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CORPORATE FINANCE

# Financial leaders join together for Smith Cooper's roundtable discussion to appraise the current and future funding marketplace

**Darren Hodson, Smith Cooper Corporate Finance**

**"The aim of this roundtable is to obtain live information on the status of the current funding market from experts at key financial institutions. We want to truly challenge the experts on lending appetite and how they assess trading risk during the COVID-19 pandemic. We also want to understand if there are any long-term repercussions for the funding sector."**

The group of experts included leaders from a range of funding institutions such as Northedge Capital, HSBC, Beechbrook Capital, Shawbrook Bank, ABN AMRO and SME Capital. The panel was chaired by Paul Newell, a non-executive chairman and specialist in M&A funding. The full panel was:

## Advisory panel

**Paul Newell**
Chairman and M&A funding expert

**Darren Hodson**
M&A funding expert
SMITH COOPER

**Dan Bowtell**
M&A funding expert
SMITH COOPER

## Funding expert panel

**Liz Fuge**
Specialist in all types of debt finance
HSBC UK

**Paul Whitehouse**
Specialist in cashflow and mezzanine lending
BEECHBROOKcapital

**Tony Airey**
Specialist in SME growth and M&A funding
SME CAPITAL

**Kevin O'Loughlin**
Equity finance specialist
NORTH EDGE

**Ben Pittam**
Specialist in asset based finance
ABN·AMRO

**Deepak Parekh**
Specialist in cashflow lending
Shawbrook Bank

## Overview of current financial market

The rapid onset of lockdown brought many challenges for funders, with the initial months spent supporting existing customers through government funding schemes. Whilst many funders were faced with an initial onset of Coronavirus Business Interruption Loan Scheme (CBILS) requests, most agreed that the demand for funding support has significantly reduced, although another wave of CBILS requests was being anticipated before the 23rd September deadline.

Experts agreed that their existing customers have fared well overall, with those struggling being the odd exception, often within the leisure sector.

It is clear that some sectors are more COVID-19 resilient than others, with the leisure and retail industries feeling the immediate effects. However, this may be beginning to change. Whilst the panel found businesses within the leisure sector experienced a decline in credit ratings due to the enforced closure in March, certain businesses in leisure, are now trading better than last year, after seeing an increase in demand with the easing of government restrictions. How a business effectively 'bounces back' will form part of its risk rating, which will be a vital indicator to assess how a business has been affected by the pandemic and it's lendability.

## Assessing trading in the current climate

The expert panel agreed that assessing trading will be vital and many funders are seeing the M&A market increasing in activity and deals now being completed across a variety of sectors post-lockdown. Whilst many businesses may not be trading at pre-lockdown levels funders are taking a view that pre-lockdown trading could be a good indicator of future trading performance, providing some reassurance against forecast earnings.

There is undoubtedly a short-term concern around the impact of the withdrawal of many of the Governments support schemes, which is likely to lead to a wave of businesses needing additional funding support towards the end of the year and into early next year.

Many agreed that they can look through the impact COVID-19 has had on trading, as they are comfortable a recovery can be made.

In the initial post-lockdown period, when considering new opportunities, funders are taking a thoughtful, and more cautious approach.

**Liz Fuge, Deputy Area Corporate Director, HSBC**

**"Undoubtedly at the start of lockdown HSBC focused on supporting our existing clients. As the lockdown conditions started to ease, the request for CBILS loans also eased and allowed us to assess new opportunities. These will be considered for the right deal and right opportunity".**

## Assessment of management teams

The panel agreed that it is not just the underlying earnings of the business that need to be taken into consideration when assessing new deals but also how a management team reacted to the initial crisis. This will act as a barometer for future behaviours and funders will want to assess any future recovery plan should a second lockdown be necessary.

**Tony Airey, Regional Director, SME Capital**

**"We would rather lend to a management team that has gone through a crisis and come out of it well, than one that has never experienced a crisis".**

**Kevin O'Loughlin, Investment Director, North Edge**

**"When considering new deals, assessing the capabilities of management is critical to our investment in opportunities. How management reacted to COVID-19, including how they treated their customers, suppliers and employees, is one of the best stress tests of a management team you could get."**

Although it will be difficult to hold businesses to their forecasts in the current climate, a sensible assessment of how a team is likely to cope will be made based on whether they have coherent, forward-looking plans in place.

**Deepak Parekh, Senior Director, Shawbrook Bank**

**"We have completed a number of new business deals since lockdown and are currently assessing further funding opportunities. The commonality between deals, that are likely to receive our funding, is that they all have a COVID-19 business disaster recovery plan in place".**

## Potential long-term implications

The panel was hopeful that in 18 months the current economic shock will just be looked back upon as 'another financial adjustment', although they agreed that there would undoubtedly be some long-term implications on the way we work.

As some sectors have felt the immediate financial impact more than others, certain sectors such as retail and property management are also likely to feel the long-term effects. Demand for office space for example, will likely be badly affected for a considerable time. There will be winners and losers, and as an example, manufacturers may benefit from onshoring, as suppliers begin to move away from China.

**Paul Whitehouse, Investment Director, Beechbrook Capital**

**"The UK economy has proved to be creative and innovative over the years, and new industries have burgeoned in previous periods of crisis. I would anticipate that this innovation will continue in the future, and perhaps a likely success story is UK manufacturing, with many corporates seeking to reassess global supply chains and onshore more manufacturing capabilities."**

The potential of a second lockdown would also have an impact on fundraising, meaning that whilst financial measures won't disappear completely, funders will have to be prepared to get creative with KPI's, ensuring meaningful monitoring measures are in place.

Pricing risk into different structures will also have to be factored in. An increasing use of small equity positions may also be likely as companies move into equity risk, but only time will tell how this manifests in deal flow going forward.

## Risk and reward

The suggestion that in a world with more risk, is it more likely that cost of finance will also be higher as a result, was agreed to be largely anecdotal.

Deal pricing has remained similar to pre-lockdown levels due to functional liquidity, and pricing will only change in rare circumstances. Instead, it is about a more considered approach around deals, and ensuring that businesses are robust.

**Dan Bowtell, Partner, Smith Cooper Corporate Finance**

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**"Capital is always priced according to risk, and COVID-19 shows a higher level of risk than previously thought. Whilst it is unlikely specific funders will change their pricing, for many businesses they may need to speak to alternative funders who are prepared to take higher risks and price accordingly."**

## Growth capital likely to be more popular

A number of corporates are already assessing the new world economy and will come out of the COVID-19 pandemic fighting, which could be an opportunity for growth and may need additional financial firepower.

**Kevin O'Loughlin, Investment Director, North Edge**

NORTH EDGE

**"From an equity perspective capital is likely to focus on 'hot' sectors such as TMT, life sciences and healthcare. Businesses which have performed well through COVID-19 are likely to attract premium pricing as investors seek robust assets with strong management teams."**

Most funders thought that deals with deferred consideration, specifically on a profit related basis, will be more prominent, in order to mitigate a possible decline that may happen in the coming months. Ultimately, it is an exciting time for growth, with more interesting deals with young management teams that don't have equity, but this needs to be taken with caution, and on a case by case basis.

**Ben Pittam, Regional Sales Director, ABN AMRO Corporate Finance**

ABN·AMRO

**"We fund against key assets. As trading recommences our offering will become more valuable as companies seek the necessary working capital to expand which is likely to be against the trade debtor book."**

## Overall

It was clear that all funders were open to assessing new funding opportunities. Most were wanting to see more new deal activity and will be working with businesses and their advisers to develop creative new structures.

**Paul Newell, non-executive chairman**

**"It is clear from the panel that growth funding and M&A funding are viable in the current climate and there is appetite from funders for new opportunities. A number of funded deals have already completed post lock-down and more are in the pipeline. A good sign for Midlands' businesses."**

## Helping you source the necessary funding to help your business prosper

An award-winning team of advisors, our corporate finance team are dedicated to helping businesses excel and flourish, helping them achieve their goals and navigate any complexities that may arise throughout the fundraising process.

With an extensive network of contacts, we are well-placed to assist clients with all aspects of deal making and funding, particularly when it comes to sourcing the right finance at whatever stage of their business life cycle they are at. **If you'd like to hear more, please do not hesitate to get in touch.**

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