JEFFERIES LEADS EUROPEAN EQUITY 'WINNERS' TO MARKET

Team of the month

Philip Noblet

Dominic Lester

With investors attracted to European technology and healthcare stocks, it has been a bumper period for Jefferies's European ECM team. Edward Russell-Walling reports.

For investors, Covid-19 has divided businesses into winners and losers and, with returns elsewhere looking thin, they are hungry for the equity of the winners. That helped to make this year's second quarter one of the busiest on record for Jefferies's European equity capital markets (ECM) team.

In the year to early September, the team completed 32 European ECM deals. It raised more than $6bn for its clients, with 90% of that after the Covid-19 crisis began. Many of the winners are clustered in the technology and health sectors, both Jefferies's specialities. European winners are especially attractive to US investors, which also plays to the strengths of this US-headquartered investment bank.

Dominic Lester is Jefferies's European head of investment banking. He is also European head of technology, media and telecoms (TMT) investment banking and global joint head of technology. "As we went into the Covid crisis, we expected to see a number of companies tap the ECM to strengthen their balance sheets," Mr Lester recalls.

That would have mirrored what happened at the beginning of the financial crisis, particularly in the UK. "But what emerged was a more mixed picture," he says. Several companies that really needed to raise capital postponed, fearing that announcing their need would put them in a vulnerable position.

On the other hand, some whose stock price had benefited from the crisis, particularly in the technology sector, chose to raise equity capital opportunistically. Investors were highly receptive to the strongest-looking companies and, unusually, even private equity participated in some of these transactions.

"The world has become bifurcated for investors," Mr Lester observes. "Either stocks will not grow because of the impact of Covid; or they will grow rapidly because of the impact of Covid. We have spent more time working with companies that are growing faster, to help them take advantage of the increase in appetite."

STRUCTURAL WINNERS

What Jefferies calls structural winners are essentially companies occupying the digital world where, as one online retailer puts it, five weeks' lockdown has accelerated consumer shopping habits by five years.

UK online fashion retailer Boohoo provided a classic example of raising primary capital for growth in this new age. In a 'blind pool' exercise which did not specify use of proceeds, it raised £200m ($258m) to take advantage of opportunities afforded by Covid-19. The business has a record of acquiring troubled competitors. Jeffries and Zeus Capital were joint global coordinators on the deal.

One measure of the appetite for Boohoo's equity was that, in spite of its non-specific nature and with the deal launched at close to an all-time share price high, the book was 2.2 times covered.

Boohoo then agreed to pay up to £324m in cash and shares for the 34% of clothing retailer PrettyLittleThing that it did not already own. "New investors accounted for over 50% of the Boohoo deal," says Philip Noblet, Jefferies's head of UK investment banking. "We used the opportunity to bring in a lot of US demand, which represented 40% of the transaction."

US investors, who have a keen appreciation of structural growth, have been scenting value in UK and European growth stocks. "US interest has been really high," Mr Noblet acknowledges.

As the price of big technology stocks rocketed on US markets, the relative value of UK and European technology firms has become more attractive. "If you want to play that theme, but don't want to overpay, that takes you to Europe," Mr Lester explains.

Many of these companies are still mid-caps, which plays to Jefferies's own focus on that segment of the market. "We have the largest sales force selling UK mid-cap stocks in the US," Mr Noblet points out.

Zur Rose, Europe's largest online pharmacy, benefited from these new trade winds. Even though its shares had already more than doubled in 2020, the Swiss company raised CHF213m ($234.5m) in a private placement at an all-time high price. Jefferies and BofA Securities were joint global coordinators, and US investors took more than 65% of the deal.


Rob Leach

S4 Capital, Martin Sorrell's new-age digital advertising and marketing services business, was also able to place new shares at a record price. With its stock price already up by more than 60% this year, it raised £116m, representing 7.5% of its market cap.

While existing shareholders supported the deal, Jefferies identified two large new long-only anchor investors in mainland Europe. Overall, US investors took 30% of the shares on offer.

OTHER GAINS

Not all those that raised fresh capital were structural winners, however. Mitie, a UK business services provider, has been hurt by Covid-19, but was able to come to market with a successful £201m rights issue with Jefferies and JP Morgan Cazenove as joint global coordinators. The proceeds went to repair the company's balance sheet while helping to pay for the recent acquisition of Interserve's facilities management business.

In the first UK private investment in public equity deal since 2009, Jefferies used its relationships with the world of private equity to help raise £165m for loss-making UK building products distributor SIG.

US buyout firm Clayton, Dubilier & Rice invested £60m in a discounted placing and agreed to participate further in a £105m open offer. Proceeds will repair the company balance sheet and allow management to execute a new business plan. Jefferies and Peel Hunt were joint bookrunners, sponsors and financial advisers, with Lazard as lead financial adviser.

Jefferies was joint global coordinator, alongside JP Morgan, Morgan Stanley and UniCredit, on a €1.5bn ($1.75bn) convertible bond offering for food delivery company Delivery Hero. The deal made this German company Europe's largest convertibles issuer, with €3.25bn ($3.8bn) outstanding. "Despite not being a lending bank, we secured a global coordinator role given our number-one [Europe, Middle East and Asia] convertible sales and trading team, our TMT research franchise and our global equity sales capabilities" Mr Lester says.

BACKING NEW IDEAS

The bank is also in the market with initial public offerings (IPOs). "In the UK in particular, the market for IPOs has been moribund," says Rob Leach, Jefferies's European head of ECM. "At the height of the Covid-19 crisis, we expected rescue capital raises, but not the IPO market coming back to life."

In fact, given the lack of investible listed companies, investor appetite for IPOs has returned, Mr Leach says. "Investors must look for new opportunities and they are welcoming new ideas," he adds.

Jefferies was global coordinator, with Citi, on the €115m ($134.46) Frankfurt IPO of Brockhaus Capital Management, a German private equity investor that specialises in small-to-medium technology businesses. This was Germany's first fully virtual IPO. Jefferies says it led 80% of the demand, including a US long-term anchor investor that took 25% of the deal.

Jefferies was a joint bookrunner, with HSBC and Numis, on September's £5.4bn listing of UK online consumer goods retailer The Hut. This was London's largest IPO by amount raised for five years. JPMorgan Cazenove, Citi, Barclays and Goldman Sachs were joint global coordinators.

"There is more interest in IPOs than we have seen for some time," Mr Leach observes. "Our IPO pipeline is healthier than it has been for the past three years." Investors remain picky, however, prioritising structural winners and favouring strong management teams.

Can this exuberance in the equity market continue? There has already been a sharp pullback in big tech stocks on US markets. Mr Lester accepts that these companies have been valued at multiples never seen before. "But where will that money go?" he asks.

"There has been profit-taking, but it's difficult to see where else you can put the money today. If you put it into cash, you'll simply see the value erode." TB

> NEW INVESTORS ACCOUNTED FOR OVER 50% OF THE BOOHOO DEAL. WE USED THE OPPORTUNITY TO BRING IN A LOT OF US DEMAND
> *Philip Noblet*