Radnor RNS Roundup: Q2 Review

7th July 2020

Taking a step back

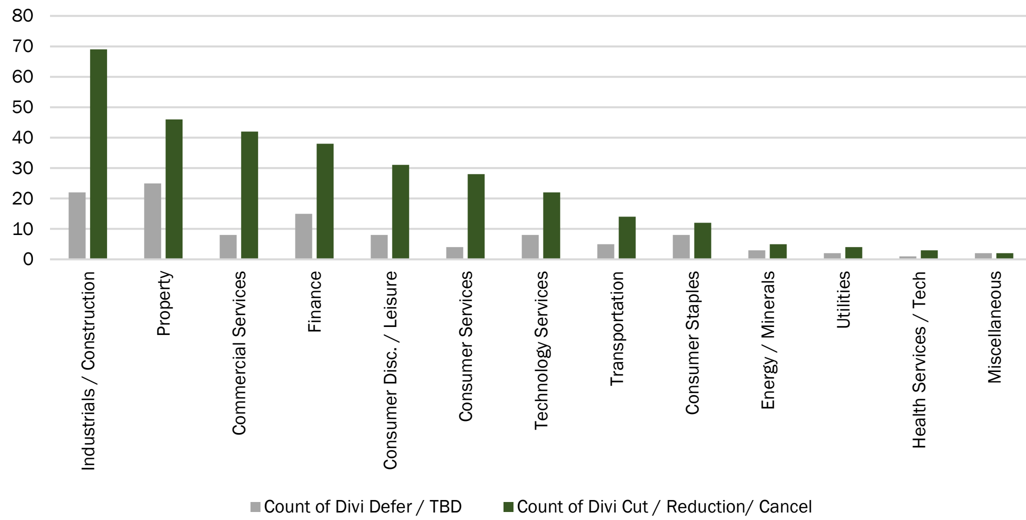
As we step out of the June gloom and into H2/2020, cautiously optimistic of a gradual global recovery (apologies to the good burghers of Leicester), we take a step back to look at the macro picture in the UK-listed corporate world. A lot of what has happened over the past few months may well change and shape how things are done for years to come.

Many readers will be aware of the 'Radnor RNS Round-up' that the team pulled together each morning from late March through to mid-June. The detail within each RNS was recorded via a series of data points (3,700 to be precise) which reveal several interesting trends and observations. Radnor was also at the sharp end of critical decision making with management, helping its clients determine both the most suitable approach but also the appropriate means of messaging such decisions. Finally, our extensive conversations with fund managers across the UK have provided us with important understanding of how investor views and appetite have evolved against a rapidly changing backdrop.

Property, Construction and Services sectors have been busy

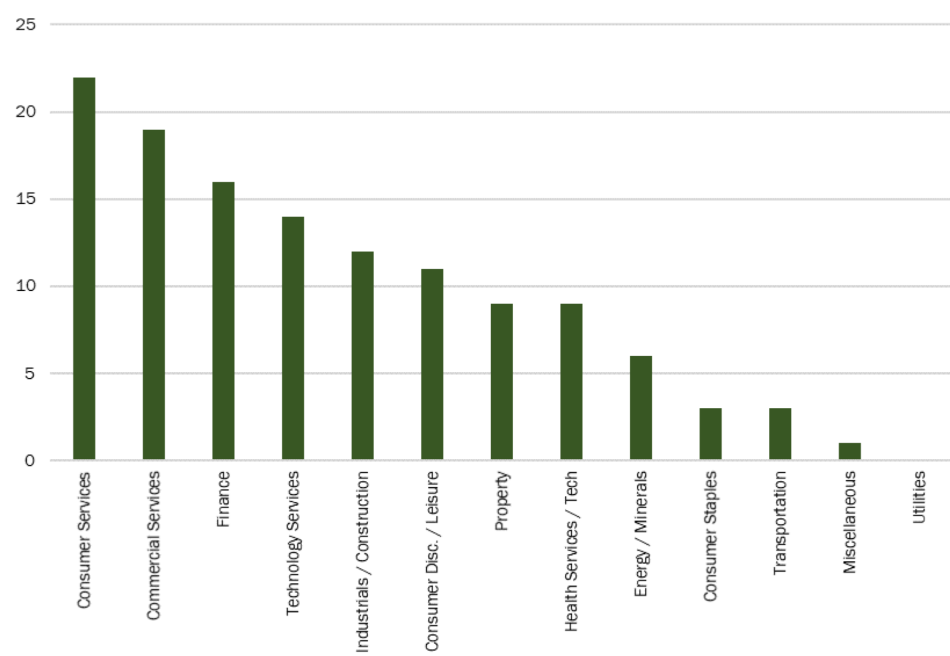
Figures A and B shows some of the more important themes picked up by sector: Dividend cuts; Placings. In a world where many industries have literally stood still for more than three months, it is unsurprising that those exposed to commercial and residential real estate / construction have seen a significant impact to balance sheet and cash flow. The data demonstrates a clear distinction between cyclical and defensive sectors, from updates on covenants waivers and dividend cuts and, ultimately, through to fundraises/equity placings.

Figure A – Dividend cuts by sector



Source: Radnor Capital Partners, RNS

Figure B – Number of placings by sector



Source: Radnor Capital Partners, RNS

News flow was generally issued quickly and efficiently

UK PLCs recognised the need to keep investors up to date with fundamental metrics from an early stage. The initial focus was on liquidity, headroom and basic balance sheet structure. Dividend cuts shortly followed, while the suspension of guidance became common place for all but those companies with significant recurring sales. Some high-level observations on how the updates unfolded:

- Guidance and mentions of balance sheet / cash flow were significantly higher in the early weeks (c.100 data points recorded each week) and these steadily declined through to mid-June (to c.40 per week, albeit many of these were re-iterating the suspension of guidance);
- The bulk of dividend cuts were recorded in the early weeks, with relatively few updates recorded from mid-April. Ostensibly, once a handful of household names had taken this decision, the rest of the pack followed quickly. Conversely, dividend confirmations have remained consistent as those companies weighed up the impact of Covid on their respective cash flows and balance sheets as the crisis evolved.

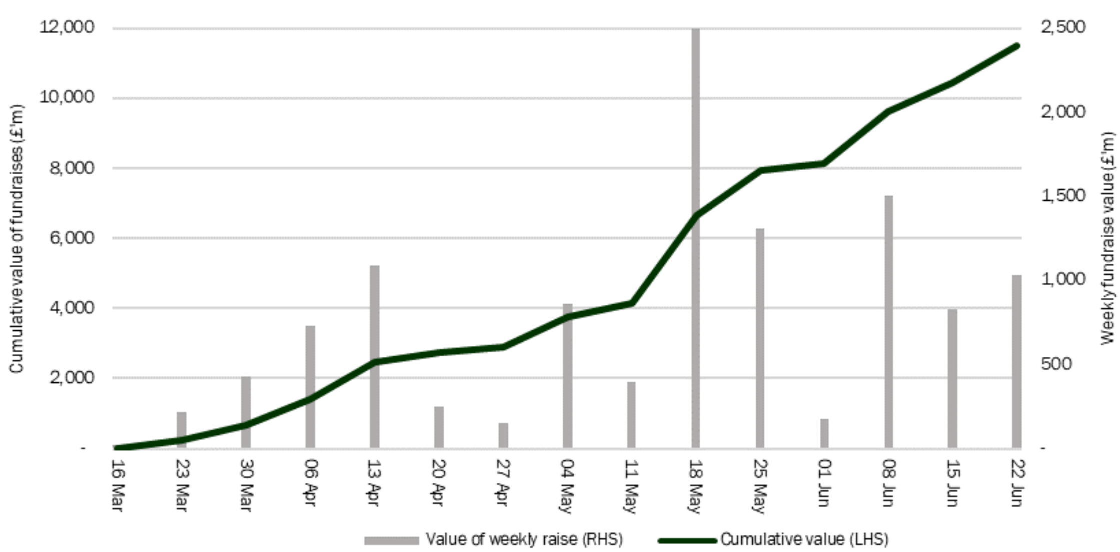
Placings continue apace

Fund managers reading this will know all too well that inboxes have been swamped by wall crossing requests. As companies acted quickly to cut dividends and costs in the early days of COVID, many sought to raise capital. This quickly gathered pace. At first raises were purely defensive, to shore up balance sheets. Whilst this generally remains the case, there has also been a growing number overtly aimed at capitalising on acquisition opportunities that the post-COVID landscape will throw up in their sector. As we say, offensive rather than defensive.

Could the window be closing?

Over £18bn of fresh equity was raised between late March and mid-June. Figure C below shows the number and value of fundraises per week since mid-March, for those over £2m and below 20% of issued share capital (pre-raise). The data show a marked acceleration in recent weeks, both in numbers and value, and this ties in with our conversations with investors. After such a busy period, is the window now starting to close for the summer?

Figure C



Source: RNS, Radnor Capital Partners

Note: Only includes fund raises over £2m and for those companies that have raised under 20% of their ISC

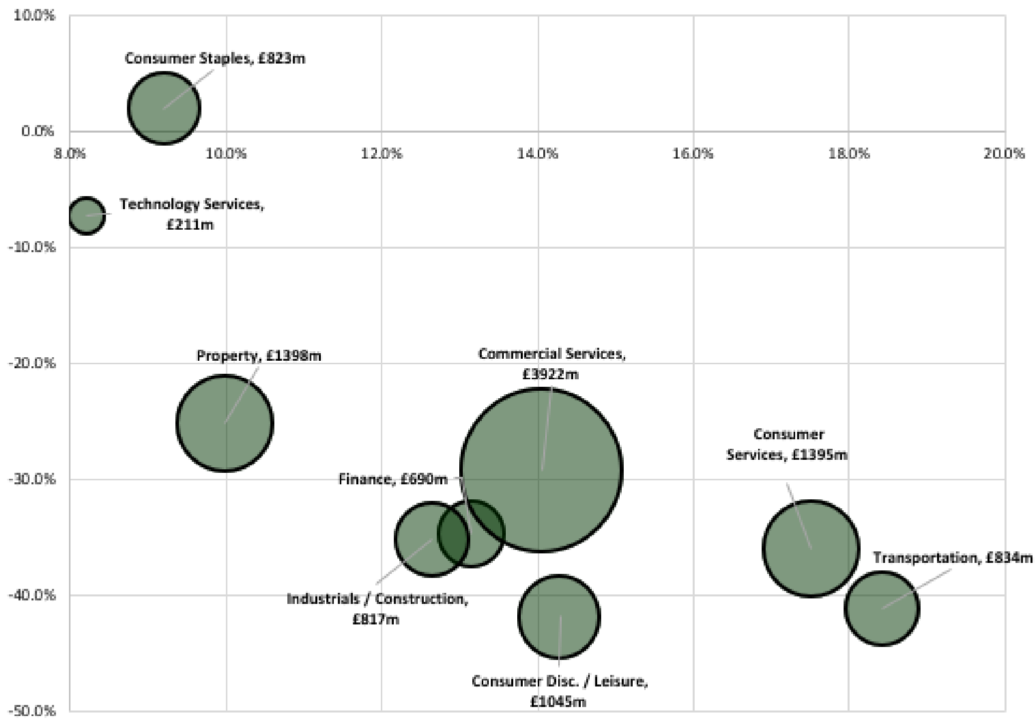
W/C 18 May includes Compass, raising £2bn

Significant activity across Consumer and Commercial Services

In Figure D (below), we have collated fund raise activity by sector, highlighting;

1) Average value of funds raised as a % of issued **share capital (x-axis)** versus discount to **pre-COVID share price of 1 Feb (y-axis)**;
2) Bubble size denotes the number or total value of raises in the sector.

Figure D



Source: RNS, Radnor Capital Partners

Note: Only includes fund raises over £2m and for those companies that have raised under 20% of their ISC. Excludes Healthcare and related sectors (c.£290m of transaction value)

Unsurprisingly, those sectors most exposed to discretionary expenditure have seen the greatest activity in recent months in terms of number of fundraises, particularly Consumer/Commercial Services (including Compass Group's £2bn raise in May).

Consumer and Commercial services sectors have seen the most raises, at an average discount of 35% to their undisturbed 1 Feb shares prices and have generally raised between 14% and 17% of their pre-deal issued share capital. Conversely, Health and Technology, not shown above due to the premia recently commanded, have mostly thrived against the current backdrop; the former in demand for care or drug research, the latter as we adjust to doing things more remotely. These graphs also demonstrate a tight correlation with the volume of dividend cuts shown by sector in Figure A.

Looking forward

From our conversations with investors and corporates alike, it is clear the 'first wave' of Covid, from a capital markets perspective, has largely passed. At the outset of the pandemic, companies seemed to adopt a "cookie cutter" approach to updating the market with a great deal of uniformity around the lack of visibility, balance sheet liquidity and immediate operational reactions. More recently, updates have included much more specific detail about individual circumstances and paths forward out of the crisis. Nevertheless, there are some interesting considerations and early themes emerging that could shape the investor landscape as we move into H2 and beyond:

- **Balance sheets.** This will likely remain a hot topic for months to come. Investors will be looking to place bets where balance sheets have been suitably strengthened in order to capitalise on a weaker competitive environment;
- **Furlough pay and government funding.** We are witnessing the early stages of companies indicating repayment of previously received furlough funding (Coronavirus Job Retention Scheme - CJRS) as a result of a better than expected outturn. Similarly, many companies have secured access to the Covid Corporate Finance Facility (CCFF) but have chosen not to draw down on available funds (or at least not yet). We suspect investors are keeping a watchful eye on these trends which could be the first steps towards a resumption of dividend payments;
- **Fundraise fatigue.** As discussed above, our conversations with investors also point to fatigue creeping in across the UK equity investor spectrum. In line with seasonality, it feels as if the window for companies to raise capital may be near to closing for the summer as investors look to take stock of all the activity of the last few months. The question is will there be more from September and what shape or tone will they take?;
- **Guidance.** There will undoubtedly be increasing investor pressure on companies to reinstate guidance as Q3 progresses. We also believe investors will be more forgiving to those who make some effort to guide the market, albeit recognising the seasonality of some sectors. There will likely also be a strong correlation with investor appetite to support new issues and better clarity over trading post-summer;
- **Sustainability agenda.** Many companies are seeing the Covid recovery as a major opportunity to develop and leverage their ESG credentials. Likewise, investors are placing more emphasis on this area of the investment case than ever before.

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