

# THE BANKER

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## TEAM OF THE MONTH

# Barclays hits the ECM deals jackpot

*The bank's global ECM desk flexes its muscles*

Edward Russell-Walling

As equity capital markets recover, deals have been getting bigger, with Barclays very visible at the jumbo end of the market. It has led three of the four biggest equity capital market transactions since March 2023, including this year's £7bn rights issue from National Grid and Alibaba's \$5bn convertible bond.

The market is recovering from a bad patch - a poor year in 2022 turned into a worse one in 2023. This year, while the number of ECM transactions has been climbing, volumes have grown even faster.

### SIZE IS BACK

"The deals have been getting larger," says Barclays global ECM head Tom Swerling, who divides his time between New York and London. He notes that by the end of the first half of the year, ECM deal numbers in the Americas were up by 16 per cent and volumes by 57 per cent. "In Europe, numbers were up 3 per cent and volumes up 34 per cent."

Swerling expects his market to have chalked up a more normal year by the end of 2024, closer to what it was achieving before the Covid-19 pandemic, from 2010 to 2019.

Performance has been helped by the gradual reopening of the initial public offerings market, even though this has been restrained by the lack of a US rate cut. Swerling pinpoints September 2023 as the start of the revival, with the Nasdaq IPO of British chip designer Arm. Barclays was a joint global coordinator, alongside Goldman Sachs, JPMorgan and Mizuho.

The transaction involved selling 10 per cent of the business on behalf of SoftBank, which acquired Arm in 2016 for \$31bn. The IPO, which raised \$5.2bn, valued it at \$54.5bn.

As a designer of computer processors, Arm is at one end of an industrial chain being driven by developments in AI, Swerling believes. The chain runs through other parts of the semiconductor ecosystem, through the consumer-facing aspect (including Amazon) and data centres. At the other end of the spectrum is the energy needed to power it all.

"There is a considerable depth of capital available in the market to support growth in all industries along this chain," Swerling says.

### JUMBO ENERGY IPO

Enter National Grid. Barclays has had a long relationship with the London-listed



Omar Alghanim (left) and Lawrence Jamieson

electric power transmission operator, having been its corporate broker since 2010. Headquartered in the UK, National Grid also operates networks in the north-eastern US.

In June this year it executed a fully underwritten £7bn rights issue. According to data provider Dealogic this is the second biggest ECM deal so far this year globally and the largest utility and energy equity rights issue anywhere, ever. Surprisingly, only two banks led and underwrote the deal - Barclays and JPMorgan. By contrast, the Lloyds Bank rescue rights issue of 2009, the largest UK equity deal before this one, had a 19-bank syndicate.

The National Grid underwriting was split 50:50, with each bank committing to £3.5bn. "This was one of the biggest underwritings we have ever done," says Lawrence Jamieson, Barclays co-head of ECM for Europe, the Middle East and Africa. "It demonstrated the confidence we have in the National Grid story."

The proceeds will go towards the company's ambitious capital expenditure programme. Having invested £30bn over the past five years, National Grid intends to double up - it will spend £60bn over the next five, split more or less equally between the UK and the US.

Around 85 per cent of that will be green investment, in line with the EU sustainable

finance taxonomy, Jamieson explains. The company says the investment will drive energy transition and support over 60,000 more jobs in the UK and US.

Swerling points out that a significant part of the National Grid story in the UK is the upgrading of the grid to accommodate renewable energy sources with optimal connectivity. Analysts note that, while the company has the defensive qualities associated with most utilities, it also has growth opportunities - a rarity in the sector.

The rights issue was launched the morning after the announcement of a UK general election, in spite of the heightened volatility and political risk this heralded. "An election doesn't change the quality of the story," Jamieson insists.

This was a conscious decision to go early. "The market expects a lot of equity issuance in this sector, to fund decarbonisation, electric vehicle adoption, increased data centre capacity," Jamieson says. "The numbers are so big that companies can't just borrow what's required."

In what could become a crowded market, being at the front of the queue was reckoned a good place to be. "It was somewhat pre-emptive," Jamieson agrees. "While there was the benefit of getting in ahead of the next regulatory review, National Grid was also dictating the narrative and setting the tone

for the sector.”

There was no need for a shareholder vote as the capital was being raised within existing authorisations. So the company was not only seeking a large sum but also accelerating the conventional timeline.

The seven-for-24 share offer was priced at a generous 34.7 per cent discount and was taken up by 91 per cent of shareholders. “It showed the depth of capital available to support companies positively affected by megatrends,” Jamieson reiterates.

### CONVERTIBLE BONDS BONANZA

The convertible market also had a positive first half this year, at least outside Emea, where zeal for this instrument has always been less pronounced. “Convertible issuance was up 31 per cent globally,” notes Omar Alghanim, Barclays head of Emea equity-linked and financing solutions. “The US was up 51 per cent and Asia up 26 per cent, but Emea was down 60 per cent.”

Large investment grade corporates have kept the market active as they continue using convertibles to cheapen their cost of funding, Alghanim says. It was this particular benefit that prompted Chinese online retailer Alibaba Group to choose a convertible issue to help fund the repurchase of its shares.

Alibaba, which is listed in New York and Hong Kong, has a market capitalisation of around \$200bn. It has been engaged in an extensive share buyback programme which

saw it repurchase \$4.8bn of stock in the first three months of this year and \$5.8bn in the second quarter. Purely coincidentally, its convertible issue was launched on exactly the same day as the National Grid rights issue.

The seven-year bonds, callable after year five, were marketed with a coupon range of 0.25-0.75 per cent and a conversion premium range of 30-35 per cent. After a two-day wall cross and a one-day marketing process, the deal was oversubscribed.

The bonds priced with a 0.5 per cent coupon and a 30 per cent conversion premium. Alibaba has entered into capped call transactions to increase the effective conversion premium to 100 per cent. Barclays was a bookrunner and capped call counterparty. Citi, JPMorgan, Morgan Stanley and HSBC were joint bookrunners.

Concurrent with the launch, Alibaba repurchased American depository shares worth \$1.2bn. These are dollar-denominated equity shares of non-US based companies available for purchase on the US stock exchange. That repurchase combined with the strength of the orderbook and the use of capped calls limited the company's stock price fall to only 2.27 per cent during marketing.

“This was a prime example of strong credit issuers tapping the convertible market as an alternative to traditional debt, to save on interest expense,” Alghanim says.

Meanwhile, back in Emea, all was not

entirely quiet. At the end of June, Barclays was joint global coordinator on the region's largest convertible bond issue of the year to date, a €750mn deal for Schneider Electric. At the same time, the French electrical power equipment manufacturer launched a buyback for any and all of its outstanding 2026 convertibles via a reverse bookbuild.

The new seven-year issue, callable after year five, priced with a 1.625 per cent coupon and a 37.5 per cent conversion premium. The order books were covered in less than an hour after launch. The new issue was conditional on the reverse bookbuild getting indications of interest from more than 60 per cent of the 2026 convertible holders. In the end, Schneider Electric was able to repurchase around 97 per cent of these outstanding bonds.

British corporates are even less enthusiastic about convertibles than their continental cousins. Nonetheless, Barclays secured a mandate as joint global coordinator on the first convertible from a UK-listed company since 2021. The £250mn five-year transaction was undertaken by online grocery retailer Ocado Group. Other joint global coordinators were BNP Paribas and Goldman Sachs.

Even though the likely trajectory for interest rates is down, Alghanim expects his market to remain “pretty active”. “Interest rates will have to fall a lot before they hurt convertibles,” he says.