THE PRIVATE PLACEMENT MARKET AND THE ROLE OF A GLOBAL PARTNER

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Private placements continue to be a compelling source of capital for issuers around the world. In 2018, despite substantial capital market volatility and economic uncertainty, U.S. private placement issuance volume exceeded 2017's record total with US$101 billion equivalent in issuance.[1] Even in times of volatility, the private placement market benefits from its well-earned reputation for stability, consistency and being a "market of constant resort." Furthermore, private placements are attractive due to their inherent flexibility and ability to be customized according to a number of criteria, such as tenor, volume, currencies and delayed drawdowns.

Finding the right banking partner to lead and advise on a private placement issuance is one of the more overlooked aspects of the capital raising process. The quality of a given bank's services, plus its areas of expertise and geographic reach, are of increasing importance as the private placement market continues to grow. In this discussion, we will first examine the advantages of using private placements for raising capital. Then we will turn our attention to the importance of using a banking partner with a broad product offering and a truly global network of resources.

The customization advantages of private placements

While there are many reasons why an issuer may want to raise capital through a private placement, rather than an issuance through the public debt markets or other means, the commonly cited benefits of private placements have to do with their inherent flexibility. The private placement market allows an issuer to work with its banking partners to customize an offering along several parameters, including:

- Tenor: Private placement investors, primarily North American insurance and pension funds, have investment needs across the maturity spectrum. A private placement issuance grants an issuer the ability to customize its solution to whatever tenor best meets its requirements, whether five years or 30 years plus. Furthermore, private placements allow for non-standard tenors. This can be an ideal situation for issuers with complex capital needs – for instance, those who need to manage their debt maturity profiles and wish to avoid large maturity towers in a given year.
- Volume: Whereas the U.S. public debt market has a minimum tranche size of US$300 million, private placements can be a good solution for issuers with smaller funding requirements. At the same time, the depth and stability of the private placement

market makes it attractive for issuers whose capital raising requirements fall into the US$1 billion-plus range as well, especially for those whose borrowing needs may exceed the capacity they have with other lenders.

- Delayed drawdown: The ability of an issuer to delay funding has become an increasingly popular feature, particularly for issuers who want to lock in rates and commitments at the current time, but do not need the funding until a later date in the future. In 2018, 28% of U.S. private placement transactions by volume included a delay in funding of greater than three months, the same level as in 2017 but reflecting a rate of growth from previous years.1 A delayed drawdown typically runs between three months and a year, though in some circumstances delays can be one to two years or more.
- Currencies: One of the increasingly important benefits of the private placement market is the ability to raise capital in currencies other than U.S. dollars, including Euros, Sterling, Canadian and Australian dollars. Many non-U.S. corporate issuers will seek to execute transactions solely in foreign currency or multi-currency issuances, which contain both U.S.-dollar and local-currency tranches. The potential complexity of such an issuance frequently necessitates the use of the private placement market.

The importance of global expertise

If issuers are seeking to benefit from the flexibility and customization of the private placement market, then quality of advice and the breadth of resources working on their behalf are critical to a successful transaction. A banking partner with global reach and sector expertise is of particular importance in an environment of increasingly numerous and complex transactions. An issuer looking at the private placement market will likely want to appoint a bank with the following characteristics:

- Established presence in the issuer's local market, with strong knowledge of the sector and region;
- Experienced on-the-ground private placement market specialists; and
- The breadth of expertise and solutions to be able to provide holistic advice on the optimal structure of a given private placement transaction. For example, a multi-currency, multi-tranche issuance may involve a series of currency swaps, as well as potential customization by tenor, volume and other attributes.

Partnering with Canada's international bank

Since its founding, Scotiabank has committed to maintaining its position as a truly global partner for its clients worldwide. The Bank has been a pioneer in cross-border transactions, and utilizes the resources of its on-the-ground presence. The scope of Scotiabank's geographic reach and the breadth of product offerings and expertise have made it a leader in holistic debt capital markets solutions.

1. USPP Year End Wrap-Up, 2018, Scotiabank/Private Placement Monitor.

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