Bocconi Students Investment Arena Newsletter: March 2023

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ABSTRACT

In the course of this article, we will go through some current topics covering the global luxury watch market with a greater emphasis on the case of Cina. The focus will then move the implications of the disappearance of Fan Bao, founder of China Renaissance, the major boutique bank in China, on financial markets. Further investigation will be given to the slowdown of the VC market in the European Union and the reasons behind this event. The possible transfer of ownership of Manchester United from the Glazer family to two possible competitors: Sir Jim Ratcliffe and Sheikh Jassim bin Hamad Al Thani (Sheikh), will be analyzed in detail. It will be shown how the NextGenerationEU may change the financial landscape and what the EU is doing to make the green transition a matter of interest to investors.

ABOUT US:

Bocconi Students Investment Arena was born in 2022 from the idea of bringing together students of different degrees and experience, but all with the same ardent passion for finance. Through dedicated competitions, masterclasses, and a members' forum, we aim to develop a community of students that fosters quantitative and qualitative skills like in-depth practical investments and valuation skills, teambuilding, and analytical skills.

The uniqueness of this association is that members would be able to put their investment knowledge into practice by competing against each other in two main events: portfolio competition and company valuation competition.

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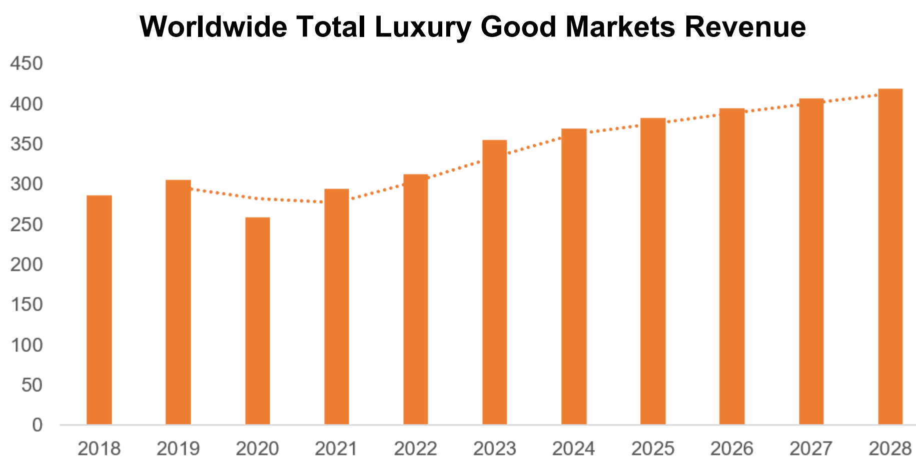
Understanding the Market, Risks, and Opportunities for Luxury Watches

By Efe İskenderoğlu

Luxury investments are becoming increasingly popular among younger generations, as they not only satisfy the need to improve the material standard of living, but also provide additional opportunities for wealth accumulation. However, the domestic luxury market is still fraught with several complex phenomena and misunderstandings, so customers need to tread carefully.[1] Luxury timepieces for instance are regarded as a non-essential consumer goods having exceptional and unique qualities that serve both utilitarian and symbolic objectives. They are frequently employed as a means of social difference and differentiation, impacting how people see and interact with one another. The luxury watch sector is defined by a high degree of investment in production and distribution, design, research and development, brand management, and promotional marketing.



Source: Statista

The China's case

The global luxury watch market is expanding, and China's luxury watch industry has recently implemented structural reforms, including the reduction of obsolete manufacturing capacity and the exclusion of non-qualifying enterprises.[2] In the future, the Chinese luxury watch industry will continue to develop and transition toward high-end items, with new trends such as increased diversity and diversified demand. This occurs as a result of shifting customer expectations and rising consumer demand.

Risk factors

There are dangers associated with investing in luxury watches, including market risk and enterprise value risk. Market risk can influence the supply and demand for luxury timepieces,

[1] Yan, Y. (2022). Risk Perception of Luxury Investment and Its Influencing Factors. *Frontiers in Business, Economics and Management, 5*(1), 150–152. https://doi.org/10.54097/fbem.v5i1.1516

[2] Lannes, B., & Xing, W. (2023, February 7). *Setting a new pace for personal luxury growth in China*. Bain. Retrieved March 23, 2023, from https://www.bain.com/insights/setting-a-new-pace-for-personal-luxury-growth-in-china/

resulting in irregular and unstable market values. Enterprise value risk refers to the possibility that the value of a luxury watch brand could decline owing to factors like as evolving consumer tastes, intensified competition, or substandard management decisions. Since luxury timepieces are not essential to one's survival, their value might be affected by alterations in consumer preferences or economic conditions.

Important elements in this field

The variables that influence the purchase of luxury watches are economic issues, social factors, personal factors, and institutional challenges. The decision to invest in luxury timepieces can be influenced by economic factors such as inflation, interest rates, and the stock market's performance. The investing decision can also be influenced by social variables such as cultural trends, social standing, and lifestyle preferences. Personal qualities like age, gender, and wealth, as well as institutional issues like government restrictions and prohibitions, can also play an impact.

Identification of the product

To identify a respectable luxury, watch brand, you should examine its unique selling propositions, brand values, and market positioning to see how it stands out from competitors. Sustainability is gaining importance as a competitive advantage in the luxury watch sector, as consumers demand more ethical and environmentally responsible products. A renowned luxury watch firm must include social and environmental responsibility into its business operations. Consider certifications such as B-Corporation or Fair Trade, as well as the company's sustainability reports and policies, when evaluating the environmental performance of an organization.

In conclusion, investing in the luxury watch market necessitates an in-depth comprehension of the industry's dynamics, trends, and risks. You can evaluate which luxury watch brands have a competitive edge in the market by analyzing criteria such as profitability, specialized techniques, risks, brand reputation, and sustainability. Before making financial decisions, it is crucial to seek out expert advice and conduct comprehensive research.

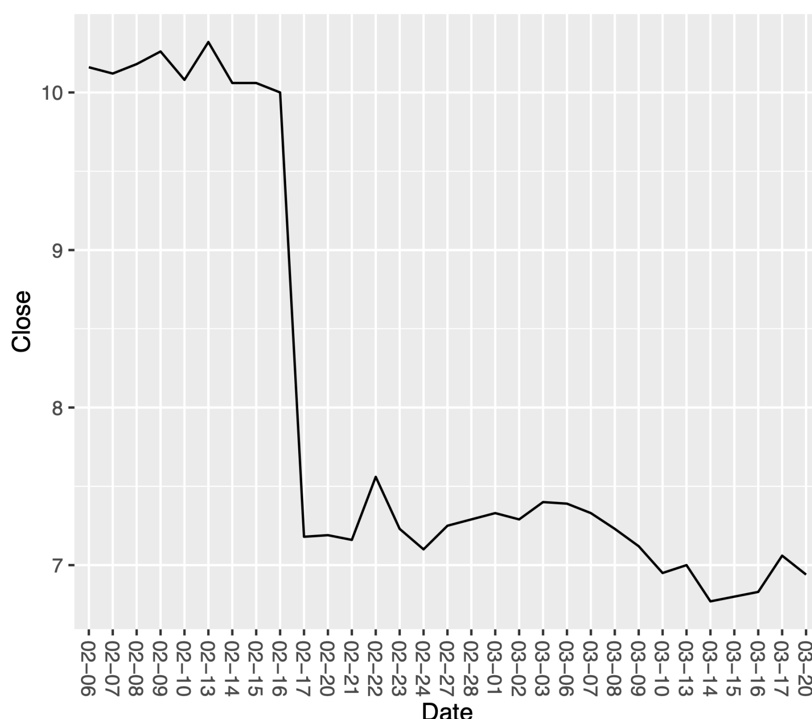
The missing of Chinese top 1 boutique investment banker: Where is Fan Bao

By Xiaoyue He

Introduction on Fan Bao

On February 16, 2023, it was reported that Fan Bao, the founder of *China Renaissance*, had gone missing. This caused the company's stock price to drop nearly 30% on next day. At the same time, trading volume increased significantly, from 1,062,900 on February 16 to 32,976,527 on February 17, an increase of about 32 times.

The Closing Price of China Renaissance from February 6 to March 20



Data Source: Yahoo! finance

In 2005, Fan Bao founded *China Renaissance*. After years of development, it has grown from an FA providing financing services for early-stage entrepreneurial projects to an investment bank providing full-lifecycle financial services for *New Economy* enterprises, surpassing several Wall Street financial giants and becoming a *leader in China's Financial Advisory industry*. In addition, the group has orchestrated several IPOs for digital giants, including China's well-known e-commerce platform *JD.com*. It also pushed for the merger of *Didi* and *Kuaidi* in 2015. As of June 2020, *China Renaissance* has provided consulting services for approximately 980 transactions valued at $146 billion.

However, the internet industry, that *China Renaissance* has always been enthusiastic about, has been under sustained pressure in recent years. In addition, *Didi*, which was previously promoted by Fan Bao to successfully complete the merger, after finishing its IPO in 2021, was then ordered to

remove its app from stores within two days after the government first halted new user registrations on the platform.

At the same time, Fan Bao's disappearance may also reflect government's hostility towards financial and offshore asset transfers (previously it was reported that Fan Bao was transferring assets to Singapore before his disappearance, but whether this is directly related to his disappearance is unknown).

Below are the announcements released by the company on February 16 and February 26, respectively. *(The original text of the announcement is written in Chinese, and the relevant content was selected and translated into English by the editor of this newsletter)*.

February 16th
Insider Information

The Board of Directors of China Renaissance Holdings Limited has learned that the company has temporarily been unable to reach Mr. Fan Bao, the Chairman of the Board of Directors, Executive Director, Chief Executive Officer and controlling shareholder of the company. The Board is not aware of any information indicating that Mr. Bao's loss of contact is related to or may affect the business and/or operation of the Group, and the Group's current business and operation remain normal.

February 26th
Insider Information

Since the announcement, the Company has been trying to contact and confirm Mr. Bao's situation. The Board has learned that Mr. Bao is currently cooperating with relevant authorities in the People's Republic of China. The Board reiterates that the Group's current business and operations remain normal. If any relevant authorities in China require the Company to cooperate in accordance with the law, the Company will cooperate with such investigation.
As of now, the company has not released any new information regarding Mr. Bao.

After these two announcements, no further news related to Fan Bao has been released by *China Renaissance*.

Contrast between comprehensive registration system and regulatory contraction

China has been cautious in its every move in the market economy environment. Since the pilot registration system of the Science and Technology Innovation Board in 2019, A-shares have only fully opened the registration system on February 17th of this year. This seems to indicate an attempt by the Chinese government to loosen its grip on the financial markets, but the reality soon tells us, the overall regulatory environment is still tightening. On March 10, the *China National Financial Supervision and Administration* was established. This has once again tightened the market environment and further strengthened the regulation that the financial service industry is subject to.

China has always implemented a *Socialist Market Economy with Chinese characteristics*. As a unique economic system that has no predecessors and no successors, China can only explore step by step on its own. Therefore, China has always been cautious in every step it takes in how to open up investment channels and allow capital to flow more reasonably. In this regard, China's strict financial regulation is not difficult to understand.

However, from Fan Bao's missing which tells crackdown on technology industry, to new regulatory policies on finance industry, it is easy to see the Chinese government's attitude towards the next

path to explore: trying to centralize control and power over a certain part of the economy. But whether the crackdown and regulation of the technology and finance industries are protective umbrella or obstacles to progress is still remained to be seen.

Only time will tell.

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Slowing Down: The Changing Landscape of VC Funding in the EU

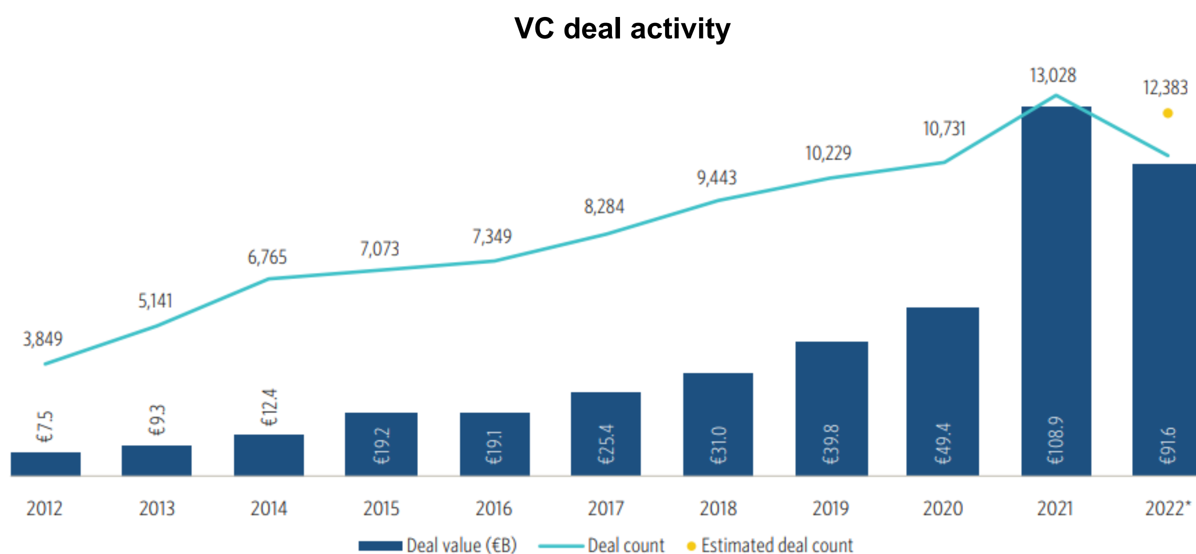
By Manfredas Feiferas

Venture Capital in Europe flourished during 2021, but the same cannot be said about 2022. It is crucial to understand what exactly happened, why the slowdown occurred and how Europe compares to other regions, such as North America and Asia.

What happened to VC markets?

When looking at the VC market it is crucial to look at three different aspects: capital investments in startups, exit values, and VC fundraising. After a record year of more than 13 thousand deals with a value of €109.9b, investments into startups seem to have dropped by 15.9% to €91.6b. This can be attributed to several different reasons, which impacted the European region quite significantly. Macroeconomic conditions, such as weak economic growth, high inflation, and rising interest rates are one of the reasons for such a slowdown, which ultimately creates uncertainty in the market, thus reducing investments into new opportunities. Furthermore, the uncertainty was fueled by geopolitical reasons too: the war in Ukraine.

VC deal activity



Source: PitchBook | Geography: Europe

Moreover, the opportunities for exits have also decreased, compared to the record year of 2021, the total value of exits fell by more than 70%. Even though the value of exits is the third largest exit value (2021 - €137.7b, 2018 - €47.7b, 2022 - €38.3b), the decrease is very significant. When looking at 2022 it is crucial to divide it into two halves, as the first half was very promising with exits of €29.6b, while the second half was far off from that number, only accumulating to €8.6b in exit value. There have been several causes for the decrease with the main being weaker growth forecasts. Weaker expected growth lead to decreased valuation, which in consequence leads to a decreased appetite for investors.

Lastly, the fundraising attracted by VC funds has remained rather unchanged compared to 2021, reaching €25.4b in 2022. Even though this metric seems to show that VC funding is in a good condition, but doubts remain. As fundraising is not done in a single day, it usually takes from several months to over a year. The amount might have been similar to 2021 due to the closing of funds spilling over into 2022 from 2021. It will be important to look at the amount fundraised by VCs in 2023, as it should display the real current conditions of fundraising.

Change in other regions

Firstly, let's look at the changes in the VC market in the US compared to the European market. When looking at the first measure of deal activity it can be seen that some funding rounds were resilient, while others were not as much. Angel and seed-stage rounds remained quite active, on the other hand, later rounds of funding displayed a decrease in investment and showed quite a worrying trend. Looking at quarterly changes in deal activity it can be seen that the deal value compared to the first quarter and the fourth quarter declined by around 50%. This displays the possible trend of a decrease, which might continue into 2023.

Also, the exit value has been greatly decreasing, even reaching new record lows. In 2022 the total exit value was $71.4b, which is the worst measure since 2016. To make matters even worse exits executed in the last quarter of 2022 generated less than $10b in value, which happened for the first time since the first quarter of 2013, which is worrying. One of the main causes of this decrease is a decrease in institutional investors' appetite, caused by instability in macroeconomic factors and also rapidly increasing interest rates. This can be seen by a decrease in IPOs for the last quarter. Only 14 public listings happened in that period.

The only sign of hope is the funding attracted by VC funds, which set a new annual record for capital raising.

The trends experienced in the US are quite similar to trends in Europe. Even though the trends are similar, but the magnitude of change was not as harsh in Europe. When comparing the value of exits in the US the decrease appeared to be much more significant, displaying the value created through exits being the worst since 2016, while in Europe the exit value was the third largest. Such disparities in the markets show the difference between resilience in Europe and the US. Finally, when looking at the VC fundraising, it can be seen that the US achieved growth, even though slowing the pace compared to previous years. The same cannot be said about Europe, as VC fundraising in Europe remained flat throughout 2021 and 2022. This creates hope for 2023 to be a possible year of rebounding for startups.

In conclusion, the VC market in Europe experienced a slowdown in 2022, following a record year in 2021. Several factors contributed to the decline, including weak economic growth, high inflation, and rising interest rates. Geopolitical reasons, such as the war in Ukraine, also fueled the uncertainty in the market. While fundraising for VC funds remained relatively unchanged, investments into startups decreased, and opportunities for exits also decreased significantly. Comparing the European market to other regions such as North America, it can be seen that the trends were similar, but the magnitude of change was not as severe in Europe. Despite the challenges, there is hope for a rebound in 2023, as VC fundraising in the US achieved growth, and Europe remains resilient.

Manchester United: back on top or further down the ladder?

By Alejandro Martinez

It is no secret that Manchester United, the most decorated club in England, has seen itself struggle in recent years. Without having won a Premier League since the departure of club legend Sir Alex Ferguson in 2012/2013, and only having won one trophy since the departure of Jose Mourinho in 2016/2017, it is clear that the club has become accustomed to playing second fiddle – not only in Europe but in its own city of Manchester as well.

As the Glazer family prepares to sell its ownership stake to other potential investors it is worth analyzing the bids of the two current frontrunners: Sir Jim Ratcliffe and Sheikh Jassim bin Hamad Al Thani (Sheikh).

What went wrong?

Although the club hasn't seen much footballing success in the past decade its business and management difficulties precede it by nearly another decade. Little was it known at the time, but the Glazer family's decision to acquire Manchester United via leveraged buyout (LBO) would soon prove to be the steppingstone for a herd of problems to come. The takeover saw the Glazer family only put 34% of its own equity into the $790M price tag which consequently plunged the previously debt-free football club into over $500M of debt.

Prior to this, Manchester United had nearly doubled the size of its stadium, generated consistent profits that were both redistributed to shareholders in the form of dividends and reinvested back into the club in the form of new signings like Wayne Rooney in 2004. This success was part of a cycle that incentivized further investment and the overall betterment of the club. However, the new-found debt made it so that the maintenance of previous successes were now entangled with large and growing interest payments. This has spurred unprecedented unrest among Manchester United supporters who fear that the club is taking on too much leverage which can be seen by the decreasing levels of shareholder's equity the company boasts on its balance sheet since its initial public offering (IPO) in 2012.

With this, Manchester United's stock price (MANU) fell more than 60% at its all time low during the pandemic. Nonetheless, it seems as though the new political and economic climate has caught up to the Glazer family and brewed up the perfect storm for a potential restructuring of the club's management and ownership.

With the Federal Reserve having continuously hiked interest rates in an attempt to slow down inflation, the Glazers must now examine whether to maintain their high levels of borrowing at a higher cost, courtesy of higher interest rates, or face the wrath of "The 1958"– Manchester United's largest and most established union of protestors who continue to defy Glazer control.

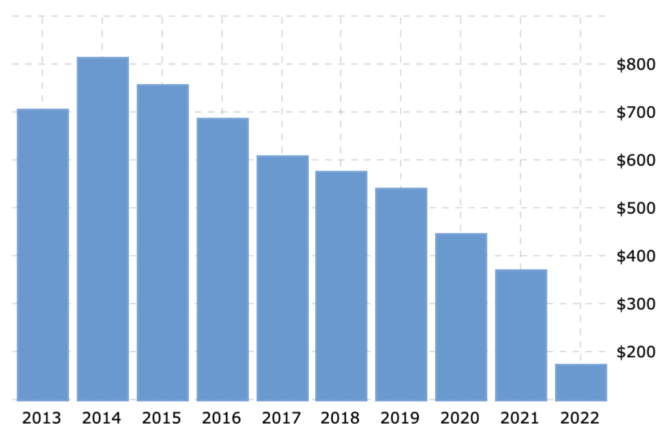
Deal structure

Early bidding started with Sheikh's offer to bolster MANU's aging balance sheet with a full-equity buyout. Sheikh, chair of Qatar Islamic Bank, promised to invest in football teams and their training center, stadium, and further infrastructure. Although Sheikh claims the funds for his bid come from

the Qatar Investment Authority (QIA), the true and definitive source of these funds still remains doubtful. A full-equity buyout would entail lower levels of leverage being present at MANU. Moreover, more equity implies more skin in the game by aligning the interests of owners and management. With this, shareholders would feel less inclined to take part in too-risky investment decisions and thus be more conservative which tends to be more desirable in a profit-seeking company. The presiding problem remains that the Qatari state already owns other European football clubs including Paris Saint-Germain (PSG). UEFA, the governing body of football in Europe, has prohibited clubs under the same entity from competing against each other.

As for the second major bid presented by Sir Jim Ratcliffe, a life-long MANU supporter, it entails a different capital structure. It is split between debt and equity and has a bid with a bilateral focus: rebuilding broken ties with management and fans on top of ceasing foreign ownership of premier league clubs. Economically this more traditional buy-out approach would entail similar consequences to the similar takeover performed by the Glazer family minus an unbalanced amount of debt financing. This would make for a more balanced and less leveraged balance sheet, similar to what has been proposed by Sheikh. Similar to Sheikh, there are ownership concerns regarding Sir Jim Ratcliffe in that he already owns the French club Nice which could also be a direct competitor in major competitions such as the Champions League. This comes with the conflict regarding doubts of his seriousness, seeing as though he made a last-ditch attempt in taking over Chelsea FC after Roman Abramovich's forced exit just last year.

ManU – Shareholder Equity, Annual Values (Million of US $)



Source: WSJ

NextgenerationEU: green bonds as means to green transition

By Filippo Terragni

Green Bonds: what are them?

In the last decade, environmental and social issues are rising greater interest, becoming a daily topic in every aspect of life: from nutrition or transportation to entertainment and information. Thus, capital and financial markets reacted to these incentives by taking into account the so called ESG: non-financial criteria used by socially conscious investors to screen investments for social responsibility, where E stands for environmental, S for social and G for governance. ESG factors could have a significant impact on a company’s business model and value drivers, improving or decreasing their profits, and drive markets and companies’ shares value.

We can now understand what green bonds are: debt securities designated to finance environmentally friendly projects. Green bond is a wide term that is often related to:

- Sustainability Bonds: dealing with a combination of green and social project
- Social Bonds: related to social outcomes as pandemic relief, affordable housing or education
- Transition Bonds: finance energetic transition projects

Furthermore, because green bonds have lower yields compared to non-green bonds, they usually come with a green premium, the so called: greenium. Some of the major factors that influence the green bond premium are issuer sector and credit rating, while issue size and modified duration have no relevant effect.

Therefore, green bonds are no more than normal bonds financing environmental initiatives, meaning that they work as usual: they hopefully grow the investors’ money with an additional contribute to positive climate action. What labels a green bond as so is the simultaneous observance of four principles: the use of proceeds for environmental purposes, project evaluation supported by a third-party review (typically an environmental consultant), management of proceeds and active reporting of how funds have been allocated and their impact. In conclusion, green bonds may become a profitable asset for any company, in particular those not sustainable, because they hopefully guarantee improvements in yields and earnings (as normal bonds) as well stronger social and environmental commitment, boosting reputation.

Next Generation EU green bonds

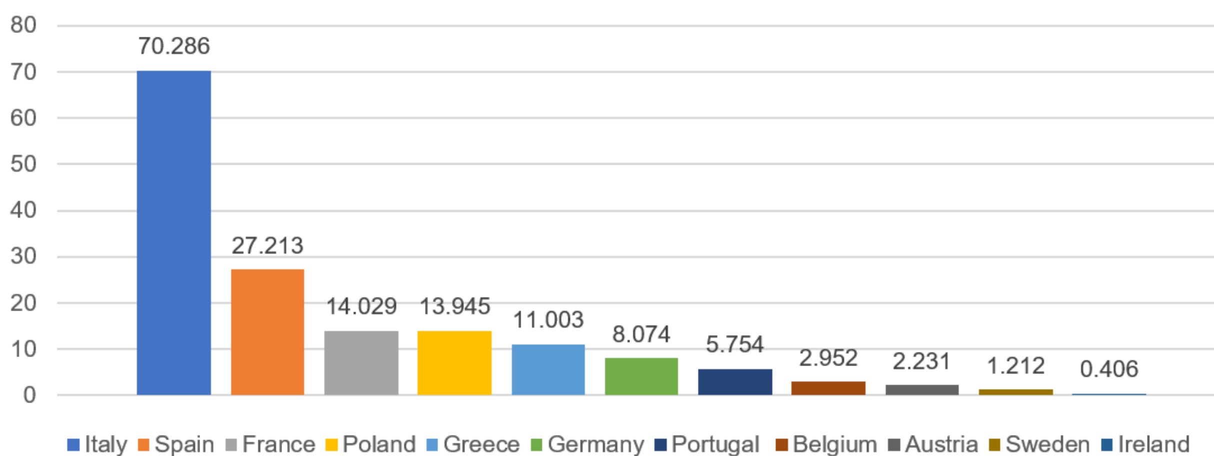
Firstly, for a better understanding lets describe what Next Generation EU actually is. Inaugurated in June 2021, NextGenerationEU is the EU's €800 billion temporary recovery instrument to support the economic recovery from the coronavirus pandemic and hence encourage a more sustainable, more digital and more efficient future.

As a part of its program, the European Commission has pledged to issue up to €250 billion NextGenerationEU green bond, making EU the largest green bonds issuer in the world. After publishing the NextGenerationEU Green Bond framework, the Commission proceeded with the issuance of the first NextGenerationEU green bond in 2021, a 15-year bond, though which €12 billion

were raised, making it the world's largest green bond transaction nowadays. Since then, the Commission has continued to actively participate in the market, stimulating green investments by allowing investors to diversify their portfolio. With such a commitment, European Commission aims at bringing a new highly rated and liquid green asset to the market and strengthening their role and that of the euro in the sustainable finance markets.

Coherently to its transparency policy, the Commission has created the NextGenerationEU Green Bond Dashboard whose aim is to provide full clearness about how the financing raised from NextGenerationEU green bonds is invested. It does so by providing a real-time overview of the impact caused by green bonds, typically in terms of measures and related expenditures.

For example, on the 16th December 2022 the Commission published a report showing that NextGenerationEU Green Bonds will finance an eligible pool of 823 measures, corresponding to almost €185 billion. The majority of the money has been spent for improving and developing clean transport and infrastructure, a percentage of the overall expenditure which is around the 55.6%, while other spending is observed in energy efficiency. To accelerate the energetic transition, each Member State must dedicate at least 37% of the expenditure of its Recovery and Resilience Plans in order to reach certain climate objectives. So far, EU countries have exceeded their prevision, with the estimated climate expenditure now amounting to about 40%. The chart below displays what green expenditure each EU Member State plans to implement.



Source: NextGenerationEU Green Bond Dashboard

As a matter of fact, more and more often, having at heart certain values and social projects is becoming a major driver in markets and companies' boards. Thus, by taking under consideration the change in the social landscape that is under development, we can understand that NextGenerationEU green bonds, despite being often neglected or not known, are a strong tool in the hands of the European Commission that may lead to more sustainable and efficient green transition while rethinking the paradigms established in financial markets.