



Leveraged Lion Capital
Equity Research Report
09.03.21

Leveraged Lion Capital Equity Research – 09/03/21

Equity Markets

Indices	09/03/2021	1 Day	1 Week	1 Month	YTD
S&P 500	4,536.95	-	-	-	-
DJIA	35,312.53	-	-	-	-
NASDAQ	15,331.18	-	-	-	-
RUSSELL 2000	2,304.02	-	-	-	-
EURO STOXX 50	4,232.10	-	-	-	-
NIKKEI	28,543.51	-	-	-	-
DAX	15,840.59	-	-	-	-

Overall Sector Performance

Sector	% Change	Market Cap (T)
Comm. Services	-0.70	7.06
Consumer Discr.	-0.07	9.16
Consumer Staples	0.36	4.66
Energy	2.53	2.62
Financials	0.28	8.81
Health Care	1.08	8.54
Industrials	1.01	5.95
IT	-0.05	16.13
Materials	0.60	2.72
Real Estate	0.44	1.79
Utilities	0.81	1.69

FX Markets

Cross	USD	EUR	JPY	GBP	CHF	CAD	AUD	NZD	HKD
HKD	-	-	-	-	-	-	-	-	-
NZD	-	-	-	-	-	-	-	-	-
AUD	-	-	-	-	-	-	-	-	-
CAD	-	-	-	-	-	-	-	-	-
CHF	-	-	-	-	-	-	-	-	-
GBP	-	-	-	-	-	-	-	-	-
JPY	-	-	-	-	-	-	-	-	-
EUR	-	-	-	-	-	-	-	-	-
USD	-	-	-	-	-	-	-	-	-

Rates Markets

Rates	09/03/2021	1 Day	1 Week	1 Month	YTD
US 2-Yr	0.210%	-	-	-	-
US 5-Yr	0.771%	-	-	-	-
US 7-Yr	1.069%	-	-	-	-
US 10-Yr	1.289%	-	-	-	-
US 30-Yr	1.902%	-	-	-	-
1MO LIBOR	0.08%	-	-	-	-
3MO LIBOR	0.12%	-	-	-	-
GER 10-Yr	-0.386%	-	-	-	-
JGB 10-Yr	0.039%	-	-	-	-

Commodity Markets

Commodity	% Change	Price
Gold	-0.25	\$1,809.39
Silver	-1.16	\$23.94
Crude Oil	1.75	\$69.78
U.S. Brent	-0.27	\$72.82
Copper	-2.06	\$9,332.10
Natural Gas	0.35	\$4.63
Corn	0.00	\$5.15
Wheat	-0.10	\$249.25
Soybean	0.37	\$12.83
Coffee	-0.62	\$1.93
Sugar	-0.15	\$0.20

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Delta Variant Concerns Continued

- The variant has **slowed the U.S. economic recovery** as businesses delay operations and **consumers cut spending**
- The FDA faces pressure to approve a Pfizer vaccination for children 12 and below given none available in market
- U.S. saw a rise of 180,000 new cases in children in week ending August 19th
- **Average office occupancy in U.S. top 10 business districts fell to 31.30%** of pre-Covid levels
- Seated dining according to OpenTable is 11.00% below 2019 levels

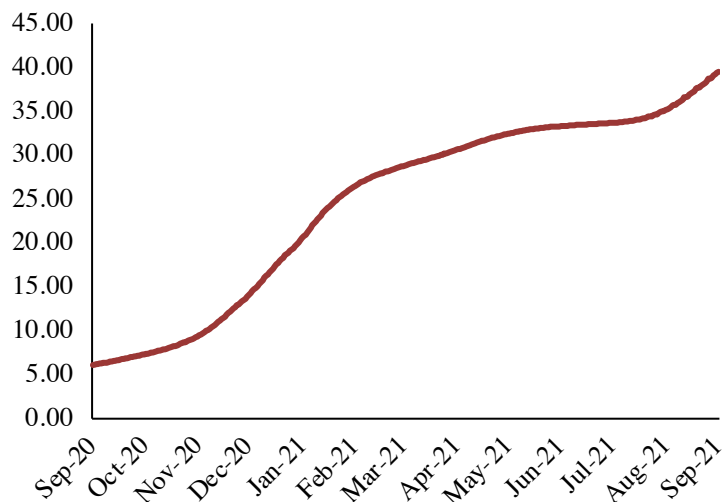
Earnings/Valuation

- 98.00% of companies have reported 2Q21 earnings with a blended EPS growth rate of 90.70%, the highest since 4Q09
- Of these companies, **reported revenues were 4.90% above expectations**
- Analysts expect earnings growth of more than 20.00% for remaining two quarters
- The forward 12-month P/E ratio is 21.10, above the 5-year and 10-year average

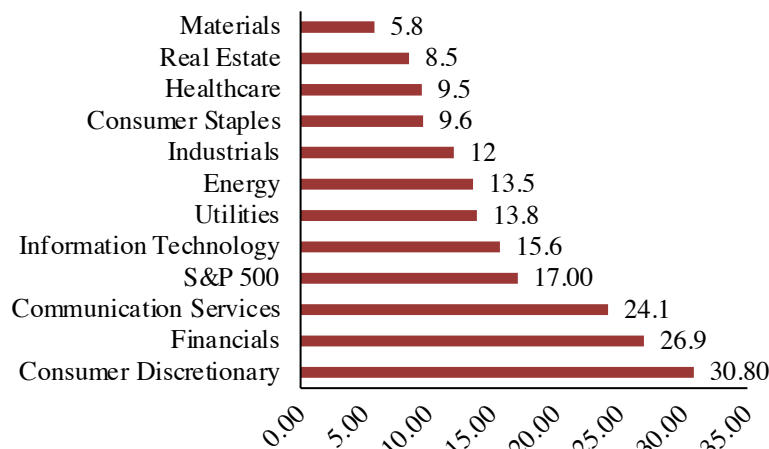
U.S. Payroll and Jobs Recovery

- A strong August jobs report on Friday (>850,000 jobs added) could spur the Fed to begin tapering its bond purchases sooner than planned
- Economists polled by Dow Jones believe the **nonfarm payroll gain will be under 750.00 k**
- ADP private payroll reported 374.00 k new jobs, well below the 600.00 k target
- ISM employment index dipped to 49.00
- Bloomberg forecasts suggest a 0.20% decline in **unemployment rate to 5.20%**

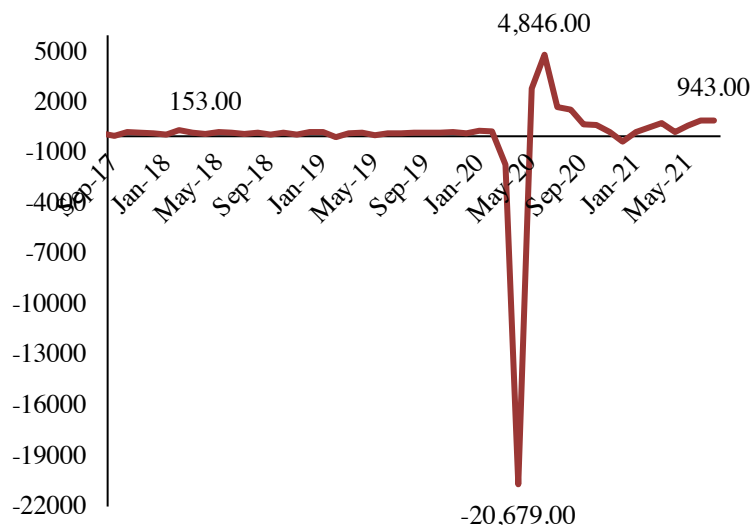
U.S. Confirmed COVID-19 Cases (mm)⁽¹⁾



S&P 500 Sector Earnings Surprise (%)⁽²⁾



U.S. Employees on Nonfarm Payrolls (k)⁽¹⁾



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2Q21 SPAC-IPO Activity

- IPOs and M&A deals involving SPACS **slowed considerably** from prior quarter
- The dip is due to SEC guidance on warrants offered to investors and questions on lofty projections
- Improving economic backdrop caused more companies to pursue traditional IPOs and M&A deals
- Total value of global equity issuance fell **28.40% q/q to \$251.68 bn**
- 1Q21 saw \$91.37 bn (275 transactions) in U.S. blank-check IPO transaction value compared to \$11.70 bn in 2Q21 (52 transactions)

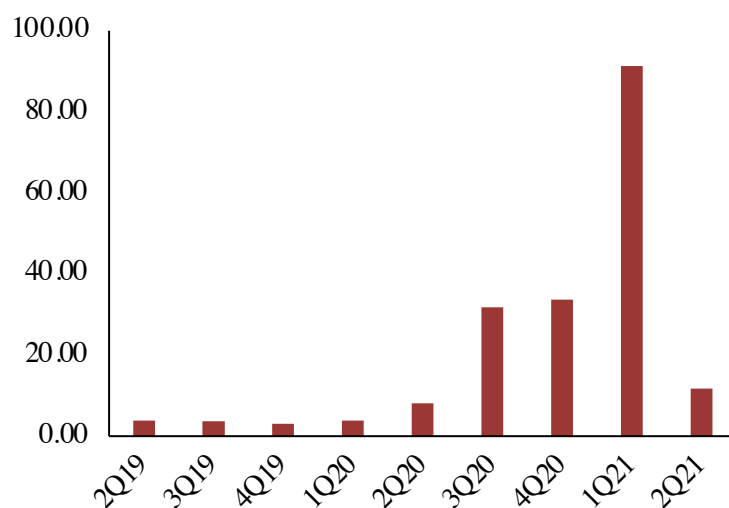
Energy

- Energy is seeing an increase in price as Hurricane Ida hits Louisiana
- **WTI crude futures jumped 10.60% to \$68.74 a barrel** in the fourth week of August, the **biggest weekly gain** since June 2020
- Energy companies in the US Gulf of Mexico shut down production resulting in possible 5.00%-10.00% rise in gas prices before Labor Day Weekend
- OPEC+ met on Wednesday regarding plans to restore 400,000 barrels per day in production, lower than Biden's request

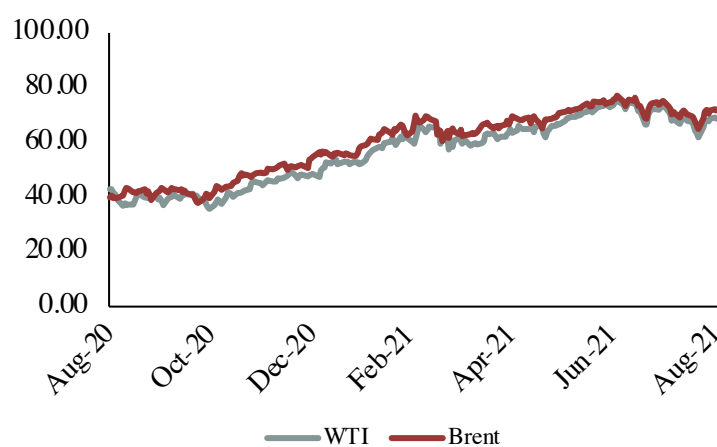
Monetary Policy

- Federal Reserve chair Jerome Powell recently spoke at the annual Jackson Hole policy forum on upcoming actions
- The Fed will begin scaling back the **\$120.00 bn/month asset purchases** this year though no clear date was given
- Confirmed that current bout of inflation is due to supply-chain disruptions
- Powell also claimed that inflation is **likely transitory**, and the Fed will not be in a hurry to raise interest rates
- All three major stock averages were up
- The **10-Year dipped slightly to 1.311%**

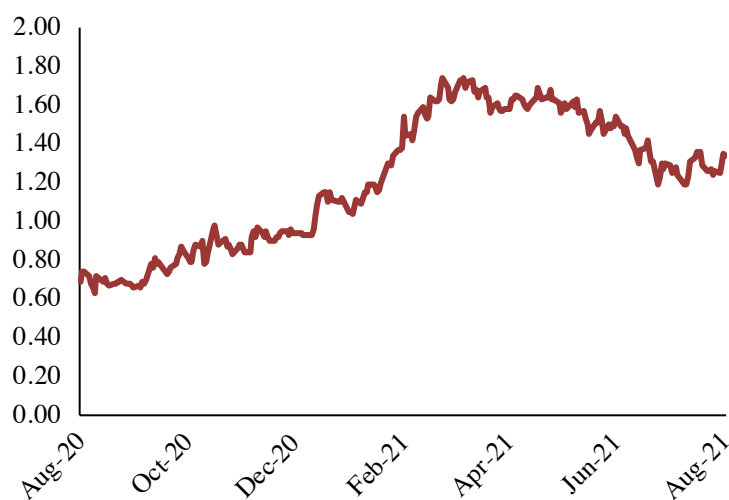
U.S. Blank Check IPO Activity (\$)⁽¹⁾



Brent and WTI Oil (\$ Per Gallon)⁽²⁾



10 Year U.S. Treasury Note (%)⁽³⁾

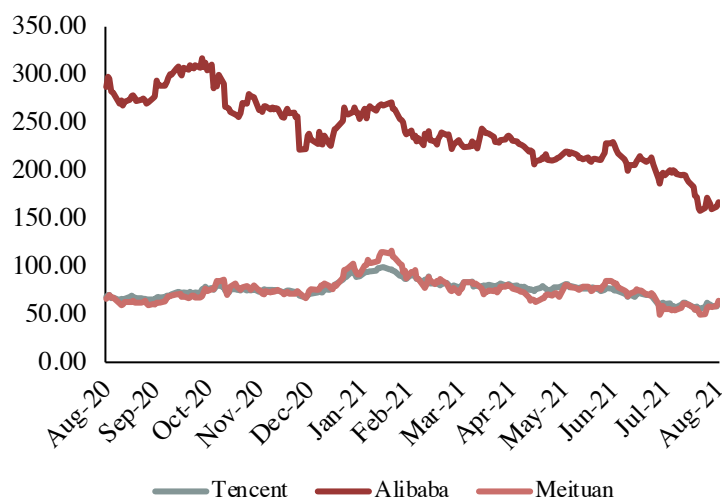


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China Crackdown on Private Sector

- in November 2020, Chinese regulators suspended the Ant Group IPO, touted to be the **highest valued company at \$300.00 bn**, passing Saudi Aramco
- E-commerce titan **Alibaba was fined \$2.80 bn in an anti-monopoly probe**
- Regulators also halted Didi Global's app from launching in smartphone markets
- These series of crackdowns have wiped billions Chinese tech stocks
- SEC Chair, Gary Gensler, has issued new disclosure requirements for Chinese companies wanting to list in American markets so investors understand the risks

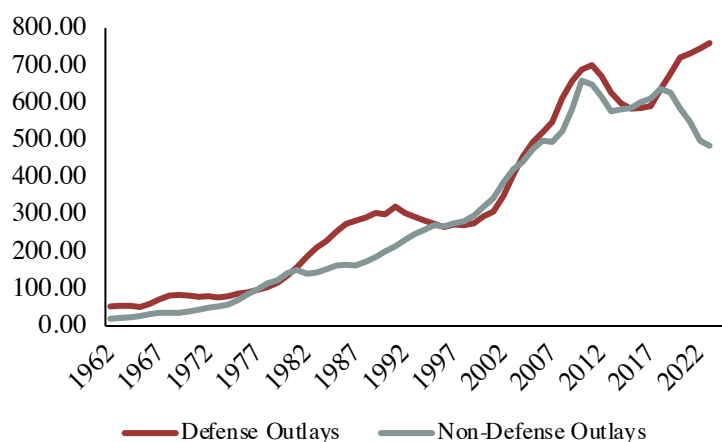
Regulatory Pressure on Top Chinese Tech Stocks (\$) ⁽¹⁾



Afghanistan and U.S. Defense Spending

- On August 15th, 2021, the Taliban took over Kabul and the Afghan government
- The takeover could mean changes for the billions of dollars the Pentagon sought in in FY22 but experts do not believe so
- House appropriators already passed a \$706.00 bn defense bill
- Funds could however be repurposed such as a \$3.30 bn in aid for Afghan forces and \$14.30 bn in unspecified “direct war requirement”

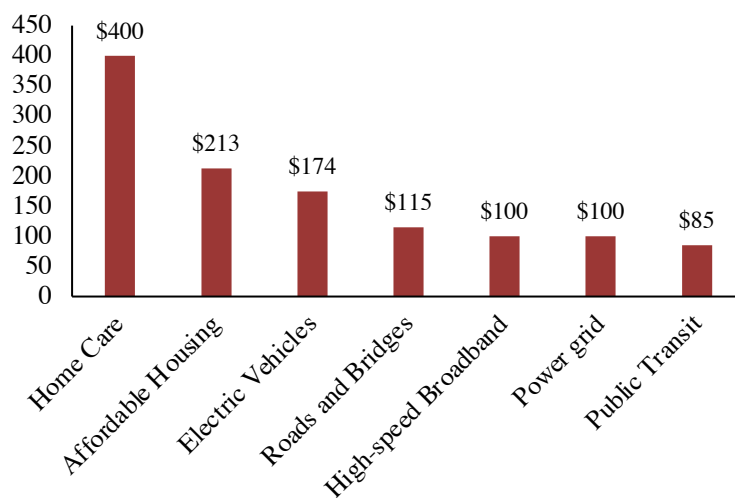
U.S. Defense Bill Trajectory (T) ⁽²⁾



Biden's Infrastructure Bill

- Senate gave bipartisan approval on a \$1.00 T infrastructure bill to rebuild roads and bridges and fund climate plan
- The bill faces a time-consuming path unless Senate passes the \$3.50 T social policy bill this fall
- To fund this plan, the government will have to borrow significantly, adding \$256.00 bn to the deficit over 10 years
- Economic impact may be limited since the package is spent in smaller segments over a 5-year period

Key Provisions in Infrastructure Bill (bn) ⁽³⁾



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Special Topic: Wall Street Remains Unsure of Year-End Market Performance⁽¹⁾

- Gap in Wall Street consensus regarding what the S&P 500 will end at is wider than ever
- Twelve out of twenty-one forecasters tracked by Bloomberg expect the S&P 500 to fall going into the holiday season
- The **spread between the highest and lowest target is 24.00% , the third-widest in nearly a decade**
- Analysts are left confused as they remain conflicted between the Federal Reserve's bond tapering intentions and raging Delta variant threatening the global recovery
- Mike Wilson, chief U.S. equity strategist at Morgan Stanley, recently widened his forecast range, with his **bull case for S&P 500 at 4,800 by June 2022** while the **bear case is at 3,700**
- Those who are bearish about market returns are concerned about margin pressure from inflation and President Biden's proposed tax hike

Parth's Company Dive: Affirm (NSDQ: AFRM) and Buy-Now-Pay-Later Trend⁽¹⁾

- Affirm is the **leading buy now, pay later payment provider in the United States** and is projected to increase its top line over 60.00% this year as it adds partners and borrowers
- The company's main differentiation lies in its **proprietary credit algorithm** that approves more borrowers with low default rates
- Affirm shares started trading in January at a **premium to its \$49.00 a share IPO price**, closing the day 98.00% higher along with a **18.70x price to sales multiples** (one of the leading fintech IPOs within the COVID-19 pandemic)
- Affirm provides the credit-shy millennials and Generation Z group flexibility of paying in installments and has brought in more customers, higher cart conversion, and repeated purchases
- Last week Affirm told investors about its **partnership with Amazon**, offering customers financing at checkout; Affirm could gain exposure to Amazon Prime's 200.00 mm members

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Healthcare Sector | ICON plc's Acquisition of PRA Health Sciences, Inc.

Background Information

- ICON plc recently acquired PRA Health Sciences, Inc. for approximately \$12.00 bn
- ICON aims to pay **\$80.00 in cash per share and 0.4125 shares of its stock** to those who held PRA stock
- The deal will fully integrate the two companies' trial planning and data management capabilities
- ICON expects this merger to **help create advanced healthcare intelligence and clinical research organization**

Deal Rationale

- With this acquisition, ICON will **accelerate development and production of new therapies**
- The new ICON aims to utilize PRA's digital tech capabilities to break into **the technology and mobile space**, and expand into Asia
- ICON expects this deal to allow for \$150.00 mm in cost cuts and ramp up new development
- The deal is said to deliver double digit accretion in the first year and **grow to 20% after**
- This will make ICON the **second largest CRO just behind IQVIA**

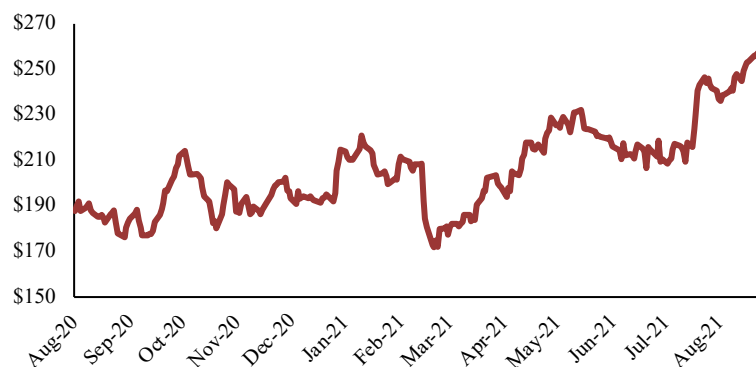
Premium Paid and Deal Multiples

Deal Metric	Value for PRAH Acquisition	Median for Deal Comps
Deal Value (\$ mm)	\$12,000.88	\$2,816.28
Announced % Premium	32.27%	25.77%
TV / Revenue	3.77x	11.83x
TV / Total Assets	2.87x	2.98x
TV / Book Value	8.11x	12.15x
Equity Value / Stockholders' Equity	7.34x	13.30x

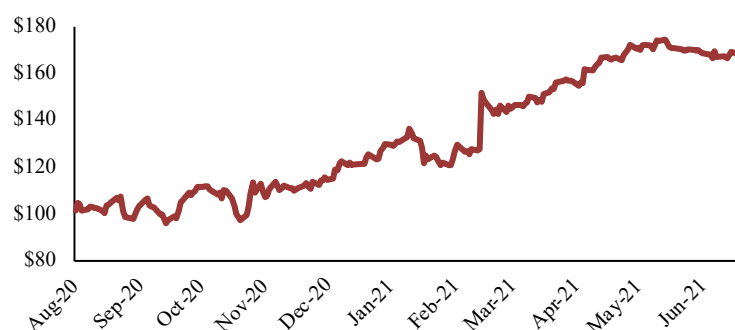
Overall Opinion

- The Healthcare Sector believes this deal demonstrates equity investors' strong appetite for cash-flow-positive CROs, following on an underperformance of biotech
- **This and future acquisitions of high-yield healthcare companies provide unique investment opportunities for LLC, and provide a greater cash flow cushion**

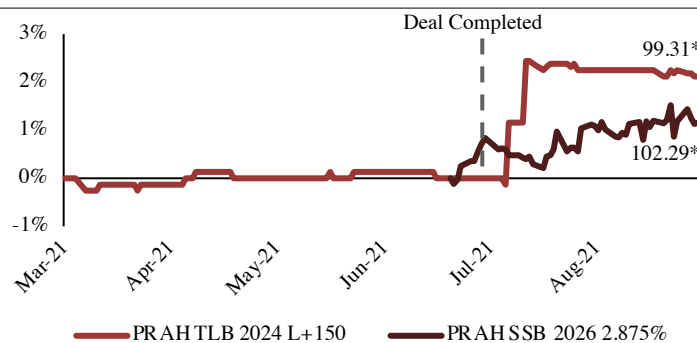
ICON Stock Chart



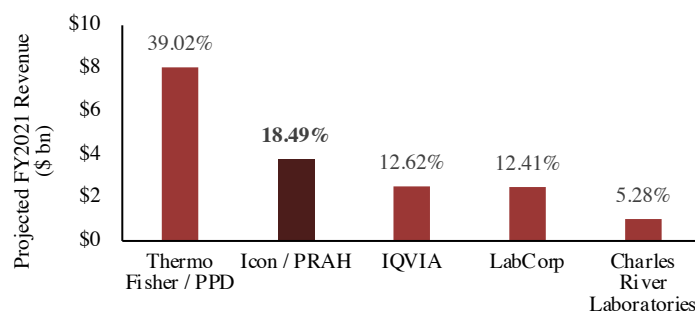
PRA Stock Chart



Percent Change in PRAH Debt Prices



Pro Forma CRO Competitive Landscape



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Economic Calendar

Date	Event	Time	Consensus
Friday, September 3, 2021	Change in Nonfarm Payrolls (Aug)	08:30	725K
Friday, September 3, 2021	Change in Private Payrolls (Aug)	08:30	610K
Friday, September 3, 2021	Unemployment Rate (Aug)	08:30	5.20%
Friday, September 3, 2021	Labor Force Participation Rate (Aug)	08:30	61.80%
Friday, September 9, 2021	Initial Jobless Claims	08:30	-
Friday, September 10, 2021	Produce Price Index	08:30	-

Previous Week Economic Calendar

Date	Event	Time	Consensus	Result
Monday, August 23, 2021	Existing Home Sales (July)	10:00	5.83mm	5.99mm
Thursday, August 26, 2021	Initial Jobless Claims (Aug)	08:30	350K	353K
Thursday, August 26, 2021	2Q21 GDP Revision	08:30	6.70%	6.60%
Friday, August 27, 2021	Personal Income	08:30	0.30%	1.10%
Friday, August 27, 2021	Consumer Spending	08:30	0.30%	0.30%
Friday, August 27, 2021	Core PCE Price Index	08:30	0.30%	0.30%