Deals of the year 2005

CHAIRMAN OF OUR DEALS OF THE YEAR PANEL **MATTHEW HURN** REFLECTS ON THE SUCCESS OF THIS YEAR'S WINNERS AND HIGHLY COMMENDED.

Congratulations to the winners and highly commended runners-up in this year's Deals of the Year Awards. In the eighth year of these awards, the quality and quantity of entrants have improved yet again, and the winners can feel justifiably proud that their achievements have been recognised by their treasury peers. These are the only treasury awards where the winners are judged by fellow practitioners, who know what it is like at the sharp end.

My thanks go to all those treasurers and bankers who entered their deal, to all those who voted and to my fellow judges, who worked so hard and conscientiously at their difficult task.

The winners and highly commended reflect the positive sentiment that characterised 2005 where several themes dominated the year. First, we saw the re-emergence of merger and acquisition activity; second the size of some of the loans was remarkable; and finally, the sector continued to innovate, as illustrated by the emergence of hybrid bonds. The winners and highly commended are not necessarily household names nor the largest corporates. The transactions completed by the mid-tier underline the vigour in that sector.

This year promises to be another stimulating one for deals, and we expect Deals of the Year 2006 to be as fiercely contested as any previous year. So please: start thinking about the deals you want to enter for Deals of the Year 2006.

Matthew Hurn, AMCT, is Group Treasurer at DSG International.

CATEGORY	WINNER	HIGHLY COMMENDED
Overall winner	Land Securities	
Equity & equity-linked	BAE/Saab	Deutsche Telekom/MTS
High-yield bonds	Rémy Cointreau	Cablecom
Investment-grade bonds	Anglian Water/Freshwater	Diageo
Loans	Land Securities	Greene King
Mid-market financing	Alliance Medical	Sportingbet
Securitisation and structured finance	Wolverhampton & Dudley Breweries	BBC
Trends: hybrids	Bayer	Casino

Deals were considered in each of the following categories:

- equity and equity-linked;
- high-yield bonds;
- investment-grade bonds;
- loans;
- mid-market financing;
- securitisation and structured finance; and
- trends: hybrids.

They were reviewed and judged based on the following criteria from a corporate treasury perspective:

- sound treasury management;
- efficient pricing;
- optimal or innovative structure; and
- relative success in prevailing market conditions.

JUDGES

Chairman: Matthew Hurn, *Group Treasurer, DSG International.*
Francis Burkitt, *Managing Director Corporate Finance, JPMorgan Cazenove.*
Simon Collins, *Chief Executive Officer Corporate Finance, KPMG.*
Karl Fenlon, *Group Treasurer, Hanson.*
Ian Fitzgerald, *Director and Head of Syndication and Distribution, Lloyds TSB.*
Andrew Vaughan, *Group Treasurer, Mitchells & Butlers.*
Paul Watters, *Head of Loan and High Yield Ratings, Europe, Standard & Poor's Credit Market Services.*
Bob Williams, *Group Treasurer, Allied Domecq.*

Overall winner

Lord of the manor

Land Securities

THE WINNER OF THE LOANS AWARD AND OVERALL WINNER OF THE DEALS OF THE YEAR AWARDS 2005 IS LAND SECURITIES FOR £2BN OF REVOLVING CREDIT FINANCE. HAVING REALISED ITS MIX OF SECURED AND UNSECURED FUNDING DID NOT SUIT ITS STRATEGIC BUSINESS OBJECTIVES, THE COMPANY CREATED A DOUBLE-HEADED TRANSACTION WITH FEW OPERATIONAL RESTRICTIONS AT LOW LEVELS OF GEARING AND MORE RESTRICTIONS AT HIGHER GEARING.

PRINCIPAL TERMS
Amount: £2bn revolving credit
Margin: Libor+35bp-50bp
Tenor: Five years
Bookrunners: Barclays Capital, Citigroup, Lloyds TSB

After reviewing its financial and funding structure, property company Land Securities decided it needed to change to a structure more compatible with its business. At that time Land Securities was operating a mix of secured and unsecured funding which was no longer appropriate company-wide.

Corporate Finance Director Stephen Leung and Treasurer Sean West say that Land Securities' liability structure had evolved over time and consisted of legacy, long-dated public and private debentures and around 60% bank and bond debt. The debt structure had been put in place between 1963 and 2003, with coupons of up to 10%.

After a debt policy review in 2003, the company opted for a hybrid approach, developed by Clifford Chance, to give the group the flexibility it needed to change and develop its portfolio, while providing rating stability for the company and its investors.

The refinancing led to the group being split into two wholly owned subsidiary groups: a secured group and a non-restricted group.

"Land Securities wanted to optimise its financing strategy to meet the operational needs of its business and this was the driver for moving away from existing financing structure, which had evolved over a long period of time," says Ewen MacPherson of lead arranger Citigroup. "Land Securities had been pursuing an unsecured strategy but its existing debt included a mix of secured debentures and unsecured bonds."

The group decided that a debt strategy based entirely on commercial mortgage-backed securitisation (CMBS) financing would not be suitable. Citigroup and Clifford Chance devised an alternative hybrid approach using techniques from CMBS/whole business securitisation but retaining some of the operational flexibility offered by unsecured debt.

An initial £6bn of the group's assets was put into a new structure, forming a secured subgroup within the Land Securities structure.

"The precedents available to listed property companies prior to the deal were broadly either unsecured strategies or traditional securitisation deals," says MacPherson. "Securitisations in the sector had typically been CMBS transactions secured on subportfolios of a company's assets, frequently with comparatively restrictive covenant packages. We wanted something that gave the company the financial flexibility and cost of funding benefits of secured debt while effectively maintaining the flexibility of an unsecured approach."

The loan-to-value and issuer credit rating levels trigger different covenant packages. At the lower levels of leverage, the operational flexibility is similar to an unsecured debt issue. When leverage and financial risk increase, a covenant package more like CMBS comes into effect. This reduces the overall financial and business risk of the secured group.

The structuring of the secured group will allow senior debt with an AA rating to be issued, while subordinated debt is expected to be issued at A. These secured corporate ratings are structured ratings that are assessed, rather than based on the typical corporate horizon of three to five years. This ultimately provides rating stability for the company and its investors.

Before embarking on the new structure, Land Securities was given a variety of different options, tested out over an 18-month period.

"A signficant part of the process was the initial design and testing of the structure we came up with," says MacPherson. "We developed and discussed more than 40 operational scenarios with the management team and tested the structure and alternative financial strategies against them."

Ultimately, Land Securities reached its goal of improving its credit rating and reducing the cost of ongoing debt. It now has more business and financial flexibility with a clarity of credit arrangements.

Highly commended

Greene King

Greene King is the runner-up to Land Securities in the Loans category of the Deals of the Year 2005. In August 2004 the company announced it would acquire Laurel's, a 432-strong neighbourhood pub estate. To finance this acquisition and to refinance its existing debt, the pub company needed credit facilities of up to £1.2bn.

The Laurel acquisition was the largest Greene King had ever embarked on and clearly presented a challenge to the treasury team.

"At the time we were keen to gear the balance sheet further," says Corporate Finance Director David Brown. "Moving from £550m to £1.2bn was a big step for us at a time when were in the middle of a very competitive auction process. It was crucial to put the financing in place very quickly to be in with a chance of pulling the deal off."

Greene King approached only a few key relationship banks before opting for Lloyds TSB, which was quick off the mark with a two-year bridging loan for the full amount and a five-year bank syndication to complement a planned securitisation.

"This method was very quick and easy to implement," says Brown. "It was down to Lloyds TSB's commitment to us and our relationship with them that we were able to implement it."

Brown adds that the deal demonstrates the benefits of good, strong relationships with a select group of banks.

"It's good to remember that a bank's understanding of the company can make a huge difference in delivering a deal quickly, especially in the current climate of companies moving toward lowest-cost models and away from relationship banking."

Winner

High-flier

BAE Systems

BAE SYSTEMS

THE WINNER OF THIS YEAR'S EQUITY AND EQUITY-LINKED AWARD IS BAE SYSTEMS, WHOSE €187M EQUITY OFFERING HELPED FINANCE ITS STRATEGY IN THE US DEFENCE MARKET AND LET IT MAINTAIN EQUAL ECONOMIC AND VOTING RIGHTS IN SAAB WHILE CHANGING THE PROFILE OF SAAB'S SHAREHOLDER BASE.

PRINCIPAL TERMS

Amount raised: €187m accelerated bookbuild

Number of shares: 13.2 million secondary shares, plus a greenshoe of a further 1.975 million

Bookrunner: ABN AMRO Rothschild

BAE wanted to reduce its stake in Saab through a placement of between 14% and 20% of Saab's shares following changes to BAE and Saab's 50/50 Gripen fighter aircraft joint venture.

The transaction represented 124 days of trading, equivalent to 38% of the free float, yet was priced at only a 1.7% discount because of a strong marketing process.

The deal was designed to fulfil several key objectives, says George Rose, Finance Director of BAE Systems. "We had quite a narrow shareholder base and we wanted to make it more European and US. The brokers certainly achieved that."

BAE wanted to convert some of Saab's illiquid A shares into actively traded B shares, which would enable BAE to maintain equal economic and voting rights in Saab. The transaction was launched on 22 February – just two trading days after Saab published its 2004 financial results. This was accompanied by a three-and-a-half-day roadshow in Europe and the US.

A three-day bookbuild and management roadshow resulted in a broadening of Saab's existing domestic investor base. Prior to the transaction almost 90% of Saab's free-floating B shares had been held by Swedish investors.

"The brokers, the Saab team and our team all worked well together and that has enabled us to achieve exactly what we wanted," says Rose. "The price, liquidity and breadth of the shareholder base all came together in the end. We were also very pleased with the quality of the book – it was brilliant."

Roughly 41% of demand originated from Sweden, 33% from the UK and 12% from the rest of Europe. BAE was more than happy with the widening of the investor base.

Rose says: "What was important for us was that before we started structuring the deal we had to define some key objectives that everyone who was involved in the deal was aware of and understood. This is key to the success and the end result of the transaction."

ABN AMRO Rothschild was the sole bookrunner and global co-ordinator for the placing.

At the time of the deal BAE Systems said that it intended to retain a holding in Saab, following the completion of the placing and any sale of shares pursuant to the over-allotment option, as a long-term investment.

In addition, BAE Systems agreed to a lock-up period of 365 days after pricing of the placing, subject to various exceptions.

Rose says: "We wanted to make sure that Saab was fully involved and part of the process. Saab's delivery of performance and the way all the focus groups worked together made this deal a success and worthy of merit."

Highly commended

Deutsche Telekom

Deutsche Telekom cut its holding in Russian mobile telecoms company Mobile Telesystems in what was the largest ever Russian equity offering and biggest ever international placement from the Central Europe, Middle East and Africa region.

Deutsche Telekom's affiliate status and inability to register American depository receipts prevented access to onshore US accounts via the liquid US depository receipts. The bookrunners, Citigroup and UBS, took advantage of the existing, but illiquid, London global depository receipt listing to create a new pool of liquidity for investors and allow Deutsche Telekom to exit at the earliest opportunity.

The $1.729bn accelerated equity offering received a strong response from investors, despite the challenging offer structure and testing market backdrop following back tax claims against other Russian companies.

The book closed in under two days, more than two and a half times oversubscribed, which amounted to $4.3bn of demand.

Winner

In the best of spirits

Rémy Cointreau

PRINCIPAL TERMS
Amount: €200m
Coupon: 5.2%
Maturity: 2012
Bookrunners: Bank of America, BNP Paribas

RÉMY COINTREAU WINS THE HIGH-YIELD BONDS AWARD WITH A WELL-EXECUTED TRANSACTION FOR PARTLY PREFUNDING A 2006 CONVERTIBLE BOND REDEMPTION. THE BOOK WAS 10 TIMES OVERSUBSCRIBED, AND THE COUPON WAS SET AT 5.2% – WELL BELOW GUIDANCE AT 5.375% – A RECORD LOW FOR A CALLABLE HIGH-YIELD ISSUE IN EUROPE.

Rémy Cointreau launched its redemption of part of €300m convertibles due in 2006 with the first corporate issuance in the European high-yield market in the first week of January.

"One of the key decisions we had to make was when to tap the market," explains Group Treasurer Françoise Cambilargiu. "Normally we would do this in early 2006. We decided to prefund 15 months in advance and in these situations you never know whether you have made the right choice."

But Rémy clearly did make the right decision. The book was more than 10 times oversubscribed and the transaction was upsized from €150m to €200m. Rémy achieved the lowest coupon and spread (185bp over Bund) ever in the European high-yield market, allowing it to raise funds to take advantage of the booming and bullish market conditions.

"In terms of high yield it was the first coupon in the European market and the timing was right," says Managing Director of Corporate Investment Banking at bookrunner Bank of America, Luc van Malderen. "If you look at the BB- rating of the company, there is a strong crossover going into the high-grade territory. This worked very well because of the close co-operation between us, and the timing, which was perfect."

Rémy ensured that strong investor and bank relationships were maintained throughout the process so that co-operation and understanding was a top priority.

"When we met with the investors, they seemed very impressed with the way we addressed the situation," says Cambilargiu. "It was a benefit to give the investors the opportunity to be able to ask questions and feel involved in every step."

Rémy is experienced in the high-yield market with transactions in 1998 and 2003, rated BB. "This was our third issuance," says Cambilargiu. "I don't think you can discuss one without considering the others. With the previous transactions, we have convinced investors of the consistency of Rémy's credit story and of our ability to successfully implement a winning strategy."

"Another important thing we looked into was whether we should issue it in euros or in dollars," says van Malderen. "In the end we felt that euros was the best option. We constantly interacted with the company, feeding back both dollar and euro rates. We kept a very open mind until the very last minute."

Rémy is delighted with the third bond, which was turned round in just 48 hours. "My advice to other treasurers is to realise how important the involvement of the management is," says Cambilargiu. "The choice of the banks leading the transaction is key but ultimately it is the quality of your credit story which makes the deal you are working on successful."

Highly commended

Cablecom

In 2004 Cablecom refinanced its debt by placing a CHF1.35bn senior secured credit facility and a €290m 10-year high-yield bond due in 2014. In March of the following year, the Swiss cable operator announced that it planned to refinance its bank debt via a CHF1.285bn dual-tranche, multi-currency senior secured notes issue.

"It was our first refinancing of fully performing non-investment-grade bank debt with capital markets instruments," explains Christopher Winfrey, Senior VP of Corporate Finance and Development. "We have an accelerating growth profile in data, video and voice services, and the financing completely removed our traditional operating and financial bank debt covenants, eliminated scheduled principal amortisation, and lowered our overall interest cost to achieve significantly greater operating flexibility to drive growth."

This was the first time that the company had refinanced its entire senior facilities with first lien secured notes in a non-distressed situation.

Winner

Tapping a new strategy

Anglian Water

anglianwater

ANGLIAN WATER'S FRESHWATER FINANCE WINS THE INVESTMENT-GRADE BONDS AWARD FOR ITS STRUCTURED FINANCE SOLUTION TO RAISE £400M OF AAA, 30-YEAR INDEX-LINKED FUNDING AT AN ALL-IN COST BELOW A STRAIGHT INDEX-LINKED BOND. DESPITE THE COMPLEXITY, THE DEAL QUALIFIED AS IAS HEDGE ACCOUNTING.

PRINCIPAL TERMS
Amount: £402m
Term: 30 years
Spreads: Gilts+80bp
Coupon: 2.4%
Bookrunner: HSBC

Anglian Water's Freshwater Finance issue of £402m of 30-year fixed rate bonds, wrapped by Ambac and rated Aaa/AAA/AAA, enabled Anglian to raise a large amount of index-linked funding cost-effectively. The bonds were collateralised by a new £402m inflation-linked issue by Anglian Water and an inflation-linked swap with HSBC.

"About 12 months ago we identified that we needed to increase our level of inflation-linked exposure to about 40%, which equated to a further £400m," explains Anglian Group Treasurer Jane Pilcher.

Anglian was already a large issuer in inflation-linked markets and would have had difficulties attempting to raise the amount via a direct bond issue without paying heavily.

Anglian had hoped to use swaps to generate the best pricing but could not obtain hedge accounting clearance under IAS.

"We decided that while we should keep the existing swaps we had in place, and live with the profit and loss volatility it caused, we did not want to increase the volatility," says Pilcher. "Consequently we were unable to achieve our additional £400m inflation exposure through swaps. This was a double blow because prices in the swap market were significantly cheaper than bond markets due to the demand from pension funds."

The Freshwater structure enabled Anglian to issue index-linked bonds directly to investors. The index-linked coupon of 2.4% on the Anglian bonds was at that time the lowest ever achieved by a corporate issuer and lower than the coupon on all but two index-linked gilts.

The Freshwater transaction was designed to be investor-friendly. "A lot of investors are familiar with the Anglian name," says Pilcher. "It has been seen as an innovative structure which gave us what we wanted and the investors what they wanted."

Anglian's £400m target was high and it was crucial to execute the deal correctly to ensure its success. "It was a challenging time to come to the market, not least because of the upset in the market with autos being downgraded," says Pilcher.

"The reality is that you will only know how much it is going to cost you when you go out into the market. You need to get through the detail and really understand how the investment banks are coming up with the numbers."

Pilcher says that key to the Freshwater transaction was incorporating transparency of pricing for the company and an easy-to-understand structure for the investors.

Martin Rich of HSBC, the lead arranger of the deal, explains that linking together the different areas of technical expertise was a key challenge for both HSBC and Anglian Water. "We changed the market with this deal," he says. "Everyone is attempting to replicate it now and we have provided a new impetus in this market."

Highly commended

Diageo

Diageo's new Group Treasurer, Charles Coase, has scooped the highly commended award in the Investment-Grade Bonds category for the company. The transaction took place at a time of significant change in the industry, with Pernod Ricard's takeover of Allied Domecq causing a stir.

"There was a lot of speculation about what Diageo was planning to do and what impact this might have on the balance sheet," says Coase.

Wanting to take advantage of the attractive bond market, Diageo engaged in intensive discussions with its three rating agencies and upsized and priced a US dollar global bond raising $750m at T+61. "It was very hard work, working on my first bond as a treasurer," admits Coase. "But we got there and I think it was a great first bond for me and the team.

"Since then we have done a deal with Pernod Ricard which enabled us to buy Bushmills Irish whiskey. As a part of that deal we made an agreement that we wouldn't join any other consortium.

"We are very happy because we got our bond away and a very attractive new brand for our company."

Winner

A shot in the arm

Alliance Medical

THIS YEAR'S WINNER OF THE MID-MARKET CATEGORY IS ALLIANCE MEDICAL, WHICH SECURED A FACILITY OF £230M. THE DEAL HELPS TO FINANCE FUTURE ACQUISITIONS AND NEGOTIATE NEW CONTRACTS, AND TO CANCEL LOAN NOTES.

PRINCIPAL TERMS
Amount: £230m
Spread: Libor+225bp-550bp
Maturity: Seven to 9.5 years
Bookrunners: Dresdner KW, Royal Bank of Scotland

In May 2003 Oxfordshire-based Alliance Medical raised debt facilities totalling £115m to fund medium-term capital expenditure to build on growth of nearly 25% since its acquisition in 2001 by Bridgepoint.

Based on very strong revenue growth in 2005 Alliance wanted to refinance and repay shareholder loan notes.

Realising that the company would have exhausted all of the 2003 facility by March 2005, Alliance decided to raise a new capital expenditure facility so it could pursue opportunities in a rapidly developing European market.

In the light of its strong earnings growth and the significant increase in value of the group, the company recognised it could reduce its overall cost of capital by recapitalising its balance sheet.

Group Finance Director Peter Jarman says the company spent the summer of 2005 speaking with many banks.

"Close Brothers really proved themselves because it was clear that they knew the market, understood what we wanted and kept us focused on the list of priorities we made at the start," says Jarman.

"Alliance Medical took a sophisticated approach to accessing the debt markets at an excellent point in not only the market's cycle, but also a key stage in its own development," says Fenton Burgin, Director at Close Brothers. "The refinancing has positioned the company to take advantage of the significant opportunities in Europe."

Jarman highlights the importance of professional advisors who take into account the specifics of the company and what is needed in the particular situation.

"A good result is that the capex has certainly enabled us to negotiate with suppliers very strongly," he says. "It was an essential step in developing the business. Close Brothers advised us on an appropriate capital structure, preparing a detailed information package including financial models and a term sheet setting out our preferred position."

The company secured a 100% capital expenditure facility to enable it to fund future growth through acquisitions and new contracts, which is a rare achievement in the leveraged loan market for companies of this size.

It achieved a sizable reduction in the cost of capital through the redemption of shareholder loan stock. The scale of the facilities secured at £230m was at the top end of shareholder expectations and enables Alliance to consolidate its market position.

"The result is a new banking group that understands our business and buys into our medium-term growth plans," says Jarman. "We have secured the new facilities on excellent terms with a significant element available over an extended period to finance future growth."

Highly commended

Sportingbet

The first internet gaming company to access the syndicated loan market, Sportingbet won highly commended in this category for an innovative £90m financing deal. After developing its website, the company was looking for a way to finance the acquisition of online poker operator Paradise Poker.

"When the company was founded, the product offering was initially sports betting only," explains Sportingbet Group Treasurer Andy McIver. "We then sought to up-sell other products to customers who had signed up as sports betters. First, we put an electronic casino on the site, followed by various virtual games and then poker."

McIver says that the branding, marketing and existing customer base remained sports-oriented. The growth of casino, virtual games and poker is broadly dictated by the number of customers signing up to wager sports. To remedy this, Sportingbet decided to acquire the Paradise Poker website.

The deal involved ground-breaking work and education in the relatively new market of internet gaming and was oversubscribed.

Winner

Heady brew

Wolverhampton & Dudley

WOLVERHAMPTON & DUDLEY BREWERIES WINS THE SECURITISATION AND STRUCTURED FINANCE AWARD FOR AN £805M DEAL THAT ACHIEVED EXCELLENT LEVERAGE LEVELS AND MAINTAINED OPERATIONAL FLEXIBILITY IN THE SECURITISATION OF A MIXED PORTFOLIO OF PUBS.

PRINCIPAL TERMS
Amount: £805m combined debenture and securitisation
Maturity: 2020-2035
Spread: Libor+55bp/gilts+78bp-127bp
Bookrunners: Royal Bank of Scotland, Barclays Capital, HSBC

Having worked solidly for four months during the summer of 2005, Andrew Winning, Director of Treasury and Risk at Wolverhampton & Dudley Breweries, and his team needed a long holiday after completing this £805m combined debenture and securitisation deal.

Consolidation in the pub sector required the company to be financially flexible.

"The pub sector has undergone enormous change in the last decade but our financing structure had not kept pace. We had to become more financially flexible in order to be able to compete in the consolidating pub sector," explains Winning.

The company was previously financed by debenture and bank debt. It had six debentures (nominal value £245m, market value £278m) in three different charging groups. Each series had bullet maturities of varying lengths out to 2028.

"There were six existing debentures and severe prepayment penalties," says Tom Smyth MD at financial adviser Rothschild.

The existing debentures had restrictive borrowing covenants which limited the company's acquisition capacity. All six series carried a traditional spens clause, allowing the issuer to redeem but only at the prohibitive cost of paying the yield at the benchmark gilt. Full spens was £320m, a £75m premium to nominal.

Under normal circumstances, investors negotiate a redemption around half-spens – around £300m in this instance. In this deal investors had the option to convert their existing debentures for exchange bonds.

As securitisation bonds typically amortise while debentures have bullet maturities, the treasury team had to address the resulting potential mismatch of cashflow profiles. With the help of lead arranger Royal Bank of Scotland, synthetic bullets were used which allowed the exchange bonds to amortise to create a similar cashflow profile to the debentures.

"What we did was fairly innovative," says Winning. "No one had combined debenture refinancing with securitisation before. We achieved the goal of greater financial flexibility through a market-leading covenant package at optimal leverage, with highly favourable pricing and to timetable, while existing debenture investors gained rated notes in quoted indices with greater reporting transparency.

"When working on a transaction of this complexity, treasurers need to obtain good advice. Choose your partners carefully and make sure you can work with them. This is fundamental. Make sure they understand your requirements. They need to tune into what you are aiming at rather than selling you the latest product.

"I think the key is getting everyone involved and excited about what you are doing. This was a company-wide project and many people played important parts in its success."

Highly commended

BBC

The BBC's £365m commercial mortgage backed securitisation deal involved restructuring the occupancy arrangements at the broadcaster's Media Village in White City, London. The BBC seized the opportunity to restructure.

"One of the big challenges for the BBC is that we have a 10-year life expectancy because of the royal charter," says BBC Group Treasurer Stephen Wheatcroft.

White City Property Finance issued £365m of notes, securitising the revenue stream from the BBC's lease obligation. The BBC's licence fee income has historically been linked to the retail price index. To provide a natural hedge against this income, it was desirable to have an RPI-linked lease payment. To match the bond with the rental cashflow, a nominal bond issue was arranged with a liquidity price index hedge.

"I definitely support relationship banking," says Wheatcroft. "Our objectives and regulatory issues are different from other companies and we need banks to realise this and tailor services to our needs. This deal was novel and efficient, and this exact structure for a securitisation has never been used before on this scale of deal."

Winner

Perfect formula

Bayer

BAYER WON THE TRENDS: HYBRIDS AWARD FOR THE LARGEST CORPORATE BOND ISSUE OF THIS TYPE PLACED IN EUROPE. DEMAND FROM INVESTORS EXCEEDED EXPECTATIONS AND THE ORDER BOOK TOTALLED OVER €5BN. THE COMPANY INCREASED ISSUE VOLUME TO €1.3BN AND THE ORDER BOOK CLOSED EARLY.

PRINCIPAL TERMS
Amount: €1.3bn
Coupon: 5%/180bp above 10-year swap rate
Maturity: 100yr, non-call 10
Bookrunners: Deutsche Bank, JP Morgan

In July 2005 Bayer successfully placed a subordinated hybrid bond on the capital markets. Interest was fixed at 180bp above the 10-year swap rate and the coupon at 5%. "The deal involved a hybrid plus tender for existing bonds," says Bayer's Head of Capital Markets Henryk Wuppermann. "We issued €5bn bonds in 2002 when we bought Aventis Crop Science. €3bn was due in 2007 and another €2bn in 2012. The tender with the issue of the hybrid has improved the maturity profile of our company, which is why we tendered for part of the Eurobonds at the same time as we issued the hybrid."

Andreas Böger, Director of Hybrid Capital Structure at Deutsche Bank, who helped to structure the deal, says: "It was an interesting and challenging task as Bayer wanted to strengthen its capital basis for credit rating purposes. Bayer wanted a tax-deductible solution that would have an accounting treatment as debt. It was also the first corporate bond issued under the new EU prospectus guidelines. This legal issue added further complexity and was certainly a challenge."

The hybrid bond immediately followed the sale of the mandatory convertible back to its issuer Lanxess, the company which was spun-off from Bayer in January 2005, and work on the transaction began in May. Attempting to satisfy the two reasons for issuing the bond – to improve credit rating and to improve the maturity profile by tendering existing bonds – meant that structuring the transaction presented further challenges for Wuppermann and his team.

"There are no clear rules in Germany about whether interest is tax-deductible or whether you have to withhold from the payments you make," explains Wuppermann. "This can create problems, but our tax department has found a way to sort out the problem. "It was time-consuming but after a few weeks we got approval from the tax authority and rating agencies. We achieved the equity treatment we wanted and then we were able to go to the market."

The announcement of the transaction was followed by a four-day roadshow. "Compared to straight debt issuance it was lengthy," admits Wuppermann. "However, six weeks of preparing a hybrid transaction is still pretty quick." While hybrid bonds have become popular and effective in continental Europe, the UK has not embraced this method of funding. However US companies are now issuing hybrids, examples are Burlington Northern and Stanley Works.

"I think if you believe something is going to be good for your company, you should just do it and not wait for other companies to make the move first," says Wuppermann.

Bayer succeeded in its main aims with the issue of this bond. The rating agencies classified the issue for the most part as equity, which strengthens Bayer's rating. The bond was mainly used to finance the repurchase of part of the 5.375% Bayer bond due on 10 April 2007. The repurchase achieved the desired size by reaching the nominal value of over €860m.

Highly commended

Casino

French supermarket Casino issued a deeply subordinated perpetual bond, which was delayed from November 2004. The bond, which can be bought back in five years, offers a high yield of 7.5% in the first three years and then a yield premium of 100bp above the constant maturity swap.

The company said it had planned to issue €150m but increased it to €600m after demand approached €1bn. The bond is targeted at private banking clients, who made up more than 90% of the orders.

"This is a nice trade-off for Casino, which is looking for an after-tax balance sheet enhancer with high flexibility, and investors looking for stable high returns," says Casino's Executive Director and Managing Director of Administration and Finance, Jacques Tierny.

This is the first time a corporate has issued using a floating interest rate reset at fixed intervals.

When Casino first brought the deal to the market, conditions were not right. The success of the reminted deal demonstrates the continued demand from retail investors for investments linked to constant maturity swaps.