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Question of the Week:

What are some alternatives to traditional types of capital raising in the current uncertain environment?

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During times of market volatility, it's not uncommon to see issuers look for different ways to raise capital, such as registered direct or other forms of confidentially marketed offerings. These offerings involve securities that are marketed directly to investors, who are "wall-crossed," i.e., the investor must keep the deal confidential before it is publicly announced. The wall-crossing aspect of these deals allows issuers to sound the market and determine if an offering will be successful without the general public's knowledge. If the confidential marketing effort is unsuccessful, the deal can be pulled without any reputational hit or potential decrease in the issuer's stock price.

Steven R. Burwell, Capital Markets, New York

Working with companies accustomed to regularly accessing the leveraged capital markets, it becomes important to help manage rate expectations during periods of market volatility. For clients with near-term liquidity needs, relying on traditional banking relationships and drawing on revolvers and working capital lines may provide a short-term bridge to a period of more favorable market dynamics. For those with near-term needs for capital, adding more structure to transactions – whether in the form of adding collateral, shortening tenor, or implementing "priming" transactions that place new financing sources in a structurally senior position in a capital structure – may assist in deal execution.

Jonathan (JD) DeSantis, Capital Markets, New York

In periods of market volatility and economic uncertainty, it often makes sense to preserve and maintain existing capital versus raise alternative or new capital. With that in mind, many borrowers seek to buy time and flexibility by exercising amend and extend rights or options for additional facilities under existing loan documentation. Such steps rely on existing documentation, security arrangements and already cultivated credit relationships. Where existing facilities have variable rates that risk becoming even more expensive, borrowers may consider rate caps and other derivative structures with a single swap dealer that limit such risk, without obliging the borrower to negotiate amendments with all the bank creditors. Finally, in the context of M&A transactions, careful structuring may take advantage of provisions which allow the merged entity to maintain low-cost debt or, in some cases, exit high-cost debt without significant penalty.

David Fenwick, Capital Markets, São Paulo

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