The UK capital markets have come to the fore as a powerful alternative to traditional bank lending, as company chief executives look to diversify their funding sources.

For the UK’s biggest companies, the capital markets have long played a pivotal role in how they fund themselves. Over the past 30 years, the UK has developed into the biggest and most liquid capital market in Europe, reflected by London’s rise as a pre-eminent global financial centre.

As the funding landscape has changed, so too has the relationship between companies and the banks that serve them. Changes in regulation mean banks have to hold more capital and they have responded to this by finding a broader range of financing solutions for their clients that do not rely on traditional bank debt.

Companies are looking for solutions, not products
Companies look to develop long-term relationships with trusted counterparties who can cater for their broad business needs. These may include raising finance in debt and equity markets, seeking advice on mergers and acquisitions, hedging currency risk or raising working capital. Companies want solutions, not products and that requires banks to help them navigate the funding landscape without bias.

For example, as global companies face the challenge of diversifying their funding, they need impartial advice on which market best suits their financing needs at any given time — whether that is the sterling, euro or dollar bond markets; or whether the US Private Placement market is a more suitable option. To make an informed decision, companies need banks that have top-tier capabilities from credit charge underwriting.

This need to provide comprehensive, objective and tailored advice has come to the fore given that execution has become increasingly important since the financial crisis, a watershed moment for the evolution of the financing markets. As credit markets froze and banks pulled in their lending, companies suddenly realised the importance of having a diversified funding profile and the power of capital markets. Funding became a strategic issue and moved to the top of every CEO’s list of priorities. Some very big companies approached the crisis of 2008 with a huge dependency on bank lending at a time when foreign banks came under stress and needed to repatriate capital to support their domestic businesses. UK banks stepped up to the plate, showing their support for clients in the UK through both the good times and the bad.

Finding funding solutions for clients in challenging conditions
This level of support has been consistent post-crisis, and was exemplified in the wake of the Brexit vote on 23 June 2016, when UK banks kept supplying credit and continued to help their clients navigate the capital markets.

1) British American Tobacco reopened the sterling bond market on 30 June 2016 with a £550m transaction — Barclays was joint bookrunner.

2) Tullow Oil reopened the UK equity capital markets on 6 July 2016 with a £300m convertible bond — Barclays was joint global coordinator.

3) John Menzies’ acquisition of Landmark Aviation was supported by an £350m (approx) debut financing which reopened the UK corporate loan market — Barclays was joint underwriter and joint bookrunner.

In the run-up to both the Brexit vote and the US election last autumn, corporate CFOs, Treasurers and CEOs sought advice in evaluating their approach to risk management across rates and FX. In the ensuing volatility, Barclays provided significant liquidity to clients, with a number of companies choosing the bank to execute hedge co-ordination transactions. These helped clients to achieve the most competitive all-in price by separating market execution capabilities from credit charge underwriting.

Funding shift in the mid-cap sector
There has been a secular shift in funding at the top end of the FTSE100: anecdotal evidence suggests over the past decade blue-chip companies have moved from having around 30% of their financing needs met through the bond markets to around 50%. However, the picture is somewhat different among the thousands of medium-sized companies that Barclays numbers among its clients which represents a significant financing challenge facing corporate UK over the next decade.

The UK mid-cap sector is still highly reliant on banks for their lending. It is the job of banks to help those companies focus on the advantages of funding themselves through capital markets, which include deep pools of liquidity and attractive pricing terms. A portion of that client base has reached a stage in their growth where they need the tools and expertise offered by an investment bank. By using the public bond or private placement markets, for example, they can diversify their funding sources. The bond markets enable companies to term out bank loans and develop a new investor base, as well as help mitigate the pricing risk and stricter covenants associated with traditional bank debt.

Postcrisis, a broader group of high-yield

The funding landscape for UK-based corporates has undergone a radical transformation since the financial crisis of 2008, driven by macro-economic changes and a growing sophistication in the way that companies finance their activities.

Growth of the private placement market

![Chart showing growth of the private placement market from 2007 to 2016](chart.png)

Source: Private Placement Monitor
“UK businesses and entrepreneurs must shift away from relying on traditional bank lending and instead broaden the means through which they look to access capital and financing. The answer lies in healthy, diverse capital markets, a centuries old innovation, born in Europe, flourishing in America, but which remains underdeveloped and misunderstood in the UK. We believe that needs to change.”

Jes Staley, CEO, Barclays

investors has emerged in the UK and Europe, creating greater liquidity for a wider pool of potential UK companies to tap the capital markets for the first time. Since the start of 2017 Barclays has helped to execute debut high-yield transactions for Drax and TalkTalk, as well as a refinancing for Stonegate pubs.

The breadth and depth of Barclays’ UK corporate coverage means it can provide the same dedicated offering to all of its clients where it is needed regardless of size. For example, in October 2015 the bank acted as bookrunner to FTSE 100 company Worldpay on its £2.48bn initial public offering, the second biggest IPO in the UK over the past 10 years. A month later, Barclays led the £17.25m IPO of Gym Group to help support the continuation of the company’s high growth strategy.

Funding for social housing and education

Away from the corporate segment, the UK social housing and education sectors have also had to cope with a fundamental shift in their funding profiles. Before the financial crisis, they depended almost exclusively on long-term bank funding with a tenor of up to 40 years. Since the wave of post-crisis regulation that increased capital charges on banks’ lending activities, universities and housing associations have turned to alternative sources of funding. They have embraced the capital markets, not just to make up for the shortfall in traditional bank lending, but also to meet the need to upgrade their capital结构 and also to meet the need to upgrade their capital structure.

Meeting the needs of clients in a changing world

Barclays has also transformed its investment bank in the last decade, reflecting many of the changes in the broader funding landscape. From its roots as a finance house, it expanded into a fullservice investment bank with the acquisition of Lehman Brothers’ North American business in 2008, giving it a stronger presence in US corporate finance. Barclays then replicated this offering in Europe, the Middle East and Africa, where it built a dedicated offering in primary and secondary equities, as well as mergers and acquisitions. Its growing M&A business has led to its position as one of the top 10 advisers in EMEA and its equity franchise now acts as corporate broker to over 50 companies. It is a leading player in UK IPOs, UK rights issues underwriting and UK equity trading.

Over the past five years, combining Dealogic data across UK Corporate Loans, UK Corporate DCM, UK ECM and UK issuance in the US Private Placement market, Barclays has raised more capital for UK clients than any other bank, totalling over £96bn.

Barclays completed its own strategic transformation in 2016 with the creation of Barclays International, which includes a single, integrated corporate and investment bank (CIB) anchored in two home markets of the UK and the US — the world’s two most liquid capital markets. The alignment of the CIB helps provide access to the same suite of investment banking products it offers to global blue-chip firms for its mid-sized corporate clients, many of which are long-standing customers of the corporate bank. This integrated approach helps meet the financing needs of UK companies as they navigate the changing landscape in the years to come.

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Evolution of the capital stack

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Source: Dealogic, Barclays

www.GlobalCapital.com | 30 | 9