Banking on deals?

On the brink of a recession, what appetite will there be for bank debt and bank deals in the region and what new options are emerging?

Grant Thornton's head of debt advisory, and a former banker himself, says over the past few weeks he is once again seeing bank appetite for the market returning, but lenders are still being cautious.

Grant Thornton's Craig Cheetham says: "It's been an unprecedented time for the economy and for the big five lenders with so many businesses impacted by Covid. I believe all have been incredibly supportive of their clients in handling a deluge of applications for CBILS and other government-backed schemes. Such was the demands on the banks' resources, they were not looking at new business, or lending for M&A for some months due to bandwidth issues."

Cheetham says appetite is returning but lenders are being cautious and selective. He says: "They are looking in particular at resilient sectors, including SaaS (software as a service) and niche manufacturing such as PPE, essential services such as utilities and also obviously healthcare."

Cheetham says for businesses which have been badly impacted by Covid, but which are now starting to see revenues return it will be important to demonstrate a period of trading 'post lockdown' which will likely see several of these processes start in the New Year.

He says it is "hard to call" the appetite lenders will have over the next six to 12 months.

He says: "We still haven't really seen the true impact of this Covid downturn. Appetite and ability to fund will depend on the level of defaults the banks see. I think we can safely say though that they are going to be cautious in their approach to new business, and look at opportunities on a case-by-case and sector-by-sector basis."

Beyond the big five lenders, he sees strong desire to look at new deals from alternative lenders and debt funds: "Again, they will be looking for resilient businesses to invest in, but appetite for new business is stronger."


Inspired Energy

Richard Allinson is head of corporate banking (Northern England) for Bank of Ireland, which focuses on PLCs and larger companies and often gets involved in deals in partnership with other lenders.

Allinson explains: "Bank of Ireland (BOI) tends to provide debt through syndicates or a club facility. We've got companies ranging between £15m and £50 million. The borrowing range of those could range from £50-60m up to £500m."

Allinson says companies turn to BOI because of its personal service and lack of bureaucracy and partners in syndicates enjoy its sector expertise.

He says: "Our ethos is service driven. So we have a traditional personal service and you deal with the same person throughout the exercise. And therefore you have that sort of continuity of contact. We have people that have sectoral competencies and especially as so we have, for example, industrials, we have consumer, we have subscription finance.

"And in the North we can take advantage of those skills and capabilities. We have a cross section of industries within our book. So we are almost sector-agnostic as long as it sits within our core target market, and what we tend to do is also very clear, very transparent conversations and very visible people and what we then also provide is that, as a smaller organisation we are able to be responsive and we have fewer committees and less hierarchy. We're not burdened with hierarchy and bureaucracy."

BOI helps companies on the acquisition trail or looking to grow. Allinson explains: "Most of our facilities would be club or syndicates which means we are there among other lenders and they will invariably have their core relationship. They might have a certain level of debt facilities and banks have appetites for certain levels as well and need a second bank brought along. We do get referrals from other banks and from debt advisory accountancy market and a number of the large corporates are private equity owned."

One example of a winning syndicate is Inspired Energy. Allinson says: "That's shared between us and Santander. It's a £60m facility. It has made about five acquisitions in the recent past and has a viable market sector consolidation strategy, certainly a market leader with a good market position in terms of the stock market, therefore access to equity as and where appropriate. Good growth is being seen through a very experienced management team, very knowledgeable around this sector, and good professional competence around the business dynamics."

Earlier this year Inspired Energy outlined plans to raise £35m and expand with the full acquisition of a counterpart. The Preston company announced it was looking to raise gross proceeds of up to £30m by way of an accelerated bookbuilding process.

Of BOI's relationship with Inspired Energy, Allinson says: "The CFO says they were looking for a funding partner that understood their acquisitive growth strategy to work alongside their existing lender. And having met us, we continue to actually exceed their expectations and demonstrate strong engagement with the management team. That demonstrates our ethos."

There is an increasing prevalence of automation and AI in banking but Allinson says when it comes to large or complex deals, the personal touch cannot be underestimated.

He says: "As you go up the corporate tree, the larger deals will have more complexities around them and therefore more detailed understanding required. And I think what you find behind all that is it isn't as easy for AI automation at certain levels. What is needed is the subjectivity of human-to-human interaction, as well as the subjectivity of different strategies rather than what might be thrown out of a computer model."

Of the future deals pipeline, he says that different sectors have been impacted by Covid to different degrees and in different ways. As a result, some of the business will be able to make use of some government schemes such as CBILS. He adds: "Those businesses will be deciding how they restructure the debt. Obviously we, like many other banks, were involved in reviewing the funding needs and the finished covenant revisions for people affected by Covid.

Ronak Halani, Dan Holgate and Martin Keelagher of Agile Automations

"Equally, we're very aware of corporates that have sufficient liquidity to progress meaningfully in M&A activity, in industry consolidation.

"We've seen transactions in various infrastructure deals. We've seen various transactions in the industrial sector. I've seen quite a bit of activity in subscription finance. We're seeing PE houses raise equity in anticipation of purchase opportunity. And there's a fair degree of liquidity around for that type of thing."

Manchester-based Agile Automations has been building bespoke, automation software for the past five years across financial services, property and insurance sectors.

Chief executive Martin Keelagher says: "Outside of government-backed schemes, corporate lending will almost certainly contract and the banks will be far more selective in terms of the opportunities they choose to back.

"New-to-bank opportunities will be particularly difficult to get over the line and cash-out deals, particular in M&A, will also be harder to complete than pre-coronavirus."

Speaking on the landscape of lending Keelagher adds: "Governance, risk and credit functions are all areas which have adapted quickly to technology, adopting new solutions to enhance their offering.

"This was largely driven by changes in the wake of the financial crash when institutions took lending delegation away from front office staff."

Looking to the future Martin adds: "I believe uptake of AI and Robotic Process Automations (RPA) in the corporate banking sector is set to rocket with increased remote working. Processing sensitive data for payments, anti-money laundering, transactions, or FATCA (Foreign Account Tax Compliance Act) checks has become much more difficult due to home working.

"Instead these administrative tasks can be undertaken safely by automations, also saving the lenders time and money."

Richard Higham, co-founder of corporate finance advisory firm Cleveland Scott says banks and alternative lenders will continue to lend money, however, they will be looking to mitigate risk.

Higham says: "That risk mitigation could come from knowing the business they're backing well or it could be through due diligence that the business has traded well through Covid-19 and that management took appropriate actions at the appropriate times to maximise performance through difficult times. Clearly, secured lending is always less risky than unsecured lending and so I expect structured finance packages to continue where a decent chunk of the debt is fully or partially secured."

Of lenders outside of the mainstream banks, Higham says: "The pure invoice finance guys and the broader asset-based lending players will no doubt be busy over the coming months, albeit, they will be doing a lot of lending for refinancing purposes rather than for mergers and acquisitions or transactions." ■