

2017, a time for innovation across the funding markets

“A week is a long time in politics” and it has never been more relevant than during the early weeks of 2017 with the turbulent events across Europe and the United States

Steve Bell, Director at Castle Square a leading independent Corporate Finance advisory firm, comments, “Leaving behind 2016, a year of uncertainty and turmoil in worldwide markets, 2017 was always going to present challenges with the ongoing debate of when, and how, the UK will finally leave the European Union and the protectionist rhetoric coming from the President of the United States.

Whilst there will always be winners and losers, annual GDP for 2016 ended at 2% which, whilst not exceptional reflects the underlying strength of the UK economy when we consider the uncertainty in global oil markets and the continuing fluctuation in currency markets.

2016 was a year of investment and growth at Castle Square which was reflected in the quality and volume of deals that were delivered which we are seeing continue into 2017 with a strong pipeline of work across a range of sectors and transaction types. Recent transactions completed include the debt funded Buy-Out of a leading glazing business, the Private Equity led development capital fundraising for a major holiday and leisure group and the Asset Based funding for the acquisitions of a major land fill business by a leading waste management business.

We have also completed several Management Buy-Ins which, one Private Equity led and one funded through an innovative debt package from a leading debt fund. Our experience across the range of transactions gives us a clear insight into the developments and innovation within the funding market.

During 2016 there was significant activity in the Private Equity market with many funds raising new capital creating real competition for the better transactions. Alongside private equity funds we have also seen significant interest from private family funds that have significant capital to invest and are challenging the mainstream PE funds by taking



Steve Bell,
Director

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a, less prescriptive, more relaxed view on the length of the investment, funding for long term, sustainable growth.

We are also seeing continued development and innovation in the debt funding markets. Following the banking crisis, UK High Street banks retrenched and had a poor appetite for structured transactions. Whilst High Street banks have to some extent returned to the transactional market, there is still considerable caution with many sectors being red flagged. The ongoing requirement of banks to

strengthen their balance sheets means that all banks are still highly selective in the transactions they pursue and in general look for secured lending opportunities.

What we are seeing is that banks are being challenged by the specialist Asset Base Lenders who have a different approach to risk and can consider a wider range of asset classes to deliver innovative and commercial funding solutions.

Alongside High Street banks and ABL funders we are seeing new debt funds enter the market. We have worked with many of these in the past six months and they are looking to invest for the long term. Whilst the funds tend to be, marginally, more expensive than traditional debt the flexibility delivered through the longer time investment horizon delivers significant cash flow benefits. Alongside this we have also seen them taking a more commercial view in respect of due diligence and credit process, enabling them to accelerate the overall funding process.

It is evident that the funding market continues to develop and diversify with specialist lenders providing real innovation in the way they structure their investments. The entry into the market of private family equity investors and innovative debt funds means that the status quo has changed and all funders must innovate to succeed. What we are seeing is that good businesses with strong management teams can find funding but it is the ability to select an appropriate funding structure that is the challenge.

Overall, Steve Bell concludes, “The underlying strength of the UK economy and innovations in the funding market has created a dynamic environment for transaction funding. At Castle Square, our extensive experience of working with a wide range of funders means we continue to deliver innovative, commercial funding solutions across all sectors and all types of transaction.

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