

# Net benefit?

---

01/07/2000

Of all the instruments that make up the international capital markets, project finance has always appeared to be the most reassuringly solid. It is difficult to relate the buzz surrounding e-bonds, or even the new online procurement platforms to the protracted and usually meticulous process that brings deals to financial close. It has even been unkindly suggested that those given to spending three years building a rather imposing power plant are not comfortable with documentation that flits about in the ether.

But the old way of approaching deals has been undermined for some years now, with the number of project financiers expressing bemusement with the concept of email falling rapidly over the last two years. It is not difficult to see why, given the sheer logistics of assembling cross-border deals. And when sponsors begin to demand financial close over an ever-shorter timetable, bankers start listening.

The main driver behind the development of online deal platforms has been the syndicated lending market. Syndicated loans and the mountains of documentation that accompany them are prime targets for rationalisation. The challenge has been adapting the processes to the demands of the market and creating enough confidence in the security and integrity of the systems.

The earliest adopters of the technology have unsurprisingly been in the US. The speeds of close required in the rapidly deregulating power and telecoms markets, not to mention the eagerness with which the domestic industrials have embraced the Internet, have all contributed to this. In a sense, however, the rise has mirrored the growth of business-to-consumer sites, insofar as technological robustness and fears of unauthorised third party access have begun to wane.

And email is not really up to the job: despite increasingly sophisticated encryption systems email is still regarded as an electronic version of a postcard ? with all the privacy that that has. Email is cumbersome and liable to corruption. The recent virus outbreaks all hit the software widely used by the main corporates and institutions and crippled them accordingly.

Web pages, on the other hand, do not carry viruses. More importantly, examining pages does not use up large quantities of computer memory in the way email does. Project finance transactions, with their ancillary ratings', consultants', lawyers', engineers' and accountants' reports, breed paperwork like no others.

The new breed of syndication platforms are designed to handle one end of the process, and speed up the drawn-out process of cross border retail stages. Term sheets, as well as revisions and comments, can be updated continuously and kept together in one place. After one recent Internet-hosted deal a participant said ?it's such a relief to see the cut in the number of messages that keep clogging my inbox at this point in a deal. Do we really need to get more than a single draft of these documents sent to our computers??

This would not, naturally, be a course always recommended by advisers, but web hosted systems mean that participants can be as proactive as they want to be in what they examine. New platforms will likely move beyond the simple

registration of interests, although this has, until now, been one of the fastest applications to emerge in finance. From bolero.net, the online deal settlement system for trade finance, to TradeCard, a similar facilitator for such transactions, there have been several new platforms for carrying out deals that try to make light of the distance separating the principals.

## Intralinks

The brashest entrance into the project finance market, however, has been made by the Intralinks syndication system. Its initial success has seen it sign up almost all of the 25 largest banks in the market. Indeed, many of the deals closed this year have used it at some point or another. One simple way to gauge the seriousness with which commercial banks are treating is to look at the reaction of the unofficial syndication kings. Chase Manhattan recently injected \$15 million into Intralinks, a perfect example of the marriage of new technology investment and preserving one's own market position.

Chase has said that it has carried out around 250 deals with the technology since 1998, and resurgent Bank of America is another large customer. The technology, which started out a US preserve, has crossed the Atlantic with a vengeance: everything from UK power deals (last year's UK Power Lending included) to African mining deals have been using the Intralinks extranet. Timothy Poole, managing director of Intralinks Ltd., says "these transactions have gone far further than simply sending out term sheets. We've handled everything from working with lawyers, hosting consultants' reports and involving those that are rating deals".

Bank of America also signed a deal with Intralinks to handle its global business, and has been handling EMEA deals since the end of 1999. Its syndication team first used it for the £143 million Shotton combined heat and power plant. Indeed participant banks have been persuaded to overcome their security scruples, with Intralinks' assistance, since US electronic deal flow took off. Its current Killingholme power syndication uses the application.

Whilst the banks have been upgrading their own internal systems "intranets" there appears to be little interest in creating such platforms themselves, partly because the creation of a single system would require more effort in creating a consensus than would be worth their time. Says Poole, "banks are focusing on what they do best, which is structuring. What we're doing is different. Our one big advantage is that we're a neutral third party "information is held separately in an environment of a standardised type".

Now Intralinks is examining the best way to move out from the narrow band of syndicated loans where its IntraLoan system has been the dominant platform. The increasing use of hybrid structures will put further pressure onto the applications service providers to widen their range of products. Given the intricate capital structures that bring together high-yields, convertibles, project bonds and even the occasional IPO to fund a project, a rigorous marketing effort will be required. Says Poole, "we feel that it's a good idea to look at other participant types, especially in high yields. It might be a slightly longer process, but it is an interesting one".

JP Morgan recently announced that it had pioneered a system known as SynDirect, which enables bond purchasers to track securities information through wireless devices such as the PalmPilot or WAP-enabled mobile phones. The example is an extreme one, since the volume of documentation required in making the initial purchase is probably not readable even on the largest portable screens. At present the system is best used as a way of keeping abreast with pricing.

It is an aspect of the technology worth looking at, however, if dealmakers want to edge closer to their ambitions to work from home. Document additions to a site can generate alerts to the email inbox, or indeed mobile email inbox, of relevant recipients "or ticklers. This can be a godsend to those with fairly rudimentary information management skills.

## Costs

The most enticing part of the new technologies, however, is the question of cost. The reductions in paper use, the

reduction in man hours required in preparation and the lower travel are all items that could be passed on to clients. Intralinks estimates that these could be as much as 25%, and Poole adds 'it's sometimes hard to put down a figure on the costs but, for instance, the sundries part of a legal bill can be cut. And anecdotally there is evidence that savings have been passed on?.

It is one reason for one of the more curious alliances created by the information revolution. The one-stop financing boutique Babcock & Brown recently signed an alliance with business-to-business platform Capitalstream to move into the middle-ticket leasing market. Babcock has made its name with some of the larger equipment and power deals, but hope that the technology can generate attractive enough margins on the smaller deals. It may be possible to expand it into other areas, but any dilution of the Babcock & Brown's personal approach will be watched with alarm.

The next group who want to take advantage of web hosting are the law firms, believing that the new financial mantra of value-added service can be applied to legal advice. Allen & Overy (A&O) has been the first firm to bring a project to a close using its system, known as newchange. newchange consists of two related aspects - documents and the dealroom. The dealroom is superficially similar to Intralinks' syndication platform, but more slanted towards the alteration and revision of documentation.

A&O, like most firms, has been trying to assemble a system that would increase the efficiency of the service that it could offer. As partner Anne Baldock, one of the earliest proponents of the system puts it: 'how do you try to simplify the precedent system you have, while at the same time training people and delivering service to your clients?? It was expressly designed to deal with complex, multi-jurisdictional transactions, the cross-border deals that make up the bulk of jumbo project financings. The first deal to close using the software from start to finish was the GOGGS PFI deal, however.

GOGGS represented a good first opportunity to test the robustness of the software, given that it was testing out the UK Treasury's contract standardisation and had a reasonably large cast of players. It featured a bond, sub-debt and equity elements, as well as a funding competition and fairly speedy negotiations towards financial close, since newchange has been running only during this year.

newchange acts as a combination of database and bulletin board, allowing for remote and memory efficient hosting of documentation, as well as transparent and secure revision. A&O are developing a series of modular documents, spurred in part by the introduction of the Loan Market Association's standard form. Prototype transactions concentrated on swaps and derivatives, since the documentation, unlike the maths, is relatively simple. Previous attempts in the syndicated loan market have been stymied by a lack of flexibility, but a new approach to drafting might eliminate too much cross-referencing and avoid the breakdown attendant on the use of shoddy 'Frankenstein documentation?.

At the moment Allen & Overy offers the service for free, partly as a means of attracting new business. According to Baldock, all of the transactions that she currently handles use the system, and the extent to which participants immerse themselves depends upon their level of comfort. It is possible for participants, should they be entitled, to post documents themselves, although many leave this to A&O's associates. More importantly, since any individual has the same password and details, it is possible to build up a powerful resource of project finance players.

The boundaries between the systems have yet to be formally established, although some conflicts have already been avoided. One application with potential is the integration of modelling software into websites, something about which Intralinks and the banks are rightfully excited. newchange is unlikely to move into this territory, however.

The impact on the employment market is another area in which keen interest has been shown, or at least by those practitioners further down the food-chain. Disgruntled airlines and motorcycle courier firms aside, the effect is likely to be limited, even within law firms. The power that newchange has to cut down on photocopying will not lead to an oversupply amongst junior associates. Does Allen & Overy have other tasks to occupy their juniors? 'Oh yes?', says

Baldock.

It is still difficult for the new platforms to move down as far as origination, where the relationship and the pitch still rule. Their managers may recommend setting up a dedicated deal site before the start of negotiations, even as far back as the bid stage. In bids with a number of participants where detailed plans are not required, the sites could be a positive bonus.

Face to face meetings won't be consigned to history, if only because they are an important part of the trust-building process. Video conferencing is possible, despite the cost and occasional video glitches. And the ?bibles? that record the deal details are usually comfortingly bulky. The banks are getting the majority of the approaches, and the sponsors concentrating on their customers. It may not yet be possible to avoid banks sending different proposals from separate branches, partly because this would require a dedicated deal site to be created as soon as the idea pops into the sponsor's head. Avoiding the internet anywhere in the business, let alone in syndications, however, is going to get harder and harder.

*Thank you for printing this article from IJGlobal.*

*As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.*

*If you have been given this article by a subscriber, you can contact us through [www.ijglobal.com/sign-in](http://www.ijglobal.com/sign-in), or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.*