THE NEW NORM

UNCERTAINTY MAY CLOUD THE ECONOMIC ENVIRONMENT, BUT CEOs WILL INCREASINGLY ASSERT THEIR ENTREPRENEURIAL NATURES IN 2013, PREDICTS SIMON ALLOCCA

Last year, we all became even more thoroughly familiar with what I can only describe as 'the New Norm'. Banks and companies alike have had to realign their businesses with those inescapable forces that are shaping our main marketplaces: Europe's unresolved currency and sovereign debt challenges; persistently depressed levels of event financing; a relentlessly low-growth or no-growth GDP; and a continued absence of investor confidence. But corporates and banks can survive by working together to find the positives in the New Norm that remains clouded with uncertainties around our principal European trading areas.

Given the uncertain backdrop, it's understandable that CEOs are cautious about defining long-term strategic investment decisions that could impact on their share prices. So the unwavering corporate focus in 2012 was on retaining cash, reducing debt and strengthening the balance sheet – in other words, maintaining a steady ship. We saw this right across the corporate spectrum from regionally strong UK companies to multinationals.

But I am optimistic that corporate CEOs will increasingly reassert their entrepreneurial natures, instinctively looking for investment opportunities and strategic initiatives. We will reach a point when market conditions again encourage CEOs to take on more adventurous projects.

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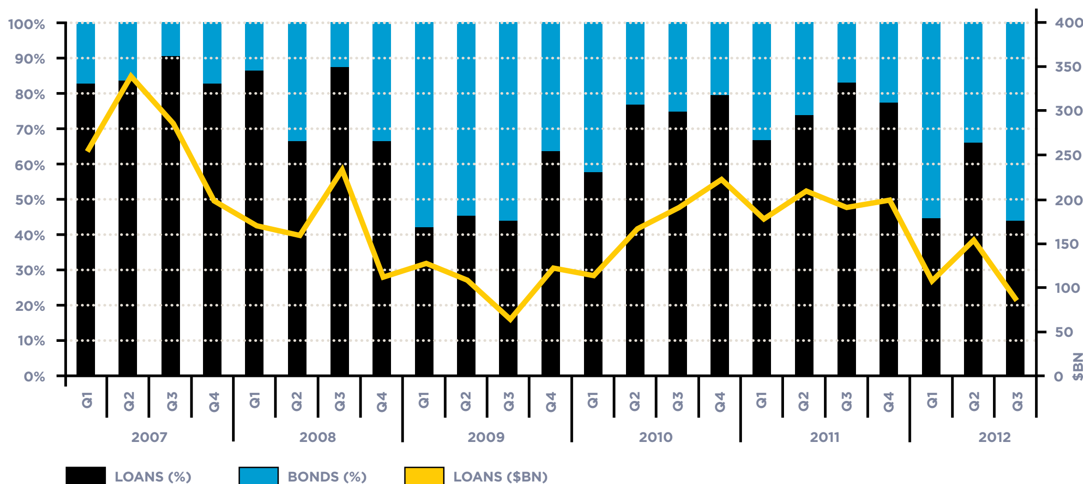
Conditions in established European and North American markets are putting pressure on corporate leaders to switch direction and investigate alternative opportunities in the growth geographies of Asia and South America. Overseas expansion will happen in due course, but my impression is that in the immediate months ahead, most UK companies will prefer to seek out opportunities in known territories before opting to make waves in unfamiliar marketplaces, which may add to investor nervousness.

It's likely that investors themselves will look first at corporate opportunities for further consolidation in the more promising traditional sectors, such as communications, media, healthcare, natural resources, food and retail, before they are persuaded to become interested in wider geographical spreads.



A look at loans

The syndicated loan market in 2012 was down 40% on 2011 due to low levels of event financing. Conversely, a historically strong appetite and historically low pricing meant that the corporate bond

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market experienced a good year. We saw investment-grade companies issue a significant number of bonds last year, as well as buy back and reissue bonds in asset liability management exercises.

Indeed, corporate bond issuance in 2012 exceeded loan issuance – with corporate bond 'safe haven' activity boosted by the parallel dearth of investor interest in sovereign bonds.

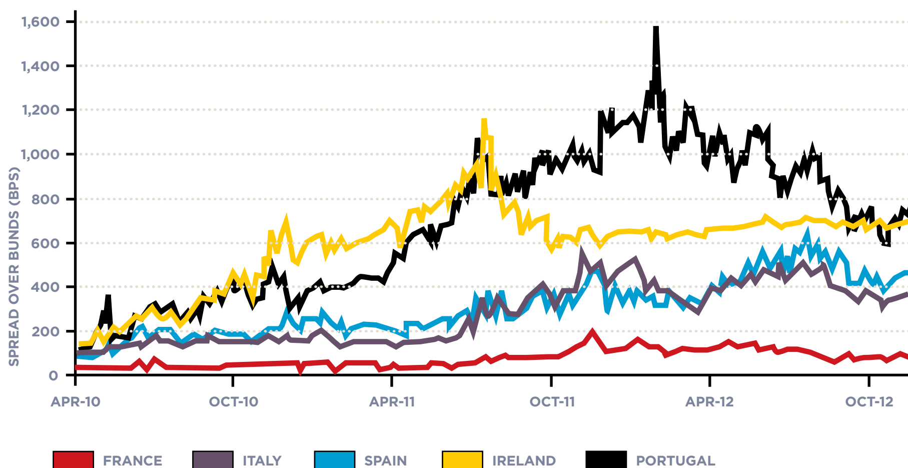
The implications for both pricing and tenors during the year were equally predictable. For corporate borrowers, the five-year tenor (or less) continued to be very much the prevailing benchmark. Banks strengthened their own balance sheets and funding dependencies over the same 12-month period and the knock-on effect was to stabilise bank pricing for all corporate credit qualities.

Beyond that, it's worth noting that there were few, if any, significant failed loan transactions last year. This shows that despite difficult market conditions, banks are supporting their customers right across the spectrum. (See A growing pipeline, right.) The trend is set to continue throughout 2013. In addition, the greatest evolution of the next 12 months is potentially in infrastructure financing. Here, there is a concerted effort to create financing structures that are acceptable for institutional investors.

Once, 30-year lending was offered in the infrastructure financing market, but it is now the extreme exception. Nevertheless, governments are keen to support these infrastructure projects and there is a concerted banking-sector effort to create financing structures to accommodate institutional investors' longer-term operational risk exposures, with banks providing shorter-dated financing (say, for up to seven years) to cover the construction phase itself.

In this New Norm, loan market prospects in 2013 continue to be littered with the major 'ifs' with which we are all now familiar: '*If* we begin to see GDP growth, *if* we start to see increased eurozone stabilisation, *if* we witness the stirrings of renewed investor confidence – then we might look for positive impacts in the second half of next year.'

TEN-YEAR EUROZONE BOND SPREADS



SOURCE: BLOOMBERG

A GROWING PIPELINE

During 2012, we saw some modest, but encouraging, event financing, which suggests a market that is gradually becoming more competitive.

◆ MELROSE
In June, UK investment company Melrose acquired Essen-based energy meter manufacturer Elster Group for $2.3bn in cash. The deal was funded by a £1.2bn rights offering and debt.

◆ DS SMITH
In July, Berkshire-based packaging company DS Smith acquired Swedish rival SCA Packaging, Europe's second-largest packaging business, in a £1.3bn deal, excluding cash and external debt.

◆ LINDE GROUP
In August, Munich-based industrial gas giant Linde Group completed a $4.6bn acquisition of US healthcare company Lincare Holdings, which provides respiratory therapy services to patients in their homes.

◆ BARTEC
In September, Lloyds Bank supported the Charterhouse Capital Partners-backed leveraged buyout of safety technology company Bartec from Swiss private equity firm Capvis. The Lloyds Bank acquisition finance team acted as bookrunner and joint mandated lead arranger in providing a €348m package of senior debt, revolving credit, acquisition and capex facilities to support the transaction. Syndication of the debt proved highly successful, driven by the strength of credit.

◆ CCM PHARMA
In October, Lloyds Bank acted as joint bookrunner and joint mandated lead arranger of a £235m senior loan to support the Cinven-backed leveraged buyout of Mercury Pharma, a niche pharmaceuticals company. In November, Lloyds Bank further supported Cinven in acquiring a complementary pharmaceuticals business, Amdipharm, which was merged with Mercury Pharma. Lloyds Bank acted as joint bookrunner and joint mandated lead arranger for that £280m add-on facility.

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