

Race to recovery

Recapitalisation – Equity solutions

The recapitalisation playing field



A pre-emptive “band-aid”

Initial response to the immediate cash-flow shock of the COVID-19 pandemic was predominantly quick-to-market undocumented cash-box placings.

Key drivers to structure

The urgency for proceeds and the required quantum will dictate the structure. Prospectus or circular requirements will extend timetables, but not always avoidable.

Working with the lenders

Existing lenders will typically have a significant say as part of any wider refinancing negotiations. They may also lobby for the sale of assets or seek debt for equity swaps.

Prospectus disclosure

Focus will be placed on the working capital statement and importance of vote language. An issuer can use a “simplified prospectus” but this has some drawbacks.

Changes to the register

A dilutive share issue which increases the stake of certain shareholders can have implications under the Takeover Code or require regulatory or contractual change of control consents.

Addressing structural issues

A shortage of cash and/or a sharp depreciation in assets can lead to a need to refinance and lower leverage. Issuers will typically turn first to shareholders using pre-emptive offer structures (open offers and rights issues).

Seeking new investment

Shareholders won’t always have the firepower or desire to follow their money. New investment can be obtained through a placing or a PIPE.

Shareholder support?

A sympathetic shareholder base provides greater flexibility. Plans will have to be adapted if support for a special resolution can’t be guaranteed.

Related party transactions

Support from existing shareholders may require a vote of independent shareholders and a “fair and reasonable” opinion from the company’s sponsor

Existing obligations

Listed companies are required to disclose inside information in respect of any financial difficulties (if not the negotiations with lenders). This can hamper the ability to execute.

An “equity bridge”?

Standby equity underwriting may provide a company with some breathing space, but can increase share price volatility and heighten execution risk for the eventual refinancing.

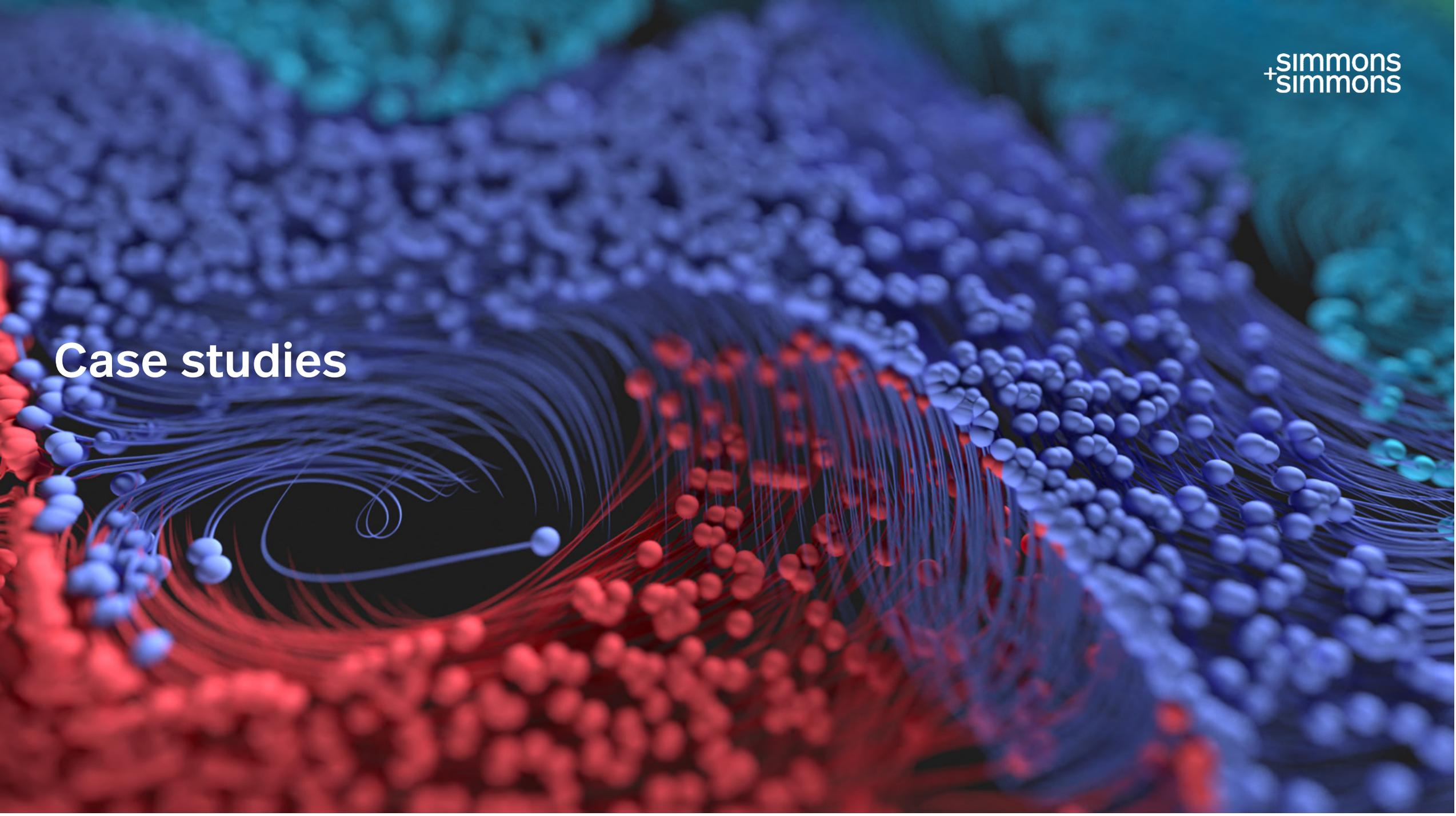
Secondary issue structures



	Firm Placing (Cash)	Firm Placing (Cash Box)	Placing & Open Offer	Rights Issue	PIPE
Size limits*	< 5% (+ additional 5% if for an acquisition or specified capital investment)	< 20% (without prospectus)	IPCs: 15-18%	No limit	<5% (without s/h approval) < 20% (without prospectus)
Discount limit*	Max 10%	Max 10%	Max 10%	No limit	Max 10%
Prospectus	✗ (typically)	✗ (typically)	✓	✓	?
S/h approval	✗ (typically)	✗ (typically)	✓ (typically)	✓ (typically)	✓ (typically)
Timetable	T+2	T+2	GM and offer period concurrent	GM and offer period not concurrent	T+2 after any GM
Pre-emptive	✗	✗	✓	✓	✗
Tradeable rights?	✗	✗	✗	✓	✗
Lazy shareholder	N/A	N/A	✗ (unless “compensatory open offer”)	✓ (sold for benefit)	N/A
Related party transaction	If placees are directors or substantial shareholders (>10%)	If placees are directors or substantial shareholders (>10%)	Exempt if allocation is pro rata	Exempt RPT as fully pre-emptive and pro rata	If investor is director or substantial shareholders (>10%)
Other	<ul style="list-style-type: none"> Can be conducted with a P&OO, rights issue or PIPE 	<ul style="list-style-type: none"> Can be conducted with a P&OO, rights issue or PIPE Potential investor opposition 	<ul style="list-style-type: none"> Can be conducted with a firm placing and/or PIPE 	<ul style="list-style-type: none"> Can be conducted with a firm placing and/or PIPE 	<ul style="list-style-type: none"> Can be conducted with a firm placing, P&OO or right issue PIPE investor may seek board position / other enhanced rights Potential investor opposition

* Without shareholder approval

Case studies



Case study 1

Hammerson (August 2020)



Issue

- Structural change in retail industry
- Negative impact on the value of assets → affecting short term cash flows



Proceeds

- Repay debt



Approach

- £552m rights issue
- Disposal of 50% interest in VIA Outlets



Other points to note

- Sale of assets was a class 1 disposal and related party transaction → shareholder approval
- Working capital statement included COVID-19 assumptions
- Irrevocable undertakings from the two largest shareholders to stand their corner

Case study 2

Costain (May 2020)



Issue

- High debt level



Proceeds

- Repay debt



Approach

- £80m firm placing
- £20m placing and open offer
- Extension to existing facilities, subject to completion of capital raise



Other points to note

- One of the first prospectuses approved under the FCA's revised approach to working capital statements during the COVID-19 crisis announced in April 2020
- Capital raise fully underwritten on a standby basis
- Capital raise included a £25m strategic investment from ASGC

Case study 3

Interserve (February 2019)



Interserve



Issue

- High debt level



Proceeds

- Repay debt



Approach

- Deleveraging plan with existing lenders and bondholders, including £432.5m capital raise



Other points to note

- Shares subscribed for by the senior cash facility lenders would be subscribed for in consideration of the release of debt under the senior cash facilities
- Shareholder approval required given size of fundraise and level of discount
- Free float considerations if lenders took up shares (c.95% of ISC)
- Separate shareholder requisitioned meeting required to be convened

Case study 4



Mothercare (July 2018 – February 2021)



Issue

- Financial difficulties
- Structural change in retail industry



Proceeds

- Repay debt



Approach

- Restructuring involving a CVA, refinancing and restricting of store portfolio
- Refinancing included a £32.5 placing and open offer



Other points to note

- Issue price for capital raise below nominal value of the ordinary shares → capital restructuring
- New shareholder loan constituted a related party transaction requiring shareholder approval
- Capital raise fully underwritten on a standby basis
- First in several refinancing steps, including standby equity underwriting that was not used
- Conversion of shareholder loans and issue of warrants → Rule 9 whitewash under the Takeover Code

Case study 5



Laird

Laird (February 2017)



Issue

- Ability to satisfy leverage covenant tests



Proceeds

- Repay debt



Approach

- £175m rights issue



Other points to note

- Capital raise fully underwritten on a standby basis
- Cash box structure utilised to benefit from merger relief / create distributable reserves
- “Gazette route” utilised to remove requirement to obtain shareholder approval to dis-apply pre-emption rights

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