



# Squaring the circle

## Bayer



LAST MARCH BAYER ISSUED THE BIGGEST EVER MANDATORY CONVERTIBLE IN EUROPE AND THE US TO HELP FINANCE ITS TAKEOVER OF RIVAL GERMAN PHARMACEUTICAL COMPANY SCHERING.

### PRINCIPAL TERMS

**Amount raised: €2.3bn convertible bond.**  
**Tenor/maturity: three years.**  
**Bookrunners: Citigroup, Credit Suisse.**

Peter Mueller, Head of Corporate Finance at Bayer, says: "The time constraint was definitely the biggest challenge for this deal. We announced the transaction and the acquisition of Schering on 23 March and the mandatory convertible only six days later, so we only had a very short time to put the whole transaction together."

With less than one week to complete the deal, the Bayer treasury team was really under pressure. The time element made the mandatory convertible the best option for raising the finance for the acquisition.

Mueller says: "A rights issue would have been very time-consuming and time was something we didn't have. We had to do a quick issuance. We wanted to use the positive momentum of the share price development after we announced the Schering bid, and we wanted to send a strong signal to our competitor Merck."

After Schering had immediately rejected Merck's €14.4bn takeover bid as too low, Bayer needed to move quickly to secure the acquisition.

Alan Rifkin, Managing Director and Head of ECM Structured Solutions at bookrunner Citigroup, says: "The market responded extremely well. It didn't just like the financing itself, it also liked the overall Schering transaction."

"As Bayer's stock price has performed strongly since the deal was executed, it has demonstrated one of the principal benefits of the mandatory structure - the guaranteed issuance of equity with the ability to keep future appreciation."

The bonds were launched with a minimum conversion of 100% of the volume weighted average price (VWAP) and a range of 116% to

120% for the maximum conversion price offering the potential to bring spread in from the typical 120% level.

The bond carries a coupon of 6.625% priced at 117% maximum conversion price.

Bayer says that on an after-tax basis the mandatory convertible is more cost-efficient than a straight equity issue for any share price increase in excess of 2.7%.

As well as being the largest ever mandatory convertible in Europe, it was also the biggest European equity-linked deal since 2003.

Henryk Wuppermann, Head of Capital Markets at Bayer, says: "It was a challenge because we wanted 100% equity credit. The team negotiated with the rating agencies on the way to structure it."

"We had to get the full equity credit but we also wanted to execute this under German tax law to make the interest tax deductible. This required a lot of work."

Bayer impressed the market by breaking new ground with the positive use of this type of transaction. Both Deutsche Telekom and Daimler Chrysler have used convertibles but market commentators considered these to be corporate rescue transactions.

Wuppermann explains: "The features of this deal suited our intentions, so it was innovative to use a mandatory convertible in this way."

Rifkin argues that the Bayer convertible bond transaction represents a significant turning point for the mandatory convertibles products in Europe.

He says: "Bayer managed to square the circle of tax deductibility and rating agency equity credit while executing a transaction that delivers value for shareholders."

## Highly commended

### Laird

Laird has been highly commended in the Equity and Equity-Linked category for its rights issue. The FTSE 250 global electronics and security systems group did a four for 17 rights issue of 37,602,512 new ordinary shares at 325p per share to raise £117.8m to fund acquisitions.

Laird has been repositioning its business portfolio and increasing the value-added activities of its securities division.

The group made a number of bolt-on acquisitions which were all debt-financed.

To ensure continuity and flexibility and to prepare the balance sheet for future acquisitions, the company launched a very successful rights issue.

Rothschild acted as the financial adviser and underwriter and JPMorgan Cazenove acted as underwriter and broker.