DC Advisory sails through 2022, predicts choppy but navigable waters ahead

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DC Advisory has won the Global Financial Adviser of the Year in IJGlobal's IJInvestor Awards 2022, coinciding with its tenth anniversary last March.

Over the course of the judging period, DC's infrastructure team completed 28 deals valued at more than £12.8 billion across Europe and in Japan and the US, leading to one judge describing the firm as "an exceptional performer in this space".

"We didn't exist 10 years ago, so we are very proud of where we've reached. Looking at this year's deal sheet, we worked across the spectrum of super-core all the way to core-plus across the sell-side, buy-side and debt advisory," said Managing Director Neale Marvin.

The 2022 submission, he explained, also benefited from areas where DC has traditionally been strong such as district heating, storage and rail.

In the first category, standout transactions involved M&A and debt advice to the APG consortium on the €2.9 billion purchase of a 50% stake in Stockholm Exergi, and the €1 billion sale of a 50% stake in Fortum Oslo Varme. On the refinancing side, Marvin highlighted platform financings of €640 million for FSI (now Igneo) and for APG/PGGM/Ardian, the respective owners of Evos and LBC Tank Terminals.

One of the deals that caught the judges' eyes was the Evos refinancing and Oystercatcher acquisition. DC was engaged in the refi and inaugural financing platform for Evos, introducing majority bank with institutional lenders to the business on a sustainability-linked basis. Simultaneously, DC raised additional funds from banks inside the inaugural platform to fund the Oystercatcher acquisition on a certain-funds basis. Across the two assets, over €1 billion was raised to create a leading player in the European liquid bulk storage sector.

Meanwhile, in the rail space, the firm is especially proud of its debt and M&A advice on French leasing business Ermewa, and the £1.7 billion refinancing of rolling stock leasing company Cross London Trains.

Cautious optimism in debt, flight to quality in M&A

Given the tough macroeconomic outlook for 2023, Marvin predicts that clients will be seeking specialist advice on debt structuring and execution.

"Luckily, the debt markets remain open within our particular space, with clients weighing up how best to transact or refinance in a higher interest rate environment."

But when it comes to M&A, there may be fewer transactions as clients concentrate on their portfolios and capital debt financing solutions, Marvin continues.

What's more, "for the banks, I think underwrites are going to be difficult because they are obviously very nervous, and the types of underwrites that banks will want to do might not be the types of underwrites that clients want to do because of flex situations."

Noting the firm's "cautiously optimistic" outlook for debt, he furthermore warns that clients may no longer be in the driving seat, in a reversal of the last 10-12 years.

"What we're seeing now is that the debt community is not just looking at the pricing but the structural terms, so you might start to see a slight shift back towards the banks and the institutions, similar to what we saw back in 2007 and 2008."

On the M&A side, dealmakers will be combing the market for inflation-linked revenues as part of a flight to quality.

But for core-plus assets, "there will be question marks about whether people truly, fundamentally believe the infrastructure thesis, which could lead to less activity," he says.

However, currently there is little appetite from the Term Loan B or high-yield market, making it harder for private equity to find debt funding. This could actually spell an advantage for infrastructure funds, which have greater access to the funding via the infrastructure debt markets.

"I'm ever the optimist, but we're going into a recessionary and a high inflationary environment. However, we do feel that there will still be plenty of M&A. That said, we're already noticing a disconnect between seller and buyer expectation, meaning transactions in 2023 are likely to take longer than we have been used to seeing in the past few years."

Expansion plans

DC Advisory is anticipating continued growth in its European franchise, where it now boasts 70 infrastructure professionals.

The firm has opened offices in Benelux, and continues to add capability in Milan and Madrid, alongside already strong offices in Paris, Frankfurt and Poland.

“In the coming year,” adds Marvin, “we will focus on building out in the US market, in line with our original strategy to follow our core clients’ lead across sector and geography. Now, many of them are increasingly allocating resources and fund allocation to US dollars.”