

Cross-Border Private Placement Market: Trends in 2016

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October 2016

Speakers



**Tarun Sakhrani,
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- Tarun Sakhrani is a Vice President in Barclays' Private Capital Markets team.
- He joined Barclays in 2013 and has c. 10 years of banking experience including in areas of private placements, corporate banking and M&A.
- During his career, Tarun has helped raise \$20 billion equivalent of debt in the USPP and loan markets for a range of issuers around the world.
- Prior to joining Barclays, Tarun worked at DBS in Singapore where he was responsible for the coverage of TMT clients in South and Southeast Asia and BAML in Chicago, where he worked on the origination and distribution of private placements for US, Australian and UK issuers.
- Tarun holds a Bachelor's degree in Business from the Kelley School of Business, USA and an MBA from the Manchester Business School, UK.

- At the 2016 Global Capital awards in London, Morrison & Foerster was named best law firm for private placements – the inaugural award in this category voted on by market participants.



Brian A. Bates

- Mr. Bates heads Morrison & Foerster's private placement practice.
- In addition to having worked in private placement finance for nearly 30 years, Mr. Bates continues to act as the sole "issuer-side" member of the Transactions Process Management Committee of the American College of Investment Counsel (ACIC) where he is a Fellow.



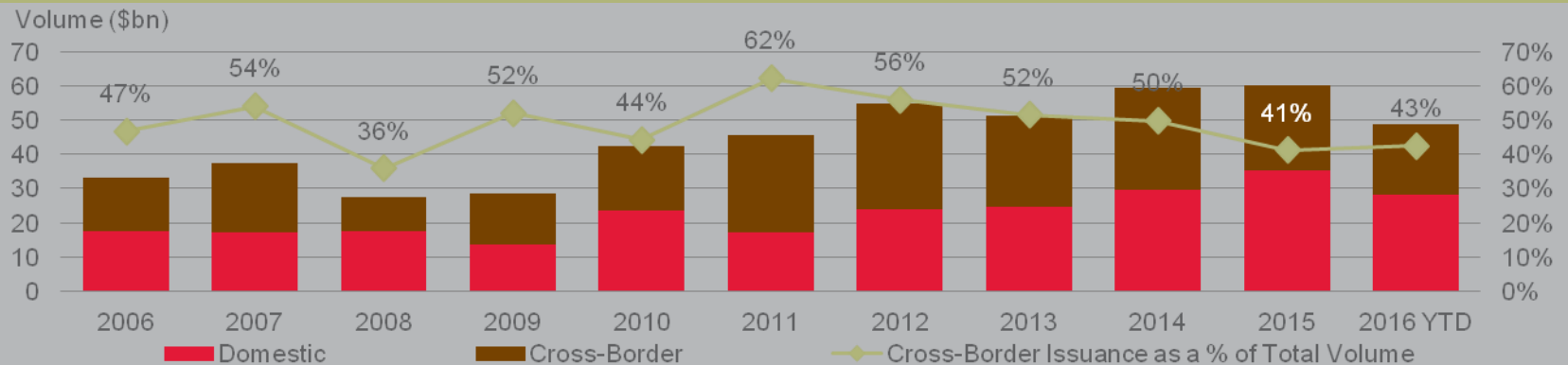
Scott D. Ashton

- A partner in Morrison & Foerster's capital markets group based in London, Mr. Ashton is very active in the cross-border private placement market and is also a member of the Loan Market Association working group on private placements.

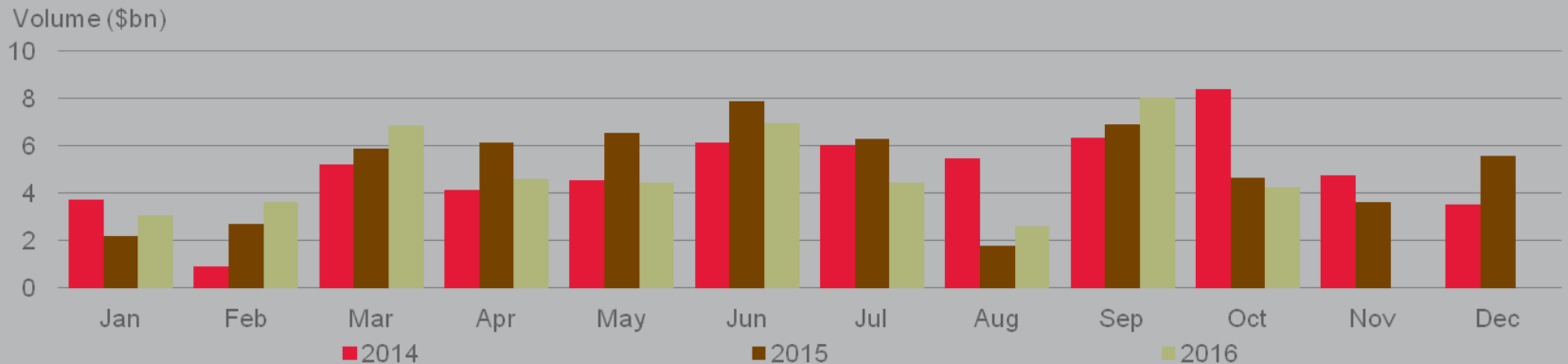
The Global Private Placement Market

2016 has seen \$49 billion in overall reported volumes in the Private Placement market, on track to equal or potentially exceed 2015's \$60 billion in issuance.

Market Volume by Region



Monthly and YTD Volume



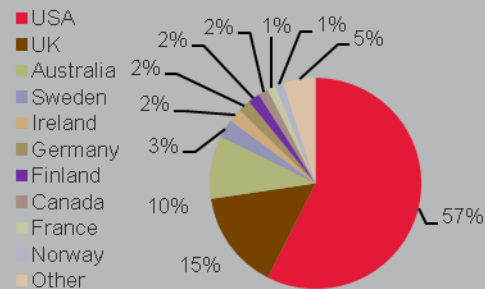
Source: Barclays data.

Market Volume in 2016

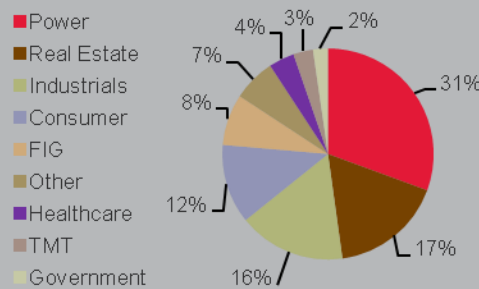
USPP market conditions remain very strong with a continued supply/demand imbalance in favour of issuers, offering issuers access to a stable source of long-term financing

Market Volume in 2016

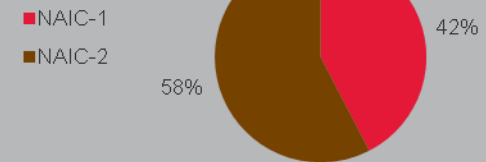
2016 YTD Volume by Country



2016 YTD Volume by Industry



2016 YTD Volume by NAIC



- US-based PP issuance has increased over the years, with 2016, 2015 and 2014 seeing 57%, 59% and 50% of total volume, respectively
- Additionally, UK issuers have consistently accessed the PP market, accounting for roughly 16% each year for the last three years
- The PP market continues to be an attractive funding source for a variety of industries, with power and real estate issuers being the most active this year
- In 2016 YTD, the power sector has seen 61 issuers access the market, raising c. \$15.2bn equivalent while the real estate sector has seen 43 issuers raise c. \$8.3bn equivalent
- Issuers in the PP market continue to have investment grade credit ratings represented by NAIC-1 or NAIC-2 designations

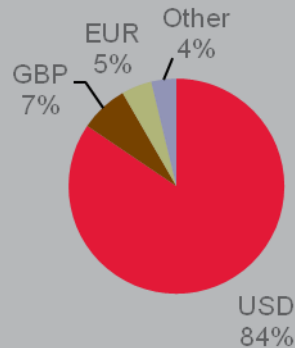
Source: Barclays data.

Growth in Cross-Currency

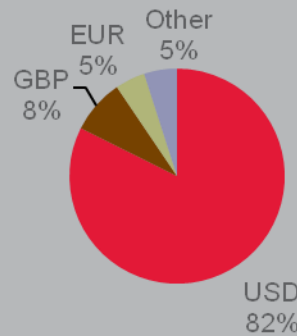
In 2016 YTD, USD-denominated PP transactions accounted for 74% of total reported volumes, with GBP and EUR issuance each representing 10% of total volumes

Cross-Currency Volumes

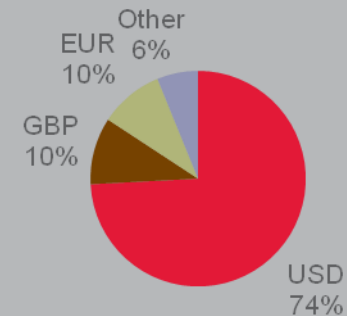
2014



2015

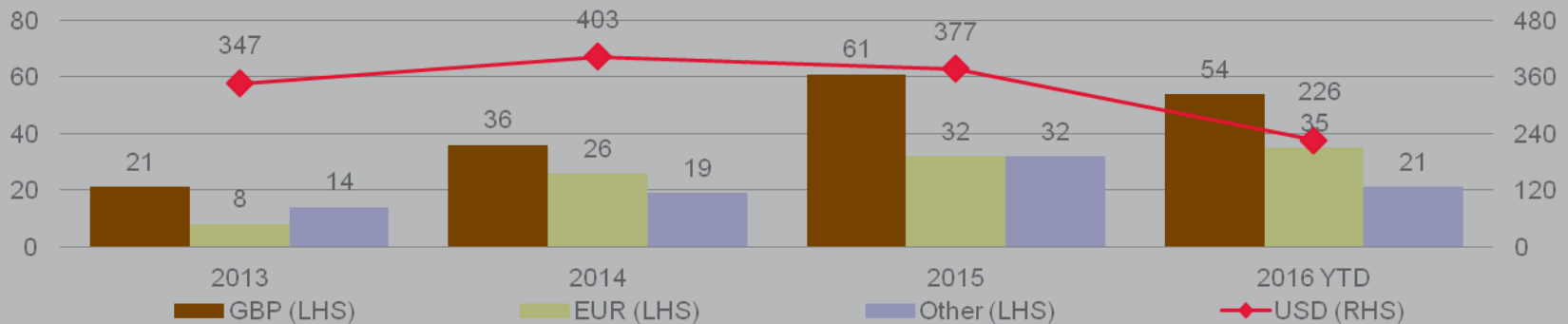


2016 YTD



Cross-Currency Transactions

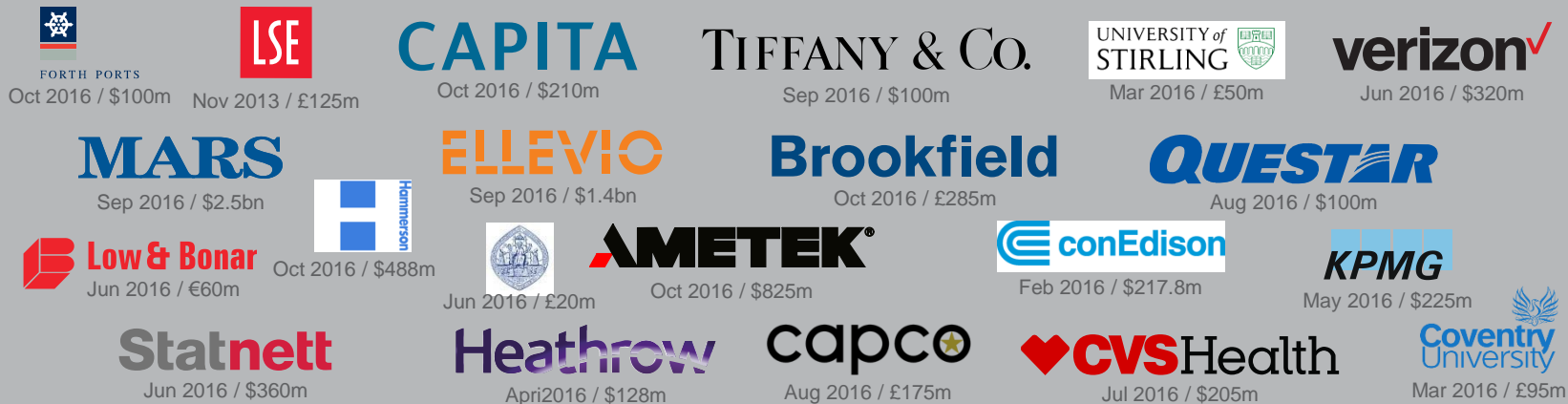
Number of Tranches



Source: Barclays data.

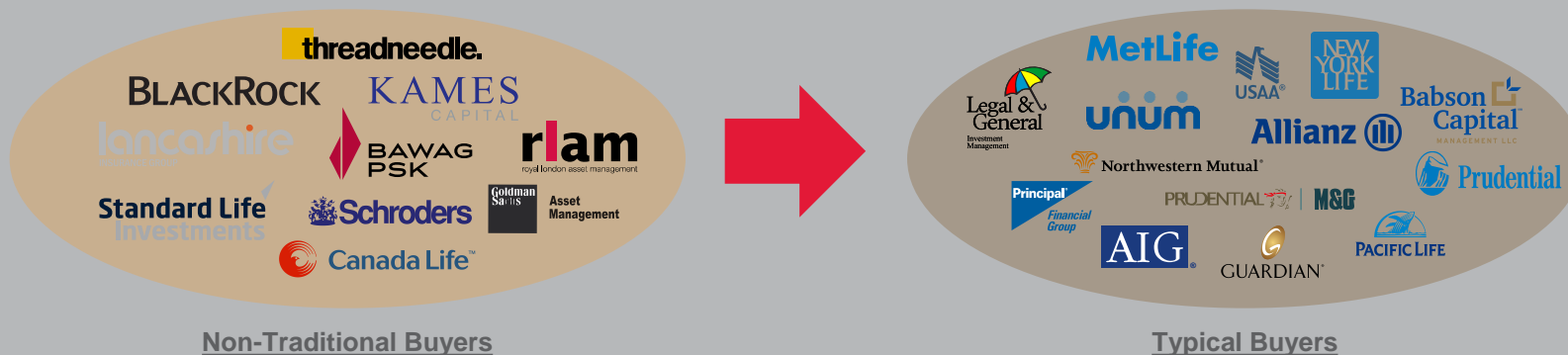
Diverse Issuer and Investor Base

Spectrum of Issuers Accessing the PP Market



Growing Investor Base

- Non-traditional PP investors (i.e. asset managers, listed bond investors, other investors in the UK and Europe) have started to buy in the PP market



Issuers in 2016

- Power
- Real Estate
- Infrastructure deals continue
- Investment Trusts
- Universities, Colleges and Schools
- Other jurisdictions – Faroe Islands, Nordics
- Momentum in non-USD continues

Market Participants

- Placement Agents
- Issuers Counsel – issuer counsel and pre-designated investor counsel
- Other market participants
- Investors

Other Funding Sources

- Bank loans
- Domestic and offshore public bonds
- Convertible bonds
- Hybrid bonds
- Other private markets – i.e., Schuldschein, French EPP, other European initiatives
- Mortgage finance
- Securitization

Financing Continuum

Private Offering

Public Offering



- Private placement (“insurance” or “debt” private placement)

- 144A offering
- Tranche from a EMTN or GMTN
- Standalone 144A
- 144A “program”

- SEC Registration OR
- 3(a)(2) Offering (for banks) OR
- Other Public Bonds

Less Liquid
Less time-consuming

More Liquid
More time-consuming

Funding Diversification

- Long term capital structure
- Reliable source of funding
- Maturity profile of debt / tranching
- Ability for delayed drawdown
- Fixed rate versus floating rate
- No minimum size (in contrast to other markets, i.e. Eurobond €300M minimum)
- Other currencies beside USD available
- Relationship lending versus public bonds

Tenor

Advantages of long-term funding

- Locked-in financing and pricing
- Less administrative time and effort than almost constant bank refinancing
- Planning
- Ability to match long, lived assets to debt liabilities

Disadvantages of long-term funding

- Potential make-whole for early prepayment
- Ability to achieve amendments

Pricing

- Impact of Treasury yields
- Spread
- No up-front lender fees
- Transaction costs – lower than some alternatives

Currency

- Desire for US Dollars
- Cross-currency swaps
- Swapped notes
- Ability of certain investors to lend directly in other currencies

£GBP



£70m tranche



£175m tranches



£300m transaction



£100m transaction



£75m transaction



£35m



£97m tranche

€EUR



€85m tranche



200m transaction



€160m tranche



€80m tranche



€110m transaction



DRAXLMAIER

€110m tranche



€ tranche



€220m tranche



€114.5m tranche

Other Non-USD Currencies



\$AUS40m tranche



\$CAD10m tranche



DKK654m tranche



DKK(US\$100m equiv.) tranche



AUS\$ tranche



\$CAD87m tranche

Rating

- Unlike public markets, no rating requirement
- NAIC (NAIC designations and reserve requirements)
- Private letter ratings
- Pre-designation option

Private Placement Process

- Standardized documentation
 - Model X Forms
 - Most transactions are documented pre-marketing
 - U.S. governing law (usually NY); English law is a regular alternative
 - Term sheets vary in detail
- Individual investor decisions – no “agent bank” equivalent
 - Due diligence – confidentiality preserved given limited number of potential investors
 - Bilateral negotiations pre-circle via placement agent(s)
 - Monitoring of the investment post-closing

Benefits of Specialized Issuer Counsel

- Market expectation/desire
- Issuer can better control drafting of principal documentation
- Provides Issuer with objective, current market and legal expectations
- Effectively represents the Issuer's interests during pre-documentation
- Smoother, more efficient transaction process

Role of Pre-Designated Investor Counsel

- Experienced special counsel for investors usually pre-designated by issuer with advice from placement agents and issuer special counsel
- Pre-marketing phase
 - Reviews term sheet and issuer's bank facility
 - Advocates for "the market" on documentation and structural issues
 - Identifies potential investor resistance points (structure, documentation or commercial) for the issuer and the placement agent to evaluate before going to the market
- Marketing phase
 - Responds to inquiries from prospective investors regarding the term sheet, the proposed Note Purchase Agreement, the issuer's bank facility and other aspects of the transaction
 - Identifies important issues that arose in the pre-marketing documentation phase
- Post-circle phase
 - Negotiate final changes in documentation (if any)

Significant Covenants in Most Transactions

- Model X Forms
 - Financial information and reasonable access to management and auditors
 - “Housekeeping” covenants
 - Maintenance of pari passu ranking of Notes and any guarantees
 - Change in nature of business
 - Arms’ length affiliate transactions
 - Mergers, consolidations, amalgamations
 - “OFAC” provisions
- Other Restrictive Covenants
 - Financial covenants usually based upon covenant package in existing bank facility (if any)
 - Asset dispositions
 - Emergence of “Most Favored Lender” provisions
- Limitation on “priority debt” (structural subordination)
 - Subsidiary external borrowings
 - Secured debt

Model Forms

- Almost total market acceptance of the so-called Model Forms X-1 and X-2
 - Streamlines documentation process (template)
 - Investors focus on departures from relevant Model Form and substantive issues that are outside the form (primarily covenant package)
- Cross-border adaptation of Model Forms
 - Model X Form adopted in September 2004
 - Surprisingly few changes from domestic version, with particular emphasis on tax-related issues and certain “hot button topics” such as compliance with new U.S. anti-terrorism regulations
 - Easily adaptable to multi-currency transactions and investor swap arrangements re non-USD tranches
 - Model Forms X-1 and X-2 adopted in 2006 and recently updated
- New Model Forms have been recently updated
 - Mostly updates to sanctions provisions and delayed funding
 - LMA has developed additional forms in loan and note format

Transaction Chronology

- Potential issuer, working with the placement agents, produces an Offering Memorandum (“Memorandum”)
 - Memorandum contains Term Sheet and most often a draft of a Note Purchase Agreement
- Note Purchase Agreement drafted by issuer counsel but with the review and reaction of pre-designated investors’ counsel
- Deal is marketed to investors, often through a “roadshow”
- Issuer and investors agree a final Note Purchase Agreement
- Issuer sells Notes to investors

Secondary Transfers

- Transferability
- Restrictions on transfers to competitors
- Buy and hold investors
- Current size of secondary market

Other Topics

- Direct Deals
- Secured Versus Unsecured Deals
- US GAAP or IFRS Reporting
- Question and Answer Period