European fashion finally hits London with Rexam's game-changing deal

The hybrid bond, which has been the height of fashion in continental Europe, has finally come to the London market.

The $1.565bn acquisition of OI Plastic Products of the US by **Rexam** is a game-changing deal for the British-based can-making giant.

Rexam's decision to raise the funds for the deal partly through a £500m hybrid security acting like debt but classed with equity credentials for investment rating purposes is likely to be the first of many such financial instruments being sold out of London.

Rexam, which two decades ago was part of the sprawling Bowater empire, has completed its strategic transition with the acquisition of the plastic packaging arm of the US company Owens-Illinois.

Earlier in the spring Rexam sold its last remaining glass bottling business and the OI deal means it is now concentrating on the can-making and plastic packaging industry.

The synergies are such that Coca-Cola and Pepsi are two of Rexam's can-making customers while OI Plastics makes the plastic caps for the two drink-making giants' plastic bottle alternatives as well as supplying plastic pill containers for the pharmaceuticals industry.

The financing of the deal was multifaceted.

The total cash needed for the transaction was $1.825bn, although $260m of that is expected to come back to Rexam in tax benefits.

The $1.825bn is being financed through the £449m proceeds from the sale of the company's European glass bottling business, an equity placing and the issue of the deeply subordinated hybrid bond. They are all backed up by a new £1.3bn debt facility that Rexam agreed would only be drawn should there be a delay ahead of completing the acquisition in receiving the proceeds from the disposal or a delay in the issue of the bond due to adverse market conditions.

While Credit Suisse acted as exclusive financial advisers to the acquisition, ABN Amro Hoare Govett and Citigroup acted as joint brokers and joint underwriters to the share placing.

The placing was equivalent to 9.99% of the company's total share capital, and after a bookbuilding exercise the stock was sold at 490p a share, a minor discount to Rexam's earlier opening price, raising £285m.

The bond issue was aimed at raising £500m, with the company telling the international institutional bond community that the bonds would rank behind all Rexam's senior debt and even below the new £1.3bn debt facility.

With no financial covenants, Rexam Finance Director David Robbie had got agreement with the major rating agencies Standard & Poor's and Moody's that the bonds would be treated partially as equity in their analysis of the credit rating of the company and that Rexam's rating would not be changed as a result.

"Hybrids are a financial instrument which we have been seeing in the corporate bond market in continental Europe and in the banking market," Robbie said. "We believe it fits our capital structure well and is cheaper than issuing either straightforward debt or equity.

"We are anticipating a maturity date of 50 or 60 years with the option of a take-out after 10 years, giving us the option to repay the bonds then. We would typically expect the coupon to pay 100 basis points over regular senior debt interest."

Citi was retained as adviser on the issue of the hybrid bond alongside Barclays Capital.

A ground-breaking motor insurance securitisation in Paris could transform the market for automotive reinsurance.

Axa, the French insurance giant, launched a €450m securitisation which effectively places the risk of covering six million motorists across Belgium, Germany, Italy and Spain in the hands of the international capital markets.

The deal follows Axa's testing of the market 18 months ago when it placed a €200m securitisation relating to the insurance of French drivers.

The latest deal, offloading the risk of insuring drivers in four of France's neighbouring countries, comes against a backdrop of motor insurance risk being higher in those markets.

Axa said the securitisation was an alternative means of transferring the risk without going through the traditional route of the reinsurers and that it would in future use both securitisation and reinsurance.

Robert Lea is City Correspondent of *The London Evening Standard*.

EQUITIES

ISSUER	AMOUNT	TYPE	NO OF SHARES	TRANCHE OFFER PRICE	PRICING DATE	EXCHANGE	ISSUER NATIONALITY	BOOKRUNNER
Vectrix Corp	$74.23m	IPO	72,000,000	$0.52	16/05/2007	AIM	US	HSBC
PV Crystalox Solar PLC	$434.77m	IPO	168,991,891	$1.30	06/06/2007	London	UK	JPMorgan
Rexam PLC	$562.54m	FO	58,354,700	$4.90	11/06/2007	London	UK	ABN Amro, Citi

IPO=Initial Public Offering FO=Follow on

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