Irish Association of Corporate Treasurers

‘Sources of Finance for Modern Corporates’

14th June 2016

BARCLAYS

Introduction

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Key Topics

(1) Sources of 'Liquidity Financing' for Modern Corporates

(2) Capital Structure Financing Options

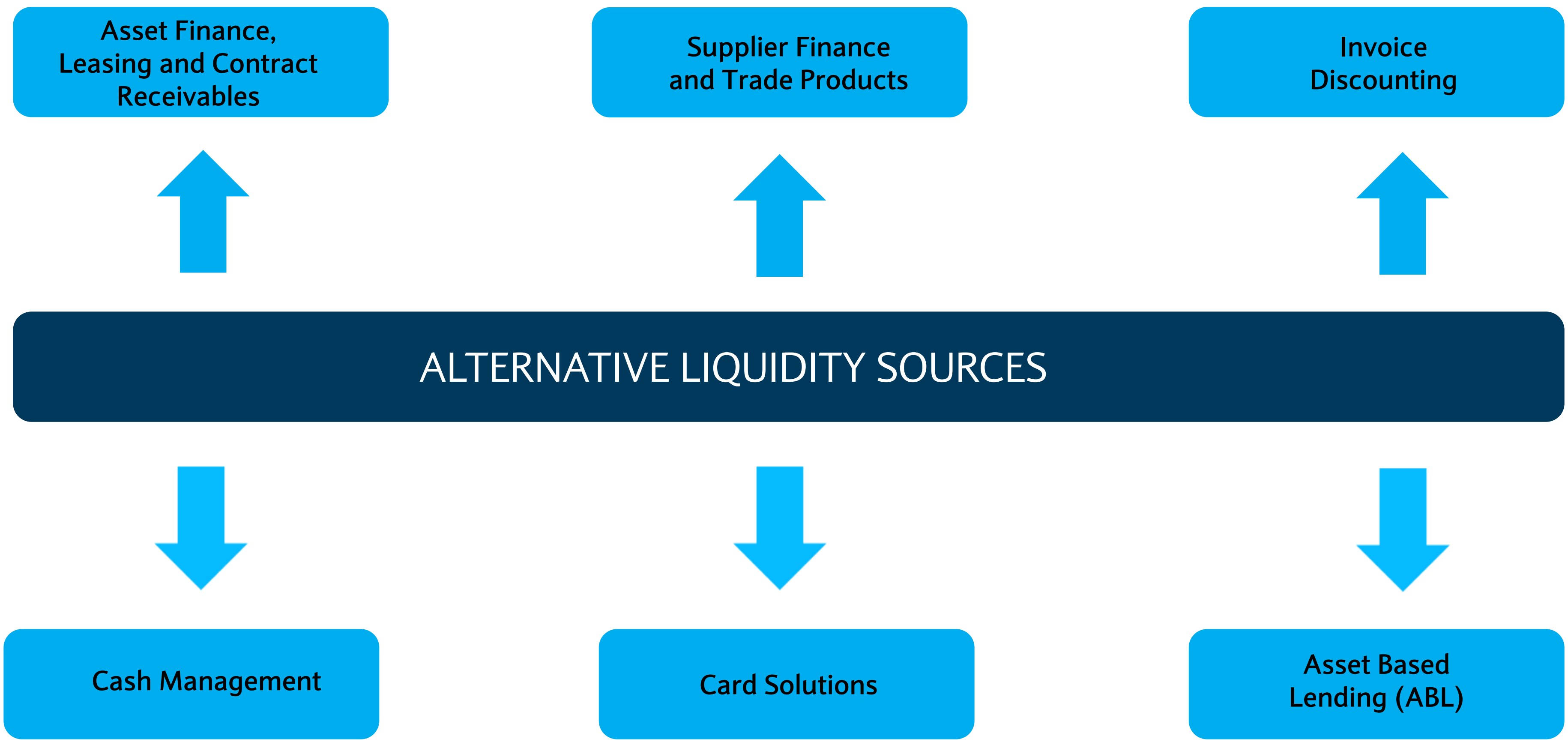
(3) What financing behaviours we are seeing across Irish Corporates

(4) Summary / Outlook

(5) Q&A

(1) Sources of ‘Liquidity Funding’ for Modern Corporates

Liquidity / Working Capital Financing Options



Liquidity / Working Capital Financing Options

Asset Finance, Leasing and Contract Receivables

- Enables corporates to leverage their asset base as a means of raising finance and at more attractive pricing as a result of the secured nature. Particularly suited to Capex spend.
- Provides a means of diversifying funding sources whilst spreading the cost of assets over the economic life and can be 'on' or 'off' balance sheet.
- Contract Receivables is a way of funding future contracted cash flows within a term contract for suppliers of products and services.

Supplier Finance and Trade Products

- Corporates are taking advantage of both new and well established trade products in order to improve working capital and as a means of protecting / assisting the supplier base.
- Increasing use of supplier finance which allows companies to lengthen their payment terms to their suppliers whilst providing the option for their large and SME suppliers to get paid early.
- We are also seeing an increased utilisation of more traditional trade products such as Letters of Credit, Bills of Exchange and Avalisation.

Invoice Discounting and Asset Based Lending (ABL)

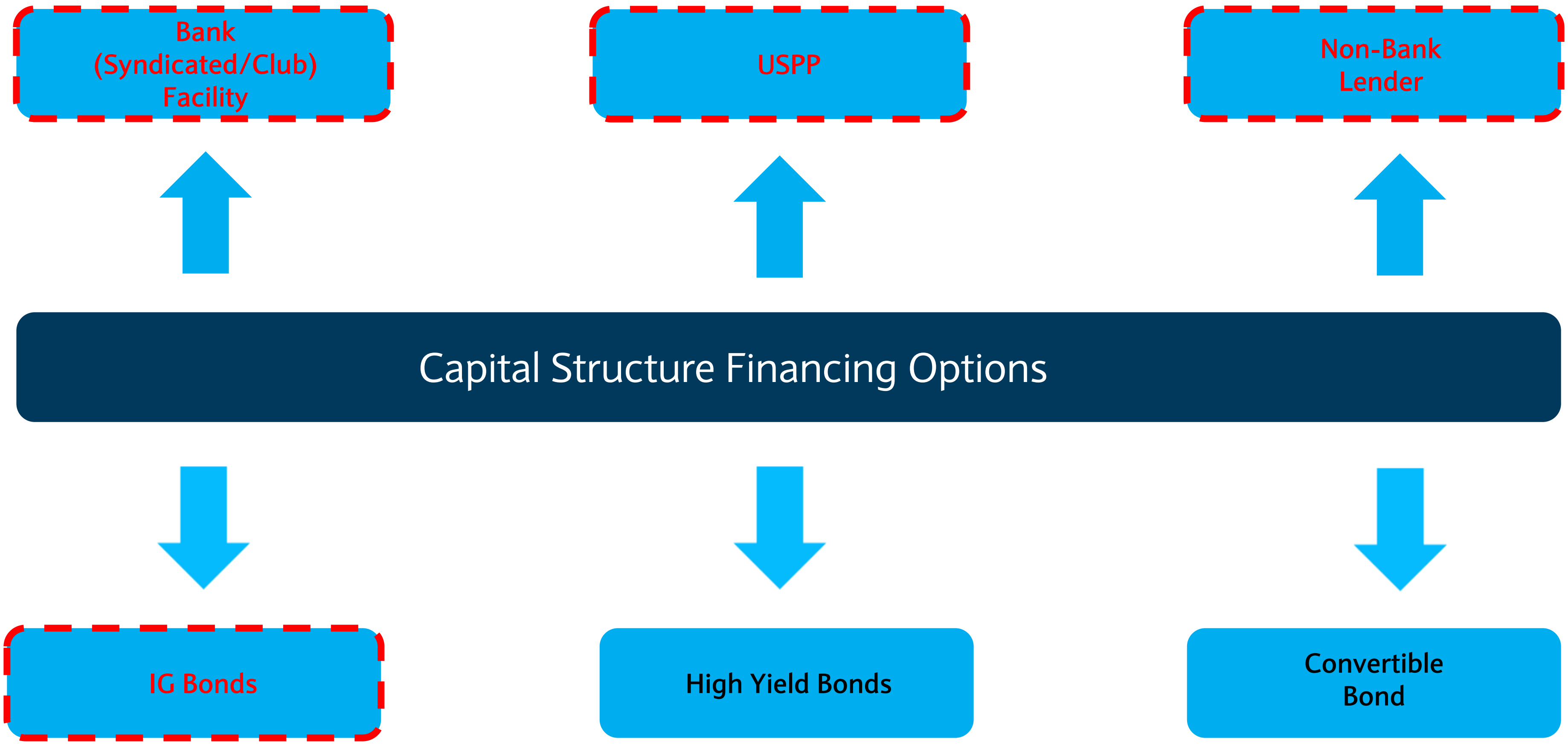
- Invoice Discounting enables Corporates to borrow against their debtor books. Typically a Bank would advance up to 85% of a debtor book with some exclusions.
- ABL is a variation of Invoice Discounting where a bank would fund both a company's Stock and its Debtor book giving access to a credit line throughout the operating cycle. Not yet widely seen in the Irish Market.
- Selective Receivables Financing is becoming more popular.

Card Solutions and Cash Management

- Well established card solutions in the market, but card providers have broadened their usage so that cards can provide longer working capital benefits (up to 56 days), more control over adhoc payments and automatic reconciliation with your ERP process.
- Negative interest rate environment helps to prompt discussions on what to do with surplus cash – can this be used more effectively to off-set against or pay down debt drawings?

(2) Capital Structure Financing Options

Capital Financing Structure Options



Product Comparison – key features of financing markets

	Bank (Syndicated/Club) Facility	Non Bank Lender	USPP	IG Bonds	High Yield Bond	Convertible Bond
Market Capacity	• Possibility to increase above existing facilities with further ancillary angles, geographical diversification or IG profile	• Strong Market capacity for suitable credit and deal • €10* – 130m	• Significant market capacity for strong credits • Current market conditions are very strong	• €175m+ minimum • Theoretically no maximum but credit metrics will provide ceiling	• Very deep and liquid market • Subject to minimum size (c.£150m)	• Market open and resilient. Size limited at c.10% of market capitalisation including premium (ABI pre-emption guidelines)
Investor Base	• Relationship banks	• US and European Leveraged funds, Insurance companies • Buy and hold strategy	• Primarily insurance companies based both in the US and Europe	• Insurance companies, pension funds and asset managers	• Insurance companies, pensions, asset managers, mutual and hedge funds	• Dedicated long only investors and hedge funds, different from equity and fixed income investors • EM focused funds are additional source of demand for EM issuers
Credit Ratings	• Ratings not required	• Ratings not required	• Ratings not required	• At least one public credit rating from one of Moody's, S&P and Fitch with two ratings preferred • Unrated costly and implies a high execution risk	• Ratings from two agencies required	• Ratings not required
Tenor	• 5 year maximum. Typically 3-5 years	• Typically 3-10 years	• Typically 7 – 15 years, albeit other tenors available	• Typically 5-12years with IG ratings	• Long tenors available (5-10 years)	• Typically 5 years
Repayment	• Likely amortising • Early repayment at no cost	• More likely Bullet • Early repayment possible – cost depends on structure	• Bullet/Amortising available • Delayed drawdowns available • Early repayment expensive	• Bullet • Early repayment possible but can be punitive	• Bullet • Early repayment possible but can be expensive	• Bullet or option to convert depending on strike price
Credit Package	• Standard suite of Covenants required.	• Similar Covenant package to banks • Pari passu/Subordinated to bank piece • Flexible depending on structure	• Covenants will typically mirror the bank agreement with potential flexibility in some areas	• No financial covenants required (assuming Investment Grade profile) • Negative pledge, cross default, COC, coupon steps (if crossover credit profile)	• Incurrence covenants only • No maintenance financial covenants • Looser non-financial covenants	• No covenants other than negative pledge and cross default clause
Marketing	• No roadshow required, but 1-on-1 mtg with banks	• Similar to banks	• Investor Roadshow with presentations and global conference call	• 2-3 day roadshow required	• 2-3 day investor roadshow required	• No roadshow required
Disclosure	• Private disclosure to banks including projections	• Private disclosure	• Private disclosure to investors, no projections required	• Public disclosure, no projections required	• Public disclosure, no projections required	• Public disclosure, no projections
Timing	• 6-10 weeks for a Club deal • 8-12 or a Syndicated facility	• 6-8 weeks	• 6-8 weeks	• 12 weeks for a debut issue	• 6-12 weeks	• Launched within 2 weeks and closed within 6

(i) Bank (Syndicated/Club) Loan Market

European Loan Market: key themes in Q1 2016

Borrowers

Rising concerns over the economic cycle, EU referendum, China economic weakness, commodity and capital markets volatility caused borrowers to adopt a "wait and see" approach in Q1 2016

Pricing and terms have remained broadly unchanged from Q4 '15, with lenders becoming more selective and return oriented. Pricing has reached a floor with evidence of an uptick

Banks

Loan activity has been subdued YTD due to a lower volume of refinancing and event-driven activity not meeting market expectations

THE BALANCE OF POWER still in the borrowers' favour

Indicators suggest that bank funding costs have increased due to overall bearish sentiment. However, European domestic banks continue to put competitive pressure on domestic transactions

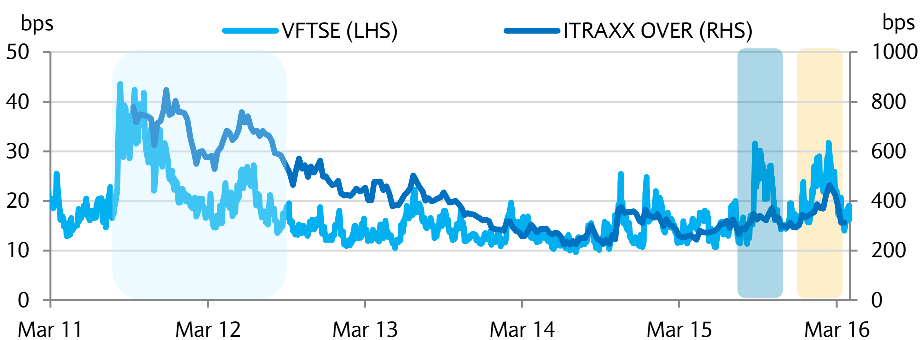
The expansion of the ECB's Quantitative Easing to corporate bonds and the renewal of the LTRO programme has created pools of additional liquidity for both European banks and borrowers

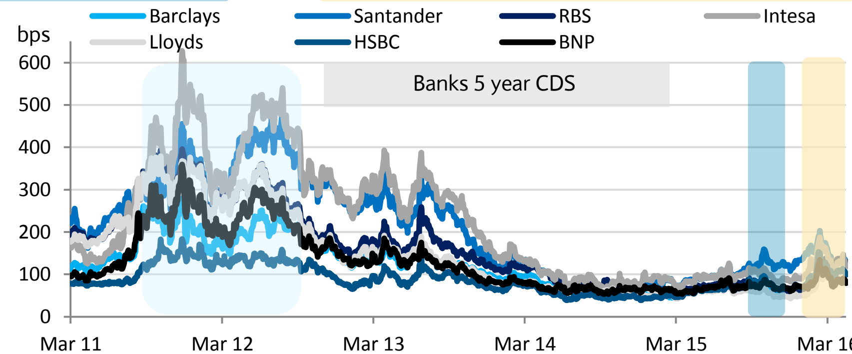
Despite the wider economic volatility, the perception of bank credit risk remains relatively low

European Sovereign debt crisis 2011 unfolds

Black Monday & slow down of Chinese economy

Oil price dip & bank stocks sell off



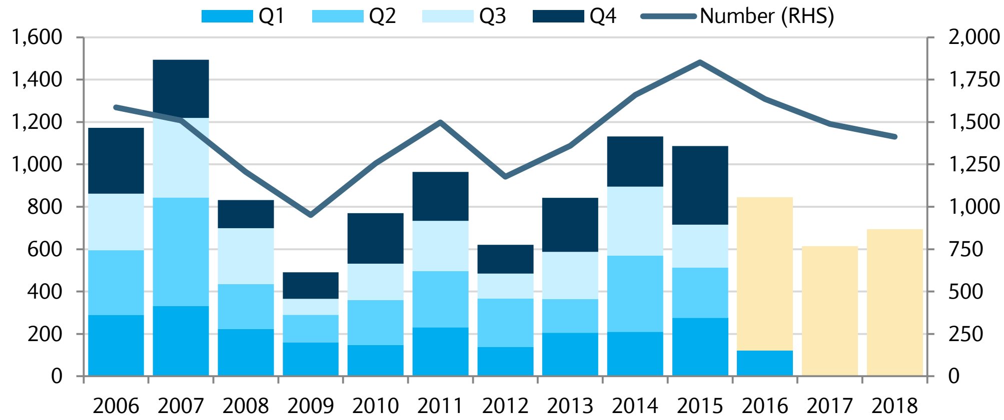


Regardless of global headwinds the European loan market continues to be supportive to borrowers

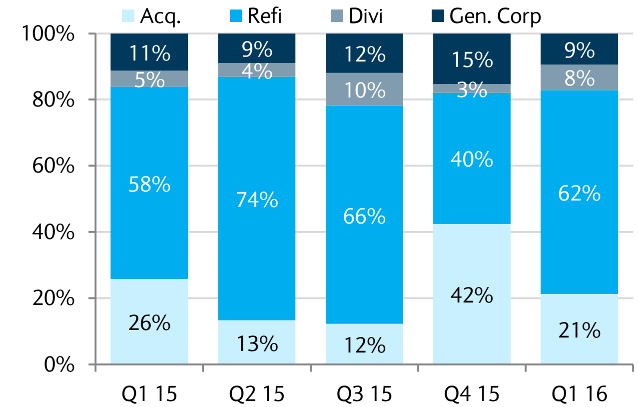
Source: Bloomberg

Q1 Bank Loan volumes down on previous years

Loan volumes record lowest quarterly total since Q1'12 in Western Europe – 56% down YoY, with EMEA down from $319bn to $144bn

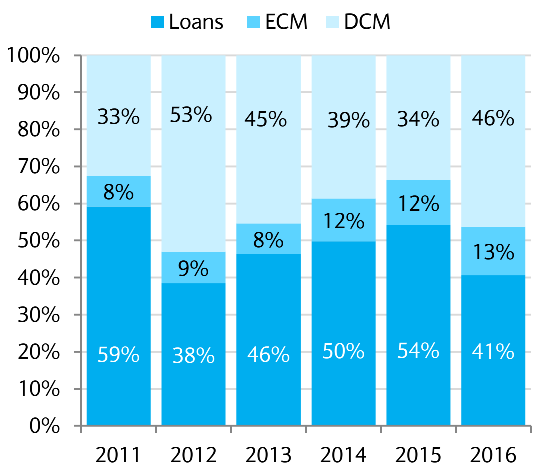


...As acquisition volumes stall amidst uncertainty



M&A volume is dominated by the Shire transaction; but the absolute number of event financing **deals executed has dropped 55% YoY**

Capital markets volumes follow a downward trend across the board



	Q1 2016	YoY Comparison
USPP	$10.5bn	7%
Convertible Bonds	$8.4bn	45%
High Yield Bonds	€7.5bn	80%
Leveraged Loans	€13.2bn	39%
IG Bonds	$294.2bn	2%

Commentary

- Volumes were **down 56%** across Western Europe in Q1 2016 vs. Q1 2015, with **number of deals down 44%**
- The key driver behind a **drop has been a slow down in M&A activity** amidst **increased volatility** in the market and the **lack of refinancing volume** post the refinancing spike in 2014/2015
- Event-driven financing in Western Europe dropped **(-67%) by volume and (-56%) by number**
- The **UK performed broadly in line** with the rest of Western Europe with **volumes down 52%** across the quarter, followed by **key EU jurisdictions: France (-59%), Germany (-75%) , Spain (-78%), Italy (-84%), Ireland (-83%) and Netherlands (-16%)**

The low volume environment has been driven by reduced corporate demand whilst supply side dynamics have remained healthy

Source: Dealogic

* Comparison on YTD basis, excludes jumbo deals across capital markets ($18bn Shire bridge facility, Ab InBev €32bn IG bond)

EMEA Market Outlook

Key events that will influence the market for the rest of 2016

April | May | June | July | August | September | October | November | December

ECB continues to monitor monetary policy

EU referendum in UK

Fed rate hike expected

1st post EU referendum MPC meeting

US Presidential Election

Likely Implications

Borrowers

- **Demand:** uncertainty around the outcome of the UK EU Referendum and the macro backdrop is likely to see muted activity persist through to Q2. However, loan market fundamentals remain conducive to support an increase in event driven activity. To this end, 36% of UK CFOs still expect to increase leverage over the next 12 months
- **Pricing:** upward pressure on pricing counterbalanced by ongoing subdued demand and supply side measures such as ECB monetary policy. Refi pricing will continue to stabilise with a premium for acquisitions, weaker credits or widely distributed transactions

- **Macro backdrop:** global economy on track for stabilisation, US shows a mix of mid- and late- cycle dynamics and Europe maintains slow but steady growth; China remains the biggest downside risk
- **Market volatility:** expected to remain elevated but controlled as global monetary policy easing continues to support the market and commodities recover further

Banks

- **Funding costs:** to continue their upward trend as wholesale funding spreads widen further. Outside stimulus measures, banks renew their focus on capital and relationships
- **ECB Stimulus:** expected to be a catalyst for smaller deals in domestic European markets supported by regional lenders. Lower cost of ECB funding is likely to see some smaller deals trail broader market comparables in the absence of increased volume
- **Terms:** banks' focus on structural protections amidst uncertainty and stronger terms will gain momentum in Q2

In 2016, the loan market will continue to be a key financing source for corporates in the context of uncertainty

Source: Deloitte CFO Survey: Q1 2016

(ii) Non-Bank Lender Market

The Emergence of Non-Bank Lenders ("NBLs")

The emergence of Non-Bank Lenders has brought a new dimension to the Debt markets, offering an attractive alternative to the traditional Bank Loan markets.

Headlines

- 242 alternative lender transactions completed in 2015
- +9% deal flow YoY
- 10 completed in Ireland in 2015
- Predominantly focused across 5 main industries: TMT, Consumer, Healthcare, Business Services & Manufacturing.
- Distinct attraction for smaller and larger scale Corporate– viewed as an alternative to equity at the smaller end of the market and a long-term funding solution for larger Corporates

Key Benefits & Considerations

- ✓ One-stop solution
- ✓ Structural flexibility
- ✓ Speed of execution
- ✓ Cost-effective & simple
- ✓ Scale
- ✓ Attractive alternative in the sub-IG space

- × Relatively new market – fund behaviour not tested
- × Relatively expensive solution
- × Similar terms to Banks
- × Amendments difficult

Key variances to Bank Lenders

- ✓ Access to non-amortising, bullet structures
- ✓ Ability to provide more structural flexibility
- ✓ Access to debt across the capital structure
- ✓ Potentially larger hold sizes (up to €200m)

- × Funds are not able to provide clearing facilities/ancillaries
- × Funds will target a higher yield for the increased flexibility provided.

Active Players

EARLSFORT CAPITAL · Origin CAPITAL · KKR · RENATUS CAPITAL PARTNERS · BBF · BROADLAKE

Source: Deloitte Alternative Lender Deal Tracker

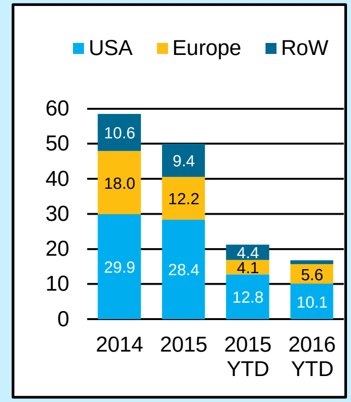
(iii) US Private Placement Market

Private Placement Market

USPP market conditions remain very strong with a continued supply/demand imbalance in favour of issuers, offering issuers access to a stable source of long-term financing in the fact of extreme volatility

Headlines

- $16.8bn of volume issued YTD (vs. $21.3m in FY15) – albeit European issuance is c37% YoY
- USA and UK continue to see the largest issuance by volume accounting for 60% and 16% of YTD volumes respectively.
- Spreads have tightened considerably from February highs since the ECB's public bond buying announcement in March resulting in lower all-in coupons compared to levels seen earlier in 2016
- Market conditions remain strong in the USPP market, with refreshed and upsized budgets from investors, resulting in a continued supply/demand imbalance in favour of issuers
- New sectors – Project Finance, Real Estate, Renewables



Key Benefits & Considerations

- ✓ Flexible size & tranching – no minimum tranche sizes, $50-$1bn+ demand for issuers
- ✓ Currency options – deep natural $ demand & natural and synthetic GBP and EUR available
- ✓ 'Off the Run' maturities –Demand for tenors up to 15 years (bespoke 'off the run' available)
- ✓ Covenant flexibility – typically aligned to existing bank agreement but more flexibility in certain areas
- ✓ Delayed draw – Demand exists for 3-6 delays at minimal extra cost
- ✓ Ability to re-access over time – investors have been highly receptive to repeat issuers
- ✓ Ratings no necessary – USPP investors rate transactions internally – cost & timing advantages
- ✓ No registration – SEC exempt, provides total confidentiality in transactions

- ✗ Amendment process can be challenging
- ✗ Less prepayment flexibility
- ✗ US$ denominated funding could required cross-currency swap
- ✗ Covenant package required

(iv) Bonds

Investment Grade Bonds

Capital markets provide a source of long-term, predominantly fixed-rate and bullet maturity debt funding for Corporates

Headlines

- The Euro market began 2016 in lacklustre fashion, volumes were historically low through to mid-February when buoyed by supportive tone from central banks, the credit markets were able to shake off negative macro headlines and post consecutive days of stability
- The market was given a further boost by accommodative measures announced by the ECB in early March and we have seen a broad based rally since then
- Post the announcement of CSPP, concessions have generally been on a downward trajectory and subscription levels robust. We have also seen a renewed bid for longer maturities.
- Following a period of significant issue volumes, there are signs that investor fatigue may be setting in. Investors are increasingly tiring of large price revisions through a bookbuild and are calling for a re-instatement of new issue premiums
- With the announcement that the CSPP purchases will begin on 8th June, we await the impact that the buying will have on primary and secondary markets.
- Sterling market volumes have been on a declining trend as the strength of the Euro market draws many international borrowers into that market. After a protracted quiet period the past few weeks have seen a number of issuers in the market including a £300m 19-year transaction for Greene King Finance (A/BBB+), a £350m 7-year issue for William Hill (Ba1/BB+) and a £400m 6-year issue for FCE Bank (Baa2/BBB/BBB-)

Key Benefits & Considerations

- ✓ Deep liquidity
- ✓ Lock in fixed cost of capital at historically attractive rates
- ✓ No financial covenants
- ✓ Current supportive market conditions
- ✓ Healthy investor appetite in the crossover ratings category at present
- ✓ Quick and efficient access to market once an established issuer

- ✗ Ratings required
- ✗ Minimum size limits popularity
- ✗ Broader investor group makes amendment / waiver process more cumbersome and can be expensive
- ✗ Limited/costly prepayment options

Current Financing Behavior of Irish Corporates

Tenor Extensions – 5+1+1 Year / Exercising +1 optionality

Pursuing shorter term commitments to avail of lower pricing

Focus on liquidity optimisation – voluntarily scaling back excess facility headroom

‘Brexit’ contingency planning - or lack thereof!

New products being introduced into the market

Summary

Diverse range of financing options

- Open markets, deep liquidity and strong Bank / investor appetite
- Broadening market parameters - Increasing flexibility / optionality available
- Increasing pool of lenders / financing partners
- Innovative / Bespoke / Tailored solutions available and becoming increasingly prevalent

Outlook

- Capital Focus / constraints – reduced ticket size / ancillary importance
- Uncertainty and volatility remains
- Pricing & Terms beginning to stabilise
- Regulatory headwinds (Capital changes for Banks, Standardised

Pricing, IRFS 16, Insurance Market Solvency II).

Questions?

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