



2009

CATASTROPHE OR OPPORTUNITY?

Catastrophe	Opportunity
<ul style="list-style-type: none">• Markets will continue to be volatile with limited upward trend.• Manufacturing industry will continue to suffer internationally.• Many significant corporates will be unable to refinance their loans.• Trade finance is likely to continue to dry up.• It is unlikely that the banks will return to significant lending whether or not there is government pressure.• State borrowing will continue to increase.• AIM has become virtually useless for small companies. The largest of the bottom 400 companies has a market capitalisation of £6,000,000. Costs will decrease but benefits will also substantially decrease.• Atlantic Law Llp considers that it is impossible to raise money for start-up or pre-revenue companies except under special circumstances.• Certain sectors will remain out of favour, e.g., mining, commodities and capital goods manufacturing.	<ul style="list-style-type: none">• Interest rates will continue to decrease to close to zero.• The price of oil and commodities is likely to remain low or lower.• Notwithstanding the recent fall in the price of oil vast amounts of cash have been accumulated in the Middle East. Atlantic Law has excellent relationships in the Middle East, including acting as official advisors to His Highness Sheikh Faisal Bin Khalid Mohammed Al Qassimi a member of the ruling family of Sharjah the Emirate neighbouring Dubai which is committed to developing a manufacturing base.• Many investors continue to have cash as a result of timely realisations, accumulated wealth or short selling, e.g., One of Atlantic Law's clients has recently raised \$1,000,000 for a Chinese solar panel business through an overseas investor.• It will be difficult for investors to obtain income from traditional sources, Treasury and other government securities yields will fall to unprecedented levels.• Other industries will continue to find favour such as waste recycling, climate related projects and energy saving projects, even with oil at its

- Sterling is likely at best to stay at its present levels against the dollar and the euro.
- The price of gold is likely to remain close to its present level or higher in dollar terms.
- Litigation will replace payment.

present level.

- Successful and profitable companies will therefore be able to raise money from a range of sources if they are willing to pay a high spread over current interest rates but a relatively low coupon in a historic context.
- In the UK many investments will be driven by EIS and other tax benefits.
- Investment will come from different sources, e.g., private equity and family offices. These investors are unlikely to regard a listing as being critical.
- Listing on NYSE Alternext with its improved calibre of companies, increased liquidity and connection with the NYSE will make that market progressively more interesting and more attractive than AIM.
- Atlantic Law Llp has learned that NYSE Alternext will make it easier for NYSE Euronext companies to move to NYSE Alternext thus saving costs and improving the spread and liquidity of the NYSE Alternext market.
- Companies are only likely to come to PLUS as a primary listing after private equity investments or for strategic or commercial reasons. This is likely to improve the quality of the PLUS market.
- UK real estate is perceived by overseas investors to be cheap. It is providing relatively high yields for relatively good covenants in the range of 7%-9%. An overseas investor is currently in a position to take advantage of the combination of the fall in commercial real estate prices and the decline in the value of sterling. Indications that the Chinese currency may decline against other currencies will make it particularly interesting for Chinese investors.
- Atlantic Law has been retained by a group of Chinese property investors to identify such a portfolio.

	<ul style="list-style-type: none">• There will be a serious opportunity to provide financing to middle size companies in the range of £100,000,000 to £300,000,000 of turnover both in the United Kingdom and elsewhere. These companies have historically not needed significant corporate finance advice since they have been able to rely on their banks. In current markets the availability of corporate finance advice has fallen while the requirement for it has increased. Atlantic Law and its worldwide associates are in a position to provide both corporate finance and corporate legal advice.• Unlike 1974 and 1989 both of which I have experienced, government intervention has been substantial and fast. It may well take a while to work through the system but at least positive action has been and is being taken.
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Atlantic Law Llp considers that the most successful funding model is for 2009 is likely to be in the UK;

- ordinary shares, subject to EIS;

Outside the UK;

- a loan instrument with a coupon in the range of 6%-12% convertible into shares with a requirement for the company to list within 12 - 24 months. In many cases these instruments will carry one or more warrants which may be step warrants and may be callable warrants. They will provide a balanced opportunity for the investor to participate in the growth of the company while receiving income. The continuing availability of funding under these circumstances was confirmed with a recent visit to NYSE Alternext and to three of the major brokers in Paris.

Conclusion

Don't despair. Every cloud has a silver lining. Atlantic Law Llp is in a position to continue to assist international and domestic growing companies in their legal, financing and listing requirements.

Happy Festive Season