LMA Syndicated Loans Conference
25 September 2018
London

Borrower panel: Building a business for the future

This panel was chaired by **Caroline Phillips**, partner at Slaughter and May. She was joined by **Yves Gerster**, Global Treasury & Shared Services Director at Dufry; **Shaun Kennedy**, Group Treasurer at Associated British Ports; **Alastair Murray**, Chief Financial Officer at Premier Foods and **Karen Toh**, Treasurer at Grosvenor Group. The panellists covered a wide range of sectors including retail, manufacturing and property which in turn made for a lively discussion.

Composition of the lender group

From a borrower perspective, one of the key factors in selecting a syndicate is a sound relationship with the lender. A willingness of a lender to understand a borrower's core business values helps to establish long-standing relationships that serve to benefit both parties. Borrower's also value a syndicate with breadth of international scope with an appropriate cultural fit.

The ideal size of a syndicate varies across industry sector. For some, six to eight banks is the right size to ensure that no one bank dominates the negotiations but also ensures the borrower can build up a relationship with each syndicate member. However, for others up to 25 lenders is the right size. In general, the ideal number of banks will depend on the deal and sector in question.

Ideally, borrowers prefer self-arranged club deals as opposed to a syndication process. Borrowers will hold bilateral talks with each lender to determine the best deal that both parties can achieve. Banks need to be price competitive and offer a good range of ancillary business. It was noted that access to senior management within the bank is helpful so that decisions can be made at the right level. Banks should also have realistic expectations of the share of ancillary business they can achieve when entering the syndicate.

Post the financial crisis in 2008, it became clear that US corporates sourced their funding from wider sources in comparison to UK and EU corporates. Since then, funding of UK and EU corporates has diversified to include a more international mix of lenders, as well as different lending sources including institutional investors.

Life after LIBOR

On 12 July 2018, Andrew Bailey, Chief Executive of the FCA delivered a speech highlighting why firms need to end their reliance on LIBOR by 2021. He also made the case for overnight risk-free rates (RFRs) and SONIA for the sterling market.

Borrowers are monitoring the situation to stay prepared. LIBOR discontinuance not only impacts loans but also pension schemes and borrower hedges currently linked to LIBOR rates. Some borrowers have also made the decision not to issue further debt extending beyond 2021 which is linked to LIBOR.

It was agreed that a market wide solution on this issue would be required to prevent potentially detrimental impacts on the cost of borrowing. Banks and borrowers will need to change their systems, settlement processes and make accounting changes, amongst other changes. Legal advice will also need to be sought as to amending documentation to ensure that it is still fit for purpose during the transition process.

IFRS 16

In 2019, IFRS 16 is due to come into operation. This impacts the accounting treatment of leases, effectively treating all leases over 12 months (subject to limited exceptions) as finance leases. This will bring lease commitments that are currently off-balance sheet on balance sheet.

No doubt, certain sectors such as retail and aviation will be focused on these developments given their large portfolio of operating leases. In addition to the impact on debt, EBITDA numbers are expected to change. It is estimated that the additional debt of companies affected by the accounting standard could in excess, or even a multiple, of the "real" financial debt of the company.

IFRS 16 will be an issue for a range of sectors, but how it plays out in each company's accounts will vary widely. Parties will have to review existing facility agreements to determine the impact of IFRS 16. For some companies most affected, the current financial covenants may not provide a useful measure going forward and consideration will need to be given to appropriate alternative metrics.