BRITISH BUSINESS BULLISH ABOUT RAISING DEBT DESPITE UNCERTAINTY OVER BREXIT

15 April 2019 | London
News

British business is bullish about its ability to raise debt, despite high levels of pessimism over the short-term economic prospects for the UK as a result of Brexit and other factors. The results of Herbert Smith Freehills' latest Corporate Debt Research also suggests that the cost of raising debt will increase over the next 12 months, with significant numbers considering alternative sources of debt funding.

According to the latest annual Corporate Debt and Treasury Report, Brexit is not regarded as an impediment to UK organisations' ability to raise debt. 74% said 'no' when asked. One FTSE 100 treasurer declared Brexit a "non-event" in relation to the raising of debt and another said "global worries have taken over – the biggest concern is markets drying up."

Key findings from the report, published today by Herbert Smith Freehills, are:

- **intention to invest**: 68% of businesses plan to refinance or raise new debt over the course of the next 12 months. Additionally, 37% said they will increase debt levels this year – up from 30% in 2018
- **Brexit planning**: delays to Brexit and implementing Brexit planning are putting strains on supply chains and management teams. However, whilst corporates are significantly more pessimistic in the short-term, they are bullish that Brexit will not affect their ability to raise debt in their preferred markets and currencies, in accordance with their own timetables
- **growth**: although 57% believe the cost of funding will increase this year, over two-thirds

of increased borrowing will be applied towards business investment as UK corporates express confidence about growing their business. Asked how they will spend it, 33% focused on acquisitions, 28% on capital expenditure

- **relationship lending**: Bank lending remains the bedrock of many corporate debt capital structures but relationship banking is under greater strain than ever as banks seek to meet internal rates of return by chasing ancillary business
- **fixed rate debt and IBOR**: many corporates do not borrow on a fixed interest rate basis. Whilst the risk is manageable in the short term with interest rate derivatives, the phasing out of IBOR rates is a significant issue for treasurers and potential solutions are slow to emerge and those which are emerging are doing so in an uncoordinated way.

Kristen Roberts, finance partner at Herbert Smith Freehills, says "2019 will pose a number of challenges and opportunities for treasurers. Whilst not directly impacting on debt raising, the consequences of Brexit and the wider economic headwinds will inevitably result in incremental planning being required by treasurers including the continued development of a wider set of creditor relationships across multiple debt markets. In addition, the growing interest in ESG principles will touch on a number of corporate treasury workstreams as will the phasing out of IBOR reference rates."

Despite business' confidence about their ability to raise debt, the report goes on to demonstrate recognition amongst the UK's senior treasury and finance executives (including many from the FTSE 100 and 250), that some factors may present a challenge going forwards. 82% focused on global economic uncertainty as a potential impediment to raising debt, whilst others focused on the threat posed by Brexit (54%) and protectionism and trade barriers (53%).

Many respondents also reported on the "game changing" interest in environmental, social and governance (ESG) factors, predicting that its influence in debt financing and other corporate treasury matters would continue to grow. A significant proportion of those asked said they now report on ESG issues to lenders, with many also considering ESG credentials when selecting which financial institutions they interact with and others pursuing ESG debt financing products.

Kristen Roberts concludes: "The focus on environmental, social and governance principles has accelerated dramatically over the past year. We are likely to see this influence a number of treasury activities over the coming months, particularly as it is becoming clearer how adoption of ESG targets can result in cost savings and access to additional sources of finance."

Herbert Smith Freehills' annual Corporate Debt Survey was conducted during March 2019 through an online survey and telephone interviews with over 85 senior finance and treasury executives in the FTSE 250 and other large corporates. The report can be downloaded here.

View the report

MEDIA CONTACT

For further information on this news article, please contact:

MIKE PETROOK, COMMUNICATIONS MANAGER

LONDON
Tel: +44 20 7466 3939
Email: mike.petrook@hsf.com

© HERBERT SMITH FREEHILLS LLP 2019