Winner

On the right path

Invensys

THE WINNING £700M LOAN WAS PART OF A WIDER FINANCIAL REORGANISATION THAT ENABLED INVENSYS TO PRESENT ITSELF AS WELL ON ITS WAY TO INVESTMENT-GRADE STATUS.

PRINCIPAL TERMS
£700m credit facilities.
Tranche 1: £150m term loan, maturity 2011, 212.5/237.5bp.
Tranche 2: £150m revolving credit facility, maturity 2010, 200bp.
Tranche 3: £400m bonding facility, maturity 2010, 200/212.5bp
Bookrunners: Bank of America, Deutsche Bank, HSBC, Lloyds TSB, Morgan Stanley, RBS.

Before its recent restructuring, Invensys was finding that covenants in some of its credit agreements were starting to restrict the business. Group Treasurer Will Spinney says: "Invensys refinanced in 2004 because it had moved into single B credit rating and had a highly leveraged structure. After this, it was clear we still had work to do. Although we were generating cash quite well, it wasn't an easy way to operate."

With improvement in Invensys' financial performance coupled with good conditions in the equity market, the group wanted to develop a more efficient capital structure.

The group's existing senior debt was refinanced with credit facilities of £700m. The group raised £350m of equity to buy around 35% of the outstanding high-yield notes.

Spinney says: "The challenge was how to structure this in line with the credit agreements we had and the high-yield bonds. The facility we had stated that we would have to pay off any equity raised towards senior credit. We wanted to keep as much senior credit as we could and repay the expensive high yield we had."

Spinney and his colleagues spent a lot of time negotiating senior credit facilities and ensuring there was sufficient flexibility in the facility – not typical of sub-investment grade credit.

Important features in the facility allowed Invensys to move away from the negative effects of its sub-investment grade.

Spinney says: "If we do decide to make a disposal, as long as we pass certain tests we are able to repay debt junior to the senior credit. We used a lot of money to repay high-yield bonds. We also tendered for some near bonds out in the market. When we announced the deal, we announced the rights issue, the new credit facility and a tender for 2010 bonds."

All aspects of the deal were carried out at the same time and Spinney had to be sure all due diligence was complete in just two months.

He explains: "With sub-investment grade, banks won't go on published accounts alone. They want to see your models and the due diligence for these."

The financing enabled the company to better capitalise its balance sheet and improve its competitive position.

James Horsburgh, Director of DCM Loan Syndicates at Lloyds TSB, says: "It also provided the group with greater flexibility and better aligned its debt to the needs and credit quality of the business. Furthermore, the group is no longer restricted by onerous restrictions in respect of joint ventures and minority holdings."

Spinney says: "It was innovative in that there is a lot of flexibility for the borrower compared with most sub-investment grade credit. It is almost like recognising we are on a path to becoming a better borrower."

Highly commended

E.ON

E.ON's €37.1bn syndicated loan term and guarantee facility for the proposed acquisition of Endesa replaced a previous €32bn facility and was completed without any information being leaked. Senior Vice President at E.ON, Verena Volpert, says: "We understood such a deal would have been of interest due to the size of the transaction and the big commitments."

Graham Wood, Head of Corporate Finance at E.ON, says: "We made sure that we had a list of every person working on the deal in the banks. We insisted on this. It worked and nothing came out in the press. Because of banks' legal lending limits we knew the minimum number of banks we could use was four. This was obviously a challenge and we had to make sure we got that right. Guarantees were issued on day one, making the facility almost fully drawn immediately."

E.ON's increased offer for Endesa made the larger €37.1bn facility necessary as soon as possible. The new facility was quickly underwritten by six mandated lead arranger banks, and the deal was oversubscribed, with all 18 sub-underwriters from the previous facility recommitting at increased levels.

BNP Paribas, Citigroup, Deutsche Bank, HSBC Bank, JP Morgan and RBS acted as bookrunners and underwriters.