Winter nerves in boardrooms could trigger second round of fundraisings

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Markets

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£25 billion has been invested in UK-listed company fundraisings since February
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London's bankers, brokers and lawyers are gearing up for a second round of fundraisings over the winter months.

Investors have backed UK-listed companies with more than £25 billion since the coronavirus threat appeared in February. As the pandemic hit, businesses rushed to shore up their finances by tapping the market for extra cash to see them through the lockdown.

The number of equity placings, where companies create new shares and sell them, has slowed, but City professionals expect that some will come back again over the winter, especially in the event of a second lockdown.

Charles Hall, head of research at Peel Hunt, the City stockbroker, said:
“Companies will be looking at their balance sheets and feeling more nervous now than they might have done two months ago.
“We’ve got a full pipeline [of planned fundraising deals] but it won’t be like it was in April and May when we were talking to every single corporate to find out their funding requirements.”

During the spring, many companies raised money quickly money by going straight to the big institutions and bypassing shareholders.

This year, because of the virus, businesses have been allowed to raise up to 20 per cent of existing share capital without having to go to investors. Some took up that full allowance, raising concerns that should they need quick money again they might struggle to find it.

However, the feeling in the City is that most businesses are better prepared for what might be around the corner, meaning that few will be in dire need of an immediate cash injection.

Simon Wood, a partner at the law firm Addleshaw Goddard, said: “I find it hard to believe that a well-run company would be surprised by a sudden need for cash. They’ve had advanced warning of this. A second lockdown won’t be as much as a shock to the system as the first.”

Mr Hall at Peel Hunt thinks that companies will be more inclined to bolster their finances in order to give confidence to their auditors signing off their annual reports, rather than being desperately short of cash.

“There are a lot of companies with December year-ends so there will be plenty that will be needing to talk to their financiers about covenants,” he said.

“The ones that were most affected are more likely to have already done that, so this is going to be companies that probably didn’t think that they would need to talk about covenants [but] are now going to need to.”

A lot of companies have been forced to rethink how they operate. Brokers expect they will want more money to invest in new technology or to take advantage of depressed valuations and make an acquisition.

Andrew Boyle, chief executive at LGB & Co, a boutique finance house, said: “We are encouraging companies to come up with plans to restructure their business, to invest in certain areas and to raise capital to do so.”

Mr Wood agreed: “There are going to be many more companies now on the front foot that can see the opportunities in front of them.”

Big institutions still seem able to take part in any new round of placings. Mr Boyle believes that there is a “lot of money sloshing around” in the City.

However, Mr Wood said: “Institutions are still ready to invest, although I think that pricing might become a bit harder and that investors might start to drive a more demanding bargain.

“Particularly if companies are coming to market a second time, [investors might say:] ‘You need to make this worth my while.’”