

Morgan Stanley

Rt Hon Frank Field MP
Work and Pensions Committee
House of Commons
Westminster
SW1A 0AA

Rachel Reeves MP
Business, Energy and Industrial Strategy Committee
House of Commons
Westminster
SW1A 0AA

21 February 2018

Dear Mr Field and Ms Reeves,

Carillion Plc (Carillion)

1. Thank you for your letter of 15 February 2018 requesting information from Morgan Stanley (the **Firm** or **Morgan Stanley**) in connection with your Select Committees' joint inquiry into the compulsory liquidation of Carillion. I have set out below Morgan Stanley's responses to your questions.

Nature of advice provided to Carillion and period over which given (Questions 1 and 2)

2. You have asked us to explain the nature of the advice that Morgan Stanley provided to Carillion and the period over which that advice was given (*Questions 1 and 2*).
3. Morgan Stanley has been a joint corporate broker to Carillion since January 2006. The Firm shared this role with Stifel Nicolaus Europe (**Stifel**) (previously Oriel Securities). Lazard was Carillion's financial adviser. HSBC Bank plc (**HSBC**) was also appointed joint financial adviser and joint corporate broker from 14 July 2017.
4. In its role as joint corporate broker, the Firm provided advice to Carillion's management on the equity markets, the performance of Carillion's shares in those markets and investors' views on the company. The Firm also provided advice to Carillion on both scheduled and ad hoc market announcements and assisted in arranging meetings between Carillion and its institutional investors. In addition to its ongoing, day-to-day joint corporate broker role, Carillion also appointed Morgan Stanley as joint corporate broker on four specific transactions, as detailed below.
5. The Firm was also appointed by Carillion as Joint Global Coordinator and Joint Bookrunner on a convertible securities issuance in 2014, as detailed below.

Fees charged to Carillion (Question 3)

6. You have asked us to confirm the fees that the Firm has charged to Carillion, including whether these were contingent on certain outcomes (*Question 3*).

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7. As is our usual practice, we did not charge any fees to Carillion for acting in our day-to-day role as its joint corporate broker, but we did charge fees when appointed as joint corporate broker on specific transactions.
8. The Firm did not charge any fees in relation to the potential equity raise by way of a rights issue in 2017 that is described below as it did not go ahead.
9. Since 2006 Morgan Stanley has charged Carillion the following fees for its roles on specific transactions (excluding VAT but including expenses):
 - (a) **Mowlem plc acquisition (2006):** £750,768.28 for our role as Joint Corporate Broker.
 - (b) **Alfred McAlpine plc acquisition (2008):** £1,152,558.14 for our role as Joint Corporate Broker.
 - (c) **Eaga plc acquisition (2011):** £1,238,985.40 for our roles as Joint Corporate Broker and Agent in acquiring shares in Eaga plc. £630,985.40 of this fee was contingent and paid after share purchase targets were met.
 - (d) **Convertible securities issuance (2014):** £591,525 for our role as Joint Global Coordinator and Joint Bookrunner.
 - (e) **Proposed Balfour Beatty plc merger (2014):** £312,500 for our role as Joint Corporate Broker.

The fees for (a), (b) and (d) above were contingent in that they would not have been charged if the relevant transaction had not completed.

Advice provided by Morgan Stanley to Carillion over the last 12 – 18 months (Questions 4 and 5)

10. You have asked whether Morgan Stanley agrees with Mr Green's characterisation of Morgan Stanley's relationship with Carillion over the last 12 to 18 months in his evidence to the joint inquiry (*Question 4*). You have also asked whether the advice that the Firm provided to Carillion was acted upon by Carillion (*Question 5*).
11. The level of Morgan Stanley's involvement with Carillion varied over the 12 to 18 month period referred to by Mr Green.
12. In summary:
 - (a) During the period until late May 2017 the Firm's interactions with the company were in the context of its ongoing role as joint corporate broker. The Firm attended regular (typically monthly) corporate broker meetings with Carillion's management, as well as scheduled interactions prior to market announcements. There were also ad hoc interactions between the Firm and Carillion's management from time to time.

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- (b) The Firm's level of interaction increased significantly when we advised Carillion to prepare for and were instructed, together with Carillion's other external advisers, to act for it in relation to a potential equity raise by way of a rights issue in late May to early July 2017.
- (c) Following Carillion's announcement of its trading update for the first half of 2017 on 10 July 2017, the Firm's interactions with Carillion were again in the context of its ongoing corporate broking role, although the monthly meetings that had previously taken place between the Firm and Carillion did not continue. HSBC was appointed as Joint Corporate Broker shortly thereafter. After Carillion released its interim financial results on 29 September 2017, Carillion sought our advice less frequently.

Advice relating to raising equity

- 13. You have asked whether Morgan Stanley advised Carillion not to attempt to raise equity after Keith Cochrane was appointed as Carillion's Group Chief Executive on 10 July 2017. You have also asked whether Morgan Stanley advised Carillion to raise equity before this point.

Advice relating to a potential equity raise by way of a rights issue from May 2017 to early July 2017

- 14. Since late 2015, some investors in Carillion had been expressing concerns about Carillion's debt levels. We provided this feedback to Carillion in late 2015 and during 2016. In light of investor feedback and increasing market concerns that Carillion needed to take additional steps to reduce its rising debt levels, the Firm advised Carillion in mid-April 2017 that it should consider a potential equity raise by way of a rights issue. That advice was to be considered alongside a number of measures that Carillion was contemplating in order to reduce its rising debt which included disposing of non-core assets, implementing cost efficiency programmes and improving its working capital.
- 15. In early May 2017, the Firm briefed Carillion's Finance Director on the steps that a company would need to take in order to launch a rights issue. On 25 May 2017, Carillion instructed Morgan Stanley, alongside other external advisors, to start preparing for a potential rights issue. The Firm was instructed to act jointly as Sponsor, Global Coordinator, Bookrunner and Underwriter. It was intended that if Carillion decided to proceed with the potential rights issue, it would be announced to the market at the same time as Carillion's trading update, which at this time was scheduled for 11 July 2017.
- 16. From the end of May 2017, Carillion held regular meetings and calls with its external advisers, including Morgan Stanley, to prepare for the potential rights issue and a very significant amount of work was undertaken. For example, a draft rights issue prospectus was prepared and filed with the Financial Conduct Authority and, given the complexity and range of Carillion's business, extensive due diligence was also undertaken by Carillion and its external advisers. In parallel with this work, we also undertook our usual internal processes, which were required before we could agree to underwrite the potential rights issue.
- 17. In late June 2017, the Firm and Carillion's other advisers were working intensively with Carillion's senior management to prepare the investment proposition for investors that Carillion would present in support of the potential rights issue. The investment proposition needed to articulate both a credible plan to reduce Carillion's debt to a sustainable level, as well as the future strategy of the business. The rights issue was a key component of the debt reduction plan, and required existing

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shareholders and new investors to invest a substantial amount of new money into the company. As such, it was critical that management's investment proposition, was sufficiently compelling to support this new investment. If investors did not have confidence that Carillion's senior management had a sufficiently compelling investment proposition and the ability to deliver it, the rights issue would be unlikely to succeed. By early July 2017 the Firm was increasingly of the view that Carillion's senior management could neither produce nor deliver an investment proposition that would convince shareholders and new investors to support the potential rights issue.

18. The Firm raised these concerns with Carillion's Chairman, Mr Green, but despite working with Carillion's senior management team to help it develop its investment proposition, the Firm did not believe that its concerns had been addressed. Accordingly, on the evening of 4 July 2017, at a meeting also attended by Stifel, Morgan Stanley informed the Chairman that we could neither recommend nor underwrite a rights issue at that time as we did not believe it would succeed. On 5 July 2017 Morgan Stanley confirmed this to Carillion's board.

Advice relating to a potential equity raise after 10 July 2017

19. On 10 July 2017, Carillion released its trading update for the first half of 2017, which also confirmed that Mr Cochrane had been appointed as interim Group Chief Executive.
20. Thereafter, discussions about whether Carillion could raise equity in the future continued between Carillion and its external advisers, including Morgan Stanley. In August 2017, Morgan Stanley and HSBC advised Carillion that there was very limited ability for Carillion to announce an equity offering alongside its interim results in late September 2017, unless a strategic investor or a group of institutional investors who were prepared to make a material investment in Carillion was identified. Morgan Stanley and HSBC also advised that the feasibility and timing of any equity raise was dependent on completing certain key gating items including: the outcome of the strategic review which Carillion had announced on 10 July 2017, completing the contracts review, reviewing its liquidity, revising its business plan, confirming any management changes and participating in discussions with its pensions trustee. Carillion stated in its 29 September 2017 announcement that it was still considering available options to repair and strengthen its balance sheet, including raising equity.
21. In summary, therefore our key advice was:
 - (a) In mid-April 2017, before Mr Cochrane's appointment as Group Chief Executive, we advised Carillion that in addition to measures that it was already contemplating, it should consider a potential equity raise by way of a rights issue.
 - (b) In August 2017, after Mr Cochrane's appointment, we advised Carillion that it needed to take certain steps before it could consider raising equity and that we saw very limited ability for Carillion to announce a successful equity offering alongside its interim results in late September 2017.
22. In relation to your question whether the advice provided by Morgan Stanley was acted upon by Carillion (*Question 5*), the company received advice from a number of advisers during this 12 to 18 month period. We believe that Carillion did act upon the key advice that Morgan Stanley gave during this period as summarised in paragraph 21 above. We believe that the corporate broking advice that Morgan Stanley gave to Carillion was entirely appropriate throughout.

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23. I hope that the information set out above addresses the questions that you raised in your letter and proves to be of assistance to your joint inquiry. I have sought to be as complete and accurate as possible although you will appreciate that in the limited time since we received your letter, it has not been possible to review all of the Firm's records relating to our involvement with Carillion. If you have any questions about the content of this letter, or, of course, if you think the Firm can further assist your inquiry, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to be 'SSM', written over a thin horizontal line.

Simon Smith
Managing Director, Head of Investment Banking EMEA