

Transaction Insurance Insights conference

Welcome to Advisen's Transaction Insurance Insights Conference







Transaction **h**surance SIGHTS CONFERENCE

Welcoming Remarks



Stacie Lilien

Global Head of Event Programming Advisen





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- Markus Bolsinger, Partner, Dechert LLP Matthew Heinz, Senior Managing Director, Aon **Bill M. Monat**, Transactional Risk Leader, Willis Towers Watson Jay Rittberg, Managing Principal, Euclid Transactional LLC Peter Rosen, Mediator & Arbitrator, JAMS Aaron T. Slavens, Partner, Holland & Knight **Michael Turnbull**, North America and UK M&A Manager, AIG
- Randy Hein, President, Berkley Transactional [2020 Conference Chair]
- **Toria Lessman**, Senior Vice President Underwriting Leader, QBE North America Edward Markovich, SVP, Transactional Risk, North America Financial Lines, Chubb

- **Deborah McBrearty,** Global Head of Transactional Risk Insurance, Tokio Marine HCC **Craig Schioppo**, Transactional Risk Practice Leader, Managing Director, Marsh JLT Specialty

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Thank you to our Advisory Board





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Advisen Events Team



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Opening Remarks



Randy Hein President Berkley Transactional [2020 Conference Chair]



Transaction Insurance Insights conference



Keynote: The Impact of Economic Conditions on M&A



Transaction Insurance Insights conference





Thomas Holzheu Chief Economist Americas Swiss Re

Keynote



The Impact of Economic Conditions on M&A

Dr Thomas Holzheu Chief Economist Americas New York, 29 January 2020







Outline for today



 Economic drivers for M&A
Macro Environment
Economic and Political Risks



00 Economic drivers for M&A







Drivers of M&A What drives the M&A outlook? Survey results for 2020





Source: Dykema





Drivers of M&A M&A cycle and recessions

Volume and value of deals by US acquirers



M&A activity declines substantially dur to recover.



Sources: Refinitiv, PWC; 2019 extrapolated based on Mergermarket data, SRI

M&A activity declines substantially during economic downturns, taking years



Drivers of M&A Plenty of capital and low cost of capital for deal making

Private equity	USD 2.5 trillion of private equity dry powder	highest ever
Corporate cash	USD 2.4 trillion in cash on US corporate balance sheets	highest in decades
Interest rates	1.5 to 1.9% for 10-year government bonds	less than half the rate before the two previous recessions
Debt	USD 6.5 trillion debt outstanding at US nonfinancial corporations	highest ever
Tax rates	21% US corporate tax rate	lowest since 1930s



Sources: PWC, Swiss Re Institute







Drivers of M&A Lower and slower for longer is starting to sink in

Fed funds futures at different points in time, in %





Source: Deutsche Bank and IMF



Drivers of M&A Financial conditions are loose, supported by last year's Federal Reserve u-turn





Source: Thomson Reuters

Chicago Fed National Financial Conditions Index





Drivers of M&A S&P 500 companies return more cash to their investors; recent tax reform did not boost capex as expected





Sources: S&P, Bloomberg, Haver Analytics, Deutsche Bank





Drivers of M&A Company valuations somewhat stretched, especially on EV metrics

S&P500 EV/EBITDA nearly 2 std dev above 1990-2019 average



EV/EBITDA



Source: Bloomberg, Swiss Re Institute







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Macroeconomic environment Manufacturing in global slowdown from trade tensions: some stabilization lately, but no rebound







Source: Thomson Reuters





Macroeconomic environment The unemployment rate is at a 50-year low

Unemployment rate in %





Source: US Bureau of Labor Statistics

Latest value: 3.5% (Dec 2019)





Macroeconomic environment Signs for late cycle slowdown in the US labor market

Change in total non-farm employment, thousands, 3-m avg





Source: US Bureau of Labor Statistics





Macroeconomic environment Consumer confidence is moving sideways, but remains at historically high levels

Conference Board confidence consumer sentiment





Source: Conference Board, Thomson Reuters





Macroeconomic environment Consumers are much more optimistic about today than about the future; this is normally a sign for a late cycle



Conference Board: consumer expectation minus present situation



Source: Conference Board, Thomson Reuters



Macroeconomic environment CEO confidence is still relatively low, despite a recent uptick



Conference Board: CEO confidence index



Source: Conference Board, Thomson Reuters





Macroeconomic environment One in four probability of recession 12 months ahead, according to the New York Fed's yield curve model





Source: Federal Reserve



Economic and Political Risks

Swiss Re

Thomas Holzheu | Economic M&A Outlook | January 2020

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Macro risks Downside risks are elevated

- The recession likelihood for the US economy relatively high at 30%
- Trade tensions are still the biggest risk factor for the global economy





Source: Swiss Re Institute

31

Macro risks US-China Phase One deal does not resolve the conflict

- Avg. US tariff on Chinese goods will only fall by 1.7pp up six-fold from pre-trade war





Source: Peterson Institute for International Economics

• Total US imports from China impacted by tariffs will still amount to roughly USD 375 bn



Macro risks Brexit debate has already dragged down UK growth

real GDP index; July 2016 = 100





Source: Swiss Re Institute





2019



Macro risks Tensions in the Middle East: limited risk of oil price changes to the US economy

The US economy is less sensitive to higher oil prices today than it used to be; the country became a net oil exporter in Nov 2019





Source: EIA, BEA, Haver Analytics, Deutsche Bank Global Research



Macro risks Pandemics?







Conclusions




Conclusions

- Global growth is expected to remain subdued in 2020, with growth in the US in particular slowing further compared to the prior year
- US recession risk is elevated at 30% in 2020, but slightly diminished vs a few months ago
- Interest rates will remain lower for longer; negative rates in Europe and Japan are dragging down the yield curve in the US
- Most economic risk scenarios are political
- General economic conditions are no major catalyst for M&A currently
- Plentiful capital, loose financial conditions and low interest rates more conducive for continued merger activity







37

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Macroeconomic environment Baseline scenario of subdued growth in 2020; interest rates "lower for longer"

- Immediate downside risks have been reduced with the "Phase One" US-China agreement signed and a disorderly Brexit averted, but re-escalation remains a key risk over the medium term
- Manufacturing indicators may have bottomed, but CEO confidence still low and businesses reluctant to invest amid still-high uncertainty
- US consumers remain confident amid tight labor markets, but some late-cycle signs are apparent
- We expect the US Fed to remain on hold this year and next. Yet monetary policy will remain very accommodative globally
- Long bond yields forecast to remain "lower for longer" (eg US 10-year at 1.7% for end-2020)
- Risks to the baseline outlook are skewed to the downside





Macro risks This macro cycle is not mean reverting!



Note: Average nominal GDP recovery since 1950; average market recovery since 1960. Both statistics measure the subsequent 10 years following the trough; Swiss Re Institute





Drivers of M&A Record levels of private equity dry powder

Private Equity Funds in Market, 2011 - 2020





Sources: Refinitiv, PWC





41



The Buyer's Perspective



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The Buyer's Perspective

Deborah **McBrearty Tokio Marine** HCC



Nicholas Wilski Macquarie





Underwriting Issues and Trends



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Omari K. Sealy Holland & Knight [Moderator]







Chris Graham QBE







Naftalis & Frankel

Ilan Peress Concord Specialty Risk





A View from Above: the Reinsurers' Perspective



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A View from Above: the Reinsurers' Perspective





Edward Markovich Chubb [Moderator]

Bill Hopkins Arch Reinsurance Company

Christopher Ross Guy Carpenter







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Marc Sherman Managing Director Alvarez & Marsal





Conference

Luncheon



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Contingent Liability Insurance: A Tool for Getting Deals Done



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Contingent Liability Insurance



Bill M. Monat Willis Towers Watson [Moderator]



Dave De Berry Concord Specialty Risk



Neil A. Steiner Dechert LLP





Tax Insurance: A Product Overview



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Tax Insurance: A Product Overview





Antony Joyce Marsh [Moderator]

Justin Pierce Berutich **Euclid Transactional**





Jessica Harger Aon



Paul Hastings LLP



Conference

Luncheon





Words Matter: Language in Policy Wordings and Purchase Agreements



Transaction Insurance



Words Matter



Elizabeth Cunnane Willis Towers Watson [Moderator]



Gregory Conroy Chubb



Peter Rosen JAMS



Matthew Unterlack SRS Acquiom





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Making the Case for Insuring Challenging Risks



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Making the Case for Insuring Challenging Risks



Aartie Manansingh Willis Towers Watson [Moderator]



Ryan Anderson ASQ Underwriting



Greg Gale Squire Patton Boggs



Daniel Howard Aon



AXA XL





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Afternoon BreedK



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Claim Trends and Their Impact on the Maturing Transaction Insurance Market





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Claim Trends and Their Impact



Markus Bolsinger Dechert LLP [Moderator]



David Barkus Holland & Knight



Elliot Kowalski AIG





Stefano Vranca Ankura

Kevin Pruner JP Morgan





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A Look Ahead: **The Future of Transaction Insurance**





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A Look Ahead: The Future of Transaction Insurance



Randy Hein Berkley Transactional [Moderator]





Matthew Heinz Aon

Jay Rittberg **Euclid Transactional**





Michael Turnbull AIG

Craig Schioppo **Marsh JLT Specialty**





Advisen presents... The 2020 Transactional Liability Leadership Award





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Honoring Michael Schoenbach

What keeps you up at night?

Carrier's response: Michael Schoenbach's imagination.





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& Reception **OBE**

Closing Remarks

