience is now key, as organisations shift the spotlight to identifying paths to growth. In this report, our clients talk about adopting new approaches to risk, increasing their focus on critical sectors, hard-lining diversification and avoiding overleverage. Every business will likely face a heightened regulatory focus on operational resilience, the need to pay ever-increasing attention to addressing legal risks associated with data, cybersecurity, employment practices and more, and an imperative requirement to keep close to existing and alternative lenders.

When it comes to agility, we have witnessed operating models upended overnight and many that have responded well to the need to pivot their strategies, particularly in the hospitality and TMET industries. At Uber, for example, Associate General Counsel, Matt Wilson, tells us about how the business shifted overnight from one reliant on taxi services to a model driven by food delivery. Alongside these shifts in business models has come a far more agile approach to risk sharing, where industries paralysed by the pandemic – such as film and TV production – navigate a way through by upending long-held approaches to risk allocation between parties.

Boardrooms must now turn their attention to how they can embed agility into their businesses for 2021 and beyond. Stakeholder engagement will be critical, as the past year has demonstrated how organisations rely on their people to adapt quickly. While individuals have struggled with everything from childcare to mental health through the pandemic, by and large employees have risen to the challenge and developing agile workforces for the future is now recognised as critical.

Others have addressed the need for agility going forward by working to get ahead of opportunities, whether that means private equity firms honing smart approaches to auctions, corporates preparing for public M&A, or a market-wide appreciation of the need to stay on top of regulatory changes coming down the pipe. Many, particularly in the hospitality industry, have made use of the crisis to bring forward capex projects and take advantage of downtime, while the majority of businesses have looked again at the need to operate leanly and efficiently in order to be in good shape for future challenges.

Drivers of future growth

Opportunities now stand out as businesses position for growth in a post-pandemic environment. First, alternative investors have weathered the storm – fundraising has continued across the growing asset classes of private equity, private debt and infrastructure, where record levels of dry powder now stand ready to deploy.

This wall of capital in the hands of private funds is far greater than anything that was available in the aftermath of the global financial crisis, putting these investors in the driving seat to provide much-needed capital to the all-important mid-market as it emerges from the crisis. The appetite among institutional investors to support telcos investing in 5G, fibre roll-out and other critical communications infrastructure should not be underestimated, nor should their ability to back corporates investing in tech-enabled transformation strategies.

Alongside the power of the alternatives industry, the incontrovertible power of technology to now drive forward business growth can no longer be debated or ignored. Every company will need to be alert to new technology earlier and in a more agile way than before, standing ready to invest in technology for efficiency and to drive alternative delivery models, considering carefully how it can bring customers, employees, shareholders and leadership along. Action plans for the year ahead need to set out the shape of the optimum return to the office and the continuation and revival of client engagement programmes, with technology sitting at the heart of those transitions.

Finally, governments around the world have committed in various ways to putting infrastructure at the heart of the global recovery, with promises to build back better as they invest in infrastructure as the engine of growth. What that investment looks like will vary across jurisdictions, but it will undoubtedly include significant backing for the infrastructure now required to sit behind the technology we are using so much more frequently, such as network access, reliability, fibre and 5G, as well as the shift to greener energy generation. With so much state funding already absorbed by stimulus packages through the pandemic, the likelihood that private capital will stand behind this investment is hard to ignore.

If the engines of growth are to be led by private capital, technology and infrastructure, it is already apparent that the direction of the recovery will firmly point towards a much more sustainable growth story. A renewed focus on corporate purpose – to include diversity and inclusion as well as environmental, social and governance issues – will be integral to future paths to growth, whether stimulated by regulatory change, investor demands, consumers or employees.

The ability of today's business leaders to appreciate these new imperatives, and adapt and advance their business models accordingly, will be what sets apart the winners of tomorrow.

Dealing with Macroeconomic Change

While dealing with the impact of Covid-19 and identifying new paths to growth, businesses have been simultaneously grappling with a period of quite unprecedented macroeconomic change. On 31 January 2020, the UK formally left the EU and the delivery of Brexit was front of mind. Most organisations were absorbed with implementing operational changes that would allow their smooth transition to a new EU/UK trading environment, and then the pandemic hit.

Brexit

The full impact of the pandemic on the UK's exit from Europe is yet to be understood, but certainly the transition period that ended on 31 December 2020 was not spent focusing on the mechanics of an orderly exit as had been hoped. Brexit planning, if not already embedded or well underway, needs to continue with some vigour now that the UK has officially left the EU and is shaping a new direction.

Banks in the UK are under intensifying pressure to get their new hubs in the EU up and running quickly now, despite the fact that Covid's unexpected travel bans and remote working have thrown into question plans to relocate bankers, traders, risk managers and others from London to Europe. How regulators will respond to these new dynamics, particularly if the pandemic continues throughout 2021, remains to be seen, but the need to demonstrate the viability of new continental operations is pressing.

One senior executive at a global financial institution says: "Brexit is going to have an impact and we've already started planning for that, moving more people on the continent. People have already put their hands up and will be transferred, though I think some of that transferring has slowed because of Covid."

Many in the financial services industry, and beyond, feel adequately prepared having got to the brink of a no-deal exit at the start of the year. Stephan Caron, Managing Director and Head of European Private Credit at BlackRock Alternative Investors, says: "Our Brexit plans were in place already pre–Covid – we had made the changes that we had to make and lots of training sessions were organised for our teams, so I don't think it's changed anything. Therefore we're confident that we're ready to operate in this new post-Brexit world."

In other sectors, it is also apparent that the pandemic has left companies in a worse state of preparedness for Brexit. A report from the Institute for Government warned in July 2020 that the virus has made a difficult task much harder, and firms reeling from the economic consequences of the pandemic are poorly placed to continue with their pre-Covid Brexit planning. In some sectors, the impact of the two trade shocks in such close proximity could be disastrous.

Andrew Lewis, Global Head of Legal & Compliance at Intermediate Capital Group, says: "Our planning always assumed a no-deal scenario because we were planning for the worst. So the pandemic didn't really change how we were looking at it."

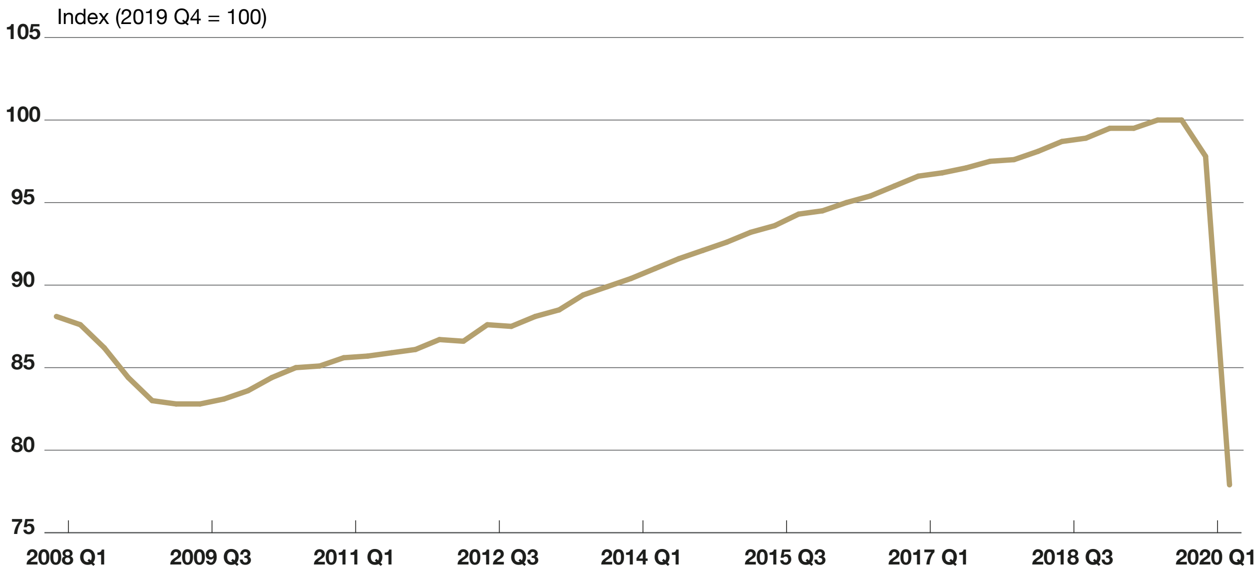
At Irish telco eir, CEO Carolan Lennon says her biggest concern about Brexit is the wider impact on the economy. She says: "I don't think Brexit is going to be a huge issue for us, because 99% of our business is in the Republic, but if it has a negative impact on the Irish economy then we don't know how that will translate. I still think telecommunications is like electricity and water–during the pandemic we saw how important telecoms is to homes and businesses. While we did put extra resources into supporting our small business segment, which was the one most impacted, the rest of our customers from large businesses to consumers continued to use our services and in many cases their usage increased. I think the impact of Brexit on us will be minimal enough."

Employment disruption

While coronavirus support measures have been broadly welcomed by businesses, the UK economy suffered its biggest slump on record between April and June as lockdown pushed the country into an official recession. The economy shrank 20% compared with the first three months of the year, as household spending plummeted and output fell.

Real GDP fell by 20.4% in Quarter 2 2020, the largest quarterly contraction on record

UK, Quarter 1 (Jan to Mar) 2008 to Quarter 2 (Apr to June) 2020

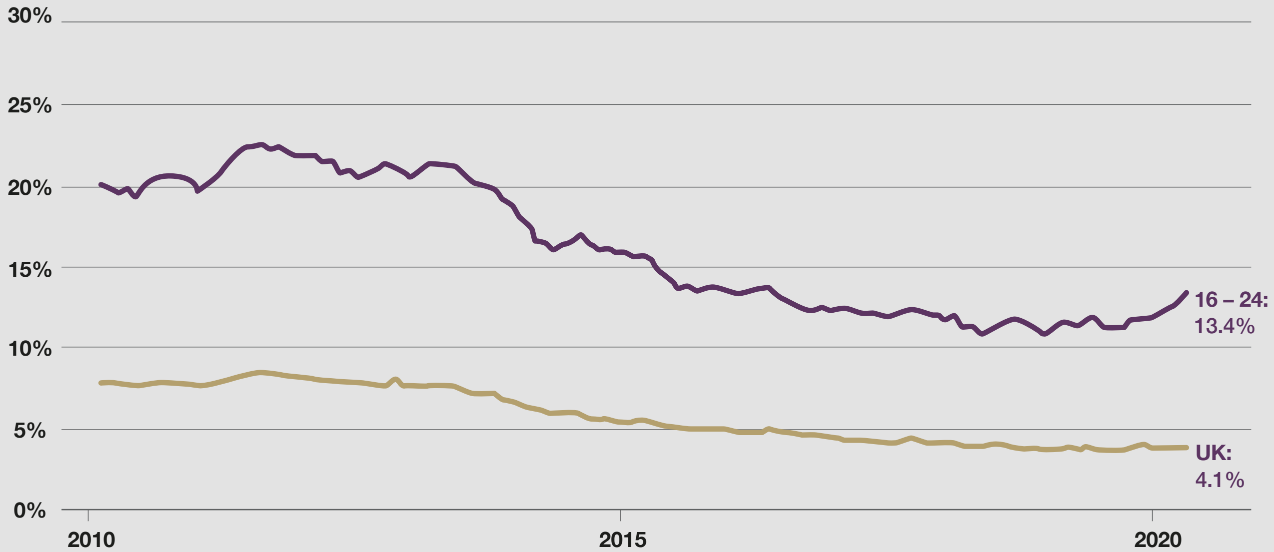


Source: Office for National Statistics – GDP first quarterly estimate

UK unemployment hit its highest level for more than four years when it rose to 5% in the three months to November 2020, up from 4% when the pandemic struck, but is expected to increase even more – with young people the worst affected – when the furlough wage support scheme ends. That scheme has backed some 9.6 million workers through the lockdowns, with the sectors benefitting most from that support including accommodation and food services; arts, entertainment and recreation; and construction, according to HMRC. Employment in the retail sector fell 45% in August, the sharpest decline since 2009, compared to a drop of 20% in May, with more job losses expected, according to the CBI.

Young people hit by rise in unemployment

Percentage of economically active people aged 16 – 24 who are unemployed



Source: Office for National Statistics. Margin of error: ± 0.4%

Further interventions will be needed to address unprecedented levels of unemployment throughout 2021, with the onus shifting to businesses to embrace apprenticeships and other staff development schemes and create a future workforce equipped to deal with the shifting demand for labour and accelerating pace of automation.

Trade wars

Finally, as if the unprecedented dual economic shocks of Covid-19 and Brexit were not enough for businesses to contend with, US-China trade war concerns and the uncertainty and controversy around the US presidential election have added a further layer of complexity. Companies will now be turning their attention to adjusting to working with a new and very different US administration, which should prove positive in many sectors.

Josh Hu, General Manager at Chinese film studio Huayi Brothers International, says the trade war is being felt.

> "It's interesting because if you look into the marketplace, I'd say you cannot feel the impact of the trade war. But if, for example, you are looking into financing opportunities in response to Covid, you do feel that people's responses, and potential investors' responses, are influenced by it."

New trade barriers have the potential to cause widespread disruption, though Stephan Caron is optimistic about resilience in the European mid-market. "The reality is a lot of the companies we invest in are not big enough to the point where they have to worry about the effects of trade tariffs," he says. "Mid-market companies tend to be quite domestic and, when they do have international operations, it's not a big part of their business."

Caron adds, "The US elections are important, but big geopolitical events generally have less effect on the mid-market. We do have portfolio companies that will be impacted by the Brexit withdrawal agreement, but we know what the worst possible outcome might be, and we stressed that going into those deals."

Still, it seems indisputable that the long-term prosperity of the UK lies in embracing multilateralism and striking new high-quality trade deals, putting the onus on the government to support exporters reeling from the pandemic while simultaneously increasing efforts to attract inward investment.

Growth Levers

- Liquidity
- Innovation and Digital
- Acquisitions and Disposals
- Cost Management
- Reimagining the World of Work

Liquidity

The lockdown of significant parts of the UK economy that began in March 2020 resulted in sharp revenue declines in many sectors, with airlines, hotel operators, retailers and car manufacturers among the hardest hit. Other businesses saw an increase in costs as they were forced to shift to remote working and address considerable disruption to supply chains and customer demand.

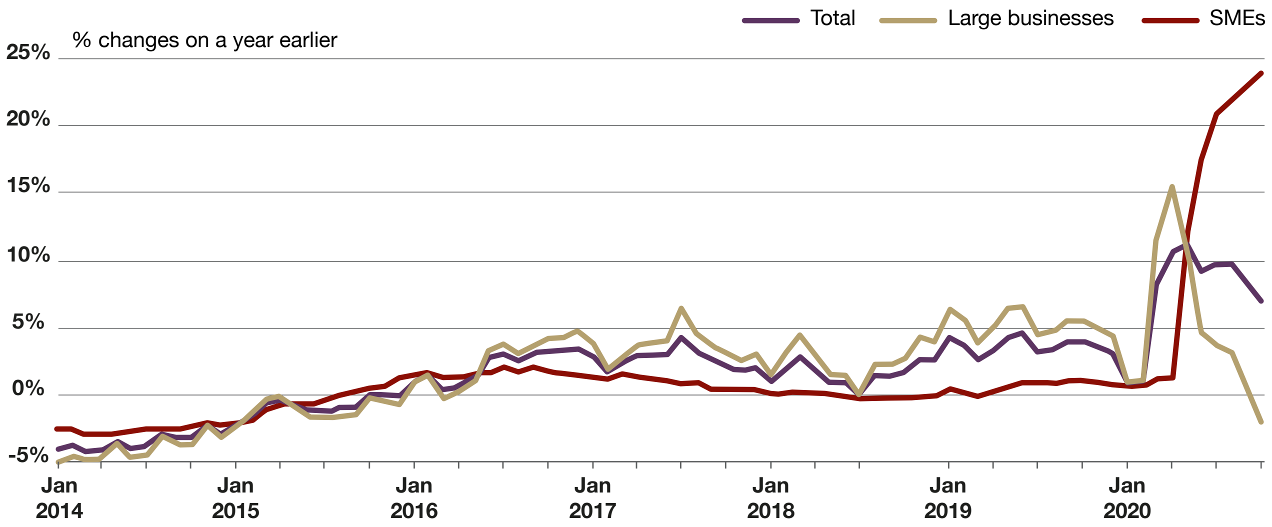
Accelerated business lending

As poor trading conditions and restrictions continued through the year, many CFOs faced severe revenue declines that put sudden and unanticipated pressure on working capital lines and liquidity. According to an EY ITEM Club Interim Bank Lending Forecast published in August 2020, additional bank finance was tapped by a significant number of corporates and SMEs during the first few months of the pandemic, with business lending expected to hit its highest level in 13 years compared to an average decline of -1.4% from 2010 to 2019.

In contrast to the 2008 financial crisis, the Covid-19 crisis saw bank lending accelerate as businesses sought loans to help cover their costs when revenues dropped and banks were well-positioned to respond. Banks lent non-financial companies just over £30 billion in March 2020 – around 100 times the average of net lending over the preceding 12 months. With government-backed loan schemes also making an impact, lending continued at high levels through the year and is likely to remain high through at least the first half of 2021.

Annual growth of lending to SMEs and large businesses

Seasonally adjusted



Source: Bank of England Statistics Money and Credit Report (October 2020)

While some companies could make additional drawdowns on revolving credit facilities, others had to approach banks to arrange short-term extensions to facilities or covenant waivers. Even well-capitalised companies were forced to explore options beyond incumbent lenders, including special situations funds that could deploy capital more flexibly and creatively at short notice. The amount of money now available in the private credit markets is much more significant than it was during the global financial crisis, European private debt managers had almost $93 billion of capital available as of December 2020, according to data provider Preqin.

Lessons from the global financial crisis

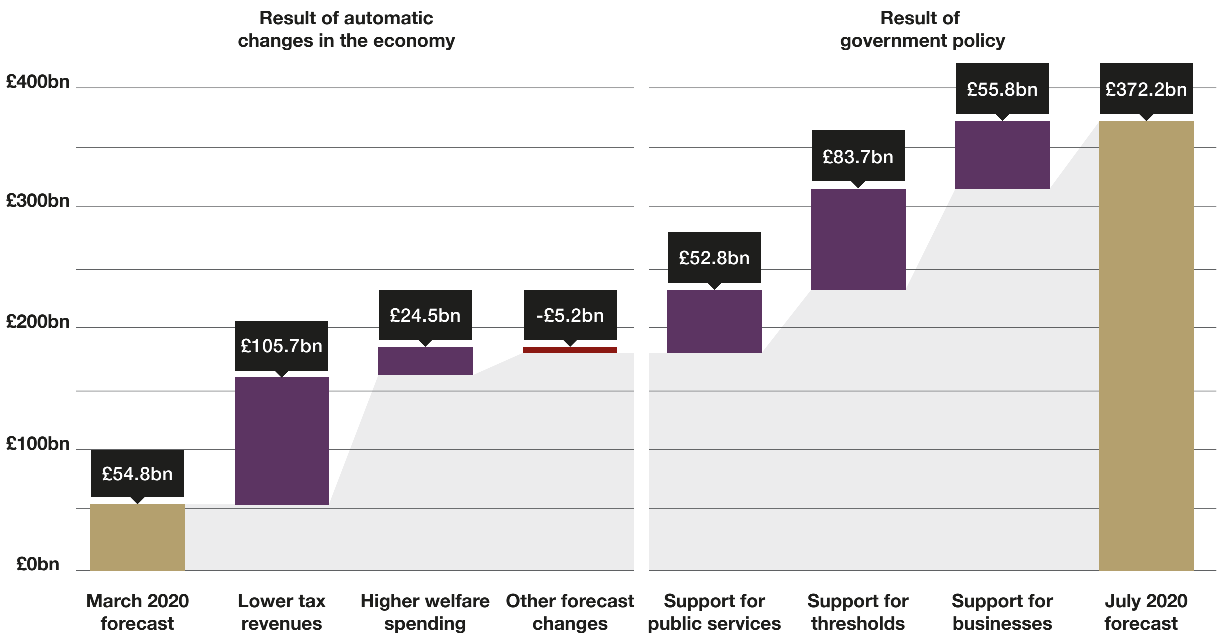
One leveraged finance expert says banks are in much better shape to respond to the demand for liquidity than they were during the last crisis. “We have transformed from a liquidity perspective, and that is partly why we were very well placed when we suddenly faced a massive liquidity call in the early weeks of March and April 2020. Everyone drew down and we ourselves did not have a liquidity crisis, because of the lessons of 2008 and the buffers we had.”

From a company perspective, one executive at a UK mainstream media player says her business also learned liquidity lessons from the last crisis. “During the last financial crisis, liquidity was an issue for us, and the business learned a lesson and really equipped itself well. So, actually facing down the barrel of this pandemic and economic collapse, we are in a much better position. We have liquidity, we have good cash reserves and we have a great banking facility, so that is less of a concern.”

State intervention

The UK government, in some cases alongside the Bank of England, introduced several support initiatives to help corporates deal with liquidity and other funding issues through the crisis. In addition to the Coronavirus Job Retention Scheme, various business rate and grant reliefs, an extension of the HMRC time to pay tax arrangements and the deferral of VAT payments, low-interest loans have been made available through the Covid Commercial Financing Facility (CCFF), the Coronavirus Large Business Interruption Loan Scheme and the Coronavirus Business Interruption Loan Scheme.

Change in forecasts for 2020/21 public sector net borrowing, March–July 2020



Source: Institute for Government analysis of OBR, Fiscal Sustainability Report, July 2020; and OBR, Covid policy measures database. Chart adapted from OBR, Fiscal Sustainability Report executive tables, C3.

The Cost of Covid-19 to the UK's public finances in 2020/21

Support for businesses £55.8bn	Lower tax revenue £105.7bn
Support for households £83.7bn	Higher welfare spending £24.5bn
Support for public services £52.8bn	Changes in forecast -£5.2bn (saving)
Total result of government policy: £192.3bn	**Total result of automatic changes: £125bn**

Total cost of Covid-19 (change in public borrowing 2020/21) £317.4bn

Source: Institute for Government analysis of OBR, Fiscal Sustainability Report, July 2020; and OBR, Covid policy measures database. Chart adapted from OBR, Fiscal Sustainability Report executive tables, C3.

While many businesses of all sizes spent the spring and early summer of 2020 investigating options available to them under these schemes, a significant proportion found they were ineligible or took policy decisions not to tap into taxpayer-funded support mechanisms.

Walter Wang, Vice President of Operations at esports business TSM, says: "We are a company that is growing. Fortunately, we felt confident we would be able to navigate this difficult time without any government aid."

In asset management, many fund managers made similar decisions and instead went to existing bank and non-bank lenders to seek forbearance or extensions of credit. Liquidity pressures varied enormously across sectors, and therefore portfolio exposures are mixed. Stephan Caron at BlackRock Alternative Investors says: "We see understanding where the liquidity pressures sit as one of the key stress tests, like everyone else. We are fortunate that we invest in a lot of defensive businesses that weren't so affected by the crisis, and therefore liquidity pressures have been far less there than in other sectors."

He adds:

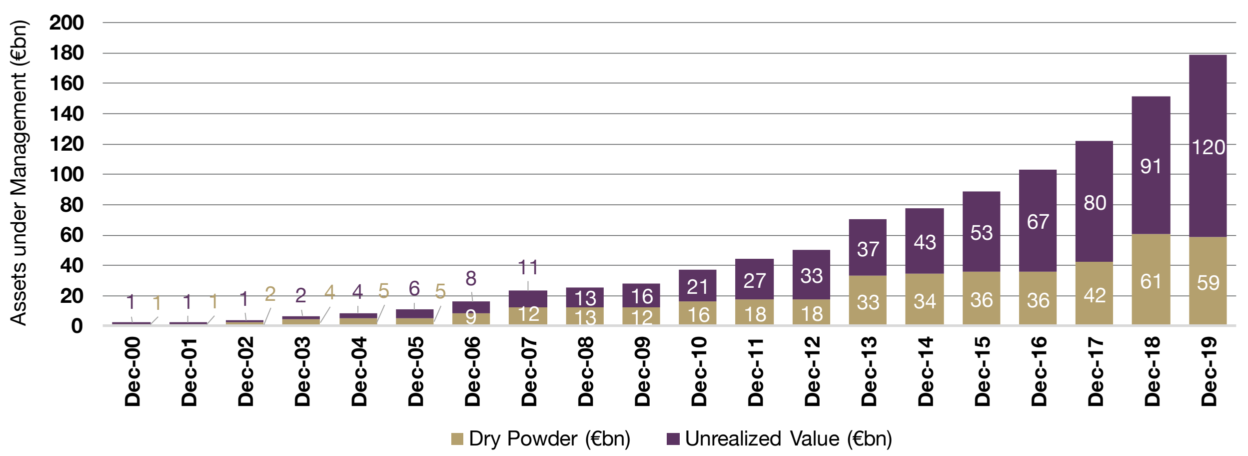
> "We looked at liquidity in terms of what the needs of the business might be over the next 6–12 months, and it has been difficult to look beyond that. We feel pretty good about what we see in the portfolio–there might be one or two names where there is a little bit of stress, and we need to keep an eye on that, but generally we're in a good position."

By the end of April, more than £10 billion of commercial paper had been purchased through the CCFF, with 35 business issuers. At the same point, more than 25,000 business loans had been issued through the business interruption scheme, at a value of £4.2 billion, according to the Office for Budget Responsibility. With the job retention scheme estimated to have cost £35 billion by August, and extended to run beyond April this year, the uptake of government support initiatives has been considerable and is likely to end up costing well in excess of £100 billion.

Richard Kitchen, Finance Partner at Paul Hastings, says: "The experience of businesses from a liquidity perspective depends very much on the camp that they fell into. Those private equity portfolio companies that didn't pull down on government schemes and instead went to their existing lenders and found them to be supportive will likely continue to receive that support. However, if your first port of call for extra cash was the government schemes, there is going to come a point where the government is no longer supportive and that money is going to dry up."

He says those companies that moved quickly to address liquidity challenges will likely be among the first to emerge from the crisis.

Europe-Based Private Debt Assets under Management, 2000 - 2019



Source: Prequin Pro

*Figures exclude add-ons, grants, mergers, venture debt, and secondary stock purchases

Key takeaways:

- Start thinking now about how your business model might be challenged in a post-Covid environment and get ahead of liquidity issues by talking to lenders early. Those businesses that engaged their lenders quickly in real-time discussions based on pragmatic and realistic scenarios were the ones that found those institutions to be most supportive.

Innovation and Digital

If there is one good thing to emerge from the chaos wrought by the Covid-19 pandemic, it is the launch pad for technical innovation that it has provided to businesses. If necessity is the mother of invention, it is little wonder that the rapid pace of change seen in 2020 has brought with it a swathe of digital transformation.

Agile working

The most obvious sign of digitisation is the accelerated adoption of remote working. According to PwC's CEO survey last year – based on interviews with nearly 700 CEOs in 67 countries through June and July 2020 – 86% of UK CEOs believe the shift towards remote collaboration is here to stay. Furthermore, 77% think there will be an enduring shift towards increased automation. The world was already moving towards more agile workforces, but the coronavirus pandemic has made that happen much faster, forcing businesses to quickly develop the tools to facilitate it. Many are looking to maintain that momentum.

Jane George, General Counsel and Public Affairs Manager for Northern, Central and Eastern Europe at Campari Group, observes: "We were just rolling out Microsoft Teams when the lockdown happened, and that caused the rollout to happen much more quickly, within a week. There was no opportunity for people to grumble and resist–people just had to adopt it and they did. They got up and ran with it."

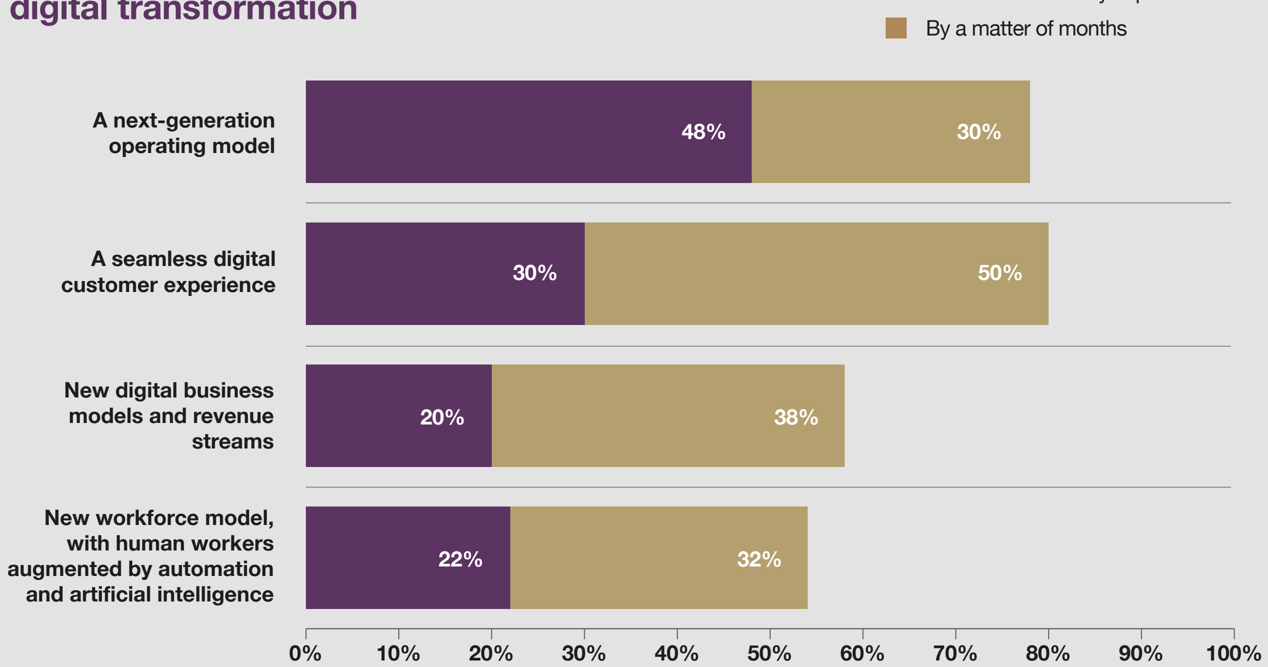
But remote working does not come without challenges, and there are those that believe the logical next step is the adoption of virtual reality (VR) technology in workplaces. Companies are already making use of VR for collaborative team workshops and for training – a PwC study into the effectiveness of VR for soft skills training found VR learners train four times faster and were four times more focused than those in a classroom or using online training. For meetings, VR goes beyond standard video conferencing software to allow endless numbers of resizeable whiteboards, for example, that would not be possible in the physical world.

Having workers operating from kitchen tables rather than secure office environments also creates cyber and data risks, both of which have been the subject of enhanced regulatory scrutiny. One regulatory counsel at a UK broker dealer says: "Where large-scale organisations have dispersed and employees are working from home, that has obviously amplified the need for monitoring to keep track of regulatory compliance. That is particularly important with trading activities, where people are adopting ad hoc solutions to deal with challenges and are removed from the usual surveillance of working at a trading desk."

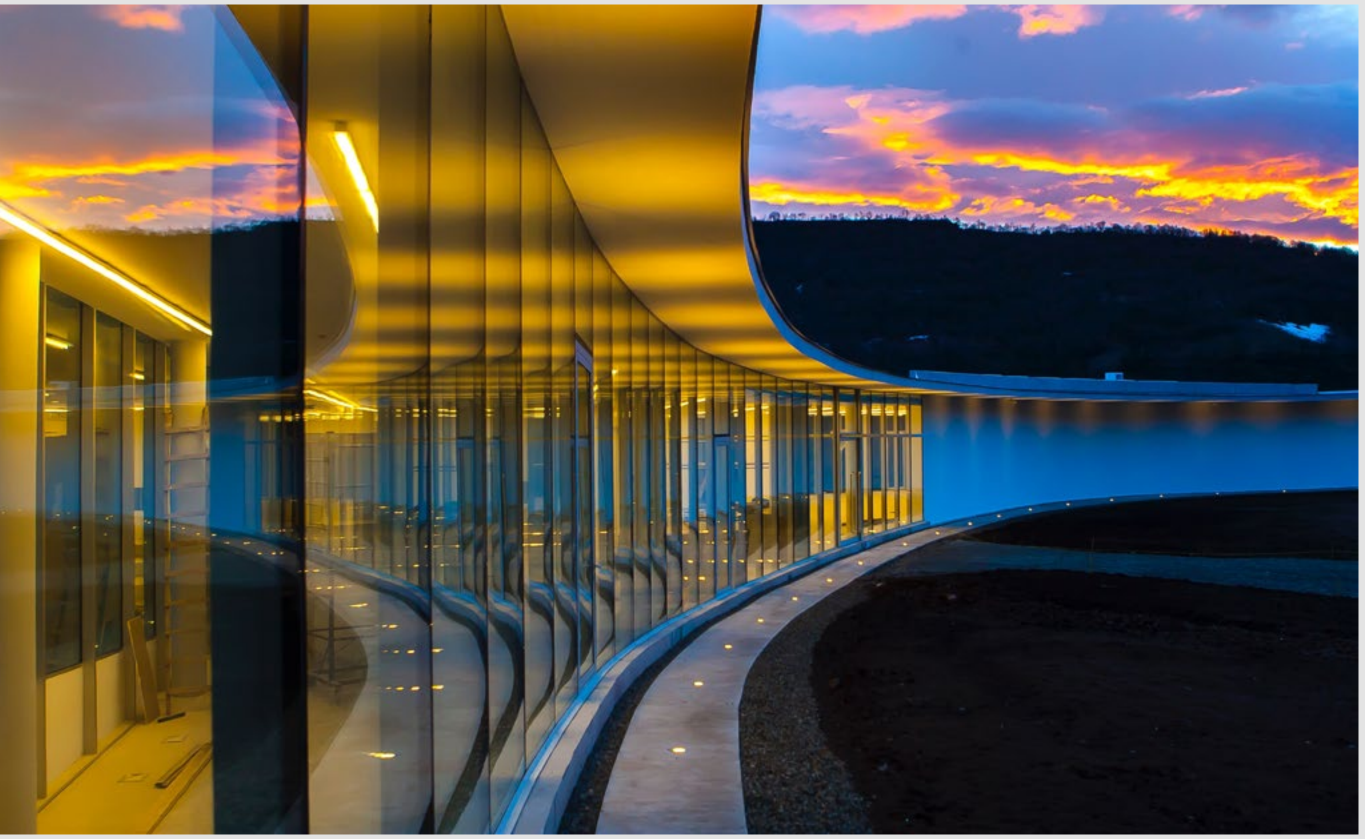
Digital transformation

Beyond the agile workforce, the experience of the pandemic has given companies the green light to invest in the tech that will drive their digital transformation and allow them to seize market share through the recovery. Whether that means speeding up supply chains, putting robotics to work, setting up new e-commerce channels, using social media to conduct tech-driven market research or leveraging artificial intelligence (AI) to increase efficiencies, Covid-19 has injected new urgency into the pace of change.

The pandemic is accelerating digital transformation



Source: KPMG UK CEO Outlook 2020



Daniel Geller, Lead Legal Counsel at fintech Revolut, says: “While providing money to customers travelling abroad was impacted, we found customers really looked to take advantage of other newer products, like cryptocurrencies, trading, and commodities.”

He adds: “We found customers were taking advantage of buoyancy in cryptocurrencies during 2020, for example, and the upheaval allowed us to push those more innovative products a bit more to our customer base. Our customers, like the rest of the United Kingdom, were at home, relying on digital applications to access critical day-to-day financial services and, in doing so, becoming more familiar and confident with accessing what were once traditional services offered exclusively via bricks-and-mortar banking and financial services providers. We found that, on the whole, our customers quickly got more comfortable with fintechs, crypto and new ways of transacting online, and we hope to see this trend carrying on into next year as well.”

Rapid adoption

In specific response to the pandemic, the speed with which companies have been able to develop robotic, contactless solutions to everyday tasks, and the rapid advances made in testing and monitoring tech like thermal imaging, have served to highlight the possible. Where corporates had digital strategies two years ago, tech now needs to be integral to every part of the business plan.

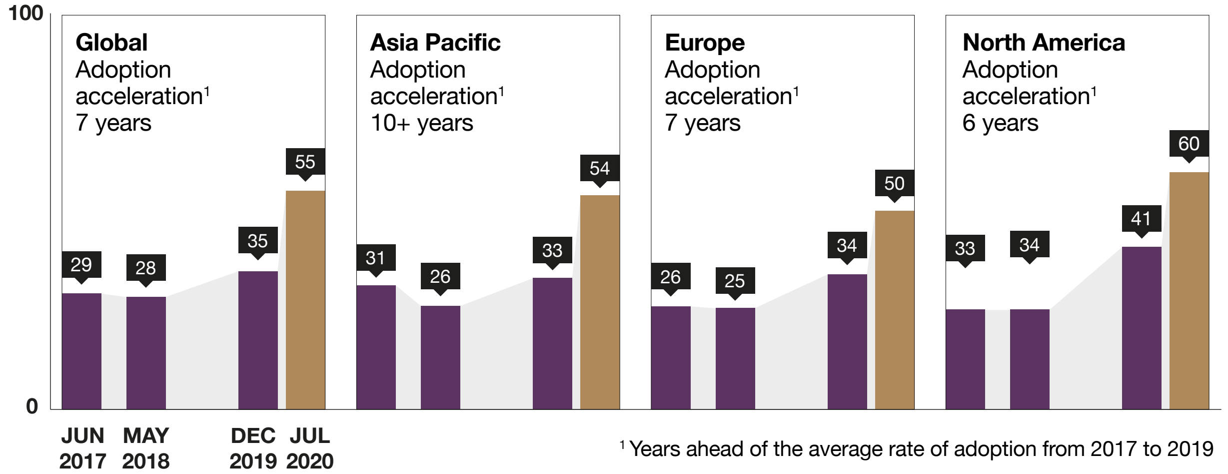
The OECD estimates that as many as 14% of jobs could disappear in the next 20 years as companies automate. KPMG’s UK CEO Outlook 2019 showed business leaders prioritising tech spending over training to improve their organisational resilience, with two-thirds planning to spend more on tech than capital investment into developing their workforce’s skills and capabilities.

A senior executive in one of the bulge-bracket banks says:

> “Our technology division is massive now; it’s one of our biggest divisions. We have our in-house people developing all kinds of platforms to develop documents intelligently, extract data and analyse it, even digitising our committee memos. There is a huge amount of investment going into those innovations.”

Across business areas, the largest leap in digitisation is the share of offerings that are digital in nature

Average share of products and/or services that are partially or fully digitised, %



[1] Years ahead of the average rate of adoption from 2017 to 2019

Source: McKinsey report on how Covid has pushed companies over the technology tipping point and transformed business forever

Data security

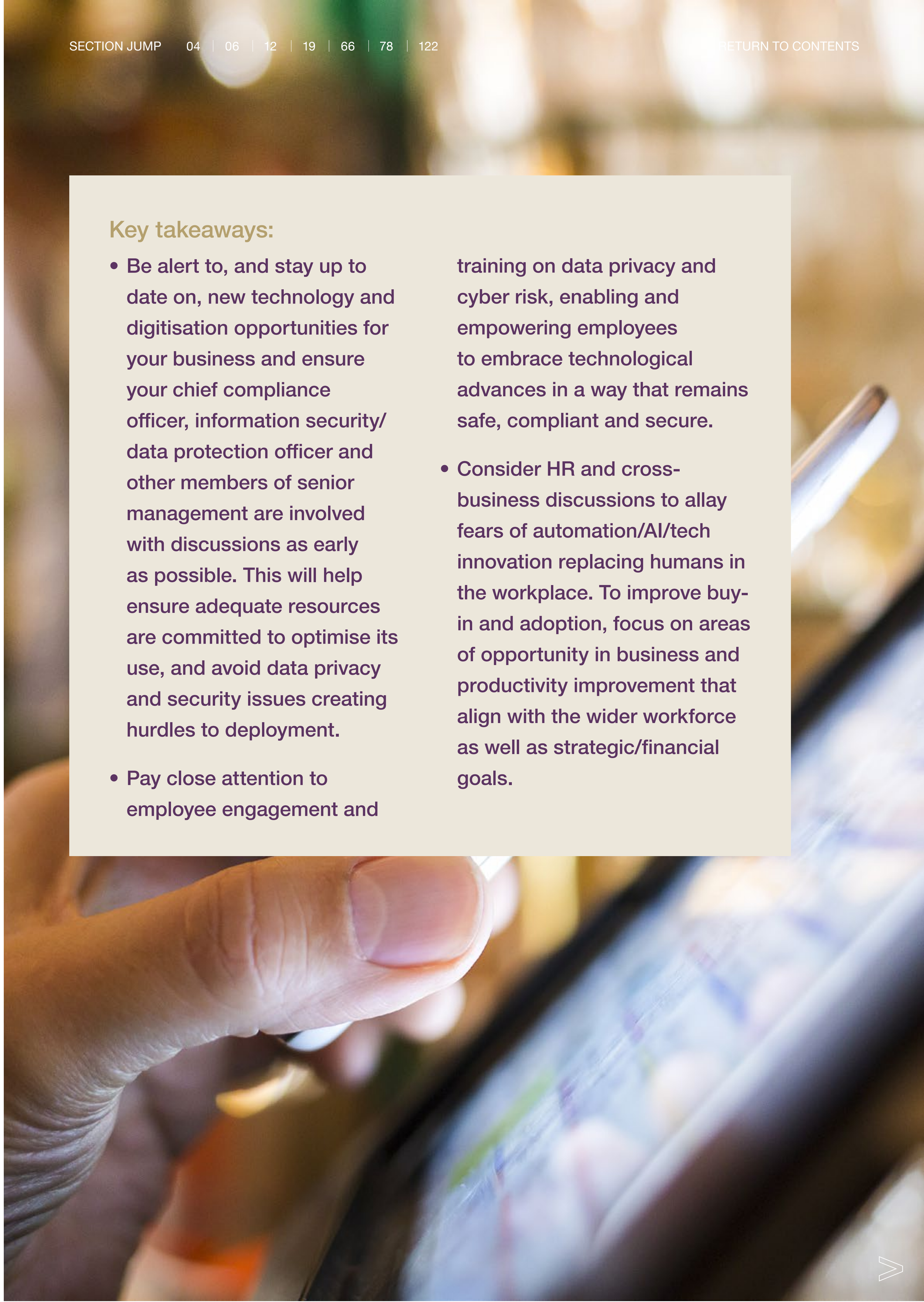
As companies have dramatically accelerated their digitisation agendas, their reliance on and use of data has increased exponentially. At the same time, acquisitions of technology businesses, often underpinned by digitally-native data architecture, took off during 2020.

Sarah Pearce, Partner in the Privacy and Cyber Security Practice at Paul Hastings, says: “People are conscious that they need, and want, to push the boundaries of what technology can do and roll it out quickly, but they need to make sure that it is done in compliance with applicable laws and regulations, notably those relating to data privacy and security. That is particularly true as it goes hand in hand with the regulators being more active in terms of enforcing those laws, with some significant fines announced recently.”

It is also true that the new generation of consumers is much more savvy about enforcing their rights in respect of data, particularly in Europe. Pearce adds: “All of this means that compliance really needs to be front of mind, but it certainly shouldn’t hinder the roll-out or take-up of technology.”

At the end of 2019, before any of us had even heard of Covid-19, Accenture published research showing 84% of C-level executives believed that they would not be able to achieve their business strategy without scaling AI. They thought if they did not make the investment, they would be out of business by 2025. And yet, at the time, only 16% had made the shift from experimentation to widespread adoption of AI capabilities. Accenture looked into what set these top performers apart, and identified a need for strong data, multiple dedicated AI teams, and a board-level commitment to strategic, company-wide deployment. Employee reluctance was identified as a barrier.

In other words, a huge hurdle is getting the buy-in of stakeholders for a fundamental scaling of tech – a global pandemic that threatens to overhaul every business model on the planet has certainly shifted thinking, moving the dial profoundly when it comes to customer, employee, investor and shareholder appetite for revolution.



Key takeaways:

- Be alert to, and stay up to date on, new technology and digitisation opportunities for your business and ensure your chief compliance officer, information security/data protection officer and other members of senior management are involved with discussions as early as possible. This will help ensure adequate resources are committed to optimise its use, and avoid data privacy and security issues creating hurdles to deployment.
- Pay close attention to employee engagement and training on data privacy and cyber risk, enabling and empowering employees to embrace technological advances in a way that remains safe, compliant and secure.
- Consider HR and cross-business discussions to allay fears of automation/AI/tech innovation replacing humans in the workplace. To improve buy-in and adoption, focus on areas of opportunity in business and productivity improvement that align with the wider workforce as well as strategic/financial goals.

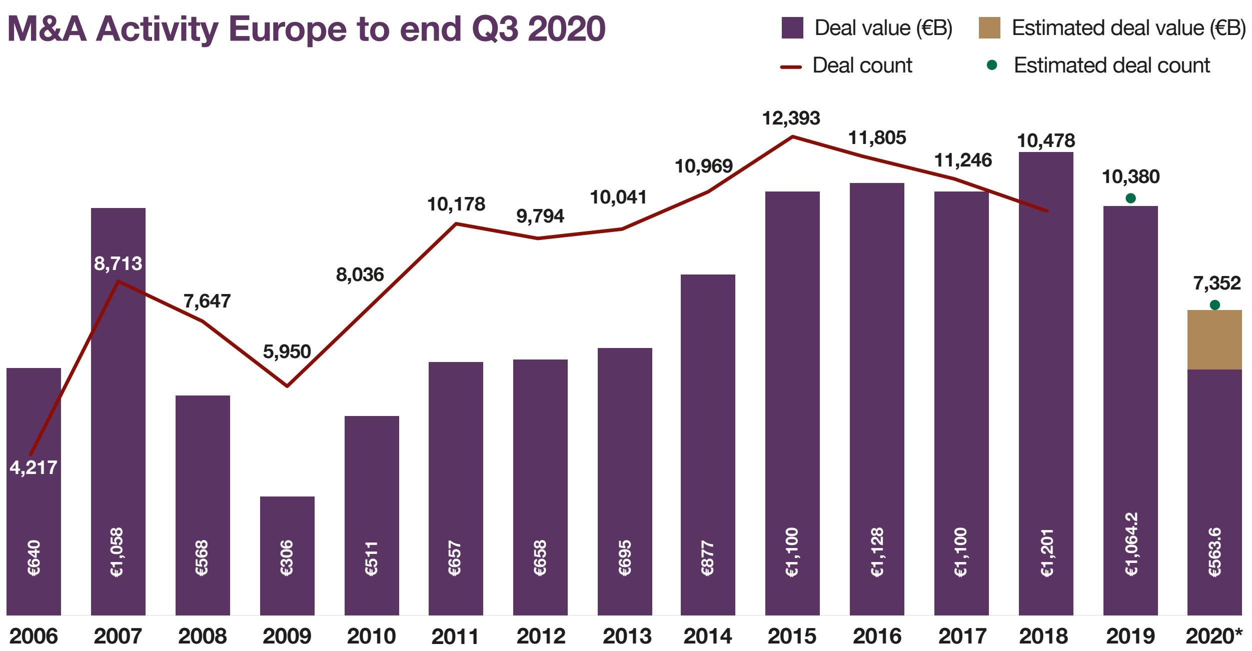
Acquisitions and Disposals

After a strong start to 2020, European M&A volumes dropped dramatically at the end of March 2020 and have been gradually recovering ever since, as most major European economies continue to deal with restrictions on movements and activities.

With most sectors either working from home, operating at limited capacity or closed completely, a significant number of transactions were pulled or put on hold at the onset of the pandemic in Europe. Still, figures from PitchBook's 2020 European M&A report make for pretty positive reading, with European M&A totalling an impressive EUR1,064 billion in 2020, keeping pace with 2019 figures despite the pandemic.

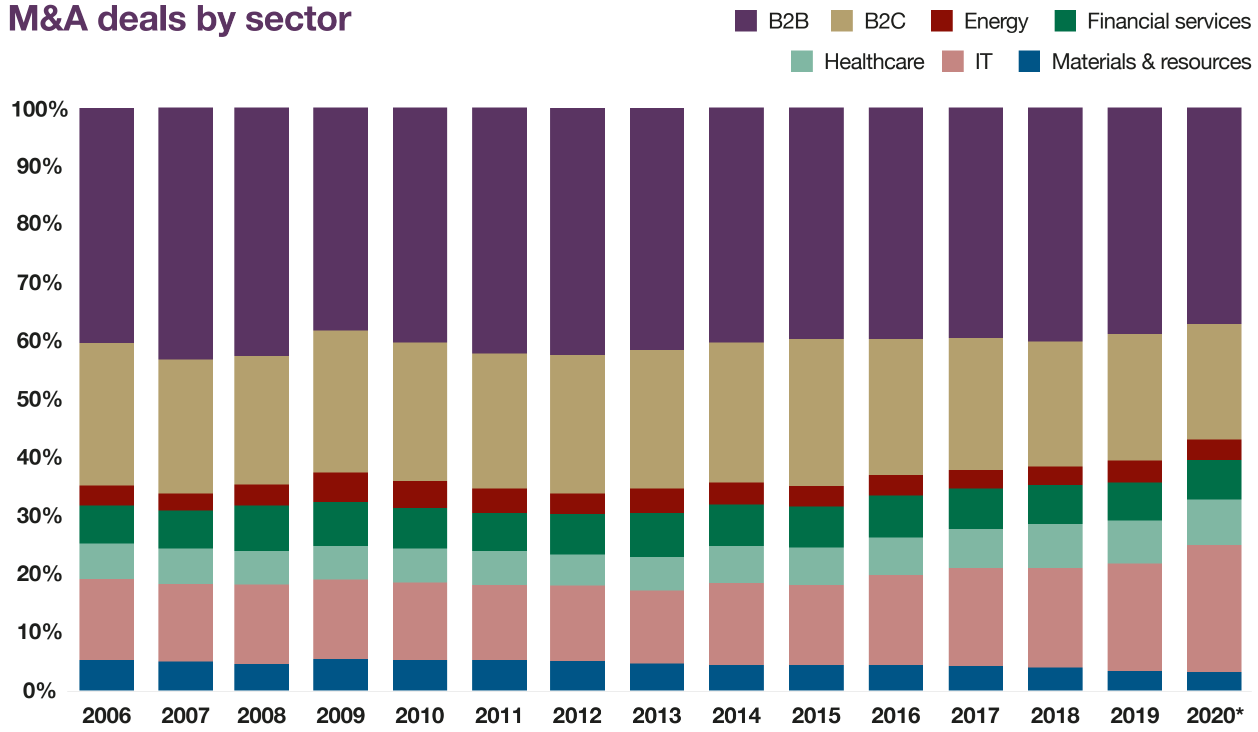
These numbers are in part the result of several mega-deals closing in the second quarter that had been announced many months before the impacts of Covid-19, but it is nevertheless clear that transactional appetite did not dry up completely. With many transactions put on standby or slowed by the lockdown, we could even see pent-up demand and backlogs fuelling strong M&A numbers into 2021.

M&A Activity Europe to end Q3 2020



Source: Pitchbook | Geograhpy: Europe

M&A deals by sector



Source: Pitchbook | Geograhpy: Europe

Sponsor-backed M&A

A marked difference between the current economic slowdown and previous downturns is the existence of significant volumes of dry powder in the hands of financial sponsors looking to do deals. The annual proportion of sponsor-backed M&A has been growing in Europe since 2012, and that continued in 2020, when 33.7% of deals were sponsor-backed. While sponsors were less active in H1 of last year, turning their attentions to their portfolios and reassessing deal processes in the face of remote working, the testing of new collaborative tech and new due diligence requirements, those buyers rebounded in the second half and are sure to feature heavily as M&A markets go into the recovery.

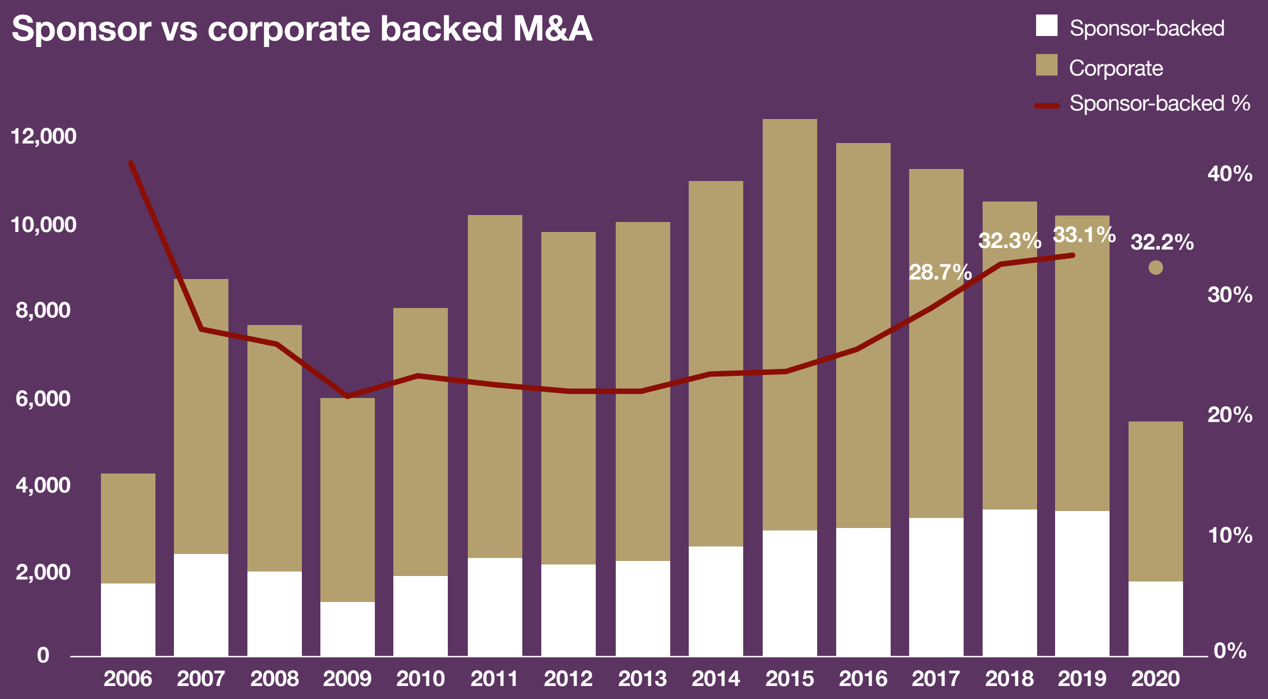
Many cash-rich private equity firms will see an opportunity to snap up assets with lower valuations as a result of dislocation, or to consolidate positions in key sectors. Take-private activity and carve-outs from major corporates with balance sheet pressures could be in line for an uptick. Auction processes could be highly competitive in certain sectors, pushing investors to sharpen up their auction strategies to react quickly to opportunities.

Ed Brogan at Brookfield Asset Management expects the market for deals to be competitive going forward. He says: “We seek to position ourselves to do proprietary, bilateral deals where possible and, where deals are intermediated and competitive, we typically look for an angle where we can bring more than capital to a situation.”

Public deals will be particularly challenging in terms of access to information and time pressures against takeover timetables, as well as the need to commit significant resource and costs upfront.

Matthew Poxon, M&A Partner at Paul Hastings, says: “We are managing to get public M&A deals done, but buyers need to allow time to prepare to do those deals; they need to frontload the preparation.”

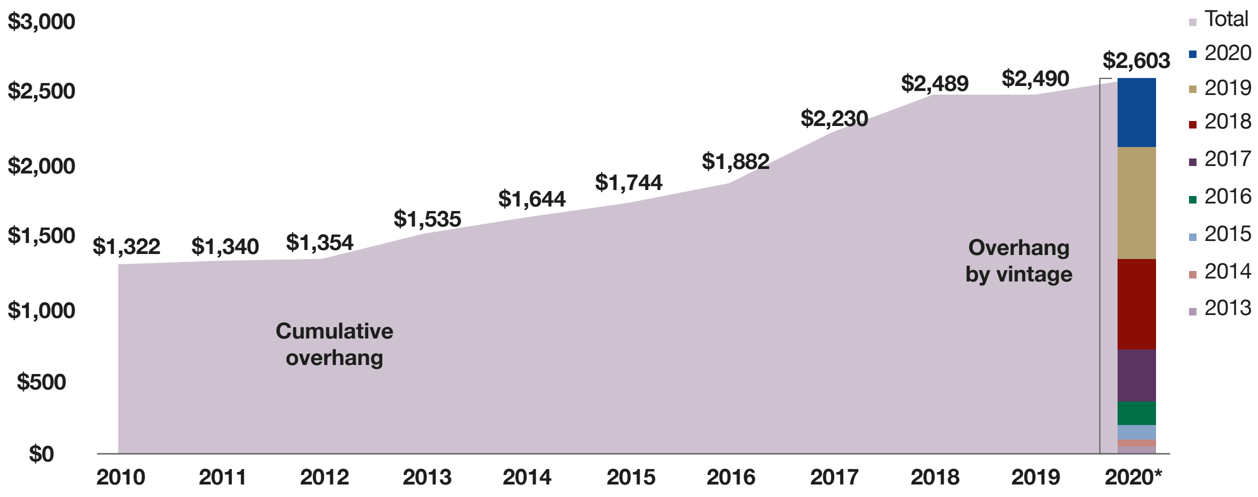
Sponsor vs corporate backed M&A



Source: Pitchbook Q3 2020 European M&A Report

Fund overview and LP perspective

Private capital overhang ($B)



Source: PitchBook Private Fund Strategies Report Q3 2020

M&A as a strategic response

More broadly, the adverse impact on business confidence and valuations was bound to affect M&A in 2020, as fundamental changes in consumer behaviour and supply chains played out. M&A is now likely to feature strongly in the strategic responses of corporates. As businesses across a wide range of industries position to leverage M&A for growth and resilience, some may look to divestitures and others to placing additional strategic bets in growth markets or in distressed assets.

Walter Wang at esports business TSM says: “We have always viewed M&A as a significant part of our business strategy. Through the entire lifecycle of our company we have identified and acquired assets, including websites and technology, that have aligned with our future plans. While I think M&A is important to our industry, I suspect in the next 12 to 18 months we will see more venture activity than M&A.”

Josh Hu at Chinese film studio Huayi Brothers International says his acquisition strategy will continue. He says: “We always only invest in those companies that are closely related to the distribution and production of feature films, and we are carrying on that investment strategy. After the crisis, we will have a simplified focus back on content production, so that will be the focus of any M&A."

Finally, Stephan Caron at BlackRock says his firm remains open to good acquisition opportunities: "We will always consider M&A as a strategy, but it has to have a compelling narrative behind it. We have a plan to grow the business organically, so we're not dependent on M&A to grow, but if the right platform presents itself and can fill a gap that gets us to scale quicker, that's obviously something we would consider."

Poxon says:

> "We are seeing a K-shaped recovery, with real estate, hospitality and retail businesses continuing to suffer from the impact of Covid, while other sectors that took a pause simply because the economy as a whole took a pause are now increasing production and revenues."

He adds, "Asset classes and sectors will continue on markedly different trajectories, and there will be distressed assets in the market this year. Potential buyers will continue to assess those opportunities."

Government support packages around the world will taper or take a new form by the end of H1 2021, and it is possible that those may have delayed some strategic decision-making and put off distressed sales. As M&A processes resume, new areas of diligence will have emerged, including the need to look carefully at the extent to which targets have relied on government support packages through lockdown. As parties look to share risk, more joint venture structures are already starting to be deployed, while M&A deal terms such as termination and force majeure provisions will also move up the agenda as transactional activity picks up.

Roger Barron, Global Vice Chair M&A at Paul Hastings explains:

> "Previous events, such as the 2007-8 financial crisis or the Brexit vote, affected parties in different ways at different times, but Covid-19 was universal. We had already been seeing a convergence of US and UK law and practice in areas such as Material Adverse Change (MAC) clauses, but sellers would try to resist Covid related MACs as the risk was a 'known unknown' for all. Instead, we helped clients build in structural solutions, such as put and call options over negotiated deals with some parameters to provide an acceptable balance of risk, at least until such time as the markets became more settled."

Key takeaways:

- Keep acquisition opportunities under constant assessment, particularly as signs of distress begin to emerge when government support funding comes to an end. In public M&A, a great deal of preparatory work can be done in advance to position buyers to seize opportunities.

- In private M&A, auction processes are going to continue to be prevalent thanks to the wall of investor cash fighting to acquire assets. Hone a smart approach to auctions in advance to increase the chances of success, whether that means pre-empting the entire process or taking steps to increase certainty of execution.

- Give due consideration to the UK's new National Security and Investment Bill, which introduces a screening regime that means a much higher number of deals will be subject to possible intervention on national security grounds. Early discussions with advisers will be critical as the new law came in in January 2021 and has retrospective effect, with the potential to catch deals up to five years after they have taken place.

- These new rules continue a direction of travel that has been evident for some time, and bring the UK into line with other developed countries including France, Germany and the US.

Cost Management

With so many organisations plunged into crisis mode by the coronavirus pandemic and related social distancing and lockdown measures, a sharp contraction forced many to focus firmly on protecting balance sheets last year.

The Deloitte CFO Survey published at the end of Q2 2020 revealed a commitment among finance leaders to bearing down on costs and building cash reserves, with defensive strategies very much in favour. In all, 61% of CFOs rated reducing costs as a strong priority for their business in the next 12 months, placing it above increasing cashflow and reducing leverage in the top three corporate priorities.

Identifying cost levers was top of the agenda in many corporate reactions to the pandemic. Daniel Geller at Revolut says:

> "When Covid first hit, and indeed whenever times are tough, we always reassess a lot of our cost and spend and the vendors that we work with."

Short-term cost saving measures were part of the initial response to Covid-19, as business leaders reacted to their rapidly changing operating environment. Temporary recruitment freezes, the renegotiation of key contracts, a review or delay of upcoming capital expenditure and a halt to staff bonuses were just a few of the measures introduced in short order as part of an immediate cost containment exercise.

However, as the longevity of the outbreak becomes a reality, business leaders' focus must shift from the urgent cost cutting to the important cost optimisation to ensure longer-term resilience. The focus at this stage is not only on achieving substantial cost reductions but also on doing so in a sustainable manner without impeding the business's ability to thrive having survived the worst of the pandemic.

Payroll costs

With staff wages often the most manoeuvrable cost lever available to bosses, redundancies have become necessary in some sectors of the economy, particularly as the levels of support offered to employers via the UK government's Coronavirus Job Retention Scheme (commonly referred to as the 'furlough scheme') dwindle.

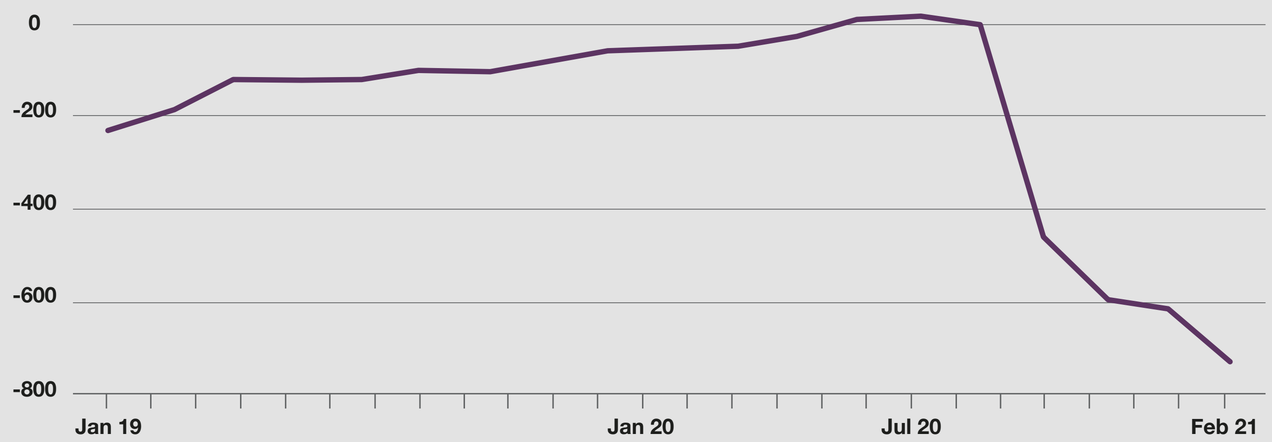
The furlough scheme has been extended several times and is now due to end on 30 April 2021. Undoubtedly, this seismic intervention has delayed the need for further job cuts. However, if the furlough scheme does end in April, large employers will again face the unenviable dilemma whether to start mandatory collective information and consultation processes 45 days or 30 days prior to the date of dismissal to coincide with the end of the furlough scheme and mitigate legal risk and payroll costs during that process or to hold tight and wait to see if government policy changes again and offers either a life line or reduced support for a further period.

For many businesses, the workforce is the most prized asset and difficult to replace and making severe cuts risks hampering the speed with which normal business can resume when the opportunity arises. For those employers, this is an opportunity to transform the workforce to meet the current and anticipated needs of the business going forward while also realising the payroll cost savings.

Many have sought alternatives to redundancies – including reductions in pay and hours of work, temporary shutdowns or workshare schemes – all of which were especially attractive where companies felt confident of a swift bounce back once restrictions are lifted. As the focus has shifted to longer term cost management measures, performance reward programmes have come under review and there has been a renewed interest in alternative service delivery models, including offshoring and near-shoring options.

UK has shed nearly 830,000 jobs since February 2020

Number of payroll employees compared with March 2020 (000s)



Based on tax data.
Source: ONS
© FT

Changing property demands

Real estate costs are often the second largest spend for businesses but are harder to manipulate in the short term. Covid-19 and its related social distancing and lockdown restrictions have resulted in commercial tenants giving serious consideration to their real estate requirements both short and long term.

The growth of agile working has led to the suggestion that some businesses might significantly reduce the requirement for office space going forward. Miles Flynn, Partner in the Real Estate group at Paul Hastings, notes: “The lockdown measures resulting from Covid demonstrated that many businesses can switch to remote working with relative ease. The increased flexibility in where we work will remain after the pandemic; the benefit of retaining that flexibility is clear. However, it is also clear that there is real value in many cases to in-person collaboration and in the improvements in workforce morale and productivity that come with being together. It is likely that staff will want to retain the flexibility to work from home, and that office spaces will become more of a focus for collaboration, coaching, training and bringing people together.”

Any assessment of whether real estate cost savings are available to business leaders will need to carefully consider how the space they retain will be used. Whilst fewer staff in offices may be a consequence, the space required for each employee considering social distancing, safety and hygiene requirements will likely increase, resulting in a reversal of the pre-pandemic trend of increasing office density.

As leaders are reassessing their property requirements, landlords have come under pressure to accept short-term rent reductions or payment holidays. Twenty-year fixed term leases are beginning to look like the stuff of history, forcing property owners to consider more flexible lease models, with shorter terms and more options to increase or decrease footprint during the life of the lease, as well as potentially permit space sharing.

Where the future need for space and a plan for how it will be used can be determined now, there is a potential window of opportunity for business leaders to renew and/or renegotiate leases on favourable terms as the quid pro quo for providing certainty to landlords at a time when clarity on demand for space has been lacking.

Sharpening the focus

From a corporate perspective, some of the many other available cost levers that have been spotlighted include the renegotiation of key contracts, optimisation of inventory levels, the realignment of business, operating and cost models, external spend management and business process optimisation. All businesses have observed a clear requirement for agile and scalable cost models and have paid close attention to supply chain over-reliance.

Many businesses were already sharpening their focus on costs in anticipation of a downturn or a Brexit impact. Andrew Lewis at Intermediate Capital Group says:

> “We have embarked on a number of initiatives to focus on costs and make sure we are getting the best value from our suppliers. That is something we were doing anyway as we are always cost conscious. We haven’t made any redundancies or put people on furlough or reduced hours. There is certainly a fair amount of discipline but probably no more than in normal times.”

Some firms have seen temporary cost savings materialise as a direct result of the pandemic, with international travel for executives currently off the agenda, event and entertainment budgets eliminated and the potential to significantly reduce energy expenditure for heating and lighting empty offices. Conversely, however, many companies have taken a hit to IT budgets as they have moved quickly to engineer remote working practices, with all the associated hardware, software and cybersecurity expense.

Future financial resilience will come from lowering a business's cost base. Achieving this long-term cost benefit may require cost and effort now. The requirement for digitalisation in the post-pandemic world is paramount and creates significant opportunities for longer term cost saving but is just one part of business process optimisation. Focus can also be placed on the simplification and automation of processes ranging from manufacturing to back office. The introduction or use of robotics or bots can also help optimise operations and increase the speed of processes, driving cost savings.

Olivier Rosenfeld, a director at NJJ Telecom Europe, commented:

> "What we've tried to do technologically in the companies we own is really to simplify the processes, simplify the offerings, and then simplify the IT spend that serves those. Essentially there's a very simple purpose, which is to correctly bill the client base and make sure they have all the information they need about their bills and usage, so at the end of the day the needs are pretty basic, even for business customers. Often there is a legacy suite of offerings and pricing is very complicated, so there's a simplification that needs to occur. A lot of companies resist doing it, but in the end, it's the only way."

Having weathered the storm of the initial lockdowns and dealt with the immediate cost cutting exercises, business leaders are now taking a long term view on cost optimisation, shifting the focus from triage to transformation for long time resilience. There will clearly be opportunities for business leaders to re-engineer processes and capitalise on opportunities presented by the new way of working to find innovative solutions to supply chains and ultimately achieve a lower more flexible cost base.

Key takeaways:

- **Consider shifting the focus away from short-term cost saving measures to longer-term cost optimisation strategies, which may incur upfront expense but deliver sustainable savings over time. Investment in digitalisation, robotics, business process optimisation and alternative service delivery models may put your business in better shape for recovery.**
- **Assess potential real estate cost savings with careful modelling around both agile working and office density practices going forward. For now, renegotiating or renewing leases on more favourable terms may be possible given landlord appetite for certainty.**

Reimagining the World of Work

Alongside the pandemic has come the opportunity for business leaders to reimagine the way in which they operate and redefine the three major dimensions of work: the work itself, who does it, and where it is done.

Measures introduced to keep businesses operational through lockdown – particularly the use of remote working tools and the accelerated adoption of other technologies – are unlikely to go away, and cultural shifts that have resulted from changed working practices could also endure.

A framework for understanding the future of work

Forces of change

1. Technology: AI, robotics, sensors and data
2. Demographics: Longer lives, growth of younger and older populations, and greater diversity
3. The power of pull: Customer empowerment and the rise of global talent markets

Work and workforces redefined

1. Re-engineering work: Technology reshapes every job
2. Transforming the workforce: The growth of alternative work arrangement

Implications for individuals

1. Engage in lifelong learning
2. Shape your own career path
3. Pursue your passion

Implications for organisations

1. Redesign work for technology and learning
2. Source and integrate talent across networks
3. Implement new models of organisational structure, leadership, culture and rewards

Implications for public policy

1. Reimagine lifelong education
2. Transition support for income and health care
3. Reassess legal and regulatory policies

Source: Deloitte analysis

Working remotely

A more agile and remote workforce opens up a wealth of opportunities when it comes to recruitment, with the potential to tap a much wider pool of talent unencumbered by geography. Likewise, the ability to welcome into the workforce those less able to conform to the rigidity of a nine-to-five work schedule – at a desk, in a city – creates an opening that may benefit those with care-giving responsibilities or disabilities and with much to offer.

John Mayes is Legal Director, UK and Ireland, at Randstad, the global recruitment agency. He says: “Remote working is a great leveller. Technology allows us to bring together people in different locations to meet much more easily as a team. We can now hire people anywhere in the country, who would previously have been lost to us because they didn’t live near the office. There are people who would otherwise have fallen out of the world of work because they were constrained by school hours or whatever it might be. Now, the focus is much more about getting the job done, without the restriction of being in the office nine-to-five.”

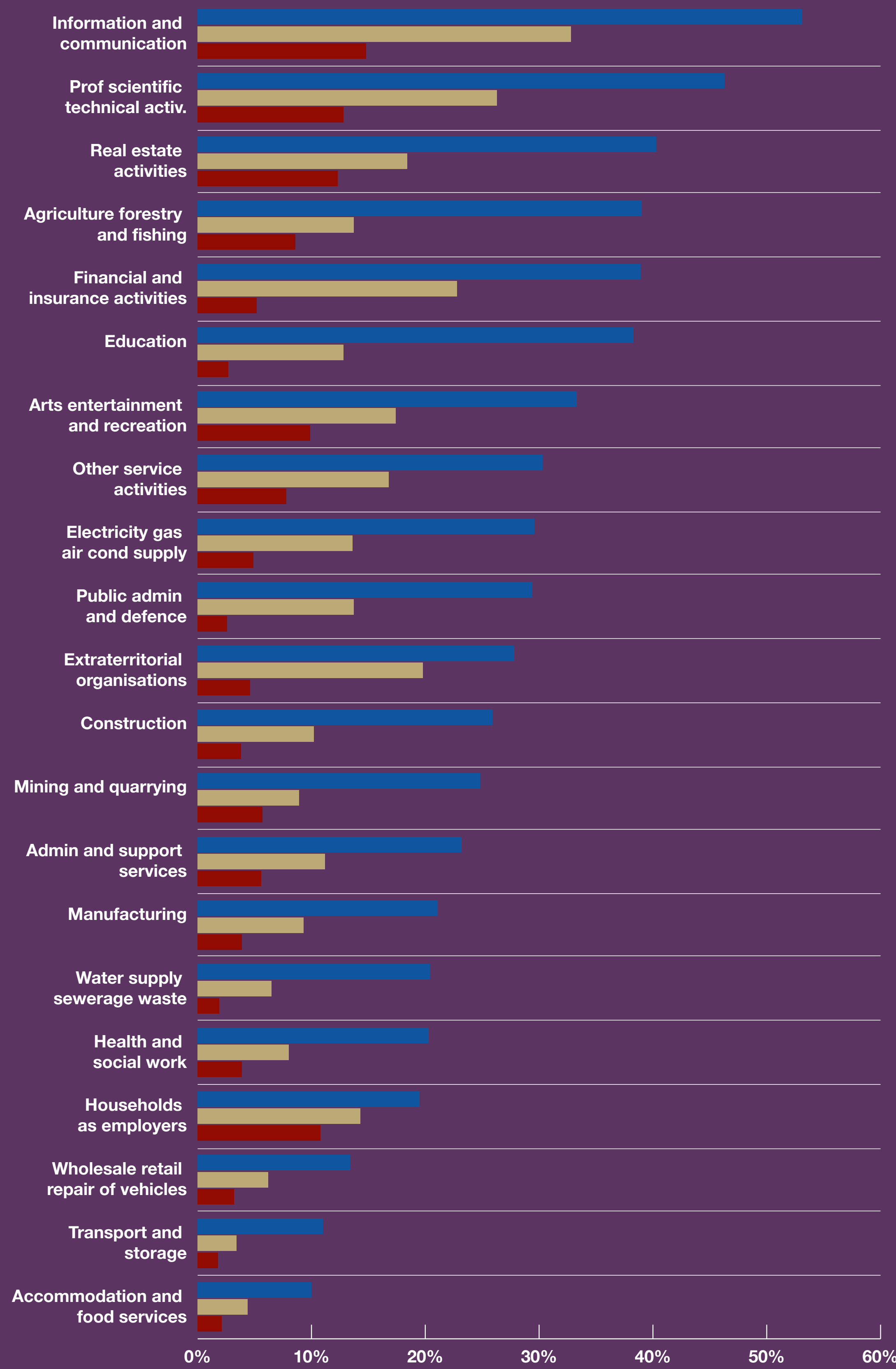
He adds:

> “The combination of mainstream adoption of technology, a more mature approach around the way that people do their work, and the goodwill you get from giving people that freedom, opens up huge opportunities. One potential challenge will be how to maintain the connection with remote workers once the majority of the team has returned to the office. We must ensure they are still able to participate on an equal footing, and don’t miss out on the subtle influencing and decision-making that can happen off-camera.”

Suzanne Horne, Head of the International Employment Practice at Paul Hastings, says: "We are starting to see the emergence of the idea of a global talent pool, whereby you are no longer limited by geography in terms of who you hire. That creates all kinds of issues if you as a business have no legal entity where those people work, but a lot of possibilities in terms of talent."

She adds: "Most people have contracts of employment that specify a physical place of work, so employers need to do a wholesale review of contracts, policies, and procedures. Those outdated rigid flexible working policies that were perfectly adequate 12 months ago now look like something from a bygone era. People need new policies that reflect a new way of working relevant to their business."

Percentage of UK workforce homeworking by industry, 2019



Source: Office for National Statistics – Annual Population Survey

Who does the work

But one cannot think about where the work takes place without also considering two further trends shaping the world of work – the growing use of artificial intelligence to replace low-skilled roles, and the evolution of the workforce to include both on- and off-balance sheet talent.

The new IR35 rules, which will now come into force in the UK in April 2021, look set to significantly reduce the number of people providing services via Personal Service Companies, while we have already seen the pandemic lead to the positive re-evaluation of those working in caring professions.

The dramatic need for cost-cutting and reductions in headcount to cope with the economic fallout from the virus will put further pressure on the necessity of some roles and force business leaders to think much more creatively about how they resource their operations. While the growing use of technology may threaten certain roles, it also creates the potential to upskill the workforce, handing over the drudgery to be dealt with by computers and robots.

The extent to which remote working will become the future is still unclear, with ongoing virus concerns and rises in transmission across many countries now delaying the large-scale return to offices indefinitely. Many businesses have made public their plans to significantly downsize their office spaces longer term, while some – including Twitter and Schroders – have made home working permanent.

Samantha Thompson is Head of Legal M&A at Anglo American. She says:

> “We did a survey of our staff recently and it is clear that most people enjoy being able to work from home and fundamentally enjoy that flexibility. My team is spread across different jurisdictions, and to me it is about trust.”

She adds: “My biggest challenge is resilience and making sure people actually take breaks, because the workflow is constant. It is not about just switching your laptop off and going to another room, but taking a proper holiday and break in the way we used to do. That is so important for making sure people have the energy, morale, and motivation to keep going.”

Training and development is another area that needs reconsidering, as the opportunities to learn on the job by shadowing senior team members diminish and much more learning has to be delivered online.

The safe return

At the start of 2021, the safe return to work is beset with challenges, including those related to managing social distancing, cleaning regimes, common spaces, schedules and shift patterns. While many are concerned about how company culture, innovation and collaboration can genuinely be supported while teams are working from home, in addition to learning and professional development, there are still more issues to be addressed once some of the staff are back in the workplace and others are elsewhere. That dynamic raises questions about the perceived advantages for those in the office over those that are not, in terms of visibility and influence, in the same way that scheduling the return to

work may create competitive dynamics if rival businesses choose to get back into the office sooner rather than later.

It also looks unlikely that business travel will return to anything like the same extent that it was taking place before, with climate considerations as well as cost savings influencing leadership decisions. The pandemic has proved that much can be done remotely, says Bessima Bahri, Associate General Counsel at MoneyGram International: "In many African countries it is extremely important to meet face-to-face. Meetings with central banks, for instance, always had to take place in person."

She adds, "The pandemic has changed mindsets in this respect and we now have more video and phone meetings. The question is the extent to which, when people are able to travel again, this will remain. It is a bit too early to answer that."

With so much more activity taking place remotely, agile working also creates new concerns around the protection of confidential information, cyber security and the risk of data breaches when so much information is being handled off-site. Sarah Pearce of Paul Hasting says: "The concerns around data privacy and security issues remain and to some degree have increased during the pandemic, with more clients recognising the value of ensuring robust compliance programmes that include rigorous screening of third-party vendors."

Further privacy issues could emerge for employees, with the growing popularity of employee surveillance tools that have enjoyed something of a boom during the pandemic. Technologies now exist that make it possible for business leaders to track not only workers' absences from their computer screens, but also their personal conversations, daily web browsing and even "productivity scores".

Suzanne Horne says:

> "The rapid move to remote working gave managers the green light to introduce tools to track the activities of more employees that would never before have been acceptable. Not only do the advances in these technologies raise questions about privacy, they force employers to consider how far they are willing to go to monitor their workforce."

What is clear is that the impact of Covid-19 on the workplace cannot be treated in a vacuum, but rather as an outlier event taking place in the context of a number of profound trends that will continue to impact the world of work. These include the growth of automation, the geographic concentration of employment, an ageing population shrinking the labour supply, empowered consumers and employees, diversity and inclusion as a business imperative and a shifting mix of sectors and jobs.

The pandemic may have accelerated some of these trends; it has certainly moved them up the thinking of business leaders and provided a lens through which to engage in creative thought about the future working environment.

SECTION JUMP 04 | 06 | 12 | 19 | 66 | 78 | 122 RETURN TO CONTENTS

Key takeaways:

- Consider gathering key stakeholders from HR, legal, IT, and the business, to determine your optimum strategy on the return to work and the short-term and long-term opportunities available to your business to recreate the workplace fit for today's reality and tomorrow's possibilities. Create an action plan to further understand and analyse the scope for change, and how you will implement transformation.

- In the short-term, minimise legal risks and address obvious issues such as outdated contracts of employment, agile and flexible working policies and robust working from home policies that also address the protection of confidential information and data. Consider whether new measures of productivity are now relevant and appropriate, being mindful of treating all staff members equally regardless of their place of work and the related privacy considerations.

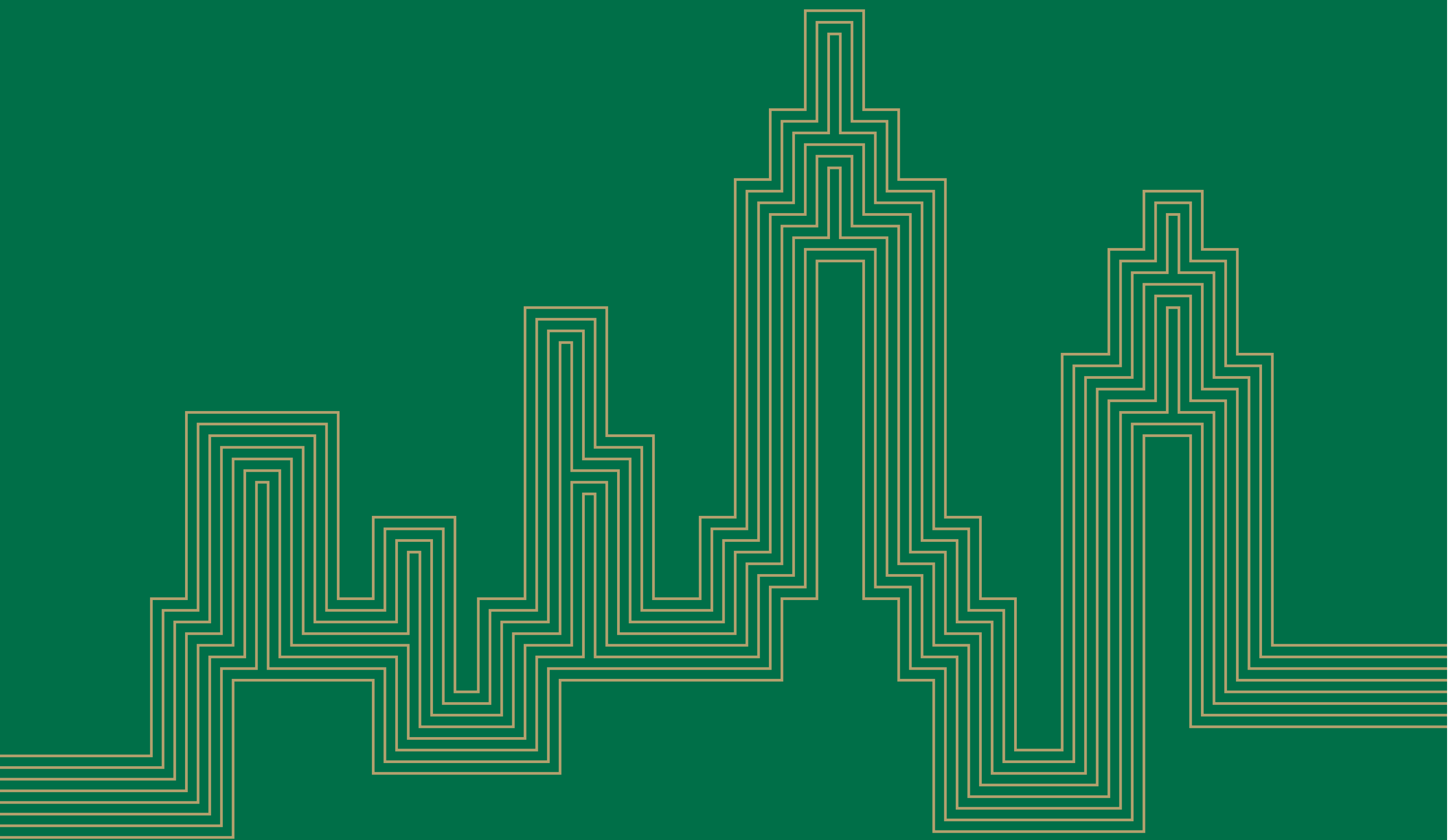
- Revisit your health and safety policies and obligations, including conducting workstation assessments if appropriate, to ensure staff continue to work safely in their home environments and at work. Consider your policy on vaccination and the continuing spread of the virus. These issues will continue to have significant prominence in the return to work in 2021. Consider responsibilities around mental health as well as physical health, the steps that an employer must take to ensure adequate breaks are being taken, and that issues of loneliness and isolation are being considered and appropriate action is taken to address any health and safety concerns.

- Look again at cybersecurity and data privacy training to take account of emergent risks and make sure staff are fully trained and aware, both of the issues and how to remain compliant.

- Tackle staff working remotely from jurisdictions where the company does not have a local employing entity, to avoid incurring tax liabilities in third countries by inadvertently creating a permanent establishment risk. Going forward, ensure that the benefits realised by the global talent pool, including greater diversity and inclusion, are not offset by the tax risks and payroll challenges.

- If it is necessary to look at personnel costs, ensure that these are accrued out in accordance with applicable law to minimise litigation risk and additional costs.

Rebuilding a purposeful and sustainable economy



The Covid-19 pandemic has put untold pressure on business leaders the world over and, as they have faced up to challenging decisions daily, the spotlight has turned more than ever on their abilities to relate to key stakeholders.

Companies large and small have had to re-evaluate their operating models and find new ways of relating to employees, customers and communities at a time when the conflict between protecting health and safety versus profits and jobs has never been starker.

In May 2020, global communications firm Edelman published a special Covid edition of its annual Trust Barometer, highlighting how trust in government had reached record levels amongst Britons, apparently reflecting a strong belief in the economic rescue package put forward by the Chancellor, Rishi Sunak. Trust in business also grew, but to a lesser extent – business is trusted by 55% of the British public, compared to 60% for government, and is underperforming on putting people before profits (32%), with only 28% feeling it is doing well at preparing for the eventual recovery.

Business not seen as looking out for employees or business partners
Percent who say business is performing well or very well on each

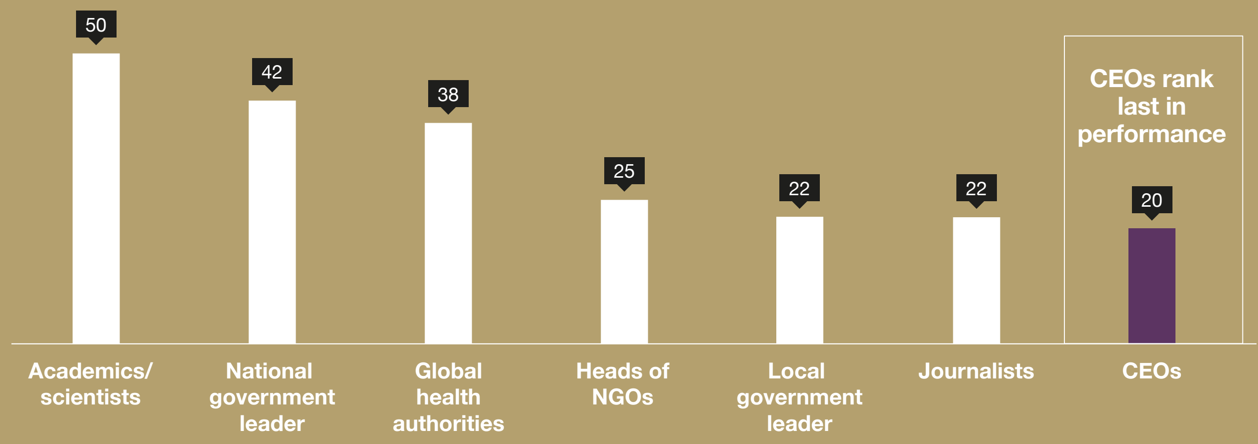
Putting people before profits — 32% doing this well or very well

Protecting their employee's financial wellbeing and safeguarding their jobs — 35% doing this well or very well

Helping their smaller suppliers and business customers stay in business by extending them credit or giving them more time to pay — 29% doing this well or very well

2020 Edelman Trust Barometer Spring Update. NEW_PER_BUS. When it comes to how it has performed thus far during the COVID-19 pandemic, how well do you believe business in general is currently doing each of the following? 5-point scale; top 2 box, doing well. General population, U.K.

CEOs failing to demonstrate expected public leadership
Percent who say each are doing an outstanding job meeting the demands placed on them by the pandemic



CEOs should take the lead on addressing the pandemic rather than waiting for government to impose restrictions and demands on their businesses — 55%

2020 Edelman Trust Barometer Spring Update. CEO_AGR. Thinking about CEOs, how strongly do you agree or disagree with the following statement? 9-point scale; top 4 box, agree. CRISIS_LEAD. The current pandemic places many demands on our leaders. Which of the leaders listed below do you believe are doing an outstanding job meeting the demands being placed upon them by this crisis? Pick all that apply. General population, U.K. "All of the above" responses were added to each item.

With the Build Back Better campaign gathering pace all over the world, corporates now find themselves under pressure to reset the clock and prioritise people in their coronavirus recovery plans, to create robust, shockproof economies. The rise to prominence of Black Lives Matter at the height of the pandemic has put diversity and inclusion at heart of that conversation, while the need for companies to have a positive impact on their environment, society and governance (ESG) has also moved up the agenda.

Diversity and inclusion

A key element of any purpose-led approach to navigating the pandemic and its aftermath will be diversity and inclusion. As technology and remote working transform the world of work, the ability to attract, engage and develop the best talent will be decisive and the current upheaval represents a huge opportunity for companies to introduce new ways of operating.

Building diverse, inclusive and accessible workplaces has been high on the agenda for corporates for some time, with recent examples of racial injustice only serving to increase demands for businesses to act, from their employees, customers and board members.

"Being diverse and inclusive is a no-brainer on a number of levels," says Arun Birla, Paul Hastings London Office Chair.

> "We at Paul Hastings have strived to ensure the discussion around D&I is an open one and a part of our DNA. We will continue to challenge ourselves to be better and reflect the community that we are part of."

One senior executive in a mainstream UK media company said her Board responded well to the issues raised by Black Lives Matter, doing more than just paying lip service: "I don't think the world will be the same again; people have been challenged," she says. "Black Lives Matter means that, as a global community, we now know this exists and we cannot ignore it–we need to find a better way to respond."

The risk that new ways of working might alienate certain groups and lead to those vulnerable to exclusion from leadership roles or promotion opportunities being further ostracised must be taken seriously. Likewise, inclusivity in a remote working environment calls for new leadership skills to get the best out of all team members and avoid a two-tier situation with divisions between those travelling into the office and those working from home.

Employees that are more anxious, more vulnerable, have accessibility needs or greater caring responsibilities in the home may benefit from the opportunities opened up by a greater acceptance of remote working during Covid. Managers will need to ensure their contributions are just as meaningful and recognised as those that are physically present.

Creating a diverse and inclusive environment requires a focus on doing so at board level, which will in turn drive model processes across recruitment, training and development, promotion and retention. Targeted interventions are often required, such as the use of goal setting, as are challenges to existing processes, procedures, assumptions and structures.

Stephan Caron at BlackRock says: "There has really been a significant effort all the way from the top of the house to focus on diversity. Historically, the focus for that might have been around gender, but that has expanded to look more at racial diversity. We've all recognised that we need to do our part to demonstrate that these things matter and make commitments to advance that agenda."

Increasingly, that diversity mission needs to further extend beyond the company's own four walls, and into its broader market engagement. Walter Wang at esports business TSM says: "No company can call themselves diverse and then exclude 50% of the population. In order for esports to grow, we all must have a mission to pick up and showcase amazing female players. This, combined with other business initiatives like internships and targeted recruitment, can begin to move the needle in our industry and create more opportunities for females in the industry, whether they are professional players, streamers or working in the business."

He adds: "As a start-up, we recognise that we have limited bandwidth and appreciate that we don't have the resources to be able to change everything. But this is critical, so we have put our big stamp on focusing on female diversity."

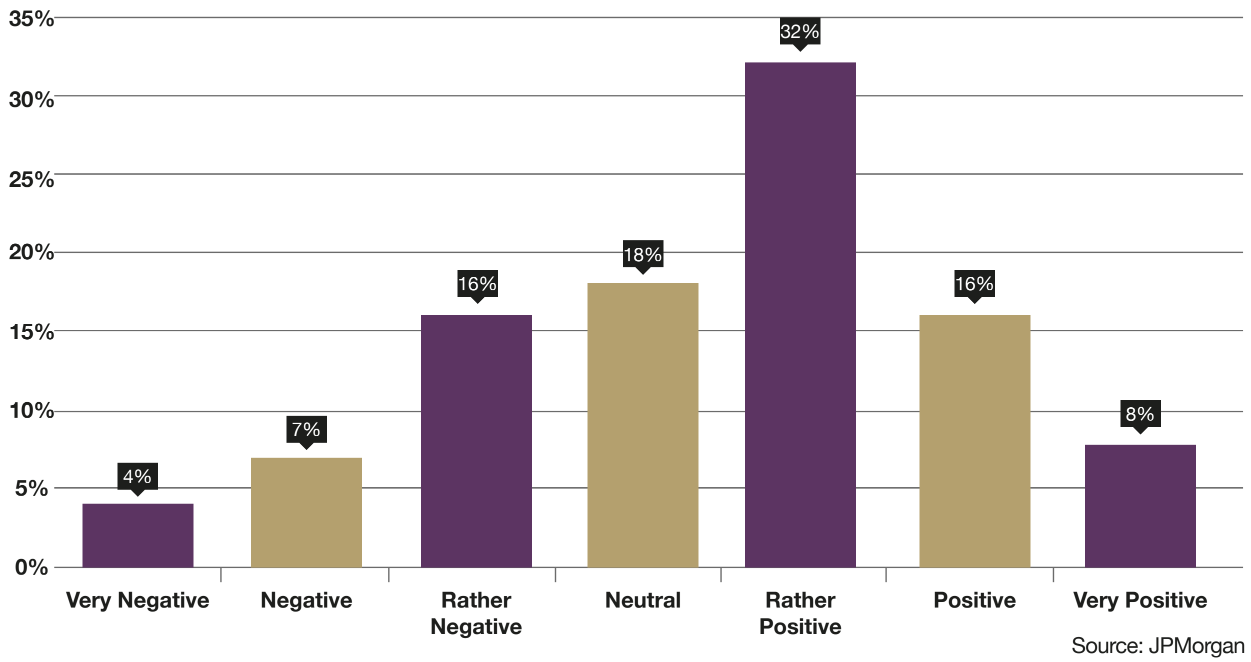
Environment, society and governance

In line with a growing focus on diversity and inclusion comes an increased focus by investors on the ESG strategies of both public and private companies. Again, the pandemic has turned many of the accepted practices on their head, with a shift away from public transport in favour of a return to the car, for example, and a sudden backpedalling on reusing and sharing of materials by consumers in a bid to stop the spread.

Nevertheless, widely shared commentary on the cleaner air and waterways that came from the slowdown in travel through 2020 means companies have largely upped their ESG efforts through the pandemic rather than looking away, and again the opportunity has been taken to reset and re-evaluate existing practices.

Investors expectations of the impact of the pandemic on ESG have a positive skew

Distribution of responses to Question 6 in JPMorgan's investor survey: "In your view, what will be the implications of the COVID-19 crisis for ESG investment momentum in the next three years?"



Source: JPMorgan

Olivier Rosenfeld at NJJ Telecom Europe says: "In a way, it feels like this pandemic gives us a chance. At NJJ, we used to fly every month to our different companies and, while some of us will continue to do that, I myself will not. The pandemic has shown that showing up four times is probably enough, and the rest can be done on Zoom, without the carbon footprint."

He adds,

> "We all have children on our management board, and there is a feeling that it is for them really. I think it's becoming much more personal for all of us."

Carolan Lennon at eir points to another environmental positive that has emerged over the past year: "The thing I was most worried about was our buildings, because they're old and not particularly environmentally-friendly, and it would have been difficult and expensive to bring them up to today's environmental standards. But in our new post-Covid world, I don't think we will have as many buildings, and that will dramatically help us. Actually, some of the changes to work practices that have emerged as a result of Covid-19 will definitely help our sustainability agenda."

Institutional investors have increased their focus on ESG this year, with Scottish Widows announcing in November that it would sell £500 million of shares in companies that are falling short on climate issues, marking one of the most significant demonstrations of support for the green investment agenda by a City institution to date.

Rodney Schwartz, who is chief executive of ClearlySo, the impact investment bank, notes that: "Institutional fund managers are literally falling over themselves to launch new impact funds and rebrand existing funds as impact products. They do this for PR/CSR purposes, in response to client demand, and because the economics are more attractive–fees are higher than for plain vanilla products."

He adds that demand from very wealthy family offices has been extremely robust, citing a recent report by Barclays and Campden Wealth that suggested that 50% are active in impact investment and 16% are pursuing impact investment as their primary portfolio strategy.

Paul Hastings Partner David Ereira observes of the financial services industry: "There has been a fundamental shift in priorities. ESG investing is going to become a huge driver–for any company in the public domain, the ESG profile has come absolutely to the fore because people are thinking about the bigger picture and sustainability in the widest sense."

As companies have increased their focus on ESG over recent years, it has often been environmental and governance factors that have been given priority, not least because they are the easiest to measure. Covid-19 has resulted in a growing amount of attention being shifted to the social side of ESG, not only through diversity and inclusion efforts as noted above, but also in terms of engaging with communities, looking at the human impact of the supply chain and seeking to contribute more to society than simply profits. During the pandemic, companies shifted their production lines to make personal protective equipment in support of the National Health Service, or doing more to support the more vulnerable members of local communities, for example.

Nicole von Westenholz, Partner and Head of Strategic Business Development at Cheyne Capital Management, highlights Cheyne Capital's Impact Real Estate programme as a case in point. In a recent social audit of the programme, King's College London notes that "the fund has offered genuine value to local authorities compared with their other options for delivering affordable housing. This is despite the fund not generating its impact through concessionary returns. Moreover our sources have consistently reported that the quality of homes delivered by the fund is higher than what is generally available for affordable housing, providing a new standard of what should be possible."

The new EU rules on sustainability disclosures for the financial services sector show the seriousness with which such initiatives are being taken by regulators, signalling a direction of travel that all business leaders will need to take seriously, not just in Europe but globally.

Steven Bryan, Partner at Paul Hastings, says: "The EU Taxonomy Regulation, and similar regulations that will apply in the UK, are still developing law, but it is clear that what is coming down the track is the need to demonstrate that if you're going to badge your funds as being focused on sustainable investment, you are going to have to demonstrate exactly what that means. There is going to be a whole raft of new non-financial reporting disclosure requirements around different metrics, depending on the size of the fund and the types of markets being participated in. The rules are all about stopping greenwashing, and they are going to focus the minds of everybody in this business."

Stakeholder engagement

With corporate purpose influencing the thinking of banks, regulators and global investors, businesses are also waking up to a new swathe of wider societal stakeholders, including employees, communities, customers and shareholders seeking to hold them to account.

The uncertain economic and business outlook for some firms is also driving greater involvement by stakeholders and their representatives in transactions affecting those firms.

SECTION JUMP 04 | 06 | 12 | 19 | 66 | 78 | 122
RETURN TO CONTENTS

Ed Brogan at Brookfield says:

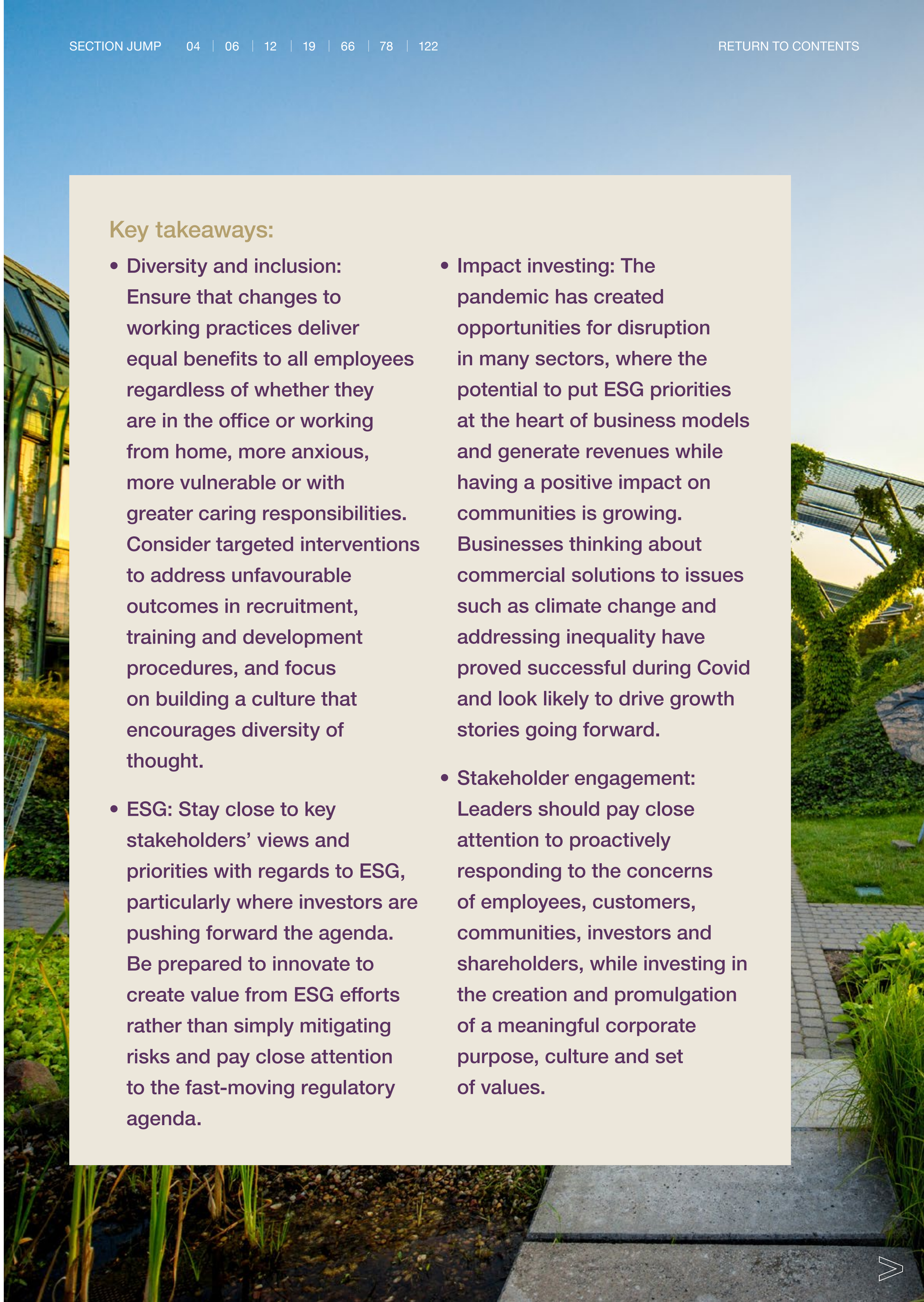
> “Stakeholder involvement is a core theme, particularly pensions trustees and labour unions in Europe. We find that we are most successful investing in businesses where our heritage as a long-term owner and operator of real assets and infrastructure matters, making us a credible owner or partner.”

We are witnessing a new era of shareholder activism following several reviews of corporate governance rules in recent years to encourage investors to engage responsibly. Today, there is increased scrutiny of how boards are managing the coronavirus crisis and more willingness among shareholders to mount campaigns via social media or in the context of annual general meetings to challenge any missteps.

At the same time, employee engagement is also on the rise, with workers increasingly making their voices heard going into the pandemic, and now raising volumes higher in the context of lives being put at risk and financial strain impacting countless individuals.

Every company, whether public or private, and regardless of sector, is increasingly alive to the issues. Josh Hu at Huayi Brothers International says: “We have been very proactive in attaching a high level of importance to our corporate social responsibilities. We have established a foundation that is very specialised in addressing poverty issues in remote areas of China, and we are putting environmental protection and the use of natural resources at the heart of our thinking when we are designing our approaches to filmmaking in China.”

While physical distance may be shaking up the corporate culture, the power of social media and other communication tools means workers are directly challenging business leaders to look at their commercial relationships and working practices, sometimes taking those campaigns into the public domain.



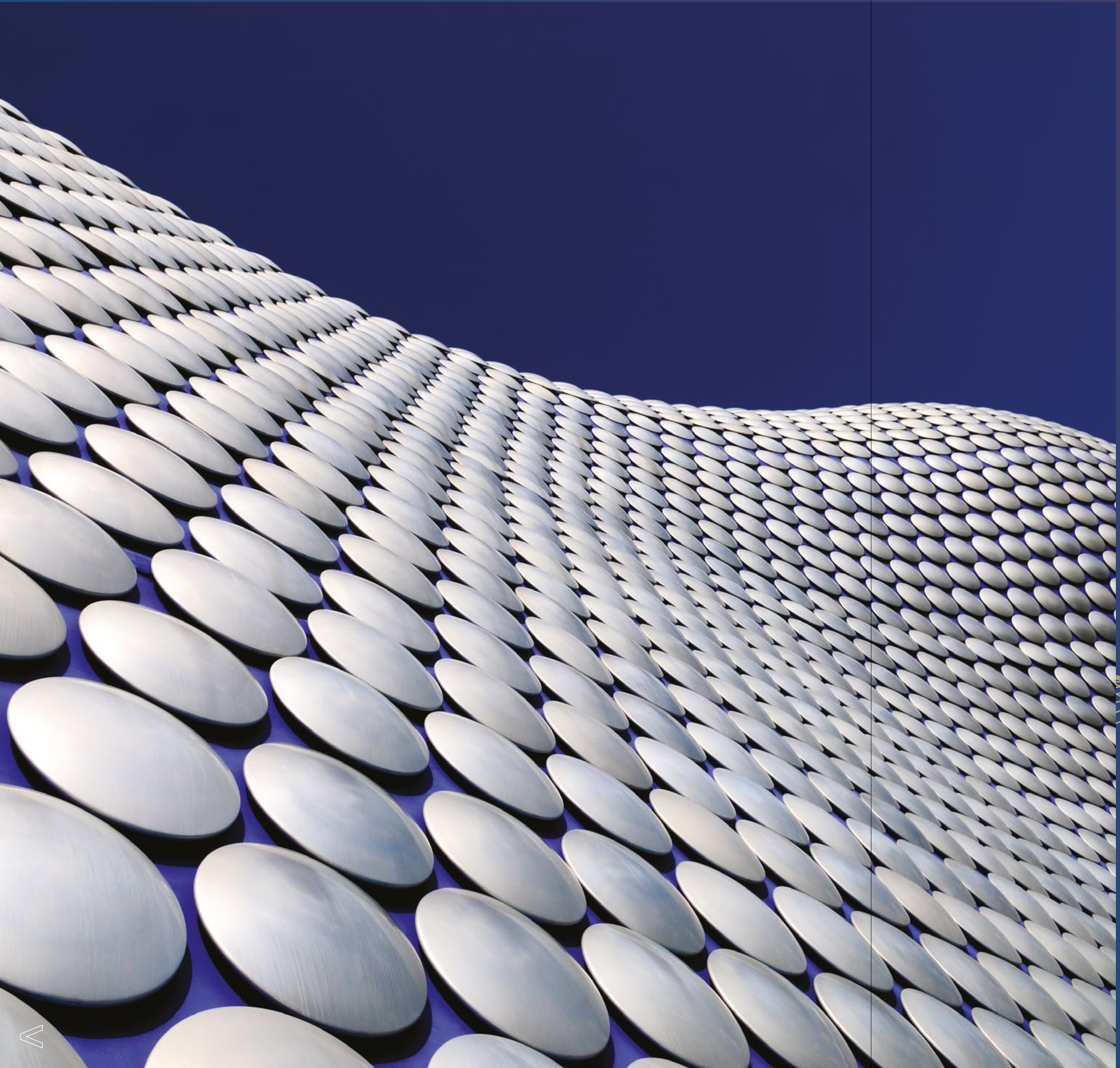
Key takeaways:

- Diversity and inclusion: Ensure that changes to working practices deliver equal benefits to all employees regardless of whether they are in the office or working from home, more anxious, more vulnerable or with greater caring responsibilities. Consider targeted interventions to address unfavourable outcomes in recruitment, training and development procedures, and focus on building a culture that encourages diversity of thought.

- ESG: Stay close to key stakeholders’ views and priorities with regards to ESG, particularly where investors are pushing forward the agenda. Be prepared to innovate to create value from ESG efforts rather than simply mitigating risks and pay close attention to the fast-moving regulatory agenda.

- Impact investing: The pandemic has created opportunities for disruption in many sectors, where the potential to put ESG priorities at the heart of business models and generate revenues while having a positive impact on communities is growing. Businesses thinking about commercial solutions to issues such as climate change and addressing inequality have proved successful during Covid and look likely to drive growth stories going forward.

- Stakeholder engagement: Leaders should pay close attention to proactively responding to the concerns of employees, customers, communities, investors and shareholders, while investing in the creation and promulgation of a meaningful corporate purpose, culture and set of values.



Sector Focus

Funds

Europe's private funds market was hit hard by the coronavirus pandemic in the first half of 2020, with deal volumes down significantly on previous years as managers prioritised portfolio management ahead of new investments. Fundraisings that were already in process continued largely unaffected into the first half, with LPs remaining keen to support managers and commit to new funds.

As such, the €99 billion raised in the first six months of 2020 across Europe, according to Preqin data, did not fall particularly out of line with the record €214 billion raised in 2019.

Figures for private equity and venture capital fundraising globally in Q3 2020, however, show the decline starting as new funds resisted coming to market, with only 237 funds raised in the third quarter, down 18.3% from Q2. How fundraising rebounded in the rest of the year and into early 2021 will give the first real indication of the pandemic's impact on investor appetite and the scale of the slowdown.

Andrew Lewis at Intermediate Capital Group says:

> "Fundraising is on track–it has not hit 2019 levels, but it is pretty strong. The impression we have is that investors are coming back after the summer break; if you're a pension scheme, for example, you cannot simply stop putting money to work. The overall picture is probably a slightly cautious one from investors, but they are still willing to deploy, particularly with the managers with better track records."

While all managers found it difficult to raise money at a time when face-to-face meetings with new investors were impossible, the market proved its resilience. Luke McDougall, Partner at Paul Hastings, says: "There have been assumptions about the way money is raised for private funds that have been challenged and potentially set aside as people were unable to travel and conduct meetings. Through the course of the year we have seen the dynamics between GPs and LPs evolve, and we have learned that those personal connections can be made virtually, with many funds about to raise money and obtain commitments without ever shaking hands."

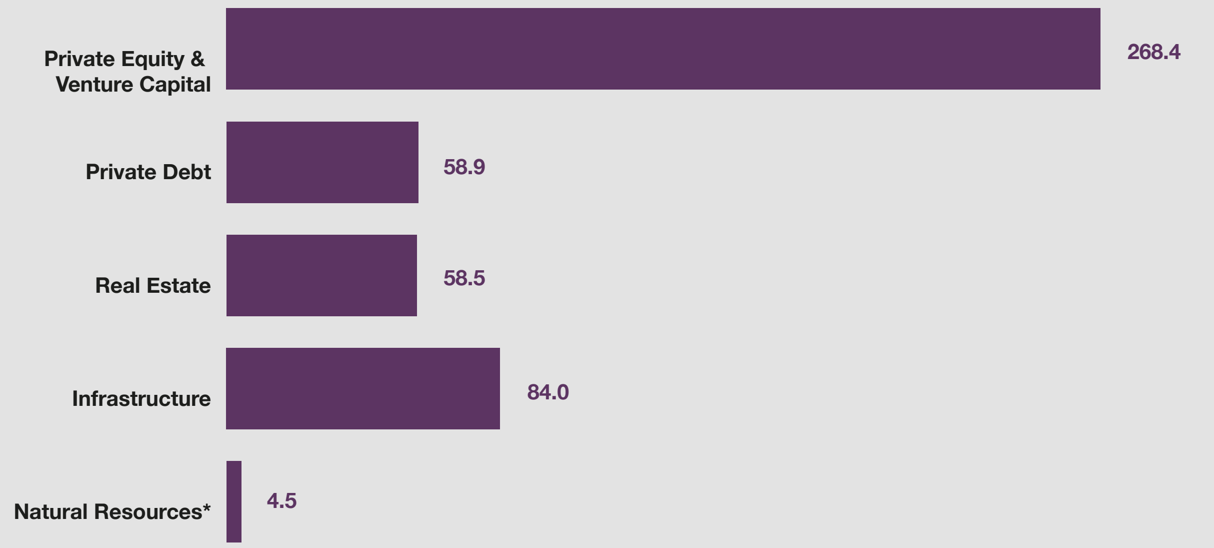
Most of Europe's private fund managers committed significant time in Q2 2020 to proactively managing their portfolios to ensure that they were able to adjust to the onset of Covid-19. Preserving cashflows, reducing costs and raising additional liquidity were all high on the agenda, as exit processes were delayed or put on hold and new acquisitions were similarly impacted by pricing uncertainty and challenges to due diligence processes.

Anu Balasubramanian, Private Equity Partner at Paul Hastings, says: "Managers are perceived to have acted more decisively and effectively in shoring up portfolios in comparison to previous economic downturns, and the majority of LPs expect to maintain or increase their exposure to PE across 2021."

Going into 2021, there is a shift into more opportunistic strategies, as clarity around valuations increases and the chance to acquire distressed assets at favourable prices becomes apparent. The amount of dry powder available to Europe's alternative assets funds remains at record levels, hitting €268 billion across private equity and venture capital alone, according to Preqin's Markets In Focus: Alternative Assets in Europe report.

Managers therefore remain keen to deploy capital as the economy emerges from the initial few months of the Covid-19 crisis. However, competition for quality assets is fiercer than ever. Whilst buyout firms have nimbly refocused on sectors that have demonstrated resilience to the fallout of the pandemic, the result has been a flight to quality, with heavy dry powder targeting a smaller pool of assets.

Europe-based alternative assets dry powder (€bn) by asset class



*Natural Resources includes natural resources and Timber fund types only to avoid double counting

Source: 2020 Preqin Markets in Focus: Alternative Assets in Europe

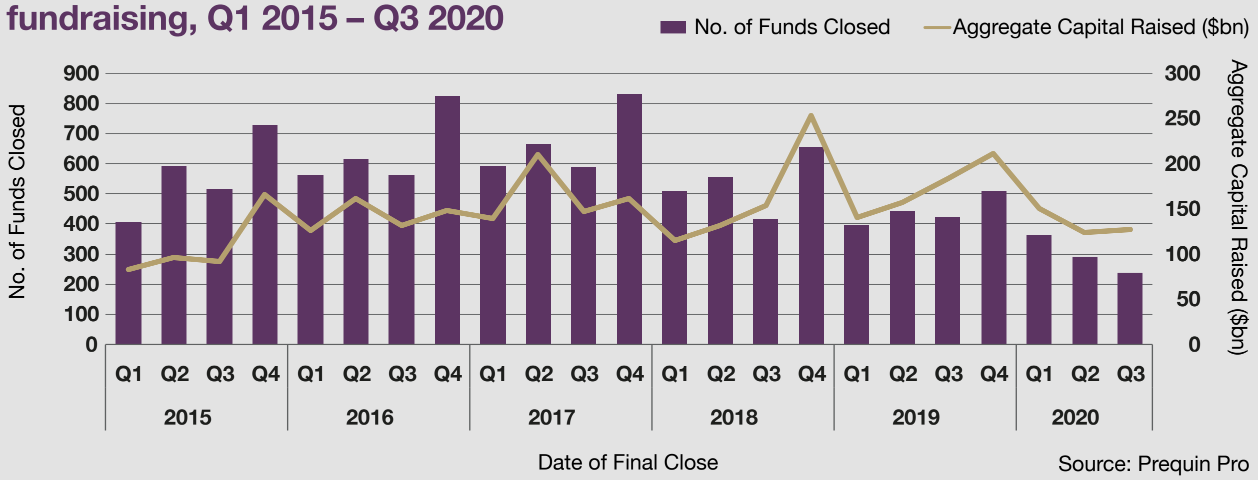
Private equity

In private equity, UK-based CVC Capital Partners was able to close its €21.3 billion Fund VIII in July 2020, exceeding a €17.5 billion target and just six months after launch. That fund is one of the largest ever raised by a European firm, and one of 117 Europe-focused buyout funds closed in H1 2020, raising an aggregate €50 billion for the asset class.

The number of private equity deals executed in the UK dropped by 28% in the first half of 2020 compared to 2019, with an aggregate deal value down from €35.3 billion in 2019 to €8.4 billion in H1 2020, suggesting the full-year figures will fall some way short of the upward trajectory of recent years. However, transaction volumes improved significantly in the final quarter of 2020.

The general outlook in autumn 2020 was indicated by Andrew Lewis as "everyone is waiting to see what happens through the winter. We remain optimistic on our outlook for 2021, but for the wider market there may be a pause as people take stock of the challenges ahead." However, the level of confidence in launching transactions has risen since then and tends to justify there being no plans for any fundamental shift in strategy as a result of the pandemic. As Lewis says "There are some things that will go faster and others that will go slower, but we are still planning to carry on doing what we were doing, there is more awareness that the market is a little fragile, but we are confident in our core areas."

Global quarterly private equity fundraising, Q1 2015 – Q3 2020



Source: Prequin Pro

As we open 2021, one senior executive at a global private equity fund reflected that the fund's initial internal assessment that there would be delays in anticipated exits and value realisations of up to two years as a result of the pandemic has since given way to the view that such plans are largely back on the original scshedule.

Private debt

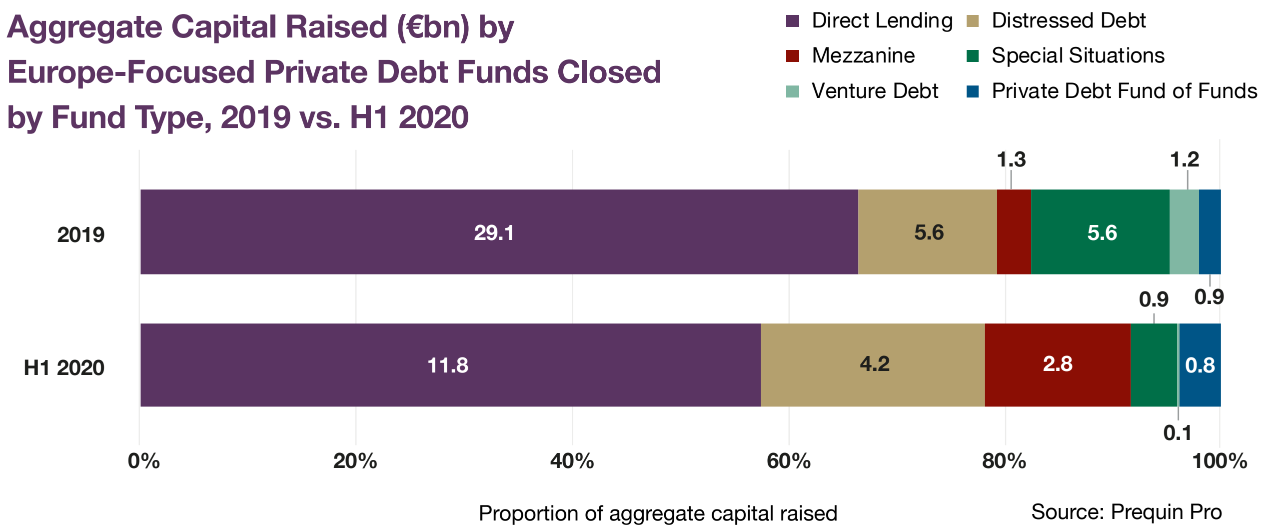
In credit, fundraising was similarly strong in the first half of the year, with 28 funds closed worth €21 billion, representing just over half of the figures raised in 2019. Distressed debt funds raised €4.2 billion in H1 2020, representing 20% of the total for private debt as against 10% of the total for last year as investors eye a clear opportunity on the back of the crisis. While deal flow declined, the value of European private debt-backed deals was up, reaching €8.7 billion for the first half, already three-quarters of the way to matching the total for 2019. The UK accounted for the largest proportion of private debt-backed deal value in Europe, being home to nearly a third of all transactions.

Stephan Caron, who leads the European private credit business at BlackRock, says: "The way we have built resilience into our portfolio is to really focus on those businesses that weren't going to be impacted by a changing cycle, like healthcare, software, technology and business services. In March 2020, we had something like 30% of our companies expected to breach their covenants by the summer, but the picture when we came out of the summer was actually much better than we thought it was going to be when we went in. The number of covenant breaches we are looking at is far less – less than 10% of the portfolio."

The next question is what will happen to the economy as government support eases, he says:

> "We think our portfolio is going to be resilient and continue to perform effectively through this cycle. But we are little bit more worried about what's happening in the real economy. The key here is to have a strong focus on building resilience in your portfolio."

Aggregate Capital Raised (€bn) by Europe-Focused Private Debt Funds Closed by Fund Type, 2019 vs. H1 2020



Source: Prequin Pro

Real estate funds

In private equity real estate (PERE), asset values have declined significantly in some sectors, most notably Central London offices and retail assets, both of which were hit hard by lockdown restrictions as well as ongoing macro shifts. In the first half of 2020, aggregate PERE transactions in Europe were valued at just €23 billion, compared to €82 billion for the whole of 2019. Parts of the sector that performed particularly well included warehousing, distribution and logistics, however, which will benefit from the uptick in online shopping. Furthermore, funds that were already focused on environmental performance, quality of buildings and active value-add strategies report a more cushioned impact compared to peers.

One transactions professional at a real estate investor says: "Our investment and portfolio strategy might consolidate a focus on risks that the team can manage versus beta. We also expect distress to start to arrive this year, which should be a good buying opportunity. Regarding the existing portfolio, business plans have been pushed out but it is too early to say what the full impact will be."

Infrastructure

Finally, uncertainty and shifting demand hit infrastructure fundraising and transactions, particularly in areas such as transport. The asset class remains fundamentally attractive as a long-term play, however, and the increasing focus by governments and others on renewable energy and decarbonisation looks set to continue driving deal flow in the near term and fuelling investor appetite.

Ed Brogan at Brookfield Asset Management, which is principally focused on infrastructure, renewable power, real estate, credit and industrial and services businesses, says: "From a private equity perspective, we have focused on large-scale global manufacturing and service businesses providing mission-critical products and services, which typically have more resilient cash flows."

McDougall adds: "Private money has illustrated through 2020 its ability to pivot much faster into sectors of the economy that are going to grow and respond to that demand to grow. As a result, private capital is likely to be an important component of the recovery, including the Build Back Better agenda."

As the markets rebound in 2021, many funds stand ready to deploy capital to take advantage of such opportunities.

Key takeaways:

- **Competition for assets will remain fierce across 2021, as investors continue to focus on sectors that have shown resilience to the economic climate seen in the second half of 2020. Sellers in such sectors will continue to run highly competitive auction processes and buyers should research targets and hone auction strategies in advance wherever possible.**
- **Globally, regulators are broadening regimes that will affect cross-border investment, principally, though not exclusively, in the antitrust and foreign direct investment arenas. Being able to act nimbly in a constantly shifting environment will be key.**
- **The fundamentals remain in place for private funds to continue to deploy capital effectively, with investor appetite primed for further private market allocation. Managers should invest in their Investor Relations functions and fund materials to keep LPs close and well-informed at a time when face-to-face contact to maintain and build relationships is challenging.**

Financial Services

While the latest economic crisis did not emanate from the financial services industry as was the case in 2008, the economic impact of the crisis and government response to it has caused the sands to shift and this will have a transformative effect on the industry.

The sector has had to deal with extreme volatility in the financial markets, record low interest rates, unprecedented monetary expansion and precipitous falls in GDP.

These have all presented challenges to the financial services industry while, at the same time, new opportunities have arisen for firms. The crisis has accelerated moves to digitisation both of firms' own internal digital infrastructure and in the manner in which products and services are delivered to clients. Firms' operating models have also changed remarkably with remote working becoming the norm for large parts of last year and into 2021.

Operational transformation

Operating models have been upended as banking giants proved the effectiveness of their agile working systems and it became apparent that skyscrapers built to house thousands might be a thing of the past. Bank of New York Mellon and Barclays were among the early movers who declared that the pandemic would lead to more widespread homeworking long term. Deutsche Bank enabled some 80,000 employees with remote access in a matter of days, and now that employees can work from anywhere, there is a new flexibility to hire from a much bigger global talent pool along with far bigger implications for property costs and team dynamics.

One leveraged finance banker says:

> “We are definitely looking again at whether we need people to be in expensive locations, because if they can work from home, why can't they work from Bangalore, for example? People are drilling down and testing that now.”

But is home working here to stay? “My own view is that you cannot look at what we have done in 2020 and say if it worked then, it will work forever. The whole world was at home and people weren't expecting you to arrange meetings or even to be catching up with clients in the same way. It worked well because we had strong relationships from being in the office for so many years, and we were able to leverage those.”

Other clients concur, noting that marketing to an existing client base has not been so impacted, but developing new investors has proved difficult.

One of the biggest challenges for the sector has been its ability to address operational resilience, cyber security and data protection issues in this new environment, at a time when so much sensitive information is leaving the building and business-critical discussions are taking place around kitchen tables instead of behind meeting-room doors. The decentralised nature of remote working has also raised challenges for compliance teams and their abilities to perform monitoring. Increased conduct risks resulting from new working practices are a new area of regulatory focus.

The role of technology

Technology has played a critical role in facilitating financial transactions through the pandemic, with the digital transformation that has taken place occurring at a pace not even the most optimistic technologist could have dreamed of. Banks have invested heavily and rapidly in innovative fintech solutions to address new and emerging challenges: customers have moved away from cash and driven towards digitised options online, for example, with even the most reluctant accepting the automation of more processes than ever before.

Firms that had already invested heavily in digitisation have fared relatively better than those that have not. Clients expect their organisations to continue with significant investment in digital infrastructure, products and services. The low interest rate environment and its impact on profitability is flagged by clients as a concern. Digitisation will not only assist in saving costs but also encourage the development of new products and the retention of clients.

Daniel Geller at fintech Revolut says: “We are definitely seeing those aged between 20 and 35 getting more and more comfortable with using a new kind of financial services provider. We see the bigger banks moving away from the branch model and online banking growing across the board.”

He adds: “We are still growing in terms of customers and revenues even during Covid. We’re still very much a small part of the market, but the more adoption we get and the more we can build those levels of trust, then we are overcoming the obstacles. It is too early to say whether there has been a massive shift in mentality as a result of the pandemic, but demand went up for us in a number of areas.”

The same is true at MoneyGram, where Bessima Bahri says: “Covid has definitely accelerated the adoption of our digital solutions, where we have been reporting triple-digit growth for the last few months. I think that is a change for the long term, because what is hard is to get the customer to try it for the first time. Once the app is downloaded and customers have experienced how smooth the experience is, there is no reason to go back.”

For the bigger banks, the pressure on the back office to switch to digital technologies has intensified and moved into newer areas like contact centres and document management. There are also growing calls to move more functions out of high-cost city locations.

Arun Srivastava, Financial Services Partner at Paul Hastings, says:

> “Regulators have had some concerns with remote working and decentralised operating models. The crisis has now shown that the IT is robust, albeit with some new challenges with compliance processes. Having demonstrated the effectiveness of the technology to their regulators, firms now have new opportunities in how they organise themselves and where they locate functions.”

Digital currencies

Geller says: “The crisis has certainly driven people online more, and activities that were taking place in person are now taking place online. That has encouraged investors to look at alternatives like cryptocurrencies.”

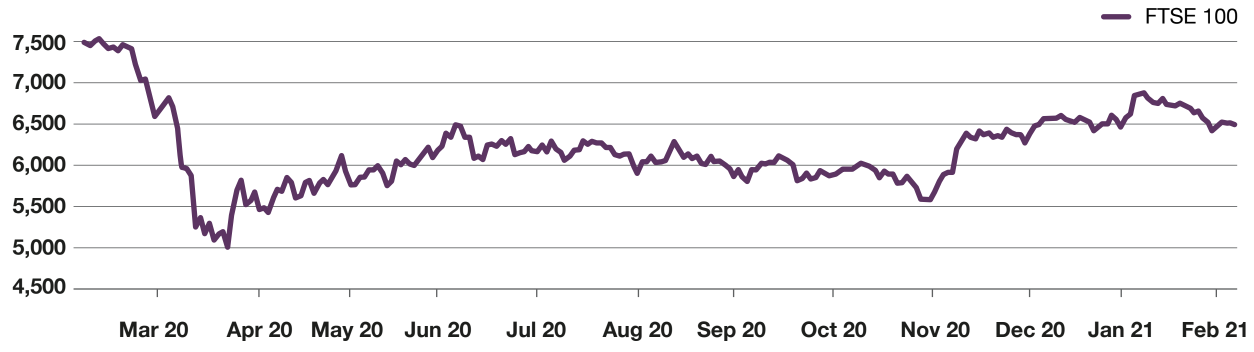
Bitcoin, the world’s best-known cryptocurrency, reached all-time highs – quadrupling in price in 2020 – as a growing number of investors started to consider its long-term outlook. Other cryptocurrencies including Ethereum and Litecoin also increased in value through the pandemic, although more recent falls in value have highlighted the risks of this asset class.

Private sector innovation in the digital currencies space has carried across to the public sector and the development of central bank digital currencies (CBDC). The European Central Bank, Federal Reserve and Bank of England have all initiated projects to develop their own CBDCs, which have the potential to transform payment systems and provide low cost services to users. They also raise important issues around the structure of the banking industry and the potential for commercial banks to be disintermediated from some activities.

Liquidity and risk models

Elsewhere, lending to businesses shot up and capital markets endured rocky times, but emerged somewhat stronger. By year-end 2020, the amount of liquidity in the capital markets was exceptionally high, with many companies avoiding the need to restructure their obligations by raising new debt. In consumer credit, the crisis prompted a huge decline

FTSE 100 index value through 1/1/20 – 1/2/21



Source: FTSE Russell as at 1 February 2021.

in personal indebtedness as people spent less and paid down debts.

Banks have had to reassess their liquidity and risk models, while projections of financial positions are in some cases changing dramatically.

"We genuinely feel these times of crisis are more beneficial to us than harmful," says the leveraged finance banker that we spoke with.

> "Many–not all–of our competitors will be weakened or less available. There is still strong competition, but some of it falls away and there is a massive difference in quality as well."

Much of the industry has in fact proved able to withstand the crisis relatively well. In trading, one regulatory counsel at a UK broker dealer says: "I've been impressed with my firm's operational resilience–we've accommodated a lot of changes, many of which will be long-lasting."

Srivastava adds: "The overall impression is that the sector has already implemented and built a reliance on technology to a significant degree–the stock exchanges are electronic, very little financial services are now done face-to-face and even retail financial services are increasingly accessed online or via apps. The industry has proved resilient and has not experienced the major disruption seen in other sectors."

Regulatory change

Some of the regulatory upheavals that were on the agenda for 2020 have been pushed back in recognition of the unprecedented challenges, and financial institutions need not fear a regulatory clampdown in the same way that the industry was targeted in 2008 onwards. Nevertheless, the regulatory agenda remains packed, with new regulatory capital rules being consulted on, along with new remuneration restrictions, and enforcement activity around financial crime remaining fervent and likely to intensify.

New rules on sustainable finance come into force in Europe this spring, while Libor transition and updates to the Senior Managers and Certification Regime have both been pushed back into Q1 of 2021 and loom large. Sustainable finance resonates with the issues that the world has grappled with in 2020 and into 2021, and the issue has certainly been embraced by many investors and firms.

In the context of changed regulatory risks, the Financial Conduct Authority has expressed concerns around market abuse, operational resilience and issues around fair treatment of customers, where attention will be focused moving forward. One such issue is how lenders have dealt with customers who cannot pay their mortgages and consumer loans, such as car loans, where enforcement action is likely.

Most of the events of 2020 took place against a backdrop of Brexit negotiations, where the likelihood of the UK crashing out in January 2021 without a deal provided a major additional source of uncertainty. The Trade and Co-Operation Agreement between the UK and the EU was, of course, announced at the very end of the year. While it did not make any material provision for financial services, the agreement on trade and other services has provided continuity and stability.

The loss of passporting rights to access the European market has inevitably had an impact on firms with any significant European business. However, most firms have been able to implement new structures including obtaining new licences in the EU.

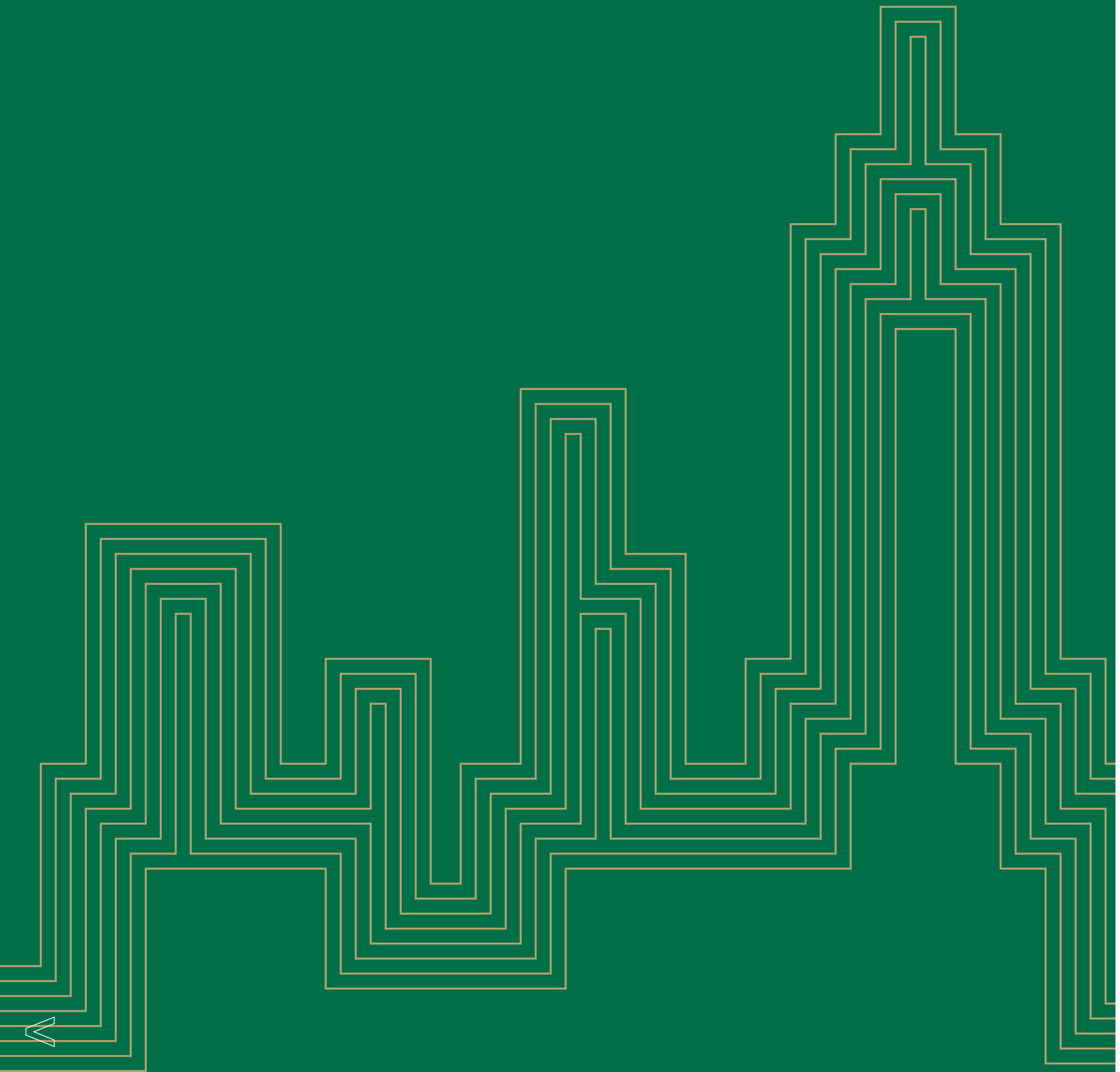
David Ereira, Finance Partner at Paul Hastings, says: “For the banking sector generally, it is challenging at the moment, because of the low interest rate environment and regulatory requirements to increase the capital base in a market where they are not able to offer significant returns on their debt and are constrained from paying dividends. The result is that bank shares are low when compared with other sectors and for those banks who can take advantage of the opportunities created by the current disruption to pursue operational transformation, they may turn out to enjoy a significant recovery in the medium term.”

As Covid-19 takes its toll across the financial services sector, it is already apparent that its institutions will emerge in an entirely different shape to before.

Key takeaways:

- **There will be significant focus across the financial services industry on cost reduction, with much of that around driving and accelerating the shift to digital.**
- **There will be pressure on asset quality and banks will need to focus on how they manage non-performing assets, which are likely to grow.**
- **Continued investment in digitisation to develop new products and services for clients will be key to growth, while investment in risk and compliance remains important to address new risks and changes to the business.**
- **Tech innovation has made firms more agile, but has increased the need for regulatory compliance and cyber risk monitoring, which needs to be addressed and managed carefully.**

Energy and Infrastructure



Energy and infrastructure is traditionally viewed as a non-cyclical or counter-cyclical asset class. The year 2020 provided a good opportunity to put that theory to the test. We have taken feedback from our clients and looked at market data to gauge the resilience of fundraising, transaction levels and sub-sector performance. We also identify likely drivers of growth in a post Covid-19 investment environment.

When the Covid-19 crisis hit Europe in the spring of 2020, investors naturally put a number of refinancing and M&A processes on hold. That was only to be expected for a long-term buy and hold investment class. Very few sponsors were forced sellers with few companies facing cliff-edge debt maturities. By mid Q4 2020, most of those processes had resumed or reached financial close.

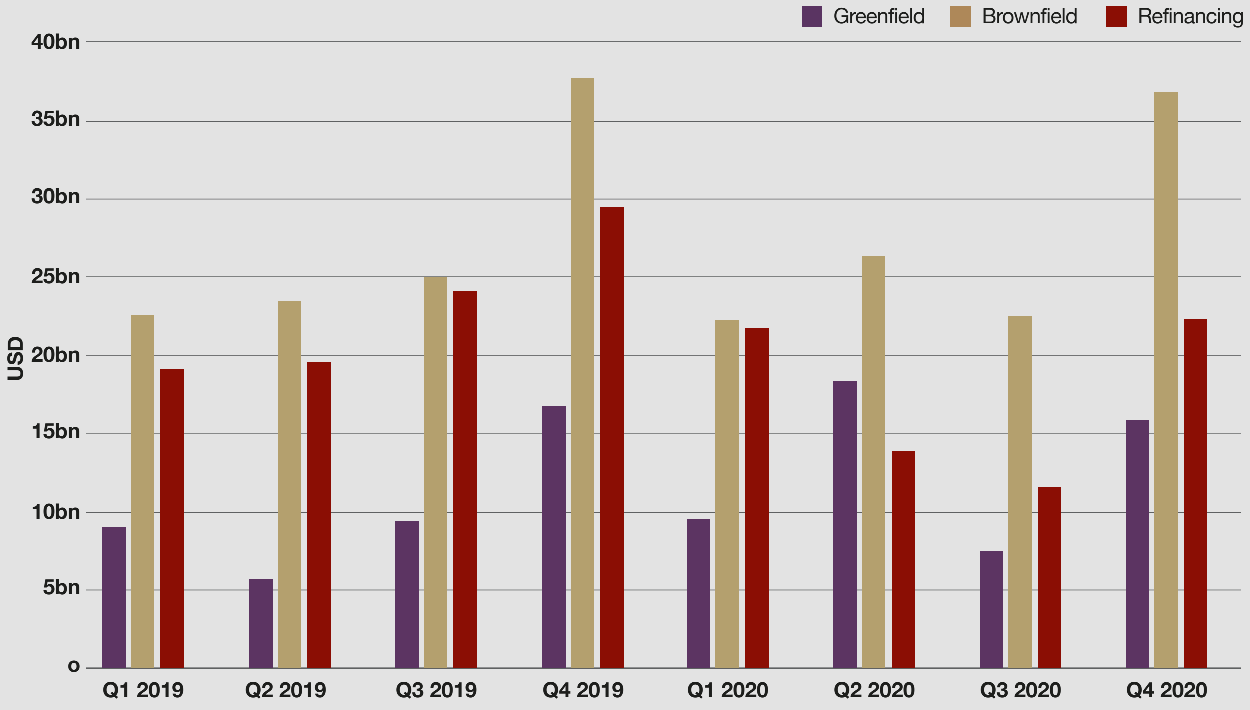
Perhaps more significantly, there has been no shortage of new transactions being launched. This means a healthy M&A and refinancing pipeline for 2021, with no signs of constrained liquidity. All-in financing costs are now similar to pre-Covid levels except for the most severely-impacted assets. Only M&A for highly GDP and travel-correlated assets, such as airports and toll roads, remains subdued.

Fundraising and transaction activity levels

Total infrastructure M&A activity slowed in Europe during 2020 as the Covid-19 pandemic took its toll on demand in several sub-sectors, creating uncertainty around revenues and market pricing. Figures from IJGlobal's Funds Report for 2020 show a drop of around $10 billion in aggregate deal volume in Europe and the US, compared to 2019, while Asia also dropped off by $1 billion. Sector-wise, transport and oil and gas transactions roughly halved, while digital infrastructure and renewables increased their share of overall activity. However, as illustrated in the charts opposite, market confidence had largely returned by Q4 and the overall picture illustrates that transaction activity in 2020 was similar to 2019.

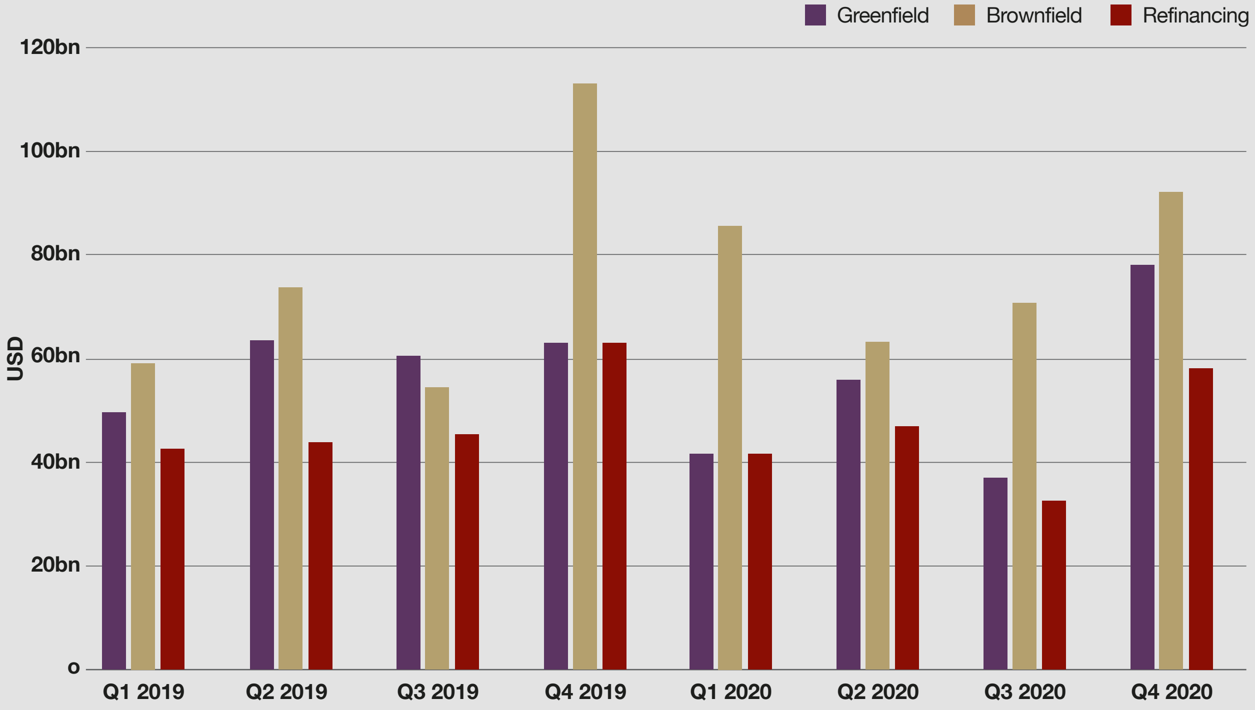
Fundraising momentum also slowed significantly in Q2 2020 as markets stalled, only to rebound by year-end such that infrastructure funds ultimately raised 7% more capital in 2020 than they had in 2019, continuing an upward trajectory now evident for a decade.

Transactions: Europe 2019-2020



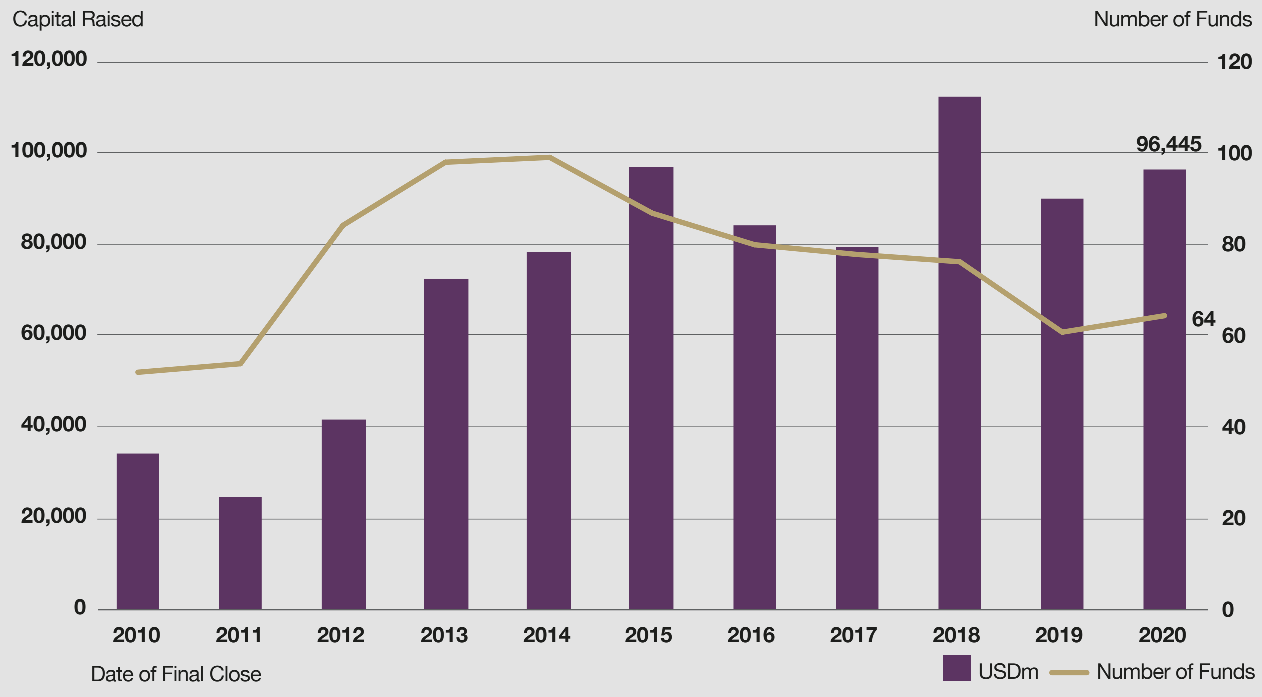
Source: Inframation Analytics - 4 February 2021

Transactions: Global 2019-2020



Source: Inframation Analytics - 4 February 2021

Capital raised (USDm) and number of funds at final close



Source: IJInvestor

Underlying performance

Activity levels tell only part of the story. They reflect macroeconomic conditions, committed capital that needs to be deployed and the acceleration of investments into higher yielding "alternatives" and ESG compliant assets – a trend already well underway before the events of 2020 unfolded. Evaluating the underlying performance of businesses requires more detailed analysis. Energy and infrastructure covers a diverse range of subsectors with different delivery, funding and financing models. Even within sectors, the impact of the pandemic has varied significantly depending on the specific revenue model and regulatory or contractual framework.

Some common observations that reflect feedback from our clients include:

Transport – As one of the most GDP-linked subsectors, transport assets with demand risk suffered significantly because of lockdown restrictions. Sponsors focused on shoring up balance sheets and managing liquidity issues and covenant waivers in the face of a collapse in demand.

A number of transport companies successfully raised additional debt and sponsors have generally been fully supportive. The sector has also seen government support, such as the emergency measures put in place to support train operating companies (and therefore rolling stock owners) in the UK. Whether the widespread support will continue into the middle of 2021, which will probably be the peak crunch point for liquidity and financial covenants, remains to be seen.

Additional funding requirements are certainly expected for 2021, but there are also encouraging signs that M&A in the sector is resuming. In particular, ports and rolling stock assets are expected to come to market.

Social infrastructure – Most social infrastructure involves concession based availability payments with a government backed covenant to pay. Therefore, although there have been operational and force majeure type issues, financial performance of those businesses has largely been unaffected.

Student accommodation is one notable subsector that may be adversely affected by a sizeable drop-off in demand from international students. Some providers have raised further funding at a group level to provide additional liquidity to portfolio project companies if needed.

Power and utilities – The pandemic and the lockdown restrictions that resulted across Europe created a widespread slump in demand for electricity, leading to a significant drop in prices. Similarly, non-household water supply volumes have also reduced. This has led to a short-term decline in revenues alongside increased provisions for bad debts. Lower inflation may also depress returns on inflation-linked asset values.

However, regulated utilities generally benefit from regimes that protect them against volume or price risk, so should be well insulated over the medium term. Several regulated utilities have been downgraded, although adverse regulatory price control reviews are cited as the primary influencing factors, rather than the effects of the pandemic.

Power generating companies with merchant demand risk (ie non-contracted revenues) are far more exposed to the fall in energy prices and volumes. Many of these companies will have energy hedging in place that should provide a degree of protection, though these are typically only 12 months long.

Lower energy requirements due to suppressed industrial activity have accelerated the transition away from conventional power (historically required for high baseload supply) to renewables. Other utility-like businesses, such as district heating, have performed well and are expected to remain active in 2021.

Renewables – Renewables has continued its relentless rise as a sub-sector. IJInvestor data shows renewables increased their share of all transactions by 5% in 2020. European M&A in renewables increased from USD17.59bn in 2019 to USD32.08bn in 2020 according to Inframation, due to decarbonisation and energy transition driving investment into ESG qualifying assets.

Within renewables, wind and solar were impacted by the reduction in the energy price but M&A remains active. Most energy from waste companies held up well, even though revenues were affected by a decline in commercial waste and a depressed power price if not already fixed through PPA contracts.

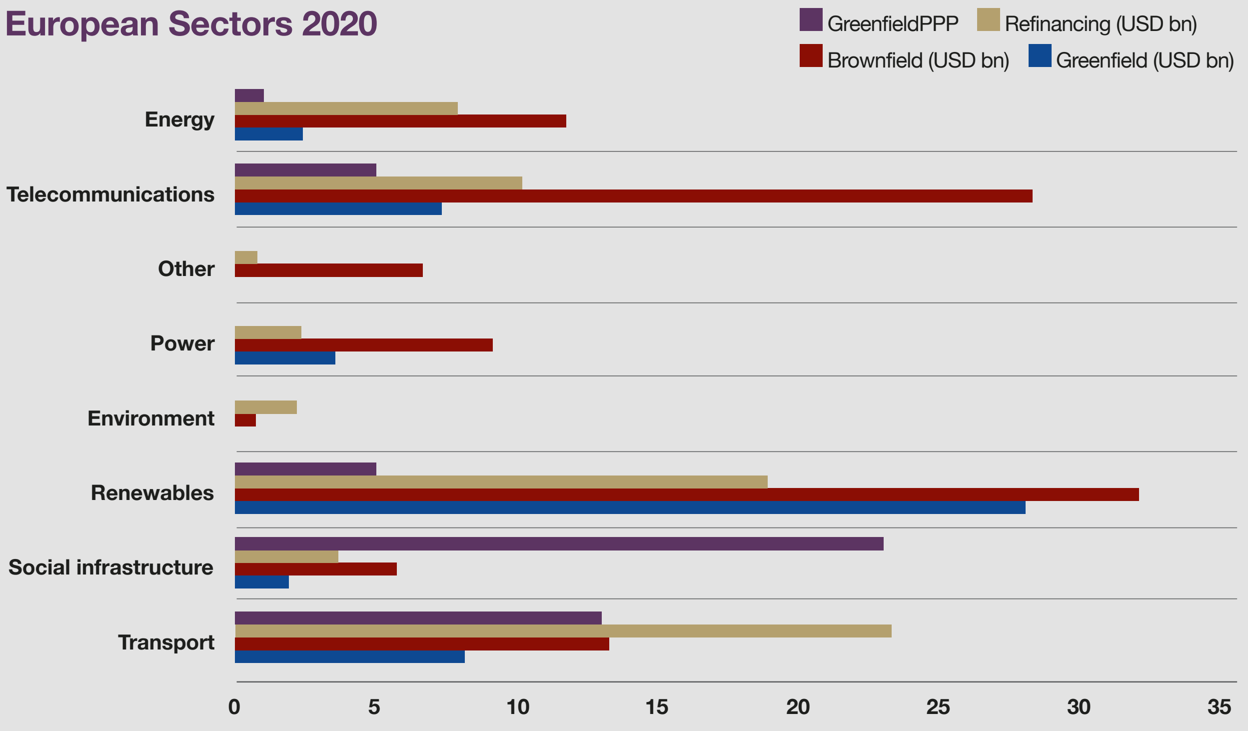
A number of bio-mass projects have defaulted or under-performed in recent months. However, that may reflect underlying performance issues more than the effects of the pandemic on supply chains and energy prices.

Oil and gas – The oil market contango phenomenon in the summer of 2020 led to a significant demand for storage assets, with midstream active in both debt and equity markets. For upstream assets, the plummeting oil price has driven further rethinking, with some strategics considering how to hive out assets with infrastructure characteristics due to the number of willing buyers at attractive prices. This follows predictions of a permanent increase in the cost of capital for oil and gas companies as a result of the energy transition. Meanwhile, independent E&P operators with high levels of leverage have struggled to meet debt commitments.

Digital – Covid-19 has only sharpened investor focus on digital infrastructure as a sub-sector. This has led to digital assets being some of the hottest in the market in early 2021, with investment being channelled into fibre to the home, electric vehicle charging, mobile and broadcast towers, and data centres.

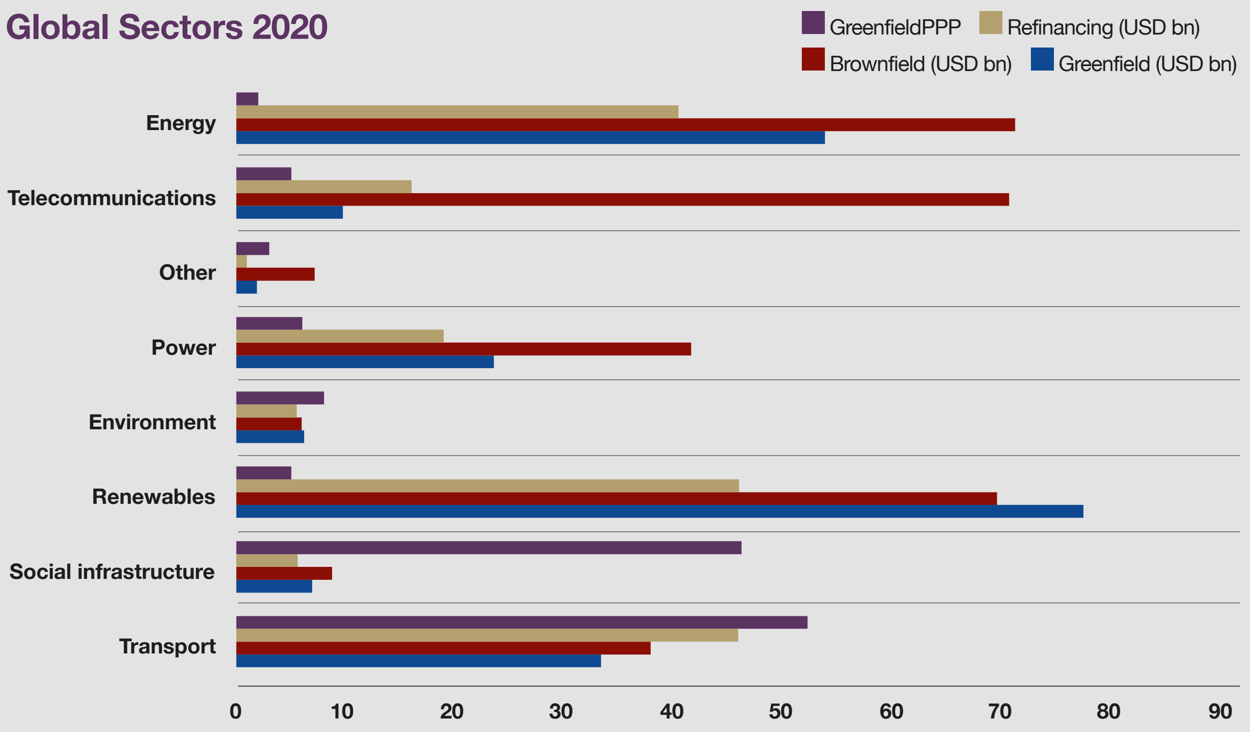
Against this backdrop, it would not be surprising to see sponsors retreat from affected sub-sectors into either core assets (with regulatory protection or otherwise fully contracted revenues) or into renewables and digital as the hot sectors in the market. So far, we have not seen much evidence of that. Similarly, there has not been much evidence of non-core assets underperforming those perceived to have a lower risk.

European Sectors 2020



Source: Inframation Analytics - 4 February 2021

Global Sectors 2020



Source: Inframation Analytics - 4 February 2021

A resilient asset class

Annette Bannister, director and head of European Infrastructure for MetLife Investment Management, says:

> "What the pandemic has shown is that infrastructure is a really resilient asset class and, on the whole, our portfolios have held up well throughout the crisis. Obviously, some sectors have been hit harder than others, with transportation in general particularly impacted, and airports as the biggest subsector."

She adds: "Our view of the market is that airport deals will continue to get done, although will likely be more difficult than they were pre-pandemic."

The activity levels in the sector may in part be propped up by record levels of dry powder in infrastructure funds.

Steven Bryan, Corporate Energy and Infrastructure Partner at Paul Hastings, says: "We have seen an element of the mid-market continuing to broaden the definition of infrastructure in an effort to find assets that are not hotly contested. Some demand and merchant risk is becoming acceptable to certain funds in the infrastructure asset class and managers are being encouraged to create new sleeves of capital with different investment horizons and return expectations."

To respond, several sponsors created core and non-core funds to offer limited partners a greater choice of risk-return profiles, and that dynamic looks set to intensify.

ESG drivers

Likewise, investor sentiment continues to solidify around the ESG agenda, forcing sponsors to pay much closer attention to environmental, social and governance issues across the portfolio. The new EU Sustainable Finance Regulation effectively requires regulated funds to report on their ESG compliance across a range of criteria in a granular way, driving transparency and consistency on a variety of metrics.

Ed Brogan, Senior Vice President and Counsel, Private Equity, at Brookfield Asset Management, says: "Our ESG principles are embedded throughout our operations. Governance in relation to health and safety and environmental matters has always been a core focus for us."

The push for energy transition means investors are hungrier for green assets, green technologies and green infrastructure, creating a focus on areas like battery technologies, electric vehicle charging and digital start-ups with a green agenda. The flipside sees sponsors looking to repurpose existing hydrocarbon assets where possible, into biomass plants for example, while there is growing interest in hot technologies like biofuel and hydrogen.

Brogan adds: "We are always striving to minimise the environmental impact of our operations and improve our efficient use of resources. Our fuels distribution business, for example, has been a leader in biodiesel and other sustainable fuels." Emma Howell, Partner at Hermes Infrastructure, adds:

> "There are always opportunities–look at airports versus highspeed rail. The pandemic has accelerated the focus on climate change; high speed rail as a travel option has a real opportunity to play a big part in the green recovery."

For regulated assets, policy risk remains an ever-present concern. The recent finding by the UK Competition and Markets Authority in favour of four water suppliers who complained that the water regulator's efforts to cut bills would hurt much-needed investment in water pipes and reservoirs is significant. Not only is that decision driving interest in the water sector, but it is also raising hopes across other regulated utilities of a shift in pricing approach.

With returns from equity markets so depressed in a low interest rate environment, real estate and infrastructure stand out as an attractive asset class. Apart from transport and oil, energy and infra held up well through the pandemic, leaving investors as keen as ever to commit capital.

Geoffrey Strong, Senior Partner and Co-Lead for Infrastructure and Natural Resources at Apollo, says: "Infrastructure by its nature is supposed to be more resilient and the underlying assets, while they may have gone through a once-in-a-hundred-year shock, should get through this. It's the combination of those assets with the quantum of debt, leverage multiples and flexibility of the capital structure that creates a dangerous mix. It is a good reminder of why we are always thoughtful about capital structure and why we carefully negotiate documents to make sure portfolio companies have appropriate terms and flexibility to get through these periods, even where the underlying assets themselves are durable."

Derwin Jenkinson, an Energy and Infrastructure Finance Partner at Paul Hastings, says: "Every cycle is an opportunity to test the homilies of infrastructure debt investing–namely favourable risk adjusted returns, with lower default rates and higher recoveries. PPP and core infrastructure assets generally performed well during the last global financial crisis. Indeed, whole business securitisation of infrastructure assets emerged as one of the hottest parts of the market during the credit crisis and its aftermath."

He adds, "This time around, there have been a significant number of waiver requests and a focus on liquidity. But we've yet to see widespread sub-investment grade rating downgrades, lender sell-downs or rejection of waiver requests. The threat of lenders taking enforcement action seems a long way off, unlike in some other sectors. We may see renewed focus in the short term on leverage, covenants and debt service reserves. Thus far, the pandemic has been another good proof of concept. But equity and debt markets more generally have performed better than expected, no doubt flattered by unprecedented levels of monetary stimulus and other government support measures. The implications will continue to unfold in 2021, so the jury remains out."

Key takeaways:

What should sponsors and other investors do to seek growth and favourable risk adjusted returns heading into 2021?

- Return to core/supercore: Volatility has encouraged a "flight to quality" mentality for some investors for whom lower risk (and returns) will be a guiding principle for 2021.
- Relative value: Others will focus on relative value, with assets that are often classified as riskier yielding more resilient returns than some more traditional safe haven assets.
- ESG drivers: GPs increasingly need ESG credentials to attract new capital, but need to avoid over-paying for green assets. For those comfortable managing stranded asset risk there are still returns to be made from conventional businesses and technologies.
- Bolt-ons and capex: Platform acquisitions are increasingly prevalent as investors look to benefit from investment synergies and management experience as businesses mature. Growth capex offers much better return on investment than bidding for the same asset in a competitive auction process.
- Inflation: Predictions by economists vary enormously, meaning investors would do well to audit their portfolio exposure to inflation/deflation risk.
- Central and Eastern European jurisdictions: The move eastwards is an increasingly important theme for sponsors looking to invest in proven infrastructure and technologies with an associated premium for perceived jurisdiction risk.
- Additional liquidity: Many businesses will require additional funding in 2021 and for the time being there is no shortage in liquidity. However, that could change or become more expensive if there is a significant deterioration in the macroeconomic, political or regulatory environments or if there is a further raft of rating downgrades.
- Plan for June 2021 covenant testing: Any additional liquidity should be sourced with financial covenant testing in mind to ensure that ratios can be met, including any holdco debt that may be contributed as an equity cure.
- Essentiality: Whereas regulated monopolies or contracted services were the traditional barriers to entry for infrastructure assets, investors are monitoring changes in law and regulation as key drivers of new infrastructure investment opportunities (e.g. co-location requirements for data centres).
- Infrastructure adjacent services: More value may be found in services that are provided to infrastructure assets which, though not in themselves infrastructure, are likely to have long-term steady state cash flows with a similar profile to the businesses they serve.
- Strategic divestments: Some investors may wish to divest assets now at attractive multiples, particularly those who share many economists' predictions of a late-cycle bubble.
- Avoid auctions: A recurring theme in our client discussions is the desire to avoid over-competed auctions and instead source bilateral strategic acquisitions or organic growth and capex opportunities.

TMET

In many ways, the Covid-19 pandemic has shaken the telecoms, media and entertainment and technology sectors to their core, transforming overnight the way in which populations engage with a wide range of technologies. The virus has shifted the way we interact with each other, with our workplaces and with our entertainment, and as countries around the world have imposed lockdowns to restrict movement, people are spending more time at home for both work and leisure.

Telecoms

For telecoms businesses, that shift has focused minds on increasing network access and resilience, as usage has increased exponentially, and consumption patterns have altered beyond recognition. Network reliability has become a hot potato, whether because of the risk of disruption to large-scale business meetings or because of the impact of streaming services providing home entertainment.

Garrett Hayes, Corporate Partner at Paul Hastings, says:

> "Covid was, in many ways, a positive from a business perspective for telecoms. More people working remotely, using more Wi-Fi and consuming more mobile data is all good for telcos."

These companies have long been concerned with the risk of their products becoming commoditised and treated like any other utility, and Covid-19 has strengthened their position in that regard. Hayes says: "Now they are able to differentiate their product offering on quality of broadband and bandwidth. Where historically customers might have just gone for the cheapest deal, we are all now much more acutely aware of what good broadband looks like."

Carolan Lennon, CEO at Irish telco eir, says: "We've been working on our marketing plan to make the case for fibre to the home (FTTH) because a customer needs to have a technician visit their home and have an installation. But the overlying move to home working and home schooling almost made that case for us."

She adds: "Now, even the people that have decent broadband have escalated their need and want us to get fibre to homes in their area. There is a recognition that FTTH is future proofed technology and what you need for the changing environment we find ourselves in at work and at home."

That said, Olivier Rosenfeld, a director at NJJ Telecom Europe, says the virus had two negative impacts on the industry. "One is that people moving around and roaming with their phones has essentially disappeared, and that is generally a part of the business

that drives slightly higher margins," he says. "The second is that customers have not been moving around as much as they used to, simply because they were afraid of changing operator in a moment of distress, so we have seen a less liquid market with more static users."

Entertainment

Some of the biggest winners of 2020 were companies operating in the TMET space, whether they were providing video conferencing facilities, online gaming, ecommerce solutions or technological innovations to tackle the spread of Covid-19.

With sporting events cancelled, esports and gaming have seen a rapid rise in popularity given their ability to both entertain and, in many cases, allow people to connect with each other at the same time.

Walter Wang at esports business TSM says: "We are seeing an explosion in people consuming video game content, which has created huge tailwinds for bringing esports and video games into the mainstream. In the past year, our platform has grown tremendously in terms of revenue and users, and it has accelerated because of Covid. While the esports sector, like the traditional entertainment industry, relies on advertising spend, which has obviously reduced in the short term. I am confident, however, that we will see significant growth in the long term as brands continue to recognise the significant opportunity in this growing industry."

There are many that argue that video gaming has the potential to take over traditional media, given its growth potential and expanding share of young people's leisure time. Netflix

CEO Reed Hastings has been quoted as saying that the computer game Fortnite is one of its biggest threats.

More than half of under 35s are now open to online gaming or esports, according to PwC, and in the absence of traditional sporting events, a growing number of mainstream bodies have turned to virtual competitions to meet the demands of fans, media and sponsors, and to supplement lost revenue. The Grand National, Formula 1, Moto GP, the Spanish La Liga football league and NASCAR have all run online events, with many broadcast to millions on TV or streaming services.

The question now is how many of these new offerings will endure once the pandemic has passed. Covid-19 has accelerated the pace of technology adoption – in the home and in the working environment – such that anticipated shifts in customer behaviour have happened much faster than predicted, putting business models under review. With stores and entertainment complexes shuttered, companies are having to change how they reach their customers and sell their products and are being forced to look again at their planned investments, particularly in relation to 5G.

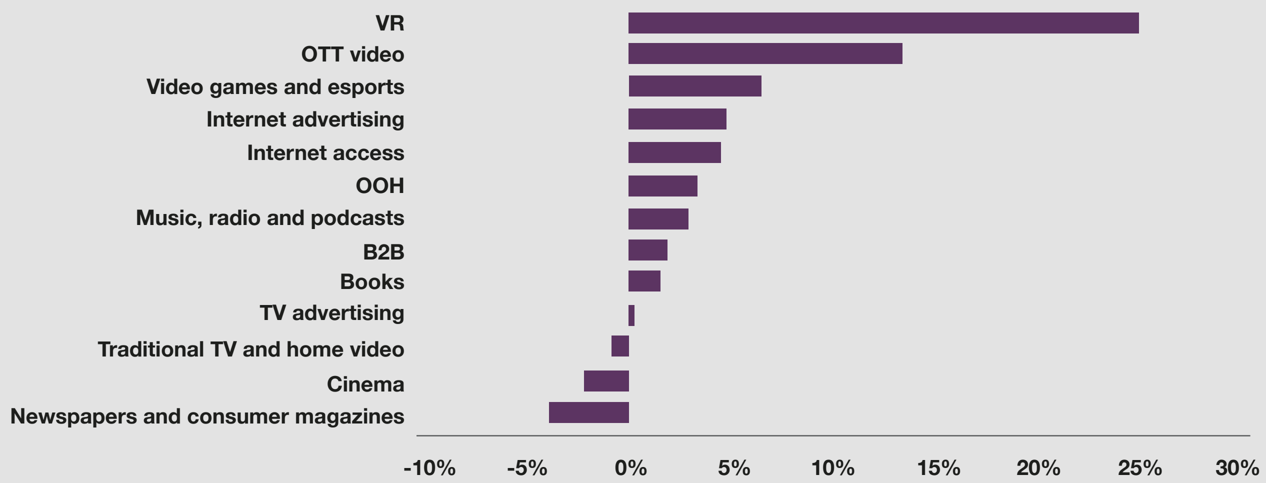
Media

One of the biggest paradigm shifts in the entertainment space is the growing strength of streaming services like Netflix, Amazon and Disney. Josh Berman is Head of Business & Legal Affairs at Cattleya, Italy's leading independent production company. He says: "They have really consolidated their position and the challenge is preserving the value of our contribution. Our normal business model is to develop our content so that when it comes time to negotiate for production and distribution deals, we have the most leverage possible. But now it increasingly seems that we either accept their terms and work with them, or we don't."

He adds: "All of these new outlets present a great opportunity but, at the same time, they're becoming so powerful that they also stifle the terms that we might otherwise have gotten and shrink the profitability margins."

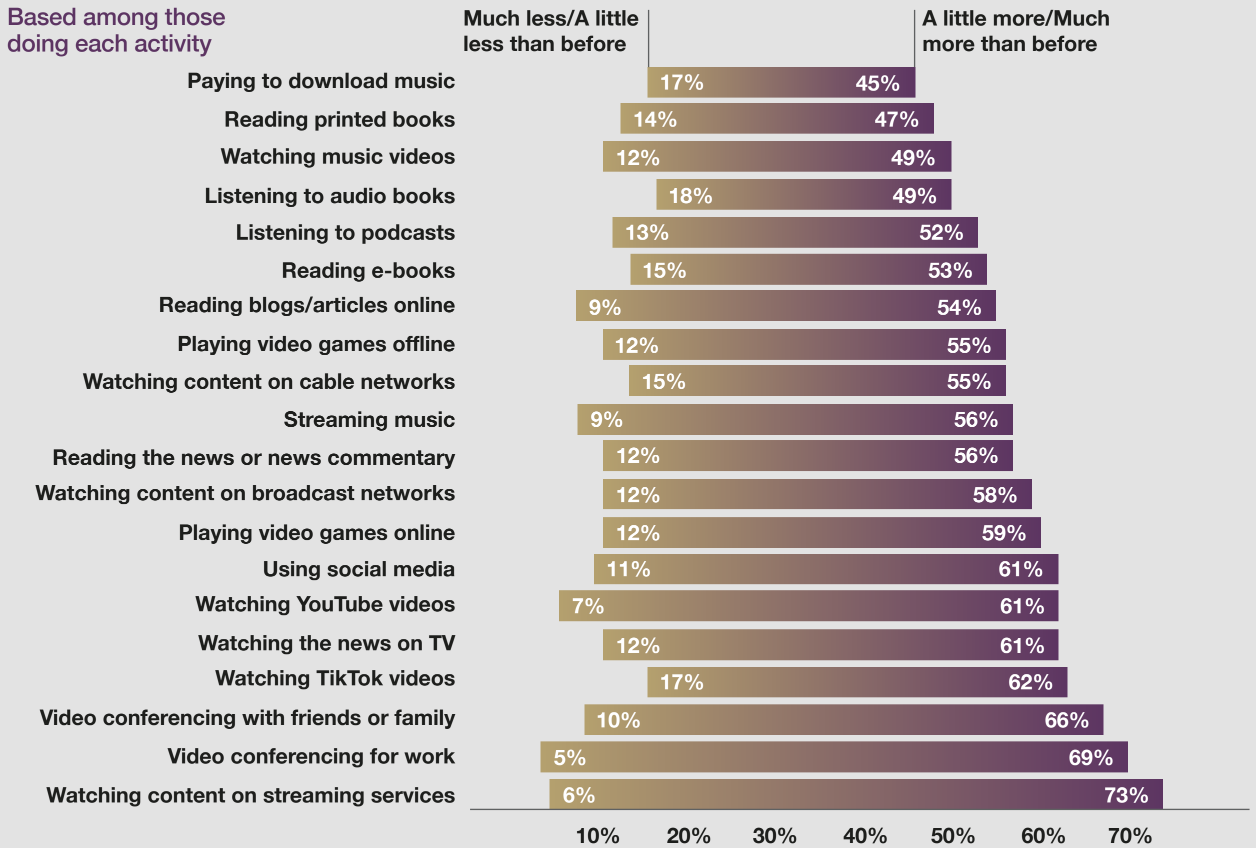
That said, the streamers are the most attractive commissioning entities for many to be doing business with right now, thanks to their deep pockets and flexibility in scheduling.

Segment compound annual growth rate for next five years



Source: PwC Global Entertainment & Media Outlook 2020-2024
(Data consumption is not included in this chart)

Changes in U.S. media activity since COVID-19 Pandemic began



Source: Trailier Park Group/ VIP COVID-19 Impact study
Asked in October 2020 to 505 U.S. Adults aged between 23-49

In television, production companies have had to cut costs in the face of falling advertising revenues, and pivot their models to cope with pandemic restrictions. One senior professional at a mainstream UK media business says: “We are putting the spotlight on cost savings. We have to look at our customer base, which is the big broadcasters, and they have had to cut their investment in programming because they don’t have the advertising revenue they used to.”

At the same time, the costs of introducing new protocols to address Covid safety have further stretched budgets. The executive adds: “We are looking to pivot our business to make programming that has lower budgets and that is more able to cope with the stop-start at the moment. If you are making a 12-part drama series, you haven’t delivered unless you have made all 12. We are looking at what areas of our business are more sustainable in a less sure production environment.”

While government support has been forthcoming, insurance has been a big issue for production companies. “How do you insure against another shutdown when most, if not all, insurance companies have said they won’t insure against shutdowns?” she says. “We have been looking into whether we can effectively self-insure in order to get production off the ground, but the lack of insurance is a big problem.”

Stephen Saltzman, Partner and Chair of the Asia and Europe Media & Entertainment practice at Paul Hastings, says:

> “With increased costs and a lack of insurance, the real question is how production is going to be reinvigorated until we reach a level of so-called normality.”

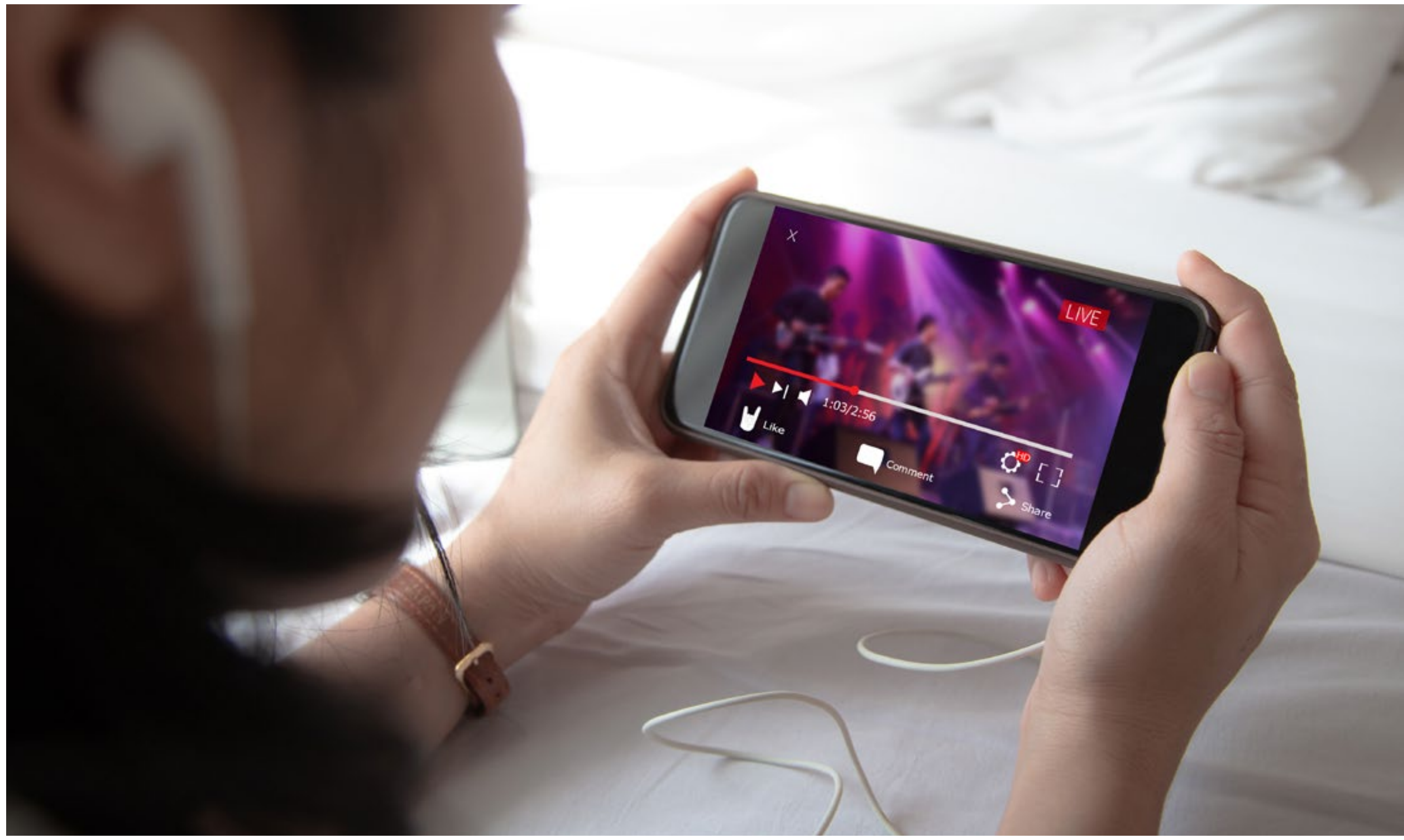
One quasi-solution has been the relocating of productions to parts of the world where Covid-19 risk is lower – whether that is Canada, Australia or Asia – but that is a shifting landscape, says Saltzman. Another short-term fix has been to shift to different forms of production that require fewer people in close proximity, where some success has been achieved in the music industry for online concerts and orchestras.

Longer term though, as in other industries, much discussion has centred on the sharing of risk between market participants to find a way through the challenges.

Saltzman says: “One of the issues that became highly negotiated after the first lockdown was whether Covid-19 counts as an event of force majeure. In the context of content development, there has been a fair amount of disagreement over this. Naturally, rights owners would argue against options being extended, but not doing so prejudices production companies seeking to progress a project to production, so we have had to negotiate compromises over who is going to take on what risk. Ultimately, everybody has had to pitch in.”

Now, the question is how many of the changes that have been accelerated by Covid-19 will be here to stay.

Josh Hu of Huayi Brothers International, says: “One thing that is really hurting China’s film industry is the fact that, because of the uncertainties of Covid, third-party capital providers have been very hesitant about keeping the same capital available to these companies,



whose businesses rely on theatrical releases. We are now redesigning our slate and thinking about what percentage needs to be theatrically released. This is not actually a 12-month thing–I believe it's going to be profound. It is a change in the landscape and a challenge to the industry structure."

He argues that the theatres will not be eliminated, but rather that streaming will eventually complement theatrical releases in film distribution. But there is a period of transition ahead. "We have a complete awareness and recognition that in the coming three years, the films that will be getting to theatres will be franchises and high-concept features," says Hu. "We will be leaving those art house and auteur films, and those pioneering films, to the streaming world. That's going to be the trend in the short term."

Long term, the outlook for telecoms, media and entertainment and technology looks positive, despite short-term disruption, as reliable connectivity and the rollout of 5G moves up the political agenda, customers continue to up their usage of digital tools and so flexible access to content increases.

Key takeaways:

- Telecoms operators need to continue to give thought to how they differentiate their products in terms of quality, and make investments in infrastructure that will allow them to keep up with increased demand and the requirements for speed and connectivity.
- Telcos should not underestimate the appetite among institutional investors, and particularly infrastructure investors, to partner up and back the roll-out of fibre to home, where consumer demand has grown significantly this year.
- The development of a reliable insurance product is necessary to address the risk of interruption of content production and/or exhibition (in public venues) on account of Covid-19 or similar pandemics.

About Paul Hastings London

At Paul Hastings, our purpose is clear – to help our clients and people navigate new paths to growth.

We are a leading global law firm, pre-eminent in cross-border transactions and solving complex legal problems.

We focus on the business issues our clients care about most – those that have the greatest impact on their success. Clients trust us to provide creative, business-savvy solutions, underpinned by exceptional client service – delivered globally.

Our winning approach is anchored in our culture of collaboration and collegiality, and in always harnessing the insights of our diverse team to get to the best solutions. We attract and promote extraordinary talent – preeminent partners in their fields who are energetic, dynamic, and who share our commitment to our clients.

We pride ourselves on the strong relationships we develop with our clients. We invest time in understanding their businesses and what it takes to make them even more successful. In working so closely with our clients and their advisors, we become an integral part of their team, entrusted with their biggest opportunities and challenges.

We have a strong presence throughout Asia, Europe, Latin America, and the U.S. In London, we have more than 100 English and US qualified lawyers serving the world's leading Financial Services Organisations, including PE and Funds, as well as Multinational Corporates.

Our Offices

The Americas

Atlanta
1170 Peachtree Street, N.E.
Suite 100
Atlanta, GA 30309
T +1.404.815.2400
F +1.404.815.2424

Century City
1999 Avenue of the Stars
Los Angeles, CA 90067
T +1.310.620.5700
F +1.310.620.5899

Chicago
71 S. Wacker Drive
Forty-Fifth Floor
Chicago, IL 60606
T +1.312.499.6000
F +1.312.499.6100

Houston
600 Travis Street
Fifty-Eighth Floor
Houston, TX 77002
T +1.713.860.7300
F +1.713.353.3100

Los Angeles
515 South Flower Street
Twenty-Fifth Floor
Los Angeles, CA 90071
T +1.213.683.6000
F +1.213.627.0705

New York
200 Park Avenue
New York, NY 10166
T +1.212.318.6000
F +1.212.319.4090

Orange County
695 Town Center Drive
Seventeenth Floor
Costa Mesa, CA 92626
T +1.714.668.6200
F +1.714.979.1921

Palo Alto
1117 S. California Avenue
Palo Alto, CA 94304
T +1.650.320.1800
F +1.650.320.1900

San Diego
4747 Executive Drive
Twelfth Floor
San Diego, CA 92121
T +1.858.458.3000
F +1.858.458.3005

San Francisco
101 California Street
Forty-Eighth Floor
San Francisco, CA 94111
T +1.415.856.7000
F +1.415.856.7100

São Paulo
Av. Presidente Juscelino
Kubitschek, 2041
Torre D, 21º andar
São Paulo, SP, 04543-011, Brazil
T +55.11.4765.3000
F +55.11.4765.3050

Washington, D.C.
2050 M Street, N.W.
Washington, D.C. 20036
T +1.202.551.1700
F +1.202.551.1705

Asia

Beijing
Suite 2601, 26/F
Yintai Center, Office Tower
2 Jianguomenwai Avenue
Chaoyang District
Beijing 100022, PRC
T +86.10.8567.5300
F +86.10.8567.5400

Hong Kong
21-22/F Bank of China Tower
1 Garden Road
Central Hong Kong
T +852.2867.1288
F +852.2526.2119

Seoul
33/F West Tower
Mirae Asset Center1
26, Eulji-ro 5-gil, Jung-gu
Seoul 04539,
Korea
T +82.2.6321.3800
F +82.2.6321.3900

Shanghai
43/F Jing An Kerry Center Tower II
1539 Nanjing West Road
Shanghai 200040, PRC
T +86.21.6103.2900
F +86.21.6103.2990

Tokyo
Ark Hills Sengokuyama Mori Tower
Fortieth Floor
1-9-10 Roppongi
Minato-ku, Tokyo 106-0032
Japan
T +81.3.6229.6100
F +81.3.6229.7100

Europe

Brussels
Avenue Louise 222
1050 Brussels,
Belgium
T +32.2.641.7460
F +32.2.641.7461

Frankfurt
TaunusTurm – Taunustor 1
60310 Frankfurt am Main
Germany
T +49.69.907485.000
F +49.69.907485.499

London
100 Bishopsgate
London EC2N 4AG
United Kingdom
T +44.20.3023.5100
F +44.20.3023.5109

Paris
32, rue de Monceau
75008 Paris
France
T +33.1.42.99.04.50
F +33.1.45.63.91.49

PAUL
HASTINGS