**Thawing out**

*It is not quite business as usual, but firms are finding it surprisingly easy to raise money again.*

*Illustration by David Simonds*

With its shelves laden with affordable goods, a quarter of which sell for $1 or less, Dollar General has prospered like few other companies during the current recession. As newly frugal American consumers have traded down, its sales have soared, increasing its profits to $83m in the second quarter, compared with just $5.9m in the same period a year earlier. Other retailers have been shutting stores, but Dollar General plans to add 500 new ones to its existing 8,577 this year.

The company is expected to cash in in another way soon, with an initial public offering (IPO) that will be one of the biggest in recent years. The IPO market, having slammed shut during the financial crisis and ensuing recession, is now open for business again: Dollar General was one of 16 firms to register to go public with the Securities and Exchange Commission in August, the most in one month for a year. In the last full week of September there were seven IPOs in America, the busiest week since December 2007 and more than in any month, let alone week, since May 2008. In the six months after the collapse of Lehman Brothers in September 2008, there were just two IPOs in America.

The return of the IPO is evidence of the remarkable strength and breadth of the unexpected thaw in corporate finance. Banks may still be reluctant to make loans, but debt and equity markets have regained a hearty appetite for risk. Moreover, the apparently avid interest from investors in a firm such as Dollar General, which will do best if the economy remains weak for years to come, suggests there may be more to the thaw than an irrationally exuberant belief in a V-shaped recovery.

This has come as a huge relief to chief financial officers, who barely a year ago were having to make do without a fully functioning market for commercial paper (short-term loans to finance operating expenses). Even mighty GE, which still boasted a top-notch credit rating at the time, resorted to extreme measures. The American conglomerate ended its share-repurchase programme, paid unprecedented interest rates on its commercial paper and raised capital from

Warren Buffett, a celebrated investor, on terms that in normal times would have seemed exorbitant.

Today the market for commercial paper is functioning smoothly again, especially for investment-grade firms such as Johnson & Johnson, a drugs firm, which is paying less than a tenth of a percentage point above the Treasury-bill rate to borrow overnight. Debt of longer maturity is also available to creditworthy firms at lower interest rates than before the financial crisis. “We have actually had big investors from the likes of Pimco and Fidelity call us up to encourage us to borrow more,” says the treasurer of a blue-chip multinational, referring to investment firms that are big buyers of corporate debt. In contrast to the 1990s, when many blue-chip firms went on a spending binge, big firms were generally in decent financial shape going into the crunch. But they are still seizing the opportunity to strengthen their balance-sheets further.

American companies raised an estimated $39 billion in new stock and convertible debt and $156 billion in bonds in the third quarter, according to Dealogic, up by 57% from the third quarter of 2008. There is capital on offer for wobblier firms too. In Europe, there were no high-yield (meaning risky) bond issues in the whole of 2008. Since May firms such as Fiat, Pernod Ricard, a drinks firm, and Wind, an Italian telecoms firm, have all raised high-yield debt, and many more are set to follow suit.

So many firms are refinancing that the point at which there is likely to be a potentially worrying spike in high-yield debt falling due has receded from next year to 2012, says Martin Fridson of Fridson Advisers. There has even been a surprisingly large number of bonds issued with interest rates of ten percentage points or more above the yield on Treasury bills—usually an indicator that a company is in grave difficulties and might default. September’s distressed issuers included Beazer Homes USA, which was deeply embroiled in the housing bubble, and Blockbuster, a video-rental firm.

Private-equity firms are driving the revival of the IPO market, as they sell shares in companies they own to repay their increasingly agitated investors. Relatively little of the money raised goes into the coffers of the listed firm. Perhaps half of the $750m expected to be raised in the Dollar General IPO will go to the company; the rest will go to the private-equity firm that owns it, Kohlberg Kravis Roberts.

Many already-public firms are also taking advantage of investors’ growing appetite for new equity through secondary share issues—not least to help pay for the growing number of mergers and acquisitions. The latest evidence that a new merger wave is building came on September 28th, when Xerox said it would buy Affiliated Computer Services for $6.4 billion in cash and shares (see article).

Although the capital markets are now open to more or less any firm, they are far more favourable to those that were already in relatively good financial health, says Carsten Stendevad of the financial-strategy arm of Citigroup. There is a growing gap in financial clout, and thus the ability to grow, between stronger firms and the rest, he argues in a forthcoming report. He also thinks that American firms are better placed to raise funds than their European and Asian counterparts, which have traditionally relied far more on bank loans but are now finding that they need to tap capital markets.

The crisis has not been forgotten. Chief financial officers are not getting carried away, for fear of a relapse. “They remain much more sceptical about debt and more appreciative of cash; they don’t want to find themselves unable to finance what they want because of their dependence on banks or the capital markets,” says Daniel Stelter of BCG, a consultancy.

The strongest evidence of a continued chill is the sharp fall in share buybacks, which accounted for around one-third of growth in earnings per share in the five years before the credit crunch. Even though shares for many firms still look relatively cheap, companies are opting to hold on to their cash rather than hand it back to shareholders. The return of share repurchases on a grand scale (doubtless at a time when they are far more expensive than today) will be a sign that defrosting is giving way to overheating.

THAWING out. **The Economist**, New York, Oct. 1st 2009. Disponível em: <www.economist.com>. Acesso em: 2 out. 2009+