



# Winning formula

## Linde

LINDE OPENED UP THE HYBRID BOND MARKET BACK IN 2003 AND THIS YEAR IT IMPRESSED THE MARKET WITH ANOTHER, A DUAL-CURRENCY DEAL WHICH INCORPORATED THE FIRST HYBRID STERLING TRANCHE AS PART OF ITS FINANCING TO ACQUIRE BOC GROUP.

It is no surprise that German industrial gas company Linde hit the top spot in the hybrid category with the success of its sub-investment grade bond which encountered plenty of scepticism in the market at first, but came good in the end.

Linde's Capital Market Manager Stefan Hess says: "There was a degree of uncertainty in the sterling market in the beginning because it was the first hybrid transaction in the market. But our credit story was very strong and our roadshows very successful."

Barclays Capital, one of the lead arrangers, explains that Linde's stable cashflows and ability to deleverage helped investors feel more comfortable with an issue expected to have sub-investment grade ratings initially.

Peter Jurdjevic, European Head of Global Fixed Income New Products at Citigroup, says: "The challenges to this transaction were pretty significant. We had the anticipated sub-investment grade rating, the jumbo-size and the market conditions."

He says that many speculators were predicting the demise of the hybrid market: "The bond had been issued in the wake of a deteriorating market. It was in the face of this storm that Linde chose to issue this bond."

Getting the hybrid right in terms of currency and structure was also a challenge for the treasury team.

Group Treasurer at Linde, Erhard Wehlen, says: "We discussed what currency we wanted to issue the second tranche in for some time. We



## THE LINDE GROUP

### PRINCIPAL TERMS

€700m of 50-year bonds with a 2016 call date priced at swaps plus 312.5bp; £250m of 50-year bonds with a 2016 call date priced at gilts plus 345bp.

Bookrunners: Barclays Capital, Citigroup, Dresdner Kleinwort, UBS.

obviously had a natural need for sterling because of the acquisition of BOC. It therefore made sense to issue in sterling."

Wehlen, Hess and the rest of the treasury team worked hard to create a hybrid that pleased the market and benefited the company.

Hess says: "We wanted to find something that was a perfect fit for Linde and to achieve the equity credit that we wanted. We also wanted to have a product that could be placed and was a success in the market."

Hess says the sterling tranche made the deal more of a challenge because it was the first of its kind. But after initial reservations from investors, the sterling tranche was a roaring success, and was increased to £250m from £200m. UK and German investors accounted for two thirds of the paper across the two tranches.

Jurdjevic says: "The bond structure had much more flexibility for the issuer compared to other hybrids in the market. For example, a conversion event call allows Linde to redeem the hybrid if its outstanding convertible bond is converted. This is a way for Linde to efficiently manage the amount of equity content in its capital structure on a perspective basis."

Wehlen says: "We wanted to be sure that everyone understood the rationale of the deal, so we put a lot of effort into explaining it to people. The deal was hard work and all participants – bookrunners, lawyers, tax and accounting experts as well as our team – made an important contribution."

# Highly commended

## Lottomatica

Italian lottery company Lottomatica launched the largest ever sub-investment grade hybrid bond coming in at €750m in May 2006. The deal was priced at the tight end of its expected range with a coupon of 8.25%.

The company chose a hybrid issuance to maintain an investment grade of Baa3/BBB despite the extra leverage required to finance the acquisition of US gaming technology company GTech. As a result of this, the issue attracted interest from both investment-grade and high-yield accounts.

The price equates to a spread of 405 basis points versus 10-year mid-swaps, or 425bp versus the 3.5% Deutsche Bund rate due January 2016.

The securities feature a margin step-up after 10 years, changing to a floating rate of 505bp over six-month Euribor, where they are callable at the make whole or margin step-up rates.

The book closed significantly oversubscribed.

BNP Paribas, Calyon, Deutsche Bank and HSBC were the lead arrangers for the deal.