Radnor View

Getting back to business

6th October 2020

Taking a step back

After a somewhat benign and dare we say 'optimistic' start, 2020 has yielded huge change in almost all walks of life.

The resilience of the capital markets since the March meltdown, domestic and overseas, has been nothing short of staggering. Within the UK, investors and companies put aside any differences for a six-month period that saw £18bn of fresh capital raised through to early-August. The summer break felt particularly pronounced this year, with the equity markets effectively closing for a month as investors paused for breath. However, September and October have so far experienced a rapid resumption in activity, as delayed results and much needed trading updates fill the schedule in addition to the usual cycle.

In this quarter's Radnor View, we seek to take a more birds-eye view as opposed to our usual analytical based observations to ascertain what has really changed.

Have the events of 2020 vastly changed the landscape for PLCs insomuch as engaging investors? Have investors' priorities shifted? Has the gap between companies and capital widened? If so, how should corporates react?

The ~~new normal~~ 'same' normal?

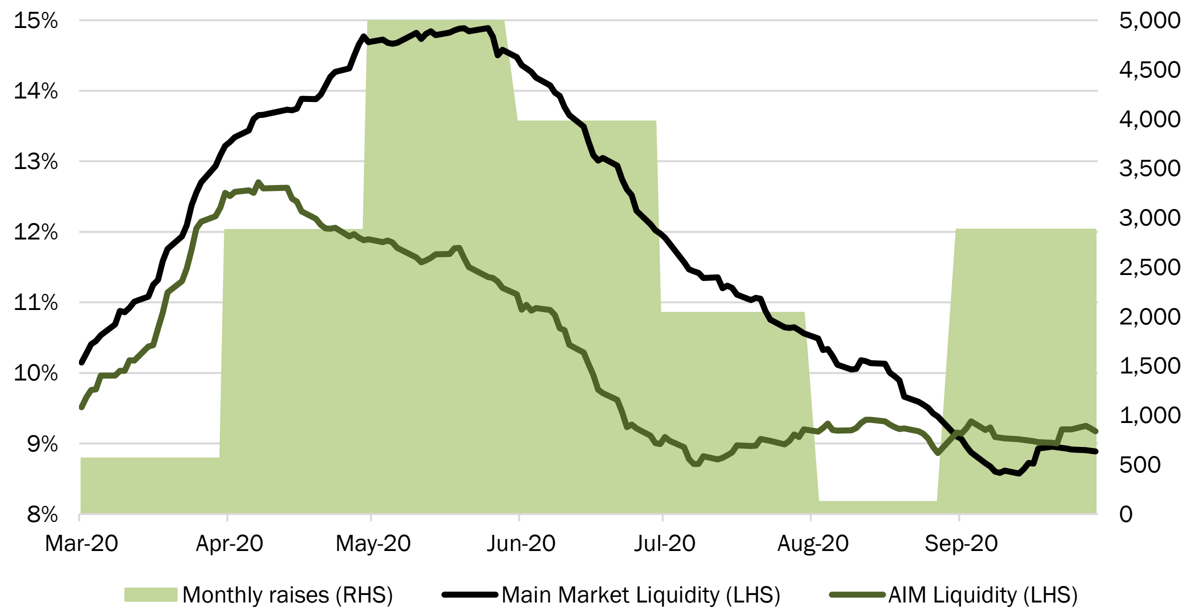
Most people would agree that the true extent of the damage from C-19 will not be apparent until later in 2020. The tapering of the furlough scheme alongside the easing of other Government initiatives make for easy points of reference, while the clear risk of a further wave, and potential mini-lockdowns adds further unpredictability into the mix.

Corporates should be considering the knock-on impact on Investor Relations as the hype following the fundraising frenzy dies down and reality sets in. In many respects, nothing has changed in terms of the growing gap between investors and corporates. The fundamental issues of challenging broking economics and hard MiFID II barriers remain. The question remains: how does a corporate close this gap?

Figure A demonstrates this 'reality check' and associated conundrum with regard to investor appetite and liquidity.

- The two lines, plotted against the left-hand axis, show rolling 60-day trading activity (excluding large trades) as a percentage of shares outstanding, for AIM and Main Market companies <£1bn market cap.
- The bars, plotted against the right-hand axis, show the cumulative sum of secondary raises each month from March to September 2020.

Figure A



The result? Trade activity (lines above) has experienced a marked drop since July and back to levels last seen in mid-2019, on the run up to the general election. September volumes have remained commensurately thin, with an increase in fundraising activity largely attributed to IAG, Ryanair and Hammerson, who raised a combined £2.3bn. The volume of transactions has actually remained relatively low in September, thus secondary trade volumes have also been muted.

Moving into 2021, engaging the 'marginal buyer' and new investors will remain critical to day-to-day liquidity. Our conversations with fund managers lead us to believe that spare change is in low supply and investors are keeping their powder dry for potential further cash calls. Overlaying this with the wider economic hurdles suggests that companies - more so than ever - need to take a proactive approach to identifying and engaging new investors, both large and small.

What has Radnor been doing in 2020?

Following a swift and successful move to a remote setup, the Radnor team has taken a business as usual approach. In numbers, Radnor has:

- Engaged 639 different fund managers since mid-March;
- Across 221 investment firms across the UK;

- Acted in both an advisory capacity and as a placing agent in 5 fundraises;
- Has introduced 22 new investors to each client on average in this time.

The opportunity to 'pass' on a call with a new management team has never been so easy. Excuses include the inevitable macro uncertainty, volume of other results and updates, limited cash resulting from the abundance of fundraises etc. However, continuous investor engagement, educating and where needed, challenging perceptions, has remained the cornerstone of Radnor's approach throughout.

Get the building blocks in place now for 2021

The macro backdrop continues to change both frequently and substantially. Simultaneously, the WFH honeymoon period is over for many and the opportunity for investors to 'strike a good deal' through a deeply discounted fundraise has largely passed.

This reality is becoming increasingly evident in reduced trading volumes. Consequently, corporates will need to make considered decisions on their capital markets strategy and their associated Investor Relations activity. We believe that some of the key themes moving into 2021 could include:

- **Investor attention**. The gap between corporates and investors will inevitably widen further, making investor attention increasingly harder to earn. A structured approach will need to be adopted to identify engage new shareholders.
  Remember, those who shout the loudest…

- **Forecasts to return**. As painful as it may be for some companies, investors will require guidance to return. Scrutiny has moved away from balance sheet and cash flow and is now trending back to relative value. The quantum of downgrades to earnings (where applicable) relative to peers, as well as returning earnings momentum will provide important points of reference.
  Remember, it is not always bad to start from a low base…

- **ESG as a priority.** ESG has made a clear ascent up investors' priority lists. Companies should place a greater emphasis on this aspect of the messaging and investor targeting. Direction of travel will be equally as important as a company's existing ESG profile and how it benchmarks.
  Remember, ESG is not just about renewables…

- **Liquidity.** Trading volumes are coming under increasing pressure. This aspect needs to be carefully managed by both corporates and advisors alike. Liquidity *can* be improved, regardless of free float, but there needs to be a clear plan in place.
  Remember, "it's liquidity that moves markets"…

- **Fundraising rationale.** There are early signs of fundraising activity returning to the fore. However, it is clear already that investors are demanding a clear and front-foot returns profile. Dry powder exercises will pose major challenges for all but those with exemplary M&A track records, while it appears the balance sheet 'shoring up' ship has set sail.
  Remember, planning is everything when raising equity capital…

For inquiries please contact:

William Game
Associate Director, Radnor Capital Partners
+44 (0) 203 897 1834

Mike van Dulken
Senior Associate, Radnor Capital Partners
+44 (0) 203 897 1831

ENDS.