BALANCE SHEET STRENGTH IMPROVEMENT: EQUITY FUNDRAISES

Essential points to consider if your company is looking at ways to improve balance sheet strength, whether strategically, opportunistically, or to help repair the damage done by the pandemic.

ADDLESHAW GODDARD

60 SECOND BASICS

WHAT IS IT

Equity fundraises allow companies to raise additional capital by issuing new shares in return for an increased equity stake in their business.

WHY DO IT

- Ease pressure on working capital
- Ability to raise funds in a short time period
- To obtain a competitive advantage
- To strengthen the business's financial position without further leveraging the business
- Quick alternative to accessing bank debt (which may or may not be available) and avoids need to service interest on a loan

WHY AVOID IT

- Possibility of alienating existing shareholders and diluting their shareholdings
- There is a limit to how much capital a company can raise (usually linked to equity value of business)
- Risk of public embarrassment if target for capital raise is not met
- Potential negative market reaction if business is perceived to be in crisis


As at 31 Dec 2019
FRS102

BALANCE SHEET

	30 Dec 2020 £,000	30 Dec 2019 £,000
FIXED ASSETS		
Intangible assets	995	995
Tangible assets	380,000	360,000
	380,995	**360,995**
CURRENT ASSETS		
Inventories	59,000	44,500
Debtors	60,000	117,800
Investments	4,500	4,500
Cash at bank and in hand	13,300	45,000
	136,800	**211,800**
Creditors: amounts falling due within one year	(145,500)	(78,500)
Net current (liabilities) / assets	(8,200)	133,300
Total assets less current liabilities	**372,795**	**494,295**
CREDITORS		
Amounts falling due after on year		
Borrowings	(220,000)	(98,000)
Provisions	(15,550)	(11,000)
Post-employment benefits	(4,500)	(3,795)
	132,745	**381,500**
CAPITAL AND RESERVES		
Called-up share capital	13,000	13,000
Share premium account	12,500	12,500
Other reserves	20,000	63,000
Retained earnings	87,245	293,000
TOTAL EQUITY	**132,745**	**381,500**

WORKOUT ESSENTIALS

DIFFERENT STRUCTURES, SUCH AS "CASH BOX" PLACINGS, WHICH ALLOW FOR LARGER PLACINGS WITHOUT THE NEED FOR SHAREHOLDER APPROVAL
Use of structures legitimately to avoid pre-emption rights under the UK Companies Act 2006. Such structures have been used to issue new shares up to the level of 19.9% of existing share capital. At 20% a prospectus would be required for Main Market issuers.

IS NOW ALSO A GOOD TIME TO PUT IN PLACE NEW OR AMENDED BANK FACILITIES OR RESET FINANCIAL COVENANTS WITH LENDERS?
Consider impact on current lending position including whether formal or informal waivers of, or re-setting of, financial covenants should be obtained.

WHAT IS THE LEVEL OF EXISTING INSTITUTIONAL SHAREHOLDER SUPPORT FOR AN EQUITY FUNDRAISE?
This will depend on numerous factors including the reasons for the capital raise, the proposed use of funds and the current market conditions.

IS SHAREHOLDER APPROVAL REQUIRED TO ISSUE THE SHARES?
When time is of the essence, companies typically want to avoid having to get shareholders' approval. Various factors need to be considered including: pre-emption rights, the magnitude of the issue and level of current authorisations.

WILL THE FUNDRAISING BE UNDERWRITTEN, AND IF SO, BY WHOM?
It is preferable to have the issue underwritten to ensure certainty but there is a corresponding cost for this.

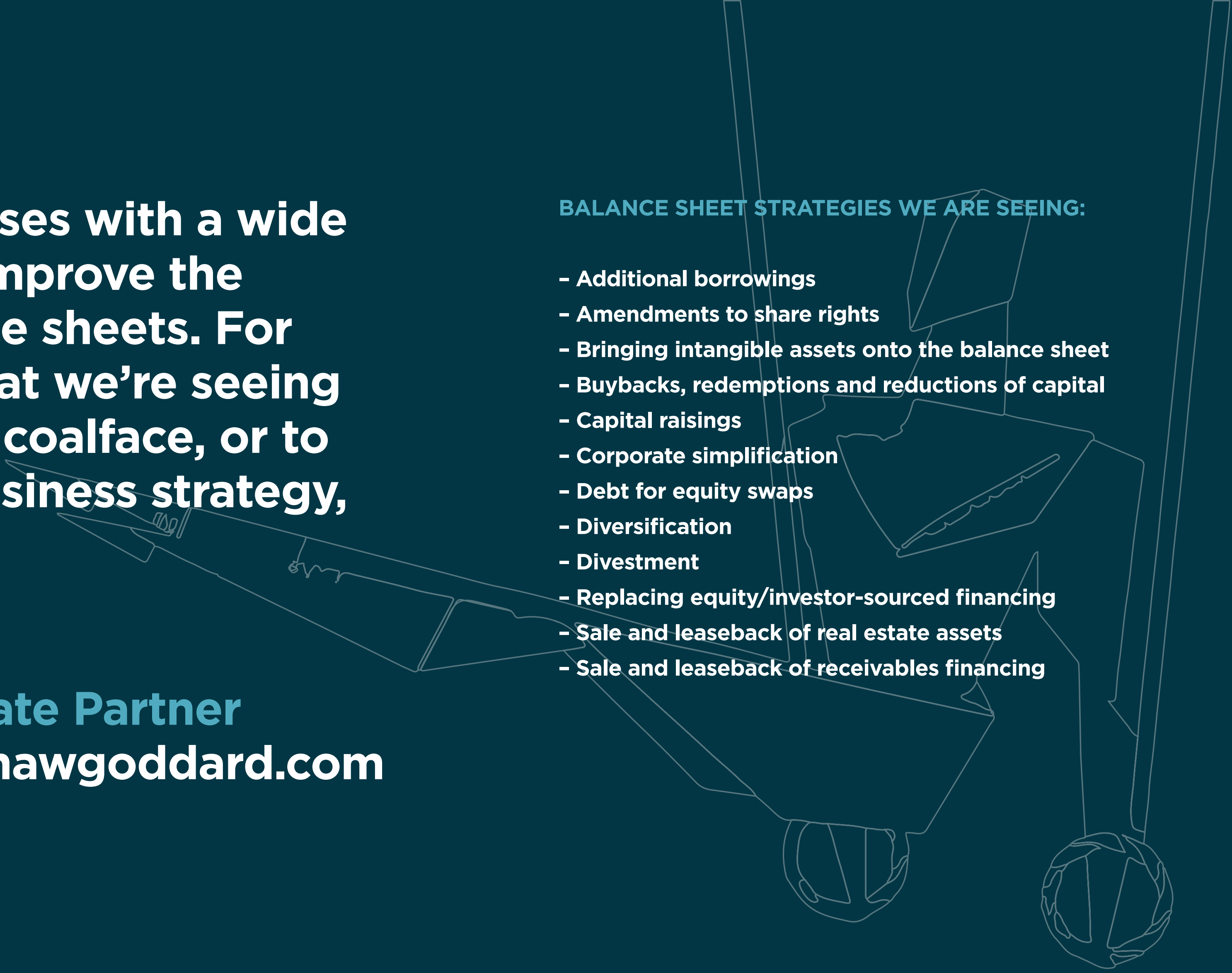
IF EXISTING SHAREHOLDERS DO NOT OPT TO SUBSCRIBE FOR MORE SHARES IN THE COMPANY, HOW WOULD THIS BE PERCEIVED IN THE MARKET?
Advice from the company's brokers should be obtained to evaluate this risk.

IS LENDER APPROVAL REQUIRED?
Existing lending covenants should be checked to ensure compliance.

IS ANY BRIDGING FINANCE (OR AN EXTENSION TO EXISTING DEBT FACILITIES) REQUIRED FOR THE PERIOD UP UNTIL COMPLETION?
This adds complexity and potential delay to the process.

GET IN TOUCH

We are helping businesses with a wide range of strategies to improve the strength of their balance sheets. For an informal view on what we're seeing strategically and at the coalface, or to help accelerate your business strategy, please get in touch:



BALANCE SHEET STRATEGIES WE ARE SEEING:

- Additional borrowings
- Amendments to share rights
- Bringing intangible assets onto the balance sheet
- Buybacks, redemptions and reductions of capital
- Capital raisings
- Corporate simplification
- Debt for equity swaps
- Diversification
- Divestment
- Replacing equity/investor-sourced financing
- Sale and leaseback of real estate assets
- Sale and leaseback of receivables financing

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WHY ADDLESHAW GODDARD?

WE ACTED FOR **43 FTSE 100 COMPANIES** IN THE LAST 2 YEARS

OUR TIER-1 RANKED CORPORATE LAWYERS HELPED DELIVER **£8BN+ OF STRATEGIC DEALS** LAST YEAR

WE ACTED ON **8 EQUITY FUNDRAISES** IN THE FIRST 8 WEEKS FOLLOWING THE INITIAL CORONAVIRUS LOCKDOWN