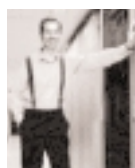


MOVING WITH THE TIMES



PAUL CROUCH OF DIRECT-ISSUE RECKONS IT'S TIME CORPORATE TREASURERS GOT THEMSELVES BETTER ACQUAINTED WITH THE BENEFITS OF MOVING ONLINE.

This article looks at a variety of online services which, by moving away from the tailored approach of traditional finance arrangers, can help treasurers to benefit from cost-effective fund-raising opportunities. It also addresses the risk management benefits for treasurers willing to embrace these opportunities and speculates on future developments in this area.

DOT.COM SUBSTANCE. The bursting of the dot.com bubble has been well-covered. While painful for investors and entrepreneurs, the evaporation of the dot.com froth does at least allow for a more rational appraisal of the way in which the internet has become a significant feature of day-to-day business life and of the extent to which it can continue to transform and replace current business methods.

With internet usage continuing to climb in both the personal and commercial spheres, it is evident that whether used for in-house communication, online advertising, procurement, establishing brand identity through a website, direct marketing, recruitment or client care and retention, the internet has penetrated all levels of business.

So, what is it about the internet that makes it a good medium for securing finance? To start, there are the general features – access to a huge global audience combined with enhanced opportunities for communication with investors, for collaboration with business partners, for comparison of service providers and for standardisation of offerings. Looking at just one area of financial activity, it seems clear that the FX trading portals are picking up business, albeit slowly and with Atriax as the one notable casualty. If rising use of these portals shows a treasury community increasingly comfortable with the idea of transacting business over the web, perhaps the time has come for that same community to embrace other possibilities, namely, raising finance over the internet.

WHAT'S AVAILABLE? While several new issue platforms for retail investors have disappeared following the equity market slump, there remain a variety of operations whose services are directed at treasurers and at the institutional investors which provide a significant proportion of corporate funding. In the overview that follows, we look at three types of platforms:

▪ **Type 1: systems developed by the major international banks to support the issuing activities of their corporate clients.** Given the amount of money investment banks have poured into internet development during recent years, it is hardly surprising that there are many single-bank sites. Here, we mention just two. Dresdner Kleinwort Wasserstein's e-bookbuilding.com is a bond issuing system that allows investors to view current offerings, research and deal documentation and to submit indications of interest. Issuers can follow bookbuilding in their bonds in real-time as well as consolidating indications of interest across bookrunners.

The syndicated finance website operated by Bank of America Securities provides analytical tools helping borrowers to assess when the market is likely to be most receptive to their loans, which structures are most likely to prosper and the prices they are likely to have to pay to launch new deals.

▪ **Type 2: 'arranger' platforms, independent or consortia-owned, which provide services for corporate treasurers and the financial institutions working for them.** This category ranges from sites facilitating the distribution of offering documentation to those allowing issuers to mastermind the operation for themselves. Yahoo!-owned netroadshow.com is aimed primarily at investment banks' capital markets teams and provides roadshow services (online prospectuses, video and audio presentations, slide shows and the like) for equity and debt market offerings. A similar service is provided by e-roadshows.com.

At the more 'active' end of the spectrum are companies such as bfinance, LTPTrade and Direct-Issue. bfinance is a transaction platform that allows treasurers to launch bid tenders for non-listed banking products. Its premise is that, with a broad range of targeted financial institutions competing for each bid, borrowers benefit from a stronger product offering and more aggressive pricing. As of February, it had 1,000 registered corporate users along with 220 financial institutions offering products via the site.

Besides connecting sellers of trade finance assets to a buying community of 150 approved banks and financial institutions, LTPTrade provides support for offerings by making information and documentation available to buyers. Its services cover bills of

exchange, letters of credit and promissory notes and offerings can be made in a variety of ways including by auction and syndication.

Direct-Issue is a recently-launched platform providing a range of complementary tools for issuers and institutional investors. It allows issuers to talk to each other, to gauge the costs of deals, to canvas investors about transaction features, to put advisory and underwriting services out to tender and to structure new issues and distribute them directly to institutional investors via auction. Banks can also use the site's facilities on behalf of their existing customers and to compete for mandates from new clients.

▪ **Type 3: US-based platforms – a pattern for the future in Europe?** If the US experience is anything to go by, online capital-raising in Europe looks set to grow significantly. In the US, ipo.com tracks the financing activity of growth companies and publishes data and analysis, operating on the basis that all investors should have equal access to IPOs. Similarly, WR Hambrecht describes its OpenIPO system as “a new way to take firms public that increases access to IPOs”. With its Dutch auction-based methodology, it claims to achieve equal access to and fair allocation of issues for investors and better pricing and lower distribution costs for firms.

MarketAxess, active in the bond and credit markets, provides companies, brokers and institutional investors with access to a new issues calendar, prospectuses, electronic roadshows and transaction terms. The Prescient Funding Desk of cpmarket.com provides treasurers with an online issue platform for commercial paper and other short-term debt instruments. LConnect is a letter of credit execution platform which enables companies to apply for and price export and standby letters of credit through the internet – in 2001, its volume of executed transactions exceeded \$100m.

FUTURE DEVELOPMENTS. While the fast-moving world of the web is hard to call, it seems likely that we will see:

- **The collapse of high-cost operations.** Many companies have seriously underestimated the time required to grow revenues and profitability in internet operations. Already, a number of players who pursued “first mover advantage” by effectively replicating the resource structures of traditional finance firms have had to severely curtail their ambitions, merge with rivals or, in some cases, close down.
- **Greater acceptance of auction methods.** Although online auctions of treasury and municipal bonds have been successful in the US, the idea of applying the same methods to products issued by corporates has not so far been embraced. With lower fees, more aggressive pricing and a wider investor base as bait, however, it seems certain that companies will eventually follow the lead of the public sector agencies.
- **Take-up of consortium sites at the expense of single bank sites.** In a recent poll of FX platform users, 90% of respondents expressed a preference for a multi-bank or independent platform over single bank sites. The advantages are clear – one password, one connection protocol, one site to familiarise oneself with, one access point to the widest possible range of potential counterparties.
- **Closer integration of online information, community and dealing facilities.** While some financial platforms employ their own teams of journalists, some financial media companies have built their own dealing platforms. The strong information-filtering and community capabilities of the web seem likely to encourage further alliances between media and finance players.

GO ONLINE

- www.bfinance.co.uk
- www.cpmarket.com
- www.direct-issue.com
- www.e-bookbuilding.com
- www.e-roadshows.com
- www.ipo.com
- www.lconnect.com
- www.lptrade.com
- www.marketaxess.com
- www.netroadshow.com
- www.openipo.com
- http://corp.bankofamerica.com/syndicated_finance

RISK REDUCTION. While much has been written about the risks perceived to be inherent in internet-based services, there are many ways in which the adoption of such services can assist treasurers in their efforts to make capital-raising as secure and effective as possible.

- Although slow to take off due to concerns about confidentiality, peer group discussion forums can offer significant benefits, helping treasurers to avoid making the wrong decisions. Using technology that allows for filtering of recipients and anonymous postings, treasurers can debate general topics (treasury management systems, use of money market funds, services offered by banks) and share detailed information on practical issues and problems. Similarly, the risks resulting from poor investor relations can be mitigated by using the web to communicate with key investors.
- When considering a new loan or issue of securities, treasurers can use online services to market-test the likely attractiveness of individual transaction features – currency, maturity, form of covenants and the like. As well as enabling treasurers to approach their advisers with a clearer picture of the transaction they wish to undertake, pre-testing reduces the risk of an issue being launched into an unreceptive market.
- Once the parameters of a transaction are agreed, treasurers can use online tendering facilities to ensure that contracts for advisory and financial services are awarded to the right providers at the right price. Alternatively, the lower costs and flexibility associated with online services mean that issuers and borrowers wishing to manage their own financing process can reduce the timescales involved and mitigate market timing risk. If an organisation has a medium term note (MTN) programme in place, for example, it can take immediate advantage of good economic numbers announced in the morning by selling small tranches of bonds in the afternoon.
- Now that securities or loans can be auctioned directly to investors or lenders, treasurers can reduce pricing risk substantially. The establishment of a transparent bidders' market before the price is set ensures that allocations can be made at the best price to a diverse and stable investor base. After-market volatility can also be reduced as participants have already established a loan spread or trading range for the security.

Cost savings, broader investor bases, greater flexibility and enhanced communication capabilities – these are just some of the benefits that internet-based providers of new issue services can deliver to organisations wishing to raise money. The question is, though, are corporate treasurers ready to take advantage of them?

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