

The Daily Check-In with Goldman Sachs

Hosted by Liz Bowyer, Global Head, Brand and Content Strategy

**With Yasmine Coupal, Co-head, West Coast Financing Group
Investment Banking Division**

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LIZ BOWYER: Hi Yasmine.

YASMINE COUPAL: Hi Liz.

LIZ BOWYER: You're the Co-Head of West Coast Financing for Goldman Sachs Investment Banking. There's been a staggering amount of financing this year as corporates have responded to the pandemic. As we close out this unprecedented year, can you recap what we've seen in terms of financing.

YASMINE COUPAL: You know, 2020 has been quite surprising. I think if you'd asked us at the end of '19 what to expect for this year, we would have been wrong in so many ways. But you know, we saw over 1.9 trillion issued so far in the investment grade market, which is up 50 percent versus 2019. And up over 30 percent versus what we saw in our last record in 2017.

What drove this? Three factors, I would say. Number one, liquidity, liquidity, liquidity. The more cash you could have on the balance sheet the better just given how much uncertainty there was. The second thing is probably more in the risk management theme of reducing refinancing risk. Minimizing any near-term maturities and trimming out revolve or draws or commercial paper balances. And then last but not least, perhaps the most surprising is just the absolutely attractive environment that we saw from a financing standpoint on the back of the Fed stepping in with its various announcements. What we saw was a reversal of credit spreads widening, and ultimately, the lowest coupons ever set in the investment grade market across the curve.

LIZ BOWYER: And as we move into 2021, how do you expect things to evolve?

YASMINE COUPAL: Yeah, you know, it's a good question. I think we'll probably go back to a little bit more of a normal piece of issuance. Probably in the context of 1.3, 1.4 trillion. Some of the drivers of that are likely going to be a

continuation of this trend of opportunistic refinancing and liability management activity. And then presumably we might see the return of more M & A financing. If you think about how much was-- what percentage of the investment grade market was M & A financing in 2020, it was actually only 5 percent. And historically that had been more in the context of 15 to 20 percent. So, we expect to see a little bit more activity in 2020. But the total pace [PH] of issuance, we expect it to come down from the very high of this year.

LIZ BOWYER: And what are some of the other big themes that you'll be watching?

YASMINE COUPAL: Yeah. I think a couple of themes, and maybe sticking to the M & A theme. The first one is going to be, you know, are we going to see large transformative M & A? And this is going to be very specific to sectors and even sub-sectors within various industries. You know, as an example, some companies, and in particular I would say large cap tech, are probably going to continue to face regulatory hurdles. And so, the probability of seeing large transformative M & A might not be as large as maybe one would hope. On the opposite end, you have several other companies across other sectors that have done large debt financed acquisitions in the last couple of years. And their focus at this point and certainly through COVID has been on deleveraging. And so they really need to meet their deleveraging goals before they're likely to pursue an additional debt financed acquisition.

You know, and last but not least I would say capital allocation will likely be a key theme. And specifically, how do companies think about capital return, be it cherry purchases [PH], dividends, how does that play into their corporate M & A strategy? And you know, it really is sort of a multi factor or multi faceted approach when you think about the various variables that companies will look to prioritize. And it will ultimately be driven by the political backdrop. It'll be driven by regulatory expectations. But I think all of these themes will continue to be alive and a real focus for corporates going into 2021.

LIZ BOWYER: So Yasmine, just given the record amounts of debt that corporations have taken on this year, how concerned are you about the prospect of ratings downgrades?

YASMINE COUPAL: Well, you know, it is a potential concern, but I'd say not a high one. In part because the rating agencies

are really trying to be forward looking. They recognize that the impact to EBITDA this year, there's a very specific cause for it. And if you think about our broader economic outlook, especially with the hope that we're going to see a vaccine out to the broader public in a very near term, we should start to see a real recovery in the EBITDA levels, which should help accelerate this deleveraging process. I also think purely from a refinancing perspective, we've really seen a major derisking of corporate balance sheets as corporates really term out and push out those near-term maturities.

And last but not least, it might just be a little bit more idiosyncratic where I think the risks are probably to specific credits. But those will not come as a surprise to the market. And those, if they were to happen, will probably be well telegraphed ahead of time.

LIZ BOWYER: So finally, looking even longer term, do you think there will be lasting changes as a result of what we saw this year?

YASMINE COUPAL: You know, I think so. But it'll be interesting to see. You know, human nature tends to forget difficult situations pretty quickly. But as I think about discussions that we're having with corporate treasurers and CFOs, this was a pretty severe crisis that everyone faced in a really unexpected way. Any downside scenario that any company ever designed probably didn't incorporate a downside as we saw this year. And so, perhaps some of the lessons I would expect folks to take away are liquidity. What is the right level of liquidity that I want to have going forward? Maybe having a little bit more than that minimum is probably the right thing. The second thing I would say as a takeaway is likely in the context of near-term maturities and optimization of the debt structure where maybe it isn't just a focus on minimizing cost of debt, and it really is more around reducing any sort of refinancing risk, making sure that I clear the runway and don't have any massive maturities in the near term because 99 percent of the time it doesn't matter. But that one percent it does. And so, maybe we need to manage a little bit more towards that 1 percent more frequently than we had done historically.

So, I'd say those are probably some of the key takeaways. Scenario planning will take on a new tone. But I think everyone's hopeful that as we head into 2021, we'll get back into a little bit more of a normal environment.

LIZ BOWYER: Thanks, Yasmine.

YASMINE COUPAL: Thank you, Liz.