Welcome medicine for sickly market

The credit crunch and ensuing financial crisis that have left the markets reeling will mean that the summer of 2007 will live long in the memory of the world's investors and institutions. But the monster debt issue last month from pharmaceutical giant **AstraZeneca** was seen as the shot in the arm that many in the market were desperate for.

The slowest opening to September for at least a decade was finally punctuated by the decision of the British healthcare group to go to market to help refinance its $15bn takeover of US biotech group MedImmune, which closed back in June, as well as to raise general working capital for the company.

The first four-tranche $6.9bn bond issue was immediately feted as the third largest corporate bond issue in history and the biggest to hit the market since early 2006.

"The transaction enabled us to enhance our financial flexibility by diversifying our sources of funding, and we were delighted by the investor reception for AstraZeneca in the bond markets," said AZ's Chief Executive, David Brennan.

Within a week AZ was back, this time launching its first ever Eurobond.

"We undertook an extensive roadshow of investor meetings in London, Paris and Frankfurt, and we were pleased with the feedback on AstraZeneca credit," said Brennan.

The initial four-tranche bond issue to repay a significant portion of the outstanding US commercial paper – which had been taken on as a result of the MedImmune deal – was ultimately negotiated at levels at which AZ would end up paying more than it would have earlier in the year.

The tranches were made up of a $650m two-year floating note paying a coupon of 30 basis points above Libor, a $1.75bn five-year fixed-rate note with a coupon of 5.4%, a £1.75bn 10-year fixed-rate note paying 5.9%, and a coupon paying 6.45% on a 30-year fixed-rate note raising £2.75bn.

Marketwatchers, impressed by AZ's confidence to go into the market after such a period of global turmoil, noted that the company would, for instance, be paying an extra $17.5m a year in interest on the 10-year note compared with the 5.4% the company is paying on the bonds issued when it was last in the market with $750m of paper in May 2004.

The debut Eurobond note was issued off a new euro medium-term note programme. The £750m fixed-rate issue comes with a coupon of 5.125% and matures in January 2015.

Advising AstraZeneca on the issues were HSBC, Deutsche Bank, Citi, Goldman Sachs and JPMorgan Cazenove.

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If the sheer volume of the AstraZeneca issue was the medicine that the corporate debt market was looking for, it was left to the world's biggest corporate borrower to take the first step into the arena.

A week ahead of AstraZeneca, the GE Capital financial arm of the US behemoth **General Electric** was the first name to step into the euro and sterling bond markets since July and the credit meltdown.

Like AZ, it too will be having to pay higher interest rates – estimated at more than $7m in GE's case, as investors demanded a heftier than usual risk premium.

The dual-tranche issue consists of 60-year bonds initially fixed for 10 years but switching to floating if the bond is not called before 2017.

A €1.5bn euro-denominated bond comes with a 5.5% coupon priced to yield 138 basis points over government bonds. If or when the bond switches to floating, it pays 200 basis points over Euribor.

A £600m sterling-denominated fixed-to-floating note is paying 6.5% and priced to pay 159 basis points over gilts. The coupon is designed to switch to pay Libor plus 200 points, 10 years after issue.

Leads on the deals for GE were Deutsche Bank, Goldman Sachs, Lehman Brothers and Morgan Stanley.

State-backed **Network Rail** is back in the market to finance its ongoing multibillion-pound investment in Britain's national railway infrastructure.

Just three months after its £1bn, 20-year index-linked offer yielding 25 basis points over gilts, the triple A-rated organisation was back in the market to launch a 40-year issue linked to inflation. It is the third issue in Network Rail's index-linked programme and is planned to raise a further £500m.

Working as lead managers on the transaction are Barclays Capital, Royal Bank of Canada, Royal Bank of Scotland and UBS.

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

DEALS

ISSUER	CREDIT DATE	DEAL TYPE	VALUE: TRANCHES	TENOR/MARGIN	MANDATED LEAD ARRANGER
Rio Tinto plc	11/07/2007	Investment grade	$40bn: $15bn, $10bn, $5bn, $10bn	1+1yrs/22.5bp, 3/27.5, 5/32.5, 5/32.5	BNP Paribas, Bank of America, Barclays, Lloyds TSB Capital Markets
For acquisition of Alcan Inc					
Conergy AG	09/08/2007	Investment grade	$826m: $619m, $207m	3yrs/130, 4.5/145	Commerzbank, Dresdner Kleinwort, WestLB, Barclays, Deutsche Bank
Debut facility					

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