

France's Economic Environment for 2021

Jake Siewert: This is Exchanges at Goldman Sachs, where we discuss developments currently shaping markets, industries, and the global economy. I'm Jake Siewert, global head of corporate communications here at the firm. Today, I'm delighted to be joined by Pierre Hudry, who is the head of our Paris office. We'll talk to Pierre about the business landscape and deal environment in France in 2021 and a little bit more than that, too. Thanks so much for joining us, Pierre.

Pierre Hudry: Thanks for having me, Jake. Really delighted to be here.

Jake Siewert: Big picture, how's the French economy been recovering from COVID? What have been the bright spots? And what have been the areas that are a little more challenging?

Pierre Hudry: Okay, so the French economy is likely to close out with call it 9% decline in GDP. Our forecasts are at about 8.5%. The consensus the is at 9.2. The Banque de France is around 9%, so I think there's a broad consensus around that number. We've been trending in the last month of the year, in December, at 7% run rate [?] decline. And obviously as you would expect, because we're in a sort of partial lockdown at this point, continued strong drag from travel, culture, and the hospitality sectors which are pretty strong in the French economy and have been the hardest hit.

In terms of the bright spots, I would just highlight, number one, we've seen a sharp improvement versus the first lockdown where the trend was really down 30%. So obviously minus 7 feels a bit more acceptable. Number two, I think the responses that have been developed by the French authorities has been quite remarkable. Notably, 130 billion of state-guaranteed loans which have been channeled to over 650,000 companies since the crisis began, so that's been very effective. And then the third point, which is in terms of bright spots, is really what we've seen sort of subdued corporate default trends, which are actually significantly below 2019 and showing that these measures taken to cushion the shock created by the virus have been quite effective.

And in terms of the forward, the expectation is that GDP should be trending back to 2019 levels at some point in the course of 2022. But obviously, you know, this is all hinging on the sanitary situation. You've got the UK virus, and there's a lot

of uncertainties still out there.

Jake Siewert: Indeed. Too many uncertainties, unfortunately. So how does the situation in France compare to what we've seen across the rest of Europe?

Pierre Hudry: So, look, I'll just summarize what our economic team has been saying, which they just released a new set of forecasts. And their view is that among the top five European economies, only Germany will see a lower GDP decline in 2019 than France. And Italy being a close number three. And Spain in UK are really being the hardest hit with double digit declines. So that's the sort of snapshot view on Europe.

Jake Siewert: And how about small business? Here in the US small business has born the brunt of a lot of the pain of COVID. How is that picture in France?

Pierre Hudry: It's a very contrasting picture across industries, as you can imagine, but I'd say there are three reasons to be optimistic. One, small businesses have been really direct beneficiaries of the various safety nets and support mechanisms that have been implemented. When I was talking about this 130 billion of state-guaranteed loans being channeled to the economy, about 40% of these loans were channeled to small businesses with less than 10 employees. So kernel's actually been quite effective from that standpoint.

The second point is that we've seen obviously a steep drop in business creation during the first lockdown, in sort of March/April. And then we're now actually trending at record levels. We have 80,000 businesses created every month, which is not a level that the country has seen for a long time. So there is certainly hope there.

And then the last point, the fundraising for innovation is available. This is actually a record year. We have over 5 billion of French tech funding in 2020 in digital, life sciences, clean tech, etc. And that's up 7% from last year.

Jake Siewert: So actually interesting time to be an entrepreneur. So we recently launched our 10,000 Small Business program in France. You're helping lead that. Why is France an attractive market for that program? And what do you hope that 10,000 Small Businesses can accomplish in France?

Pierre Hudry: As you know, the program has been in existence

for 12 years now in the US and the UK. It's been a fantastic way to support small businesses and job creation in our communities. And so the idea of launching it in France, that really surfaced back in 2019 when we had the Goldman Sachs board in Paris. And we launched the program with our partner, ISEC [sp?], which is a leading European business school, in late October 2020. And that was just before the second lockdown. We had a bit of anxiety around our launch timing, but the response has been absolutely phenomenal. And it has garnered a lot of attention because, you know, the local stakeholders are saying, "Wow, Goldman is actually providing support to the French entrepreneurial ecosystem in these troubled times." That's really a big vote of confidence on, you know, our French entrepreneurs' spirit and what we can achieve.

So, you know, that is progressing. We have a first group of 70 entrepreneurs that will kick off the program in March. And we've started meeting some of them, so it's a really exciting time. And the whole Goldman Sachs team in Paris I can tell you is very, very proud that France is the third country where the program is being rolled out by Goldman.

Jake Siewert: So when you're not running 10,000 Small Business, in your day job as an investment banker, what are you seeing in terms of deal activity, especially on the financing side among the larger French corporates? Obviously a lot of financing last year was driven by just sheer liquidity needs and survival, but are you starting to see some companies look at M&A?

Pierre Hudry: Definitely. I think the first comment here is that the picture is mixed across industries. I've said that a couple of times, but really it's important to emphasize that. In the industries that were hardest hit by the crisis -- you know, travel, tourism, etc. -- obviously the focus in 2020 has been on liquidity, building up liquidity, protecting their fortress balance sheets. But I think this will increasingly pivot towards strengthening credit metrics, reducing leverage, and just being able to be on the sounder footing from a capital structure point of view, aside from liquidity per se.

So indeed, we're spending a lot of time with corporate clients just going through their balance sheets and assessing the full spectrum of options to allow them to do that. And that can be common equity issuance. That can be equity link. That can be hybrid financing. But that can also be in certain instances, you know, selling businesses and a more aggressive portfolio

management strategy to, again, shore up their equity levels.

But I'd say for the overwhelming majority of corporates today there is really a strong appetite to play offense by thinking through their strategic options and really looking at what can move the needle strategically. And just another stat for you, M&A is actually up 8% in 2020 versus last year. And we've seen a lot of cross-broader outbound M&A in size from sort of 5, 6, 7 billion range. And we're definitely expecting to see more elevated strategic activity levels by the French corporate community this year.

Jake Siewert: And how about the IPO market? The US market really took off in the last half of last year. What does the market look like are? And what's the outlook for this year?

Pierre Hudry: Look, it's very interesting because with a few exceptions, if you look at the past French IPO cycle, that was really dominated by -- with a few exceptions -- sponsor IPOs and corporate carve outs. That's really the majority of the deals that we're seeing. And, you know, when we think about the forward, we see a lot of growth in that market coming from continued corporate carve out activity, because that's a way for them to create optionality in the portfolio. Two, we're seeing a significant pickup in tech IPOs. And there's a really strong pipeline of high-quality companies that are getting prepared. And three, something that has been really a phenomenon in the US that's starting to hit our shores here is the rise of alternative vehicles. So call it SPACs, blind pools, etc., which is definitely getting interest and is also going to be, you know, a driver of growth for that market.

Jake Siewert: So is there a French word for SPACs?

Pierre Hudry: No, we call it SPAC, actually.

Jake Siewert: That's too bad. That can be a project for this year.

So finally, Pierre, talk a little bit about -- Brexit's happened. Talk a little bit about your ambitions for the office in Paris as the center for Goldman Sachs in the post Brexit world.

Pierre Hudry: Yeah, look, I think Brexit, we always knew that whatever the outcome we would be able to adapt. But we first saw that as an opportunity to get closer to our clients. You

know, and here I'm talking about the corporates but also the banks, the insurers, the asset managers, the family offices which are, you know, residing in the country. So we've been doing that. And we have not waited for the Brexit outcome to start doing that. And what we've seen is really our headcount doubling over the past three years, and we expect it to double it again over the next three years.

One of the striking things is that we now have all the divisions now represented onshore. And the Paris office, which used to be really 100% dedicated to serving French clients, now is increasingly serving as a hub to support continental European clients across a range of activities. So that's obviously an exciting development. We have an amazing team with my two partners, Celine Mechain and Thierry Sancier in IBD; Matt Gerbel [sp?] leading global markets; and a host of really talented individuals in all the other businesses of the firm. We're going to be relocating to a new office building next year with a capacity to host 300 to 350 seats. So we're on the journey. But the response from clients, most importantly, has been extremely strong.

Jake Siewert: All right, great. Well, hopefully, we can tape our next podcast in the Paris office because it's nice to see Your face, but it would be even nicer to see you in person.

Pierre Hudry: And you're welcome anytime, Jake, as you know.

Jake Siewert: All right. Thank you very much, Pierre. That concludes this episode of Exchanges at Goldman Sachs. Thank you very much for listening, and if you enjoyed this show we hope you subscribed on Apple Podcasts and leave a rating or a comment. And tune in later in the week for our weekly Markets Update where the leaders around the firm give a quick take on what they're watching in the markets.

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