Silicon success

Overall winner

NXP

THE WINNER OF THE HIGH-YIELD BONDS AWARD AND OVERALL WINNER OF THE DEALS OF THE YEAR AWARD 2006 IS SEMICONDUCTOR COMPANY NXP FOR ITS €4.53BN EQUIVALENT HIGH-YIELD BOND – THE LARGEST EVER HIGH-YIELD ISSUE BY A EUROPEAN COMPANY AND THE LARGEST EVER TECHNOLOGY LEVERAGED BUY-OUT IN EUROPE.

PRINCIPAL TERMS
Amount: €4.53bn equivalent, with a $3.8bn portion and a €1.5bn portion.
Bookrunners: Deutsche Bank, Merrill Lynch, Morgan Stanley.

With this deal representing the largest ever high-yield bond issue by a European company denominated in both euros and dollars and the largest ever technology leveraged buy-out in Europe, it is easy to see why it is a worthy winner of Deals of the Year.

The judges praised the success of such a large deal in the semiconductor industry, which is thought to make little money. The panel found the effort that was put into the roadshows and presentations because of this were commendable.

Embarking on this type of deal within the semiconductor industry presented big challenges for NXP Semiconductors (called Philips Semiconductors before its separation from Philips).

Historically, this type of transaction would not have been used for this type of business because of the nature of the industry, according to NXP's Senior Vice President and Group Treasurer, JanMaarten Ingen Housz.

He says: "The semiconductor industry is not as stable as the utilities industry, for example, so we had a lot of technicalities and challenges to overcome. Success for this deal was very important for us but it also had a big impact for the industry because it had never been done before."

Housz says that to ensure the deal had every chance of succeeding, he and his colleagues had to have lengthy discussions with banks to make sure every aspect of the transaction was right and would enable them to achieve their desired outcome.

He says: "We made it very clear from the beginning what exactly we wanted and that the process should clearly reflect these goals in terms of amount, currency mix, fixed/floating and maturity profile."

The overall transaction consisted of five separate bond tranches and a revolving credit facility, enabling the structure to have a less onerous covenant package while optimising the maturity profile, redemption flexibility and cost of capital for the company.

Mark Walsh, Managing Director at Morgan Stanley, which acted as lead bank for the deal, says: "The company's capital structure is unique in that it is comprised of an all-bond structure combined with a €500m covenant-light revolving credit facility. This provides the company and its shareholders with significant financial and operating flexibility as NXP will operate without the burden of contractual amortisation or maintenance financial covenants."

The deal was rated at Ba2/BB+ and B2/B+ for the secured notes and senior notes respectively.

Stephen Wellington, Managing Director of Leveraged Finance EMEA at Merrill Lynch, the joint lead bookrunner on the deal, believes this deal is important for the industry.

He says: "These kind of businesses are historically very cyclical and very volatile. Overlaying that they are also capex-intensive with a very high fixed cost base. There is a lot of pressure put on cashflow when that cycle gets further on."

As a result of such conditions NXP had to overcome the fact that this type of transaction is not suited to a semiconductor business.

Wellington says: "In addition to this the business is pretty complex. The companies were very integrated and therefore it is harder to separate them out. Companies such as these typically get involved in a number of different outsourcing arrangements, which means they have quite complicated debt."

Wellington says that the semiconductor industry would normally use bank loans to fund this kind of deal because it is the cheapest way to finance. However, bank loans require a very specific income base and covenants.

He says: "The key to this deal is that there are not any financial base covenants and that applies to the whole facility. This is very unusual and as a result I think the deal is very interesting."

Housz had to pull together a lot of different aspects to ensure that this deal was a success and the work was completed on time.

He says: "In the past Philips Semiconductors did not have a treasury function for such transactions. This made the responsibility mine and I have to say I didn't get much sleep throughout the process."

This unusual structure has succeeded under volatile conditions and has now opened up the market and created a roadmap for other companies to follow.

Wellington says: "Historically, nobody wanted to look into doing this kind of deal in this industry because it was too difficult. But now that NXP has set a precedent and the rating agencies have experience in this area, I am sure that we will be seeing much more activity."

Highly commended

TDC

Nordic telecommunications giant TDC won the highly commended prize in the high-yield bonds category for its three-part €2.031bn 10-year senior and floating-rate note issue, amounting to the second largest issue at that date.

The issue came on the back of Nordic Telephone Company's €12.7bn leveraged buyout of TDC in April 2006, the largest leveraged buyout in Denmark.

TDC – which operates mainly in Denmark and Switzerland – has strong cashflow generation, a programme of strategic asset disposals and deleveraging, and these were the key strands in the investment consideration on this transaction.

All the tranches were oversubscribed multiple times, reflecting strong investor demand.

The €800m 10NC5 fixed tranche was priced at 8.250% – the tight end of price guidance – while the $600m 10NC5 fixed tranche was priced at 8.875%, and the €750m 10NC1 floating tranche was priced at 3m-Eur+575bp.

Alison Rose, Director of Leveraged Finance at RBS, says: "The response from the debt markets was overwhelmingly positive, with banks and funds alike recognising the strength, size and stability of the Danish telecoms incumbent."

The innovative shortened call structure and aggressive call pricing reduced the issuer's effective cost of capital over the first five years of the notes and prompted other issuers to adopt similar call structures. The early call option provided sponsors with further flexibility given the expected disposals.

The bookrunners were Barclays, Credit Suisse, Deutsche Bank, JPMorgan and RBS.