WHY IT'S TIME TO HIT THE ROAD

ROBERT ST. JOHN OF RBS PROVIDES AN OVERVIEW OF THE ROADSHOW, THE BACKGROUND TO ITS IMPORTANCE AND THE INGREDIENTS FOR MAKING IT A SUCCESS.

In the early days of the eurobond market, when many investors were wealthy individuals who wished to remain anonymous and only bought bonds issued by a handful of household names, roadshows were few and far between. Now, with the institutionalisation of investment funds and the multitude of corporate names accessing the eurobond market, the roadshow has become an essential part of the process of raising debt capital from the international bond markets.

IN THE BEGINNING. The 1960s saw legislative changes in the US that led many foreign holders of US dollars to move their money offshore – hence the creation of the eurodollar market. Initially a deposit market, the stability of these funds led to investor demand for term investments that created the eurobond market.

Suffice to say, this was not a transparent market. Investors, be they organisations or individuals, valued anonymity highly and only bought bearer instruments traded 'over the counter'. This desire for anonymity resulted in very little, if any, contact between issuers and investors. Credit exposure was managed by buying a very select group of household names that carried top credit rankings and were perceived as high quality risks. In this environment, roadshows were not high on anyone's agenda.

The market proved to be beneficial for investors and issuers alike, and because of the bearer status of the bonds, most private investors could avoid paying tax. For an issuer, it provided an additional source of funding and often at a cost that was more competitive than the issuer's home market. As we all know, since those rather clandestine days, the eurobond market has been transformed both in terms of size and transparency.

WHAT IS A ROADSHOW? The term 'roadshow' derives from the days of the 19th century when a theatre company or group of theatrical or musical performers would undertake a tour of towns and cities, performing at the local theatres and music halls. Today, the term 'roadshow' has a different connotation and is defined as 'a promotional tour undertaken by any body or organisation seeking publicity for its policies or products' (*Chambers Dictionary*).

While the modern day investor roadshow occasionally has moments of theatre (for example, the executive who had a few vodkas too many in Helsinki and failed to make it to Frankfurt the following day), it is generally now a more serious affair.

In the financial markets, a roadshow means a series of presentations given by senior executives of a company to equity or bond investors, usually, but not always, in connection with a new offering of shares, bonds or other securities. In this article, I will focus on bond-related roadshows.

THE CHANGING INVESTOR MARKET FOR DEBT SECURITIES. To appreciate the role roadshows play today, it is important to look at the changes that have occurred in the eurobond market as it has evolved – the institutionalisation of investment markets and the eurobond market in particular

Although there have always been large government and company pension funds, the past 10 years have seen an extraordinary increase in public mutual funds. Just as the euromarket of the 1970s was dominated by individual investors, today's markets are dominated by institutional investors. This is having a big impact on disclosure, the ways in which deals are underwritten and distributed, the willingness of investors to look at new credits and structures, the role of banks as intermediaries and the balance of power in the market.

INCREASING FINANCIAL DISCLOSURE IN THE EUROMARKET. With no disrespect to the legendary Belgian dentist, the early eurobond retail investor did not spend a lot of time reading a prospectus and didn't have a Bloomberg on his desk. His investment decision was essentially driven by two criteria: did he recognise the name and did it carry a strong credit rating. Hence, the regular users of the market were well-known companies such as Nestlé, Unilever, Coca-Cola, IBM and GE.

The financial disclosure in today's markets is materially greater than it was in the past. With many companies opting for a US listing, international accounting standards and SEC-type disclosure are becoming increasingly common. The major rating agencies cover more issuers than ever before and most large fund managers now have their own in-house credit analysts. The EU goal of a common market in financial services and the mergers of various national stock exchanges can only accelerate the standardisation of good quality disclosure across the whole of Europe.

'BOOKBUILDING' VERSUS THE 'BOUGHT DEAL'. In the early days of the eurobond market most bonds were underwritten via the 'bought deal'. A bank would, by way of ongoing discussions with its investor base, assess when there was adequate demand to launch a specific deal for a client. For both proprietary reasons and investor anonymity, the issuer knew very little about existing or potential investors. The underwriting bank, which had bought the whole issue from the borrower, was then responsible for selling this down to end investors and any enquiry for investor details was usually met with a 'trust me on this one' reply.

Today's distribution process is far more transparent and interactive, not just between the lead manager and investors, but also between the underwriter and issuer and issuer and investors. The eurobond market has moved to the 'bookbuilding' process common in the US domestic market, and it is this change in particular that has led to the significant increase in importance of the roadshow.

This roadshow process offers the issuer an opportunity to make its pitch to the investment community and gives investors time to ensure they are fully conversant with the credit. Once all the potential investors have been presented to, orders for bonds will be placed with the lead manager or bookrunner and a book of demand will be built. This book will usually vary in size depending on price so that the higher the spread offered to investors the bigger the book and vice versa. The job of the bookrunner is to tighten the spread to the lowest level to achieve the targeted issue size for the borrower.

'BONDHOLDERS, EITHER INDIVIDUALLY OR COLLECTIVELY, ARE EXERCISING THEIR 'SENIOR CLAIM' AND HAVING A REAL VOICE IN A COMPANY'S BUSINESS'

DIVERSITY OF ISSUERS. The individual investor of yesteryear looked only at a handful of highly rated credits. Today's investment grade portfolio will include literally thousands of different credits. When you add the number of similarly rated structured credits coming into the market, the number becomes larger still. While the increasing number of issuers is a source of competition for funds, it also provides an opportunity for many new or lower rated borrowers. Since the introduction of the euro in 1999, investors have applied a lot more energy to the credit market and have become more open to new names. This has opened up the market to borrowers that a decade ago would have found it difficult, if not impossible, to issue.

BONDHOLDER EMPOWERMENT. Investor relations used to mean one thing: relations with common shareholders. Now, with the explosive increase in debt issuance, the institutionalisation of the investment market, greater financial disclosure in offshore and onshore markets, the declining role of banks in term lending and the more interactive and transparent distribution of debt securities, the bond investor plays a powerful role in the allocation of investment funds.

As we have seen in the US for some years now, bondholders, either individually or collectively, are exercising their 'senior claim' and having a real voice in a company's business. As bondholders have put up increasing amounts of capital for companies they have become much more important stakeholders in companies and, not surprisingly, have demanded more attention and more regular contact with issuers' senior executives.

ONE FOR THE ROAD. The principle purpose of a bond roadshow is for senior executives of the borrower to present the company to those investors that are most likely to buy a new bond issue – or, in the case of investor updates, to those investors which already own the bonds.

For a sterling issue the roadshow will generally take three days and focus on London (two days) and Scotland (one day). For a euro or two-tranche sterling and euro bond, the roadshow will take at least five business days and up to seven may be required. The major markets are Germany, France, Benelux and Italy, with Spain and Scandinavia included in certain cases, as well as Switzerland, depending on the name and credit quality of the issuer. A dollar offering or a multi-tranche issue will usually involve a trip to the US, adding a further week to the process. Whatever the currency of issue, the end objective of the roadshow is to enfranchise the widest possible group of investors for the issuer's securities.

Often there will be two teams for a roadshow. Key investors will require one-on-one meetings, whereas larger groups of investors can be met over breakfast, lunch or dinner, or through a formal presentation or slideshow at a selected venue. Investor presentations are usually given by the finance director and treasurer, although for large, high profile transactions the chief executive officer of the issuer may also be involved.

The role of the bookrunner is that of an adviser and co-ordinator in putting together the agenda and managing the roadshow process and itinerary and, most importantly, in setting up meetings with the key investors for the particular issue being sold. As a result of its daily trading activity and its daily contact with key investors, a bank has good knowledge of which investors are buying or selling particular bonds and which maturities they favour. Also, as a result of that ongoing dialogue with bond investors, as well as their internal credit research activities, the bank can provide some key input as to the issues that need to be addressed in the presentation. A presentation to bond investors is different to an equity presentation and the bookrunner will help provide the right focus.

In terms of making the presentation and answering questions, no one is better qualified to do this than the issuer. Also, investors want to make their own assessment on the quality of management and its future strategy, something that is often difficult to ascertain from written documents.

Although a company could organise a roadshow on its own, investors will often attach value to an issuer's relationship with its lead manager. Investors want to know that there is someone, other than the company, that they can turn to for credit research. They want to know that a bank is making a commitment to provide a secondary market in the securities and they want a bookrunner to which they can attach a level of accountability for the future.

An example of a recent bond transaction involving an extensive roadshow was the two tranche euro/sterling bond issue for mm0^2. This FTSE 100 company, which is rated Baa2/BBB-, was the product of a demerger from BT in November last year. In early January 2002,

'WHETHER IT IS OVER THE INTERNET OR THROUGH BLOOMBERG, DISTRIBUTION CAN BE INCREASED FOR LITTLE EXTRA COST BY POSTING IT ELECTRONICALLY'

it announced its intention to tap the eurobond market with a two-tranche issue and it undertook an extensive bond roadshow involving the chief executive officer, the chief finanacial officer, the head of finance and the group treasurer. The roadshow split into two teams. The itinerary for the roadshow was as follows:

Date	Team 1	Team 2
Monday	London	London
Tuesday	London	London
Wednesday	Paris	Helsinki/Copenhagen
Thursday	Munich	Milan
Friday	Frankfurt	The Netherlands
Monday	Scotland	

The roadshow was a success and following a bookbuilding process that attracted investor demand of several billion euros, the company launched a two tranche issue with a €1bn five-year issue and a £375m 10-year issue.

THE ELECTRONIC ROADSHOW. Whether it is over the internet or through Bloomberg, the distribution of the investor presentation can be increased for little extra cost by posting it electronically. This is particularly valuable if investor interest exists in an area that is not included in the roadshow itinerary (say, in Asia or the Middle East).

However, no matter what the arguments are for efficiency, there remains true value in face-to-face meetings. The ability for an investor to put the issues to the company that concerns them can be many times more valuable than reading a prepared document. Electronic communication is a tremendous supplement to face-to-face meetings, but it will never be a substitute.

A REGULAR PART OF BUSINESS. In this article, I have focused on the roadshow as a discrete process for a distinct transaction, such as the issuance of a bond. The principal reason for this is to illustrate the role it plays in today's issuer – investor relationship. It is also to emphasise the significant changes in the eurobond market and its investor community. However, many frequent issuers look at the roadshow as a regular part of their business that may or may not be tied to any particular financing, but rather as an integral part of their investor relations.

Each company must decide on the way it wishes to present itself to bond investors and how to establish or maintain an interface with the bond community. Many companies will see their bondholders on a regular basis to update them on developments within their companies and the markets in which they operate, and this approach is welcomed by many bond investors. In most cases, companies rely on banks to arrange this contact for them, although in some cases companies prefer to establish and maintain direct dialogues with their bondholders, in the same way they do with their shareholders and banks.

The roadshow is now an established – and for new issues an essential – component of the bond market and the evidence that they benefit both issuers and bond investors is beyond doubt.

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FIGURE 1
TYPICAL EUROPEAN ROADSHOW SCHEDULE

Benelux
Utrecht
Breakfast presentation
Rotterdam
The Hague
Amsterdam
One-on-one meetings in all locations

France
Paris
One-on-one meetings
Lunch presentation

Germany
Munich
One-on-one meetings
Frankfurt
One-on-one meetings
Lunch presentation

Italy/Switzerland
Zurich
Breakfast presentation
Milan
One-on-one meetings
Lunch presentation

Scandinavia
Copenhagen
One-on-one meetings
Helsinki
One-on-one meetings

Spain
Madrid
One-on-one meetings

UK
Scotland
One-on-one meetings
London
One-on-one meetings
Lunch presentation