Raising the bar

DEALS OF THE YEAR JUDGE **IAN FITZGERALD** REFLECTS ON ANOTHER BUMPER YEAR IN THE CAPITAL MARKETS.

With year-end figures being compiled, it certainly looks like 2006 will match and perhaps beat the extraordinary year of 2005. Indeed, records are set to be broken this year across the board, as has been reflected in all segments of *The Treasurer*'s Deals of the Year Awards.

Undoubtedly, low interest rates, increasing globalisation and record private equity fund raising created a fertile environment for mergers and acquisitions (M&A), which the buyout specialists definitely exploited. According to Thomson Financial, worldwide M&A activity hit $3,760bn last year compared with $3,400bn in 2000 at the height of the dotcom boom.

Indeed, the increase in M&A activity drove funding in all areas. In fact, European volumes alone had already hit €128.6bn by the end of November largely due to very substantial European deal sizes.

In Western Europe, although infrastructure and crossover deals made the headlines, it was the leveraged buyout and management buyout activity that provided much of the market volume growth.

Better still were the global equity capital markets. Overall annual volume jumped by 26% to $756.5bn from $599.3bn in 2005. Like so many other areas of the capital markets last year, it surpassed the previous record set in 2000 when $627.1bn was raised.

In relation to these substantial gains, the investment-grade bond market made conservative progress, although it still managed to surpass 2005 figures by the beginning of December, reaching $4,318bn on 30 November. However, nowhere was the M&A effect felt more last year than in high-yield debt, with issuance at the end of November totalling $30.9bn – exceeding any full-year records set in previous years. Among the highlights were NXP Semiconductors and Ineos accounting for almost 28% of total issuance between them.

Leveraged deals pushed the mid-market from strength to strength with European deal enterprise values of less than €750m, representing 42.6% of the market by the second half of the year.

A continuing trend within the mid-market last year was its move into the crossover space (companies that have been through leveraged buyouts looking to emerge with less leverage on their way to investment-grade status). For instance, UK news directories group Yell launched a £4.6bn crossover loan to back its acquisition of TPI in March. Interestingly, this was the first time a high-grade crossover credit had included a B tranche aimed specifically at hedge funds and institutional investors.

And hybrids made a late flourish in 2006 with a number of big deals arriving to the market late in the year. This included US insurer MetLife's issue of a $1bn 60-year hybrid and the $1.25bn issue from Mexican cement group Cemex, which was sold to US institutional buyers in December.

However, things were a little more aggressive in the infrastructure sector. Driven by asset-hungry investors, hedge fund-friendly structures and regulated assets, infrastructure benefited more from M&A than any other sector – typified by Ferrovial's £10bn takeover of BAA and the £2.37bn loan backing the purchase of Associated British Ports. Indeed, the regular cashflows associated with infrastructure assets – such as airports – enticed more investors looking for securitisation opportunities last year, resulting in stiff competition for infrastructure assets.

On that note, securitisation and structured finance also had a big year with many using the renewed appetite for repackaged debt instruments to distribute more from their book. And this was matched by demand for these assets. It's difficult to resist mentioning Lloyds TSB's own Arkle deal here, which was an initial £5.6bn residential mortgage-backed securities (RMBS) issue increasing to £7bn on the back of demand from the market – making it the biggest ever securitisation.

With so many growth stories emerging in 2006 it is easy to become distracted from the story of the year – M&A. M&A activity has made it another fascinating year to look at the Deals of the Year Awards with the judging panel and it will be equally enthralling to see whether records will be broken in 2007.

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